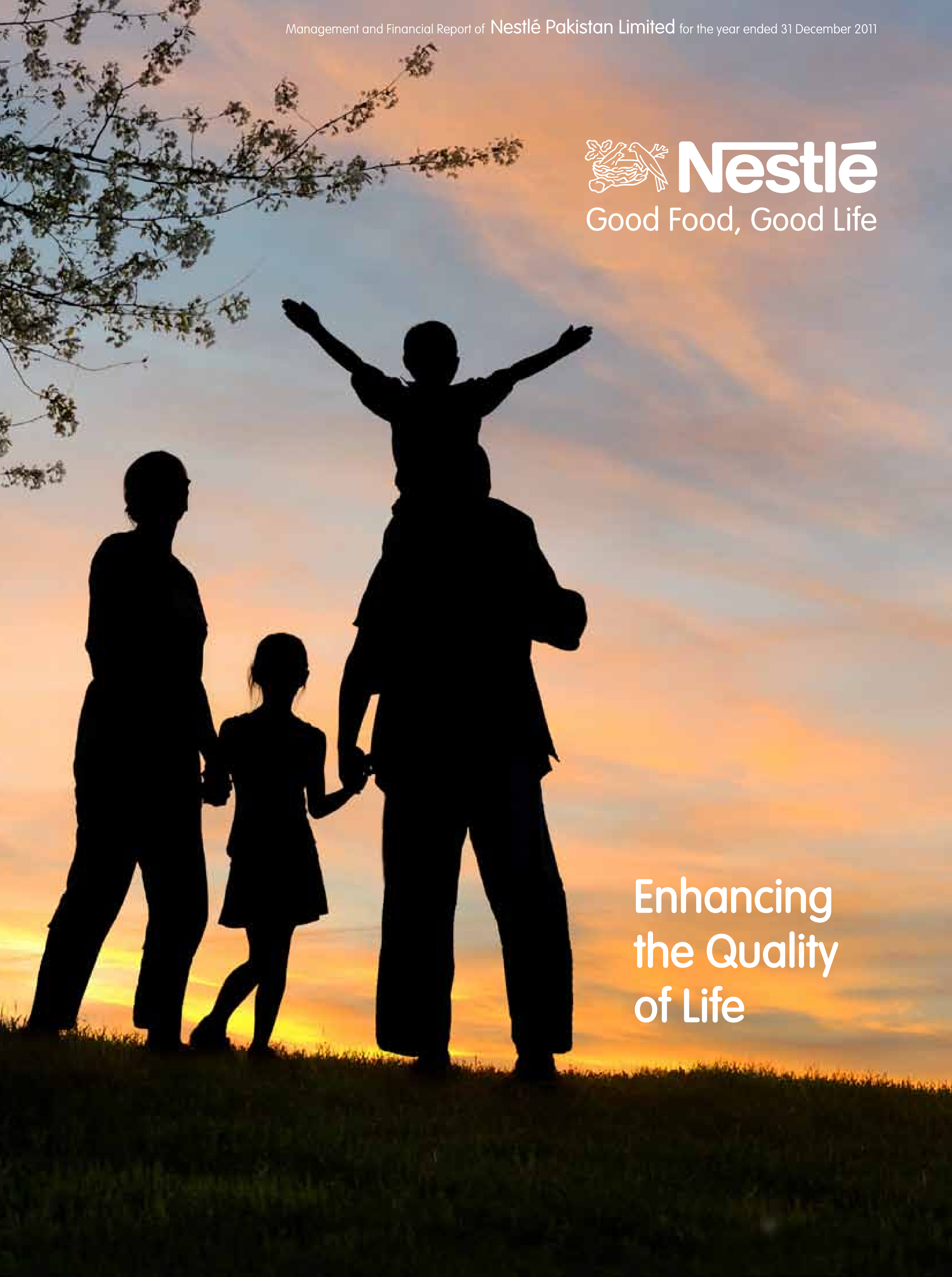
Management and Financial Report of Nestlé Pakistan Limited for the year ended 31 December 2011

Nestlé

Good Food, Good Life

Enhancing the Quality of Life



Our Vision

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

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

Our Mission

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

Our Ambition

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

Contents

Directors' Report to the Shareholders

Nestlé Pakistan has been successful over the years because of the dedication and passion of our people. To further strengthen this foundation we continue to give particular attention to our values and our guiding business principles. Empowerment, trust, transparency, hard work and unquestioned ethical behavior are some of our core values, and which remain at the heart of everything we do.

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

Financial Performance

Despite the energy crises, rapid price increases of fuel, electricity & gas, security concerns and high inflation, the Company continued to consistently perform recording a top line growth of 26%. Ongoing cost management and controlling initiatives have been taken to partially offset the negative impact of escalating input costs.

The turnover of the Company was fuelled by strong volume growth across all major product categories. Effective product mix management, strong innovation & renovation and focused investment behind our brands have remained the key elements for the growth achievement.

Inflationary pressures have continued to impact key commodities and input costs, in particular fresh milk, with an increase of +20% compared to the previous year. The Company continued to enhance its operational capabilities and expand its infrastructure aimed at accelerating procurement of good quality fresh milk to fulfill growing consumer demand.

Nestlé Pakistan remains committed to enhancing its product base by diversifying into new functionalities. Innovation & renovation remains an integral part of the Company's vision to positively enhance the quality of life through nutritious food and beverages. New product launches during 2011 included: MILKPAK powder milk, NESVITA powder milk, MILKPAK flavored milk, NESFRUITA juice and FITNESS breakfast cereal.

Summary Financial performance

PKR Million	2011	2010	Change
Sales	64,824	51,487	+26%
Gross Profit margin	25.8%	27.0%	-115 bps
Operating Profit margin	13.0%	13.3%	-25 bps
Net Profit margin	7.2%	8.0%	-80 bps
Net Profit	4,668	4,113	+13.5%
Earnings per share	102.94	90.69	+13.5%

Total sales for the year grew by 26% achieving PKR 64.8 billion. Real Internal Growth (RIG) and pricing equally contributed to the sales growth. Export sales increased by +30% to PKR 5.3 billion (2010: 4.1 billion) as we continue to develop our distribution in Afghanistan.

The rising input costs, in particular of fresh milk, sugar, fruit pulp, fuel and energy ,adversely affected our Gross Profit (GP) margin which reduced by 115 bps as compared to last year. The negative impact of input costs was partially offset by optimised product mix and fixed costs management initiatives which positively contributed by 90 bps.

During the year, the Company has invested PKR 8.9 bio in various projects related to capacity enhancement and infrastructure improvement. This, along with the increase in working capital, has led to additional borrowing resulting in higher financial costs. Despite all these challenges, the net profit of the Company increased by 13.5% versus last year.

Dividends

Keeping in view the good financial performance of the company, in addition to the interim dividends of Rs. 25 per share paid during the year, the Board of Directors has recommended to pay out a final cash dividend of Rs. 40 per share.

Investment Projects

Nestlé Pakistan believes in a market driven approach and stands committed to invest to satisfy our consumers' needs. Total investments in expansion & development projects for the year reached PKR 8.9 billion, with the most significant projects listed below:

Project Description

Project	PKR Million
Sheikhupura - Extension and Capacity increase	5,469
Kabirwala - Capacity Increase	1,586
Karachi Port Qasim – Capacity Increase	224
Sales Distribution & Infrastructure	849
Milk Collection - Field Development	812

As part of our long term strategy, some major investments, of approximately PKR 14 billion, are planned in 2012 for milk collection field development, upgrading of existing production facilities and increase in production capacity, ensuring that our high standards of quality and food safety processes continue to be our top priority.

Corporate Governance

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

Statement of Compliance with Code of Corporate Governance

The Directors confirm that:

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

b) Proper books of accounts of the listed 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 listed Company's ability to continue as a going concern.

g) There has been 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):

	2011	2010
Provident Fund	1,431	1,259
Gratuity Fund	639	501
Pension Fund	881	699

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

Directors' Report to the Shareholders

External Auditors

Messrs KPMG Taseer Hadi & Company, Chartered Accountants have completed their assignment for the year 2011 and retire at the conclusion of the 34th Annual General Meeting. Being eligible, they have offered themselves for re-appointment.

Human Resources Management & Employees Relations

Nestlé Pakistan has been successful over the years because of the dedication and passion of our people. To further strengthen this foundation we continue to give particular attention to our values and our guiding business principles .Empowerment, trust, transparency, hard work and unquestioned ethical behavior are some of our core values, and which remains at the heart of everything we do.

In this way we will continue to ensure that Nestlé Pakistan contributes positively to enhancing of the quality of life of the people of Pakistan.

Corporate Social Responsibility (CSR) And Community Work

Nestlé Pakistan Creating Shared Value (CSV) activities are focused towards enhancing the quality of life of people, with particular focus on Nutrition, Water and Rural Development. The Company philosophy remains to conduct business in an ethical and responsible manner bringing development to the areas where it operates. During 2011, the Company undertook several CSV initiatives focusing on the core areas related to nutrition, water and rural development and supporting the underprivileged communities for improving their livelihood. The company was also recognized by the Pakistan Centre of Philanthropy (PCP) for being amongst the top ten companies in Pakistan for corporate philanthropy. The total amount spent on CSR activities during 2011 is PKR 57.1 million. In addition to this the procurement of fresh milk for PKR 19.1 Bio in 2011 has directly contributed to the rural economy.

The key projects done during the year are:

- Enhancement of the Healthy Kids Programme from 2,500 to 25,000 students.
- New Building Block for the Drivers Safety Training Programme which will address 1,000 more drivers per year.
- New Water filtrations plant in Sheikhupura District and in Khanewal District.
- Supporting the Dairy and Rural Development Foundation training 16,000 farmers, including women for skills enhancement related to dairy & Livestock sector in three years time.
- Ongoing and further improved training and advisory support to rural communities related to dairy development in the field and at our Sarsabz and Sukheki training farms benefitting farmers, farm managers, dairy entrepreneurs and university interns.
- Ongoing flood relief program through various initiatives, with particular help to small dairy farmers.

Future Outlook

Despite the challenges being faced in the country, the management of the Company continues to have a long term optimistic outlook for our business. We are hopeful that economic prospects of the country will improve in the future. We remain confident in the strong potential of Pakistan fuelled by its growing and youthful population. Nestlé is committed to Pakistan and to bringing products of the highest quality that deliver nutrition, health and wellness to our consumers.

Acknowledgments

We take this opportunity to thank our valued customers and consumers who have trust in our products and continue to provide sustained support in ensuring the progress of the Company. The Company is also immensely proud of and thankful to employees for their committed and passionate efforts, loyalty and dedication. We greatly value the support and cooperation received from our esteemed suppliers, trading partners, bankers and all stake holders who are helping and contributing towards the continued growth of our Company and contributing to positively enhancing the quality of life of the people of Pakistan.

For and on behalf of the
Board of Directors

Ian J Donald
Chief Executive

Lahore: February 8, 2012

Night view of Nestlé Pakistan's Kabirwala Factory

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 an executive Chairman, Chief Executive/Managing Director, two executive and three 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 14, 2011	09:30 p.m.	Corporate Office, Lahore
April 15, 2011	10:00 a.m.	Corporate Office, Lahore
August 03, 2011	10:00 a.m.	Corporate Office, Lahore
October 24, 2011	10:00 a.m.	Corporate Office, Lahore

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

Name of Directors	Date of Appointment	No. of Meetings Attended	Remarks
Syed Yawar Ali	27-06-2010	4	
Edouard Simond	24-10-2011	1	
Frits van Dijk	27-06-2010	3	
Pierre Schaufelberger	27-06-2010	4	
Ian Donald	27-06-2010	4	
Syed Babar Ali	27-06-2010	1	
Syed Hyder Ali	27-06-2010	4	
Giuseppe Bonanno	27-06-2010	4	

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. Two members are non-executive directors and one member is executive director. 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 2011. 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.

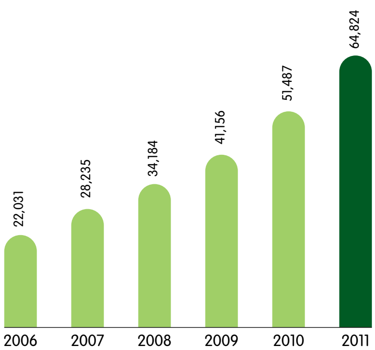
Strategic Planning

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).

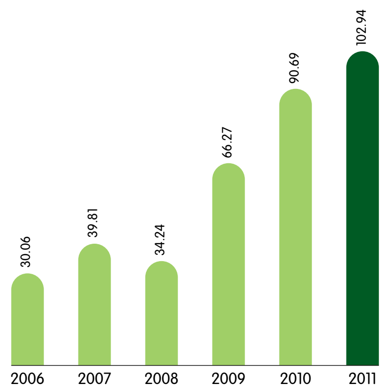
“We believe that transparent business practices and compliance are the foundation for long-term success of our businesses”

Company Performance 2011

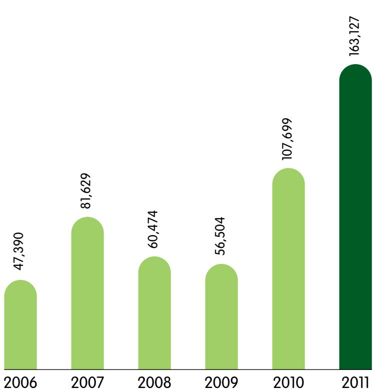
Sales
(Rs. in million)



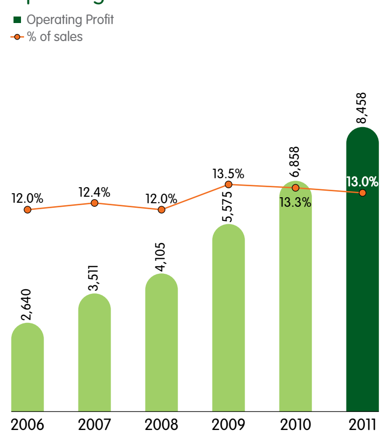
Earnings Per Share
(Rupees)



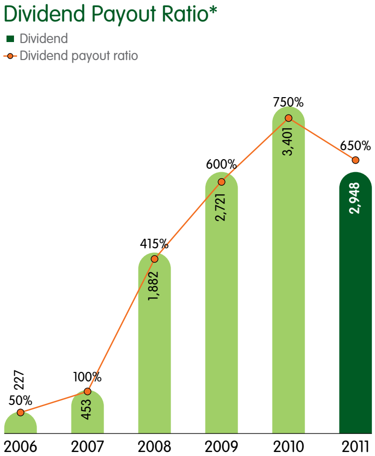
Market Capitalization
(Rs. in million)



