Nestlé Pakistan Ltd.

Annual Management and Financial Report 2009

Celebrating Our People...

Contents

Management Report 1-60

01 VISION
02 COMPANY PERFORMANCE
04 Directors' Report to the Shareholders
07 Annexure to Directors' Report on Corporate Governance
08 Company Performance
10 Wealth Creation and its Distribution
11 Key Financial Data (Six Years at a Glance)
12 Pattern of Holding of the Shares
14 Statement of Compliance with Corporate Governance
16 Review Report to the Members
18 Notice of Annual General Meeting
19 Statement in Respect of Special Business

20 COMPANY INFORMATION
22 About Nestlé Pakistan Limited
24 Management
26 Company Directory
27 Regional Sales Offices

28 BUSINESS REVIEW
31 Message from the Head of Human Resource
32 Human Resource
34 Nutrition, Health and Wellness
35 Marketing and Sales
36 Nestlé Quality
38 Production
41 Finance and Control
42 Milk Collection & Agri Services
44 Creating Shared Value

48 PRODUCTS & BRANDS
50 Ambient Dairy
52 Chilled Dairy
53 Infant Dietetic
54 Beverages
55 Confectionery
56 Culinary
57 Water
59 Nestlé Professional

Financial Report 61-108

61 FINANCIAL STATEMENTS
63 Auditors' Report to the Members
64 Balance Sheet
66 Profit and Loss Account
67 Statement of Comprehensive Income
68 Cash Flow Statement
69 Statement of Changes in Equity
70 Notes to the Financial Statements

Cover Concept

Celebrating Our People…

At Nestlé, we understand that people are at the centre of our success. We work according to our company's longstanding corporate business principles of integrity, trust, hardwork, pragmatism, dynamism, diversity and respect.

At Nestlé Pakistan, we are committed to providing each other with an enabling work environment, that is built upon our core values. We encourage everyone to communicate openly and collaboratively and to trust and respect others. Ownership, pro-activeness and passion are at the heart of the way we do things.

Strong cultures are built upon the foundations of strong values, which can take years to inculcate and develop. Each of us must work to contribute to the development of our culture and build on this foundation for today, and for our future.

We have much to be proud of. Nestlé Pakistan has travelled far in a short time, positively enhancing the quality of life of our people, our consumers, our society and contributing to all our partners, stakeholders and our economy.

Our consumers are at the centre of everything we do. Our success is dependent on earning their trust. We are committed to ensuring that our products are of the highest quality and meet the needs of our consumers throughout Pakistan.

Care is the essence of what we stand for and our values, products, brands and consumer trust on our quality are the flag bearers of our company.

Ian J. Donald
Chief Executive

Enhancing the quality of life of people is the focus of our commitment

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.

Company Performance

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19 Statement in Respect of Special Business

Our performance is the result of professionally integrated management, investment in technology and the commitment of our workforce, bonded together with trust and integrity.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors are pleased to submit their Annual Report along with the audited financial statements of the Company for the year ended December 31, 2009.

Financial Performance

2009 was indeed another year of instability in social, economic, energy, and security terms. However, despite these issues, for Nestlé Pakistan it marked a solid recovery from the much deeper challenges of 2008.

Local inflation in key commodities still had an impact in 2009 – particularly in fresh milk where supply constraints continued and lead to cost increases of +16%. The Company continued to expand its dairy development initiatives aimed at accelerating production of good quality milk in the country.

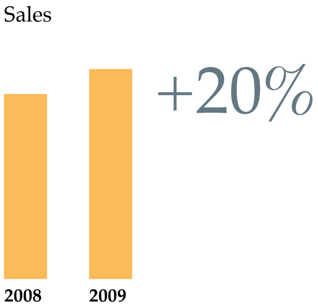
I believe the key elements to our performance in 2009 were effective cost management, more investment behind our brands, and diversification of our product portfolio based on deeper consumer insights. The major new product launches this year included: NESQUIK milk enhancer, NIDO BUNYAD, LACTOGEN GOLD, and CERELAC fruit cereals.

PKR Million	2009	2008	Change
Sales	41,156	34,184	+20%
Gross Profit margin	28.9%	26.2%	+270 bps
Operating Profit margin	13.5%	12.0%	+150 bps
Net Profit margin	7.3%	4.5%	+280 bps
Net Profit	3,005	1,553	+94%
Earnings per share	66.27	34.24	"

Sales for the year surpassed PKR 41 billion, and the growth of 20% was split relatively even between Real Internal Growth and pricing movements. Export sales rose dramatically by +48% to PKR 3.3 billion as we continue to leverage our brand strength in other markets.

Although Gross Profit (GP) margin shows a significant improvement vs. 2008, it is only slightly better than our 2007 results. The recovery in GP allowed the business to focus more efforts in brand building – increasing our spending on consumer initiatives by +66%. This added investment resulted in a slightly lower improvement in Operating Profit margin.

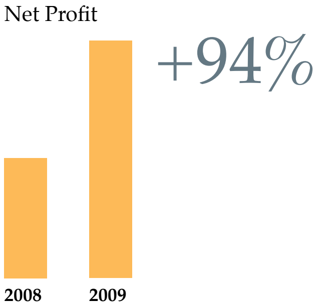
Net Profit and margin for 2009 increased due to lower financing costs and foreign exchange impact compared to the turbulent market of 2008. With these healthy results, and in addition to the interim dividends for the year, the Board of Directors has recommended to pay a final cash dividend of Rs. 20 per share.



Investment Projects

Total capital expenditure for the year reached PKR 2.3 billion, with the most significant projects listed below:

Project Description	PKR Million
Sheikhupura – Extension and Capacity Increases	873
Kabirwala – Capacity Increases	618
Sales, Distribution & Infrastructure	137
Milk Collection – Field Development	149



Investments in 2010 of approximately PKR 2.6 billion are planned for milk collection field development, and upgrading of existing production facilities as part of our long-term infrastructure plan.

Corporate Governance

Statement of Directors' Responsibilities

The Directors confirm compliance with the Corporate and Financial Reporting Framework of the SECP's Code of Corporate Governance for the following:

a) The financial statements prepared by the management of the Company present fairly its state of affairs, the results of its 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 there from 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 going 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):

	2009	2008
Provident Fund	1,099	903
Gratuity Fund	393	178
Pension Fund	555	374

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 shareholdings
(iii) Trading in shares of the Company by its Directors, CEO, CFO and Company Secretary.

External Auditors

Messrs KPMG Taseer Hadi & Co., Chartered Accountants have completed their assignment for the year 2009 and retire at the conclusion of the 32nd Annual General Meeting. Being eligible, they have offered themselves for re-appointment.

Human Resource

As of December 31, 2009 the permanent employment of the Company was relatively stable at 2,422 personnel. As an organisation, we are mindful of the impact these challenging times have on our people. This makes us even more proud that, through their dedicated efforts, we can achieve such strong business results despite the adversity around us. The Directors take his opportunity to recognise and thank all our employees for their individual and collective contributions to our business success.

Corporate Social Responsibility

Nestlé Pakistan, as per its core commitment to creating shared value for the communities, continued its CSR activities. The total amount of Corporate donations and CSR projects spent during the financial year 2009 is Rs: 80.2 million which is 36% more then the last year spending.

The key projects done during the year are water filtration plant near Kabirwala factory and sponsorship of drivers safety training track and training hall in collaboration with the National Highway and Motorway Police. In addition to the ongoing assistance to NGO's for helping the underprivileged women and children, and Academic Institutions in the field of Agriculture, Food and Veterinary Sciences, the company extended significant help in terms of product donations for the Internally Displaced People (IDP's) of Swat, Bajour and Waziristan. Company employees personally ensured direct distribution of products to the affectees in the IDP camps and with due collaboration with the government relief agencies. The employees of the company also contributed in volunteer capacity to the cause. We assure our stakeholders of our continued commitment to creating shared value and will continue to do more in the future as well.

Future Outlook

We see 2010 as another challenging year for Pakistan with continued economic volatility, energy crises, and ongoing security concerns; however, we assume the challenge of thriving despite this adversity. As such, the Company will build further on the focused efforts of 2009 in streamlining our operations and focussing on consumer driven innovation.

Despite the challenges being faced in the country, we continue to have a long term optimistic outlook for our business. Economic prospects will improve in the future, and with its growing and youthful population Pakistan has huge potential. Nestlé is committed to enhancing the quality of life in Pakistan by bringing products to consumers that deliver Nutrition, Health & Wellness.

For and on behalf of the
Board of Directors

Lahore:
February 9, 2010

Ian J. Donald
Chief Executive

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 its 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 a non-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, 2009	10.00 a.m.	Corporate Office, Lahore
April 20, 2009	10.00 a.m.	Corporate Office, Lahore
August 12, 2009	10.00 a.m.	Corporate Office, Lahore
October 26, 2009	10.00 a.m.	Corporate Office, Lahore

Details of attendance of the Directors at Board Meetings are summarized below:

Name of Directors	Date of Appointment	No. of Meetings Attended
Syed Yawar Ali	27-06-2007	4
Trevor Clayton	28-11-2007	3
Frits van Dijk	27-06-2007	4
Alexandre Cantacuzène	27-06-2007	4
Ian J. Donald	01-09-2009	1
Raymond Franke	28-10-2008	4
Syed Babar Ali	27-06-2007	4
Syed Hyder Ali	27-06-2007	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 its 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 2009. The Chief Financial Officer, Internal Auditors as well as External Auditors were invited to the meetings.

Remuneration Committee

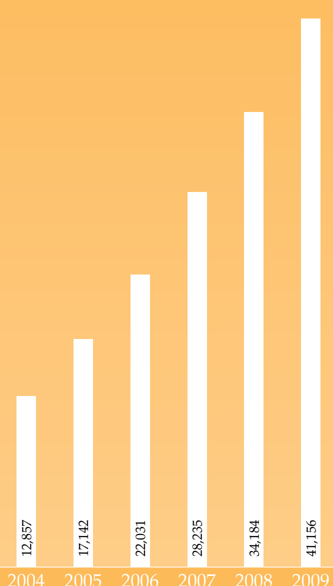
The company has not established this committee, as it does not deem it necessary to do so. All issues of remuneration are fully disclosed, deliberated and decided at the meetings of the Directors.

Strategic Planning

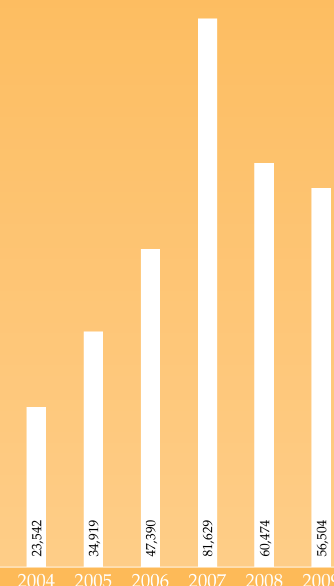
The company's strategic direction was reviewed at the meeting of Directors. A process has been put in place whereby long term Market Business Strategies and Annual Operational Plans established by management are regularly reviewed by the Directors in line with the company's overall business objectives.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

COMPANY PERFORMANCE

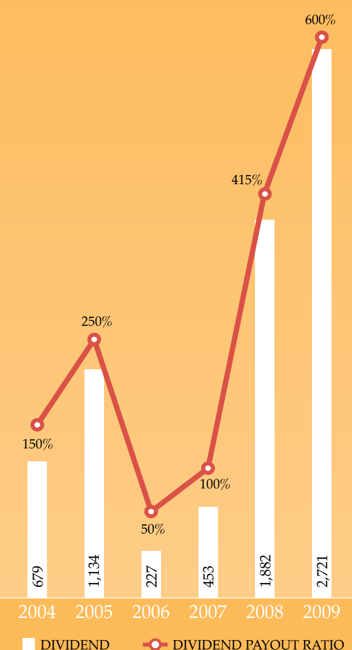
SALES
(in million of Rupees)



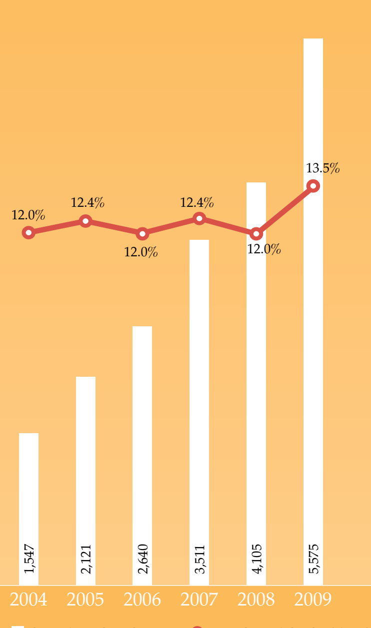
MARKET CAPITALIZATION
(in million of Rupees)



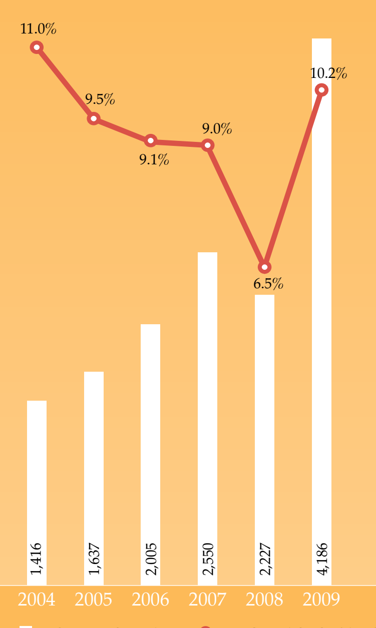
DIVIDEND PAYOUT RATIO
(in million of Rupees)



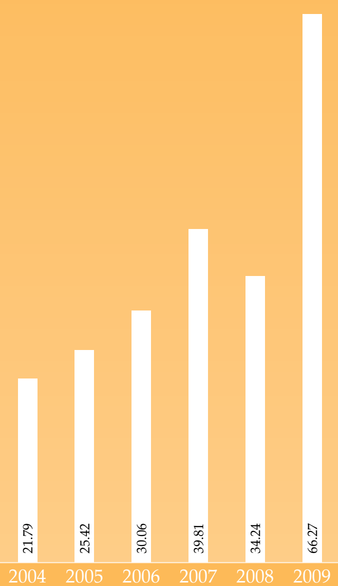
OPERATING PROFIT AND PERCENTAGE OF SALES
(in million of Rupees)



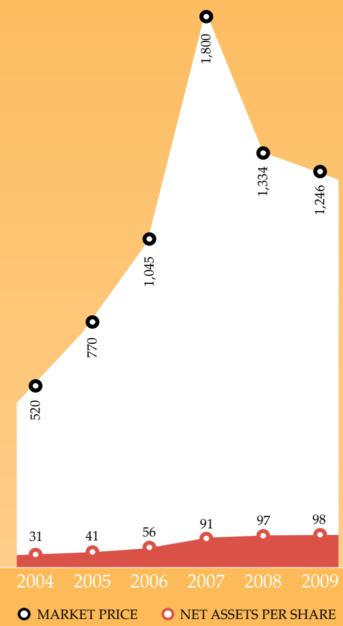
PROFIT BEFORE TAX AND PERCENTAGE OF SALES
(in million of Rupees)



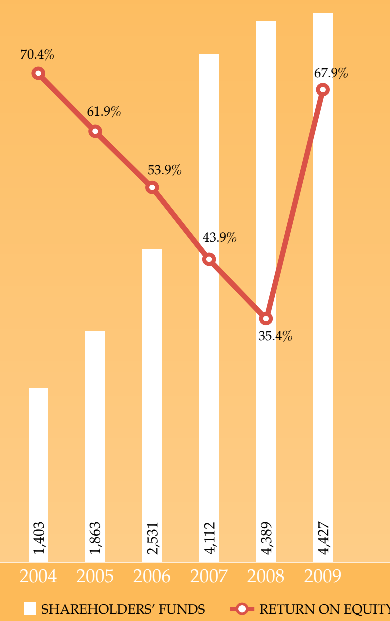
EARNINGS PER SHARE
(in Rupees)



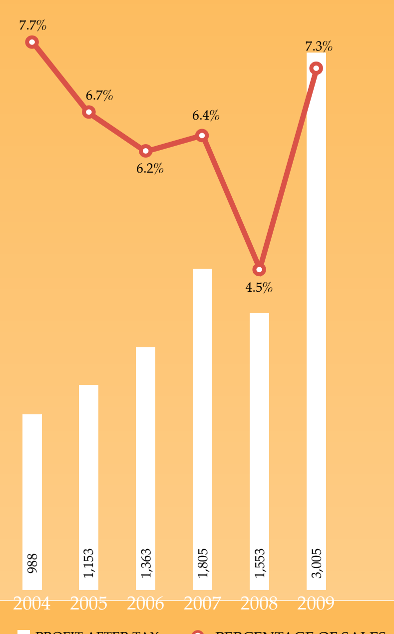
MARKET PRICE PER SHARE
VS. NET ASSETS PER SHARE
(in Rupees)



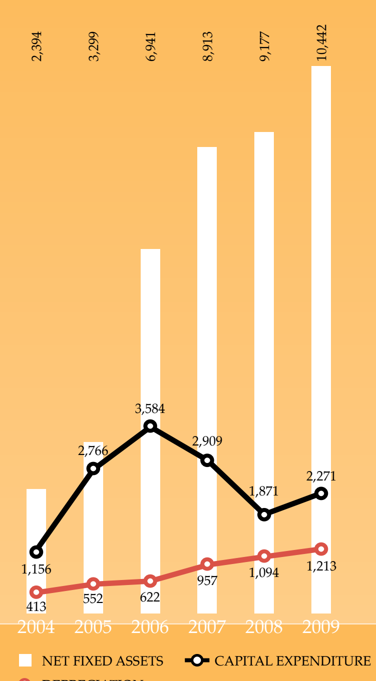
SHAREHOLDERS FUNDS AND
RETURN ON EQUITY
(in million of Rupees)



PROFIT AFTER TAX AND
PERCENTAGE OF SALES
(in million of Rupees)



NET FIXED ASSETS, FIXED CAPITAL
EXPENDITURE AND DEPRECIATION
(in million of Rupees)

