Management and Financial Report of

Nestlé Pakistan Limited

for the year ended December 31, 2010

Nestlé
Good Food, Good Life

Growth with care

About the Cover

The coloured butterflies symbolize "Wellness and Quality of life at its best", and the butterflies fly higher after growing wings from being a larva – which itself is an "excellence" of perfection and the human hand symbolize "Care" – Nestlé Pakistan believes in growth with care and improving the quality of life, where care for people, environment, food safety and quality is the number one priority, and continuous excellence in processes and business practices is the key ingredient for the company's growth – Nestlé is proud to be the leading Nutrition, Health and Wellness Company.

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Vision & Mission

Our Vision

Nestlé's global vision is to be the recognized leading Nutrition, Health and Wellness Company. Nestlé Pakistan subscribes fully to this vision of being the number one Nutrition, Health, and Wellness Company in Pakistan.

In particular, we envision to;

- Lead a dynamic, motivated and professional workforce – proud of our heritage and positive about the future.
- Meet the nutrition needs of consumers of all ages – from infancy to old age, from nutrition to pleasure, through an innovative portfolio of branded food and beverage products of the highest quality.
- Deliver shareholder value through profitable long-term growth, while continuing to play a significant and responsible role in the social, economic, and environmental sectors of Pakistan.

Our Mission

To positively enhance the quality of life of the people of Pakistan by all that we do through our people, our brands and products and our CSV activities.

Our Ambition

GOOD FOOD GOOD LIFE

To be the leading Nutrition, Health and Wellness Company in Pakistan.

Directors' Report to the Shareholders

The Directors of the Company are pleased to submit their Annual Report along with the audited financial statements of the Company for the year ended December 31, 2010.

Financial Performance

2010 was another challenging year for the country; energy crises, security situation coupled with devastating floods had exerted significant pressure on the economy and cost of living. However, despite all these challenges, the Company achieved a strong growth of 25% which was mainly contributed by volume/ real internal growth. Ongoing cost saving and controlling initiatives were taken to partially offset the negative impact of escalating input costs.

Higher inflationary pressures continued impacting key commodities in 2010 – particularly in fresh milk where supply constraints led to a cost increase of +19% compared to last year. The Company continued to expand it's development infrastructure aimed at accelerating procurement of good quality fresh milk.

Effective product mix management, containment of fixed overheads & financial cost, focused investment behind our brands, and diversification of our product portfolio based on deeper consumer insights remained the key elements in the achievement of our results in 2010.

Nestlé Pakistan is committed to enhancing it's product base by diversifying into low cost high quality products with good financial returns, that we call "Popularly Positioned Products (PPP)", which focuses on creating products that are both highly nutritious and affordable on a daily basis for lower income consumers. Innovation & renovation remained an integral part of the company's operational strategies and our vision for growth. The major new product launches during 2010 included: MAGGI Umda Maza, MAGGI Noodles (Bar-B-Q, Masala & Karara), NESTLÉ Peach Nectar, LACTOGEN low lactose, & NESTLÉ Pure Life–5 liters.

Financial performance of the Company is summarized below:

PKR Million	2010	2009	Change
Sales	51,487	41,156	+25%
Gross Profit margin	27.0%	28.9%	-190 bps
Operating Profit margin	13.3%	13.5%	-20 bps
Net Profit margin	8.0%	7.3%	+70 bps
Net Profit	4,113	3,005	+36.9%
Earnings per share	90.69	66.27	+36.9%

Total sales for the year grew by 25% exceeding PKR 51 billion. This growth was split between Real Internal Growth (RIG) and pricing movements which contributed 15% & 10% respectively. Export sales went up by +24.5% to PKR 4.0 billion (2009: 3.3 billion) as we continue to leverage our brand strength in Afghanistan.

The increase in input costs of fresh milk, sugar, fuel and energy have adversely affected our Gross Profit (GP) margin, which slipped down by 190 bps as compared to last year. This negative impact of input cost was, to some extent, off-set by efficient product mix, fixed cost containment and lower financing cost which resulted in an increase of 36.9% in Net profit over 2009.

Keeping in view the strong financial performance of the company, in addition to the interim dividends of PKR 45 per share paid during the year, the Board of Directors has recommended to pay a final cash dividend of Rs. 30 per share.

Investment Projects

Nestlé Pakistan believes in a market driven approach and stands committed to invest to meet our consumers' needs. Total investments in expansion & development projects for the year reached PKR 4.3 billion, with the most significant projects listed below:

Project Description	PKR Million
Sheikhupura - Extension and Capacity increase	2,102
Kabirwala - Capacity Increase	652
Karachi Port Qasim - Capacity Increase	77
Sales Distribution & Infrastructure	522
Milk Collection - Field Development	253

As part of our long term strategy, major investments of approximately PKR 8 billion are planned in 2011 for milk collection field development, upgrading of existing production facilities and increase in production capacity.

Corporate Governance

Nestlé Pakistan is committed to maintain high standards of good corporate governance without any exception. The Directors are pleased to state that the Company is compliant with the provisions of the Code of Corporate Governance as required by SECP and formed as part of stock exchanges listing regulations. Statement of compliance with Code of Corporate Governance is as under.

Statement of Compliance with Code of Corporate Governance

The Directors confirm that:

a) The financial statements prepared by the management of the Company fairly present it's state of affairs, the results of it's operations, cash flows and changes in equity.

b) Proper books of accounts of the Company have been maintained.

c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure from there has been adequately disclosed.

e) The system of internal control is sound in design and has been effectively implemented and monitored.

f) There are no significant doubts upon the Company's ability to continue as a growing concern.

g) There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

h) The un-audited value of investments of employees funds are as follows (PKR millions):

	2010	2009
Provident Fund	1,259	1,099
Gratuity Fund	501	393
Pension Fund	699	555

i) Statements regarding the following are annexed or disclosed in the notes to the accounts:

(i) Key financial data for the last six years

(ii) Pattern of shareholding

(iii) Trading in shares of the Company by it's Directors, CEO, CFO and Company Secretary

External Auditors

Messrs KPMG Taseer Hadi & Company, Chartered Accountants have completed their assignment for the year 2010 and retire at the conclusion of the 33rd Annual General Meeting. Being eligible, they have offered themselves for re-appointment.

Human Resources Management & Employees Relations

In the modern management systems, the role of human resources ("HR") has become very important to allow any company to compete in the market place with increased productivity and effectiveness. Our Company strongly believes in the importance of having a dedicated and motivated team to meet the modern challenges. Nestlé is committed to the policy of equal opportunity employment.

There is a focused approach to talent management and developing leadership skills. The relationship with all staff levels remained positive, and the year's achievements during these challenging times were possible due to the team efforts of all employees. As of December 31, 2010 the permanent employment of the Company was stable at 2,500 (2009: 2,422) personnel. The Directors take this opportunity to thank all of them for their hard work and continued commitment.

Corporate Social Responsibility and Community Work

Nestlé Pakistan believes in playing a positive role in the communities in which we operate. We are committed to follow the highest social standards in every way we conduct our business. The Company took several initiatives to meet it's corporate social responsibility role and contributed with reasonable financial support for community welfare in the areas of nutrition, water & rural development every year and this year was no exception. The total amount of Corporate donations (including flood relief donation) and CSR projects spent during the financial year 2010 is Rs. 87.2 million.

The key CSR projects completed in 2010 are; Drivers Safety Training Institute in collaboration with the National Highway and the Motorway Police, Launch of Healthy Kids nutrition awareness programme, another drinking water filtration plant in Khanewal near Kabirwala factory, Completion of the orphanage building with SOS children's village in Islamabad and repairs of our CSR schools and water plants near Kabirwala and Sheikhupura factory damaged due to heavy rains during the floods. Other CSR activities like donation of milk and company products to underprivileged schools and support to institutions working for underprivileged people continued as a regular practice. We assure our stakeholders of our continued commitment to creating shared value and will continue to do more in the future as well.

Contribution In Flood Relief Activities

In August 2010, Pakistan faced the most devastating floods in the history of the country with losses of human lives, more than 20 Million People displaced, more than 4500 villages with thousands of houses destroyed, 20% agricultural land with crops flooded, and huge loss of live-stock.

In this turbulent time, Nestlé remains committed to Pakistan and has contributed significantly in the flood relief activities in Punjab, Khyber Pakhtunkhua and the Sindh province, where the company spent a lot of time and effort. More than 80,000 people were provided with food packages and company products for at least 3 weeks subsistence and more than 300,000 dairy animals were provided with vaccinations and veterinary assistance for survival. This help was extended through 100 cattle and farmer help camps which were particularly established for the purpose. Additionally, 1000 affected farming families were helped in re-cultivating more than 2000 acres of land for crops and fodder and 400 water hand pumps / water tube wells were installed to help restore village water resources. A significant amount of donations in addition to the reporting figures were provided by other Nestlé markets, donations by employees and also by other associated institutions.

Future Outlook

With no reprieve in the on-going energy crises, continued economic volatility, accelerating inflationary trends and the on-going security situation, the overall economic situation of Pakistan is under severe pressure and we see 2011 as another challenging year for Nestlé Pakistan. There are always opportunities in adversity, the Company will continue in streamlining our operations and further strengthen our focus on positively enhancing the quality of life of the people of Pakistan through our people, our products and brands and our "Creating Shared Value (CSV)" activities.

Despite the challenges being faced in the country, we continue to have a long term optimistic outlook for our business. We are hopeful that economic prospects of the country will improve in the future. We remain confident in the strong potential of Pakistan specially related to it's growing and youthful population. Nestlé is committed to Pakistan and in bringing products to consumers that are affordable and deliver nutrition, health & wellness.

Acknowledgments

We are thankful to our customers and consumers for their continuing confidence in our products and services. Their continued support is providing us confidence in our growth initiatives. We also want to express our gratitude and appreciation to all our employees who have worked tirelessly and delivered outstanding performance in the backdrop of the economic recession and a difficult business situation. We appreciate their hard work, loyalty and dedication. We greatly value the support and cooperation of all of our business partners and stakeholders who help and contribute towards the continued growth of our Company.

For and on behalf of the
Board of Director

Ian J. Donald
Chief Executive

Lahore: February 14, 2011

Annexure to
Directors' Report on Corporate Governance

The company is committed to adopt and implement high standards of Corporate Governance. It has adopted and implemented the Corporate Governance Principles of it's parent company, Nestlé S.A. Switzerland, which cover the following four essential areas:

- Rights and responsibilities of shareholders;
- Equitable treatment of shareholders;
- Duties and responsibilities of the Board of Directors; and
- Disclosure and transparency.

Board of Directors

The Board of Directors currently comprises an executive Chairman, Chief Executive / Managing Director, one executive and four Non-Executive Directors. The Directors meet at least four times a year to review the progress and performance of the company. The Board has delegated the day-to-day operations of the company to the Managing Director. However, the Directors are equally accountable under the law for the proper handling of the Company's affairs.

Board of Directors' Meetings

During the year under review, the Board of Directors had the following meetings:

Number of Board Meetings held for the financial year = 4

Date of Meeting	Time	Place
February 09, 2010	10.00 a.m.	Corporate Office, Lahore
April 15, 2010	10.00 a.m.	Corporate Office, Lahore
August 17, 2010	10.00 a.m.	Royal Palm, Lahore
October 22, 2010	09.30 a.m.	Corporate Office, Lahore

Details of attendance of Directors at Board meetings are summarized below:

Name of Directors	Date of Appointment	No. of Meetings Attended	Remarks
Syed Yawar Ali	27-06-2010	4	
Alexandre Cantacuzène	27-06-2007	1	
Frits van Dijk	27-06-2010	4	
Pierre Schaufelberger	27-06-2010	2	
Ian Donald	27-06-2010	4	
Raymond Franke	28-10-2008	1	
Syed Babar Ali	27-06-2010	4	
Syed Hyder Ali	27-06-2010	4	
Giuseppe Bonanno	27-06-2010	3	

Role and Responsibilities of the Chairman and Chief Executive

The role of the Chairman and the Chief Executive are segregated and they have distinct responsibilities. The Chairman of the Board has responsibilities and powers vested in him by law and the Articles of Association of the Company, as well as duties assigned to him by the Board. In particular, the Chairman coordinates the activities of the Board and presides over the meetings of the Board of Directors and shareholders.

The Managing Director is the Chief Executive Officer of the Company and is responsible for the day-to-day operations and conduct of it's business in accordance with the powers vested in him by law, the Articles of Association of the Company and authority delegated to him through Board of Directors' resolutions from time to time. The Managing Director recommends policy and strategic direction and annual business plans for Board of Directors' approval and is responsible for exercising the overall control, discretion, administration and supervision for sound and efficient management and conduct of the business of the Company.

Audit Committee

The Audit Committee comprises three members including the chairman of the committee. All members are non-executive directors. The terms of reference of the committee, which is in line with the Code of Corporate Governance, has been presented and approved by the Board of Directors.

The audit committee held four meetings in 2010. The Chief Financial Officer, Internal Auditors as well as External Auditors were invited to the meetings.

Remuneration Committee

The company has not established this committee, as it does not deem it necessary to do so. All issues of remuneration are fully disclosed, deliberated and decided at the meetings of the Directors.

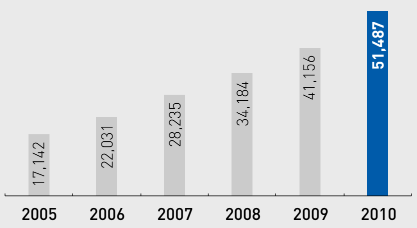
Strategic Planning

The company's strategic direction was reviewed at the meeting of Directors. A process has been put in place whereby long term Market Business Strategies and Annual Operational Plans established by management are regularly reviewed by the Directors in line with the company's overall business objectives. Part of the process involves the setting of measurable Key Performance Indicators (KPIs).

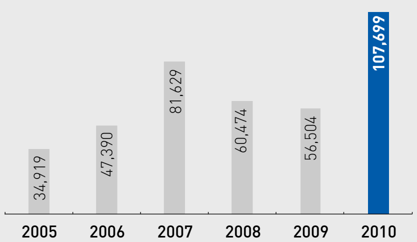
Targeting accuracy and efficiency, with ethical business practices.

Company Performance

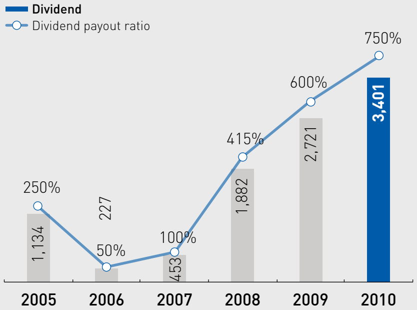
SALES
(Rs. in million)



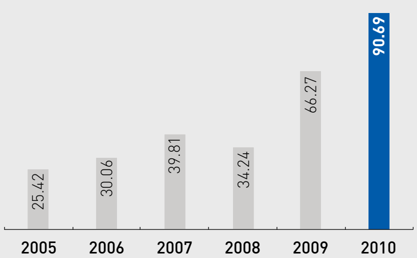
Market Capitalization



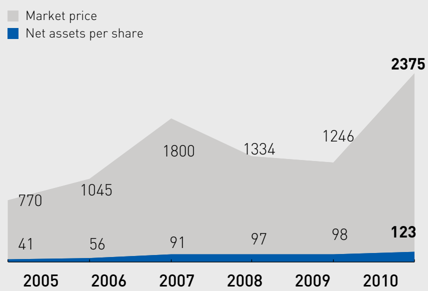
Dividend Payout Ratio*



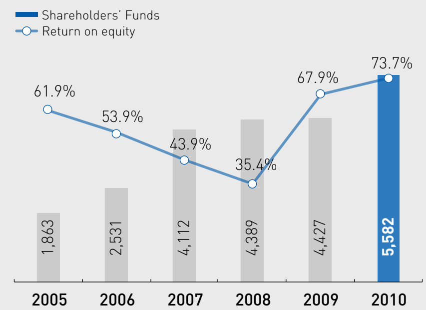
Earnings Per Share



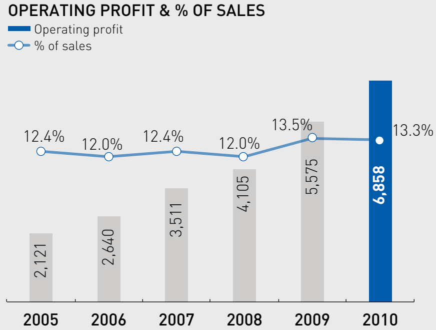
Market Price Per Share vs. Net Assets Per Share



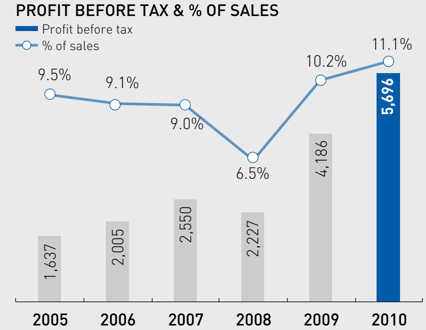
Shareholders' Funds & Return On Equity



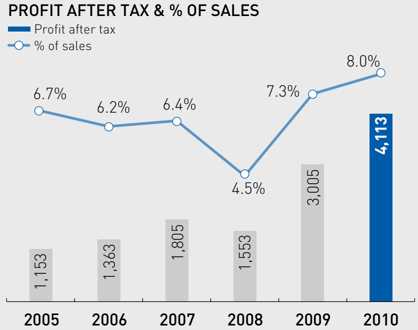
OPERATING PROFIT & % OF SALES



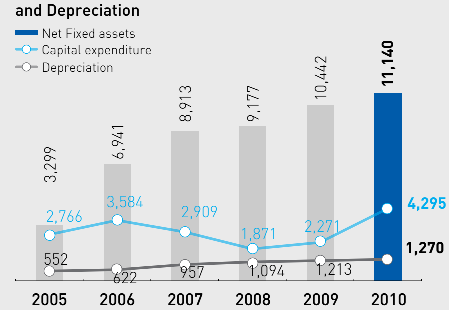
PROFIT BEFORE TAX & % OF SALES



PROFIT AFTER TAX & % OF SALES



Net Fixed Assets, Fixed Capital Expenditure and Depreciation



Wealth Creation and it's Distribution Statement

(Rupees in 000)	2010		2009	
Wealth Generated / Value Added:				
Turnover (including Sales tax)	55,204,254		44,154,997	
Less: Purchased materials and services	(40,664,409)		(32,829,047)	
Value Added	14,539,845		11,325,950	
Other Income	170,491		144,145	
Wealth Created	14,710,336	100%	11,470,095	100%
Wealth Distribution:				
To Employees:				
Salaries, benefits and other costs	3,400,040	23.1%	3,033,898	26.5%
To Government:				
Income tax, sales tax, excise & custom duty, WWF, WPPF	5,200,434	35.4%	3,523,045	30.7%
To Society and Development Initiatives:				
Donations and CSR Projects	87,196	0.6%	80,177	0.7%
Dairy Development* (Non-business returns)	127,400	0.9%	149,400	1.3%
To Providers of Capital:				
Dividend to Shareholders	2,947,724	20.0%	2,947,724	25.7%
Mark-up/ interest expenses on borrowed funds	513,081	3.5%	442,050	3.9%
To Company:				
Depreciation, amortisation and retained profit	2,434,461	16.5%	1,293,801	11.3%
	14,710,336	100%	11,470,095	100%

* Though Dairy Development projects are part of total Purchased Goods & Services, infact they are directly contributing towards the development of dairy sector in Pakistan. It's %age contribution towards 'Society & Development Initiatives' is calculated accordingly.