Operating Profit & % of Sales

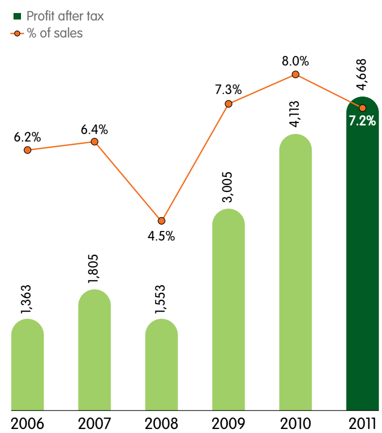


Dividend Payout Ratio*

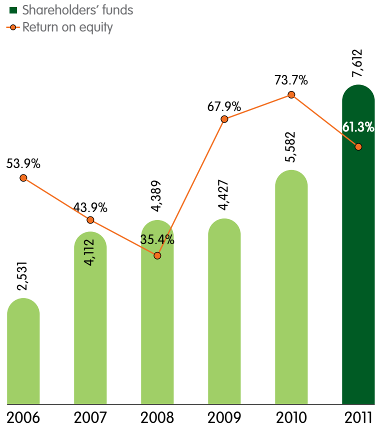


* Dividend paid/declared out of yearly profits

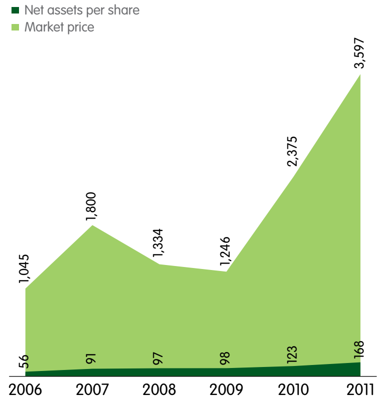
Profit After Tax and % of Sales



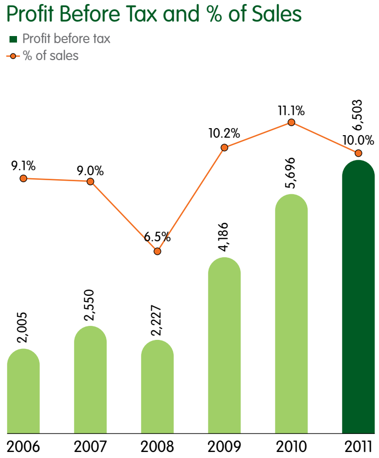
Shareholders' Funds & Return on Equity



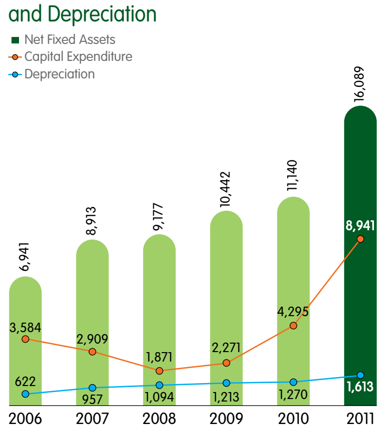
Market Price Per Share Vs. Net Assets Per Shaer



Profit Before Tax and % of Sales



Net Fixed Assets, Fixed Capital Expenditure and Depreciation



Statement of Wealth Creation and it's Distribution

(Rupees in 000)	2011		2010	
Weath Generated/ Value Added				
Turnover (including Sales tax)	69,645,620		55,204,254	
Less: Purchased materials and services	(51,462,135)		(40,664,409)	
Value Added	18,183,485		14,539,845	
Other Income	159,545		170,491	
Wealth Created	18,343,030	100%	14,710,336	100%
Weath Distribution				
To Employees:				
Salaries, benefits and other costs	4,277,554	23.3%	3,400,040	23.1%
To Government:				
Income tax, sales tax, excise & custom duty, WWF, WPPF	6,650,444	36.3%	5,200,434	35.4%
To Society and Development Initatives:				
Donations and CSR Projects	62,736	0.3%	87,196	0.6%
*Dairy Development (Non-business returns)	158,900	0.9%	127,400	0.9%
To Providers of Capital:				
Dividend to Shareholders	2,494,228	13.6%	2,947,724	20.0%
Mark-up/ interest expenses on borrowed funds	1,050,355	5.7%	513,081	3.5%
To Company:				
Depreciation, amortisation and retained profit	3,648,813	19.9%	2,434,461	16.5%
	18,343,030	100%	14,710,336	100%

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

Key Financial Data

Six Years at a Glance

(Rupees in million)	2011	2010	2009	2008	2007	2006
Trading Results						
Sales	64,824	51,487	41,156	34,184	28,235	22,031
Gross Profit	16,725	13,879	11,899	8,952	7,950	6,253
Operating Profit	8,458	6,858	5,575	4,105	3,511	2,640
Profit Before Tax	6,503	5,696	4,186	2,227	2,550	2,005
Profit After Tax	4,668	4,113	3,005	1,553	1,805	1,363
Balance Sheet						
Shareholders' Funds	7,612	5,582	4,427	4,389	4,112	2,531
Reserves	7,159	5,128	3,973	3,935	3,658	2,078
Operating Fixed Assets	16,089	11,140	10,442	9,177	8,913	6,941
Net Current Assets/Liabilities*	(3,352)	(1,396)	85	432	(325)	(288)
Long Term Liabilities*	10,821	7,622	7,399	7,043	5,788	5,481
Investor information for six years						
Gross Profit Ratio	26%	27%	29%	26%	28%	28%
Operating Profit Ratio	13%	13%	14%	12%	12%	12%
Profit Before Tax Ratio	10%	11%	10%	7%	9%	9%
Profit After Tax Ratio	7%	8%	7%	5%	6%	6%
Inventory Turnover Ratio	8.2 : 1	8.9 : 1	9.2 : 1	10.3 : 1	9.4 : 1	9.3 : 1
Total Assets Turnover Ratio	2.2 : 1	2.5 : 1	2.3 : 1	2.1 : 1	2 : 1	2 : 1
Price Earning Ratio	34.9	26.2	18.8	38.9	45.2	34.8
Return on Capital Employed	35.5%	43%	40%	20%	26%	26%
Market Value Per Share	3,597	2,375	1,246	1,334	1,800	1,045
Debt Equity Ratio	69 : 31	66 : 34	66 : 34	63 : 37	62 : 38	73 : 27
Current Ratio*	0.8 : 1	0.9 : 1	1 : 1	1.1 : 1	0.9 : 1	0.9 : 1
Interest Cover Ratio	7.2 : 1	12.1 : 1	10.5 : 1	5 : 1	5.4 : 1	5.5 : 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, 2011

No. of Shareholders	Shareholding From	Shareholding To	Total Shares Held
438	1	100	11,737
164	101	500	42,981
97	501	1,000	74,146
97	1,001	5,000	213,805
16	5,001	10,000	118,769
9	10,001	15,000	106,383
6	15,001	20,000	107,590
3	20,001	25,000	67,771
1	25,001	30,000	27,495
2	30,001	35,000	62,857
1	35,001	40,000	38,137
1	50,001	55,000	54,910
1	55,001	60,000	58,136
1	65,001	70,000	66,289
1	80,001	85,000	82,717
1	100,001	105,000	103,340
1	185,001	190,000	188,064
1	210,001	215,000	210,865
1	310,001	315,000	312,270
2	370,001	375,000	745,500
1	385,001	390,000	387,334
1	425,001	430,000	428,052
1	430,001	435,000	430,551
1	490,001	495,000	493,824
1	760,001	765,000	762,955
1	1,365,001	1,370,000	1,365,956
1	3,645,001	3,650,000	3,649,248
1	4,025,001	4,030,000	4,026,693
1	4,330,001	4,335,000	4,332,980
1	26,775,001	26,780,000	26,778,229
854		Total	45,349,584

Classification of Shares by Categories

As at December 31, 2011

Categories of Shareholders	Numbers	Shares Held	Percentage
Directors CEO/Spouse/Minors	5	2,028,153	4.47
Associated Cos.,Undertakings	5	35,545,078	78.37
NIT & ICP	1	103,340	0.23
Banks & Financial Institutions	5	456,833	1.01
Insurance Companies	5	36,348	0.08
Funds	28	43,368	0.10
Joint Stock Companies	21	6,228	0.01
Charitable Trust	4	17,125	0.04
Executives	11	468	0.00
Individuals	760	6,392,387	14.10
Foreign Investors	9	720,256	1.59
Others	-	-	-
Public Sectors Companies & Corporations	-	-	-
Shareholders' Holding 10%	-	-	-
Total	854	45,349,584	100.00

Key Shareholding and Shares Traded

Information on shareholding required under reporting framework is as follows:

1	**Directors, CEO and their spouses and minor children**	
	Syed Yawar Ali	23,220
	Mrs. Syeda Nighat Ali	60
	Syed Babar Ali	1,365,956
	Mrs. Perwin Babar Ali	210,865
	Syed Hyder Ali	428,052
2	**Associated Companies, undertakings and related parties**	
	Nestlé S.A.	26,778,229
	Packages Limited	3,649,248
	IGI Insurance Limited	4,332,980
	Gurmani Foundation	762,955
	Industrial Technical and Educational Institution	21,666
3	**NIT and ICP**	
	National Bank of Pakistan, Trustee Department, Trustee Wing Investment Corporation of Pakistan	103,340
4	**Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds**	536,549
5	**Details of purchase/sale of shares by Directors/Company Secretary and their spouses/minor children during 2011**	NIL

Statement of Compliance with the Code of Corporate Governance

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 three non-executive directors and four 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. One casual vacancy occurred during the year 2011, which was filled within thirty days of its occurrence.

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

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

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

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

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

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

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

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

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

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

15. The Board has formed an Audit Committee. It comprises three members, including the Chairman of the Committee. Two of them are non-executive directors and one is executive director.

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 08, 2012

Review Report to the Members on Statement of Compliance

with Best Practices of Code of Corporate Governance

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

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company the year ended 31 December 2011.

KPMG Taseer Hadi & Co.

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

Lahore February 08, 2012

Notice of Annual General Meeting

Notice is hereby given that the 34th Annual General Meeting of Nestlé Pakistan Ltd; will be held at 11:00 a.m. on Tuesday, March 27, 2012 at 309 – Upper Mall, Lahore, to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended December 31, 2011 together with the Directors' and Auditors' reports thereon.

2. To appoint Auditors and fix their remuneration for the year ending December 31, 2012. The present Auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants, retire and being eligible have offered themselves for reappointment.

3. To declare final dividend. The Directors have recommended the final dividend of 400% i.e. Rs. 40 per share for the year ended December 31, 2011. This is in addition to 250% already paid during the year 2011.

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

By order of the Board

Lahore
March 02, 2012

Giuseppe Bonanno
Company Secretary

Notes:

1. Share Transfer Books of the Company will remain closed from March 21, 2012 to March 27, 2012 (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 20, 2012 will be treated in time for entitlement of payment of dividend.

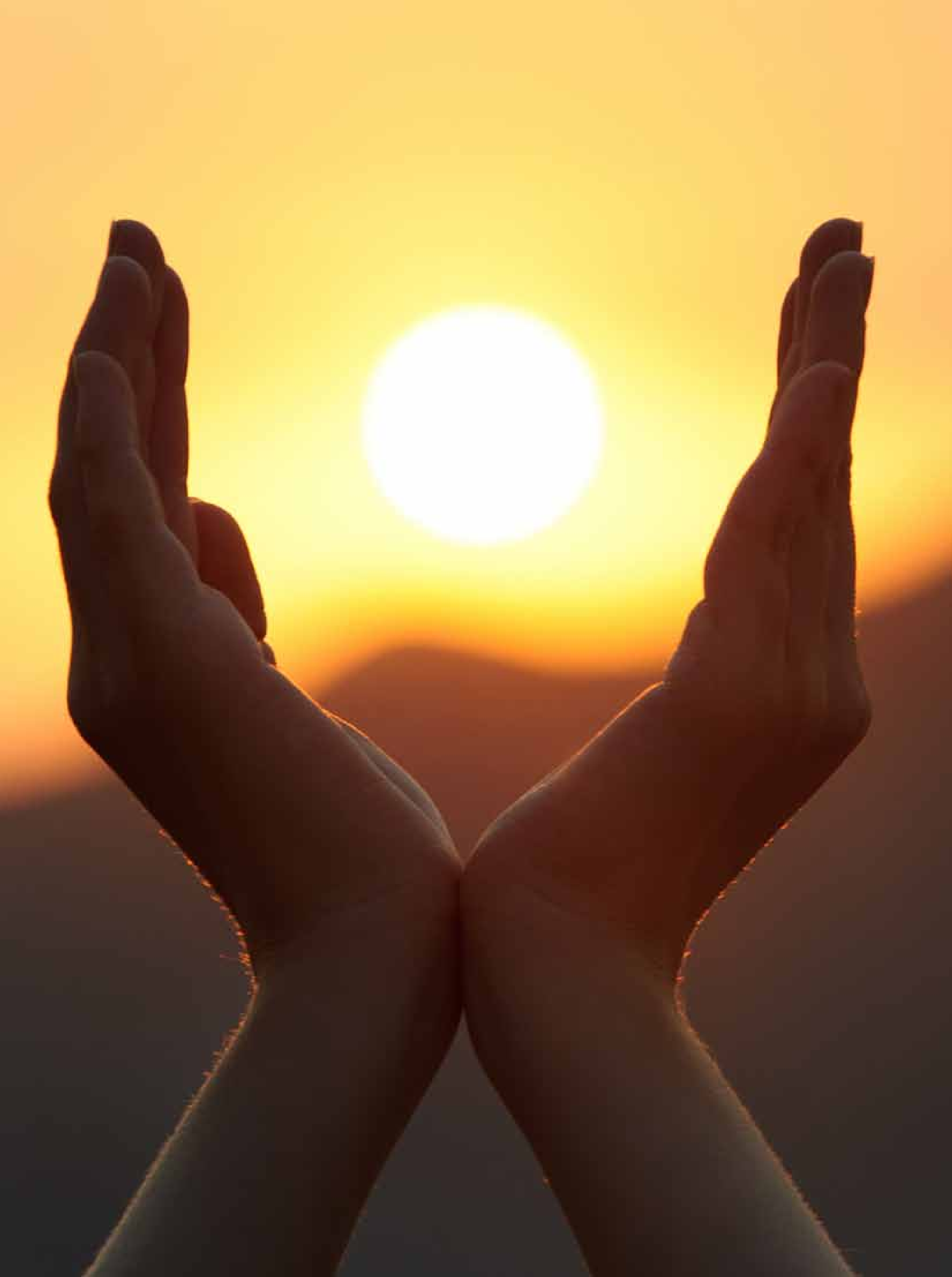
2. A member entitled to attend and vote at the General Meeting is entitled to appoint another member as proxy to attend and vote instead of him/her.

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

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

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

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



About Nestlé Pakistan Limited

In line with Nestlé's global philosophy, Nestlé Pakistan is proud of its commitment to excellence in product safety and quality and aims to be the leading Nutrition, Health and Wellness company.

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

Headquartered in Lahore, the Company operates four production facilities. Two of its factories in Sheikhupura and Kabirwala are multi product factories. One factory in Islamabad and one in Karachi produce bottled water. Through its 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.

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

Nestlé Pakistan now operates the biggest milk collection operation in Pakistan, Currently, Nestlé Pakistan collects milk from an estimated 190,000 farmers spread over 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, and continues to enhance the quality of life of people throughout its value chain.