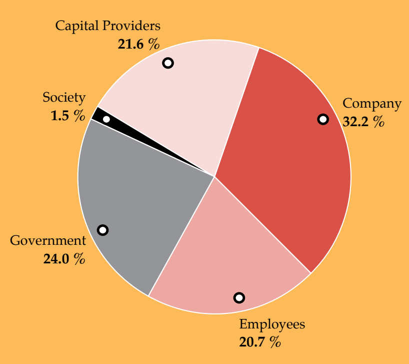


WEALTH CREATION AND ITS DISTRIBUTION

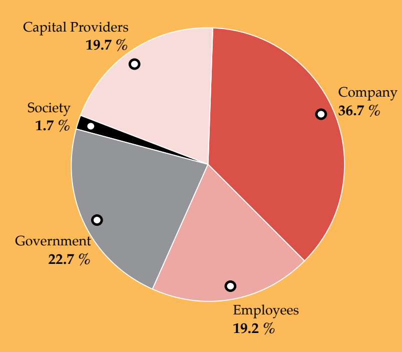
	2009		2008	
	(Rupees in '000)		(Rupees in '000)	
Wealth Generated / Value Added:				
Turnover (including Sales tax)	44,154,997		36,758,241	
Less: Purchased materials and services	(29,649,995)		(24,460,720)	
Value Added	14,505,002		12,297,521	
Other Income	144,145		61,800	
Wealth Created	14,649,147	100%	12,359,321	100%
Wealth Distribution:				
To Employees:				
Salaries, benefits and other costs	3,033,898	20.7%	2,368,698	19.2%
To Government:				
Income tax, sales tax, excise & custom duty, WWF, WPPF	3,523,045	24.0%	2,800,237	22.7%
To Society and Development Initiatives:				
Donations and CSR Projects	80,177	0.5%	58,529	0.5%
*Dairy Development (Non-business return)	149,400	1.0%	150,000	1.2%
To Providers of Capital:				
Dividend to Shareholders	2,721,000	18.6%	1,882,000	15.2%
Mark-up / interest expenses on borrowed funds	442,050	3.0%	557,325	4.5%
To Company:				
Depreciation, amortisation and retained profit	4,699,577	32.2%	4,542,532	36.7%
	14,649,147	100%	12,359,321	100%

** Agri-services support for farmers and dairy sector development – already accounted in milk collection & agri-services cost.*

2009



2008



KEY FINANCIAL DATA

(Six Years at a Glance)

(Rupees in million)	2009	2008	2007	2006	2005	2004
Trading Results						
Sales	41,156	34,184	28,235	22,031	17,142	12,857
Gross Profit	11,899	8,952	7,950	6,253	4,788	3,601
Operating Profit	5,575	4,105	3,511	2,640	2,121	1,547
Profit Before Tax	4,186	2,227	2,550	2,005	1,637	1,416
Profit After Tax	3,005	1,553	1,805	1,363	1,153	988
Balance Sheet						
Shareholders' Funds	4,427	4,389	4,112	2,531	1,863	1,403
Reserves	3,973	3,935	3,658	2,078	1,410	950
Operating Fixed Assets	10,442	9,177	8,913	6,941	3,299	2,394
Net Current Assets / Liabilities*	85	432	(325)	(288)	(445)	185
Long Term Liabilities*	7,399	7,043	5,788	5,481	3,010	2,027
Investor information for six years						
Gross Profit Ratio	29%	26%	28%	28%	28%	28%
Operating Profit Ratio	14%	12%	12%	12%	12%	12%
Profit Before Tax Ratio	10%	7%	9%	9%	10%	11%
Profit After Tax Ratio	7%	5%	6%	6%	7%	8%
Inventory Turnover Ratio	9.2 : 1	10.3 : 1	9.4 : 1	9.3 : 1	7.7 : 1	7.2 : 1
Total Assets Turnover Ratio	2.3 : 1	2.1 : 1	2 : 1	2 : 1	2.4 : 1	2.7 : 1
Price Earning Ratio	18.8	38.9	45.2	34.8	30.3	23.9
Return on Capital Employed	40%	20%	26%	26%	37%	44%
Market Value Per Share	1,246	1,334	1,800	1,045	770	520
Debt Equity Ratio	66 : 34	63 : 37	62 : 38	73 : 27	66 : 34	66 : 34
Current Ratio*	1.1 : 1	1.1 : 1	0.9 : 1	0.9 : 1	1.1 : 1	1.1 : 1
Interest Cover Ratio	10.5 : 1	5 : 1	5.4 : 1	5.5 : 1	10.1 : 1	22.5 : 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, 2009

No. of Shareholders	Shareholding From	Shareholding To	Total Shares Held
297	1	100	11,319
171	101	500	46,883
88	501	1,000	69,048
109	1,001	5,000	229,601
18	5,001	10,000	138,370
8	10,001	15,000	89,192
8	15,001	20,000	105,668
2	20,001	25,000	65,539
4	25,001	30,000	57,393
2	30,001	35,000	62,857
1	35,001	40,000	38,137
1	50,001	55,000	163,476
1	60,001	65,000	60,201
1	65,001	70,000	66,289
1	75,001	80,000	79,030
1	80,001	85,000	82,717
1	85,001	90,000	88,136
1	100,001	105,000	202,565
1	145,001	150,000	147,874
1	210,001	215,000	210,865
1	310,001	315,000	312,270
1	370,001	375,000	370,500
1	375,001	380,000	375,400
1	380,001	385,000	383,778
1	425,001	430,000	428,052
1	430,001	435,000	430,551
1	760,001	765,000	762,955
1	1,235,001	1,240,000	1,238,125
1	3,645,001	3,650,000	3,649,248
1	4,000,001	4,500,000	4,250,103
1	4,355,001	4,360,000	4,355,213
1	26,775,001	26,780,000	26,778,229
729	Total		45,349,584

CLASSIFICATION OF SHARES BY CATEGORIES

As at December 31, 2009

Categories of Members	Numbers	Shares Held	Percentage
Foreign Investors	4	26,791,449	59.08
Associated Co's. Undertakings	4	8,789,082	19.38
Individuals	657	6,739,553	14.86
Directors CEO/Spouse/Minors	7	2,133,542	4.70
Financial Institutions	1	430,551	0.95
NIT	1	202,565	0.45
Insurance Companies	6	36,491	0.08
Investment Companies	8	194,192	0.43
Joint Stock Companies	19	9,005	0.02
Charitable Trust	4	17,125	0.04
Others	–	–	–
Modaraba Companies	2	2,988	0.01
ICP	–	–	–
Executives	16	3,041	0.01
Public Sectors Companies & Corporations	–	–	–
Shareholders' Holding 10%	–	–	–
Total	683	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
	International General Insurance Company of Pakistan Limited (IGI)	4,355,213
	Gurmani Foundation	762,955
	Industrial Technical and Educational Institution	21,666
2	NIT and ICP	
	National Bank of Pakistan, Trustee Department, Trustee Wing	202,565
	Investment Corporation of Pakistan	–
3	Directors, CEO and their spouses and minor children:	
	Syed Yawar Ali	147,874
	Syed Yawar Ali A/C. Syed Maratib Ali	54,283
	Syed Yawar Ali A/C. Syed Hasnain Ali	54,283
	Mrs. Syeda Nighat Ali	60
	Syed Babar Ali	1,238,125
	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	651,622
5	Details of purchase / sale of shares by Directors / Company Secretary and their spouses / minor children during 2008	4,782

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended December 31, 2009

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 Exchange 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 its Board of Directors. At present the Board includes two independent non-executive directors, three non-independent non-executive directors and two 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. A casual vacancy occurred during the year 2009, which was filled within thirty days of its occurrence.

5. The Company has adopted Corporate Business Principles, which has been signed 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 Board arranged an orientation for its directors to remind them 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 its 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 being taken to comply with the best practices.

Syed Yawar Ali

Syed Yawar Ali
Chairman

Ian J. Donald
Chief Executive

Lahore: February 9, 2010

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 January 19, 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 December 31, 2009.

Lahore
February 9, 2010

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

Lead a dynamic, motivated and professional workforce -
targeting accuracy and efficiency

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 32nd Annual General Meeting of Nestlé Pakistan Limited, will be held at 11.00 a.m. on Thursday, March 25, 2010 at 308 – Upper Mall, Lahore to transact the following business:

Ordinary Business

1. To confirm the minutes of the Annual General Meeting held on March 30, 2009.

2. To receive, consider and adopt the Audited Accounts of the Company for the year ended December 31, 2009 together with the Directors' and Auditors' reports thereon.

3. To appoint Auditors of the Company and fix their remuneration. The retiring Auditors, M/s. KPMG Taseer Hadi & Co., are eligible for reappointment and have offered themselves for reappointment.

4. To declare final dividend. The Directors have recommended the final dividend of 200% i.e. Rs. 20 per share for the year ended December 31, 2009.

Special Business

5. To approve the remuneration of the Chief Executive and the Chairman.

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

By order of the board

Ali Sadozai
Company Secretary

Lahore:
March 2, 2010

Notes:

1. Share Transfer Books of the Company will remain closed from March 19, 2010 to March 25, 2010 (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 18, 2010 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 NIC 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 NIC 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, if any, immediately.

STATEMENT IN RESPECT OF SPECIAL BUSINESS AND RELATED DRAFT RESOLUTIONS

Under Section 160 (1) (b) of the Companies Ordinance, 1984

Material facts concerning the Special Business to be transacted at the Annual General Meeting and the proposed Resolution related thereto is given below:

Item 5 of the Agenda – Remuneration of the Chief Executive and the Chairman.

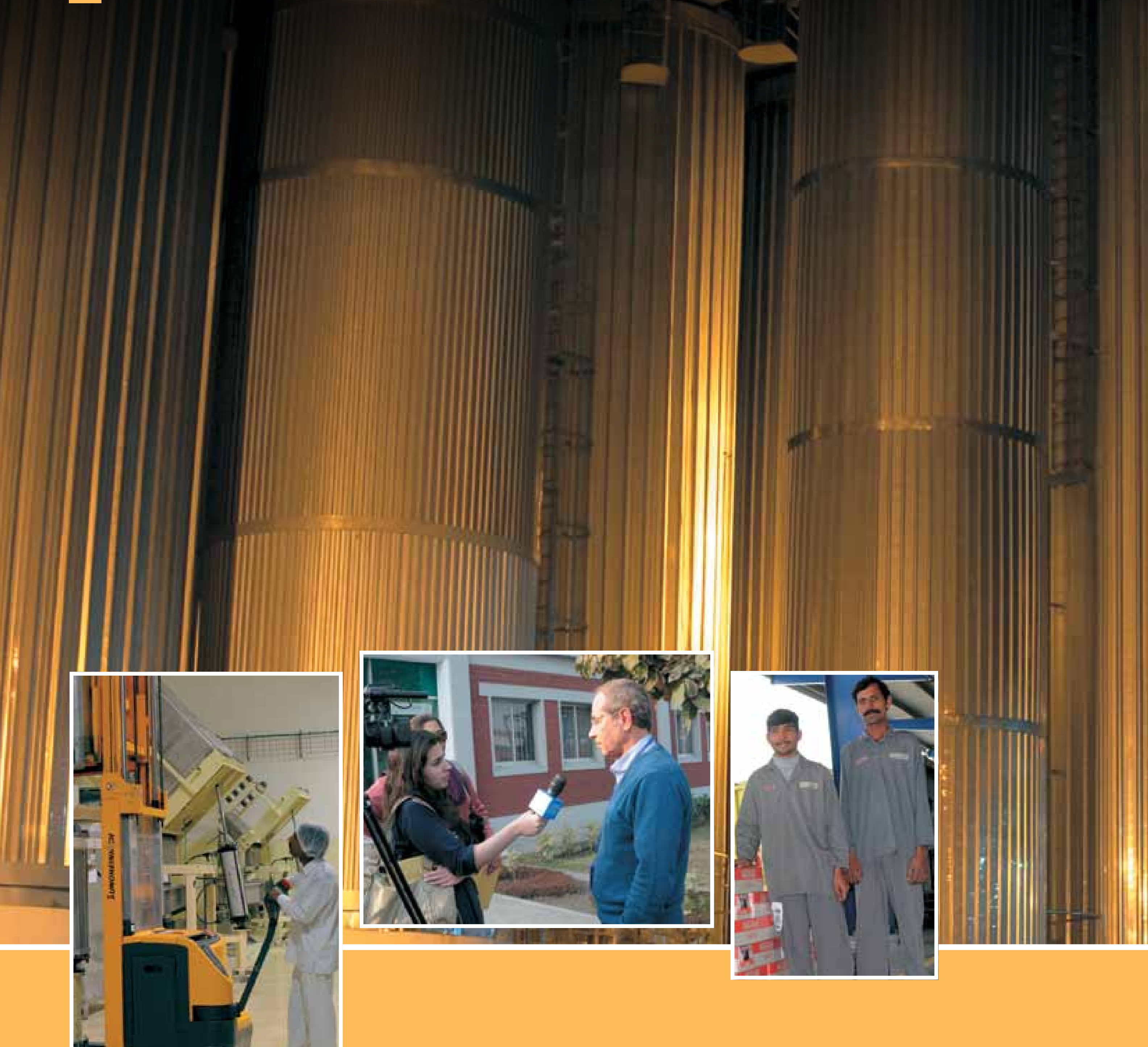
Section 191 of the Companies Ordinance 1984 (as amended) read with Article 60 of the Company's Memorandum and Articles of Association suggests that, remuneration of a Director for performing services for the company as a Chief Executive Officer and/or Chairman shall be determined by the company in the General Meeting. It is, therefore, proposed to pass the following as an Ordinary Resolution.

Resolved that remuneration of Mr. Ian J. Donald and Syed Yawar Ali for holding offices of the Chief Executive and the Chairman respectively, shall be in accordance with their individual contracts and the rules of the Company, amounting to Rs. 11.25 million and Rs. 2.64 million respectively for the year commencing from January 01, 2010 and provision of housing, transport, medical, leave facilities and other benefits incidental or relating to their offices plus a bonus in accordance with the rules and policy of the Company.

Mr. Ian J. Donald, Chief Executive and Syed Yawar Ali, Chairman are interested in the Company's business to the extent of their determined remuneration and to extent of their shareholding in the Company.

Company Information

22 About Nestlé Pakistan Limited
24 Management
26 Company Directory
27 Regional Sales Offices



We believe "transparency in disclosure" is the strongest bridge of trust with our stakeholders

ABOUT NESTLÉ PAKISTAN LIMITED

22 Years of Commitment

Nestlé Pakistan Limited is a subsidiary of Nestlé S.A. - a company of Swiss origin headquartered in Vevey, Switzerland. It is a food processing company, registered on the Karachi and Lahore stock exchanges. For nine years in a row, the company has won a place among the top 25 companies award of the Karachi Stock Exchange.

Nestlé has the unique ability to provide a wide range of food products and well-known brands to meet the needs of consumers around the world. It is not a faceless corporation catering to faceless consumers, but a human company providing a response to individual human needs. It respects the cultures of the countries it operates in and recognizes the need for quality of life of their people.

Nestlé Pakistan is headquartered in Lahore, the Company operates four production facilities. Two of its 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 its products are made available to consumers whenever, wherever and however.

In line with Nestlé's global philosophy, Nestlé Pakistan is proud of its commitment to excellence in product safety and quality and to providing value and services to its consumers. On the social front it acts very responsibly when it comes to environmentally sound business practices and corporate social responsibility.

Nestlé Pakistan operates in many ways but people, products and brands are the main flag bearers of the company's image.

For Nestlé Pakistan, milk is the core raw material for the production of UHT and powder milk and other milk-based products. Ever since the company commenced operations in Pakistan, it has been committed to improve the quality and volume of its raw milk to meet quality standards of it products. Driven by this commitment and

given the limitations of quality of raw milk available in the market it opted for self-collection in 1988. To preserve the quality of raw milk in hot weather conditions in Punjab the company has made substantial investment in setting up an extensive cold chain by installing over 2200 chilling units all over the milk shed area.

Nestlé Pakistan now operates the biggest milk collection system, the basic unit of which is the village milk collection center (VMC) where farmers deliver milk, morning and evening. From over 3000 villages, milk is purchased, consolidated, chilled and transported daily to factories in Sheikhupura and Kabirwala. Currently, Nestlé Pakistan collects milk from an estimated 150,000 farmers spread over 145,000 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 the communities in areas related to Nutrition, Water and Rural Development.

A team of more then 80 people is committed to provide free technical advisory services to farmers for their development. Moreover, the company continues to build primary schools, water filtration plants, merit / need base scholarships, women development, vocational training, helping challenged individuals and sponsoring institutions for community development. The Pakistan Centre of Philanthropy- PCP, has awarded CSR awards to Nestlé Pakistan consecutively for the last two yeas for its contribution to community development.

Additionally, Nestlé Pakistan in collaboration with International development institutions have initiated programmes for rural poverty alleviation through livestock training and development and had partnered with institutions like UNDP and Swiss Agency for Development and Cooperation (SDC) to train a sizeable number of women livestock workers and small farmers for becoming skilled based small entrepreneurs in their villages and earn additional income for their households.