Key Financial Data
(Six Years at a Glance)

(Rupees in million)	2010	2009	2008	2007	2006	2005
Trading Results						
Sales	51,487	41,156	34,184	28,235	22,031	17,142
Gross Profit	13,879	11,899	8,952	7,950	6,253	4,788
Operating Profit	6,858	5,575	4,105	3,511	2,640	2,121
Profit Before Tax	5,696	4,186	2,227	2,550	2,005	1,637
Profit After Tax	4,113	3,005	1,553	1,805	1,363	1,153
Balance Sheet						
Shareholders' Funds	5,582	4,427	4,389	4,112	2,531	1,863
Reserves	5,128	3,973	3,935	3,658	2,078	1,410
Operating Fixed Assets	11,140	10,442	9,177	8,913	6,941	3,299
Net Current Assets / Liabilities*	(1,396)	85	432	(325)	(288)	(445)
Long Term Liabilities*	7,622	7,399	7,043	5,788	5,481	3,010
Investor information for six years						
Gross Profit Ratio	27%	29%	26%	28%	28%	28%
Operating Profit Ratio	13%	14%	12%	12%	12%	12%
Profit Before Tax Ratio	11%	10%	7%	9%	9%	10%
Profit After Tax Ratio	8%	7%	5%	6%	6%	7%
Inventory Turnover Ratio	8.9 : 1	9.2 : 1	10.3 : 1	9.4 : 1	9.3 : 1	7.7 : 1
Total Assets Turnover Ratio	2.5 : 1	2.3 : 1	2.1 : 1	2 : 1	2 : 1	2.4 : 1
Price Earning Ratio	26.2	18.8	38.9	45.2	34.8	30.3
Return on Capital Employed	43%	40%	20%	26%	26%	37%
Market Value Per Share	2,375	1,246	1,334	1,800	1,045	770
Debt Equity Ratio	66 : 34	66 : 34	63 : 37	62 : 38	73 : 27	66 : 34
Current Ratio*	0.9 : 1	1 : 1	1.1 : 1	0.9 : 1	0.9 : 1	1.1 : 1
Interest Cover Ratio	12.1 : 1	10.5 : 1	5 : 1	5.4 : 1	5.5 : 1	10.1 : 1

* Net current assets / liabilities do not include current portion of long term liabilities.

Pattern of Holding of the Shares

Held by the Shareholders of Nestlé Pakistan Limited, as at December 31, 2010

No. of Shareholders	Shareholding From	Shareholding To	Total Shares Held
338	1	100	10,847
170	101	500	46,149
91	501	1,000	70,711
101	1,001	5,000	210,981
17	5,001	10,000	131,232
9	10,001	15,000	106,413
6	15,001	20,000	108,997
4	20,001	25,000	88,759
1	25,001	30,000	27,495
2	30,001	35,000	62,857
1	35,001	40,000	38,137
1	50,001	55,000	54,910
1	65,001	70,000	66,289
2	80,001	85,000	162,853
1	100,001	105,000	103,340
1	195,001	200,000	197,667
2	210,001	215,000	423,789
1	310,001	315,000	312,270
1	370,001	375,000	370,500
1	375,001	380,000	375,400
1	385,001	390,000	387,334
1	425,001	430,000	428,052
1	430,001	435,000	430,551
1	760,001	765,000	762,955
1	1,365,001	1,370,000	1,365,956
1	4,250,001	4,255,000	4,250,103
1	3,645,001	3,650,000	3,649,248
1	4,325,001	4,330,000	4,327,560
1	26,775,001	26,780,000	26,778,229
760	TOTAL		45,349,584

Classification of Shares by Categories

As at December 31, 2010

Categories of Members	Numbers	Shares Held	Percentage
Foreign Investors	7	27,224,935	60.03
Associated Cos.,Undertakings	4	8,761,429	19.32
Individuals	676	6,689,406	14.75
Directors CEO/Spouse/Minors	5	2,028,153	4.47
Financial Institutions	5	440,835	0.97
NIT	1	103,340	0.23
Insurance Companies	6	36,491	0.08
Joint Stock Companies	15	6,117	0.01
Charitable Trust	4	17,125	0.04
Funds	23	41,135	0.09
Executives	14	618	0.00
Total	760	45,349,584	100.00

Key Shareholding and Shares Traded

Information on shareholding required under reporting framework is as follows:

1	**Associated Companies, undertakings and related parties**		
	Nestlé S.A.		26,778,229
	Packages Limited		3,649,248
	IGI Insurance Limited		4,327,560
	Gurmani Foundation		762,955
	Industrial Technical and Educational Institution		21,666
2	**NIT and ICP**		
	National Bank of Pakistan, Trustee Department, Trustee Wing		103,340
3	**Directors, CEO and their spouses and minor children**		
	Syed Yawar Ali		23,220
	Mrs. Syeda Nighat Ali		60
	Syed Babar Ali		1,365,956
	Mrs. Perwin Babar Ali		210,865
	Syed Hyder Ali		428,052
4	**Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds**		513,855
5	**Details of purchase/sale of shares by Directors/Company Secretary and their spouses/minor children during 2010**	Purchase	127,831
		Sale	233,220

Statement of Compliance with the Code of Corporate Governance
For the year ended December 31, 2010

This statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations of the Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on it's Board of Directors. At present the Board includes four Non-Executive Directors and three Executive Directors.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non-Banking Financial Institution or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. Two casual vacancies occurred during the year 2010, which were filled within thirty days of their occurrence.

5. The Company has adopted Corporate Business Principles, which have been understood and acknowledged by all the directors and employees of the Company.

6. The Company has a vision statement, and has also defined Corporate and Business Strategies. The Company maintains and follows policies designed to align with the Nestlé Group of Companies and global best practices in agreement with the Board. The Board will consider any significant amendments to the policies, as and when required. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO) have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated 7 days before the meeting except in certain cases, where some urgent decisions were required and the board waived the notice period. The minutes of the meetings were appropriately recorded and circulated.

9. The Company provided information to foreign resident directors of their duties and responsibilities. Other directors of the Company, being directors of other local companies have adequate exposure of corporate matters and are already aware of their duties and responsibilities.

10. The appointments of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment have been duly approved by the Board.

11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises three members, who are non-executive directors including the Chairman of the Committee.

16. The meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the company and as required by the Code. The terms of reference of the Committee have been formed and advised to the committee for compliance.

17. The Company has an effective internal audit function.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan and that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all it's partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. The related party transactions have been placed before the audit committee and approved by the Board of Directors to comply with the requirements of listing regulations of Karachi and Lahore Stock Exchanges. All transactions with related parties were made on an arm's length basis.

21. The management of the Company is committed to good corporate governance, and appropriate steps are continuously taken to comply with the best practices.

Syed Yawar Ali

Syed Yawar Ali
Chairman

Ian J. Donald
Chief Executive

Lahore: February 14, 2011

Review Report to the Members on Statement of Compliance
with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Nestlé Pakistan Limited ("the Company") to comply with the Listing Regulations of Karachi and Lahore Stock Exchanges.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code. As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub- Regulation (xiii a) of Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee.

We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company the year ended 31 December 2010.

KPMG Taseer Hadi & Co.

Lahore
February 14, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
(Farid Uddin Ahmed)

Notice of Annual General Meeting

Notice is hereby given that the 33rd Annual General Meeting of Nestlé Pakistan Ltd; will be held at 10:00 a.m. on Monday, March 28, 2011 at 304 – Upper Mall, Lahore, to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended December 31, 2010 together with the Directors' and Auditors' reports thereon.

2. To appoint Auditors and fix their remuneration for the year ending December 31, 2011. The present Auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants, retire and being eligible have offered themselves for reappointment.

3. To declare final dividend, the Directors have recommended the final dividend of 300% i.e. Rs. 30 per share for the year ended December 31, 2010. This is in addition to 450% already paid during the year 2010.

4. To transact any other business with the permission of the Chair.

By order of the Board

Ali Sadozai
Company Secretary

Lahore
March 04, 2011

Notes:

1. Share Transfer Books of the Company will remain closed from March 22, 2011 to March 28, 2011 (both days inclusive) and no transfer will be registered during that time. Share transfer deeds received in order with the Shares Registrar of the Company i.e. M/s Gorsi Associates (Pvt.) Ltd., 2nd Floor, 202-Soofi Chamber, Link Mcleod Road, Lahore at the close of business on March 21, 2011 will be treated in time for entitlement of payment of dividend.

2. A member entitled to attend and vote at the General Meeting is entitled to appoint another member as proxy to attend and vote instead of him/her.

3. The instrument appointing a proxy must be received at the Registered Office of the Company at 308-Upper Mall, Lahore, not later than forty eight (48) hours before the Meeting.

4. Shareholders whose shares are registered in their account/sub-account with Central Depository System (CDS) are requested to bring original CNIC along with their account number in CDS and participants ID number for verification. In case of appointment of proxy by such account holders it must be accompanied with participants' ID number and Account/Sub-account number along with attested photocopies of CNIC or the Passport of the beneficial owner. Representatives of Corporate Members should bring the usual documents required for such purposes.

5. Members should quote their folio number in all correspondence with the Company and at the time of attending the Annual General Meeting.

6. Shareholders are requested to notify the change of address, Zakat Declaration and Tax Exemption Status with it's valid certificate, if any, immediately to our Shares Registrar.

About Nestlé Pakistan Limited

Nestlé Pakistan Ltd is a subsidiary of Nestlé S.A. - a company of Swiss origin headquartered in Vevey, Switzerland. It is a food processing company, listed on the Karachi and Lahore stock exchanges and operating in Pakistan since 1988 started as a joint venture with Milk Pak Ltd. and took over the management in 1992. For ten years in a row, the company has won a place among the top 25 companies of the Karachi Stock Exchange.

Headquartered in Lahore, the Company operates four production facilities. Two of it's factories in Sheikhupura and Kabirwala are multi product factories. One factory in Islamabad and one in Karachi produce bottled water. Through it's effective marketing and a vast sales and distribution network throughout the country, it ensures that it's products are made available to consumers throughout the country.

Nestlé Pakistan has large operations with multi-dimension areas but people, quality products and brands are the main flag bearers of the company's image.

Nestlé Pakistan now operates the biggest milk collection operation in Pakistan, Currently, Nestlé Pakistan collects milk from an estimated 190,000 farmers spread over 146,000 sq Km's in the province of Punjab and Sindh.

Nestlé believes in creating shared value and is committed to the communities it works and lives with. In Pakistan, the company is working closely with communities in areas related to Nutrition, Water and Rural Development, and continues to enhance the quality of life of people through out its value chain.

Nestlé Pakistan today is the leading Food & Beverage Company in Pakistan with a key focus on Nutrition, Health and Wellness and reaching the remotest of locations throughout Pakistan to serve the consumers. Nestlé Pakistan prides itself in being the leader in Nutrition, Health & Wellness. Ever since 1867, when Henri Nestlé invented the first infant food, nutrition has been in our DNA. Today more and more consumers mirror our emphasis on nutrition, as they realize that food choices affect their health and quality of life.

The company's strategy is guided by Nestlé's Corporate Business Principles which are in line with internationally accepted best practices and ethical performance culture. The Company's priority is to bring the best and most relevant products to people, wherever they are, whatever their needs are, and for all age groups.

Nestlé is not a faceless corporation catering to faceless consumers, but is a human company providing a response to individual human needs. It respects the cultures of the countries and is committed to make a contribution to the quality of life of people.

In line with Nestlé's global philosophy, Nestlé Pakistan is proud of it's commitment to excellence in product safety and quality and to providing value and services to it's consumers. As a socially responsible corporate, we always focus on environment friendly operations, ethical business practices and our responsibility towards the communities.

Management

Present Board of Directors as on December 31, 2010

Name	Member	Nationality	Term Expires
Syed Yawar Ali	Chairman	Pakistani	26.06.2013
Ian J. Donald	Managing Director	South African	26.06.2013
Frits van Dijk	Director	Dutch	26.06.2013
Pierre Schaufelberger	Director	Swiss	26.06.2013
Giuseppe Bonanno	Director	Italian	26.06.2013
Syed Babar Ali	Director	Pakistani	26.06.2013
Syed Hyder Ali	Director	Pakistani	26.06.2013

Officers

Ian J. Donald
Chief Executive

Giuseppe Bonanno
Chief Financial Officer

Ali Sadozai
Company Secretary

Fawad-ul-Hassan Zubairi
Head of Internal Audit

Management Committee

Front Row (L to R)

Usman Iqbal Bhatti
Country Business Manager
Waters

Faisal Akhtar Rana
Business Manager
Coffee, Milk Modifiers & Cereals

Edouard Simond
Head of Technical

Samra Maqbool
Business Manager
Culinary

Ian J. Donald
Managing Director

Rizwan Yousuf
Country Business Manager
Nutrition

Giuseppe Bonanno
Head of Finance & Control

Zafar Hussain Shah
Head of Sales

Khurram Zia
Business Executive Manager
Ambient Dairy

Rear Row (L to R)

Nauman Khan
Country Business Manager
Nestlé Professional

Syed Fakhar Ahmed
Head of Corporate Affairs

Shaheen Sadiq
Head of Communication

Ali Sadozai
Company Secretary & Head of Legal Affairs

Salman Nazir
Head of Supply Chain

Michel Juillerat
Head of Human Resource

Arsalan Khan
Business Manager
Beverages

Abdullah Jawaid
Business Manager
Chilled Dairy

Audit Committee

Syed Hyder Ali — Director
Chairman

Syed Babar Ali — Director
Member

Pierre Schaufelberger — Director
Member & Secretary

 NESTLÉ PAKISTAN LIMITED

Company Directory

Registered & Corporate Office

Nestlé Pakistan Limited
308 – Upper Mall,
Lahore - 54000, Pakistan.
PABX: (042) 111 637 853
Fax: (042) 35789303-4

Corporate Office Annex

- 304 – Upper Mall,
  Lahore, Pakistan.
- Park Lane Tower,
  1st & 2nd Floor, 172 – Tufail Road,
  Lahore Cantt., Pakistan.
  PABX: (042) 36099300

Auditors

K.P.M.G. Taseer Hadi & Co.
Chartered Accountants

Share Registrar / Transfer Agent

Gorsi Associates (Pvt.) Limited
2nd Floor, 202-Sufi Chamber,
Link McLeod Road, Lahore.
Cell: 0346-4479601 & 0324-4460109
Fax: 042-37230865

Legal Advisors

Cheema & Ibrahim
Advocates

Bankers

Faysal Bank Limited
Citibank N.A.
Deutsche Bank A.G.
Habib Bank Limited
MCB Bank Limited
Standard Chartered Bank (Pakistan) Limited
United Bank Limited
National Bank of Pakistan Limited
Allied Bank Limited
Barclays Bank PLC, Pakistan
Bank Al Habib Limited
The Hongkong and Shanghai Banking Corporation Limited

Factories

- Sheikhupura
  29-Kilometer, Lahore-Sheikhupura Road,
  Sheikhupura, Punjab, Pakistan.
  Phone: (056) 3406615-29
  Fax: (056) 3406639
- Kabirwala
  10-Kilometer, Khanewal-Kabirwala Road,
  Khanewal, Pakistan.
  Phone: (065) 111 637 853
  Fax: (065) 2411432
- Islamabad
  Plot No. 32, Street No. 3,
  Sector 1-10/3, Industrial Area,
  Islamabad, Pakistan.
  Phone: (051) 4445991-3
  Fax: (051) 4445997
- Karachi
  Plot No. A–23, Northwestern,
  Industrial Zone, Port Qasim,
  Karachi, Pakistan.
  Phone: (021) 34720151-4

Regional Sales Offices

South Zone

Karachi
F-77/1, Block - 7,
Kehkashan Cliftton,
Kda Scheme 5, Karachi.
Phone: 021-35876770, 35876093
Fax: 021-35833937

Quetta
63-B-D, Chaman Housing Scheme,
Opp. Askari Park, Quetta.
Phone: 081-2834887, 2821243
081-2823946
Fax: 081-2847797

Hyderabad
House No. 178, Block C, Unit 2,
Latifabad, Hyderabad.
Phone: 022-3860403
Fax: 022-3863202

Center Zone:

Gujranwala
Habib Bank Plaza,
1st Floor Satellite Town,
Gujranwala.
Phone: 055-3733415, 3733243
Fax: 055-3733379

Faisalabad
Ground Floor, Al-Haq Palaza 271-A,
Small D Ground, Peoples
Colony I, Faisalabad.
Phone: 041-8716937, 8555607
Fax: 041-8716823

Multan
Al-Syed House,
Street No. 2, Iqbal Park,
Sabzazar Colony. Bosan Road,
Multan.
Phone: 061-6212901 , 6512900
Fax: 061-6212901

North Zone:

Islamabad
Plot No. 395/396,
Sector I-9/3, Industrial Area,
Islamabad.
Phone: 051-4859300, 4859301
051-4859302
Fax: 051-4859303

Jhelum
House No. 5/155 Sabir Road,
Jhelum Cantt, Jhelum.
Phone: 0544-720004
Fax: 0544-629126

Peshawar
42-D Jalala House,
Old Jamrud Road,
University Town, Pehsawar.
Phone: 091-5700859
Fax: 091-5854454

Human Resource



In 2010, with continued focus from last year, Human Resources pursued its drive for strengthening a high performance culture within Nestlé Pakistan.

Initiatives taken were specific to enhancing performance, focusing on employees' career development, recognition and instilling a culture aligned with our values.

A new performance management system was introduced within the organization to encourage employees towards high performance and strengthened goal alignment. Additionally, our talent management process was further improved to promote a vision of increased transparency and people management process.

Nestlé Pakistan places a premium on developing and securing the next generation of leadership. To this end, a customized program called the Nestlé Leadership Development Experience was designed with the premier business school of Pakistan i.e The Lahore University of Management Sciences (LUMS). Over 100 managers were exposed to this intervention, which prioritizes the process of self discovery and leadership.

To strengthen our value-driven culture, we involved our top & middle management in an exercise to define the frame of our aspired working environment. This frame contains a set of behaviors and values that we seek to embed further in our culture to achieve our long term vision.

Our historically successful management trainee program improved approach was appreciated and continued this year as well. The program is now a two year program aimed at developing our future leaders. Trainees are provided opportunities and projects throughout the value chain of the company.

For leveraging technology to achieve service excellence, Human Resources procured a major achievement by launching the SAP module for payroll management and integrated end-to-end online recruitment system. The SAP payroll module has brought convenience and simplicity for users along with long-term expediency in adapting best practices for technology. Whilst, the new online recruitment tool will also accelerate the efforts of providing international accessibility to job vacancies and in ensuring the future talent pipeline for the company.