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

The company's strategy is guided by Nestlé's Corporate Business Principles which are in line with internationally accepted best practices and ethical performance culture. Nestlé's existing products grow through innovation and renovation while maintaining a balance in geographic activities and product lines. Long-term potential is never sacrificed for short-term performance. The Company's priority is to bring the best and most relevant products to people, wherever they are, whatever their needs are, and for all age groups.

It is not a faceless corporation catering to faceless consumers, but is a human company providing a response to individual human needs. It respects the cultures of the countries it operates in and recognizes the need for quality of life of their people.

In line with Nestlé's global philosophy, Nestlé Pakistan is proud of its commitment to excellence in product safety and quality and aims to be the leading Nutrition, Health and Wellness company.

As a socially responsible corporate, we always focus on environment friendly operations, ethical business practices and our responsibility towards the communities.

Board of Directors
as on December 31, 2011

Name	Member	Nationality	Term Expires
Syed Yawar Ali	Chairman	Pakistani	26.06.2013
Ian Donald	Managing Director	South African	26.06.2013
Edouard Simond	Director	Swiss	26.06.2013
Pierre Schaufelberger	Director	Swiss	26.06.2013
Giuseppe Bonanno	Director	Italian	26.06.2013
Syed Babar Ali	Director	Pakistani	26.06.2013
Syed Hyder Ali	Director	Pakistani	26.06.2013

Audit Committee

Syed Hyder Ali
Chairman

Syed Babar Ali
Member

Edouard Simond
Member & Secretary

Officers

Ian J. Donald
Chief Executive

Giuseppe Bonanno
Chief Financial Officer and Company Secretary

Syed Muhammad Ahmed Qadri
Head of Internal Audit

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.
- 309 – Upper Mall,
  Lahore, Pakistan

Auditors

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

Share Registrar / Transfer Agent

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

Legal Advisors

Cheema & Ibrahim
Advocates

Bankers

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

Factories

Sheikhupura
29-Kilometer, Lahore-Sheikhupura Road,
Sheikhupura, Punjab, Pakistan.
Phone: (056) 3406615-29
Fax: (056) 3406639

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

Islamabad
Plot No. 32, Street No. 3,
Sector 1-10/3, Industrial Area,
Islamabad, Pakistan.
Phone: (051) 4445991-3
Fax: (051) 4445997

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

Regional Sales Offices

South Zone

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

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

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

Center Zone

Lahore
3-K, Commercial Plaza,
Model Town Extension,
Lahore.
Phone: 042-35916650-2
Fax: 042-35916752

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

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

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

North Zone

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

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

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

Management Committee

Front (L to R)

Amir Iqbal
Business Executive Manager, Ambient Dairy

Syed Fakhar Ahmed
Head of Corporate Affairs

Usman Iqbal Bhatti
Country Business Manager Waters

Shaheen Sadiq
Head of Communication

Edouard Simond
Head of Technical

Ian J. Donald
Managing Director

Abdullah Jawaid
Business Manager, Chilled Dairy

Nauman Khan
Country Business Manager, Nestlé Professional

Rizwan Yousuf
Country Business Manager, Nutrition

Faisal Akhtar Rana
Business Manager, Coffee, Milk Modifiers & Cereals

Zafar Hussain Shah
Head of Sales

Salman Nazir
Head of Supply Chain

Samra Maqbool
Business Manager, Culinary

Michel Juillerat
Head of Human Resource

Arsalan Khan
Business Manager, Beverages

Giuseppe Bonanno
Head of Finance & Control

Ali Sadozai
Head of Legal Affairs (not in picture/on assignment abroad)

Human Resource

Acknowledging people for their long service and commitment to the company

Group of young professionals portraying their team spirit and passion for their work

For Human Resources, 2011 was about strengthening our ongoing initiatives and giving a particular attention to our values and guiding principles prevailing within our organization's culture.

To pursue our journey towards living our values and guiding principles; opportunities were created to engage managers and their teams to discuss our vision and values. This led to increase awareness and understanding of the importance of these values at an individual and team level.

Focus was also given to industrial relations through awareness sessions conducted in all our factories for enhancing their understanding regarding labor laws and subsequent applications.

Our new performance management process got further embedded, encouraging employees towards high performance through strengthened goal alignment and discussions on achievements and development needs. Additionally, our talent management process went further down into the organization, to promote a vision of increased transparency and fair development opportunities.

With a mindset towards developing self awareness and continuous improvement, a comprehensive learning program surrounding concepts of coaching and feedback was rolled out. The program was well-received and laid foundations for a community dedicated to drive the desired mindset to all levels within the organization.

To ensure we are bringing the right talent and diverse workforce in the organization, we enlarged our presence on Universities campus across Pakistan, promoting career opportunities and our working environment.

With the very positive outcome of our ongoing function-focused trainee programs for Sales, Marketing, HR, Engineering and Supply Chain. We also introduced an additional trainee program in Milk Collection and Dairy Development for developing future generations of leadership in this area of our business.

To provide more transparency on learning opportunities, an online solution was developed, giving visibility to all employees on training programs as well as giving the history of their past training records.

To optimize synergies and to facilitate employees with an even more positive working environment, scattered department offices were brought under one Head Office campus. The enhanced accessibility has visibly strengthened the communication within our work environment.

In year 2011, Human Resources continued the momentum of focusing towards sustaining a high performance culture within Nestlé Pakistan. We enter 2012 with a desire to bring delightful employee experience in enhancing each and everyone's quality of life.

We are a team of dynamic, motivated, passionate and committed people – proud of our heritage and positive about the future.

Supply Chain

Supply Chain is committed to enhance its sustainability by improving efficiencies and effectiveness across our value stream. This focus has helped in reducing our operational cost and enhancing competitiveness. We are working to increase eco-efficiency and reduce our environmental footprint, ensuring a safer work place and better job-satisfaction. It means getting things right first time and it leads to higher quality products, improved customer relationships and happier consumers.

Putting the consumer at the centre of all our efforts, we have safely delivered 88 Mio cases in 2011, thus enabling wider and deeper distribution of Nestlé products. We have redesigned our route-to-market with a focus of ensuring 'one face to the customer' and aligned ourselves with evolving business strategies and objectives to support profitable growth.

We Make Nestlé

As part of our ongoing capability development we have finalized our future Supply Chain foot print. This will guarantee the required capacity to manage our operations till 2016.

We have also increased our focus on people development under the umbrella of "Nestlé Continuous Excellence" programme. This initiative emphasize on alignment, compliance and engagement at all levels to ensure sustainable performance.

The role of Procurement has become even more challenging with volume growth and higher complexity of business in this competitive environment. We have restructured our Procurement function in 2011 to address these challenges and enhance its ability to deliver competitive advantage.


Nestlé
NIDO


Short Term Actions Board < 48 hrs
Long Term Actions Board > 48 hrs


Nestlé
Juices


Nestlé
SUPPLIER
DAY

Technical

Inauguration of the new social block of Sheikhupura factory

Nestlé Pakistan has four production facilities, two of its factories at Kabirwala (KBF) and Sheikhupura (SKP) are multipurpose factories , where as a factory in Islamabad and one in Port Qasim produces bottled water. The Factory at Kabirwala is the largest milk intake plant in the Nestlé world.

2011 was a challenging year for the technical function; where we had to sustain all the good work done from previous years while ensuring continued growth of factories and the technical team. Highlight of the year was passing of "Nestlé Continuous Excellence (NCE)" assessment with an excellent result across the technical function. Audits for goal alignment, compliance and leadership development were cleared in flying colors. A monthly recognition program was also launched for many initiatives to acknowledge the dedicated efforts of our staff.

This journey of NCE has resulted in an overall improvement in safety and environmental compliance. New processes and projects will focus to further reduce the water and energy consumption in our factories. During the reporting period, our factories have delivered consistent high quality together with new product launches.

We have improved our facilities for providing better work environment and support for our people. This is done either by constructing new support facility and or by improving the existing ones. The key facilities include day care centers to take care of the children of the employees at site, improved canteens, new social block, laundry, lockers and training rooms.

We continue to invest in our infrastructure, e.g. the new social block top photo and high tech production facility second photo from above

Focusing on quality, tasting in progress

The committed team driving Nestlé Continuous Excellence programme (NCE) at Kabirwala factory

Technical

Celebrating 10 years of safe factory operations NESTLÉ PURE LIFE


NESTLÉ PURE LIFE Karachi factory team in focus showing their passion and team spirit

A number of expansion projects were undertaken at our production facilities to meet consumer demand. The key projects initiated during the year were at Port Qasim for NESTLÉ PUR LIFE (NPL), in Sheikhpura for dairy and in Kabirwala for food business.

The projects completed during the year are expansions for juices, dairy and waters at Sheikhupura factory and for liquid and ambient dairy in Kabirwala factory together with new technologies and processes installed to support new product development.

For employees, 2011 was a year where we put great emphasis on people engagement and learning. Several trainings were held, focusing on both technical and softer skills. External team building exercises and a change management workshops were also held.

Significant investment was also done to improve and expand our milk collection and dairy development operations.
This includes building new infrastructure, transportation mechanism and investment in improving our processes and capacities in the value chain.

F & C and Globe

2011 saw the successful implementation of the House of Finance (Specialist Services, Scalable Business Services, Decision Support and Co-piloting) which has provided us with a management framework to deliver the full capability of our F&C role across the organization, with the necessary speed and discipline in execution.

In addition we have also introduced the "Nestlé Continuous Excellence (NCE)" in F&C, which will further help in enhancing our operational efficiency throughout the organization, focusing on creating value for our Consumers and Customers, and to all our stakeholders.

More specifically, NCE in F&C focuses on optimization of cash flow.

The above activities will further enable F&C to deliver its mission which is "to drive sound business decision making and innovative planning to optimize profitable growth, cash flow and total return to share holders".

Similarly, Local GLOBE Organization (LGO) Pakistan is at the forefront of delivering Innovative Business Solutions, ensuring state of the art IT Infrastructure and smooth IS/IT operations. The mission of LGO is to "Provide Nestlé Pakistan a Sustainable Competitive Advantage, winning with Consumers and Customers while focusing on Business Processes and Waste Elimination"

One of our key initiatives in 2011 was to implement a strategic framework for sustained performance, housekeeping and compliance. The drivers of this strategy were to focus on being proactive, cultivating a root cause elimination mindset and building the knowledge base. This resulted in a significant reduction in the number of IS/IT incidents faced by our end user.

The 2011 Business Excellence Awards Ceremony was held on 14 November at our headquarters in Vevey. Nestlé Pakistan was among the top 5 companies, awarded for the Business Excellence Initiative of improving Demand Planning Accuracy of Nutrition Business. The annual GLOBE Business Excellence Awards are held to recognize the best Business Excellence Initiatives. Such initiatives are a testimony of how GLOBE is contributing to the success of our Business.

Milk Collection & Dairy Development

Farmers under training on best farms practices at our Sarsabz Training and Demonstration Farms

Nestlé Pakistan Milk Collection and Dairy Development Department is strongly committed to the development of the dairy sector in Pakistan and we place great importance on the training and development of all farmers, from the smallest to the largest. Our two large scale training farms (Sukkekhi and Sarsabz) are further testimony to our sincerity in this commitment. The Milk Collection and Dairy Development Department is delivering farm management training throughout the vast region from which we collect high quality milk. The training particularly emphasise on shed designing, technical assistance to farmers, loan facilitation, farm mechanization, health control method, breeding, feeding, training & development and best farm practices. In the past year more than 5,000 small farmers have participated in training events which focus on increasing productivity and milk quality through modern management practices. The training provided is free of cost. Real gains in farm profitability have been demonstrated and the rural population has benefited greatly from the Nestlé's initiatives. Nestlé is committed to improving rural livelihood through increased productivity per farm and per cow, thus enhancing rural incomes.

Today, Nestlé Pakistan procure milk from over 190,000 farmers spread over 146,000 square kilometers. The milk procurement does not only serves the business need, but also add significant value to the rural economy as the larger portion of milk is procured from small farmers and are directly paid on weekly basis, which enhances their household income and improve the livelihood of these farmers. The increase in milk volumes are a result of two way approach. One way is by developing and enhancing skills of the farmers in the existing areas, which enhances the animal yield through best farms practices and secondly by expanding milk collection operations in new regions with new infrastructure, milk chillers and collection mechanism.

Quality assurance remains the top priority at all levels throughout the milk value chain from collection to processing and before releasing the products in the market.

"Dairy Management Course" at Reaseheath Agriculture College UK

In 2011, a group of our Milk Collection and Dairy Development staff were sent to UK for a one month farm management training on dairy development. This initiative will bring in more knowledge and modernization in technical terms and the new skills will also be imparted through our specialized trainings on best farms practices to local farmers.

Nestlé Pakistan Dairy Executives on completion of "Dairy Management Course" at Reaseheath Agriculture College UK

Creating Shared Value

Nutrition as our top priority, the management closely monitors and support's the Nestlé Healthy Kids Progamme

For a company to be successful over time and create value for its shareholders, it must also create value for society. At Nestlé this is called "Creating Shared Value" (CSV). Given the nature of our activities and our ambition to be the world's leading Nutrition, Health and Wellness Company, Nestlé has identified three areas where it can optimize the creation of shared value – Nutrition, Water and Rural Development

In line with this global vision, and for "Enhancing the Quality of Life of People of Pakistan" Nestlé Pakistan continues to positively engage with farmers as well as rural and underprivileged communities in its area of operations.

Our inspiration is governed by the Nestlé Corporate Business Principals and also as a signatory to the UN Global Compact for Ethical Business, the company is committed to the stakeholders and the communities for mutual growth and sustainability.

From offering quality products to the consumers, to providing a fair and diverse work environment for our employees; from capacity building and knowledge transfer to our partners and raw material providers to implementing responsible sourcing models into our relationships; from supporting under privileged communities to working with small farmers; from enhancing sustainability and environmental friendliness of our operations to embedding ethical and transparent business practices, CSV is entrenched into the entire value chain. Based on strong foundations of compliance and sustainable business practices, this is our basic way of doing business.

Core areas of our CSV Focus

- **Nutrition**
- **Water**
- **Rural Development**

Key Projects Highlights 2011

Nutrition Support Programme

Nestlé Pakistan regularly provides company products, primarily milk to selected schools in urban, peri-urban and rural areas. The schools are selected after giving due consideration of the profile of the managing organization to ensure that the benefits of this program reach those who need and deserve it most and also the capacity of the company to outreach and resource availability. The initiative is geared to support school going children whose parents are unable to give milk to fulfill their nutritional needs. The program also supports organizations working with destitute women as well as social welfare organizations for sports, culture, special children and the disabled.

Nestlé Healthy Kids Global Programme

Nestlé Healthy Kids Programme

Developed in line with a global vision of Creating Shared Value focused on improving basic knowledge of nutrition and physical activity levels in children. The Nestlé Healthy Kids programme was expanded to reach 25,000 students across 30 schools in Pakistan in collaboration with Care Foundation, our implementing partner for the healthy kids project.