MANAGEMENT

Present Board of Directors as on December 31, 2009

Name	Nationality	Term Expires
Syed Yawar Ali *Chairman*	Pakistani	June 26, 2010
Ian J. Donald *Managing Director*	South African	June 26, 2010
Fritz Van Dijk *Director*	Dutch	June 26, 2010
Alexandre Cantacuzene *Director*	French	June 26, 2010
Raymond Franke *Director*	Canadian	June 26, 2010
Syed Babar Ali *Director*	Pakistani	June 26, 2010
Syed Hyder Ali *Director*	Pakistani	June 26, 2010

Officers

Ian J. Donald
Chief Executive

Raymond Franke
Chief Financial Officer

Ali Sadozai
Company Secretary

Management Committee

Standing L to R

Nauman Khan
Country Business Manager
Nestlé Professional

Usman Iqbal Bhatty
Country Business Manager Nutrition

Arsalan Khan
Business Manager Beverages

Shaheen Sadiq
Head of Communications

Raymond Franke
Head of Finance and Control

Ian J. Donald
Managing Director

Ali Sadozai
Company Secretary &
Head of Legal Affairs

Khurram Zia
Business Executive Manager
Ambient Dairy

Haseeb Aslam
Country Business Manager Water

Salman Nazir
Head of Supply Chain

Sitting L to R

Samra Maqbool
Product Unit Manager Culinary

Syed Fakhar Ahmed
Head of Corporate Affairs

Khurram Javed Maqbool
Business Manager Chilled Dairy

Uzma Qaiser Butt
Head of Human Resource

Zafar Hussain Shah
Head of Sales

Peter Wuethrich
Head of Technical

Audit Committee

Syed Hyder Ali — Director
Chairman

Syed Babar Ali — Director
Member

Peter Wuethrich — Director
Member & Secretary

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
Fax: 042-37230865

Legal Advisors

Cheema & Ibrahim
Advocates

Bankers

The Royal Bank of Scotland Limited
(Formerly ABN AMRO Bank (Pakistan) 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**

  29th Kilometer, Lahore-Sheikhupura Road,
  Sheikhupura, Punjab, Pakistan.
  Phone: (056) 3406615-25

- **Kabirwala**

  10th Kilometer, Khanewal-Kabirwala Road,
  Khanewal, Pakistan.
  Phone: (065) 111 637 853
  Fax: (065) 2411432

- **Islamabad**

  Plot No. 32, Sector (1-10/3)
  Industrial Area,
  Islamabad.
  Phone: (051) 4445997

- **Karachi**

  Plot No. A–23, Northwestern,
  Industrial Zone, Port Qasim,
  Karachi.
  Phone: (021) 34720151-4

REGIONAL SALES OFFICES

North Zone

Islamabad

Plot # 395/396, Sector 1-9/3
Industrial Area,
Islamabad.
Tel: 051-4859300-2
Fax: 051-4859303

Jehlum

House # 53-E, Jafar Road,
Jehlum Cantt.,
Jehlum.
Tel: 0544-720004
Fax: 0544-625605

Peshawar

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

Central Zone

Lahore

29-B, Main Gulberg,
Lahore.
Tel: 042-35754335, 35754336, 35754337
Fax: 042-5761491

Gujranwala

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

Faisalabad

2nd Floor, Al-Haq Plaza, 271-A,
Small D Ground, Peoples Colony I,
Faisalabad.
Tel: 041-8716937, 8555607-8
Fax: 041-8716823

Multan

Al-Syed House,
Street # 2, Iqbal Park,
Sabzazar Colony, Bosan Road,
Multan.
Tel: 061-6512800, 6512900
Fax: 061-6512800

South Zone

Karachi

F-77/1, Block 7, Kehkashan Clifton,
KDA Scheme 5,
Karachi.
Tel: 021-35876770, 35876093
Fax: 021-35833937

Quetta

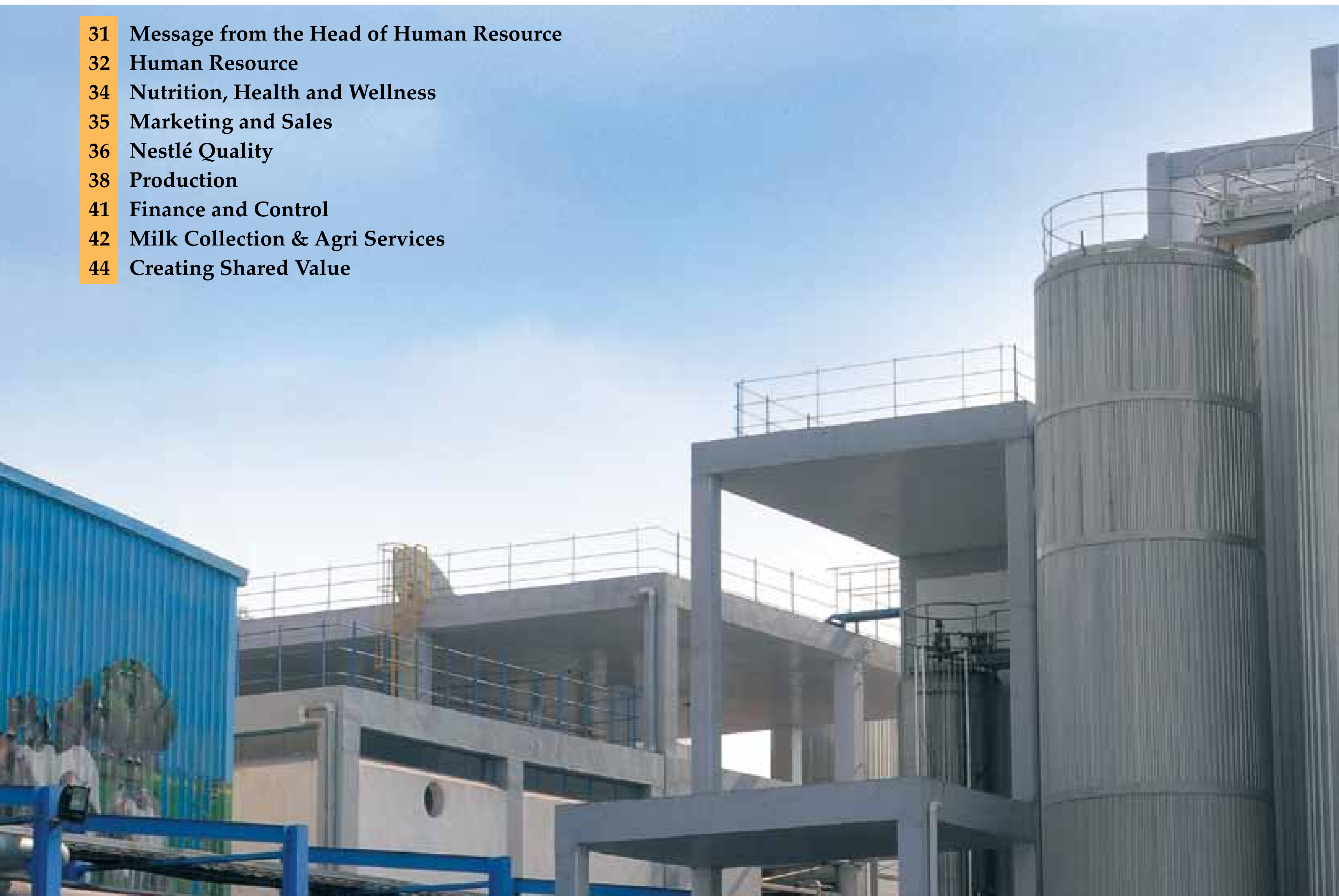
63-B-D, Chaman Housing Scheme,
Opp. Askari Park,
Quetta.
Tel: 081-2834887
Fax: 081-2847797

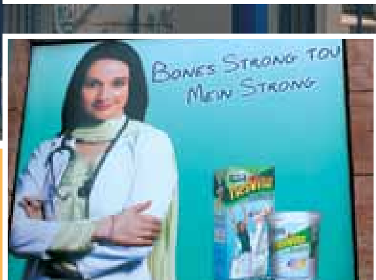
Hyderabad

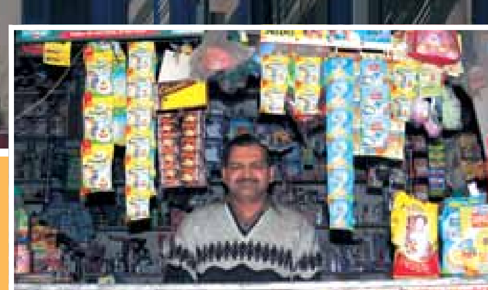
House # 178, Block-C,
Unit 2, Latifabad,
Hyderabad.
Tel: 022-3860403
Fax: 022-3863202

Business Review

31 Message from the Head of Human Resource
32 Human Resource
34 Nutrition, Health and Wellness
35 Marketing and Sales
36 Nestlé Quality
38 Production
41 Finance and Control
42 Milk Collection & Agri Services
44 Creating Shared Value







The strength of our brands comes from the commitment of our people

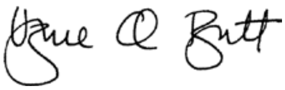
We collectively care for all good initiatives

Message from the
HEAD OF HUMAN RESOURCE

The year 2009 was a real testing ground for businesses all over the world. Recessions in many key global economies had far reaching effects on our deeply inter-connected world. Along with financial models, business models; the human spirit took a real test of resilience. And here in Nestlé Pakistan, we are proud to say we emerged uplifted - with a strong sense of what we are able to achieve together.

Our business results are a testament to the combined decisions, attitudes and determination of our people. We have a commitment to the company which is absolute. This commitment ensured that even in adverse times, we have been able to deliver results that exceed expectations.

This report celebrates and rejoices the efforts, personalities and contributions of our employees. The pride we carry in our results is because of the teams all around the country. Their efforts, collective and individual, allow us to enter 2010 with a confidence that we will continue to face challenges with the best of our best.



Uzma Qaiser Butt
Head of Human Resource

HUMAN RESOURCE

Human Resource Division continued to demonstrate high quality practices through out 2009. Keeping in view our vision for building a high performance culture at Nestlé Pakistan, various initiatives were introduced in the organization for enhancing performance and ensuring long lasting relationships through employee career development and progression.

To understand the pulse within the organization with reference to key human resource issues, an employee opinion survey was conducted through out the organization. The survey was a major success recording an 80% response rate and also gave a clear insight into the employee perceptions and concerns.

In March 2008, Nestlé Pakistan saw the implementation of a new progress and development tool for employees. This is a performance management system within the Nestlé world for monitoring performance and focusing on career progression and development. The evaluation system is career focused, systematic and directly aligned in building a competitive and challenging performance culture.

In continuance of recruiting dynamic and spirited individuals within Nestlé Pakistan, a specifically designed management trainee assessment centre was established for appropriate analysis and profiling of the candidates. This assessment assists in ensuring the recruitment of candidates with required attributes for a certain position.

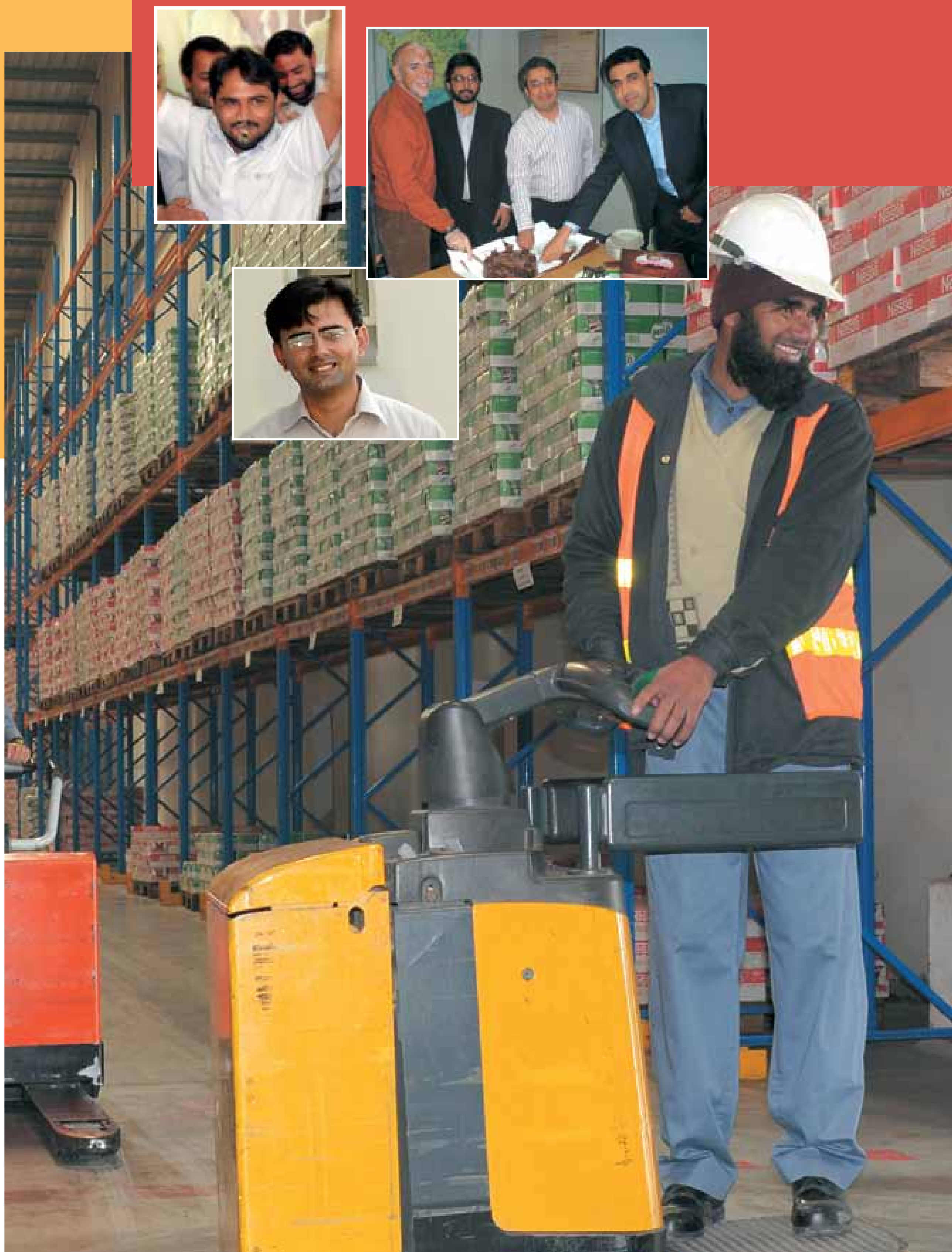
For shaping things into a more digital form, salary slips were made available to the employees at their e-mail accounts. An online balloting system was introduced giving every individual an equal opportunity to buy company maintained cars. These steps have aided the company in maintaining a paperless environment and saving costs.

This year we also saw a roll out of a policy specifically designed to enforce a positive working environment along with maintaining appropriate conduct at workplace. This policy ensures that our employees take responsibility towards building a culture of respect, acceptance and tolerance.

With a vision of enhancing the talent capacity of our organization, an exercise for identifying talent was initiated in 2008, and in 2009 the focus remained on developing and retaining the talent within Nestlé.

Year 2009 was a list of new HR initiatives and projects. We continued with the slogan of “Let’s Do It” and “Lets Develop”, and our policies and endeavors were focused on developing a positive, competitive and thriving culture at Nestlé Pakistan.

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 on all our products in Pakistan.

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 are the foundation on which we can satisfy the consumer need for nutrition, variety, taste and convenience.

MARKETING AND SALES

Bringing the consumer and shopper at the heart of all decision making is the vision of the Generating Demand team at Nestlé Pakistan. Continuous efforts have been initiated to better understand our consumers and shoppers with the intent to not only make deep local consumer understanding the base of all Marketing and Communication Strategy but to also make it the foundation of all innovation and renovation efforts. One of the successes coming out of this was the launch of NIDO Bunyad with Iron fortification, addressing a major nutritional deficiency in Pakistani children.

Generating Demand continued to play its role in bringing to life Nestlé Pakistan's vision of being the leading Nutrition, Health and Wellness Company in Pakistan by truly helping consumers to have "Good Food, Good Life". This was clearly visible in the portfolio of Ambient Dairy brands. Nestlé MILKPAK continued to address Iron deficiency in Pakistan and helped homemakers to strengthen their homes. With the relaunch of Nestlé EVERYDAY, it continued to provide great tea moments to consumers in all kinds of tea preparation. NESVITA Women of Strength provided inner strength to the young women of Pakistan so they could lock a better future for themselves and their families. Additionally to help consumers make healthier food and life style choices all our brands carry the "Nutritional Compass" on their packaging.

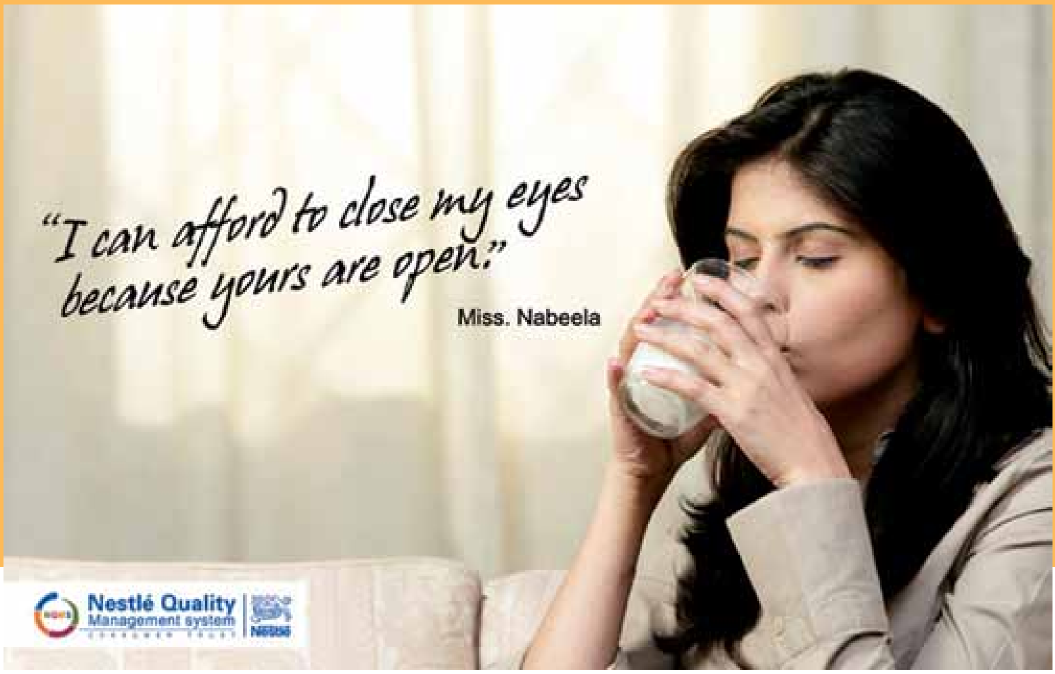
These are some of the reasons why despite a tough business environment in 2009, Nestlé Pakistan Limited continued to show positive growth and win consumer confidence.

Business in Afghanistan

In Afghanistan as well our exports continued to grow during 2009. Marketing maintained its focus on communicating specific Brands to the relevant affinity groups in the local language.

Keeping this strategy in mind, Nestlé SUPLIGEN, a milk-based energy drink was launched in Afghanistan towards the end of 2009. All POP communication and packaging was developed in the local language Daree so that it was easily understood by the Afghani consumer. So far, the product has been well received.

NESTLÉ QUALITY



Nestlé strives to create value that can be sustained over the long term by meeting consumer needs for nutrition, enjoyment and Quality they can trust. Every day, millions of people all over the world show their confidence in us by choosing Nestlé products and brands. This confidence is based on our Quality image and a reputation for high standards that has been built up over many years. A Nestlé brand name on a product is a promise to the customer that it is safe to consume, that it complies with all relevant laws and regulations and that it constantly meets high standards of Quality. Each and every Nestlé employee is involved in and dedicated to achieve high Quality standards for our customers and consumers.

In 2009 Nestlé Pakistan Ltd. certified for internationally recognized Food Safety Management System ISO (22000: 2005). This certificate was awarded to four factories and Milk Collection & Agri Services of Nestlé Pakistan Ltd. after audits conducted by an independent accredited body.

To check the sustainability & effectiveness of Nestlé Quality Management System surveillance audits were conducted by an independent approved auditing body and passed by all Nestlé sites which show the strong commitment of Nestlé Pakistan team towards Quality and food safety.

Laboratories are integral part of our Nestlé Quality Management System. Nestlé Pakistan has established a biggest and only ISO 22000:2005 certified network of field labs in the country for high quality fresh milk collection. Our factory labs are well equipped and analysts are well trained to analyse raw & packaging materials and finished products in line with international specifications. All factory labs regularly participate in Nestlé Proficiency test programmes to build credibility and obtain comparability of analytical results.