The company continued to reward excellence through it's official reward and recognition program called "Maan Humaara Tum Se i.e "You Make Us Proud." This gives a formal platform to recognize extraordinary efforts in innovation, simplification and going beyond the call of duty. We endeavor to strengthen the positive work environment where performance is truly appreciated.

To facilitate employees with an even more positive working environment, a number of initiatives were taken at head office level. Among which included renovations of the head office, improved canteen facilities, increased capacity of the pick and drop facilities for the convenience of employees and formation of a help desk which facilitated employees in the practical management of their personal finances.

To support our commitment towards people and adapting Corporate Business Principles in our transactions; successful negotiation meetings were achieved to further strengthen our industrial relations.

For Human Resources the year 2010 was about taking steps towards the organization's top priority which is building a high performance culture while also developing it's people and facilitating them with a more positive work environment.




We are proud to be part of a dynamic, motivated and professional workforce – and the team is proud of its heritage and is positive about the future.

Nutrition, Health and Wellness

Nutritional Compass

The Nutritional Compass was launched in 2005 and is now printed on all our products in Pakistan. The Nutritional Compass helps the consumers to better understand the nutritional facts and helps them make healthy choices.

Nutrition, Health and Wellness: our values

Positive Nutrition

- We are committed to increasing the nutritional value of our products whilst improving taste and pleasure.
- We believe in a balanced healthy lifestyle and eating habits, and actively support their promotion.

Moderation

- We believe in variety and moderation of consumption to achieve a balanced healthy diet.
- We discourage over-consumption.

Authenticity and Transparency

- We are committed to provide factual and transparent nutrition and health information in all our communication.
- We will always encourage and empower consumers to make informed decisions about their diet and lifestyle.
- We believe that science and research form the foundation on which we can satisfy the consumer need for nutrition, variety, taste, convenience and affordability.

In order to accelerate the realization of the company's ambition toward becoming the recognized leading Nutrition, Health and Wellness (NHW) Company, our activities in this pursuit are guided by the Nestlé culture, values and principles. In order to drive and support this ambition, NHW is defined as having three important dimensions, Pleasure, Balance and Understanding, reflecting our corporate promise of Good Food, Good Life. During 2010, our efforts continued towards the effective implementation of Nutrition, Health and Wellness (NHW) - enabling tools, which is critical to drive competitive intensity.

Consumers: are at the heart of everything we do. In order to increase consumer understanding and perception of the Nestlé Brands and empower them to make informed choices, Nutrition, Health and Wellness (NHW) Consumer Shows, were conducted throughout the year. The relationship of good food to good health, portion guidance and Nestlé's efforts toward fulfilling the consumer nutritional needs are some key areas of this direct consumer contact.

Another initiative to encourage consumers to "Read the Label" was a campaign done in partnership with KEY ACCOUNTS. The pilot project carried out at Lahore Hyperstar was a huge success that touched 4700 consumers. Similar campaigns towards consumer awareness of the Nestlé Nutritional Compass and increase consumer understanding of the labeling information will be continued in 2011.

Our People: Nutrition Quotient (NQ) trainings rolled out in 2007 achieved the milestone coverage of 100% permanent employees with the Nutrition Quotient (NQ) Foundation Module in 2010. Ensuring adequate Nutrition, Health and Wellness (NHW's) knowledge of our employees is key to building strong foundations for a leading Nutrition, Health and Wellness Company. Advanced and specialist nutrition knowledge for product development and communication teams is the next milestone in target followed by specialized trainings for our communication partners and customers.

Communications: Efforts continued towards improving the communication of our value added offerings to our consumers in a way that is most understandable and spot on to the benefits sought after.

To better equip the generating demand team to drive NHW leadership recognition, a one full day workshop was organized by the unit. There was great involvement and discussion from all participants which brought much clarity on the Nestlé NHW vision and the strategies developed to reach our ambition.

Marketing and Sales

During 2010, the company continued to achieve sustainable growth by offering high quality products to our consumers. Our sales team is fully aligned with the Nestlé Corporate Business Principles, which forms the foundation of all our functional practices.

In alignment with Nestlé's global priority of enhancing the distribution network, and the concept of availability of our products "whenever, wherever and however" are fully integrated into our distribution system. Through our strong sales infrastructure, we ensure product availability from Khunjrab pass to Karachi in Pakistan and from Mizar-e-Sharif to Herat in Afghanistan. The Nestlé sales set up is composed of a complex, yet efficient structure spanning over 600 cities and small towns. This geography is covered through a distributor field force of over 6000 people and 1500 vehicles to meet the demand.

Nestlé has also embarked on a journey of rural penetration through our PPP (popularly positioned products). To penetrate deeper into narrow streets where it is difficult to reach with vans, "Motor bike operations" have been introduced in a bid to offer Nestlé products to the masses so that they can also benefit from the high quality products at affordable prices.

Channel Category Sales department (CCSD)

The CCSD (Channel Category Sales Development) team has played an instrumental role in driving the sales growth. During 2010 there have been a lot of new initiatives including the development of new route to markets (RTM), better understanding of shoppers behavior, introduction of channel wise planograms, development of the large groceries channel and sales automation. The process of Integrated Commercial Planning was managed in a professional manner to lay down strong foundations to capitalize on all opportunities that the market offers
.

Key Accounts

The Key Account business was another growth driver in 2010 where the team worked in close collaboration with our customers, leveraging the potential of the fast growing modern trade channel in the country. The Key Account team has worked with an objective to generate sustainable, mutual, profitable growth for Nestlé products and categories. Moreover, the team has focused on creating purchase moments that enable our shoppers to make informed choices and make each shopping trip a delightful experience at the point of purchase.

Business in Afghanistan

2010 was a challenging year for Afghanistan. Apart from the rising inflation the biggest challenge continued to be political instability.

Despite these difficult conditions our business continued to show sustained progression and we crossed a turnover of PKR 4 billion. This was possible by extending our importer's distribution network in untapped areas by adopting a "city by city" distribution model approach. Further, by making investment in training and hiring of local staff and brand development to create awareness to increase the consumer consumption base. Although a large number of imported brand and some local players have entered in the market, our brands are the most widely distributed and we are the leading Food & Beverages Company in Afghanistan.

Supply Chain

Supply Chain, despite the challenges in 2010 due to floods and socio-economic conditions, has successfully managed a fleet of 800 vehicles to collect, and deliver over 1.2 million tons of fresh milk and finished products to 70 cities across Pakistan without a fatality on the road. In addition to this, we have also managed to ensure smooth and timely supply of materials and services to our factories. This is indeed a solid achievement for a complex operation like ours. Additionally, the Supply chain function extended good support to the flood relief activities by engaging it's staff and transport tankers for the relief activities.

A number of good initiatives were taken and implemented for continuous excellence and improving processes, and with due commitment and dedication of our Supply Chain team, the company operations were able to improve efficiencies and reduce our cost in a number of areas.

One milestone that is of special significance is the successful completion of "Safar Bakhair" project, aimed at transformation of our fresh milk transport fleet. This project has also helped Nestlé Pakistan win Nestlé's Global "Safety at Work" Gold Award for Safe Driving in 2010.

Procurement (Responsible Sourcing)

In 2008 Nestlé globally launched the Supplier Code initiative involving the Procurement function. Nestlé Pakistan was selected as one of the 20 Pilot markets for implementing Responsible Sourcing and Packages Limited was selected as our first supplier.

Responsible Sourcing is the process of purchasing goods and services, which are.

- produced or provided in conditions that do not cause harm to humans, animals or the natural environment.
- from suppliers that meet minimum requirements regarding business integrity, labour conditions, health and safety and environmental standards in their business activities, production processes, service provision and their own purchasing procedures.

This initiative was further introduced to all critical suppliers of Raw, Packaging & Promotional materials. During 2009 & 2010 awareness sessions were held with these suppliers to ensure that they understand the requirements and become fully compliant with the underlying principles of the Supplier Code. It's a source of great pride that not a single Pakistani supplier rejected the Supplier Code and all acknowledged and embraced the added values.

In 2010, most of our critical suppliers have passed through the Self Assessment Questionnaire and 6 have been audited and declared compliant by 3rd party Auditors. Further details on Responsible Sourcing initiative are available on www.nestle.com/suppliers

Production



Sheikhupura Factory (SKP)

2010 was very important year for Sheikhupura Factory as the factory started new initiatives to take another step towards high performance level.

Sheikhupura Factory produced 23,000 tons additional volume in 2010 as compared to planned targets, achieving all critical key performance indicators with reduction of more than 8% in factory fixed overheads in spite of the fact that there was an unexpected rise in expenses due to energy crises in the market.

Proudly Nestlé SKP Factory got the IMS Certification with no major non-compliance as well. This certification reflects strong involvement of management, employees & contractors as one team with full support from the Corporate Management.

Our Sheikhupura team is fully ready and engaged to take further steps towards high performance journey during 2011.

SKP Got the IMS Certification

(ISO14001, ISO18001, ISO9001, FSSC22002)

In our journey towards high performance culture it is important to establish a solid base. This is the reason that we took the challenge of IMS certification one year in advance and the company is proud that with the dedication, focus and hard work of the Factory team, we acquired these certifications in flying colors.

New Product launches in Sheikhupura Factory

The new product launches at SKP are Peach nectar 1L & 200ml, Supligen 200ml for Pakistan & Afghanistan, Nestlé Creation 200ml, Nescafe 3in1 20g, Nesquik Strawberry RTD, NESTLÉ PURE LIFE 5L and NESTLÉ PURE LIFE 12x0.5L

Nestlé Proficiency Tests 2010

Sheikhupura Quality Assurance Laboratories have been participating every year in Nestlé Proficiency test since 1998 for different products and different parameters and received satisfactory rating.

Major projects commissioned

Extensions of Dairy and Juices Area

The new Juice Plant cap.15 ton/hr was installed and commissioned in May 2010. It was one on the major investment in 2010.

New Cleaning in Place (CIP) installation for Tetra fillers

Centralized CIP system for all the Tetra machines was an important achievement as it provides us direct support on Safety and Environmental compliance issues. This project was operational in December 2010.

New NESTLÉ PURE LIFE line for 5L size

In year 2010, we have installed a dedicated blowing and filling line for NESTLÉ PURE LIFE 5L format. The speed of the filling line is 1500 bottles/hour whereas upstream blowing machine can go up to 2000 bottles/ hour.

New filler, for Infant cereals
(Sachets & Bag in Box)

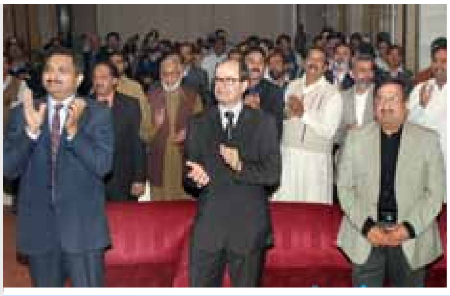
At SKP, a new Wolf Duplex (Double Head) machine has been installed to meet future market requirements for Infant Cereals.

Kabirwala Factory (KBF)

The year 2010 is a year of good success for Kabirwala Factory and it's staff. Main achievements are:

P-test Excellence

KBF Quality Assurance has achieved another millstone to get 10 year consistent EXCELLENT RATING in proficiency test (P-test)



for Microbiology Lab and 11 years EXCELLENT RATING in physical chemical Lab by performing analysis in accordance with Nestlé guidelines. This shows the true dedication of P-test champs. We are proud of our highly professional Quality Assurance team, which is also well recognized by our Corporate Management. This achievement is our continuous journey towards excellence and ensuring compliance.

New Products

Kabirwala factory (KBF) achieved it's all time record of new products in a calendar year by introducing NIDO 1+, NIDO 3+, Everyday UHT, new MAGGI Noodle flavours Karara, Bar-B-Q, Masala and new MAGGI Umda Maza seasoning in 2010.

Passed Total Performance Management (TPM) Readiness Assessment & begun TPM journey at Liquid Dairy Pilot line

KBF is the Pilot TPM factory in Pakistan Market. We passed TPM Readiness Assessment and kicked off TPM phase Zero on 29th March 2010. Our TPM Pilot Line is "Tetra D" in Liquid Dairy Plant. During assessment no major road block was observed and 70 people from TPM pillars and work Groups are being trained in Phase Zero. This was a great achievement by the KBF Team towards the TPM journey.

New filler for MAGGI Umda Maza seasoning line

MAGGI, being one of our major food brands, shall play a vital role in this regard. A new Wolf machine type VPZ 140 has been installed in our Noodle plant to pack the new Umda Maza product. MAGGI Umda Maza is an 8gm sachet, which is used to enhance the future of everyday food cooked at home. The Wolf Line's capacity is to produce 70 packs /minute.

New WOLF Duplex filler, K&L lines, for Milk Powder

At KBF, a new Wolf Duplex (Double Head) machine has been added to meet market requirements. Main activities of this project were to create space for a new filling machine and to relocate the Schmukar. More importantly, the safety guidelines were strictly followed while working in this high hygiene area, where there was continuous production going on. To ensure correct ratio of nitrogen and Carbon Dioxide, the old gas mixing station was replaced with a new one. This filler will add value towards our business and enable us to grow further in smaller SKUs.

Operations Performance

Operations Performance unit is divided into three areas; Industrial Performance, Nestlé Continuous Excellence & Business Excellence (Technical).

Nestlé Continuous Excellence (NCE)

NCE is a group wide initiative, officially launched in 2008 throughout the Nestlé world. NCE is an enabler to be brilliant at the basics, in order to delight our valuable consumers & customers with an even higher quality, competitive cost and freshness, while excelling in compliance throughout the value chain. This is a journey towards a LEAN enterprise where everyone is focused on activities driving towards continuous excellence.

Kabirwala Factory is the first site which embarked on the NCE journey in Nestlé Pakistan in 2009. Kabirwala successfully passed NCE Assessment in 2009 and kicked off (Total Performance Management - TPM) in March 2010 and is aiming to pass TPM phase-1 by end of 2011. Kabirwala's vision to do TPM is to be the world class factory in the eyes of our Consumers and Customers.

Sheikhupura Factory made remarkable efforts and achieved 80% score during NCE Foundations Assessment in Nutrition & Chilled Dairy Plants. This is one of the top scores any factory received in Nestlé Zone Asia Oceana & Africa (Zone AOA). Sheikhupura's next step is to expand NCE foundations to rest of the factory and be part of first LEAN pilot in Chilled Dairy Value Stream.

Supply Chain progressed well with NCE foundations and aim to get through the NCE Gate by Q1 2011. Afterwards, Supply Chain will start the first LEAN Pilot on Chilled Dairy Value Stream in 2011, for taking out all the inefficiencies.

10 Green Belt projects (i.e. projects related to process improvement using problem solving techniques) were completed in operations, which delivered substantial savings. After achieving good success in operations, other Green Belt projects were kicked off in HR, Sales and Finance & Controls. 15 new projects also started within and outside operations, these projects will not only deliver savings but will streamline our processes, helping our employees for higher productivity.

All of this success was made possible because of our people and leadership team who remains fully engaged and look forward to transform this company. Through NCE platform, our people were exposed to a lot of local and international trainings and discovered new and better ways to do everything!

Business Excellence (Technical)

2010 was a very successful year for Business Excellence, Technical achieved 99% SLA (service level agreement) which is a big success. The team also introduced new modules in SAP which are helping our people to perform their jobs more effectively.

FFMW-BCP (Factory Floor Middle Ware) implementation in Sheikhupura Factory was a big challenge and FFMW team made it a big success story. The purpose of this system is to provide backup support when there is SAP outage, FFMW can store SAP transactions for around 15 days which is a tremendous achievement to reduce any business risk.

Corrective Action Management in case of any quality incident was another successful module introduced in SAP; in case of any quality related deviations, an auto email is generated and all key stakeholders are informed immediately. This system also keeps record of all the investigation conducted for each incident, which is used as learning if similar situation occurs.

Other initiatives include Vendor Audit Management and Stoppage Analysis Module at all four sites.

Nestlé Pakistan wins Gold Trophy in Nestlé Global Safety award competition 2010.

Nestlé Pakistan participated in the Nestlé Global Safety award competition 2010, with a project Safar Bakhair. Safar Bakhair has been announced best “Safe Driving Program” of the year. The Safar Bakhair Project comprises of a cross functional team that worked on a seven pillar strategy to address issues of road safety of employees and third party drivers and to minimize accidents/ fatalities from our direct and indirect business operations.

Excellent work done by Safar Bakhair team, strong commitment of the management, wonderful collaboration from National Highway & Motorway Police (NH&MP) and full cooperation by transport vendors has been helpful in achieving this success.

This project has become a best example and a bench mark for not only other Nestlé markets but also for local organizations in the country.



Islamabad Factory

In 2005, the capacity of plant was increased from 200 to 400 bottles per hour. The same year NESTLÉ PURE LIFE launched a new 3 gallon bottle in the region to provide another SKU to consumers, strengthening it's Home & Office business. In 2008, NESTLÉ PURE LIFE was launched in outstations of Islamabad i.e. Peshawar, Mir Pur, Hassan Abdaal, Wah Cantt, Abbotabad and Jehlum. In order to meet demand, NESTLÉ invested 150 Million PKR in this production facility and the capacity was further increased to 900 bottles per hour with installation of a new state of the art water treatment plant. The factory is considered a pioneer in Process Release since May 2008 and continues to establish high standards of production efficiency. The site has successfully achieved ISO 22000, 14001 and OHSAS in 2009. Behavior Based Safety (BBS) culture has enabled the factory in achieving continuous 9 safe years, a leading performance in the entire NESTLÉ world.

Karachi Factory

This water factory, located at Port Qasim industrial area (Karachi), started commercial production in June 2007. In October 2008 the capacity was further increased by 25%. The factory utilizes a sophisticated water treatment process to tackle high salinity present in the underground water. Of the three production sites, this factory produces the highest number of Home & Office bottles in NESTLÉ Pakistan. The factory is also certified for ISO 14000 (Environment Management System), OHSAS 18000 (Occupational Safety and Health Management System) and ISO 22000 (Food Safety Management System). In 2010, the factory achieved a number of milestones of operational excellence helping South region to deliver profitable double digit growth.

Finance and Control

The mission of F&C is "to drive sound business decision making and innovative planning to optimize profitable growth, cash flow and total return to shareholders".

The strength of F&C contribution is very much dependent on our people. We hire, develop and retain outstanding people with integrity.

During the year we have continued to train our people on soft skills focusing on developing the right behaviors to act as strong business partners.

At Nestlé Pakistan we believe that there is a strong correlation between high a performing Finance Function and high a performing businesses.

To become a reference for financial performance, we are building a high performing Finance & Control function that is fully aligned to the business strategy.

During 2010, F&C has already been a catalyst in accelerating the company performance, with increased focus on activities that have:

- Driven our growth platforms
- Supported our operational pillars
- Leveraged our competitive advantages

In 2011 we will continue to focus on support structure of Decision Support, Specialist and Scalable Business Services that can be bench marked against Best-in-Class.