The program, launched in 2010 aimed to raise awareness related to nutrition, health and wellness of school going children from the age group of 06 yrs to 16 yrs through better understanding of the nutritional value of food items, importance of physical activity, healthy lifestyle and other key wellness measures such as basic hygiene.

The children of the Garage School are supported with Nestlé Milk on regular basis

The family that resides in the home constructed by Nestlé Pakistan in SOS Children's Village in Islamabad

SOS Children's Village

In the aftermath of the devastating 2005 Earthquake in the Northern Areas that rendered thousands of children homeless, Nestlé Pakistan extended support to the SOS Children's Village Pakistan. Under the agreement, Nestlé Pakistan sponsored the construction of a home and also contributed to the infrastructure of an academic block to facilitate the education of the inhabitants of the SOS children's Village in Islamabad. The process took over four years to complete due to multiple challenges but the company was determined to support the cause and remained committed to SOS village. The construction was completed in 2011. The academic block is also complete and is being utilized for the education needs of the children living in the SOS village.

Creating Shared Value

Water filtration plant at Sheikhupura district hospital donated by Nestlé Pakistan

Water tube well istalled by Nestlé and SDC for irrigation as part of flood relief activity

Farmer's support camp established in south Punjab for flood relief by Nestlé

Nestlé provides regular support to the Mountain Trust School at Changla Gali – the students today are committed to study and make a better future

Providing Clean Drinking Water to Rural Communities

Access to clean drinking water is a key development challenge for Pakistan. In addition to basic hygiene, clean drinking water is a key ingredient in safeguarding one's health and wellness. To support local community, Nestlé Pakistan inaugurated 4 water filtration plants in the year 2011. Located in Muzzaffargarh, Kot Addu, Khanewal, and Sheikhupura respectively, these pumps provide clean drinking water to approximately 25,000 people every day.

Flood Relief

In the wake of the floods in Sindh and the continuing catastrophe, Nestlé Pakistan helped flood affectees by providing food products to over 3,000 people. The relief efforts were coordinated through the provincial government, where Nestlé staff as volunteers crossed water inundated areas to deliver the relief goods. Nestlé Pakistan also collaborated with Swiss Agency for Development and Cooperation (SDC), where 17 villages were adopted for relief and rehabilitation in 2010 and the effort continued in 2011 for rebuilding their water resources and support for reviving their agriculture and dairy farming. The Company also provided medicines for animal health care and set up free veterinary camps to treat and vaccinate livestock, which is a key livelihood element for most of the flood affectees in Punjab and Sindh.

Training Drivers to promote Road Safety

As part of its continued commitment to enhance Drivers Safety through training, Nestlé Pakistan signed an agreement with the National Highways & Motorway Police for the expansion of the Driver Training Institute at Sheikhupura.

This is the fourth such round of support by Nestlé Pakistan to the drivers safety training institute. In the past Nestlé Pakistan has contributed significantly to the institute for construction of the Driver Training Track, Training Hall and a Driver Training Simulator.

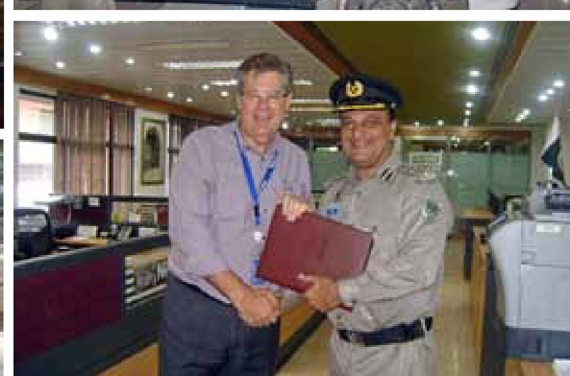
Lack of proper knowledge, awareness of safe driving practices and procedures is one of the major causes of accidents on the highway. The ongoing support of Nestlé Pakistan has allowed the Motorway Driver Training Institute to impart training to more than 6,000 drivers which include 1,500 drivers from Nestlé and more than 4,500 drivers from other organizations including unemployed youth providing them with better skills and future employment opportunities.

Supporting "Dairy Project" for Dairy Farmers Development:

Nestlé Pakistan signed an agreement for providing management and technical support to Dairy and Rural Development Foundation for their "Dairy Project". The project aims to train and develop 16,000 farmers including women in Artificial Insemination, Livestock Extension work and best farm practices. The added skills will bring in more income, more yield and sustainability for their dairy animals and will impact poverty alleviation – Hence "Enhancing the Quality of Life" for these small dairy farmers in rural perspective.


Provision of clean drinking water during flood relief


Nutrition support programme


Nestlé signed another agreement for the construction of the second block of driver safety programme in collaboration with National Highway and Motorway Police


Successfully trained lady livestock extension worker engaged as small entrepreneur in the value chain.

Creating Shared Value

Farmers being trained on silage making

Rural Development

We value the wellbeing of the communities from which we draw our agricultural raw materials and local labour. Through rural development, providing local employment and encouraging sustainable production practices, as well as purchasing directly from small-scale suppliers and intermediaries particularly in our dairy value chain. We not only seek to protect the supply and quality of our raw materials, but also to have a positive, long-term impact on the local economy and standards of living of rural people.

With a view to transfer knowledge and expertise to the local dairy farmers, we continue to operate two model training and demonstration farms at Okara & Sukheki where trained experts and professionals from Nestlé Dairy Development Department provide both theoretical and practical training to dairy farmers and livestock extension workers. Nestlé also works closely with various organizations in this regard.

Additionally, Nestlé Pakistan has undertaken various initiatives for the socio-economic development of the communities around its area of operations. Moreover, the company continues to facilitate academic and university support programmes for research and development as well as scholarships in the field of agriculture, livestock and food sciences.

Rural Development, particularly our engagement with farmers including women in our value chain is one of the key hallmarks of our creating shared value initiatives.

Consumer Communication

At Nestlé Pakistan we believe in keeping the consumer at the heart of every thing we do, thus our job as the communication team becomes more challenging as we work towards building brands that click with our consumers and delight them at every level.

This brand building journey has become even more exciting with the introduction of Brand Building the Nestlé Way (BBNW). We are now able to not only access and implement the best of Brand Building practices but also connect to the global Nestlé brand building community to share experiences and expertise.

The Consumer Insight and Market Research (CIMR) Unit continued to play a key role of being a strong service pillar to the various businesses. In 2011 it assisted businesses in getting required formal researches and also organized 265 consumer connects for cross functional teams to get a first hand understanding of our consumers. The key achievement of CIMR was a qualitative and quantitative study of the rural consumer giving a thorough insight into a population that forms the majority in Pakistan. Another major achievement was the setting up of the in-house Focus Group Room at 304, bringing our consumers to our world and giving us another opportunity to be able to see and hear them talking about their issues, their needs, their hopes and their dreams.

The Strategic Media Unit assisted businesses in transforming their big ideas into effective communication to our consumers and customers. Keeping in mind the consumers new found interest in digital media, Nestlé remained at the forefront of digital marketing. FRUITA VITALS, NESCAFÉ, NESTLÉ PURE LIFE, NESVITA and MAGGI involved and interacted with 646,179 consumers through Facebook.

In addition to using mass media touch points, Nestlé Pakistan continued its direct consumer interaction through its Consumer Contact team with an aim to educate and engage consumers. The education was focused on basic nutrition, health and wellness, identification of health needs along with generating awareness on Nestlé product portfolio including NESVITA, NIDO BUNYAD and MAGGI UMDA MAZA. The Consumer Contact team touched 442,323 consumers through activations conducted in house, in community centers, mohallas and various educational institutes.

Nestlé Pakistan has also been at the forefront of consumer care through its toll free number 0800-NAATA. Through this initiative we reaffirm our commitment to valuing our customer placing a high importance to listening to their feedback and suggestions. In each call that was received by NAATA it was ensured that the consumer felt satisfied after the interaction. For us this is a gateway to bridge the gap between us and the consumers by hearing them out through a human and caring interface.

Passionately aiming to engage with consumers and delighting them with recipes

Left below picture: the consumer communication team members show their passion and commitment to our consumers

Nutrition, Health and Wellness

In the picture: Nutrition training and awareness session in progress

In order to accelerate the realization of the company's ambition towards becoming the recognized leading Nutrition, Health and Wellness (NHW) Company, our activities in this pursuit are guided by and anchored upon the Nestlé culture, values and principles. In order to drive and support this ambition, NHW has three important dimensions, Pleasure, Balance and Understanding, reflecting our corporate promise of Good Food, Good Life. During 2011, our efforts continued towards the effective implementation of NHW-enabling tools, which are critical to drive our NHW vision.

Our People:

We ensure that our own people have the knowledge to take the right and healthy lifestyle decisions for themselves and their families. For this Nutrition Quotient (NQ) trainings achieved the milestone coverage of 100% permanent employees with the NQ Foundation Module in 2010. Ensuring adequate nutrition information to our employees is key to building strong foundations of a leading Nutrition, Health & Wellness Company.

In 2011, the NQ platform extended to include the Advanced and Specialist modules. The roll out to the product development and communication teams further increased their nutrition knowledge and shed light onto the NHW strategy for each business.

The launch of the NQ Foundation E-Learning module in 2011 proved to be a great tool to accelerate the NQ impact in the market. The module provided employees the convenience of learning basic nutrition at their workplaces and at a time suitable to them. A complete launch plan inspiring employees to complete the NQ E-Learning course was executed with the NimCom involvement at all sites.

Additionally, the NQ Poster Series launch in 2011, that made reach to employees at remote areas possible to equip them with nutrition knowledge.

NQ in the market is now being extended beyond Nestlé employees to their families as well. As a pilot project, a successful NQ event was conducted in 2011 for spouses.

Pictures: Nutrition awareness sessions in progress for embedding NHW in our business at all levels

The Nestlé Nutritional Compass TM (a vehicle to help consumers make informed choices) is on all our brand packaging.

Our nutritionally fortified offerings are now gaining share in the portfolio, in addition to MILKPAK and NIDO Bunyad, we now have our MAGGI Noodles and FLAVOUR World range fortified with iron as well. In addition, close liaison with manufacturing services and R&D continues to find solutions towards NF compliance where required. Focus is now encouraged towards finding the best benefits to offer that resonate perfectly with the consumer needs and the product category.

Communications:

Efforts continued towards improving the communication of our value added offerings to the consumer in a way that is most understandable and relevant to the benefits sought after. The challenge is to translate the message that stays consumer friendly and compliant with our policies and procedures.

Customers:

Leveraging Nutrition, Health and Wellness (NHW) as competitive advantage with customers and retailers

Living to its ambition to be positioned as the leading NHW reference, NHW workshops have been conducted nationwide for our key distributers, where an overview of the Nestlé NHW vision, strategies, Nestlé's global R&D expertise and the strong foundation of our product portfolio was shared. Nestlé Pakistan with a strong NHW portfolio has a great opportunity to educate customers about Nestlé product benefit areas. There was great involvement and discussion from all participants which brought much clarity on the Nestlé NHW vision and the product information.

Efforts continue to strongly embed the NHW strategies within businesses, using the right initiatives and tools to put the Nestlé Pakistan product portfolio on the right evolution track. We aim to become the preferred nutritional partner for all Pakistani consumers, providing for the nutritional needs and pleasure moments for more and more occasions.

Sales

2011 was another landmark year for the company. In line with Nestlé's global concept of making our brands available to our consumers. The company continued its momentum of sustainable growth by ensuring that consumers / shoppers of Pakistan have access to quality Nestlé brands across all relevant trade channels and geographical areas.

Our success has been made possible by a motivated sales team fully geared to make the most of the opportunities offered by the challenging environment of Pakistan and by an efficient distribution network that spans over 600 cities and small towns. A distributor sales force of more than 6000 people and over 1500 distributor's vehicles plays a vital role in ensuring that Nestlé brands remain among the most widely distributed brands of the industry.

Our robust distribution network was complimented by a strategy to modernize our business processes. We leveraged the resourcefulness offered by information technology as an effective business decision making tool and embarked upon the implementation of a fully integrated sales automation system. The system now covers all direct distributors and handling distributors and has opened new vistas of efficient planning and management right down to the product and shop level.

Our quest for deeper and wider distribution penetration in rural/semi urban centers continued in 2011. Building on the success of the bike and tri-wheeler operations that was launched in 2010 for our Popularly Positioned Product (PPP) portfolio, the scope of the activity was extended to several cities nationally in 2011. The operation has played a pivotal role in giving masses an access to affordable quality products.

Key Accounts

Collaborative working relationship with our customers and a mutually beneficial business development approach has been the winning concept behind our continuous growth with our key accounts in the modern trade channel. 2011 was another good year for excellent Point of Purchase activation and execution of shopper engagement events in key accounts. Nestlé' prominent position as the leading Nutrition, Health and Wellness Company was communicated in an innovative manner to the shoppers through events like Nestlé Corporate 'read the label and win' promotion and nutritional advice campaigns on brands like NESVITA.

Afghanistan

2011 was the year of many positives for the people of Afghanistan. While the security situation remained uncertain, reconstruction and rebuilding of infrastructure in Kabul and other urban centers and improvements in the education system were some of the key developments during the year. Despite challenges like increasing local and international competition, security of the team, currency fluctuations and inflation, Nestlé continued its position as the leading Nutrition, health and wellness company in Afghanistan. Our journey of enhancing the quality of life of people of Afghanistan continued, new consumer communications were developed in Afghanistan with Afghan models and channel activation in the key accounts was implemented. Furthermore, in order to further strengthen our non-dairy pillars we made some strategic changes in the Route To Market (RTM) that resulted into good results for our business.

Photos (2nd and 3rd from top): Nestlé Billboards of MILKPAK and Juices on display in market place Afghanistan.

Ambient Dairy

NESTLÉ MILKPAK

NESTLÉ MILKPAK, with a heritage of nearly three decades, holds strong brand equity with its consumers and enjoys market leadership in the UHT category. By virtue of being the only iron fortified all purpose milk in the category, MILKPAK is instrumental in helping alleviate iron deficiency in Pakistan and hence, is now being perceived as a superior brand standing out amongst its competition. Today MILKPAK is every home-makers partner in helping her strengthen her home. Recently the brand has been extended into a more affordable powder form as well, hence, providing the strength of iron across all socio-economic classes.

NESTLÉ NESVITA (Calcium Plus)

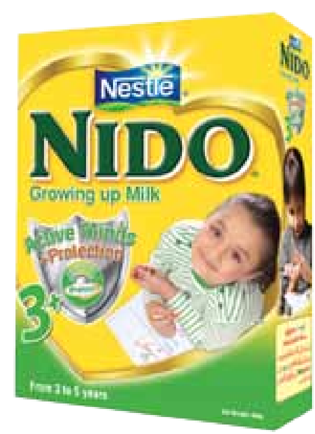
With growing interest and increasing trends towards healthier lifestyles, adult health and wellness solutions are gaining significance in the dairy category. NESTLÉ NESVITA Calcium Plus has grown this category and is the only brand to educate consumers on the importance of daily calcium intake. NESTLÉ NESVITA Calcium Plus aims to give young urban females the health and inner strength they need to move further in life. In the year 2011, NESVITA Calcium Plus has been launched in the more affordable powder form as well.