Nestlé as a consumer centric company working towards a goal to increase consumer defined quality & consumer preference for our products. A new sensory lab established at Head office to move towards consumer centric approach. Sensory team monitoring sensory quality of Nestlé products and with the help of cross functional teams supporting Innovation & Renovation process on the basis of consumer feedback.

In 2009 our main focus was on implementation of Food Safety Management System ISO (22000: 2005) standards. The other training areas were food safety & HACCP, Good lab Practices, Good Warehouse Practices, Milk Hygiene, ISO & NQMS standards, Good Manufacturing Practices, Sensory Evaluation and Hygiene in vending operations.

ISO 14001/OHSAS 18001 Certification

Compliance to local and International Safety, Health and Environmental standards has always been on the top priority of the management. Nestlé Pakistan started ISO/OHSAS certification for its manufacturing sites in the beginning of 2008. Sheikhupura plant was the 1st one to be selected as pilot factory for this project. Nestlé water factories and Kabirwala Factories followed for this certification. By November 2009, all Nestlé factories were certified for ISO 14001 and OHSAS 18001. Successful ISO/OHSAS certification in short period of time proved that our Internal Safety and Environment management system was well established. Commitment from top management has been remarkable providing all the support and resources to make our workplaces safer and compliant to local and international standards of safety health and environment. Employee's enthusiastic participation at shop floor and their involvement had made this project a bench mark for other markets.
We look forward to an integrated Safety, health & Environment and Quality management system in 2010.

Safety is non negotiable – and we draw our inspiration from our global focus which says "One accident is one too many".

PRODUCTION

Sheikhupura Factory

Sheikhupura Factory is located in district Sheikhupura of Punjab province, north-west of Lahore towards Sheikhupura at 29th km. Lahore-Sheikhupura road. This factory started it's functioning in 1981 as UHT plant with the name of Milkpak Ltd.

Achievements in Year 2009

New Equipment Installation

Inauguration of 3rd Roller Drier as a part of Cereal plant extension project was done in 2009. Bar-code readers on all packing lines of Infant Formula and Infant Cereals were started.

Manufacturing

First industrial run of three new infant formula recipes. Lactogen-1 Gold, Lactogen-2 Gold and Lactogen-3. First commercial production of Cereal with dry fruit pieces and First Commercial run of Nesquik and Nesquik strawberry 200g was carried out successfully. In 2009, First commercial run of Cerelac Rice 25g sale was also done. The new 200 ml slim juice packs were launched. In the last quarter of 2009, first production of 'Supligen RTD' produced for Afghanistan.

Certifications

In 2009, Sheikhupura factory has achieved ISO 14001 & OHSAS 18001 certification, which is a great achievement of our Safety, Health & Environment Team (SHE). The target of 12 million safe working hours achieved. An Appreciation Certificate on Safety at Work was received from Vevey. NQMS and ISO 22000 certifications were also achieved in 2009.

Visits

Sheikhupura factory had a privilege to have Mr. Paul Bulcke, CEO Nestlé, Vevey. Mark Caira, CEO of Nestlé Professional, Massimo Casella, Zone Technical Manager, Waters, Mr. Hans Joehr Head of Agriculture Nestlé S.A. and Mr. Willi Mueller (Technical Management, Zone AOA) as honorable visitors in 2009.

Worth mentioning

NCE journey in Nestlé SKP continued with the right momentum in 2009 to embrace its vision of the 3 C's - Delight Consumers, Deliver Competitive Advantage and Excel in Compliance.

We worked on basic three modules of NCE - Nestlé Integrated Management System (NIMS), Leadership Development & Goal Alignment.

Overall savings of water and energy projects were 8.7 millions approx. in 2009. Sheikhupura factory also achieved 100% SHE Legal Compliance and NEQS and 98% NEMS Compliance.

Sheikhupura factory went live as pilot site for Nestlé Integrated Management System (NIMS) implementation. Almost 80% of factory's documents/procedures/ instructions were put into the NIMS.

Kabirwala Factory

Since 2008, the factory has increased its output four (4) times with the Kabirwala Extension Project at a cost of about Rs. 4.0 billion. This new "state of the art" Kabirwala factory is extended with a new milk reception, storage and standardization area with the latest technology for both sterilized milks and milk powders. High quality products coming out of Kabirwala includes NIDO and EVERYDAY milk powder, MILKPAK UHT and MAGGI NOODLES. For nine consecutive years, Quality Assurance was rated "Excellent" in Nestlé's Proficiency-tests.

Kabirwala factory has achieved the following milestone in 2009:

- NQMS and ISO Quality certification
- ISO/OHSAS Safety and Environment certification
- Successful Internal audit with satisfactory rating
- Passed Nestlé Continuous Excellent (NCE) gate assessment which will allow us to move forward for TPM culture development based on DMAIC methodology.
- Considerable improvement in our operational losses (NQC), which is showing the commitment of our employees towards "high performing culture".
- Furthermore, we have major projects commissioned during 2009:
  - Evaporator # 3 completed successfully with new High pressure (HP) line along with recovery system. Successful production started on Evaporator 3 with both Spray dryers.
  - Milk recovery system for UHT Plant and handed over to production.
  - Upgrade of Air Heaters 1, 2 & 3 for the Spray Dryer #1

These continuous improvement efforts of the Kabirwala Team will enable it to gain the status of "World Class Factory" in the future.

Islamabad Factory

In 2005 the capacity of the plant was increased from 200 to 425 bottles per hour. The same year NESTLÉ PURE LIFE was launched in 3-gallon bottles to provide another SKU to the consumers and strengthen Home & Office Delivery business. In 2008 Nestlé PURE LIFE was launched in outstations of Islamabad i.e. Peshawer, Mir Pur, Hassan Abdaal, Wah Cantt, Abbotabad and Jehlum. In order to meet the demand Nestlé invested 150 Million PKR and capacity was further increased to 900 bottles per hour with the state of the art water treatment plant. This factory is pioneering in process release since May 2008 and committed to sustain it in coming years. Islamabad Factory has successfully achieved ISO 22000, 14001 and OHSAS in 2009. Behavior Base safety culture has enabled the factory in achieving 8 Safe years to lead the whole water Nestlé factories.

Karachi Factory

The water factory located at Port Qasim Industrial Area (Karachi) started commercial production in June 2007. In October 2008, expansion in site for 25% additional capacity was done. The factory uses underground water for state of the art processing and bottling operation. This factory is producing the highest volumes of Home and Office Delivery Jumbo bottles in Nestlé Pakistan. Factory is certified for ISO 14000 (Environment Management Systems), OHSAS 18000 (Occupational Safety and Health Management Systems) and ISO 22000 (Food Safety Management System).

FINANCE AND CONTROL

New Skills Development in Finance

The mission of Finance at Nestlé is "to drive sound business decision making and innovative planning to maximize long term profitable growth, cash flow and total return to shareholders". Therefore, Finance plays a major role not only in control, but also by participating in value creation.

To deliver on this important role, the F&C function has moved beyond the "back-office" and has taken its place within the very heart of business activities. Finance employees act as Co-Pilots to business and functional leaders – helping guide them to higher levels of performance.

The success achieved was made possible by helping everyone in Finance to build on their non-technical training. We have focused on the most important behaviors necessary to be effective business partners; including general business acumen and highly effective communication skills.

We have also helped department heads build their leadership and performance management skills to ensure the focus on people development is consistent throughout the organization.

Today the people of Finance are fully integrated into the business, working in cross-functional teams, and leveraging their leadership abilities to deliver on the Finance mission!

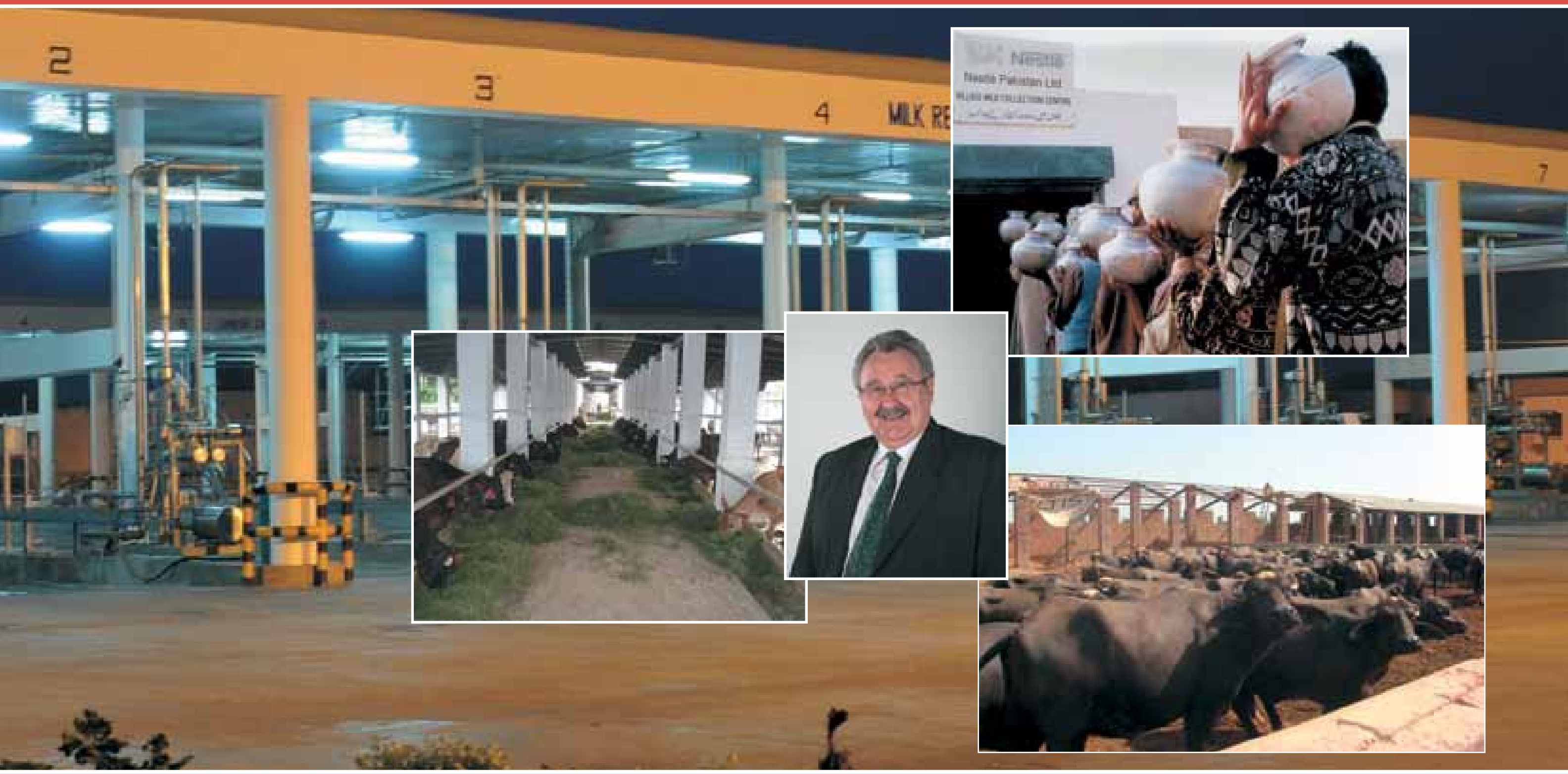
MILK COLLECTION & AGRI SERVICES (MCAS)

In Milk collection, major reforms were made for the reorganization of the milk zone in such a way as to get more strength on the ground through self milk collection and direct farmers milk procurement, thereby increasing considerably direct sources for collection. Milk collection has established over two thousand village milk collection centres (VMCs) in villages throughout Punjab and also in Sindh which are in production now. Agri Services has launched a number of development schemes, such as supply of concentrated feeds, molasses, fodder seeds and minerals. Agri Services assists in vaccinations, disease prevention, deworming of farm animals, design of cow sheds, silo bunkers and supplies machinery for silage making. Also demonstrate farm hygiene, milk quality and transport mechanism on various farms. Agri Service also work to develop bigger farms, both for buffaloes and cows. New initiative has been taken in 2009 by restructuring Agri Services in a more focused and disciplined way. It now consists of two divisions having a large dairy development and a small dairy development function. Due to the enormous area of more than 145,000 square kilometers and the minimal number of dairy development staff, the development services will now be concentrated on small and larger farms with milk producing capacity. This approach will ensure that direct farms producing milk of high quality and volume will now become attached to the company and become the backbone of milk supply which is preferred above the informal loose milk market.

The Agri Services introduced silos for fodder on farms and milk collection centers; planted plots along with a number of fodder crops for demonstrations at the gatherings of farmers on field days. Other services in Agri Services include training of farmers and health of livestock. The department also oversees the vaccine and de-worming issues of animals. On top of that, farmers can also call on Nestlé vets as often as necessary for advice on the treatment of their animals. The UNDP / Nestlé partnership project was completed in September 2009 for training female livestock workers and has been a big success. During the project a total of 3,400 women have been trained and are providing support to their communities for improving their livestock conditions. The socio-economic impact is defined in the CSR chapter of this report. Nestlé lately started its milk collection operations in Sindh also, which will improve the economy in the low-income rural areas of Sindh region and will frame the training and awareness of the farmers by working in close connection with them. By taking this professional help and guidance to the farmers' doorsteps, coupled with incentives for increased milk production and a good & prompt return on their milk, the company is playing an important role in creating growing economic opportunities for an estimated 150,000 dairy farmers through direct involvement.

Sukheki Training and Demonstration Farm

Nestlé Pakistan Ltd together with Baber Ali Foundation launched the establishment of a new demonstration and



training farm (second of its kind) during 2009. A plot of land was purchased in the Sukheki area to establish modern cow sheds and related facilities for 120 cows and their young. Building commenced during March and the project was completed during August. Local cows were purchased and official milking started in September. Milk is being supplied to Nestlé and the farm is currently fully operational and produce more than 1 ton of milk per day.

A training facility that can accommodate 20 trainees has also been established and sleep-over accommodation is in process. Daily and multiple day training and demonstration to existing and new dairy farmers will start in the near future in order to enhance knowledge and practical know-how of local farmers. The latter is a great need and we believe that trained farmers will be able to contribute to the company's demand for quantity and quality milk.

The success of the project is due to the enthusiastic commitment and daily contribution of practical experience by the particular project-, farm- and assistant farm managers supported by an engineer from our technical department. It once again demonstrated that energy and team spirit are some of the ingredients that will add value to any project.

Sarsabz Demonstration and Training Farm

The Nestlé Sarsabz demonstration and training farm has become a good success and is fulfilling its purpose as a reference point to upcoming small and big farms. More than 4,000 people were trained at the demonstration farm.

Sarsabz farm has been established during November 2006 and has over time developed into a reference center which is been acknowledged by most organizations, farmers and supportive businesses in the local dairy environment. Its make-up consists of imported animals, advanced milking equipment and all the applicable facilities of a typical modern dairy farm.

Emphasis is put on demonstration and training of the company's agricultural staff, small farmers and future farm managers. One such initiative has been executed during March till October which was financially supported by SDC (Swiss Agency for Development and Cooperation). A total of 445 people including 50 women were trained in basic Best Farm Management Practices (BFMP's) during this pilot project. It also included the training of 20 farm managers on an advanced level. Most of the latter have already been absorbed in different positions in the dairy sector. A further 280 farmers were accommodated during October till December and enriched by the demonstration of BFMP's.

Training and demonstration at Sarsabz farm is highly valued and acknowledged by most role players. Our dedicated team of two training managers, farm manager and expat farm and training manager, has ensured a high standard of efficiency and demands for participation in future trainings are streaming in.

CREATING SHARED VALUE

Nestlé Pakistan re-enforces the concept of "Creating Shared Value", through much focused initiatives and community projects, which is embedded into its business model. Pakistan is a developing economy and more than 60% population live in the rural areas. There are 10 million small holder farming families and a total of 56 million dairy animals. There is a huge potential of rural development, particularly in the livestock sector, where companies like Nestlé can add real value for improving the quality of life in socio-economic terms for the rural communities. The company is committed to the stakeholders and communities for mutual growth and sustainability. With the commitment to creating shared value, Nestlé Pakistan is also a signatory to UN Global Impact for Ethical Business Practices and also does social investment for supporting the underprivileged and rural communities. The key focus areas for Nestlé Pakistan's Creating Shared Value (CSV) program are as follows:

- Nutrition
- Water
- Rural Development

Nutrition

Nestlé Pakistan provides regular food support to underprivileged under its Nutrition Program in addition to its nutrition based products. Regular product donations are also given to Old age homes, and NGOs that support the destitute women and social welfare organizations. Nestlé also extends support to national and international communities that are victims of Natural disasters.

Water

Clean and hygienic drinking water is a basic human necessity. We have helped alleviate rural suffering by undertaking tube-well and hand pump installation schemes in selected areas. Nestlé Pakistan has also installed Water filtration plants for the communities in rural perspective and has been involved in installation of water filters in selected schools as well.

Nestlé Pakistan has also collaborated with World Wide Fund for Nature for supporting studies related to Environment and Water.

Rural development

Under its Rural Development, Nestlé Pakistan Limited refurbishes Primary Schools in the most remote areas of the country. Selection of schools is carried out keeping in mind the Nestlé "Creating Shared Value guide lines", requirements of local community and with feedback from field staff. The projects for these schools include construction of new block, addition of new class rooms and repair / renovation of existing facilities. Also provision of facilities / utilities, such as, provision of electricity, clean drinking water, computer labs, furniture, play ground equipment and landscaping etc are carried out as part of activity.

Nestlé Pakistan Ltd. also donated a 14 bed CCU Ward at the District Headquarter Hospital Sheikhupura which is now fully functional and catering the medical needs of Distt Shekhupura and its surroundings.

Nestlé Pakistan also provides significant support for research and development, and need/ merit based scholarship Programs, to some of the most prestigious educational institutions in the country.

Farmer Development

Dairy is the major business component of Nestlé Pakistan and the company collects milk from 150,000 associated farmers spread over 145,000 square kilometres. The farming practices are still very traditional with low yield animals, poor infrastructure in rural areas, lack of modern and best farm practices and lack of skilled farmers. The sustainability in long term needs a CSV based "Dairy Sector Development Approach", both for the farmer and the Industry. Nestlé Pakistan has established a formal Agri-Services Division to provide free of cost veterinary support to farmers in rural areas.

Nestlé Pakistan Limited has established a training institute for farmers and live stock workers in Punjab where experts and professionals in animal husbandry, provide both theoretical and practical training in animal husbandry practices, vaccinate and treat their milk animals, help farmers buy feed supplements and fodder seeds, and assist in breed improvement. This translates into increased milk production, better income, poverty alleviation and a better life for farmers creating a sustainable concept of shared value.