Milk Collection & Dairy Development

Nestlé Pakistan collects milk from 190,000 farmers across 146,000 Sq Kilometers in the Punjab and Sindh Provinces. The operations include more than 3080 Village Milk Collection Centers, 2633 Milk Chilling Stations and a transport fleet of more then 400 tankers. In 2010, Nestlé Pakistan collected over 500 million liters of raw milk.

The company adopts a "Creating Shared Value Approach" with the farmers, doing business on one hand while supporting the farmer's skills enhancement and their prosperity. This brings a win–win situation for the farmers and the company. There is a team of more then 70 Dairy Development professionals; they support people over and above the milk collection staff to provide free veterinary support and technical advisory services. Additionally, the company has established and continues to operate two training and demonstration farms for the training and development of it's own staff as well as farmers from the field on best farm practices. The trained farmers have demonstrated a significant improvement in their farming methods, increasing yield and profitability of their dairy farms. This means more milk for the company while supporting the dairy sector development and the rural economy at large for Pakistan. Some training programmes are also run in collaboration with external institutions like the Swiss Agency for Development and Cooperation. Such additional resources increase the investment for supporting dairy farmers and encourage the farmers from other regions and non-Nestlé value chains to gain the benefits of skills enhancement programmes.

Other focus areas for farmer development and support are targeted at miscellaneous training programmes, provision of veterinary help with vaccinations and animal health support programmes, artificial insemination trainings, cow loan programme and support to farmers with specialized equipment for silage making are important in building a strong farmer's base.

In the past flood crises, the Milk Collection and Dairy Development Function has closely worked to support the flood relief activities of Nestlé Pakistan.

Nestlé Pakistan collects quality milk from 190,000 farmers spread over 146,000 sq. km of Punjab and Sindh.

Creating Shared Value

Nestlé Pakistan as part of it's global and local obligations believes in creating shared value (CSV) for the communities in which it works and lives. The social responsibility does not end with a few philanthropic activities; instead CSV is embedded in Nestlé's business model, where a direct engagement and support to communities across the value chain is extended. This adds value to the business and socio-economic development for the communities. Additionally, ethical business practices, transparency and consumer trust, on the basis of high quality products with focus on nutrition, health and wellness, remains the hall mark of the core business.

The company is committed to the stakeholders and the communities for mutual growth and sustainability. Nestlé Pakistan is also a signatory to UN Global Compact for Ethical Business. The key focus areas for Nestlé Pakistan's Creating Shared Value (CSV) programs are as follows:

- Nutrition
- Water
- Rural Development

Nutrition

Nutrition, Health and Wellness: our values

Our products and brands are the flag bearers of Nutrition, health and wellness and we build our nutrition credentials with continuous research and development. In addition to the Nutrition credentials of our products, the company also engages in community support projects such as the "Nutrition Support programme" for underprivileged schools and underprivileged people, particularly women, whereby we provide milk to select poor schools and other welfare institutions. The company also

runs awareness & education programme on nutrition with a partner NGO for the underprivileged school children and teachers.

Water

Water and environmental sustainability is a key area which every corporate citizen and individual in the world must address. Nestlé continues to engage in supporting initiatives for water and environmental sustainability, both at business and at community level. The Company endeavors to continuously improve it's processes and systems to reduce it's water foot print and also engages with the community and external institutions to support water and environmental initiatives.

The three key areas where Nestlé Pakistan focuses on water and environmental sustainability are,

a) Continuous improvement in our processes and systems to reduce our water and environmental footprint, each year has to be better then the previous.

b) Community clean water supply schemes- i.e Water filtration plants in select underprivileged communities living around our value chain.

c) Engagement & support for research and dialogue with external institutions on issues related to water and environment. i.e Our engagement on research with World Wide Fund for Nature and also recent engagement with water resource group 2030 and NGOs working for the cause.

Rural Development

Nestlé Pakistan's CSV commitment to rural development is our largest area of focus, where we interact with communities, particularly farmers in the dairy value chain for building their capacities for sustainable dairy farming and also work in select areas for other socio-economic development activities for development and improving the quality of life of people.

Nestlé Pakistan continues to operate two model training and demonstration farms at Okara & Sukheki, where experts and professionals from Nestlé Agriculture Services Department, provide both theoretical and practical training to dairy farmers and live stock workers. The objective of the training is to increase milk production, increase income, poverty alleviation and a better life for farmers. The company runs an ongoing farmers development programme for training in best farm practices, where institutions like UNDP and Swiss Agency for Development and Cooperation (SDC) also collaborated for training thousands of farmers and female live stock workers in the past years, and also in 2010. The company continues to run the farmers development programme on an ongoing basis.

In addition to the farmers development programme, the company also supports initiatives, such as school refurbishment in select locations , drivers safety training programmes, academic and university support programmes for research/ development & scholarships in the field of Agriculture, Livestock and food sciences, and extends help for challenged people, underprivileged women, vocational training, youth development and other socio-economic development programmes. Additionally, the company plays a lead role for humanitarian assistance, once it comes to natural disasters like floods and earthquake and help for relief and re-habilitation of communities.



Key Project Highlights 2010

(i) Nutrition Support Program for Under Privileged People (Schools children and destitute women)

Nestlé Pakistan regularly provides company products to schools situated in the city slums and rural areas in the country where the parents are unable to give milk to fulfill the nutritional needs of their school going children, due to extreme poverty conditions. Till date forty such institutions are supported for benefitting 15,000 plus children, inclusive of underprivileged women in shelter homes. Regular product donations are also given to old age homes, and NGOs that support the destitute women and social welfare organizations for sports, culture, special children and the disabled.

(ii) Healthy Kids Program

Nestlé Healthy Kids Global Programme

Nestlé Pakistan has launched the pilot phase of Healthy Kids Programme in 2010. The aim of this program is to create awareness of the nutritional needs of school going children from the age group of 06 yrs to 16 yrs. During the pilot phase 2500 children have been educated with respect to their nutritional needs and an understanding of the available resources to cater for those nutritional requirements. The programme is also extended to select mothers and teachers to support the project.

Nestlé Pakistan plans to address 25,000 school children during 2011, and will increase significantly to a much larger group in coming years. It is this vision that will steer our way towards the development of the successful Healthy Kid program for Pakistan.

(iii) Nestlé- SDC Farmer Training & Development Program

The Company in partnership with Swiss Agency for Development and Cooperation (SDC) initiated a joint farmers development programme in 2009, which was completed in 2010. Under the programme 2000 farmers inclusive of women have been trained in best farm practices. As per the monitoring reports, these farmers have significantly improved their yield and income by 25% with better and sustainable livestock farming.

(iv) Driver Safety Training Program

The joint venture program between Nestlé Pakistan and National Highways & Motorway Police (NH&MP) was completed (in terms of infrastructure and regular training roll out) during the year with the formal inauguration of the simulator facility. The facility now comprises of a driving track with a skid pad, drivers training school and a drivers training simulator. The fully equipped facility has been providing training, not just to the drivers of Nestlé Pakistan and NH & MP, but also catering for the drivers training need of the other corporate organizations of the country. The partnership project reached another milestone when the project "Safar Bakhair", won the Nestlé Global Safety Award Competition for 2010 in the category of safe driving.

(v) SOS Children's Village

The construction of the SOS Children's Village in Islamabad for earthquake affected orphans of Kashmir and Northern Pakistan, which started in 2008 is now complete. The facility will be fully functional in March 2011. The project has been jointly funded by Nestlé Pakistan & Nestlé S.A.

(vi) Flood Relief

In the wake of recent floods of 2010, the total relief effort provided by Nestlé amounts to PKR 76 Million It includes PKR 24 Million by Nestlé Pakistan, PKR 20 Million by Nestlé S.A –Switzerland, PKR 9 Million from employee donations from Pakistan and other Nestlé markets, PKR 17 Million from SDC, PKR 1 Million from Nestlé Pakistan factories from their annual Iftar dinner fund allocations and more than PKR 5 Million in terms of kind contribution of staff time, logistics, transportation and volunteers.

Relief Details

a) Immediate food relief by providing company products. This effort supported more than 50,000 people for more than three weeks each.

b) Food packages to 30,000 people (wheat flour, rice, tea, cooking oil, pulses and related items)

c) 12 Water tankers for transporting drinking water to flood relief camps for three weeks transporting 240,000 liters of water on daily basis for flood affectees.

d) 100 farmer and cattle help camps established by Nestlé in the flood zone and provided free vaccination to over 300,000 animals (Inclusive of all vaccination support) and treated more than 25,000 animals for injuries and disease.

e) Support provided to Nestlé Pakistan staff that faced direct damages from the floods (this particular support was provided through Nestlé Pakistan's own funds).

g) Nestlé Pakistan earlier CSV projects inclusive of schools and water filtration plants which were damaged or deteriorated due to floods/ rains were also repaired – This include 4 schools and two water filtration plants.

Note: All donations were personally supervised by Nestlé's own staff in the field and under a centrally controlled monitoring process from the management.

Nestlé Pakistan / SDC Joint Flood Relief and Rehabilitation project

A partnership project with Swiss Agency for Development and Cooperation (SDC) was signed in October 2010 for midterm relief and rehabilitation with PKR 17 Million donation by SDC and additional contribution by Nestlé S.A –Switzerland (mentioned above) and is being spent by adopting 8 village clusters and are as follows,

a) For providing seed and fertilizers for 1000 acres of land for crops and 1000 acres of land for fodder, food packages for one month for 10,000 people, cattle feed for 2000 animals, vaccinations for 14,000 animals, water irrigation tubes wells for 20 locations and 320 water hand pumps for domestic use. Most of the deliverable were completed by end Dec 2010; the final completion is expected in Feb 2011

b) Three water filtration plants for flood affected communities for providing water to 15,000 people.

Marketing Communication

It all starts with the consumer and/or customer. Deep understanding and a feel of our consumers is at the heart of all we do at Nestlé Pakistan. It is the basis of our product innovation/renovation efforts, marketing strategies and communication platforms.

The Consumer Insight & Market Research (CIMR) Unit plays a key role of being a strong service pillar to the various Businesses. Other than assisting Businesses in getting required formal researches, it organized 252 consumer connects / home visits for the Nestlé business and research teams, and our creative agency partners allowing them to gain invaluable "feel" of our consumers.

NESCAFÉ had a breakthrough with a detailed consumer segmentation and strong insight forming the basis of future business growth and strategy. Additionally consumer research played a key role in defining the ideal cup of coffee (milky, creamy, &frothy) keeping in mind the taste palate of the Pakistani consumer.

The Culinary Business continued it's consumer insight driven portfolio expansion strategy with the launch of MAGGI Umda Maza.

The Strategic Media Unit, utilizing the learnings on the consumer, assisted Businesses to transform that into effective communication to our consumers and customers. Important to mention here that we continued to ensure that all our consumer communications are in line with local and global best practices as well as Nestlé' own policies & guidelines. In doing so, utmost care is taken to ensure that our advertising campaigns are responsible, ethical, in good taste and do not mislead the consumer, while staying true to brand values & consumer needs. Our policy on Marketing to Children warrants special mention, whereby we do not conduct any marketing activity, including advertising, directly targeting children under 6. Also, direct contact is avoided with older children too so that parental authority is not undermined.

As the consumers take more control of their own media choices and adapt to new technology and trends – Internet and Mobile have become extremely important media to communicate with consumers. With an estimated 18 million Internet users and 60 million Mobile Users in the country, Nestlé Pakistan has been at the forefront of Digital Marketing, being the only FMCG this active on Social Networks in Pakistan. In 2010, Nestlé talked to 280,000 consumers through Facebook, YouTube and Twitter through 3 brands (FRUITA VITALS, MAGGI, and NESVITA).

In addition to using traditional and Digital touch points to reach our consumers; our Consumer Services Unit is dedicated to establishing direct consumer contacts with a cross section of SECs. The aim is to engage and educate consumers, build two way communication and be part of their everyday life.

The education is specified to basic nutrition, health, and wellness, identification of health needs, along with generating awareness on Nestlé' product portfolio that meets those needs. These activations are conducted through road shows and in house sessions at various educational institutes, professional universities and community centers.

In 2010 we successfully carried out activities reaching over 373,000 consumers.

To us it is extremely important to listen to our consumer feedback and suggestions. To encourage more of our consumers to more frequently get in touch with us we introduced in 2010 our toll free number 0800 62282(NAATA) through our outsourced call center. Nestlé NAATA, a one stop solution has evolved for the consumers of today – enabling them to connect and engage with us more frequently – creating a bond and endearing the people of Pakistan to us.

Through personalized calls to each and every complainant, alignment of all key stake holders to one shared goal – maximization of consumer delight – a strong foundation of "care" has been set. This is a gateway to bridge the gap between us and our consumers – addressing their complaints, answering their queries, and hearing their suggestions – providing a human, caring interface each time.

Ambient Dairy

Nestlé MILKPAK
UHT Milk

Nestlé MILKPAK, with a heritage of nearly three decades, holds strong brand equity with it's consumers and enjoys market leadership in the UHT category. By virtue of being the only Iron Fortified All purpose milk in the category, MILKPAK is instrumental in helping alleviate iron deficiency in Pakistan and hence, is now being perceived as a superior brand standing out amongst it's competition. Today MILKPAK is every home makers partner in helping her strengthen her home.

Nestlé NESVITA
Pro–Bones

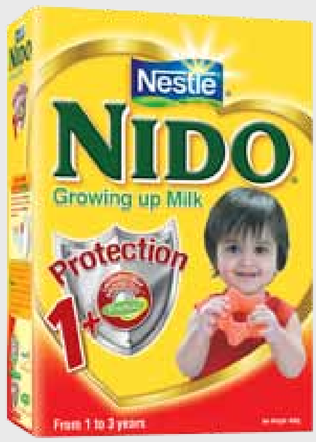
With growing interest and increasing trends towards healthier lifestyles, adult health and wellness solutions are gaining significance in the dairy category. Nestlé NESVITA has grown this category and is the only brand to educate consumers on the importance of daily calcium intake. Nestlé NESVITA Pro-Bones aims to give young urban females the health and inner strength they need to achieve a better tomorrow for themselves.

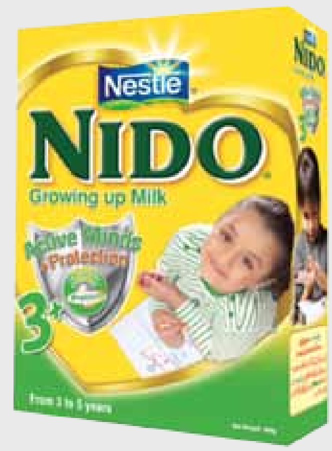
Nestlé SUPLIGEN

Nestlé SUPLIGEN is a milk based energy drink . It is fortified with ACTIGEN E, which is a combination of vitamins and minerals that ensures effective energy release for optimum performance. Initially launched in Afghanistan and later introduced in North Pakistan, the brand has been well received in both countries.

MILKPAK
UHT Cream

Pioneer in packaged cream category and market leader since launch in 1986, MILKPAK Cream continues to enjoy a strong brand franchise. It has established this respectable position through a long-standing bond of trust with it's consumers and strong association with the MILKPAK heritage. It's rich creamy texture is most commonly used as a generous dollop on "naan". The brand stands out from it's competition set by emotionally reaching out to local cultures by communicating family values and traditions.





Nestlé NIDO 1+

NIDO 1+ is developed for children aged 1-3 years. It now has an advanced recipe which includes Probiotics (Lactobacillus Protectus). This helps boost a child's body defenses and helps keep their tummy healthy.

Nestlé NIDO 3+

NIDO 3+ is developed for children aged 3-5 years. The new recipe has Probiotics (Lactobacillus Protectus) recipe which has a blend of fibers for improved digestion and additional nutrients that help the child in developing an active mind and a healthy body.

Nestlé NIDO
Fortified Milk

NIDO FORTIFIED is for children between 4-12 years of age who are growing up in an increasingly competitive environment and require something extra to ensure success on the playing field and in the classroom. It is enriched with iron, 24 vitamins and minerals that are essential for a child's growth which can be tracked by the 10 signs of good nutrition.

Nestlé NIDO Bunyad

NIDO Bunyad is for children between 4 to 12 years of age. This affordable proposition is targeted towards the mothers of children belonging to low income households so that despite challenging circumstances, they can still give the very best to their kids. Being fortified with Iron and Vitamin C, NIDO Bunyad helps to overcome the problem of Iron deficiency prevalent in the majority of Pakistani children.

Nestlé EVERYDAY

Pakistan is the world's second largest creamed tea market. To capitalize on this huge opportunity Nestlé EVERYDAY has been able to establish itself as a specialized tea creamer. With it's special recipe, Nestlé EVERYDAY gives a SPECIAL taste to every tea cup and performs equally well in both mixed tea and separate tea. Today, Nestlé EVERYDAY has not only become the heart of tea but also the heart of every tea lover across Pakistan.

Nestlé EVERYDAY
Liquid

Keeping in mind the huge liquid tea creaming potential, Nestlé EVERYDAY liquid has leveraged significantly from the powder offering and delivers great taste in tea. EVERYDAY liquid has steadily grown and has become a significant player in the highly competitive liquid tea creaming category.

Nestlé CREATIONS:

Nestlé CREATIONS is a recent addition to Nestlé Dairy portfolio. Nestlé CREATIONS is a dessert cream, perfect for making delicious creamy desserts. Nestlé CREATIONS is positioned as a "Dessert specialist", which looks luscious, tastes like a dream and creates magic in every dessert.

Chilled Dairy

Nestlé Rivayati Mazaa

Pakistan has a rich dairy culture with yogurt being an intrinsic part of our traditional diet. Catering to the traditional palette for unsweetened yogurt, in 2010 we launched Nestlé Rivayati Mazaa offering an all-purpose yogurt. Nestlé Rivayati Mazaa is the ideal delicious and hygienic kitchen solution for homemakers to provide for all her family's distinct yogurt needs, whether it be cooking, making lassi, preparing raita, or having as it is with a spoon.

Nestlé Yogurt
Sweet 'n Tasty

Delicious taste, nutritional goodness and guaranteed hygiene have made NESTLÉ Yogurt Sweet 'n Tasty the leading yogurt brand in Pakistan. Launched in 2000, the brand has continued to lead growth of the packaged yogurt category in Pakistan, with a strong winning position in consumer taste tests against all major competition. With the goodness of pure dairy, along with active live cultures that aid digestion, NESTLÉ Yogurt Sweet 'n Tasty offers healthy everyday pleasure consumed with meals or simply scooped with a spoon.

Nestlé Fruit Yogurt

Nestlé Fruit Yogurt offers a mouth watering treat with real fruit chunks in low-fat creamy yogurt, available in three delightful flavours; Strawberry, Mango and Peach. Launched in 2001, it is a popular healthy snack amongst children.