NESTLÉ NIDO Bunyad

NIDO expanded its family of offerings with the launch of NIDO BUNYAD in 2009. NIDO BUNYAD is for children between 1 to 12 years of age. This affordable proposition is targeted towards the mothers of children belonging to low income household so that despite challenging circumstances, they can still give the very best to their kids. Being fortified with iron and vitamin C, NIDO BUNYAD helps to overcome the problem of iron deficiency prevalent in the majority of Pakistani children.

NESTLÉ NIDO 1+

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



NESTLÉ NIDO 3+

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

NESTLÉ NIDO

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

NESTLÉ EVERYDAY

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

In light of the huge potential in the liquid tea creaming market, NESTLÉ EVERYDAY liquid has greatly capitalized on the stronghold of its powder offering, delivering great taste in tea.

MILKPAK Cream

MILKPAK Cream is our heritage brand and deeply entrenched in the minds and hearts of Pakistani and Afghani consumers. It is synonymous with our 'Mazaidar Rewayat" (Delicious Traditions).

NESTLÉ CREATIONS

NESTLÉ CREATIONS is a young and artistic brand which was created to inspire innovative, modern dessert making in urban consumers. It can also be eaten on its own, making ordinary foods into sweet & sumptuous occasions.

Chilled Dairy

NESTLÉ Rivayati Mazaa

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

NESTLÉ NESVITA (Pro-Bones Yogurt)

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

NESTLÉ Yogurt (Sweet 'n' Tasty)

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

NESTLÉ Raita

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

Infant Nutrition

2011 was another strong year for Nestlé Nutrition with strong contribution to Nestlé Pakistan business.

The key highlights are as follows.

Baby Food:

CERELAC showed remarkable performance with highest growth figures in 2011 over the past 5 years. This strong growth has resulted as a consequence of strong consumer demand resulting from heavy TV and radio airing, extensive outdoor presence, medical detailing, sampling through health care professionals and channel specific point of purchase solutions.

The communication centered on the big idea of "Inside Outside Protection" has worked exceptionally well to improve the brand value for the mothers. In addition to providing complete nutrition, CERELAC with Bifidus BL provides the much required protection and helps building their immunity.

* Infant Formula:

Apart from the baby food, Nestlé Pakistan also has an infant formula portfolio, which is prescribed by health care professionals only when there is a legitimate need.

2011 saw the renovation of our flagship brand LACTOGEN with the addition of Probiotics that help in relieving colic and constipation in infants that are not being breast fed. The choice of determining a legitimate need for Infant Formula usage lies with the Health Care Professional.

Similarly an innovative packaging format was introduced in premium offering of NAN with the addition of a separate compartment for Scoop storage thereby improving the product hygiene, safety and adding to convenience.

Preceding the above market launches dedicated training sessions were held for the medical detailing teams. Similarly launch sessions were organized Nestlé sales & distribution personnel.

Nestlé Nutrition Institute:

Nestlé Nutrition Institute (NNI) continued its activities from multiple platforms in 2011. NNI, a non-profit organization and runs separately from business, strives to enhance the quality of people's lives all over the world and fosters "Science for Better Nutrition" by facilitating the exchange of science-based nutrition with the health care professionals.

Many new members (health care professionals) were enrolled by NNI in 2011 with total number of NNI members from Pakistan now in excess of 5000. In addition, multiple clinical symposia on "Role of Probiotics in Infants & Children" and "Nutritional Management of Diarrhea" were conducted with health care professionals all across Pakistan. Finally, over 15,000 copies of multiple NNI publications including "The Nest" and multiple annales were distributed among the medical community.

With very strong brands and a healthy I&R pipeline, Nestlé Nutrition is looking forward to 2012 as another successful year.

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

Coffee

NESCAFÉ - the world's favorite coffee brand is synonymous with coffee in Pakistan. NESCAFÉ is the pioneer in coffee, with generations of loyal consumers throughout the world. We endeavor to continuously delight our consumers through the richness of our coffees and our global expertise in its production.

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

Beverages

NESTLÉ MILO

MILO is a key player in the flavored milks category and enjoys a strong equity with consumers. The brand is well recognized due to its unique chocolatey-malt taste and strong association to sports and energy. MILO's popularity transcends age-brackets as it is popular with both kids and adults who are looking for energy and taste. MILO stands for the champion spirit that inspires you to win on and off the sports field.

NESTLÉ MILKPAK Flavored Milk

In October 2011, Nestlé unveiled its new brand extension by adding NESTLÉ MILKPAK Flavored Milk, as the latest member of its family. Introduced in Mango and Strawberry flavors, the brand fortified with iron, vitamin A & C boasts the proud heritage of its parent brand. This development will not just strengthen the already existing NESTLÉ portfolio in the RTD category but will also help Nestlé compete in the flavored milk market alongside MILO.

Breakfast Cereals

NESTLÉ BREAKFAST CEREALS provide you and your family with a lifetime of wholesome breakfast nutrition. They are convenient, tasty and a nutritious way to start your (and your family's) day. All of our cereals are made with WHOLE GRAIN.

Kids Range:

NESTLÉ KOKO KRUNCH is a flagship brand in the kid's range. It takes kids on the ultimate chocolate experience which they love.

NESTLÉ MILO Cereal is a nutritious breakfast cereal. With its great MILO taste, it gives the confidence, energy and spirit to succeed in active life.

All-Family Range:

NESTLÉ CORNFLAKES is a modern nutritious cereal with whole grain corn, fortified with vitamins and minerals.

Adult Weight Management:

NESTLÉ FITNESSE

It's a Low fat whole wheat cereal which facilitates you to shape up your lifestyle. It helps you manage your weight & keep it off as it is made with delicious whole grain flakes and contains essential vitamins and minerals.

Confectionery

NESTLÉ KIT KAT

NESTLÉ KIT KAT, one of the world's leading chocolate brands, was launched in Pakistan in 1996. In 2006, responding to the evolving trends of the category, imports of KIT KAT were started. At present it is being sourced from United Kingdom and United Arab Emirates and is available in a range of sizes (Two Finger, Four Finger and CHUNKY). In 2010 KIT KAT dark, mint and orange was also introduced in the market to make further inroads into the expanding chocolate category in Pakistan. From 2011, KIT KAT was launched in Afghanistan to offer Afghan consumers uplifting breaks.

So HAVE A BREAK, HAVE A KIT KAT!

Juices

Adopting a healthy lifestyle is the emerging trend for today's informed consumers. By combining the natural goodness of fruits with delicious taste and convenience, Juices have the perfect lifestyle fit in consumer's demanding daily routine.

NESTLÉ FRUITA VITALS

FRUITA VITALS, Nestlé's premium range of fruit juices and nectars, aims to fulfill the need of health and wellness in the lives of today's young and dynamic consumers. NESTLÉ FRUITA VITALS juices are made from a variety of quality produce, chosen carefully from the gardens of the world. It is packed with the goodness of fruit for sustained energy and optimum functioning, giving our consumers the ultimate juice experience.

NESTLÉ NESFRUTA

NESFRUTA is Nestlé's affordable range of fruit drinks. Recently launched amidst an aura of anticipation, the brand with its light & refreshing taste aims to provide millions of fruity moments to consumers across Pakistan & Afghanistan.

Culinary

Being one of the dominant players in the instant noodles category for almost 2 decades, today MAGGI is successfully exploring new opportunities to propel future Business growth.

MAGGI Noodles

In 2011, MAGGI re-launched the instant noodles offering with Iron and Protein fortification while maintaining the Rs.15 price point. The Business results were outstanding and the year closed with very strong growth.

The new thematic campaign was launched to establish the Brand positioning "Naye Taur Mazay Bhi Aur" highlighting the health proposition: "Strength of Wheat, Protein & Iron". Well planned strategy was developed and used to maximize communication impact, such as TV airing, cooking segments on local cooking channels and multiple nation-wide consumer activations delighting our consumers at modern and traditional trade.

On digital front, Maggilicious Facebook page has an ever increasing number of fans, crossing 100,000. The very original and engaging consumer contents on Maggilicious and MAGGI YouTube are driving MAGGI brand to be among the leading digital culinary platforms in Pakistan.

MAGGI Umda Maza

After the very successful launch of MAGGI Umda Maza in Lahore in September 2010, the product was introduced in 3 additional cities in 2011, which helped establish and consolidate a strong base for this new category. The launch met with astounding internal passion, coupled with strong retailer and consumer response. Our main focus has been on strengthening what works along with championing new initiatives to drive trial efficiently.

MAGGI Umda Maza's launch has set a new benchmark in cross-functional alignment and flawless execution across Nestlé.

NESTLÉ PURE LIFE

Pakistan is the proud birth place of the NESTLÉ PURE LIFE brand as this is where this tremendously successful global brand was first launched in 1998. Today, NESTLÉ PURE LIFE is the world's number one brand with presence in 26 countries.

In 2011, the brand continued with the 'Khush Zaiqa Behtareen Pani' campaign to promote the pleasurable drinking experience of NESTLÉ PURE LIFE. Furthermore, in order to delight consumers, several promotions were offered throughout the year, to provide them value for money.

Our product and communications strategy of keeping the 'Consumer at heart' helped us in further strengthening consumer trust.

Nestlé Professional

Nestlé Professional aims to be an inspiring growth partner for its OOH operators and strives to deliver creative, branded food and beverage solutions, enabling the operators to innovate and delight their consumers.

Nestlé PROFESSIONAL Creative Food & Beverage Solutions

2011 was a very strong year for Nestlé Professional with robust volume growth and continuous improvement in the bottom line. The key contributing factors to the outstanding results was the business ability to offer a basket of products and solutions that fulfilled the requirements of the Out Of Home (OOH) operators. This was further enhanced by increasing numeric penetration, improving service levels, working on a strong customer loyalty programme and reaching out to new geographies.

Even though the rising cost of raw materials and high inflation put the business fundamentals under extreme pressure, the business was able to respond to those challenges by efficiently managing the portfolio mix and decreasing the cost to sell by adopting innovative ways of reaching out to the customers.

Financial Statements
Nestlé Pakistan Limited
For the year ended December 31, 2011

Financial Statements

Auditors' Report to the Members

We have audited the annexed balance sheet of Nestlé Pakistan Limited ("the Company") as at December 31, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

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

b) in our opinion:

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

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2011 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 08, 2012

Balance Sheet

As at 31 December 2011

	Note	2011	2010
			(Rupees in '000)
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized capital			
75,000,000 (2010: 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		6,629,393	4,598,850
		7,612,416	5,581,873
Non current liabilities			
Long term finances	5	7,848,050	5,573,750
Deferred taxation	6	2,476,871	1,705,508
Retirement benefits	7	440,377	229,114
Liabilities against assets subject to finance lease	8	13,690	55,415
		10,778,988	7,563,787
Current liabilities			
Current portion of non current liabilities	9	41,587	57,786
Short term borrowings from associated company - unsecured	10	-	2,143,750
Short term borrowings - secured	11	4,950,000	-
Short term running finance under mark-up arrangements - secured	12	4,175,236	2,780,843
Customer security deposits - interest free		149,791	128,857
Trade and other payables	13	7,343,507	4,633,932
Interest and mark-up accrued	14	128,334	61,404
		16,788,455	9,806,572
CONTINGENCIES AND COMMITMENTS	15		
		35,179,859	22,952,232

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

Balance Sheet

As at 31 December 2011

	Note	2011	2010
			(Rupees in '000)
ASSETS			
Tangible fixed assets			
Property, plant and equipment	16	16,230,528	11,370,611
Capital work-in-progress	17	5,370,561	3,076,472
		21,601,089	14,447,083
Intangible assets	18	11,954	16,735
Long term loans and advances	19	161,982	125,674
Long term security deposits		9,817	9,817
Current assets			
Stores and spares	20	1,278,416	1,050,804
Stock in trade	21	7,064,170	4,602,019
Trade debts	22	276,858	126,499
Current portion of long term loans and advances	19	30,914	19,149
Advances, deposits, prepayments and other receivables	23	4,042,634	2,048,936
Cash and bank balances	24	702,025	505,516
		13,395,017	8,352,923
		35,179,859	22,952,232

GIUSEPPE BONANNO
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Profit and Loss Account

For the year ended 31 December 2011

	Note	2011	2010
			(Rupees in '000)
Sales - net	25	64,824,364	51,487,302
Cost of goods sold	26	(48,099,046)	(37,608,733)
Gross profit		16,725,318	13,878,569
Distribution and selling expenses	27	(6,862,113)	(5,709,078)
Administration expenses	28	(1,405,298)	(1,311,637)
Operating profit		8,457,907	6,857,854
Finance cost	29	(1,050,355)	(513,081)
Other operating expenses	30	(1,064,233)	(819,084)
		(2,114,588)	(1,332,165)
Other operating income	31	159,545	170,491
Profit before taxation		6,502,864	5,696,180
Taxation	32	(1,834,507)	(1,583,331)
Profit after taxation		4,668,357	4,112,849
Earnings per share - basic and diluted (Rupees)	33	102.94	90.69

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

GIUSEPPE BONANNO
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Comprehensive Income

For the year ended 31 December 2011

	2011	2010
		(Rupees in '000)
Profit after taxation	4,668,357	4,112,849
Other comprehensive loss:		
Actuarial losses recognized directly in the equity	(220,901)	(15,703)
Tax on actuarial losses recognized directly in the equity	77,315	5,496
Other comprehensive loss for the year, net of tax	(143,586)	(10,207)
Total comprehensive income for the year	4,524,771	4,102,642

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

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

Cash Flow Statement

For the year ended 31 December 2011

	Note	2011	2010
			(Rupees in '000)
Cash flow from operating activities			
Cash generated from operations	35	8,384,781	7,618,810
Increase in long term security deposits		-	(4,791)
Increase in long term loans and advances		(48,073)	(10,321)
Retirement benefits paid		(92,103)	(137,122)
Finance cost paid		(983,425)	(498,656)
Taxes paid		(1,776,948)	(1,518,903)
Net cash generated from operating activities		5,484,232	5,449,017
Cash flow from investing activities			
Fixed capital expenditure		(8,940,862)	(4,295,328)
Purchase of intangible asset		-	(19,126)
Sale proceeds of property, plant and equipment		111,945	41,654
Net cash (used in) investing activities		(8,828,917)	(4,272,800)
Cash flow from financing activities			
Proceeds from long term finances		2,000,000	-
Repayment of short term borrowings from associated company-unsecured		(2,252,000)	-
Proceeds from short term borrowings - secured		4,950,000	-
Payment of finance lease liabilities		(57,924)	(64,291)
Dividend paid		(2,493,275)	(2,946,661)
Net cash generated from/(used in) financing activities		2,146,801	(3,010,952)
Net decrease in cash and cash equivalents		(1,197,884)	(1,834,735)
Cash and cash equivalents at beginning of the year		(2,275,327)	(440,592)
Cash and cash equivalents at end of the year	36	(3,473,211)	(2,275,327)

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

GIUSEPPE BONANNO
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital	Capital reserve: Share premium	Revenue reserve: General reserve	Revenue reserve: Accumulated profit	Total
					(Rupees in '000)
Balance as at 31 December 2009	453,496	249,527	280,000	3,443,932	4,426,955
Final dividend for the year ended 31 December 2009 (Rs. 20 per share)	-	-	-	(906,992)	(906,992)
Interim dividend for the six months period ended 30 June 2010 (Rs. 20 per share)	-	-	-	(906,992)	(906,992)
Interim dividend for the nine months period ended 30 September 2010 (Rs. 25 per share)	-	-	-	(1,133,740)	(1,133,740)
Total comprehensive income for the year	-	-	-	4,102,642	4,102,642
Balance as at 31 December 2010	453,496	249,527	280,000	4,598,850	5,581,873
Final dividend for the year ended 31 December 2010 (Rs. 30 per share)	-	-	-	(1,360,488)	(1,360,488)
Interim dividend for the nine months period ended 30 September 2011 (Rs. 25 per share)	-	-	-	(1,133,740)	(1,133,740)
Total comprehensive income for the year	-	-	-	4,524,771	4,524,771
Balance as at 31 December 2011	453,496	249,527	280,000	6,629,393	7,612,416

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

GIUSEPPE BONANNO
Head of Finance and Control

IAN J. DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Notes to the Financial Statements

For the year ended 31 December 2011

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 Karachi and Lahore Stock Exchanges. The principal activity of the Company is manufacturing, processing and sale of food products (dairy, confectionery, culinary, coffee, beverages, infant nutrition and drinking water). Registered office of the Company is situated at Babar Ali Foundation Building, 308-Upper Mall, Lahore.