Nestlé UNDP Partnership Project

The project titled as "Community Empowerment through Livestock Development & Credit" (CELDAC), started in Sep 2006 and successfully ended in September 2009. During this three year program, a total of 3400 female livestock workers were trained, covering more than 2000 villages in rural Punjab (Nestlé Component). These trained women livestock workers are now successfully working as:

- Livestock Health Caretakers
- Village Milk Collection Agents
- Animal Feed Suppliers

Nestlé - SDC Project for Farmer Development

A new pilot project in partnership with Swiss Agency for Development and Corporation (SDC) was started with the aim to train 400 farmers at Nestlé Sarsabz and Demonstration farms for training in best farm practices. The process built the capacity of traditional farmers to a more progressive farmer, equipped with better knowledge in dairy farming resulting in higher yields to farmers and more sustainability in the value chain. This will greatly help in Rural Poverty Reduction

through capacity enhancement and small entrepreneur development in Livestock & dairy Farming.

Humanitarian Assistance

Nestlé Pakistan with additional support from Nestlé has generously extended its support to SOS Children's Villages of Pakistan for the construction of an SOS Children's Village in Islamabad for the Earth Quake Affected orphans of AJK. The construction of the orphanage, which started in 2008, has been a lengthy process from land allocation to design approval but the same is now is underway construction and possibly will be finished during 2010.

In 2009, about three million people were displaced due to law & order situation in Swat and Waziristan. Temporary relief camps were established by the Govt. in different areas of NWFP for these internally displaced people (IDPs). In line with its principles of compassion, Nestlé Pakistan immediately provided support to these IDPs in shape of its company products.

Healthy Kids Program in Pakistan

Mr. Paul Bulcke, CEO, announced at our Creating Shared Value Forum in New York this year, the creation of the Nestlé Global Healthy Kids Programme, to be implemented in all countries where Nestlé has operations. The aim of this program will be to raise awareness for addressing the nutritional needs of the school going Children from the age group of 06 years to 16 years. The plan is to launch the pilot phase in 2010, with the objective of active program in 2011. Nestlé Pakistan subscribes fully to this vision. And it is this vision that will steer our way towards the development of the Healthy Kid program for Pakistan.

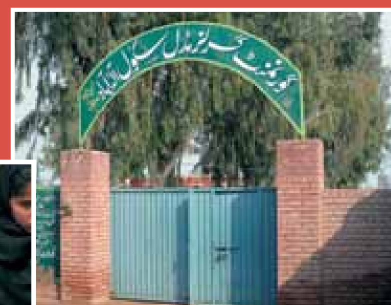
Driver Safety Training Project

Nestlé Pakistan signed an agreement with National Highways & Motorway Police through which the company extended support for the development of a fully equipped Driver Training facility at the National Highways & Motorway Police Training Institute at Sheikhupura. This training facility will include a Training Hall equipped with a Driver training Simulator, with adjacent offices and rest room facilities for the trainees, and a driver training track. This is first of its kind initiative in the country which promotes the concept of public private partnership in Pakistan.

The training facility will allow participants to acquire specialized driving practices and would curb accident rates on motorway through requisite skills that will be gained during the training period. What started as a pilot drivers training program in April '08, has up till now resulted in 13 batches of drivers, i.e. more than 300 drivers, graduating from the Motorway Training Institute Sheikhupura.

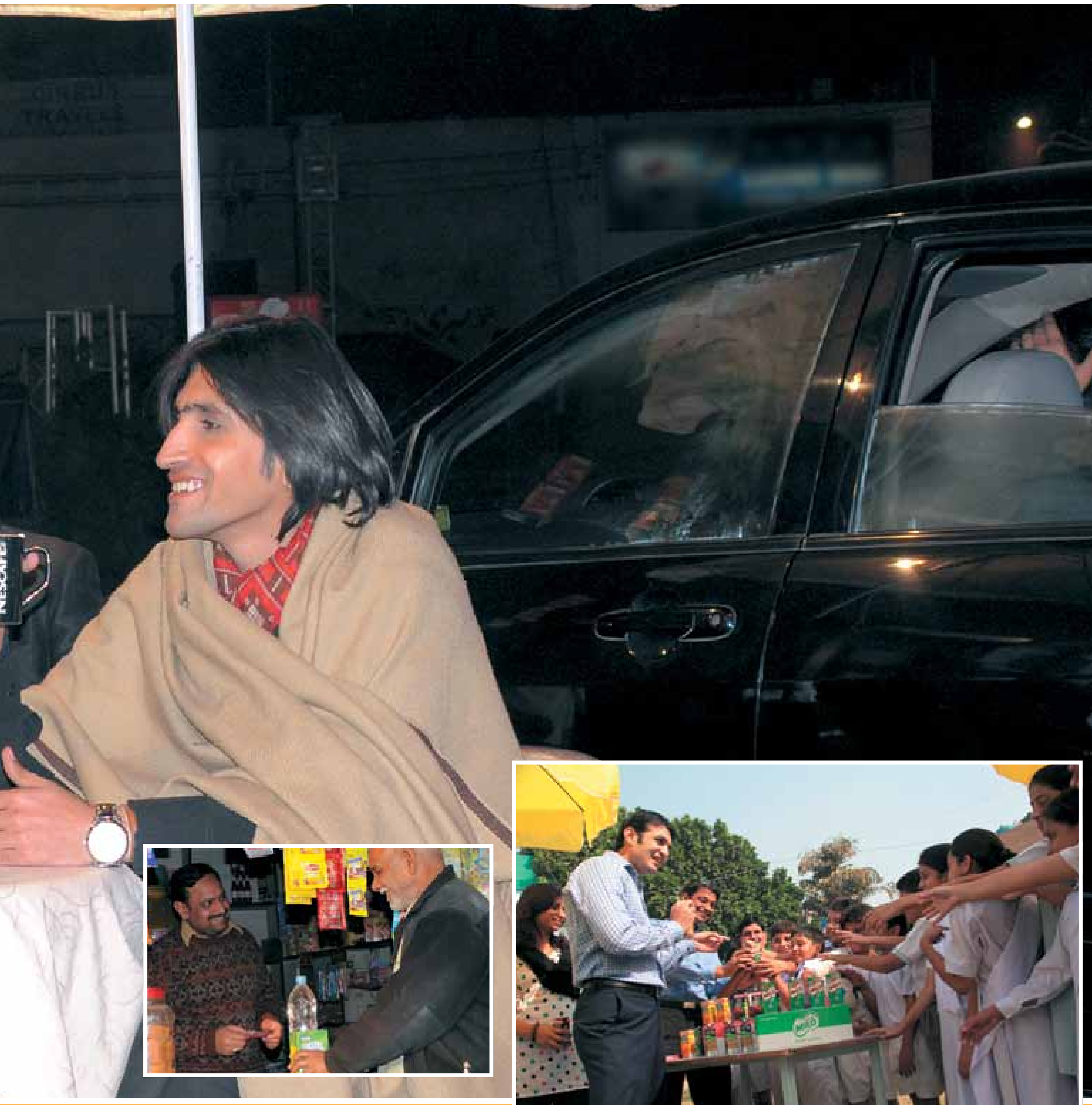
This unique training facility will not just provide training facilities to the Nestlé Pakistan's Drivers but will be extending support in road safety awareness to the entire corporate sector in the country.

Creating shared value for the communities is a core essense of the company and is embedded into our business model



Products & Brands

50 Ambient Dairy
52 Chilled Dairy
53 Infant Dietetic
54 Beverages
55 Confectionery
56 Culinary
57 Water
59 Nestlé Professional



Our people, products and brands are the main
flag bearers of the company's image

AMBIENT DAIRY

Nestlé MILKPAK

UHT Milk

Nestlé MILKPAK is the pioneer brand in the UHT milk market, lends credibility and holds strong brand equity with consumers. It continues to enjoy market leadership position in the UHT category because of it's excellent product, aggressive sales & marketing and consistent efforts from technical and production.

In order to keep fulfilling the nutritional requirements of the consumers and create a significant differentiating factor, Iron Fortified Nestlé MILKPAK offers consumers value addition in the form of Iron, which is a very important mineral performing several key functions in the human body. In addition, Vitamin C and A have also been added. Nestlé MILKPAK is now every homemaker's partner in helping her strengthen her home.

Nestlé NESVITA

Pro–Bones

Adult nutrition is expected to be the fastest growing segment as we witness consumer's shift of interests and increasing trend towards healthier lifestyles. To cater to the Adult Health & Wellness Solutions in Pakistan, Nestlé launched Hi-Cal Low Fat Milk in September 2003. Later on, in 2005 it was relaunched as Nestlé NESVITA. In subsequent years, the communication stress has been on stronger bones due to CALCILOCK (a special combination of Calcium, Vitamin D and other essential vitamins & minerals).

Nestlé NESVITA Pro-Bones continues to give young urban females the health and inner strength they need to achieve a better tomorrow for themselves and their families.

Nestlé SUPLIGEN

Nestlé SUPLIGEN is a milk-based Energy Drink that boosts stamina and provides energy that sustains. It is fortified with ACTIGEN-E, a combination of vitamins and minerals that ensures effective energy release for optimum performance. Till date, SUPLIGEN has been well received in the Afghanistan market.

MILKPAK

UHT Cream

MILKPAK UHT cream launched in 1986 is the market leader in the packaged UHT cream category. It has established this respectable position through developing a longstanding bond of trust with consumers based on its quality and 24 year history under the MILKPAK brand. Its silky creamy texture is ideal with delicious fruits, coffee and used commonly as a generous dollop on "naan". This brand has emotionally reached out to ethnic cultures through family values and traditions.

Nestlé NIDO

Fortified Milk

One of the biggest brands of Nestlé globally, NIDO was launched in Pakistan in 1990. Since then NIDO has grown from strength to strength to become the mother's most trusted partner in catering to her children's growth and development. Along with the natural goodness of pure milk, NIDO is now enriched with Minerals and Vitamins that help in holistic development of children.

AMBIENT DAIRY

Nestlé NIDO 1+

The NIDO family expanded with the launch of NIDO 1+ in August 2005. It has been specially developed for children from 1 to 3 years of age. NIDO 1+ has the added benefit of Vitamin A, C, E, Selenium & Zinc that boosts children's immunity to fight against germs, helping them grow strong & healthy.

Nestlé NIDO 3+

NIDO 3+ is for children between 3 to 6 years of age. It is enriched with innovative fibers Prebio 3™, which support kids in understanding and applying new concepts they learn. It provides essential fatty acids that the body can't make on its own, and which also help give mental nourishment.

Nestlé NIDO Bunyad

The NIDO family added a new feather to its crown with the launch of NIDO Bunyad in July 2009. NIDO Bunyad is for children between 4 to 12 years of age. It is positioned towards the mothers of children belonging to low income households so that despite the 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 second largest creamed tea consuming nation in the world. To capitalize on this huge opportunity Nestlé EVERYDAY was launched in 1992. Today it is recognized as the best tea creamer in the market, due to the exquisite taste it gives to tea, through its special recipe. EVERYDAY is suited to all kinds of tea preparations, be it mixed tea or separate. The emotional binding that EVERYDAY has established with its consumers continues to grow day by the day, giving it a special place in their hearts as well as their tea moments.

Nestlé EVERYDAY

Liquid

Nestlé EVERYDAY Liquid, leveraged by a very strong mother brand EVERYDAY Powder, was launched to capture the huge liquid milk consumption in tea. Introduced in June 2002 in 200ml pack, this brand has become a significant player in the highly competitive liquid milk industry.

CHILLED DAIRY

Nestlé FRESH 'n' NATURAL DAHI

Since its launch in 2000, Nestlé Fresh 'n' Natural Dahi has maintained its position as a market leader. 2008 saw the re-launch of this product where, based on consumer feedback, the "Plain Yogurt" descriptor gave way to the new brand identity of "Nestlé Fresh 'n' Natural Dahi".

Nestlé FRUIT YOGURT

Launched in 2001, Nestlé Fruit Yogurt range has real fruit chunks and is coming up as a popular healthy snack amongst children and teenagers. The range consists of strawberry, mango and peach yogurts.

Nestlé NESVITA

Pro-Bones

After the success of Plain Yogurt, Nestlé introduced "Hi-Calcium, Low Fat" yogurt in 2003. The product contains less than 1 % fat and 50 % more calcium than Plain Yogurt. In 2005 the product was re-launched under the brand of Nestlé NESVITA which has helped to further strengthen its brand image.

One 450 gm. cup of Nestlé NESVITA Hi-Calcium Low Fat Yogurt contains 900 mg of calcium, which is almost sufficient to fulfill the daily adult requirement of approximately 1000 mg of calcium as recommended by the US Food & Nutrition Board (1997). Calcium is essential for stronger bones and teeth and helps combat osteoporosis, especially in women.

Nestlé ZEERA RAITA & Nestlé PODINA RAITA

Nestlé Zeera Raita was launched in 2004. It became an instant favourite with Pakistani cuisine lovers and housewives. This was followed by the launch of Podina Raita in 2006, which became a success throughout the country. In 2008, based on consumer feedback, Podina Raita was made more 'spicy', in line with the actual homemade recipe and was a resounding success. Over the years, Nestlé Raita has become the fastest growing brand in the Chilled Dairy portfolio. In 2010 an additional upsized SKU was introduced in both Nestlé Zeera Raita and Nestlé Podina Raita, to cater to the growing demand for family consumption, making meals more memorable.

INFANT DIETETIC

For the Nutrition Business, 2009 will be remembered as a year of exciting new launches and restoration of growth momentum.

Brand Launches

Baby Food: March 2009 saw the launch of CERELAC Stage 3 in two variants: "CERELAC with Apple, Strawberry & Pear pieces" and "CERELAC with Orange & Apple pieces". Both variants, targeted to extend CERELAC consumption beyond the age of 8 months, offer functional benefits of "Helping Baby Learn to Chew" and introducing the baby to new textures.

Launch of these variants was aptly supported by a strong campaign centered around "baby Bara Ho Gya" central idea. Response from consumers has been overwhelming and is reflected in exceptional sales of these newly launched variants.

Even bigger was the relaunch of entire portfolio of CERELAC with addition of Probiotics, offering the big internationally claimed benefit of strengthening of baby's natural defenses through the critical first year of life. The launch is being supported by a big TV campaign along with extensive outdoor presence, medical detailing, sampling through health care professionals and extensive trade presence. Additionally, the entire packaging has been redesigned so that it is not only more vibrant, but also illustrates the functional benefit clearly.

Infant Formula: LACTOGEN GOLD was launched with the aim to create inroads into the premium segment by leveraging STRONG brand equity of LACTOGEN, owning benefit based territory of "Gut Comfort". Available in an exclusive metalized soft packaging, the newly designed GOLD color packaging has received tremendous appreciation in the Nestlé world.

Similarly, LACTOGEN 3 was launched in April 2009 as a Junior Follow up formula for infants 10 months and above. The new extension has received tremendous acceptance as the volumes have been increasing continuously on a monthly basis.

In addition to the above launches, the renovated recipe of New AL 110, with beneficial ingredients DHA / ARA, was introduced in July 2009. These new ingredients are present in human milk, and are important for adequate cell membrane structure and function development, and immunomodulation.

Extensive launch and training sessions were conducted with more than 1,500 Nestlé sales and distribution personnel followed by independent training sessions for the medical detailing staff.

Nestlé Nutrition Institute

Nestlé Nutrition Institute (NNI) continued its activities from multiple clinical platforms. Clinical Symposia on important relavant topics like "Importance of Breast Feeding" involving local medical experts, scientific literature distribution and enrolment of 1000 new members to NNI were some of the important initiatives undertaken in 2009.

** Mother's milk is best for infant. Nestlé promotes mother's natural milk in all its 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.*

BEVERAGES

NESQUIK

2009 saw the addition of another fun filled brand for Nestlé Pakistan with the launch of NESQUIK. The brand recognizes the challenge faced by the mums of today who continuously try to strike a balance between their kids needs e.g. good health and education and their wants pertaining to a fun filled childhood. For this same reason NESQUIK is here to celebrate childhood for kids and to become an ally for mom's in their battle to get their kids to drink milk.

NESQUIK dissolves instantly in both hot and cold milk and is available in the following SKUs.

NESQUIK Chocolate 200g
NESQUIK Chocolate 400g
NESQUIK Strawberry 200g
NESQUIK Chocolate 12g - Single Serve

NESCAFÉ

NESCAFÉ is the world's favorite coffee brand. No matter whether you like a cup of pure and black coffee or a frothy and creamy cappuccino NESCAFÉ is there to suit your taste and your mood.

In 2009, NESCAFÉ continued to exhibit a positive growth trend. This growth is mainly attributed to focused distribution efforts and a timely consumer promotion that was rolled out with the objective of increasing off-take.

Nestlé MILO

Ready To Drink (RTD)

MILO RTD is a major player in the flavoured milks category and enjoys a strong association with the consumers. Launched in 1994, MILO RTD has shown sustainable performance over the years. This year the 200ml wedge pack was changed to a more convenient 200ml slim pack, this helped in further enhancing the value of the brand. It is popular with all age groups specially children and consumers who are looking for energy and taste and seek a healthy active lifestyle.

Nestlé FRUITA VITALS

The year 2009 continued to be another great year for Nestlé juices which were renamed Nestlé Fruita Vitals. They maintained a strong growth momentum despite aggressive price increases and entry of various competitive brands in the juices and nectars category. Strong growth and significant contribution in overall profitability testifies to the success witnessed by this brand. The 200 ml wedge shaped pack was changed to the slim pack so as to improve chiller visibility and stand-ability. This led to a massive growth of the 200 ml SKU as the consumers also benefited from a pack which was a solution to the spillage issues associated with the wedge packaging. Moreover, a new thematic campaign was launched so as to establish the brand's new positioning of "Rise and Shine to Life!" The campaign was a mega success as retailing stood above 100% even during the off season and the FRUITA VITALS facebook page has an ever increasing number of fans being recruited everyday (11,500 to date).

CONFECTIONERY

KIT KAT

Chocolate is a small but fast growing segment in Pakistan.

Nestlé KIT KAT was launched in 1996 to make in roads in this market. It is available in 11g (Mini) 17g (Two finger) and 35g (Four finger) sizes. With a focussed distribution approach and marketing activities the brand has shown potential to grow in the market and is a leading value driver for the confectionery business of the company in Pakistan.

KIT KAT Chunky

Launched in Pakistan in 2005 KIT KAT Chunky is Nestlé's giant single wafer version of the world famous brand – KIT KAT. The launch was part of the global strategy to make KIT KAT the largest selling chocolate brand in the world.