Nestlé NESVITA
Pro-Bones Yogurt

Venturing into the category for Adult Health & Wellness solutions, in 2003 we launched Nestlé Hi-Calcium Low Fat Yogurt. In 2005 the product was re-launched under NESVITA branding, fortified with CALCI-LOCK (a special combination of Calcium, Vitamin D, and other essential vitamins and minerals). Nestlé NESVITA Pro-Bones Yogurt has 50% more calcium than regular yogurt, giving young females the inner strength to achieve a better tomorrow for themselves and their families.

Nestlé RAITA

Nestlé Zeera Raita was launched in 2004, becoming an instant favorite with Pakistani cuisine lovers. This was followed by the launch of Nestlé Podina Raita in 2006, further strengthening Nestlé Raita as the fastest growing brand within our Chilled Dairy portfolio. With it's unique mouth-watering taste, simple convenience and guaranteed hygiene, Nestlé Raita transforms meals into culinary delights, making meal moments special and seeking appreciation for homemakers.

Infant Dietetic (Nestlé Nutrition)

2010 was a strong year for Nestlé Nutrition with key product launches serving the real needs of consumers.

Brand Launches

Baby Food:

2010 saw the implementation of project Satellite (CERELAC with Probiotics) across all relevant touch points. Offering a benefit of "Strengthening of Baby's Natural Defenses" through the first years of life. The campaign was supported by a dedicated thematic featuring a local mother and her own son. Similarly, exclusive radio spots, extensive outdoor presence, medical detailing, sampling to health care professionals and channel specific POP solutions supported the innovation.

2010 was also highlighted by evolution of Blue Bear to Bo. It's launch among the local consumers clearly embodied the CERELAC's positive contribution to the mother/baby relationship and the promise of a positive interaction between baby and mother after a successful feeding moment.

The response from consumers has been overwhelming and reflected through the greatly improved brand health and restoration of growth momentum for CERELAC after a span of two years.

Infant Formula:

2010 was highlighted by multiple brand launches serving the relevant needs of infants through health care professionals, where ever there was a legitimate need for infant formula usage.

LACTOGEN Recover was launched in Pakistan (lead market) with the aim to create inroads into the specialties segment by leveraging STRONG brand equity of LACTOGEN and offering an economical solution to large number of infants and children suffering from acute diarrhea. The new brand has received tremendous acceptance and appreciation from Health care Professionals as it serves a genuine need at an economical price.

In addition NAN was renovated with new recipe in 2010 with an extended benefit of protection to babies below 6 months of age especially those delivered through a caesarean section. Finally PRE NAN was renovated with the addition of DHA/ARA.

Preceding the above market launches, elaborate and exclusive launch sessions were conducted with participation of more than 1,500 Nestlé sales & distribution personnel. Similarly dedicated training sessions were held for the medical detailing teams.

Nestlé Nutrition Institute

Nestlé Nutrition Institute (NNI) continued it's activities from multiple platforms in 2010. More than 1000 new members were enrolled by NNI in 2010 with Pakistan now ranked as 4th largest country with close to 4200 NNI members.

In addition, multiple clinical symposia on Role of Probiotics in Infant Nutrition, Infantile Diarrhea Management and Management of Difficult Asthma in Children, were conducted with local Key Opinion Leaders (KOL's) all across Pakistan. Finally, over 10,000 copies of multiple NNI publications including "The Nest" and multiple "Annales" were distributed on a regular basis among the medical community.

** Mother's milk is best for infant. Nestlé promotes mother's natural milk in all it's correspondence, infant formula packaging and all other related material. Nestlé also strictly follow the local as well as international code for protection of breast feeding and marketing of infant formulas. This document is part of company information only and may please be viewed accordingly.*

Coffee and Beverages

NESCAFÉ

NESCAFÉ - the world's favorite coffee brand is synonymous with coffee in Pakistan. NESCAFÉ is the pioneer in coffee, with generations of loyal consumers throughout the world. The richness of our coffee and our global expertise in coffee production has assured our stronghold on consumer loyalty.

NESCAFÉ is the market leader in Pakistan, enjoying a high level of brand equity. We expect to maintain the momentum of our success through introducing even better coffees for our consumers. Whether you like a cup of black or a creamy & frothy coffee, we have the perfect cup of coffee for you. So enjoy NESCAFÉ to lift your mood and revive your senses!

Nestlé MILO

MILO is a major player in the flavored milks category and enjoys a strong equity with consumers. The brand is well recognized due to it's unique chocolatey-malt taste and strong association to sports and energy. MILO's popularity transcends age-brackets as it is popular with both kids and consumers who are looking for energy and taste.

NESQUIK

NESQUIK continues to deliver on it's promise of celebrating childhood and being an ally for mothers in their battle to get their kids to drink milk. It is this idea that the brand has built upon, positioning itself as a fun-filled drink that the kids can associate with, while getting all the goodness of milk. To further strengthen the brand and its image of being a fun and healthy drink, NESQUIK launched two fun variants of Chocolate and Strawberry in a ready-to-drink format.

Breakfast Cereals

NESTLÉ BREAKFAST CEREALS
provides you and your family with wholesome breakfast nutrition. They are convenient, tasty and nutritious way to start your (and yours family) day.

Kids Range:

NESTLÉ KOKO KRUNCH – 170g/330g
(Takes kids on the ultimate chocolate experience which they love).

NESTLÉ MILO Cereal - 170g/330g
(Nutritious breakfast cereal with it's great MILO taste gives the confidence, energy and spirit to succeed in active life).

Both, NESTLÉ MILO Cereal and NESTLÉ KOKO KRUNCH are made with wholesome grains (high in fibre, iron and vitamins).

All Family Range:

NESTLÉ CORNFLAKES – 150g/275g
(is a modern nutrition: pure and wholesome corn, fortified with vitamins and minerals).

NESTLÉ HONEY GOLD FLAKES – 220g
(Honey sweetened flakes of corn).

Confectionery

NESTLÉ KITKAT

Chocolate is a small but fast growing segment in Pakistan.

Nestlé KITKAT was launched in 1996 in Pakistan and in 2006 responding to the evolving trends of the category, imports of KITKAT was started. Presently being sourced from the United Kingdom, it is now available in a range of sizes, 20.8g two finger, 35 gm four finger, 45 gm Single and the ever popular CHUNKY 50g. In 2010 KITKAT dark, mint and orange was also introduced in the market to make further inroads into the expanding chocolate category in Pakistan.

Juices

Nestlé FRUITA VITALS

2010 proved to be yet another "fruitful" year for the brand. Even in the wake of floods and rising inflation, that put pressures on the consumers' purchasing power, FRUITA VITALS continued it's double digit volume growth on account of a strong consumer pull.

The year commenced with a holistic, 360 degree, "Rise and Shine to Life" campaign focusing on slice of life representing different consumption occasions. As a result of this campaign, FRUITA VITALS is the preferred juice brand of the consumer.

The third quarter marked the addition of Peach Nectar, a new exotic variant. The consumer response for peach was overwhelming with the actual sales doubling versus forecast. Also the off-season launch helped retain excitement on the brand even during the lean months.

On digital, 2010 was a landmark year, with NESTLÉ FRUITA VITALS becoming the largest Pakistani FMCG brand with a Facebook fan following of 100,000+. "Aurora", an advertising magazine, also commended the success of the brand's Facebook page.

Given the passion of the new generation for music and style, we recognize that young people are always on the lookout for entertainment, and that musical events and style awards can be a great way to reach out to them. NESTLÉ FRUITA VITALS is committed to creating healthy, recreational platforms for youth and endorsing youth icons. To this end, we organized and sponsored several music and style events graced by various celebrities and glitterati. These events were also captured on digital and TV for an extended reach.

Culinary

MAGGI Noodles

MAGGI pioneered the Instant Noodles category in Pakistan with the launch of MAGGI 2-Minute Noodles in 1992. The MAGGI brand enjoys strong brand equity and is synonymous to Instant Noodles for the Pakistani consumers.

MAGGI re-launched the Instant Noodles portfolio in a 50g size at Rs.15 price point and added 3 new local flavors, Masala, Karara and Bar-B-Q, to the range. The Business results were outstanding and the year closed with very strong growth.

Moreover, a new thematic campaign was launched to establish the new Brand positioning of "Naye Taur Mazay Bhi Aur". Multiple touch points were used with emphasis on both ATL and BTL activities, such as 2 TVC executions, on-going cooking segments on local cooking channels and nation-wide consumer activations.

New mediums like Digital have also been explored for engaging our target consumers. The Maggilicious Facebook page has an ever increasing number of fans reaching over 55'000 fans within 5 months of launch.

In 2010, MAGGI Noodles was rated as the most preferred Instant Noodles brand by Consumer and Brand agencies.

MAGGI Umda Maza

True to the MAGGI brand promise "Naye Taur Mazay Bhi Aur", MAGGI Umda Maza was successfully launched in September 2010 to delight Emerging Consumers. It is an all-purpose powder seasoning for enhancing the flavor of everyday Pakistani meals, at an affordable price point.

The launch met with astounding internal passion, coupled with strong retailer & consumer response.

Pure Life

NESTLÉ PURE LIFE

NESTLÉ PURE LIFE, the world's number one bottled water brand with presence in 26 countries, was launched in 1998 in Pakistan.

The brand is rated as the most preferred bottled water brand in Pakistan by consumers according to research studies.

In 2010, the brand continued to expand it's mission to delight consumers by providing high quality, safe and pure drinking bottled water.

The brand launched a new campaign, Khush Zaiqa Behtareen Pani! to promote the pleasurable drinking experience of NESTLÉ PURE LIFE. The campaign was aimed at creating awareness of taste of water. It reached consumers on all key touch points i.e. TV, radio, print, billboards, packaging, internet and POS materials.

The great taste of NESTLÉ PURE LIFE was also validated through consumer tasting studies versus other bottled water brands.

Keeping consumer at the heart of all new initiatives, NESTLÉ PURE LIFE launched a new 5 Litre SKU in the growing small-bulk-segment. This new SKU directly addresses consumer need of CONVENIENCE and VALUE FOR MONEY while delivering on the same promise of quality, taste and healthy hydration that NESTLÉ PURE LIFE is synonymous with. New production line was installed in Shiekhupura factory to launch this SKU within the agreed time lines.

The introduction of this bottle will not only strengthen the brand further but will also aid in the growth of the bottled water market. It makes "Pakistan's Favorite Water" available in all major segments across the market.

Home and Office Service was re-launched at the start of the year with the aim of providing better service to Nestlé Pure Life customers. New customers were also attracted by highlighting the improved and superior NESTLÉ PURE LIFE experience.

In order to delight customers, several promotions were offered throughout the season to provide them more value for money.

Our product and communications strategy of keeping the 'Consumer at heart' helped us in further strengthening consumer loyalty and trust that has further improve profitability in 2010.

Nestlé Professional

Nestlé PROFESSIONAL. Creative Food & Beverage Solutions

Our vision: "To be an inspiring growth partner that delivers creative, branded food and beverage solutions, enabling operators to innovate and delight their consumers."

As part of the world's largest food and beverage company, Nestlé Professional is passionate about supplying you with branded solutions that are creative, customized and commercially viable. In our relentless drive for excellence, we aim to continue to:

1. Share our expertise with you
   With over 100 years' knowledge and experience in food and beverage, we're here to share our skills with you and advise you, using our deep, authentic market and industry knowledge, and our scientific and technological know-how.

   Our knowledge is from hands-on industry experience; it's not just research based. So, whatever channel you're in – full service or quick casual restaurants, college & university, lodging, education, health care, business and industry, leisure, convenience stores, vending - we can quickly understand your challenges and help you develop profitable solutions that best meet your needs and delight your customers.

2. Create profitable solutions tailored to you
   At Nestlé Professional, we use our global consumer insight to create and deliver profitable new business solutions that are right for your channel. We bring you brands that your customers trust and love. We also offer you the service and training you need to maximize customer satisfaction, efficiency and profitability.

3. Deliver safe, superior quality – every time
   In an increasingly global, competitive, regulated and demanding market, we deliver consistently excellent products that you and your customers can trust. With extensive research, development and qualitative analysis, we aim to create many more such innovative products, helping you to differentiate your food service establishment from the competition.

Financial Statements

Nestlé Pakistan Limited

For the Year Ended December 31, 2010

Auditors' Report to the Members

We have audited the annexed balance sheet of Nestlé Pakistan Limited ("the Company") as at December 31, 2010 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 auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

    i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

    ii) the expenditure incurred during the year was for the purpose of the Company's business; and

    iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, 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 December 31, 2010 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
(Farid Uddin Ahmed)

Lahore: February 14, 2011

Balance Sheet
As at December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized capital			
75,000,000 (2009: 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
Accumulated profit		4,598,850	3,443,932
		5,581,873	4,426,955
Non-current liabilities			
Long term finances	5	5,573,750	4,210,750
Deferred taxation	6	1,705,508	1,531,945
Retirement benefits	7	229,114	215,925
Liabilities against assets subject to finance lease	8	55,415	118,275
		7,563,787	6,076,895
Current liabilities			
Current portion of non current liabilities	9	57,786	1,322,442
Short term borrowings from associated company – unsecured	10	2,143,750	2,105,375
Short term running finance under mark-up arrangements – secured	11	2,780,843	756,362
Customer security deposits – interest free		128,857	105,686
Trade and other payables	12	4,633,932	3,746,286
Interest and mark-up accrued	13	61,404	46,979
		9,806,572	8,083,130
CONTINGENCIES AND COMMITMENTS	14		
		22,952,232	18,586,980

The annexed notes 1 to 43 form an integral part of these financial statements.

Balance Sheet
As at December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
ASSETS			
Tangible fixed assets			
Property, plant and equipment	15	11,370,611	10,700,874
Capital work-in-progress	16	3,076,472	914,956
		14,447,083	11,615,830
Intangible assets	17	16,735	7,106
Long term loans and advances	18	125,674	113,490
Long term security deposits		9,817	5,026
Current assets			
Stores and spares	19	1,050,804	868,984
Stock in trade	20	4,602,019	3,895,038
Trade debts	21	126,499	241,715
Current portion of long term loans and advances	18	19,149	21,012
Advances, deposits, prepayments and other receivables	22	2,048,936	1,503,009
Cash and bank balances	23	505,516	315,770
		8,352,923	6,845,528
		22,952,232	18,586,980

GIUSEPPE BONANNO
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Profit and Loss Account
For the Year Ended December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
Sales – net	24	51,487,302	41,155,822
Cost of goods sold	25	(37,608,733)	(29,256,902)
Gross profit		13,878,569	11,898,920
Distribution and selling expenses	26	(5,709,078)	(5,238,488)
Administration expenses	27	(1,311,637)	(1,085,121)
Operating profit		6,857,854	5,575,311
Finance cost	28	(513,081)	(442,050)
Other operating expenses	29	(819,084)	(1,091,149)
		(1,332,165)	(1,533,199)
Other operating income	30	170,491	144,145
Profit before taxation		5,696,180	4,186,257
Taxation	31	(1,583,331)	(1,181,124)
Profit after taxation		4,112,849	3,005,133
Earnings per share – basic and diluted (Rupees)	32	90.69	66.27

The annexed notes 1 to 43 form an integral part of these financial statements.

GIUSEPPE BONANNO
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Comprehensive Income
For the year ended December 31, 2010

	2010	2009
	(Rupees in '000)	
Profit after taxation	4,112,849	3,005,133
Other comprehensive loss :		
Actuarial losses recognized directly in the equity	(15,703)	(29,694)
Tax on actuarial losses recognized directly in the equity	5,496	10,393
Other comprehensive loss for the year, net of tax	(10,207)	(19,301)
Total comprehensive income for the year	4,102,642	2,985,832

The annexed notes 1 to 43 form an integral part of these financial statements.

GIUSEPPE BONANNO	**IAN J. DONALD**	**SYED YAWAR ALI**
Head of Finance and Control	Chief Executive	Chairman

Cash Flow Statement
For the Year Ended December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
Cash flow from operating activities			
Cash generated from operations	34	7,618,810	6,397,615
(Increase) / decrease in long term security deposits		(4,791)	10
(Increase) in long term loans and advances		(10,321)	(9,343)
Retirement benefits paid		(137,122)	(293,122)
Finance cost paid		(498,656)	(497,244)
Taxes paid		(1,518,903)	(990,053)
Net cash generated from operating activities		5,449,017	4,607,863
Cash flow from investing activities			
Fixed capital expenditure		(4,295,328)	(2,271,269)
Purchase of intangible asset		(19,126)	–
Sale proceeds of property, plant and equipment		41,654	32,995
Net cash (used in) investing activities		(4,272,800)	(2,238,274)
Cash flow from financing activities			
Short term borrowings from associated company		–	1,995,375
Net movement in short term borrowings – secured		–	(300,000)
Payment of finance lease liabilities		(64,291)	(54,132)
Dividend paid		(2,946,661)	(2,946,464)
Net cash (used in) financing activities		(3,010,952)	(1,305,221)
Net (decrease) / increase in cash and cash equivalents		(1,834,735)	1,064,368
Cash and cash equivalents at beginning of the year		(440,592)	(1,504,960)
Cash and cash equivalents at end of the year	35	(2,275,327)	(440,592)

The annexed notes 1 to 43 form an integral part of these financial statements.

GIUSEPPE BONANNO	**IAN J. DONALD**	**SYED YAWAR ALI**
Head of Finance and Control	Chief Executive	Chairman

Statement of Changes in Equity
For the Year Ended December 31, 2010

		Capital reserve	Revenue reserve		
	Share capital	Share premium	General reserve	Accumulated profit	Total
	(Rupees in '000)				
Balance as at December 31, 2008	453,496	249,527	280,000	3,405,824	4,388,847
Final dividend for the year ended December 31, 2008 (Rs. 25 per share)	–	–	–	(1,133,740)	(1,133,740)
Interim dividend for the six months period ended June 30, 2009 (Rs. 30 per share)	–	–	–	(1,360,488)	(1,360,488)
Interim dividend for the nine months period ended September 30, 2009 (Rs. 10 per share)	–	–	–	(453,496)	(453,496)
Total comprehensive income for the year	–	–	–	2,985,832	2,985,832
Balance as at December 31, 2009	453,496	249,527	280,000	3,443,932	4,426,955
Final dividend for the year ended December 31, 2009 (Rs. 20 per share)	–	–	–	(906,992)	(906,992)
Interim dividend for the six months period ended June 30, 2010 (Rs. 20 per share)	–	–	–	(906,992)	(906,992)
Interim dividend for the nine months period ended September 30, 2010 (Rs. 25 per share)	–	–	–	(1,133,740)	(1,133,740)
Total comprehensive income for the year	–	–	–	4,102,642	4,102,642
Balance as at December 31, 2010	453,496	249,527	280,000	4,598,850	5,581,873

The annexed notes 1 to 43 form an integral part of these financial statements.

GIUSEPPE BONANNO
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Notes to the Financial Statements
For the Year Ended December 31, 2010

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 the Karachi and Lahore Stock Exchanges. The principal activity of the Company is manufacturing, processing and sale of food 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 Summary of significant accounting policies

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

2.1 Basis of preparation and 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) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of 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 property, plant and equipment at recoverable amount.