2 Summary of significant accounting policies

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

2.1 Basis of preparation and statement of compliance

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

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except for recognition of certain employee benefits at present value and recognition of certain property, plant and equipment at recoverable amount. The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

2.3 Financial instruments

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

Notes to the Financial Statements

For the year ended 31 December 2011

2.4 Derivative financial instruments

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

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

2.5 Financial liabilities

Financial liabilities are classified according to substance of contractual arrangements entered into. Significant financial liabilities include short and long term borrowings, trade and other payables.

Interest bearing borrowings

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

Other financial liabilities

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

2.6 Offsetting of financial assets and financial liabilities

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

2.7 Impairment losses

Financial assets

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

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

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

Non financial assets

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

Notes to the Financial Statements

For the year ended 31 December 2011

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

Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets of the unit on a pro-rata basis.

2.8 Taxation

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

Current

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

Deferred

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

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

2.9 Retirement benefits

Defined benefit plan

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

Defined contribution plan

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

Notes to the Financial Statements

For the year ended 31 December 2011

2.10 Leases

Operating leases

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

Finance leases

Leases in terms of which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets, less accumulated depreciation and any identified impairment loss.

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

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

Assets acquired under a finance lease are depreciated over the estimated useful life of the asset on a straight-line method at the rates given in note 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.

2.11 Trade and other payables

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

2.12 Dividend

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

2.13 Provisions

Provisions are recognized in the balance sheet when the Company has a legal or constructive obligation as a result of past events and it is probable that outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.14 Fixed capital expenditure and depreciation/amortization

Property, plant and equipment

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

Depreciation is charged to income, unless it is included in the carrying amount of another asset, on straight line method whereby cost of an asset is written off over its estimated useful life at the rates given in note 16.

Notes to the Financial Statements

For the year ended 31 December 2011

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.

2.15 Inventories

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

Store and spares

Useable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Stock in trade

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

Stock in transit is valued at cost comprising invoice value plus other charges paid thereon.

Net realizable value is the estimated selling price in ordinary course of business less estimated costs of completion and selling expenses.

Raw and packing material

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

2.16 Trade debts and other receivables

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

Notes to the Financial Statements

For the year ended 31 December 2011

2.17 Revenue recognition

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

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

2.18 Foreign currencies

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

2.19 Borrowing cost

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

2.20 Related Party transactions

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

2.21 Cash and cash equivalents

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

2.22 Segment reporting

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

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the

Notes to the Financial Statements

For the year ended 31 December 2011

carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statenments of the Company.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.

- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

Notes to the Financial Statements

For the year ended 31 December 2011

- IFRIC 20 - Stripping cost in the p.roduction phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.

3 Issued, subscribed and paid up capital

2011	2010		2011	2010
	(Number of shares)			(Rupees in '000)
29,787,058	29,787,058	Ordinary shares of Rs. 10 each as fully paid in cash	297,870	297,870
		Ordinary shares of Rs. 10 each		
15,476,867	15,476,867	as fully paid bonus shares	154,769	154,769
		Ordinary shares of Rs. 10 each issued for		
85,659	85,659	consideration other than cash	857	857
45,349,584	45,349,584		453,496	453,496

As at 31 December 2011, Nestlé S.A. Switzerland, the holding company, holds 26,778,229 (2010: 26,778,229) ordinary shares of the Company. In addition, 8,766,849 (2010: 8,761,429) ordinary shares are held by the following related parties as at 31 December:

	2011	2010
		(Rupees in '000)
Name of related party:		
IGI Insurance Limited	4,332,980	4,327,560
Percentage of equity held 9.6% (2010: 9.5%)		
Packages Limited	3,649,248	3,649,248
Percentage of equity held 8.0% (2010: 8.0%)		
Gurmani Foundation	762,955	762,955
Percentage of equity held 1.7% (2010: 1.7%)		
Industrial Technical and Educational Institution	21,666	21,666
Percentage of equity held 0.05% (2010: 0.05%)		
	8,766,849	8,761,429

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.

		2011	2010
			(Rupees in '000)
5 Long term finances			
Long term finances utilized under mark up arrangements:			
Related party - Unsecured			
Associated company - Foreign currency	5.1	5,848,050	5,573,750
From banking companies - Secured	5.2	2,000,000	-
		7,848,050	5,573,750

Notes to the Financial Statements

For the year ended 31 December 2011

Terms of repayment

5.1 This represents US$ 65 million unsecured loan from Nestlé Treasury Centre Middle East and Africa Limited, Dubai - a related party. This loan was rescheduled in 2010. Under the revised terms, US$ 15 million is now payable in December 2015 and the balance of US$ 50 million is due in May 2016. Mark-up is payable semi annually at 6 months average LIBOR plus 150 basis points. The outstanding balance as at 31 December 2011 has been converted into PKR at the rate prevailing on the balance sheet date.

5.2 The Company has obtained a loan facility from Allied Bank Limited amounting to Rs. 2 billion. The loan will be repaid on maturity at 30 June 2013. Mark up is payable quarterly at 2 years KIBOR plus 35 basis points. The loan is secured by charge over present and future plant & machinery of the Company to the extent of Rs. 2 billion.

		2011	2010
			(Rupees in '000)
6 Deferred taxation			
This is composed of:			
Liability for deferred taxation comprising temporary differences related to:			
Accelerated tax depreciation		2,698,568	1,861,680
Others		(221,697)	(156,172)
		2,476,871	1,705,508
7 Retirement benefits			
Pension fund	7.1	210,318	83,310
Gratuity fund	7.1	230,059	145,804
		440,377	229,114

	Gratuity		Pension	
	2011	2010	2011	2010
				(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	868,980	646,990	1,090,883	782,220
Fair value of plan assets	(638,921)	(501,186)	(880,565)	(698,910)
Total employee benefit obligation	230,059	145,804	210,318	83,310
7.2 Movement in net obligation				
Net liability as at 01 January	145,804	119,368	83,310	96,557
Charge to profit and loss account	92,626	74,911	67,154	65,193
Actuarial losses/ (gains) recognized in equity	89,016	34,695	131,885	(18,992)
Contribution made by the employees	-	-	32,068	25,595
Contribution made by the Company	(97,387)	(83,170)	(104,099)	(85,043)
	230,059	145,804	210,318	83,310

Notes to the Financial Statements

For the year ended 31 December 2011

	Gratuity		Pension	
	2011	2010	2011	2010
				(Rupees in '000)
7.3 Movement in the liability for funded defined benefit obligations				
Liability for defined benefit obligations as at 01 January	646,990	512,304	782,220	651,918
Benefits paid by the plan	(28,392)	(22,755)	(16,103)	(15,661)
Current service costs	73,671	60,587	88,391	69,599
Interest cost	84,109	61,476	101,689	78,230
Vested past service cost due to pension indexation	-	-	-	9,602
Actuarial losses/(gains) on present value of defined benefit obligations	92,602	35,378	134,686	(11,468)
Liability for defined benefit obligations as at 31 December	868,980	646,990	1,090,883	782,220
7.4 Movement in fair value of plan assets				
Fair value of plan assets as at 01 January	501,186	392,936	698,910	555,361
Contributions paid into the plan	97,387	83,170	104,099	85,043
Benefits paid by the plan	(28,392)	(22,755)	(16,103)	(15,661)
Expected return on plan assets	65,154	47,152	90,858	66,643
Actuarial gains on plan assets	3,586	683	2,801	7,524
Fair value of plan assets as at 31 December	638,921	501,186	880,565	698,910
7.5 Plan assets consist of the following:				
Equity instruments	118,921	44,872	161,310	41,852
Debt instruments	463,119	377,423	680,252	581,086
Cash and other deposits	56,881	78,891	39,003	75,972
	638,921	501,186	880,565	698,910
7.6 Salaries, wages and amenities include the following in respect of retirement and other benefits:				
Interest cost for the year	84,109	61,476	101,689	78,230
Current service cost	73,671	60,587	88,391	69,599
Vested past service cost due to pension indexation	-	-	-	9,602
Expected return on plan assets	(65,154)	(47,152)	(90,858)	(66,643)
Contribution made by the employees	-	-	(32,068)	(25,595)
	92,626	74,911	67,154	65,193
7.7 Charge for the year has been allocated as follows:				
Cost of goods sold	39,851	28,904	21,208	19,510
Distribution and selling expenses	32,036	28,756	22,451	23,233
Administration expenses	20,739	17,251	23,495	22,450
	92,626	74,911	67,154	65,193
7.8 Actual return on plan assets	68,740	47,835	93,659	74,167

Notes to the Financial Statements

For the year ended 31 December 2011

	Gratuity		Pension	
	2011	2010	2011	2010
				(Rupees in '000)
7.9 Actuarial gains and (losses) recognized directly in the equity				
Cumulative amount at 01 January	(226,306)	(191,611)	(103,780)	(122,772)
(Losses)/ gains recognized during the year	(89,016)	(34,695)	(131,885)	18,992
Cumulative amount at 31 December	(315,322)	(226,306)	(235,665)	(103,780)

	2011	2010	2009	2008	2007
					(Rupees in '000)
7.10 Historical Information for Gratuity plan					
Present value of defined benefit obligation	868,980	646,990	512,304	429,967	349,287
Fair value of the plan assets	(638,921)	(501,186)	(392,936)	(178,223)	(215,678)
Deficit in the plan	230,059	145,804	119,368	251,744	133,609
Experience adjustments arising on plan liabilities	(92,602)	(35,378)	7,569	(9,414)	(14,219)
Experience adjustments arising on plan assets	3,586	683	21,458	(97,930)	19,175

The Company expects to pay Rs. 115.940 million in contributions to gratuity fund in 2012.

	2011	2010	2009	2008	2007
					(Rupees in '000)
7.11 Historical Information for Pension plan					
Present value of defined benefit obligation	1,090,883	782,220	651,918	474,713	474,019
Fair value of the plan assets	(880,565)	(698,910)	(555,361)	(374,489)	(369,258)
Deficit in the plan	210,318	83,310	96,557	100,224	104,761
Experience adjustments arising on plan liabilities	(134,686)	11,468	(68,514)	81,387	(20,553)
Experience adjustments arising on plan assets	2,801	7,524	9,793	(87,870)	18,902

The Company expects to pay Rs. 104.351 million in contributions to pension fund in 2012.

Notes to the Financial Statements

For the year ended 31 December 2011

	2011		2010	
	Gratuity fund per annum	Pension fund per annum	Gratuity fund per annum	Pension fund per annum
7.12 Significant actuarial assumptions used for valuation of these plans are as follows:				
Discount Rate	12.5%	12.5%	13%	13%
Expected rates of salary increase	12.5%	12.5%	13%	13%
Expected rates of return on plan assets	13%	13%	12%	12%
Average expected remaining working life	13 years	13 years	13 years	13 years

	Note	2011	2010
			(Rupees in '000)
8 Liabilities against assets subject to finance lease			
Present value of minimum lease payments		55,277	113,201
Less: Current portion shown under current liabilities	9	(41,587)	(57,786)
		13,690	55,415

The lease has been obtained under Kissan Dost Livestock Development Scheme. As per the terms of agreement, finance cost was payable by Pakistan Dairy Development Company (PDDC). The terms of agreement have been revised during the year under which the finance cost will be payable by the Company. The interest rate ranges from average 6 months to 1 year KIBOR plus 20 basis points and agency fee (profit) under Ijarah agreement ranges from 14.01% to 17% per annum (2010 : 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:

	2011			2010		
Years	Minimum lease payments	Finance cost	Principal	Minimum lease payments	Finance cost	Principal
Not later than one year	48,573	6,986	41,587	57,786	-	57,786
Later than one year but not later than five years	14,932	1,242	13,690	55,415	-	55,415
	63,505	8,228	55,277	113,201	-	113,201

	Note	2011	2010
			(Rupees in '000)
9 Current portion of non current liabilites			
Liabilities against assets subject to finance lease	8	41,587	57,786
		41,587	57,786

10 Short term borrowings from associated company - unsecured

This represented US$ 25 million short term foreign currency loan obtained from Nestlé Treasury Centre Middle East and Africa Limited, Dubai. It carried mark-up at the rate of 6 months LIBOR plus 100 basis points (2010: 6 months LIBOR plus 100 basis points). This loan has been repaid during the year.

Notes to the Financial Statements

For the year ended 31 December 2011

11 Short term borrowings - secured

This represents money market loans obtained from various commercial banks, which carry mark up ranging from 11.97% to 13.88% per annum. These loans are obtained for a period ranging from 4 to 62 days and are secured by hypothecation charge over fixed assets, stores, stocks and assignment of receivables of the Company.

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. 24,385 million (2010 : Rs. 7,873 million). Mark up is charged at rates ranging from 9.20% to 14.54% per annum (2010 : 6.70% to 14.94% per annum).