Nestlé BREAKFAST CEREALS

Breakfast is an important meal of the day – and with good reason. It's the first meal after your body has been resting all night and this is the meal that is going to fuel the body and prep it for the day ahead. Available in three varieties, NESTLÉ CORNFLAKES (275 g and 150 g boxes), and kids' favourite chocolaty NESTLÉ KOKOKRUNCH (330 g and 170 g boxes) are delicious cereals made from wholesome grains and packed with Vitamins, Calcium and other minerals.

CULINARY

MAGGI

2-Minute Noodles

Nestlé pioneered the instant noodles category in Pakistan with the launch of MAGGI 2-MINUTE NOODLES in 1992. Today the MAGGI brand is well known, with strong equity amongst its target consumers. During 2009 MAGGI has re-enforced its image of being a partner for mothers to deliver good food-moments to their kids. Keeping consumer at its heart, the brand is utilizing global R&D expertise to further innovate & renovate its portfolio in the coming years.

WATER

Nestlé PURE LIFE

Home & Office Service

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

Nestlé Waters Pakistan is one of largest Nestlé Waters markets, and still continues to grow well today. This fact is evident in the ever growing distribution, customer base and communication investments made by the company for its consumers.

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

In 2009, the brand continued to expand its mission to delight consumers by providing high quality, safe and pure drinking bottled water.

To promote healthy hydration as part of health and wellness, the 8 glasses a day campaign was used throughout the year in communication to educate consumers on the need for adequate hydration. The communication reached consumers on platforms like TV, radio, print, billboards, packaging, internet and POS materials.

The idea was incorporated in a nationwide lucky draw consumer promotion on the PET format at the end of the year which enabled the PET business to enhance growth and enabled the brand to own the "8 Glasses a Day" platform.

A mega consumer promotion was launched on the HOD format to acquire new consumers at the start of the year. Two more activities were rolled out at the end of the year to drive consumption and sales.

To stay competitive in the market by offering the right price for the consumers, an innovative shrink wrap packaging solution was launched on the PET format. State of the art machinery was installed in the Shiekhupura factory in May 2009. This enabled the palletized shipment of the product from the factory to the distributors; increasing the efficiency through out the value chain.

Port Qasim Factory successfully explored water at deeper levels.

During the year there was a strengthening of Water Management, both the top and middle management with emphasis to further broaden and strengthen our field teams.

In 2009 the distribution of our Home & Office products continued to grow throughout the country and we are now reaching out to our consumers in 19 different cities in Pakistan. This has been made possible only through sheer hard work and passion of our team.

To take the Home & Office Delivery one step further, in 2009 we decided to re-launch the brand in 2010. The re-launch is aimed at delighting our consumers by refreshing our image and further strengthening our commitment to serve them. We will also be communicating to consumers the importance of clean drinking water and encourage them to 'drink healthy, live healthy' by continuing to use NESTLÉ PURE LIFE as their only choice for drinking water.

Our product and communications strategy of keeping the 'Consumer at heart' helped us in further strengthening consumer loyalty and trust that has further strengthened our brand and business in 2009.

NESTLÉ PROFESSIONAL

Nestlé PROFESSIONAL Creative Food & Beverage Solutions

Nestlé Professional is dedicated to provide convenient, cost-effective and reliable food and beverage solutions for out-of-home establishments.

Whether it is a café, hotel, restaurant, office, airport, university or hospital, backed with efficient services and quality products, Nestlé Professional is keen to deliver on the expectations of its valued customers.

Today Nestlé Professional has one purpose: To work closely with operators enabling them to innovate and delight their consumers and to build long-term relationships to be an inspiring growth partner.

We fulfill customer's requirements by:

Enhancing Customer Value:
We add value to our customer's businesses with solutions that satisfy their unique needs

Creativity:
We constantly generate new ideas to help our customers grow their business competitively

Expertise:
We share our professional resources, knowledge and competencies with our customers

Excellence:
We aim high in everything we do and constantly challenge the status quo

Enhancing the quality of life of the people of Pakistan

Financial Statements

Nestlé Pakistan Limited

For the Year Ended December 31, 2009

63 Auditors' Report to the Members
64 Balance Sheet
66 Profit and Loss Account
67 Statement of Comprehensive Income
68 Cash Flow Statement
69 Statement of Changes in Equity
70 Notes to the Financial Statements

Auditors' Report to the Members

We have audited the annexed balance sheet of Nestlé Pakistan Limited ("the Company") as at December 31, 2009 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 except for change referred to in note 2.1 to the financial statements with which we concur ;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, 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, 2009 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 09, 2010

Balance Sheet
As at December 31, 2009

	Note	2009	2008
		(Rupees in '000)	
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized capital			
75,000,000 (2008: 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		3,443,932	3,405,824
		4,426,955	4,388,847
Non-current liabilities			
Long term finances	5	4,210,750	5,139,875
Deferred taxation	6	1,531,945	1,319,333
Retirement benefits	7	215,925	351,968
Liabilities against assets subject to finance lease	8	118,275	177,582
		6,076,895	6,988,758
Current liabilities			
Current portion of non-current liabilities	9	1,322,442	54,042
Short term borrowings from associated company – unsecured	10	2,105,375	–
Short term borrowings – secured	11	–	300,000
Short term running finance under mark-up arrangements – secured	12	756,362	1,924,287
Customer security deposits – interest free		105,686	127,884
Trade and other payables	13	3,746,286	2,798,185
Interest and mark-up accrued	14	46,979	102,173
		8,083,130	5,306,571
CONTINGENCIES AND COMMITMENTS	15		
		18,586,980	16,684,176

The annexed notes 1 to 44 form an integral part of these financial statements.

Balance Sheet
As at December 31, 2009

	Note	2009	2008
		(Rupees in '000)	
ASSETS			
Tangible fixed assets			
Property, plant and equipment	16	10,700,874	9,464,373
Capital work-in-progress	17	914,956	1,382,401
		11,615,830	10,846,774
Intangible assets	18	7,106	49,744
Long term loans and advances	19	113,490	98,544
Long term security deposits		5,026	5,036
Current assets			
Stores and spares	20	868,984	804,647
Stock in trade	21	3,895,038	2,488,573
Trade debts	22	241,715	456,813
Current portion of long term loans and advances	19	21,012	26,615
Advances, deposits, prepayments and other receivables	23	1,503,009	1,488,103
Cash and bank balances	24	315,770	419,327
		6,845,528	5,684,078
		18,586,980	16,684,176

RAYMOND FRANKE
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Profit and Loss Account
For the Year Ended December 31, 2009

	Note	2009	2008
		(Rupees in '000)	
Sales – net	25	41,155,822	34,183,847
Cost of goods sold	26	(29,256,902)	(25,231,532)
Gross profit		11,898,920	8,952,315
Distribution and selling expenses	27	(5,238,488)	(3,890,352)
Administrative expenses	28	(1,085,121)	(956,816)
Operating profit		5,575,311	4,105,147
Finance cost	29	(442,050)	(557,325)
Other operating expenses	30	(1,091,149)	(1,382,138)
		(1,533,199)	(1,939,463)
Other operating income	31	144,145	61,800
Profit before taxation		4,186,257	2,227,484
Taxation	32	(1,181,124)	(674,590)
Profit after taxation		3,005,133	1,552,894
Earnings per share – basic and diluted (Rupees)	33	66.27	34.24

The annexed notes 1 to 44 form an integral part of these financial statements.

RAYMOND FRANKE
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Comprehensive Income
For the year ended December 31, 2009

	2009	2008
	(Rupees in '000)	
Profit after taxation	3,005,133	1,552,894
Other comprehensive income :		
Actuarial losses recognized directly in the equity	(29,694)	(113,827)
Tax on actuarial losses recognized directly in the equity	10,393	39,839
Other comprehensive loss for the year, net of income tax	(19,301)	(73,988)
Total comprehensive income for the year	2,985,832	1,478,906

The annexed notes 1 to 44 form an integral part of these financial statements.

RAYMOND FRANKE
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Cash Flow Statement
For the Year Ended December 31, 2009

	Note	2009	2008
		(Rupees in '000)	
Cash flow from operating activities			
Cash generated from operations	35	6,397,615	4,224,959
Decrease in long term security deposits		10	1,052
(Increase) in long term loans and advances		(9,343)	(23,210)
Retirement benefits paid		(293,122)	(89,867)
Finance cost paid		(497,244)	(544,413)
Taxes paid		(990,053)	(41,697)
Net cash generated from operating activities		4,607,863	3,526,824
Cash flow from investing activities			
Fixed capital expenditure		(2,271,269)	(1,871,296)
Sale proceeds of property, plant and equipment		32,995	74,233
Net cash (used in) investing activities		(2,238,274)	(1,797,063)
Cash flow from financing activities			
Short term borrowings from associated company		1,995,375	–
Net movement in short term borrowings – secured		(300,000)	(735,000)
Payment of finance lease liabilities		(54,132)	(66,383)
Dividend paid		(2,946,464)	(1,201,764)
Net cash (used in) financing activities		(1,305,221)	(2,003,147)
Net increase / (decrease) in cash and cash equivalents		1,064,368	(273,386)
Cash and cash equivalents at beginning of the year		(1,504,960)	(1,231,574)
Cash and cash equivalents at end of the year	36	(440,592)	(1,504,960)

The annexed notes 1 to 44 form an integral part of these financial statements.

RAYMOND FRANKE
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Changes in Equity
For the Year Ended December 31, 2009

		Capital reserve	Revenue reserve		
	Share capital	Share premium	General reserve	Accumulated profit	Total
	(Rupees in '000)				
Balance as at December 31, 2007	453,496	249,527	280,000	3,128,682	4,111,705
Final dividend for the year ended December 31, 2007 (Rs. 10 per share)	–	–	–	(453,496)	(453,496)
Interim dividend for the six months period ended June 30, 2008 (Rs. 7.5 per share)	–	–	–	(340,122)	(340,122)
Interim dividend for the nine months period ended September 30, 2008 (Rs. 9 per share)	–	–	–	(408,146)	(408,146)
Total comprehensive income for the year	–	–	–	1,478,906	1,478,906
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

The annexed notes 1 to 44 form an integral part of these financial statements.

RAYMOND FRANKE
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, 2009

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 Change in accounting policy

Starting January 01, 2009, the Company has changed its accounting policies in the following areas:

The Company has applied Revised IAS 1 "Presentation of Financial Statements (2007)" which became effective from January 01, 2009. This standard required the Company to present in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in statement of comprehensive income.

The Company has also applied IFRS 7 "Financial Instruments Disclosures" and IFRS 8: "Operating Segments" from January 01, 2009. As a result, additional disclosures have been made relating to financial instruments and operating segments.

The Company has changed its accounting policy with respect to capitalization of borrowing costs as per the transitional provision of International Accounting Standard "IAS-23 (Borrowing Costs)". Mark-up, interest and other charges on long term borrowings, which were previously recognised as an expense in the period in which they are incurred, are now being capitalized upto the date of commissioning of the related qualifying assets, acquired out of the proceeds of such long term borrowings. This change in accounting policy is applicable on borrowing cost relating to qualifying assets for which the commencement date for capitalization is on or after the effective date i.e. January 01, 2009 and thus has no impact on the current financial statements.

2.2 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.

2.3 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 effects 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:

Notes to the Financial Statements
For the Year Ended December 31, 2009

– Useful life of depreciable assets
– Staff retirement benefits
– Taxation
– Provisions and contingencies

2.4 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 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.

2.5 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.

2.6 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 16.

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 depreciation is 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 18. 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.

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.

2.7 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.

Notes to the Financial Statements
For the Year Ended December 31, 2009

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 16. 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.

2.8 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 flows of that asset.

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

Individually significant financial assets are tested for impairment on a 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.

2.9 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.

2.10 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, 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.

2.11 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 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.

2.13 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.

2.14 Inventories

Inventories, except for stock in transit, are stated at lower of cost and net realizable value. Cost is determined as follows:

Stores 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.

Notes to the Financial Statements
For the Year Ended December 31, 2009

2.15 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.

2.16 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.

2.17 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 currently.

2.18 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 which they are incurred.

2.19 Segment

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.

2.20 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 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-recognition of the financial assets and financial liabilities is taken to profit and loss account currently. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

2.21 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.

2.22 Cash and cash equivalents

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

2.23 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 do so.

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

A number of new standards and amendments to standards are not yet effective for the year ended December 31, 2009, and have not been applied in preparing these financial statements.

Amendment to IFRS 2 Share based Payment Group Cash settled Share based Payment Transactions – (effective for annual periods beginning on or after January 01, 2010). Currently effective IFRSs require attribution of group share based payment transactions only if they are equity settled. The amendments resolve diversity in practice regarding attribution of cash settled share based payment transactions and require an entity receiving goods or services in either an equity settled or a cash settled payment transaction to account for the transaction in its separate or individual financial statements.

Revised IFRS 3 Business Combinations – (applicable for annual periods beginning on or after July 01, 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Company's financial statements.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after July 01, 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale if criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any 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.

Notes to the Financial Statements
For the Year Ended December 31, 2009

Amended IAS 27 Consolidated and Separate Financial Statements – (effective for annual periods beginning on or after July 01, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Company's financial statements.

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 Company's financial statements.

Amendments to IAS 39 Financial Instruments Recognition and Measurement Eligible Hedged Items – (effective for annual periods beginning on or after July 01, 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Company's financial statements.

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 recognized as an asset rather than an expense. This amendment is not likely to have any impact on Company's financial statements.

IFRIC 15 Agreement for the Construction of Real Estate – (effective for annual periods beginning on or after October 01, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Company's operations.

IFRIC 17 Distributions of Non-cash Assets to Owners – (effective for annual periods beginning on or after July 01, 2009) states that when a company distributes non-cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in equity. When the non-cash asset is distributed, the difference between the carrying amount and fair value is recognized in the income statement. As the Company does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Company's financial statements.

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 the Company's financial statements.

	2009	2008
	(Rupees in '000)	
3 Issued, subscribed and paid up capital		
29,787,058 (2008: 29,787,058) ordinary shares of Rs. 10 each as fully paid in cash	297,870	297,870
15,476,867 (2008: 15,476,867) ordinary shares of Rs. 10 each as fully paid bonus shares	154,769	154,769
85,659 (2008: 85,659) ordinary shares of Rs. 10 each issued for consideration other than cash	857	857
	453,496	453,496

As at December 31, 2009, Nestlé S.A. Switzerland, the holding company, holds 26,778,229 (2008: 26,778,229) ordinary shares of the Company. In addition, 8,789,082 (2008: 8,753,766) ordinary shares are held by the following related parties as at December 31, 2009:

	2009	2008
	(Numbers of shares)	
Name of related party:		
International General Insurance Company of Pakistan Limited	4,355,213	4,319,897
Percentage of equity held 9.6% (2008: 9.5%)		
Packages Limited	3,649,248	3,649,248
Percentage of equity held 8.0% (2008: 8.0%)		
Gurmani Foundation	762,955	762,955
Percentage of equity held 1.7% (2008: 1.7%)		
Industrial Technical and Educational Institution	21,666	21,666
Percentage of equity held 0.05% (2008: 0.05%)		
	8,789,082	8,753,766

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	2009	2008
		(Rupees in '000)	
5 Long term finances			
Long term finances utilized under mark-up arrangements:			
Related party – Unsecured			
Associated company – Foreign currency	5.1	5,473,975	5,139,875
Less : current maturity	9	(1,263,225)	–
		4,210,750	5,139,875

Notes to the Financial Statements
For the Year Ended December 31, 2009

Terms of repayment and securities

5.1 This represents US$ 65 million loan from Nestlé Treasury Centre Middle East and Africa Limited, Dubai. US$ 15 million is due in December 2010 and US$ 50 million is due in May 2011. Mark-up is payable semi annually at six months average LIBOR plus 150 basis points.

	Note	2009	2008
		(Rupees in '000)	
6 Deferred taxation			
This is composed of:			
Liability for deferred taxation comprising temporary differences related to:			
Accelerated tax depreciation		1,545,561	1,319,333
Others		(13,616)	–
		1,531,945	1,319,333
7 Retirement benefits			
Pension fund	7.1	96,557	100,224
Gratuity fund	7.1	119,368	251,744
		215,925	351,968

	Gratuity		Pension	
	2009	2008	2009	2008
	(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	512,304	429,967	651,918	474,713
Fair value of plan assets	(392,936)	(178,223)	(555,361)	(374,489)
Total employee benefit obligation	119,368	251,744	96,557	100,224
7.2 Movement in net obligation:				
Net liability as at 01 January	251,744	133,609	100,224	104,761
Charge to profit and loss account	92,545	59,731	45,233	29,907
Actuarial (gains)/losses recognized in equity	(29,027)	107,344	58,721	6,483
Contribution made by the employees	–	–	21,175	17,662
Contribution made by the Company	(195,894)	(48,940)	(128,796)	(58,589)
	119,368	251,744	96,557	100,224

		Gratuity		Pension	
		2009	2008	2009	2008
		(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	429,967	349,287	474,713	474,019
	Benefits paid by the plan	(29,372)	(14,346)	(13,890)	(9,799)
	Current service costs	54,783	50,683	51,374	44,478
	Interest cost	64,495	34,929	71,207	47,402
	Actuarial losses/(gains) on present value of defined benefit obligations	(7,569)	9,414	68,514	(81,387)
	Liability for defined benefit obligations as at 31 December	512,304	429,967	651,918	474,713
7.4	**Movement in fair value of plan assets:**				
	Fair value of plan assets as at 01 January	178,223	215,678	374,489	369,258
	Contributions paid into the plan	195,894	48,940	128,796	58,589
	Benefits paid by the plan	(29,372)	(14,346)	(13,890)	(9,799)
	Expected return on plan assets	26,733	25,881	56,173	44,311
	Actuarial gains/(losses) on plan assets	21,458	(97,930)	9,793	(87,870)
	Fair value of plan assets as at 31 December	392,936	178,223	555,361	374,489
7.5	**Plan assets consist of the following:**				
	Equity instruments	55,382	63,277	53,663	54,389
	Debt instruments	108,845	42,359	177,855	66,848
	Cash and other deposits	228,709	72,587	323,843	253,252
		392,936	178,223	555,361	374,489
7.6	**Salaries, wages and amenities include the following in respect of retirement and other benefits:**				
	Interest cost for the year	64,495	34,929	71,207	47,402
	Current service cost	54,783	50,683	51,374	44,478
	Expected return on plan assets	(26,733)	(25,881)	(56,173)	(44,311)
	Contribution made by the employees	–	–	(21,175)	(17,662)
		92,545	59,731	45,233	29,907
7.7	**Charge for the year has been allocated as follows:**				
	Cost of goods sold	35,521	18,703	13,309	11,963
	Distribution and selling expenses	35,673	25,888	16,343	9,649
	Administrative expenses	21,351	14,577	15,581	7,539
	Capitalized during the year	–	563	–	756
		92,545	59,731	45,233	29,907

Notes to the Financial Statements
For the Year Ended December 31, 2009

		Gratuity		Pension	
		2009	2008	2009	2008
		(Rupees in '000)		(Rupees in '000)	
7.8	**Actual return on plan assets**	48,191	72,049	65,966	43,559
7.9	**Actuarial gains and (losses) recognized directly in the equity:**				
	Cumulative amount at 01 January	(220,638)	(113,294)	(64,051)	(57,568)
	Gains/(losses) recognized during the year	29,027	(107,344)	(58,721)	(6,483)
	Cumulative amount at 31 December	(191,611)	(220,638)	(122,772)	(64,051)

		2009	2008	2007	2006	2005
				(Rupees in '000)		
7.10	**Historical Information for Gratuity plan:**					
	Present value of defined benefit obligation	512,304	429,967	349,287	286,258	227,662
	Fair value of the plan assets	(392,936)	(178,223)	(215,678)	(151,918)	(139,543)
	Deficit in the plan	119,368	251,744	133,609	134,340	88,119
	Experience adjustments arising on plan liabilities	7,569	(9,414)	(14,219)	(17,739)	(29,261)
	Experience adjustments arising on plan assets	21,458	(97,930)	19,175	(30,485)	2,877

The Company expects to pay Rs. 62.102 million in contributions to gratuity fund in 2010.