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 recognized 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:

-	Taxation	2.8
-	Retirement benefits	2.9
-	Provisions and contingencies	2.13
-	Useful life of depreciable assets	2.14

2.3 Financial instruments

All financial assets and liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognized when the Company loses control

Notes to the Financial Statements
For the Year Ended December 31, 2010

of the contractual right that comprise the financial assets. Financial liabilities are de-recognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognizing 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.

2.4 Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit and loss as incurred. Subsequent to initial recognition, the method of recognizing the resulting gain or loss depends on whether the derivative is designated as hedge instrument, and if so, the nature of item being hedged. Derivatives which are not designated are measured at fair value, and changes therein are accounted for as an expense in the profit and loss account.

Derivatives are carried as asset when the fair value is positive and liabilities when the fair value is negative. There are no derivatives which are designated as hedge instruments.

2.5 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 bearing borrowings

Interest bearing borrowings are recognized initially at fair value less attributable transaction cost. Subsequent to initial recognition, these are stated at amortized cost with any difference between cost and redemption value being recognized 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 recognized at fair value plus directly attributable cost, if any, and subsequently at amortized cost using effective interest rate method.

2.6 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 recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.7 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.

Notes to the Financial Statements
For the Year Ended December 31, 2010

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 biological assets, investment property, 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 recognized 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 recognized in profit and loss. Impairment losses recognized 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.

2.8 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 recognized for all taxable temporary differences and deferred tax assets are recognized 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

Notes to the Financial Statements
For the Year Ended December 31, 2010

substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

2.9 Retirement benefits

Defined benefit plan

The Company operates an approved funded defined benefit pension plan for its management staff, excluding expatriates, and an approved funded defined benefit gratuity plan for all employees, excluding expatriates, having a service period of more than one year. Provisions are made in the financial statements to cover obligations on the basis of actuarial valuations carried out annually under the projected unit credit method.

Defined contribution plan

The Company operates a recognized 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. Obligation for contributions to defined contribution plan is recognized as an expense in the profit and loss account as and when incurred.

2.10 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 the 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 costs so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to income 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 15. Depreciation of leased assets is charged to income.

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.

Notes to the Financial Statements
For the Year Ended December 31, 2010

2.11 Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently at amortized cost using effective interest rate methods.

2.12 Dividend

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

2.13 Provisions

Provisions are recognized 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.

2.14 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 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 and applicable manufacturing overheads.

Depreciation is charged to income, 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 15.

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

Depreciation on additions is charged on a pro-rata basis from the month of use, while for disposals depreciationis charged up to the month of disposal to profit and loss. Where an impairment loss is recognized, 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 income 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 income.

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 impairment loss. These are amortized using the straight line method at the rates given in note 17. Amortization on additions is charged on a pro-rata basis from the month of use, while for disposals amortization is charged upto the month of disposal.

Notes to the Financial Statements
For the Year Ended December 31, 2010

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.

2.15 Inventories

Inventories, except for stock in transit, are stated at lower of cost and net realizable value. 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. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Stock in trade

Cost of finished goods, 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.

Stock in transit is 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.

Raw and packing material

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

2.16 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.

2.17 Revenue recognition

Revenue represents the fair value of the consideration received or receivable for goods sold, net of discounts and sales tax. Revenue is recognized 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 i.e. on dispatch of goods/products to customers or performance of services.

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

Notes to the Financial Statements
For the Year Ended December 31, 2010

2.18 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.

2.19 Borrowing cost

Mark-up, interest and other charges on borrowings are capitalised upto the date of commissioning of the related property, plant and equipment acquired out of the proceeds of such borrowings. All other mark-up, interest and other charges are charged to profit in the period in which they are incurred.

2.20 Related Party transactions

The Company enters into transactions with related parties on an arm's length basis. Prices for transactions with related parties are determined using admissible valuation methods, except in extremely rare circumstances where, subject to approval of the Board of Directors, it is in the interest of the Company to deviate.

2.21 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.

2.22 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 its performance, and for which discrete financial information is available.

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

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2011:

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the class of its own non-derivative equity instruments. This interpretation has no impact on the Company's financial statements.

Notes to the Financial Statements
For the Year Ended December 31, 2010

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Company's financial statements.

- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Company's financial statements.

- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 01, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 01, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on financial statements of the Company.

- Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after July 01, 2011). The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. These amendments will result in increased disclosures in the financial statements.

Notes to the Financial Statements
For the Year Ended December 31, 2010

3 Issued, subscribed and paid up capital

2010	2009		2010	2009
(Number of shares)			(Rupees in '000)	
29,787,058	29,787,058	Ordinary shares of Rs. 10 each as fully paid in cash	297,870	297,870
15,476,867	15,476,867	Ordinary shares of Rs. 10 each as fully paid bonus shares	154,769	154,769
85,659	85,659	Ordinary shares of Rs. 10 each issued for consideration other than cash	857	857
45,349,584	45,349,584		453,496	453,496

As at December 31, 2010, Nestlé S.A. Switzerland, the holding company, holds 26,778,229 (2009: 26,778,229) ordinary shares of the Company. In addition, 8,761,429 (2009: 8,789,082) ordinary shares are held by the following related parties as at 31 December:

	2010	2009
	(Number of shares)	
Name of related party:		
International General Insurance Company of Pakistan Limited	4,327,560	4,355,213
Percentage of equity held 9.5% (2009: 9.6%)		
Packages Limited	3,649,248	3,649,248
Percentage of equity held 8.0% (2009: 8.0%)		
Gurmani Foundation	762,955	762,955
Percentage of equity held 1.7% (2009: 1.7%)		
Industrial Technical and Educational Institution	21,666	21,666
Percentage of equity held 0.05% (2009: 0.05%)	8,761,429	8,789,082

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.

	Note	2010	2009
		(Rupees in '000)	
5 Long term finances			
Long term finances utilized under mark-up arrangements:			
Related party – Unsecured			
Associated company – Foreign currency	5.1	5,573,750	5,473,975
Less : current maturity	9	–	(1,263,225)
		5,573,750	4,210,750

Notes to the Financial Statements
For the Year Ended December 31, 2010

Terms of repayment

5.1 This represents US$ 65 million unsecured loan from Nestlé Treasury Centre Middle East and Africa Limited, Dubai – a related party. This loan has been rescheduled during the year. Under the revised terms, US$ 15 million is now payable in December 2015 and the balance of US$ 50 million is due in May 2016. Mark-up is payable semi annually at six months average LIBOR plus 150 basis points. The outstanding balance as at December 31, 2010 has been converted into Pak Rupees at the rate prevailing on the balance sheet date.

		Note	2010	2009
			(Rupees in '000)	
6	**Deferred taxation**			
	This is composed of:			
	Liability for deferred taxation comprising temporary differences related to:			
	Accelerated tax depreciation		1,861,680	1,665,564
	Others		(156,172)	(133,619)
			1,705,508	1,531,945
7	**Retirement benefits**			
	Pension fund	7.1	83,310	96,557
	Gratuity fund	7.1	145,804	119,368
			229,114	215,925

		Gratuity		Pension	
		2010	2009	2010	2009
		(Rupees in '000)		(Rupees in '000)	
7.1	**Present value of funded obligations:**				
	Amounts recognized in the balance sheet are as follows:				
	Present value of defined benefit obligation	646,990	512,304	782,220	651,918
	Fair value of plan assets	(501,186)	(392,936)	(698,910)	(555,361)
	Total employee benefit obligation	145,804	119,368	83,310	96,557
7.2	**Movement in net obligation**				
	Net liability as at 01 January	119,368	251,744	96,557	100,224
	Charge to profit and loss account	74,911	92,545	65,193	45,233
	Actuarial losses / (gains) recognized in equity	34,695	(29,027)	(18,992)	58,721
	Contribution made by the employees	–	–	25,595	21,175
	Contribution made by the Company	(83,170)	(195,894)	(85,043)	(128,796)
		145,804	119,368	83,310	96,557

Notes to the Financial Statements
For the Year Ended December 31, 2010

		Gratuity		Pension	
		2010	2009	2010	2009
		(Rupees in '000)		(Rupees in '000)	
7.3	**Movement in the liability for funded defined benefit obligations**				
	Liability for defined benefit obligations as at 01 January	512,304	429,967	651,918	474,713
	Benefits paid by the plan	(22,755)	(29,372)	(15,661)	(13,890)
	Current service costs	60,587	54,783	69,599	51,374
	Interest cost	61,476	64,495	78,230	71,207
	Vested past service cost due to pension indexation	–	–	9,602	–
	Actuarial losses / (gains) on present value of defined benefit obligations	35,378	(7,569)	(11,468)	68,514
	Liability for defined benefit obligations as at 31 December	646,990	512,304	782,220	651,918
7.4	**Movement in fair value of plan assets**				
	Fair value of plan assets as at 01 January	392,936	178,223	555,361	374,489
	Contributions paid into the plan	83,170	195,894	85,043	128,796
	Benefits paid by the plan	(22,755)	(29,372)	(15,661)	(13,890)
	Expected return on plan assets	47,152	26,733	66,643	56,173
	Actuarial gains on plan assets	683	21,458	7,524	9,793
	Fair value of plan assets as at 31 December	501,186	392,936	698,910	555,361
7.5	**Plan assets consist of the following**:				
	Equity instruments	44,872	55,382	41,852	53,663
	Debt instruments	377,423	108,845	581,086	177,855
	Cash and other deposits	78,891	228,709	75,972	323,843
		501,186	392,936	698,910	555,361
7.6	**Salaries, wages and amenities include the following in respect of retirement and other benefits**:				
	Interest cost for the year	61,476	64,495	78,230	71,207
	Current service cost	60,587	54,783	69,599	51,374
	Vested past service cost due to pension indexation	–	–	9,602	–
	Expected return on plan assets	(47,152)	(26,733)	(66,643)	(56,173)
	Contribution made by the employees	–	–	(25,595)	(21,175)
		74,911	92,545	65,193	45,233

Notes to the Financial Statements
For the Year Ended December 31, 2010

		Gratuity		Pension	
		2010	2009	2010	2009
		(Rupees in '000)		(Rupees in '000)	
7.7	**Charge for the year has been allocated as follows:**				
	Cost of goods sold	28,904	35,521	19,510	13,309
	Distribution and selling expenses	28,756	35,673	23,233	16,343
	Administration expenses	17,251	21,351	22,450	15,581
		74,911	92,545	65,193	45,233
7.8	**Actual return on plan assets**	47,835	48,191	74,167	65,966
7.9	**Actuarial gains and (losses) recognized directly in the equity**				
	Cumulative amount at 01 January	(191,611)	(220,638)	(122,772)	(64,051)
	(Losses) / gains recognized during the year	(34,695)	29,027	18,992	(58,721)
	Cumulative amount at 31 December	(226,306)	(191,611)	(103,780)	(122,772)

		2010	2009	2008	2007	2006
				(Rupees in '000)		
7.10	**Historical Information for Gratuity plan**					
	Present value of defined benefit obligation	646,990	512,304	429,967	349,287	286,258
	Fair value of the plan assets	(501,186)	(392,936)	(178,223)	(215,678)	(151,918)
	Deficit in the plan	145,804	119,368	251,744	133,609	134,340
	Experience adjustment arising on plan liabilities	(35,378)	7,569	(9,414)	(14,219)	(17,739)
	Experience adjustments arising on plan assets	683	21,458	(97,930)	19,175	(30,485)

The Company expects to pay Rs. 92.626 million in contributions to gratuity fund in 2011.

		2010	2009	2008	2007	2006
				(Rupees in '000)		
7.11	**Historical Information for Pension plan**					
	Present value of defined benefit obligation	782,220	651,918	474,713	474,019	377,539
	Fair value of the plan assets	(698,910)	(555,361)	(374,489)	(369,258)	(277,574)
	Deficit in the plan	83,310	96,557	100,224	104,761	99,965
	Experience adjustment arising on plan liabilities	11,468	(68,514)	81,387	(20,553)	(14,782)
	Experience adjustments arising on plan assets	7,524	9,793	(87,870)	18,902	(7,973)

The Company expects to pay Rs. 69.566 million in contributions to pension fund in 2011.

Notes to the Financial Statements
For the Year Ended December 31, 2010

7.12 Significant actuarial assumptions used for valuation of these plans are as follows:

	2010		2009	
	Gratuity fund per annum	Pension fund per annum	Gratuity fund per annum	Pension fund per annum
Discount Rate	13%	13%	12%	12%
Expected rates of salary increase	13%	13%	12%	12%
Expected rates of return on plan assets	12%	12%	15%	15%
Average expected remaining working life	13 years	13 years	13 years	13 years

	Note	2010	2009
		(Rupees in '000)	
8 Liabilities against assets subject to finance lease			
Present value of minimum lease payments		113,201	177,492
Less: Current portion shown under current liabilities	9	(57,786)	(59,217)
		55,415	118,275

The lease has been obtained under Kissan Dost Livestock Development Scheme. As per the terms of agreement, the finance cost will be paid by Pakistan Dairy Development Company (PDDC). The interest rate ranges from average 6 months to 1 year KIBOR plus 200 basis points with a floor of 10% per annum and agency fee (profit) under Ijarah agreement ranges from 14.01% to 17% per annum (2009 : 14.01% to 17% per annum).

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

Years	2010			2009		
	Minimum lease payments	Finance cost	Pricipal	Minimum lease payments	Finance cost	Principapal
	(Rupees in '000)			(Rupees in '000)		
Not later than one year	57,786	–	57,786	59,217	–	59,217
Later than one year but not later than five years	55,415	–	55,415	118,275	–	118,275
	113,201	–	113,201	177,492	–	177,492

	Note	2010	2009
		(Rupees in '000)	
9 Current portion of non-current liabilites			
Associated company – Foreign currency	5	–	1,263,225
Liabilities against assets subject to finance lease	8	57,786	59,217
		57,786	1,322,442

Notes to the Financial Statements
For the Year Ended December 31, 2010

10 Short term borrowings from associated company – unsecured

This represents US$ 25 million short term foreign currency loan obtained from Nestlé Treasury Centre Middle East and Africa Limited, Dubai. It carries mark-up at the rate of 6 months LIBOR plus 100 basis points (2009: 6 months LIBOR plus 100 basis points). The loan is repayable in June 2011. The outstanding balance as at December 31, 2010 has been converted into Pak Rupees at the rate prevailing on the balance sheet date.

11 Short term running finance under mark-up arrangements – secured

Short term running finances available from commercial banks under mark-up arrangements amount to Rs. 7,873 million (2009 : Rs. 7,073 million). Mark-up is charged at rates ranging from 6.70% to 14.94% per annum (2009 : 11.67% to 17.37% per annum).

These running finances under mark-up arrangements are secured by hypothecation charge over fixed assets, stores, stocks and assignment of receivables of the company

	Note	2010	2009
		(Rupees in '000)	
12 Trade and other payables			
Trade creditors			
Related parties – associated companies		516,168	356,361
Others		620,327	1,117,200
		1,136,495	1,473,561
Accrued liabilities			
Related parties – associated companies		36,243	30,413
Others		2,889,666	1,715,138
		2,925,909	1,745,551
Excise duty payable		15,006	13,799
Advances from customers		64,871	180,391
Workers' profit participation fund	12.1	182,336	60,640
Workers' welfare fund		116,249	85,434
Derivative financial liability		25,754	42,267
Royalty and technical assistance fee payable to holding company		121,467	96,261
Unclaimed dividend		5,320	4,257
Withholding tax payable		11,286	1,456
Withholding sales tax payable		14,626	21,453
Others		14,613	21,216
		4,633,932	3,746,286
12.1 Workers' profit participation fund			
Opening balance		60,640	9,250
Provision for the year	29	305,917	224,826
		366,557	234,076
Less: Payments during the year		(184,221)	(173,436)
Closing balance		182,336	60,640

Notes to the Financial Statements
For the Year Ended December 31, 2010

		2010	2009
		(Rupees in '000)	
13	**Interest and mark-up accrued**		
	Short term running finances – secured	37,927	8,818
	Loan from associated company – unsecured	23,477	38,161
		61,404	46,979

14 Contingencies and commitments

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

14.2 Claims against the Company not acknowledged as debt amount to Rs. 5.745 million (2009: Rs. 35.793 million).

		2010	2009
		(Rupees in '000)	
14.3	**Guarantees**		
	Outstanding guarantees	194,401	183,300
	Un-utilized portion	200,598	61,700
14.4	Commitments in respect of capital expenditure	605,202	74,053
14.5	**Letters of credit**		
	Other outstanding letters of credit	359,010	23,369
	Un-utilized portion	2,217,090	1,107,731

Notes to the Financial Statements
For the Year Ended December 31, 2010

15 Property, plant and equipment

	Owned assets								Leased assets	
	Freehold Land	Lease hold land	Building on freehold land	Building on lease hold land	Plant and machinery	Furniture and fixtures	Vehicles	Office equipment	Plant and machinery	Total
					(Rupees in '000)					
Cost										
Balance as at January 01, 2009	486,360	32,347	1,987,136	219,273	11,051,352	205,058	267,965	5,967	321,522	14,576,980
Additions during the year	194,205	–	173,649	–	2,300,317	13,499	57,044	–	–	2,738,714
Disposals / scrapped	(111)	–	(2,065)	–	(468,500)	(20,945)	(67,489)	(479)	–	(559,589)
Balance as at December 31, 2009	680,454	32,347	2,158,720	219,273	12,883,169	197,612	257,520	5,488	321,522	16,756,105
Balance as at January 01, 2010	680,454	32,347	2,158,720	219,273	12,883,169	197,612	257,520	5,488	321,522	16,756,105
Reclassification during the year	(113)	(103)	(5)	–	221	–	–	–	–	–
Additions during the year	–	–	104,052	–	1,811,009	11,168	207,583	–	–	2,133,812
Disposals / scrapped	–	–	(4,186)	–	(510,998)	(7,760)	(42,734)	(2,285)	–	(567,963)
Balance as at December 31, 2010	680,341	32,244	2,258,581	219,273	14,183,401	201,020	422,369	3,203	321,522	18,321,954
Depreciation and impairment losses										
Balance as at January 01, 2009	–	2,747	351,593	137,061	4,345,657	87,744	148,220	5,572	34,013	5,112,607
Depreciation charge for the year	–	363	61,647	3,120	1,049,611	30,107	39,557	390	28,260	1,213,055
Depreciation and impairment on disposals	–	–	(208)	–	(398,173)	(18,846)	(47,789)	(478)	–	(465,494)
Impairment charge for the year	122,639	–	–	–	72,424	–	–	–	–	195,063
Balance as at December 31, 2009	122,639	3,110	413,032	140,181	5,069,519	99,005	139,988	5,484	62,273	6,055,231
Balance as at January 01, 2010	122,639	3,110	413,032	140,181	5,069,519	99,005	139,988	5,484	62,273	6,055,231
Reclassification during the year	–	(56)	(5)	–	61	–	–	–	–	–
Depreciation charge for the year	–	359	66,661	3,120	1,091,097	30,738	49,806	4	28,261	1,270,046
Depreciation and impairment on disposals	–	–	(1,600)	–	(373,688)	(7,447)	(31,382)	(2,285)	–	(416,402)
Impairment charge for the year	–	–	–	–	42,468	–	–	–	–	42,468
Balance as at December 31, 2010	122,639	3,413	478,088	143,301	5,829,457	122,296	158,412	3,203	90,534	6,951,343
Net book value as at December 31, 2010	**557,702**	**28,831**	**1,780,493**	**75,972**	**8,353,944**	**78,724**	**263,957**	**–**	**230,988**	**11,370,611**
Net book value as at December 31, 2009	557,815	29,237	1,745,688	79,092	7,813,650	98,607	117,532	4	259,249	10,700,874
Rate of depreciation in %	–	1–6.67	2–5	2–5	4–33	20	20	20	6.67–20	

15.1 Reclassification

Reclassifcations represent adjustments made after an extensive review of plant and equipment classifications carried out by the management during the year.