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

	Note	2011	2010
			(Rupees in '000)
13 Trade and other payables			
Trade creditors			
Related parties - associated companies		423,590	516,168
Others		1,421,588	620,327
		1,845,178	1,136,495
Accrued liabilities			
Related parties - associated companies		322,390	36,243
Others		4,351,312	2,889,666
		4,673,702	2,925,909
Excise duty payable		10,293	15,006
Advances from customers		330,491	64,871
Workers' profit participation fund	13.1	70,155	182,336
Workers' welfare fund		156,550	116,249
Derivative financial liability		-	25,754
Royalty and technical assistance fee payable to holding company		148,774	121,467
Unclaimed dividend		6,273	5,320
Withholding tax payable		3,737	11,286
Withholding sales tax payable		64,742	14,626
Others		33,612	14,613
		7,343,507	4,633,932
13.1 Workers' profit participation fund			
Opening balance		182,336	60,640
Provision for the year	30	349,241	305,917
		531,577	366,557
Less: Payments during the year		(461,422)	(184,221)
Closing balance		70,155	182,336

Notes to the Financial Statements

For the year ended 31 December 2011

	2011	2010
		(Rupees in '000)
14 Interest and mark-up accrued		
Short term running finances - secured	118,968	37,927
Loan from associated company-unsecured	9,366	23,477
	128,334	61,404

15 Contingencies and commitments

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

15.2 Claims against the Company not acknowledged as debt amount to Rs. 5.179 million (2010: Rs. 5.745 million).

	2011	2010
		(Rupees in '000)
15.3 Guarantees		
Outstanding guarantees	218,633	194,401
Un-utilized portion	116,367	200,598
15.4 Commitments in respect of capital expenditure	363,958	605,202
15.5 Letters of credit		
Other outstanding letters of credit	1,403,221	359,010
Un-utilized portion	2,269,944	2,217,090

Notes to the Financial Statements

For the year ended 31 December 2011

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 01 January 2010	680,454	32,347	2,158,720	219,273	12,883,169	197,612	257,520	5,488	321,522	16,756,105
Reclassification during the year	(113)	(103)	(5)	-	221	-	-	-	-	-
Additions during the year	-	-	104,052	-	1,811,009	11,168	207,583	-	-	2,133,812
Disposals / scrapped	-	-	(4,186)	-	(510,998)	(7,760)	(42,734)	(2,285)	-	(567,963)
Balance as at 31 December 2010	680,341	32,244	2,258,581	219,273	14,183,401	201,020	422,369	3,203	321,522	18,321,954
Balance as at 01 January 2011	680,341	32,244	2,258,581	219,273	14,183,401	201,020	422,369	3,203	321,522	18,321,954
Transfers during the year	-	-	-	-	107,250	-	-	-	(107,250)	-
Additions during the year	746,596	-	619,385	-	5,019,952	52,864	207,976	-	-	6,646,773
Disposals / scrapped	-	-	(393)	-	(548,675)	(5,757)	(56,784)	-	-	(611,609)
Balance as at 31 December 2011	1,426,937	32,244	2,877,573	219,273	18,761,928	248,127	573,561	3,203	214,272	24,357,118
Depreciation and impairment losses										
Balance as at 01 January 2010	122,639	3,110	413,032	140,181	5,069,519	99,005	139,988	5,484	62,273	6,055,231
Reclassification during the year	-	(56)	(5)	-	61	-	-	-	-	-
Depreciation charge for the year	-	359	66,661	3,120	1,091,097	30,738	49,806	4	28,261	1,270,046
Depreciation and impairment on disposals	-	-	(1,600)	-	(373,688)	(7,447)	(31,382)	(2,285)	-	(416,402)
Impairment charge for the year	-	-	-	-	42,468	-	-	-	-	42,468
Balance as at 31 December 2010	122,639	3,413	478,088	143,301	5,829,457	122,296	158,412	3,203	90,534	6,951,343
Balance as at 01 January 2011	122,639	3,413	478,088	143,301	5,829,457	122,296	158,412	3,203	90,534	6,951,343
Transfers during the year	-	-	-	-	45,342	-	-	-	(45,342)	-
Depreciation charge for the year	-	359	76,449	3,120	1,387,388	35,551	83,141	-	27,481	1,613,489
Depreciation and impairment on disposals	-	-	(141)	-	(395,058)	(5,161)	(45,682)	-	-	(446,042)
Impairment charge for the year	-	-	-	-	7,800	-	-	-	-	7,800
Balance as at 31 December 2011	122,639	3,772	554,396	146,421	6,874,929	152,686	195,871	3,203	72,673	8,126,590
Net book value as at 31 December 2011	1,304,298	28,472	2,323,177	72,852	11,886,999	95,441	377,690	-	141,599	16,230,528
Net book value as at 31 December 2010	557,702	28,831	1,780,493	75,972	8,353,944	78,724	263,957	-	230,988	11,370,611
Rate of depreciation in %	-	1-6.67	2-5	2-5	4-33	20	20	20	6.67-20	

16.1 Reclassification

Reclassifications represented adjustments made after an extensive review of plant and equipment classifications carried out by the management.

	Note	2011	2010
			(Rupees in '000)
16.2 Depreciation and impairment charge for the year has been allocated as follows:			
Cost of goods sold	26	1,337,682	1,040,620
Distribution and selling expenses	27	203,508	163,726
Administration expenses	28	70,652	64,559
Charged to projects during the year		1,647	1,141
		1,613,489	1,270,046

Notes to the Financial Statements

For the year ended 31 December 2011

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

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
Building						
	257	6	251	-	Scrapped	Various
Plant and machinery						
	59,582	25,322	34,260	39,200	Sale	Tetra Pak Pakistan Limited
	43,152	27,557	15,595	20,000	Sale	Tetra Pak Pakistan Limited
	18,319	11,601	6,718	2,750	Sale	Trolly Corporation
	5,668	63	5,605	-	Scrapped	Various
	6,018	1,128	4,890	6,767	Sale	Imran Traders
	6,047	1,848	4,199	-	Scrapped	Various
	6,348	2,399	3,949	4,036	Sale	Various
	4,478	1,368	3,110	14	Sale	Various
	4,641	1,547	3,094	-	Scrapped	Various
	5,443	2,419	3,024	-	Scrapped	Various
	4,507	1,502	3,005	-	Scrapped	Various
	4,384	1,583	2,801	-	Scrapped	Various
	4,704	1,960	2,744	-	Scrapped	Various
	4,943	2,305	2,638	1,950	Sale	Various
	3,946	1,315	2,631	-	Scrapped	Various
	5,770	3,222	2,548	-	Scrapped	Various
	3,533	1,079	2,454	-	Scrapped	Various
	4,029	1,791	2,238	-	Scrapped	Various
	3,320	1,245	2,075	-	Scrapped	Various
	3,513	1,464	2,049	-	Scrapped	Various
	3,022	1,007	2,015	-	Scrapped	Various
	3,726	2,040	1,686	-	Scrapped	Various
	3,548	2,070	1,478	-	Scrapped	Various
	2,091	639	1,452	-	Scrapped	Various
	2,219	925	1,294	-	Scrapped	Various
	1,787	546	1,241	-	Scrapped	Various
	1,817	606	1,211	-	Scrapped	Various
	6,550	5,392	1,158	-	Scrapped	Various
	2,906	1,776	1,130	-	Scrapped	Various
	2,079	1,039	1,040	-	Scrapped	Various
	1,399	427	972	-	Scrapped	Various
	1,605	713	892	-	Scrapped	Various
	1,674	790	884	-	Scrapped	Various
	1,211	336	875	-	Scrapped	Various
	2,346	1,492	854	-	Scrapped	Various

Notes to the Financial Statements

For the year ended 31 December 2011

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
	1,443	722	721	-	Scrapped	Various
	1,189	495	694	-	Scrapped	Various
	1,102	417	685	-	Scrapped	Various
	1,169	487	682	-	Scrapped	Various
	1,176	523	653	-	Scrapped	Various
	776	142	634	-	Scrapped	Various
	18,319	17,715	604	2,750	Sale	Trolly Corporation
	1,639	1,047	592	-	Scrapped	Various
	1,104	521	583	-	Scrapped	Various
	1,144	572	572	-	Scrapped	Various
	580	10	570	-	Scrapped	Various
	975	406	569	-	Scrapped	Various
	3,127	2,574	553	-	Scrapped	Various
	893	355	538	-	Scrapped	Various
	893	355	538	-	Scrapped	Various
	805	268	537	-	Scrapped	Various
	1,041	520	521	-	Scrapped	Various
	497	6	491	-	Scrapped	Various
	930	439	491	-	Scrapped	Various
	974	487	487	-	Scrapped	Various
	712	257	455	-	Scrapped	Various
	855	404	451	-	Scrapped	Various
	596	199	397	-	Scrapped	Various
	712	316	396	-	Scrapped	Various
	2,754	2,359	395	-	Scrapped	Various
	709	315	394	-	Scrapped	Various
	557	179	378	-	Scrapped	Various
	533	178	355	-	Scrapped	Various
	709	354	355	-	Scrapped	Various
	649	306	343	-	Scrapped	Various
	507	169	338	-	Scrapped	Various
	855	523	332	-	Scrapped	Various
	599	300	299	-	Scrapped	Various
	616	325	291	-	Scrapped	Various
	495	234	261	-	Scrapped	Various
	405	146	259	-	Scrapped	Various
	640	391	249	-	Scrapped	Various
	451	213	238	-	Scrapped	Various
	322	98	224	-	Scrapped	Various
	405	225	180	-	Scrapped	Various
	397	220	177	-	Scrapped	Various
	298	124	174	-	Scrapped	Various

Notes to the Financial Statements

For the year ended 31 December 2011

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
	721	551	170	-	Scrapped	Various
	333	166	167	-	Scrapped	Various
	349	184	165	-	Scrapped	Various
	250	87	163	-	Scrapped	Various
	343	181	162	-	Scrapped	Various
	384	224	160	-	Scrapped	Various
	353	196	157	-	Scrapped	Various
	682	530	152	102	Sale	Karim Technologies
	319	168	151	-	Scrapped	Various
	289	153	136	-	Scrapped	Various
	270	135	135	-	Scrapped	Various
	214	87	127	-	Scrapped	Various
	241	114	127	-	Scrapped	Various
	241	120	121	-	Scrapped	Various
	141	31	110	-	Scrapped	Various
	242	133	109	-	Scrapped	Various
	393	300	93	-	Scrapped	Various
	156	65	91	-	Scrapped	Various
	159	71	88	-	Scrapped	Various
	149	62	87	-	Scrapped	Various
	161	80	81	-	Scrapped	Various
	160	85	75	-	Scrapped	Various
	248	172	76	-	Scrapped	Various
	149	79	70	-	Scrapped	Various
	136	76	60	-	Scrapped	Various
	175	121	54	-	Scrapped	Various
	117	63	54	20	Sale	M/s Muhammad Amjad & Brothers
	448	395	53	30	Sale	M/s Muhammad Amjad & Brothers
	64	11	53	53	Sale	Various
	64	11	53	-	Scrapped	Various
	64	11	53	-	Scrapped	Various
Furniture & Fixture						
	769	295	474	-	Scrapped	Various
Vehicles						
	849	71	778	815	Sale	Employee (M. Ali Raza khan)
	849	170	679	775	Sale	Employee (Ahmed Farz)
	837	167	670	773	Sale	Employee (Abdul Latif Abbasi)
	845	197	648	736	Sale	Employee (Afzal Waheed)
	837	195	642	774	Sale	Employee (Baloch Raja Ghulam Mohammad)
	836	195	641	755	Sale	Employee (Khan Umair Ali)

Notes to the Financial Statements

For the year ended 31 December 2011

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
	859	430	429	623	Sale	Employee (Gaddafi Wahab)
	859	430	429	768	Sale	Employee (Ch. Atif Saeed)
	772	347	425	584	Sale	Employee (Faheem Ahmed)
	812	406	406	622	Sale	Employee (Danish Ahmed Ghani)
	787	472	315	593	Sale	Employee (Ali Muhammad Chaudry)
	680	408	272	488	Sale	Employee (Mirza Shakeel Baig)
	680	408	272	469	Sale	Employee (Masroor Khan)
	640	416	224	441	Sale	Employee (Khan Alam)
	640	416	224	441	Sale	Employee (Khan Alam)
	661	441	220	550	Sale	Employee (Muhammad Bin Shahbaz)
	610	406	204	406	Sale	Employee (Ashraf Saeed)
	598	429	169	224	Sale	Employee (Shahzad Saleem)
	415	249	166	286	Sale	Employee (Furqan Ahmed Qureshi)
	584	419	165	225	Sale	Employee (Faqir Ali Haider Khan)
	598	439	159	402	Sale	Employee (Zeeshan Liaqat)
	852	710	142	460	Sale	Employee (Naeem Iqbal)
	584	468	116	381	Sale	Employee (Kamran Mirza)
	567	454	113	257	Sale	Employee (Umair bin Zubair)
	567	454	113	253	Sale	Employee (Waseem Khan)
	556	482	74	274	Sale	Employee (M. Shakeel Bashir)
	556	482	74	264	Sale	Employee (Sohail Mazhar)
	371	303	68	375	Sale	Employee (Farzana Rafique)
	568	501	67	355	Sale	Employee (Syed Amir Hussain)
	567	501	66	337	Sale	Employee (Tauqir-ud-Din)
	567	501	66	415	Sale	Employee (Zeeshan Saleem)
Assets with book value less than Rs. 50,000	286,688	280,700	5,988	19,152		
Total	611,609	446,042	165,567	111,945		

	2011	2010
	(Rupees in '000)	
17 Capital work-in-progress		
Civil works	1,240,501	160,327
Plant and machinery	3,726,909	2,780,902
Others	403,151	135,243
	5,370,561	3,076,472

Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011	2010 (Rupees in '000)
18 Intangible assets			
Cost			
Balance as at 01 January		232,315	213,189
Addition during the year		-	19,126
Balance as at 31 December		232,315	232,315
Amortization			
Balance as at 01 January		215,580	206,083
Charge for the year	28	4,781	9,497
Accumulated amortization as at 31 December		220,361	215,580
Net book value as at 31 December		11,954	16,735
Amortization rate		25%	20% to 25%
19 Long term loans and advances			
To employees - secured, considered good	19.1		
Executives		101,879	67,365
Other employees		81,147	24,592
		183,026	91,957
To suppliers - unsecured, considered good	19.2	9,870	13,160
To others	19.3	-	39,706
		192,896	144,823
Less: current portion shown under current assets		(30,914)	(19,149)
		161,982	125,674

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 the crossed cheque from employees of the full loan amount in the name of the company without mentioning any date as part of collateral.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs. 154.084 million (2010 : Rs. 68.082 million).

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

	2011	2010 (Rupees in '000)
Reconciliation of carrying amount of loans to executives		
Balance as at 01 January	67,365	55,774
Disbursements during the year	58,650	30,100
Status change of non-executive employees as executives	6,011	2,871
Loans recovered during the year	(30,147)	(21,380)
Balance as at 31 December	101,879	67,365

Notes to the Financial Statements

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19.2 This includes an un-secured loan of Rs. 9.870 million (2010: Rs. 13.160 million) given to Sui Northern Gas Pipelines Limited for the development of infrastructure for supply of natural gas to the plant at Kabirwala. Mark-up is charged at the rate of 1.5% per annum (2010: 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 included an interest free advance given to Babar Ali Foundation (the Foundation) to establish an educational agricultural farm/training facility for the farmers. This advance has been settled by the Foundation during the year.