		2009	2008	2007	2006	2005
				(Rupees in '000)		
7.11	**Historical Information for Pension plan:**					
	Present value of defined benefit obligation	651,918	474,713	474,019	377,539	349,904
	Fair value of the plan assets	(555,361)	(374,489)	(369,258)	(277,574)	(222,139)
	Deficit in the plan	96,557	100,224	104,761	99,965	127,765
	Experience adjustments arising on plan liabilities	(68,514)	81,387	(20,553)	(14,782)	(36,869)
	Experience adjustments arising on plan assets	9,793	(87,870)	18,902	(7,973)	8,721

The Company expects to pay Rs. 53.874 million in contributions to pension fund in 2010.

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

	2009		2008	
	Gratuity fund per annum	Pension fund per annum	Gratuity fund per annum	Pension fund per annum
Discount Rate	12%	12%	15%	15%
Expected rates of salary increase	12%	12%	15%	15%
Expected rates of return on plan assets	15%	15%	12%	12%
Average expected remaining working life	13	13	13	13

	2009	2008
	(Rupees in '000)	
8 Liabilities against assets subject to finance lease		
Present value of minimum lease payments	177,492	231,624
Less: Current portion shown under current liabilities	(59,217)	(54,042)
	118,275	177,582

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.

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

	2009			2008		
Years	Minimum lease payments	Finance cost	Principal	Minimum lease payments	Finance cost	Principal
	(Rupees in '000)			(Rupees in '000)		
Not later than one year	59,217	–	59,217	54,042	–	54,042
Later than one year but not later than five years	118,275	–	118,275	177,582	–	177,582
	177,492	–	177,492	231,624	–	231,624

	Note	2009	2008
		(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	59,217	54,042
		1,322,442	54,042

10 Short term borrowings from associated company – unsecured

This represents short term foreign currency loan obtained from Nestlé Treasury Centre Middle East and Africa Limited Dubai, which carries mark-up at the rate of 6 months LIBOR plus 100 basis points (2008: Nil). The outstanding balance as at December 31, 2009 is converted into Pak Rupees at the rate prevailing on the balance sheet date.

Notes to the Financial Statements
For the Year Ended December 31, 2009

11 Short term borrowings – secured

This represented money market loans obtained from various commercial banks, which carried mark-up ranging from 13.00% to 16.62% per annum (2008: 9.71% to 16.62% per annum). These loans were obtained for a period of 30 days (2008: 30 days to 90 days) and were secured against pari passu hypothecation charge over current assets of the Company. The outstanding loan amount was repaid in June 2009.

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

Short term running finances available from commercial banks under mark-up arrangements amount to Rs. 7,073 million (2008 : Rs. 4,300 million). Mark-up is charged at rates ranging from 11.67% to 17.37% per annum (2008 : 9.92% to 17.58% per annum).

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

	Note	2009	2008
		(Rupees in '000)	
13 Trade and other payables			
Trade creditors			
Related parties – associated companies		356,361	608,126
Others		1,117,200	406,220
		1,473,561	1,014,346
Accrued liabilities			
Related parties – associated companies		30,413	181,569
Others		1,715,138	1,198,881
		1,745,551	1,380,450
Excise duty payable		13,799	14,044
Advances from customers		180,391	88,069
Workers profit participation fund	13.1	60,640	9,250
Workers welfare fund		85,434	149,473
Derivative financial liability		42,267	–
Royalty and technical assistance fee payable to holding company		96,261	89,566
Unclaimed dividend		4,257	2,997
Withholding tax payable		1,456	24,872
Withholding sales tax payable		21,453	–
Others		21,216	25,118
		3,746,286	2,798,185

13.1 Workers profit participation fund

	Note	2009	2008
Opening balance		9,250	96,156
Provision for the year	30	224,826	119,629
		234,076	215,785
Less: Payments during the year		(173,436)	(206,535)
Closing balance		60,640	9,250

	2009	2008
	(Rupees in '000)	
14 Interest and mark-up accrued		
Short term borrowings	–	1,090
Short term running finances – secured	8,818	44,460
Long term loan from associated company – unsecured	38,161	56,623
	46,979	102,173

15 Contingencies and commitments

15.1 In 2002, Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology (SZABIST) filed a petition against the Government of Sindh challenging cancellation of its allotment of 300 acres of land in the Deh Chur allotted to it earlier and later made the Company a party to the suit, claiming that the land, the Company had acquired was part of its cancelled land.

The Company contested the SZABIST claim on the grounds that land acquired by the Company could not be claimed by SZABIST since (a) SZABIST did not have the area demarcated as per regulations after it was allotted to it (b) it did not take official possession of the land, and (c) the land was cancelled by operation of law and hence it was only a dispute between SZABIST and the Government of Sindh. The Court agreed and directed the Government of Sindh to conduct a survey and set aside 300 acres of land for SZABIST in Deh Chur in case its claim is finally accepted by the Court. As such it is the management's view that the Company is likely to be discharged as a party to the suit as soon as the 300 acres are earmarked by Sindh Government in Deh Chur. Furthermore, the legal advisor of the Company is of the opinion that at present no liability is likely to arise subject to final adjudication of the SZABIST petition.

15.2 Claims against the Company not acknowledged as debt amount to Rs. 35.793 million (2008: Rs. 35.809 million).

	2009	2008
	(Rupees in '000)	
15.3 Guarantees		
Outstanding guarantees	183,300	160,053
Un-utilized portion	61,700	184,947
15.4 Commitments in respect of capital expenditure	74,053	253,873
15.5 Letters of credit		
Outstanding letters of credit in respect of capital expenditure	–	370,172
Other outstanding letters of credit	23,369	57,097
Un-utilized portion	1,107,731	1,109,731

15.6 In 2005, the Company had made a commitment to pay Rs. 250 million to National Management Foundation to set up a School for Science and Engineering. The amount is to be paid over a period of six years upto 2010. Rs. 220 million has been paid up till December 31, 2009, while Rs. 40 million has been accounted for during the year.

Notes to the Financial Statements
For the Year Ended December 31, 2009

16 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, 2008	486,360	32,347	1,908,978	219,273	9,980,362	123,962	332,836	5,994	172,980	13,263,092
Additions during the year	–	–	87,075	–	1,249,675	84,361	38,967	–	148,542	1,608,620
Disposals	–	–	(8,917)	–	(178,685)	(3,265)	(103,838)	(27)	–	(294,732)
Balance as at December 31, 2008	486,360	32,347	1,987,136	219,273	11,051,352	205,058	267,965	5,967	321,522	14,576,980
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	(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
Depreciation and impairment losses										
Balance as at January 01, 2008	–	2,386	295,568	134,056	3,468,425	73,649	197,517	5,046	12,017	4,188,664
Depreciation charge for the year	–	361	57,892	3,005	946,500	17,020	46,594	553	21,996	1,093,921
Depreciation on disposals	–	–	(1,867)	–	(125,268)	(2,925)	(95,891)	(27)	–	(225,978)
Impairment charge	–	–	–	–	56,000	–	–	–	–	56,000
Balance as at December 31, 2008	–	2,747	351,593	137,061	4,345,657	87,744	148,220	5,572	34,013	5,112,607
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 on disposals	–	–	(208)	–	(398,173)	(18,846)	(47,789)	(478)	–	(465,494)
Impairment charge	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
Net book value as at December 31, 2008	486,360	29,600	1,635,543	82,212	6,705,695	117,314	119,745	395	287,509	9,464,373
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	

	Note	2009	2008
		(Rupees in '000)	
16.1 Depreciation charge for the year has been allocated as follows:			
Cost of goods sold	26	991,926	896,521
Distribution and selling expenses	27	149,966	127,629
Administrative expenses	28	71,047	69,744
Capitalised during the year		116	27
		1,213,055	1,093,921

16.2 Detail of certain 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)				
Freehold land						
	111	–	111	220	Sale	(Employee) Aslam Javed
Building						
	1,383	67	1,316	–	Written-off on vacation	LDC Building returned to Landlord
	682	141	541	49	Sale	Haider Engineering Co.
Plant and machinery						
	24,246	19,148	5,098	–	Scrapped	Various
	28,340	24,173	4,166	–	Scrapped	Various
	2,560	1,075	1,484	144	Sale	Haider Engineering Co.
	3,001	1,915	1,086	–	Scrapped	Various
	1,581	566	1,014	–	Scrapped	Various
	1,125	256	869	–	Scrapped	Various
	1,437	600	837	–	Scrapped	Various
	1,437	688	749	–	Scrapped	Various
	2,902	2,168	734	–	Scrapped	Various
	2,913	2,396	517	59	Sale	Haider Engineering Co.
	660	242	418	–	Scrapped	Various
	2,326	2,011	314	–	Scrapped	Various
	1,119	817	302	32	Sale	Haider Engineering Co.
	7,292	7,014	278	–	Scrapped	Various
	575	324	251	–	Scrapped	Various
	575	324	251	–	Scrapped	Various
	575	324	251	–	Scrapped	Various
	2,055	1,812	243	–	Scrapped	Various
	371	155	216	27	Sale	Maqsood Barlas & Brothers
	473	263	210	–	Scrapped	Various
	5,340	5,137	203	–	Scrapped	Various
	900	700	200	–	Scrapped	Various
	399	200	200	–	Scrapped	Various
	362	181	181	–	Scrapped	Various
	499	318	180	–	Scrapped	Various
	193	16	177	–	Scrapped	Various
	1,227	1,057	170	–	Scrapped	Various
	556	386	170	–	Scrapped	Various
	1,476	1,312	164	–	Scrapped	Various
	422	269	152	–	Scrapped	Various
	900	750	150	–	Scrapped	Various
	600	450	150	–	Scrapped	Various
	331	184	148	–	Scrapped	Various

Notes to the Financial Statements
For the Year Ended December 31, 2009

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
		(Rupees in '000)				
	276	130	146	–	Scrapped	Various
	731	601	130	15	Sale	Haider Engineering Co.
	661	532	129	–	Scrapped	Various
	270	143	127	–	Scrapped	Various
	465	340	125	14	Sale	Riaz Traders
	1,860	1,741	118	57	Sale	Riaz Traders
	229	121	108	–	Scrapped	Various
	201	93	108	–	Sale	Maqsood Barlas & Brothers
	905	798	107	–	Scrapped	Various
	409	302	107	11	Sale	Haider Engineering Co.
	765	659	106	–	Scrapped	Various
	412	309	103	–	Scrapped	Various
	230	127	103	–	Scrapped	Various
	230	127	103	–	Scrapped	Various
	256	155	101	–	Scrapped	Various
	198	99	99	–	Scrapped	Various
	167	70	97	9	Sale	Haider Engineering Co.
	367	275	92	–	Scrapped	Various
	325	235	90	–	Scrapped	Various
	539	449	90	–	Scrapped	Various
	3,317	3,235	81	101	Sale	Riaz Traders
	297	217	80	8	Sale	Haider Engineering Co.
	601	521	80	–	Scrapped	Various
	222	142	80	–	Scrapped	Various
	100	23	77	90	Sale	Maqsood Barlas & Brothers
	600	529	71	–	Scrapped	Various
	4,225	4,155	71	129	Sale	Riaz Traders
	160	90	70	–	Scrapped	Various
	124	55	69	–	Scrapped	Various
	146	77	69	–	Scrapped	Various
	293	225	68	–	Scrapped	Various
	99	33	66	7	Sale	Haider Engineering Co.
	3,900	3,835	65	119	Sale	Riaz Traders
	191	127	64	–	Scrapped	Various
	1,600	1,539	61	–	Scrapped	Various
	116	56	60	–	Scrapped	Various
	135	78	57	13	Sale	Maqsood Barlas & Brothers
	135	78	57	13	Sale	Maqsood Barlas & Brothers
	135	78	57	13	Sale	Maqsood Barlas & Brothers
	476	420	56	–	Scrapped	Various
	94	39	55	2	Sale	Maqsood Barlas & Brothers
	127	74	53	–	Scrapped	Various
	944	892	52	–	Scrapped	Various
	1,371	1,319	52	–	Scrapped	Various

Notes to the Financial Statements
For the Year Ended December 31, 2009

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
		(Rupees in '000)				
	68	17	51	61	Insurance claims	Insurance Claim received
Furniture and fixtures						
	863	633	230	62	Sale	Maqsood Barlas & Brothers
	642	470	171	46	Sale	Maqsood Barlas & Brothers
	198	63	135	162	Sale	BAF Forms Sukkekhi
	130	37	93	112	Sale	BAF Forms Sukkekhi
	608	516	91	43	Sale	Maqsood Barlas & Brothers
	125	58	67	9	Sale	Maqsood Barlas & Brothers
Vehicles						
	360	150	210	290	Sale	Employee (Waqar Ahmad)
	360	156	204	277	Sale	Employee (Rozeena Kauser)
	831	637	194	400	Sale	Employee (Muhammad Akhter)
	360	168	192	269	Sale	Employee (Asif Ali)
	360	168	192	264	Sale	Employee (Sarah Rizwan)
	560	382	177	371	Sale	Employee (Allah Ditta Bhatti)
	360	186	174	266	Sale	Employee (Muhammad Asghar)
	831	678	152	460	Sale	Employee (Bashir Ahmad)
	831	692	138	480	Sale	Employee (Qaiser Abbas)
	560	438	121	353	Sale	Employee (Mubarik Ali Wassi)
	1,169	1,072	97	280	Sale	Employee (Ejaz Haider)
	831	748	83	520	Sale	Employee (M. Asif Chaudhry)
	360	282	78	192	Sale	Employee (Atif Munir)
	791	723	67	400	Sale	Employee (Raheel Afzal)
Assets with book value less than Rs. 50,000	418,543	354,638	63,917	26,546		
Total	559,589	465,494	94,095	32,995		

Notes to the Financial Statements
For the Year Ended December 31, 2009

	Note	2009	2008
		(Rupees in '000)	
17 Capital work-in-progress			
Civil works		70,122	88,559
Plant and machinery	17.1	841,440	1,285,430
Others		3,394	8,412
		914,956	1,382,401

17.1 There was no plant and machinery in transit at the year end (2008: Nil).

	Note	2009	2008
		(Rupees in '000)	
18 Intangible assets			
Cost			
Balance as at 01 January		213,189	213,189
Amortization			
Balance as at 01 January		(163,445)	(120,807)
Charge for the year		(42,638)	(42,638)
Accumulated amortization as at 31 December		(206,083)	(163,445)
Net book value as at 31 December		7,106	49,744
Amortization rate		20%	20%
19 Long term loans and advances			
To employees – secured and considered good			
Executives	19.1	55,774	59,527
Other employees		28,431	16,081
		84,205	75,608
To suppliers – unsecured and considered good	19.2	22,647	45,551
To others	19.3	27,650	4,000
		134,502	125,159
Less: current portion shown under current assets		(21,012)	(26,615)
		113,490	98,544

19.1 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 collateral purpose.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs. 55.774 million (2008 : Rs. 59.527 million).

Chief Executive and Directors have not taken any loans and advances from the Company (2008: Nil).

	2009	2008
	(Rupees in '000)	
Reconciliation of carrying amount of loans to executives		
Opening balance	59,527	26,514
Disbursements during the year	15,720	31,750
Promotion of non-executive employees as executives	40	9,081
Loans recovered during the year	(19,513)	(7,818)
Closing balance	55,774	59,527

19.2 This includes an un-secured loan of Rs. 13.160 million (2008: Rs. 14.805 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 (2008: 1.5% per annum) and is receivable annually. This amount is receivable in 10 equal annual installments which commenced from October 2008.

19.3 This represents 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. The Chairman of the Foundation is director of the Company.