	Note	2010	2009
		(Rupees in '000)	
15.2 Depreciation charge for the year has been allocated as follows:			
Cost of goods sold	25	1,040,620	991,926
Distribution and selling expenses	26	163,726	149,966
Administrative expenses	27	64,559	71,047
Charged to projects during the year		1,141	116
		1,270,046	1,213,055

15.3 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)				
Building						
	4,186	1,600	2,586	–	Scrapped	Various
Plant and machinery						
	13,587	4,076	9,511	–	Scrapped	Various
	13,605	6,802	6,802	–	Scrapped	Various
	4,693	1,173	3,520	–	Scrapped	Various
	5,594	2,175	3,418	–	Scrapped	Various
	4,419	1,105	3,314	–	Scrapped	Various
	3,479	870	2,609	–	Scrapped	Various
	3,127	782	2,345	–	Scrapped	Various
	3,263	997	2,266	–	Scrapped	Various
	3,642	1,517	2,124	–	Scrapped	Various
	3,052	933	2,119	–	Scrapped	Various
	3,165	1,123	2,042	–	Scrapped	Various
	3,631	1,614	2,017	–	Scrapped	Various
	3,592	1,596	1,996	–	Scrapped	Various
	3,213	1,249	1,963	–	Scrapped	Various
	3,100	1,292	1,808	–	Scrapped	Various
	3,233	1,428	1,805	–	Scrapped	Various
	23,718	21,914	1,804	–	Scrapped	Various
	3,156	1,403	1,753	–	Scrapped	Various
	2,616	872	1,744	–	Scrapped	Various
	3,118	1,386	1,732	–	Scrapped	Various
	2,442	746	1,696	–	Scrapped	Various
	2,656	1,033	1,623	–	Scrapped	Various
	2,158	660	1,499	–	Scrapped	Various
	1,929	482	1,447	–	Scrapped	Various
	3,460	2,018	1,442	–	Scrapped	Various
	2,274	849	1,424	–	Scrapped	Various
	1,875	461	1,414	–	Scrapped	Various
	1,926	514	1,412	–	Scrapped	Various
	2,303	896	1,407	–	Scrapped	Various
	1,832	484	1,347	–	Scrapped	Various
	2,289	954	1,335	–	Scrapped	Various
	1,889	577	1,312	–	Scrapped	Various
	2,622	1,311	1,311	–	Scrapped	Various
	2,348	1,044	1,305	–	Scrapped	Various
	1,438	160	1,278	–	Scrapped	Various
	1,908	634	1,274	17	Scrapped	Various
	2,277	1,012	1,265	–	Scrapped	Various
	2,138	891	1,247	36	Scrapped	Various
	1,487	248	1,239	–	Scrapped	Various
	1,825	596	1,228	–	Scrapped	Various
	1,369	152	1,217	–	Scrapped	Various
	1,717	525	1,192	–	Scrapped	Various
	1,702	520	1,182	–	Scrapped	Various

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
		(Rupees in '000)				
	2,295	1,147	1,147	–	Scrapped	Various
	1,139	32	1,108	–	Scrapped	Various
	1,601	534	1,068	–	Scrapped	Various
	3,266	2,268	998	–	Scrapped	Various
	1,178	229	949	–	Scrapped	Various
	1,473	532	941	–	Scrapped	Various
	1,468	530	938	–	Scrapped	Various
	1,400	467	933	–	Scrapped	Various
	1,340	409	930	–	Scrapped	Various
	1,834	917	917	–	Scrapped	Various
	1,221	339	882	–	Scrapped	Various
	1,669	788	881	–	Scrapped	Various
	940	104	835	–	Scrapped	Various
	4,968	4,140	828	–	Scrapped	Various
	1,096	304	791	–	Scrapped	Various
	1,250	486	764	–	Scrapped	Various
	1,099	336	763	–	Scrapped	Various
	3,343	2,610	732	–	Scrapped	Various
	1,078	359	718	–	Scrapped	Various
	827	115	712	–	Scrapped	Various
	1,089	393	696	–	Scrapped	Various
	853	166	687	–	Scrapped	Various
	1,143	476	667	–	Scrapped	Various
	1,290	645	645	–	Scrapped	Various
	748	145	602	–	Scrapped	Various
	968	371	597	–	Scrapped	Various
	793	242	551	–	Scrapped	Various
	722	201	521	–	Scrapped	Various
	1,694	1,176	518	–	Scrapped	Various
	818	318	500	–	Scrapped	Various
	847	376	471	–	Scrapped	Various
	2,783	2,320	464	–	Scrapped	Various
	617	154	463	–	Scrapped	Various
	1,217	778	440	–	Scrapped	Various
	1,115	681	434	–	Scrapped	Various
	732	305	427	–	Scrapped	Various
	702	292	409	–	Scrapped	Various
	476	79	397	–	Scrapped	Various
	583	210	372	–	Scrapped	Various
	607	236	371	13	Scrapped	Various
	392	22	370	–	Scrapped	Various
	668	302	366	–	Scrapped	Various
	575	211	364	–	Scrapped	Various
	2,100	1,750	350	–	Scrapped	Various
	478	146	332	–	Scrapped	Various
	1,979	1,649	330	–	Scrapped	Various
	1,276	957	319	–	Scrapped	Various
	994	690	304	–	Scrapped	Various

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
		(Rupees in '000)				
	1,179	884	295	–	Scrapped	Various
	383	96	287	–	Scrapped	Various
	605	319	286	–	Scrapped	Various
	350	78	272	–	Scrapped	Various
	1,211	942	269	–	Scrapped	Various
	363	111	252	–	Scrapped	Various
	566	314	252	–	Scrapped	Various
	352	107	244	–	Scrapped	Various
	388	151	237	–	Scrapped	Various
	399	166	233	–	Scrapped	Various
	1,022	795	227	–	Scrapped	Various
	804	580	223	–	Scrapped	Various
	376	157	219	–	Scrapped	Various
	262	51	211	–	Scrapped	Various
	375	166	208	–	Scrapped	Various
	465	284	181	–	Scrapped	Various
	271	98	173	–	Scrapped	Various
	258	93	165	–	Scrapped	Various
	292	130	162	–	Scrapped	Various
	938	782	156	–	Scrapped	Various
	865	721	144	–	Scrapped	Various
	23,771	23,631	140	–	Scrapped	Various
	376	240	136	–	Scrapped	Various
	221	86	135	–	Scrapped	Various
	191	58	133	–	Scrapped	Various
	263	146	117	–	Scrapped	Various
	588	473	114	–	Scrapped	Various
	188	78	110	–	Scrapped	Various
	188	78	110	–	Scrapped	Various
	159	53	106	–	Scrapped	Various
	443	345	99	–	Scrapped	Various
	222	125	97	–	Scrapped	Various
	222	125	97	–	Scrapped	Various
	222	125	97	–	Scrapped	Various
	173	77	96	–	Scrapped	Various
	573	478	96	–	Scrapped	Various
	142	47	95	–	Scrapped	Various
	155	60	94	–	Scrapped	Various
	374	281	93	–	Scrapped	Various
	264	172	93	34	Sale	FF enterprises
	117	36	81	–	Scrapped	Various
	385	310	75	–	Scrapped	Various
	526	468	58	–	Scrapped	Various
	99	44	55	57	Insurance Claim	IGI Insurance
	204	150	54	–	Scrapped	Various
	277	223	54	–	Scrapped	Various
	69	18	51	–	Scrapped	Various
	261	210	51	–	Scrapped	Various

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
			(Rupees in '000)			
Vehicles						
	1,445	96	1,349	1,400	Insurance Claim	IGI Insurance
	787	118	669	743	Sale	Employee (M Faridoon Dawar)
	772	167	605	563	Sale	Employee (Danish Aman Mirza)
	789	289	500	663	Sale	Employee (Sajid Mukhtar)
	661	220	441	538	Sale	Employee (Abdul Hassan)
	663	232	431	700	Insurance Claim	IGI Insurance
	680	249	431	560	Sale	Employee (Syed Ali Raza)
	657	241	416	535	Sale	Employee (S. Zeshan Haider Rizvi)
	663	287	376	529	Sale	Employee (Umar Khalid Siddiqui)
	509	136	373	435	Sale	Employee (Qaisar Zaman)
	598	239	359	487	Sale	Employee (Kamran Akber)
	640	288	352	250	Sale	Employee (Asad Ullah Kandhari)
	402	134	268	330	Sale	Employee (Shahida Pasha)
	567	312	255	407	Sale	Employee (Syed Ali Masoud)
	585	332	254	428	Sale	Employee (Farhan Hassan Khan)
	399	173	226	315	Sale	Employee (Ali Sadullah Bungash)
	556	343	213	387	Sale	Employee (Imran Salim)
	556	343	213	376	Sale	Employee (Abdul Rashid)
	383	179	204	292	Sale	Employee (Muneeba Fatima)
	568	369	199	378	Sale	Employee (Humayun Bin Akram)
	565	367	198	437	Sale	Employee (Kamal Abdul Waheed)
	368	178	190	278	Sale	Employee (Naheed Nasim)
	555	370	185	419	Sale	Employee (Rizwan Aziz Khan)
	555	370	185	300	Sale	open Market
	686	503	183	320	Sale	Employee (Adnan Mushtaq)
	368	196	172	375	Insurance Claim	IGI Insurance
	1,254	1,087	167	652	Sale	Employee (Muhammad Shafiq)
	371	204	167	275	Sale	Employee (Yasir Malik)
	1,142	990	152	480	Sale	Employee (Mr. Mustansir Ali)
	360	222	138	253	Sale	Employee (Nadia Habib)
	555	425	129	359	Sale	Employee (Danish Jabbar Khan)
	555	425	129	359	Sale	Employee (Kamran Riaz)
	555	425	129	476	Sale	Employee (Azhar Ali Butt)
	555	425	129	353	Sale	Employee (Naeem iqbal)
	749	624	125	360	Sale	Employee (Amer Ata Khan)
	845	730	115	560	Sale	Employee (Faisal Raza)
	360	258	102	235	Sale	Employee (Mansoor Ali Hashmi)
	360	258	102	239	Sale	Employee (Waseem Sheikh)
	749	661	87	400	Sale	Employee (Kahlid Saeed Khan)
	686	606	80	320	Sale	Employee (Irum Shahzadi)
	67	10	57	58	Insurance Claim	IGI Insurance
Assets with book value less than Rs. 50,000	274,629	262,548	12,119	23,695		
Total	**567,963**	**416,402**	**151,561**	**41,654**		

Notes to the Financial Statements
For the Year Ended December 31, 2010

		Note	2010	2009
			(Rupees in '000)	
16	**Capital work-in-progress**			
	Civil works		160,327	70,122
	Plant and machinery		2,780,902	841,440
	Others		135,243	3,394
			3,076,472	914,956
17	**Intangible assets**			
	Cost			
	Balance as at 01 January		213,189	213,189
	Addition during the year		19,126	–
	Balance as at 31 December		232,315	213,189
	Amortization			
	Balance as at 01 January		206,083	163,445
	Charge for the year	27	9,497	42,638
	Accumulated amortization as at 31 December		215,580	206,083
	Net book value as at 31 December		16,735	7,106
	Amortization rate		20% to 25%	20%
18	**Long term loans and advances**			
	To employees – secured, considered good	18.1		
	Executives		67,365	55,774
	Other employees		24,592	28,431
			91,957	84,205
	To suppliers – unsecured, considered good	18.2	13,160	22,647
	To others	18.3	39,706	27,650
			144,823	134,502
	Less: current portion shown under current assets		19,149	21,012
			125,674	113,490

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 registration of vehicles in the name of the Company for the purpose of security against loan.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs. 68.082 million (2009 : Rs. 55.774 million).

Chief Executive and Directors have not taken any loans and advances from the Company.

Notes to the Financial Statements
For the Year Ended December 31, 2010

	2010	2009
	(Rupees in '000)	
Reconciliation of carrying amount of loans to executives		
Balance as at 01 January	55,774	59,527
Disbursements during the year	30,100	15,720
Status change of non-executive employees as executives	2,871	40
Loans recovered during the year	(21,380)	(19,513)
Balance as at 31 December	67,365	55,774

18.2 This includes an un-secured loan of Rs. 13.160 million (2009: Rs. 13.160 million) 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 (2009: 1.5% per annum) and is receivable annually. This amount is receivable in 10 equal annual installments which commenced from October 2008.

18.3 This includes an interest free loan given to Babar Ali Foundation (the Foundation) to establish an educational agricultural farm / training facility for the farmers. This loan will be repaid through operational income generated by the farm within a period of 10 years starting from 01 January, 2010. The Chairman of the Foundation is a Director of the Company.

	2010	2009
	(Rupees in '000)	
19 Stores and spares		
Stores	97,499	54,767
Spares, including in transit Rs. 12.199 million (2009: Rs. 2.801 million)	953,305	814,217
	1,050,804	868,984

19.1 Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

	2010	2009
	(Rupees in '000)	
20 Stock in trade		
Raw and packing materials including in transit Rs. 274.585 million (2009: Rs. 492.827 million)	3,177,401	2,462,307
Work-in-process	238,177	175,868
Finished goods	1,059,468	1,110,886
Goods purchased for resale including in transit Rs. 39.738 million (2009: Rs. 51.534 million)	126,973	145,977
	4,602,019	3,895,038

Notes to the Financial Statements
For the Year Ended December 31, 2010

		Note	2010	2009
			(Rupees in '000)	
21	**Trade debts**			
	Considered good – unsecured		126,499	241,715
	Considered doubtful – unsecured		3,410	1,824
			129,909	243,539
	Less: Provision for doubtful debts	21.1	3,410	1,824
			126,499	241,715
21.1	**Provision for doubtful debts**			
	Balance as at 01 January		1,824	1,749
	Addition during the year		1,586	976
	Less: write off during the year		–	(901)
	Balance as at 31 December		3,410	1,824
22	**Advances, deposits, prepayments and other receivables**			
	Advances to employees – secured and considered good	22.1	644	948
	Advances to suppliers – unsecured and considered good		129,706	125,028
	Due from related parties – unsecured and considered good	22.2	199,127	165,231
	Trade deposits and prepayments – considered good		75,856	116,310
	Income tax recoverable		219,728	110,593
	Sales tax refundable		1,301,040	887,753
	Other receivables – considered good		122,835	97,146
			2,048,936	1,503,009

22.1 Chief Executive and Directors have not taken any advance from the Company.

22.2 Due from related parties

	2010	2009
Foreign Associated Companies:		
Nestrade S.A	154,688	127,465
Nestle Canada Inc	137	–
Nestle Dubai Manufacturing LLC	276	–
Nestle Equatorial African Region	3,249	–
Nestle U.S.A Inc	20	–
Nestle Hong Kong Limited	1,767	–
Nestlé China Limited	–	121
PT Nestlé Indonesia	1,345	–
Nestlé Vietnam Limited	102	122
Nestle Ghana Limited	1,471	–
Nestlé Middle East FZE	–	837

Notes to the Financial Statements
For the Year Ended December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
Nestlé Nederland B.V.		16,039	139
Nestlé Suisse S.A.		3,043	–
Nestle France		641	–
Nestlé Philippines Inc.		2,583	104
CPW Philippines		2,541	5,500
Nestlé (South Africa) Pty Limited		–	1,681
Nestlé Nigeria Plc		1,570	537
Nestlé Asean Malaysia		–	500
Nestlé Waters Management & Technology		9,655	27,795
Saudi Food Industries Limited		–	22
Nestlé Water Middle East		–	408
		199,127	165,231

These relate to normal business of the Company and are interest free.

23 Cash and bank balances

	Note	2010	2009
Cash at bank			
– Current accounts		297,144	311,691
– Saving accounts	23.1	204,957	–
		502,101	311,691
Cash and cheques in hand		3,415	4,079
		505,516	315,770

23.1 The balances in saving accounts carry return ranging from 5% to 11% per annum (2009: Nil).

24 Sales – net

	2010	2009
	(Rupees in '000)	
Own manufactured		
Local	50,675,695	40,336,017
Export	4,071,431	3,269,698
	54,747,126	43,605,715
Goods purchased for resale	457,128	549,282
Less :		
Sales tax	(1,165,374)	(906,239)
Trade discounts	(2,551,578)	(2,092,936)
	51,487,302	41,155,822

Notes to the Financial Statements
For the Year Ended December 31, 2010

		Note	2010	2009
			(Rupees in '000)	
25	**Cost of goods sold**			
	Raw and packing materials consumed		29,136,003	22,810,079
	Salaries, wages and amenities	25.1	1,722,534	1,593,654
	Fuel and power		1,790,193	1,189,301
	Insurance		33,101	31,197
	Repairs, maintenance and stores consumption		1,261,529	1,166,635
	Rent, rates and taxes		145,310	130,424
	Depreciation	15.2	1,040,620	991,926
	Expenses on information technology		209,569	149,550
	Stationery expenses		24,400	22,699
	Communication		53,324	41,681
	Quality assurance		125,511	129,902
	Royalty and technical assistance fee		1,526,890	1,208,413
	Others		197,866	207,644
			37,266,850	29,673,105
	(Increase) / decrease in work in process		(62,308)	5,029
	Cost of goods manufactured		37,204,542	29,678,134
	Decrease / (increase) in finished goods		51,418	(724,478)
	Cost of goods sold – own manufactured		37,255,960	28,953,656
	Cost of goods sold – purchased for resale		352,773	303,246
			37,608,733	29,256,902

25.1 Salaries, wages and amenities include Rs. 28.904 million (2009: Rs. 35.521 million) in respect of gratuity, Rs. 19.510 million (2009: Rs. 13.309 million) in respect of pension and Rs. 38.270 million (2009: Rs. 32.815 million) in respect of provident fund.