	2009	2008
	(Rupees in '000)	
20 Stores and spares		
Stores	54,767	47,302
Spares, including in transit Rs. 2.801 million (2008: Nil)	814,217	757,345
	868,984	804,647

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

	Note	2009	2008
		(Rupees in '000)	
21 Stock in trade			
Raw and packing materials including in transit Rs.492.827 million (2008: Rs. 348.084 million)		2,462,307	1,787,846
Work-in-process		175,868	180,897
Finished goods		1,110,886	386,408
Goods purchased for resale including in transit Rs.51.534 (2008: Nil)		145,977	133,422
		3,895,038	2,488,573
22 Trade debts			
Considered good – unsecured		241,715	456,813
Considered doubtful – unsecured		1,824	1,749
		243,539	458,562
Less: Provision for doubtful debts	22.1	(1,824)	(1,749)
		241,715	456,813

Notes to the Financial Statements
For the Year Ended December 31, 2009

	Note	2009	2008
		(Rupees in '000)	
22.1 Provision for doubtful debts			
Opening balance		1,749	1,749
Addition during the year		976	–
Less: write off during the year		(901)	–
Closing balance		1,824	1,749
23 Advances, deposits, prepayments and other receivables			
Advances to employees – secured and considered good	23.1	948	844
Advances to suppliers – unsecured and considered good		125,028	429,994
Due from related parties – unsecured and considered good	23.2	165,231	75,962
Trade deposits and prepayments – considered good		116,310	109,614
Income tax recoverable		110,593	89,052
Sales tax refundable		887,753	645,332
Other receivables – considered good		97,146	137,305
		1,503,009	1,488,103

23.1 Chief Executive and Directors have not taken any advance from the Company (2008: Rs. Nil).

	2009	2008
	(Rupees in '000)	
23.2 Due from related parties		
Foreign Associated Companies:		
Nestrade	127,465	48,446
Nestlé China Limited	121	–
PT Nestlé Indonesia	–	250
Nestlé Vietnam Limited	122	181
Nestlé Egypt S.A.E.	–	1,261
Nestlé Middle East FZE	837	566
Nestlé Nederland B.V.	139	47
Nestlé Qingdao Limited	–	17
Nestlé Suisse S.A.	–	8,457
Quality Coffee Products Limited	–	7,503
Nestlé Australia Limited	–	1,116
Nestlé Philippines Inc.	104	–
CPW Philippines	5,500	660
Nestlé (South Africa) Pty Limited	1,681	1,325
Nestlé Nigeria Plc	537	–
Nestlé Asean Malaysia	500	–
Nestlé Waters Management & Technology	27,795	5,702
Saudi Food Industries Limited	22	22
Nestlé Water Middle East	408	409
	165,231	75,962

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

	Note	2009	2008
		(Rupees in '000)	
24 Cash and bank balances			
Cash at bank – current accounts		311,691	415,014
		311,691	415,014
Cash and cheques in hand		4,079	4,313
		315,770	419,327
25 Sales – net			
Own manufactured			
Local		40,336,017	33,922,714
Export		3,269,698	2,206,878
		43,605,715	36,129,592
Goods purchased for resale		549,282	628,649
Less:			
Sales tax		(906,239)	(750,587)
Trade discounts		(2,092,936)	(1,823,807)
		41,155,822	34,183,847
26 Cost of goods sold			
Raw and packing materials consumed		22,810,079	18,665,394
Salaries, wages and amenities	26.1	1,593,654	1,180,428
Fuel and power		1,189,301	1,064,810
Insurance		31,197	26,611
Repairs, maintenance and stores consumption		1,166,635	838,666
Rent, rates and taxes		130,424	113,028
Depreciation	16.1	991,926	896,521
Expenses on information technology		149,550	165,512
Stationery expenses		22,699	24,526
Communication		41,681	43,051
Quality assurance		129,902	115,572
Royalty and technical assistance fee		1,208,413	962,597
Others		207,644	181,858
		29,673,105	24,278,574
Decrease in work-in-process		5,029	117,434
Cost of goods manufactured		29,678,134	24,396,008
(Increase) / decrease in finished goods		(724,478)	431,559
Cost of goods sold – own manufactured		28,953,656	24,827,567
Cost of goods sold – purchased for resale		303,246	403,965
		29,256,902	25,231,532

26.1 Salaries, wages and amenities include Rs. 35.521 million (2008: Rs. 18.703 million) in respect of gratuity, Rs. 13.309 million (2008: Rs. 11.963 million) in respect of pension and Rs. 32.815 million (2008: Rs. 28.763 million) in respect of provident fund.

Notes to the Financial Statements
For the Year Ended December 31, 2009

	Note	2009	2008
		(Rupees in '000)	
27 Distribution and selling expenses			
Salaries, wages and amenities	27.1	913,600	760,227
Training		18,104	20,033
Rent, rates and taxes		73,196	81,287
Insurance		7,952	6,265
Freight outward		1,298,943	1,072,991
Depreciation	16.1	149,966	127,629
Sales promotion and advertisement		2,444,557	1,509,616
Legal and professional charges		12,303	5,373
Vehicle running and maintenance		14,116	16,974
Utilities		22,946	16,670
Repairs and maintenance		42,090	29,008
Subscription, stationery, printing and publication		9,689	9,768
Communications		17,158	13,765
Traveling, conveyance and vehicle running		104,735	94,081
Provision for doubtful debts		976	–
Expenses on information technology		19,838	28,371
Other expenses		88,319	98,294
		5,238,488	3,890,352

27.1 Salaries, wages and amenities include Rs. 35.673 million (2008: Rs. 25.888 million) in respect of gratuity, Rs. 16.343 million (2008: Rs. 9.649 million) in respect of pension and Rs. 33.212 million (2008: Rs. 29.878 million) in respect of provident fund.

	Note	2009	2008
		(Rupees in '000)	
28 Administrative expenses			
Salaries, wages and amenities	28.1	526,644	428,043
Training		36,835	20,003
Rent, rates and taxes		74,678	78,617
Insurance		3,246	2,591
Depreciation	16.1	71,047	69,744
Amortization	18	42,638	42,638
Legal and professional charges	28.2	26,128	22,722
Vehicles running and maintenance		7,948	9,138
Utilities		21,329	16,751
Repairs and maintenance		22,584	14,783
Subscription, stationery, printing and publication		10,832	11,126
Communications		36,274	36,778
Traveling and conveyance		45,078	43,214
Expenses on information technology		124,130	138,094
Other expenses		35,730	22,574
		1,085,121	956,816

28.1 Salaries, wages and amenities include Rs. 21.351 million (2008: Rs. 14.577 million) in respect of gratuity, Rs. 15.581 million (2008: Rs. 7.539 million) in respect of pension and Rs. 19.785 million (2008: Rs. 16.011 million) in respect of provident fund.

	Note	2009	2008
		(Rupees in '000)	
28.2 Legal and professional charges include the following in respect of auditors' services for:			
Statutory audit		500	460
Half yearly review		150	140
Services in connection with review and reporting of accounts to parent company auditors		25	25
Audit of accounts of staff retirement benefits		60	55
Other sundry certificates		12	12
Out of pocket expenses		135	128
		882	820
29 Finance cost			
Exchange loss on derivative financial liability		50,017	–
Mark-up on short term running finances – secured		111,024	202,264
Mark-up on short term borrowings – secured		16,086	73,484
Mark-up on loan from associated company		225,781	247,169
Bank charges		39,142	34,408
		442,050	557,325
30 Other operating expenses			
Workers Profit Participation Fund	13.1	224,826	119,629
Workers Welfare Fund		85,434	45,459
Donations	30.1	80,177	58,529
Loss on disposal of property, plant and equipment	30.2	61,100	–
Impairment loss on property, plant and equipment		195,063	56,000
Exchange loss		431,773	1,101,998
Others		12,776	523
		1,091,149	1,382,138
30.1 Donations			
Name of donee in which a director or his spouse has an interest:			
National Management Foundation (NMF), Defence Housing Authority, Lahore		40,000	40,000
(Syed Babar Ali, Director is also Chairman of NMF)			
		40,000	40,000

30.2 It includes amortization of loss on sale and lease back transaction for the year amounting to Rs.0.968 million (2008: 0.968 million).

Notes to the Financial Statements
For the Year Ended December 31, 2009

	2009	2008
	(Rupees in '000)	
31 Other operating income		
Income from non-financial assets		
Profit on disposal of property, plant and equipment	–	4,511
Sale of scrap	62,584	57,112
Others	81,561	177
	144,145	61,800
32 Taxation		
Current year		
Current	1,144,235	791,661
Deferred	212,612	(52,342)
	1,356,847	739,319
Prior year		
Current	(175,723)	(64,729)
	1,181,124	674,590

	2009	2008
	(%)	
32.1 Tax charge reconciliation		
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	21.14	34.02
Allowable for tax purposes	(20.69)	(32.70)
Effect of changes in prior years' tax/surcharge	(4.45)	(4.69)
Tax effect under presumptive tax regime	(3.03)	(3.13)
	(7.03)	(6.50)
Average effective tax rate charged to profit and loss account	27.97	28.50

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

		2009	2008
33 Earnings per share			
33.1 Basic earnings per share			
Profit after taxation available for distribution to ordinary shareholders	Rupees in '000	3,005,133	1,552,894
Weighted average number of ordinary shares	Number in '000	45,350	45,350
Basic earnings per share	Rupees	66.27	34.24

33.2 Diluted earnings per share

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

34 Transactions with related parties

The related parties comprise 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 37. Other significant transactions with related parties are as follows:

	2009	2008
	(Rupees in '000)	
Associated companies		
Royalty and technical assistance fee	1,098,558	894,838
Purchase of goods, services and rental	6,449,473	5,211,073
Sale of goods and services	–	1,856
Interest on foreign currency loan	336,805	225,781
Other related parties		
Contribution to staff retirement benefit plans	303,515	89,867
Donation to National Management Fund	40,000	40,000

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

	2009	2008
	(Rupees in '000)	
35 Cash generated from operations		
Profit before taxation	4,186,257	2,227,484
Adjustment for non-cash charges and other items:		
Depreciation	1,213,055	1,093,921
Amortization	42,638	42,638
Impairment loss on property, plant and equipment	195,063	56,000
Loss / (profit) on disposal of property, plant and equipment	61,100	(4,511)
Exchange loss on long term foreign currency loan	444,100	1,111,175
Provision for doubtful debts – net	75	–
Retirement benefits	137,778	89,638
Finance cost	399,783	557,325
Profit before working capital changes	6,679,849	5,173,670
Effect on cash flow due to working capital changes:		
(Increase) in stores and spares	(64,337)	(368,074)
(Increase) in stock in trade	(1,406,465)	(95,267)
Decrease / (increase) in trade debts	215,023	(112,760)
Decrease / (increase) in advances, deposits, prepayments and other receivables	6,635	(112,080)
Increase / (decrease) in trade and other payables	989,108	(263,842)
(Decrease) / increase in customer security deposits – interest free	(22,198)	3,312
	(282,234)	(948,711)
	6,397,615	4,224,959

Notes to the Financial Statements
For the Year Ended December 31, 2009

	Note	2009	2008
		(Rupees in '000)	
36 Cash and cash equivalents			
Cash and bank balances	24	315,770	419,327
Short term running finance under mark-up arrangements – secured		(756,362)	(1,924,287)
		(440,592)	(1,504,960)

37 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	
	2009	2008	2009	2008	2009	2008
	(Rupees in '000)		(Rupees in '000)		(Rupees in '000)	
Managerial	1,664	1,465	12,738	11,460	570,887	439,082
Bonus	–	–	8,151	4,561	155,925	71,041
Retirement benefits	–	–	–	–	104,789	79,234
Housing	–	–	2,660	2,753	16,331	13,411
Utilities	136	120	–	–	31,659	24,472
Reimbursable	623	539	3,522	6,784	99,551	73,151
	2,423	2,124	27,071	25,558	979,142	700,391
Number of persons	1	1	1*	1	365	291

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 (2008: Rs. Nil).

* Mr. Trevor Clayton resigned as the chief executive on September 30, 2009. The Board appointed Mr. Ian James Donald in his place to fill the casual vacancy in its meeting held on September 30, 2009.

	Capacity		Production	
	2009	2008	2009	2008
	(Rupees in '000)		(Rupees in '000)	
38 Capacity and production				
Liquid products – liters (000)	967,849	939,239	640,955	588,845
Non-liquid products – Kgs (000)	158,602	155,094	68,059	57,118

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

39 Segment reporting

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

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

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

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 procucts and cereals

–Beverages.
Juices & water

39.1 Segment analysis for the year ended 31 December

	Milk and Nutrition Products		Beverages		Other Operations		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
				(Rupees in '000)				
Sales								
External sales	35,559,121	29,575,157	5,225,797	4,194,323	370,904	414,367	41,155,822	34,183,847
Inter-segment sales	–	–	–		–		–	–
Total revenue	35,559,121	29,575,157	5,225,797	4,194,323	370,904	414,367	41,155,822	34,183,847
Depreciation and amortization	(1,012,096)	(928,126)	(236,686)	(204,943)	(6,911)	(3,490)	(1,255,693)	(1,136,559)
Profit/(loss) before tax and unallocated expenses	5,344,149	3,924,230	532,730	303,516	(106,505)	(66,599)	5,770,374	4,161,147
Unallocated corporate expenses								
Finance cost							(442,050)	(557,325)
Exchange loss on translation of foreign currency							(431,773)	(1,101,998)
Other operating expenses							(659,376)	(280,140)
Other operating income							144,145	61,800
Taxation							(1,181,124)	(674,590)
Other material non-cash items								
Impairment loss on property, plant and equipment	–	–	195,063	56,000	–	–	(195,063)	(56,000)
Profit after taxation							3,005,133	1,552,894
Segment assets	13,357,120	10,085,700	3,201,320	3,559,434	70,232	108,992	16,628,672	13,754,126
Unallocated assets							1,958,308	2,930,050
Total assets							18,586,980	16,684,176
Segment liabilities	3,377,808	2,640,721	576,007	481,989	33,381	34,983	3,987,196	3,157,693
Unallocated liabilities							10,172,829	9,137,636
Total liabilities							14,160,025	12,295,329
Segment capital expenditure	1,611,285	1,292,338	388,734	465,273	–	–	2,000,019	1,757,611
Unallocated capital expenditure							271,250	113,685
							2,271,269	1,871,296

39.2 Geographical segments

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

Notes to the Financial Statements
For the Year Ended December 31, 2009

40 Financial risk management

Financial risk factors

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

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

40.1 Market risk

a) Currency Risk

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

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

	Currency	2009	2008
		(Rupees in '000)	
Particulars			
Foreign currency bank accounts	US $	18,190	3,321
Cash in hand			
	US $	3,621	2,372
	EUR □	364	669
	CHF	–	780
		3,985	3,821
Receivables			
	US $	4,548	4,112
	CHF	–	4,610
	GB £	135	–
		4,683	8,722
		26,858	15,864
Less :			
Long term loan from associated undertaking	US $	(5,473,975)	(5,139,875)
Short Term Borrowing from associated company – unsecured	US $	(2,105,375)	–
Finance under mark-up arrangements	US $	(26,865)	(4,033)
Payables	US $	(696,374)	(143,284)
	EUR □	(180,849)	(4,723)
	CHF	(4,411)	(38,087)
	GB £	(2,840)	–
	SGP $	(1,200)	–
	AU $	(9,047)	–
	DKK	–	(119)
		(894,721)	(186,213)
		(8,500,936)	(5,330,121)
Net exposure		(8,474,078)	(5,314,257)

The following significant exchange rates were applied during the year:

	2009						
	US $	EUR □	CHF	GB £	SGP $	AU $	DKK
	Rupees per currency unit						
Average rate	81.46	115.34	77.56	125.36	57.09	65.07	15.46
Reporting date rate	84.22	121.38	81.69	135.24	60.00	75.39	16.25

	2008						
	US $	EUR □	CHF	GB £	SGP $	AU $	DKK
	Rupees per currency unit						
Average rate	70.39	100.85	64.48	118.13	48.79	54.44	13.50
Reporting date rate	79.08	111.46	70.93	113.76	54.76	54.57	14.89

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 would have been as follows:

	2009	2008
	(Rupees in '000)	
Effect on Profit and loss:		
US Dollar	538,191	343,076
Euro	11,732	263
Great Britain Pound	176	–
Singapore Dollar	78	–
Australian Dollar	588	–
Swiss Franc	287	2,126
Denmark Kroner	–	8
	551,052	345,473

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.

Notes to the Financial Statements
For the Year Ended December 31, 2009

c) Interest rate risk

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

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

	2009	2008
	(Rupees in '000)	
Variable rate instruments		
Long term Finances from associated undertaking – US $	(5,473,975)	(5,139,875)
Effective interest rate in %age	2.08	4.98
Short term borrowings from associated undertaking – US $	(2,105,375)	–
Effective interest rate in %age	1.83	–
Short term borrowings from local banks – PKR	(756,362)	(2,224,287)
Effective interest rate in %age	10.60	13.75

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 long term loans to subsidiaries and deposit bank balances, 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 2008 would have been effected as follows :

	2009	2008
	(Rupees in '000)	
Effect on Profit and loss	205,347	413,041

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

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

40.2 Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company's credit risk is primarily attributable to its 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:

	2009	2008
	(Rupees in '000)	
Particulars		
Long term loans	90,843	98,544
Long term deposits & prepayments	5,026	5,036
Current maturity of long term loans	21,012	26,615
Trade debts – domestic	241,714	456,313
Advances, deposits, prepayments and other receivable	1,528,223	1,488,104
Bank balance	311,691	415,014
	2,198,509	2,489,626
The aging of trade debts at the reporting date is:		
Past due 0 – 30 days	210,548	350,578
Past due 31 – 60 days	24,083	87,555
Past due 61 – 90 days	223	3,137
Past due 91 – 120 days	6,861	3,468
Past due 120 days	–	12,075
	241,715	456,813

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 historical information about counterparty default rate:

		Rating	
	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
Royal Bank of Scotland *	A1+	AA	PACRA

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.

* Royal Bank of Scotland has been placed on watch list by the State Bank of Pakistan and the most recent rating was carried out in November 2009.

Notes to the Financial Statements
For the Year Ended December 31, 2009

40.3 Liquidity risk

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

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

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

	Less than 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	258,890	497,472	–	–	–	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
	3,717,923	4,002,034	4,329,025	–	–	12,048,982
Derivative financial liability						
Forward exchange rate contract	42,267	–	–	–	–	42,267
	3,760,190	4,002,034	4,329,025	–	–	12,091,249

The following are the contractual maturity analysis of financial liabilities as at December 31, 2008:

	Less than 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	–	–	5,139,875	–	–	5,139,875
Short term borrowings under mark-up arrangement	1,184,522	739,765	–	–	–	1,924,287
Short term borrowings secured	300,000	–	–	–	–	300,000
Liability against assets subject to finance lease	26,429	27,613	177,582	–	–	231,624
Customer security deposits	127,884	–	–	–	–	127,884
Trade and other payables	2,512,477	–	–	–	–	2,512,477
Interest and mark-up accrued	46,979	–	–	–	–	46,979
	4,198,291	767,378	5,317,457	–	–	10,283,126
Derivative financial liability						
Forward exchange rate contract	–	–	–	–	–	–
	4,198,291	767,378	5,317,457	–	–	10,283,126

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.

41 Capital risk management

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

The Company's objectives when managing capital are:

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

ii) To provide an adequate return to shareholders.

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

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

Notes to the Financial Statements
For the Year Ended December 31, 2009

The debt-to-equity ratio as at December 31, 2009 and December 31, 2008 were as follows:

	2009	2008
	(Rupees in '000)	
Total borrowing	8,513,204	7,595,786
Total equity	4,426,955	4,388,847
Total Debt and equity	12,940,159	11,984,633
Debt-to-equity ratio	66:34	63:37

There was no major change in debt-to-equity ratio in 2009.

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

42 Date of authorization for issue

These financial statements were authorized for issue on February 09, 2010 by the Board of Directors.

43 Dividend

The Board of Directors in their meeting held on February 09, 2010 have proposed a final cash dividend for the year ended December 31, 2009 of Rs. 20 (2008: Rs. 25) per share, amounting to Rs. 906.992 million (2008: Rs. 1,133.74 million) for approval of the members at the Annual General Meeting to be held on March 25, 2010. These financial statements do not reflect this dividend.

44 General

44.1 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.

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

RAYMOND FRANKE 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 25, 2010 and at any adjournment thereof.

Signed under my/our hand this ______________ day of March, 2010.

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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