		Note	2010	2009
			(Rupees in '000)	
26	**Distribution and selling expenses**			
	Salaries, wages and amenities	26.1	1,042,608	913,600
	Training		34,641	18,104
	Rent, rates and taxes		76,439	73,196
	Insurance		6,670	7,952
	Freight outward		1,615,443	1,298,943
	Depreciation	15.2	163,726	149,966
	Sales promotion and advertisement		2,418,126	2,444,557
	Legal and professional charges		11,953	12,303
	Vehicle running and maintenance		14,523	14,116
	Utilities		27,571	22,946
	Repairs and maintenance		45,079	42,090
	Subscription, stationery, printing and publication		11,330	9,689
	Communications		22,582	17,158
	Traveling, conveyance and vehicle running		116,149	104,735
	Provision for doubtful debts		1,586	976
	Expenses on information technology		25,326	19,838
	Other expenses		75,326	88,319
			5,709,078	5,238,488

Notes to the Financial Statements
For the Year Ended December 31, 2010

26.1 Salaries, wages and amenities include Rs. 28.756 million (2009: Rs. 35.673 million) in respect of gratuity, Rs. 23.233 million (2009: Rs. 16.343 million) in respect of pension and Rs. 38.193 million (2009: Rs. 33.212 million) in respect of provident fund.

	Note	2010	2009
		(Rupees in '000)	
27 Administration expenses			
Salaries, wages and amenities	27.1	634,898	526,644
Training		54,279	36,835
Rent, rates and taxes		74,725	74,678
Insurance		2,640	3,246
Depreciation	15.2	64,559	71,047
Amortization	17	9,497	42,638
Legal and professional charges	27.2	38,898	26,128
Vehicles running and maintenance		15,079	7,948
Utilities		21,710	21,329
Repairs and maintenance		17,750	22,584
Subscription, stationery, printing and publication		20,067	10,832
Communications		48,350	36,274
Traveling and conveyance		89,405	45,078
Expenses on information technology		182,698	124,130
Other expenses		37,082	35,730
		1,311,637	1,085,121

27.1 Salaries, wages and amenities include Rs. 17.251 million (2009: Rs. 21.351 million) in respect of gratuity, Rs. 22.450 million (2009: Rs. 15.581 million) in respect of pension and Rs. 23.233 million (2009: Rs. 19.785 million) in respect of provident fund.

	2010	2009
	(Rupees in '000)	
27.2 Legal and professional charges include the following in respect of auditors' services for:		
Statutory audit	1,000	500
Half yearly review	180	150
Services in connection with review and reporting of accounts to parent company auditors	30	25
Audit of accounts of staff retirement benefits	60	60
Other sundry certificates	12	12
Out of pocket expenses	145	135
	1,427	882

	2010	2009
28 Finance cost		
Exchange loss on derivative financial liability	211,486	50,017
Mark-up on short term running finances – secured	110,980	111,024
Mark-up on short term borrowings – secured	7,725	16,086
Mark-up on loan from associated company	146,278	225,781
Bank charges	36,612	39,142
	513,081	442,050

Notes to the Financial Statements
For the Year Ended December 31, 2010

		Note	2010	2009
			(Rupees in '000)	
29	**Other operating expenses**			
	Workers' Profit Participation Fund	12.1	305,917	224,826
	Workers' Welfare Fund		116,249	85,434
	Donations	29.1	87,196	80,177
	Loss on disposal of property, plant and equipment		109,907	61,100
	Impairment loss on property, plant and equipment	15	42,468	195,063
	Exchange loss		138,150	431,773
	Others		19,197	12,776
			819,084	1,091,149

29.1 Donations

Name of donee in which a director or his spouse has an interest:

	2010	2009
National Management Foundation (NMF), Defence Housing Authority, Lahore (Syed Babar Ali, Director is also Chairman of NMF)	30,000	40,000
	30,000	40,000

		2010	2009
30	**Other operating income**		
	Sale of scrap	97,428	62,584
	Others	73,063	81,561
		170,491	144,145
31	**Taxation**		
	Current year		
	Current	1,579,337	1,144,235
	Deferred	173,563	212,612
		1,752,900	1,356,847
	Prior year		
	Current	(169,569)	(175,723)
		1,583,331	1,181,124

31.1 Tax charge reconciliation

	2010 %	2009 %
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are:		
Not deductible for tax purposes	5.57	21.14
Allowable for tax purposes	(6.82)	(20.69)
Effect of changes in prior years' tax / surcharge	(2.98)	(4.45)
Tax effect under presumptive tax regime	(3.07)	(3.03)
	(7.30)	(7.03)
Average effective tax rate charged to profit and loss account	27.70	27.97

Average effective tax rate includes the tax impact of items directly recognized in equity.

Notes to the Financial Statements
For the Year Ended December 31, 2010

		2010	2009

32 Earnings per share

32.1 Basic earnings per share

		2010	2009
Profit after taxation available for distribution to ordinary shareholders	Rupees in '000'	4,112,849	3,005,133
Weighted average number of ordinary shares	Number in '000'	45,350	45,350
Basic earnings per share	Rupees	90.69	66.27

32.2 Diluted earnings per share

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

33 Transactions with related parties

The related parties comprise associated undertakings, 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, amounts due from key management personnel are shown under receivables and remuneration of key management personnel is disclosed in note 36. Other significant transactions with related parties are as follows:

	2010	2009
	(Rupees in '000)	
33.1 Transactions during the year		
Associated companies		
– Royalty and technical assistance fee	1,387,375	1,098,558
– Purchase of goods, services and rental	7,258,836	6,449,473
– Sale of goods	1,105	–
– Interest on foreign currency loan	146,278	225,781
Other related parties		
– Contribution to staff retirment benefit plans	142,618	303,515
– Donation	30,000	40,000
33.2 Amounts outstanding as at year end		
Associated companies		
– Royalty and technical assistance fee payable	110,424	96,261
– Interest on foreign currency loan payable	23,477	38,161

All transactions with related parties have been carried out on commercial terms and conditions.

Notes to the Financial Statements
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		Note	2010	2009
			(Rupees in '000)	
34	**Cash generated from operations**			
	Profit before taxation		5,696,180	4,186,257
	Adjustment for non-cash charges and other items:			
	Depreciation		1,270,046	1,213,055
	Amortization		9,497	42,638
	Impairment loss on property, plant and equipment		42,468	195,063
	Loss on disposal of property, plant and equipment		109,907	61,100
	Exchange loss on foreign currency loan		138,150	444,100
	Provision for doubtful debts – net		1,586	75
	Retirement benefits		140,104	137,778
	Finance cost		496,568	399,783
	Profit before working capital changes		7,904,506	6,679,849
	Effect on cash flow due to working capital changes:			
	Increase in stores and spares		(181,820)	(64,337)
	Increase in stock in trade		(706,981)	(1,406,465)
	Decrease in trade debts		113,630	215,023
	(Increase) / decrease in advances, deposits, prepayments and other receivables		(436,792)	6,635
	Increase in trade and other payables		903,096	989,108
	Increase / (decrease) in customer security deposits – interest free		23,171	(22,198)
			(285,696)	(282,234)
			7,618,810	6,397,615

		Note	2010	2009
			(Rupees in '000)	
35	**Cash and cash equivalents**			
	Cash and bank balances	23	505,516	315,770
	Short term running finance under mark-up arrangements – secured		(2,780,843)	(756,362)
			(2,275,327)	(440,592)

Notes to the Financial Statements
For the Year Ended December 31, 2010

36 Remuneration of chairman, chief executive and executives

The aggregate amounts charged in these financial statements during the year for remuneration, including certain benefits, to the chairman, chief executive and executives of the Company are as follows:

	Chairman		Chief Executive		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in '000)		(Rupees in '000)		(Rupees in '000)	
Managerial remuneration	2,441	1,664	11,797	12,738	702,009	570,887
Bonus	–	–	5,265	8,151	146,735	155,925
Retirement benefits	–	–	–	–	133,854	104,789
Housing	–	–	2,389	2,660	22,763	16,331
Utilities	199	136	–	–	40,086	31,659
Reimbursable expenses	–	623	3,368	3,522	105,832	99,551
	2,640	2,423	22,819	27,071	1,151,279	979,142
Number of persons	1	1	1	1	435	365

The chairman, chief executive and certain executives of the Company are provided with use of Company maintained vehicles and residential telephones.

No meeting fee was paid to the directors during the year (2009: Rs. Nil).

37 Capacity and production

	Capacity		Production	
	2010	2009	2010	2009
Liquid products – liters (000)	1,194,843	967,849	750,480	640,955
Non-liquid products – Kgs (000)	145,405	158,602	80,654	68,059

Under utilization of capacity was mainly due to seasonality impact of fresh milk and increase in capacity through new investment to meet future requirement.

38 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.

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

– Milk and nutrition products

– Beverages.

These segments comprise of following major types of products :

– Milk and nutrition products
    Milk based products and cereals

– Beverages.
    Juices & water

Notes to the Financial Statements
For the Year Ended December 31, 2010

38.1 Segment analysis and reconciliation for the year ended 31 December

	Milk and Nutrition Products		Beverages		Other Operations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	(Rupees in '000)							
Sales								
External sales	44,440,203	35,559,121	6,641,851	5,225,797	405,248	370,904	51,487,302	41,155,822
Inter–segment sales	–	–	–	–	–	–	–	–
Total revenue	44,440,203	35,559,121	6,641,851	5,225,797	405,248	370,904	51,487,302	41,155,822
Depreciation and amortization	(1,023,743)	(1,012,096)	(249,800)	(236,686)	(6,000)	(6,911)	(1,279,543)	(1,255,693)
Profit before tax and unallocated expenses	6,531,370	5,344,149	498,530	532,730	(172,046)	(106,505)	6,857,854	5,770,374
Unallocated corporate expenses								
Finance cost							(513,081)	(442,050)
Exchange loss on translation of foreign currency							(138,150)	(431,773)
Other operating expenses							(638,466)	(659,376)
Other operating income							170,491	144,145
Taxation							(1,583,331)	(1,181,124)
Other material non–cash items								
Impairment loss on property, plant and equipment	–	–	(42,468)	(195,063)	–	–	(42,468)	(195,063)
Profit after taxation							4,112,849	3,005,133
Segment assets	15,648,873	13,357,120	4,419,728	3,201,320	174,540	70,232	20,243,141	16,628,672
Unallocated assets							2,709,091	1,958,308
Total assets							22,952,232	18,586,980
Segment liabilities	4,090,654	3,377,808	723,311	576,007	36,270	33,381	4,850,235	3,987,196
Unallocated liabilities							12,520,124	10,172,829
Total liabilities							17,370,359	14,160,025
Segment capital expenditure	3,346,928	1,611,285	627,157	388,734	–	–	3,974,085	2,000,019
Unallocated capital expenditure							340,369	271,250
							4,314,454	2,271,269

38.2 Geographical segments

All segments of the Company are managed on nation-wide basis and operate manufacturing facilities and sales offices in Pakistan only.

39 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.

Notes to the Financial Statements
For the Year Ended December 31, 2010

39.1 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	2010	2009
		Rupees in '000'	
Foreign currency bank accounts	US $	3,210	18,190
Cash in hand			
	US $	2,565	3,621
	EUR €	790	364
		3,355	3,985
Receivables			
	US $	19,009	4,548
	CHF	154,688	–
	EUR €	25,430	–
	GB £	–	135
		199,127	4,683
		205,692	26,858
Less :			
Long term loan from associated undertaking	US $	5,573,750	5,473,975
Short Term Borrowing from associated company – unsecured	US $	2,143,750	2,105,375
Finance under mark up arrangements	US $	–	26,865
Payables	US $	615,476	696,374
	EUR €	321,462	180,849
	CHF	–	4,411
	GB £	1,166	2,840
	SGP $	–	1,200
	AU $	–	9,047
	JPY	3,869	–
		941,973	894,721
		8,659,473	8,500,936
On balance sheet exposure		(8,453,781)	(8,474,078)
Outstanding letters of credit		(359,010)	(23,369)
Off balance sheet exposure		(359,010)	(23,369)

Notes to the Financial Statements
For the Year Ended December 31, 2010

The following significant exchange rates were applied during the year :

	2010						
	US $	EUR €	CHF	GB £	SGP $	AU $	JPY
	Rupees per currency unit						
Average rate	84.99	117.98	86.57	133.95	63.38	81.36	0.98
Reporting date rate	85.75	114.58	91.45	132.65	66.75	87.33	1.05

	2009						
	US $	EUR €	CHF	GB £	SGP $	AU $	JPY
	Rupees per currency unit						
Average rate	81.46	115.34	77.56	125.36	57.09	65.07	0.89
Reporting date rate	84.22	121.38	81.69	135.24	60.00	75.39	0.91

Currency Rate Sensitivity Analysis

If the functional currency, at reporting date, had fluctuated by 10% against the foreign currencies with all other variables held constant, the impact on profit after taxation for the year and 2009 would have been as follows :

	2010	2009
	(Rupees in '000)	
Effect on Profit and loss		
US Dollar	540,032	538,191
Euro	19,191	11,732
Great Britain Pound	76	176
Singapore Dollar	–	78
Australian Dollar	–	588
Swiss Franc	(10,055)	287
Japanese Yen	251	–
	549,495	551,052

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.

Notes to the Financial Statements
For the Year Ended December 31, 2010

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

	2010	2009
	(Rupees in '000)	
Variable rate instruments		
Long term Finances from associated undertaking – US $	(5,573,750)	(5,473,975)
Effective interest rate in %age	1.96	2.08
Short term borrowings from associated undertaking – US $	(2,143,750)	(2,105,375)
Effective interest rate in %age	1.46	1.83
Short term borrowings from local banks – PKR	(2,780,843)	(756,362)
Effective interest rate in %age	11.40	10.60

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 after taxation for the year and 2009 would have been effected as follows :

	2010	2009
	(Rupees in '000)	
Effect on Profit and loss of an increase	(58,569)	(79,165)
Effect on Profit and loss of a decrease	58,569	79,165

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 are not necessarily indicative of the effects on the profit for the year and assets / liabilities of the company.

39.2 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 trade debts and its 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:

Notes to the Financial Statements
For the Year Ended December 31, 2010

	2010	2009
	(Rupees in '000)	
Long term loans	125,674	113,490
Long term deposits & prepayments	9,817	5,026
Current maturity of long term loans	19,149	21,012
Trade debts – domestic	126,499	241,715
Advances, deposits, prepayments and other receivable	528,168	504,663
Bank balance	297,144	311,691
	1,106,451	1,197,597

The aging of trade debts at the reporting date is:

	2010	2009
Past due 0 – 30 days	119,463	210,548
Past due 31 – 60 days	5,915	24,083
Past due 61 – 90 days	–	223
Past due 91 – 120 days	–	6,861
Past due 120 days	1,121	–
	126,499	241,715

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 2010		
	Short Term	**Long Term**	**Agency**
Barclays Bank PLC	A1+	AA–	S & P
Standard Chartered Bank Limited	A1+	AAA	PACRA
Citibank N.A.	A1	A+	S & P
MCB Bank Limited	A1+	AA+	PACRA
Deutsché Bank AG	A1	A+	S & P
Habib Bank Limited	A1+	AA+	JCR–VIS
United Bank Limited	A1+	AA+	JCR–VIS
Bank Al Habib	A1+	AA+	PACRA
HSBC	A1+	AA	S & P
My Bank Ltd.	A2	A–	PACRA

Notes to the Financial Statements
For the Year Ended December 31, 2010

	Rating 2009		
	Short Term	**Long Term**	**Agency**
Barclays Bank PLC	A1+	AA–	S & P
Standard Chartered Bank Limited	A1+	AAA	PACRA
Citibank N.A.	A1	A+	S & P
MCB Bank Limited	A1+	AA+	PACRA
Deutsché Bank AG	A1	A+	S & P
Habib Bank Limited	A1+	AA+	JCR–VIS
United Bank Limited	A1+	AA+	JCR–VIS

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.

39.3 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 December 31, 2010:

	Less than 6 months	6 to 12 months	1 year to 5 years	6 to 10 years	More than 10 years	Total
Non-derivative financial liability						
Long term loans from associated undertakings	–	–	1,286,250	4,287,500	–	5,573,750
Short term borrowings from associated undertakings	2,143,750	–	–	–	–	2,143,750
Short term borrowings under mark-up arrangement	1,800,092	980,751	–	–	–	2,780,843
Liability against assets subject to finance lease	26,662	31,124	55,415	–	–	113,201
Customer security deposits	–	128,857	–	–	–	128,857
Trade and other payables	4,229,558	–	–	–	–	4,229,558
Interest and mark-up accrued	61,404	–	–	–	–	61,404
	8,261,466	1,140,732	1,341,665	4,287,500	–	15,031,363
Derivative financial liability						
Forward exchange rate contract	25,754	–	–	–	–	25,754
	8,287,220	1,140,732	1,341,665	4,287,500	–	15,057,117

Notes to the Financial Statements
For the Year Ended December 31, 2010

The following are the contractual maturity analysis of financial liabilities as at December 31, 2009:

	Less than 6 months	6 to 12 months	1 year to 5 years	6 to 10 years	More than 10 years	Total
Non-derivative financial liability						
Long term loans from associated undertakings	–	1,263,225	4,210,750	–	–	5,473,975
Short term borrowings from associated undertakings	–	2,105,375	–	–	–	2,105,375
Short term borrowings under mark-up arrangement	395,493	360,869	–	–	–	756,362
Liability against assets subject to finance lease	28,941	30,276	118,275	–	–	177,492
Customer security deposits	–	105,686	–	–	–	105,686
Trade and other payables	3,383,113	–	–	–	–	3,383,113
Interest and mark-up accrued	46,979	–	–	–	–	46,979
	3,854,526	3,865,431	4,329,025	–	–	12,048,982
Derivative financial liability						
Forward exchange rate contract	42,267	–	–	–	–	42,267
	3,896,793	3,865,431	4,329,025	–	–	12,091,249

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.

40 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.

Notes to the Financial Statements
For the Year Ended December 31, 2010

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 December 31, 2010 and December 31, 2009 were as follows:

	2010	2009
	(Rupees in '000)	
Total borrowing	10,611,544	8,513,204
Total equity	5,581,873	4,426,955
Total Debt and equity	16,193,417	12,940,159
Debt Equity ratio	66:34	66:34

There was no major change in debt to equity ratio in 2010.

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

41 Date of authorization for issue

These financial statements were authorized for issue on February 14, 2011 by the Board of Directors of the Company.

42 Dividend

The Board of Directors in their meeting held on February 14, 2011 have proposed a final cash dividend for the year ended 31 December 2010 of Rs. 30 (2009: Rs. 20) per share, amounting to Rs. 1,360.488 million (2009: Rs. 906.992 million) for approval of the members at the Annual General Meeting to be held on March 28, 2011. These financial statements do not reflect this dividend.

43 General

43.1 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.

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

GIUSEPPE BONANNO
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Notes

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 Register Folio No. ______________________________

hereby Appoint Mr./Ms. ______________________________

Folio No. __________ of ____________________ or failing him Mr./Ms. ____________________

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 March 28, 2011 and at any adjournment thereof.

Signed under my/our hand this ______________ day of March, 2011.

Signature across Rs. 5 Revenue Stamp

Signature should agree with the specimen signature registered with the company

Signed in the presence of:

____

Signature of Witness

NOTES:

1 This instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or if the appointer is a corporation either under the common seal or under the hand of an official or attorney so authorized. 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.

AFFIX
CORRECT
POSTAGE

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