		2011	2010
			(Rupees in '000)
20	Stores and spares		
	Stores	204,985	97,499
	Spares, including in transit Rs. 14.682 million (2010: Rs. 12.199 million)	1,073,431	953,305
		1,278,416	1,050,804

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

		Note	2011	2010
				(Rupees in '000)
21	Stock in trade			
	Raw and packing materials including in transit Rs.599.857 million (2010: Rs. 274.585 million)		4,805,093	3,177,401
	Work-in-process		265,620	238,177
	Finished goods		1,887,586	1,059,468
	Goods purchased for resale including in transit Rs.25.975 million (2010: Rs.39.738 million)		105,871	126,973
			7,064,170	4,602,019
22	Trade debts			
	Considered good - unsecured		276,858	126,499
	Considered doubtful - unsecured		6,349	3,410
			283,207	129,909
	Less: Provision for doubtful debts	22.1	6,349	3,410
			276,858	126,499
22.1	Provision for doubtful debts			
	Balance as at 01 January		3,410	1,824
	Addition during the year		6,122	1,586
	Less: write off during the year		(3,183)	-
	Balance as at 31 December		6,349	3,410

Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011	2010
			(Rupees in '000)
23 Advances, deposits, prepayments and other receivables			
Advances to employees - secured and considered good	23.1	-	644
Advances to suppliers - unsecured and considered good		863,398	129,706
Due from related parties - unsecured and considered good	23.2	98,779	199,127
Trade deposits and prepayments - considered good		98,127	75,856
Income tax recoverable		933,532	219,728
Sales tax refundable		1,931,228	1,301,040
Other receivables - considered good		117,570	122,835
		4,042,634	2,048,936

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

	2011	2010
		(Rupees in '000)
23.2 Due from related parties		
Foreign Associated Companies		
Nestlé SA	291	-
Nestrade S.A	-	154,688
Nestlé Canada Inc	137	137
Nestlé Dubai Manufacturing LLC	316	276
Nestlé Equatorial African Region	-	3,249
Nestlé U.S.A Inc	27	20
Nestlé Hong Kong Limited	1,470	1,767
PT Nestlé Indonesia	-	1,345
Nestlé Vietnam Limited	145	102
Nestlé Ghana Limited	1,471	1,471
Nestlé Nederland B.V.	11,115	16,039
Nestlé Suisse S.A.	18,005	3,043
Nestlé France	641	641
Nestlé Philippines Inc.	36,671	2,583
CPW Philippines	-	2,541
Nestlé Nigeria Plc	1,570	1,570
Nestlé Asean Malaysia	813	-
Nestlé Waters Management & Technology	11,469	9,655
Nestlé Iran	370	-
Nestlé Japan Limited	1,146	-
Nestlé Thai Limited	523	-
Nestlé Middle East FZE	328	-
Nestlé Jamaica Limited	3,785	-
Nestlé Central and West Africa	730	-
Cpw S.A.	7,138	-
Nestlé (Thai) Limited	618	-
	98,779	199,127

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

Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011	2010
			(Rupees in '000)
24 Cash and bank balances			
Cash at bank			
- Current accounts		622,235	297,144
- Saving accounts	24.1	77,083	204,957
		699,318	502,101
Cash and cheques in hand		2,707	3,415
		702,025	505,516

24.1 The balances in saving accounts carry return ranging from 5% to 11% per annum (2010 : 5% to 11%).

	Note	2011	2010
			(Rupees in '000)
25 Sales- net			
Own manufactured			
Local		63,804,716	50,675,695
Export		5,303,414	4,071,431
		69,108,130	54,747,126
Goods purchased for resale		537,490	457,128
Less :			
Sales tax		(1,648,412)	(1,165,374)
Trade discounts		(3,172,844)	(2,551,578)
		64,824,364	51,487,302
26 Cost of goods sold			
Raw and packing materials consumed		37,270,680	29,136,003
Salaries, wages and amenities	26.1	2,317,731	1,722,534
Fuel and power		2,877,125	1,790,193
Insurance		38,450	33,101
Repairs, maintenance and stores consumption		1,778,487	1,261,529
Rent, rates and taxes		107,546	145,310
Depreciation	16.2	1,337,682	1,040,620
Expenses on information technology		265,896	209,569
Stationery expenses		34,690	24,400
Communication		44,419	53,324
Quality assurance		171,864	125,511
Royalty and technical assistance fee		1,934,573	1,526,890
Others		285,349	197,866
		48,464,492	37,266,850
Increase in work in process		(27,443)	(62,308)
Cost of goods manufactured		48,437,049	37,204,542
(Increase)/decrease in finished goods		(828,119)	51,418
Cost of goods sold - own manufactured		47,608,930	37,255,960
Cost of goods sold - purchased for resale		490,116	352,773
		48,099,046	37,608,733

Notes to the Financial Statements

For the year ended 31 December 2011

26.1 Salaries, wages and amenities include Rs. 39.851 million (2010: Rs. 28.904 million) in respect of gratuity, Rs. 21.208 million (2010: Rs. 19.510 million) in respect of pension and Rs. 51.668 million (2010: Rs. 38.270 million) in respect of provident fund.

		Note	2011	2010
				(Rupees in '000)
27	Distribution and selling expenses			
	Salaries, wages and amenities	27.1	1,267,925	1,042,608
	Training		22,951	34,641
	Rent, rates and taxes		63,107	76,439
	Insurance		9,083	6,670
	Freight outward		2,069,350	1,615,443
	Depreciation	16.2	203,508	163,726
	Sales promotion and advertisement		2,814,958	2,418,126
	Legal and professional charges		21,560	11,953
	Vehicle running and maintenance		20,978	14,523
	Utilities		43,301	27,571
	Repairs and maintenance		55,477	45,079
	Subscription, stationery, printing and publication		17,691	11,330
	Communications		23,591	22,582
	Traveling, conveyance and vehicle running		111,705	116,149
	Provision for doubtful debts		6,122	1,586
	Expenses on information technology		28,058	25,326
	Other expenses		82,748	75,326
			6,862,113	5,709,078

27.1 Salaries, wages and amenities include Rs. 32.036 million (2010: Rs. 28.756 million) in respect of gratuity, Rs. 22.451 million (2010: Rs. 23.233 million) in respect of pension and Rs. 46.624 million (2010: Rs. 38.193 million) in respect of provident fund.

Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011	2010
			(Rupees in '000)
28 Administration expenses			
Salaries, wages and amenities	28.1	691,898	634,898
Training		45,993	54,279
Rent, rates and taxes		70,849	74,725
Insurance		2,292	2,640
Depreciation	16.2	70,652	64,559
Amortization	18	4,781	9,497
Legal and professional charges	28.2	72,857	38,898
Vehicles running and maintenance		13,650	15,079
Utilities		23,920	21,710
Repairs and maintenance		23,122	17,750
Subscription, stationery, printing and publication		37,695	20,067
Communications		54,447	48,350
Traveling and conveyance		71,700	89,405
Expenses on information technology		184,277	182,698
Other expenses		37,165	37,082
		1,405,298	1,311,637

28.1 Salaries, wages and amenities include Rs. 20.739 million (2010: Rs. 17.251 million) in respect of gratuity, Rs. 23.495 million (2010: Rs. 22.450 million) in respect of pension and Rs. 30.178 million (2010: Rs. 23.233 million) in respect of provident fund.

	2011	2010
		(Rupees in '000)
28.2 Legal and professional charges include the following in respect of auditors' services for:		
Statutory audit	1,000	1,000
Half yearly review	180	180
Services in connection with review and reporting of accounts to parent company auditors	-	30
Audit of accounts of staff retirement benefits	60	60
Other sundry certificates	42	12
Out of pocket expenses	145	145
	1,427	1,427

	2011	2010
29 Finance cost		
Mark-up on lease finances	23,069	-
Exchange loss on derivative financial liability	98,746	211,486
Mark-up on short term running finances - secured	434,131	110,980
Mark-up on short term borrowings - secured	303,708	7,725
Mark-up on loan from associated company	142,566	146,278
Bank charges	48,135	36,612
	1,050,355	513,081

Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011	2010
			(Rupees in '000)
30 Other operating expenses			
Workers' profit participation Fund	13.1	349,241	305,917
Workers' welfare fund		132,711	116,249
Donations	30.1	62,736	87,196
Loss on disposal of property, plant and equipment		53,622	109,907
Impairment loss on property, plant and equipment	16	7,800	42,468
Exchange loss		382,550	138,150
Others		75,573	19,197
		1,064,233	819,084
30.1 Donations			
Name of donee in which a director or his spouse has an interest:			
Dairy & Rural Development Foundation (DRDF),			
Canal Bank, 7/B-2 Aziz Avenue, Gulberg - V, Lahore		3,500	-
(Syed Yawar Ali, Director is also Governor of DRDF)			
National Management Foundation (NMF),			
Defence Housing Authority, Lahore		-	30,000
(Syed Babar Ali, Director is also Chairman of NMF)			
		3,500	30,000
31 Other operating income			
Sale of scrap		145,149	97,428
Others		14,396	73,063
		159,545	170,491
32 Taxation			
Current year			
Current		1,010,796	1,579,337
Deferred		771,362	173,563
		1,782,158	1,752,900
Prior year			
Current		52,349	(169,569)
		1,834,507	1,583,331

Notes to the Financial Statements

For the year ended 31 December 2011

	2011	2010
		(%)
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	3.26	5.57
Allowable for tax purposes	(8.47)	(6.82)
Effect of changes in prior years' tax/surcharge	0.81	(2.98)
Tax effect under presumptive tax regime	(3.58)	(3.07)
	(7.98)	(7.30)
Average effective tax rate charged to profit and loss account	27.02	27.70

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

		2011	2010
33 Earnings per share			
33.1 Basic earnings per share			
Profit after taxation available for distribution to ordinary shareholders	Rupees in '000'	4,668,357	4,112,849
Weighted average number of ordinary shares	Number in '000'	45,350	45,350
Basic earnings per share	Rupees	102.94	90.69

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:

Notes to the Financial Statements

For the year ended 31 December 2011

	2011	2010
		(Rupees in '000)
34.1 Transactions during the year		
Associated companies		
- Royalty and technical assistance fee	1,758,703	1,387,375
- Purchase of goods, services and rental	10,949,999	7,258,836
- Sale of goods	-	1,105
- Interest on foreign currency loan	142,566	146,278
- Repayment of short term borrowings	2,143,750	-
Other related parties		
- Contribution to staff retirement benefit plans	159,780	142,618
- Donation	3,500	30,000
- Sale of fixed assets	59,200	-
34.2 Amounts outstanding as at year end		
Associated companies		
- Royalty and technical assistance fee payable	135,249	110,424
- Interest on foreign currency loan payable	9,366	23,477

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

35 Cash generated from operations

	2011	2010
Profit before taxation	6,502,864	5,696,180
Adjustment for non-cash charges and other items:		
Depreciation	1,613,489	1,270,046
Amortization	4,781	9,497
Impairment loss on property, plant and equipment	7,800	42,468
Loss on disposal of property, plant and equipment	53,622	109,907
Exchange loss on foreign currency loan	382,550	138,150
Provision for doubtful debts - net	6,122	1,586
Retirement benefits	159,780	140,104
Finance cost	1,050,355	496,568
Profit before working capital changes	9,781,363	7,904,506
Effect on cash flow due to working capital changes:		
Increase in stores and spares	(227,612)	(181,820)
Increase in stock in trade	(2,462,151)	(706,981)
(Increase)/decrease in trade debts	(156,481)	113,630
Increase in advances, deposits, prepayments and other receivables	(1,279,894)	(436,792)
Increase in trade and other payables	2,708,622	903,096
Increase in customer security deposits - interest free	20,934	23,171
	(1,396,582)	(285,696)
	8,384,781	7,618,810

Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011	2010
			(Rupees in '000)
36 Cash and cash equivalents			
Cash and bank balances	24	702,025	505,516
Short term running finance under mark-up arrangements - secured		(4,175,236)	(2,780,843)
		(3,473,211)	(2,275,327)

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	
	2011	2010	2011	2010	2011	2010
						(Rupees in '000)
Managerial remuneration	2,957	2,441	15,124	11,797	999,117	702,009
Bonus	-	-	7,322	5,265	235,370	146,735
Retirement benefits	-	-	-	-	162,498	133,854
Housing	-	-	3,218	2,389	21,798	22,763
Utilities	-	199	-	-	2,635	40,086
Reimbursable expenses	-	-	2,460	3,368	128,092	105,832
	2,957	2,640	28,124	22,819	1,549,510	1,151,279
Number of persons	1	1	1	1	565	435

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 (2010: Rs. Nil).

	Capacity		Production	
	2011	2010	2011	2010
38 Capacity and production				
Liquid products - liters (000)	1,249,098	1,194,843	781,292	750,480
Non-liquid products - Kgs (000)	135,251	126,664	86,251	80,654

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

Notes to the Financial Statements

For the year ended 31 December 2011

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 products and cereals

Beverages.
Juices & water

39.1 Segment analysis and reconciliation for the year ended 31 December

	Milk and Nutrition Products		Beverages		Other Operations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
								(Rupees in '000)
Sales								
External sales	54,503,691	44,440,203	9,619,058	6,641,851	701,615	405,248	64,824,364	51,487,302
Inter-segment sales	-	-	-	-	-	-	-	-
Total revenue	54,503,691	44,440,203	9,619,058	6,641,851	701,615	405,248	64,824,364	51,487,302
Depreciation and amortization	1,269,005	(1,023,743)	338,167	(249,800)	11,099	(6,000)	1,618,271	(1,279,543)
Profit before tax and unallocated expenses	7,840,488	6,531,370	872,867	498,530	(255,448)	(172,046)	8,457,907	6,857,854
Unallocated corporate expenses								
Finance cost							(1,050,355)	(513,081)
Exchange loss on translation of foreign currency							(382,550)	(138,150)
Other operating expenses							(673,883)	(638,466)
Other operating income							159,545	170,491
Taxation							(1,834,507)	(1,583,331)
Other material non- cash items								
Impairment loss on property, plant and equipment	-	-	(7,800)	(42,468)	-	-	(7,800)	(42,468)
Profit after taxation							4,668,357	4,112,849
Segment assets	21,854,982	15,648,873	7,939,858	4,419,728	452,511	174,540	30,247,351	20,243,141
Unallocated assets							4,932,508	2,709,091
Total assets							35,179,859	22,952,232
Segment liabilities	6,225,789	4,090,654	1,238,791	723,311	79,432	36,270	7,544,012	4,850,235
Unallocated liabilities							20,023,431	12,520,124
Total liabilities							27,567,443	17,370,359
Segment capital expenditure	5,332,861	3,346,928	1,775,086	627,157	276,240	-	7,384,187	3,974,085
Unallocated capital expenditure							1,556,675	340,369
							8,940,862	4,314,454

Notes to the Financial Statements

For the year ended 31 December 2011

39.2 Geographical segments

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

40 Financial risk management

Financial risk factors

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

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

40.1 Market risk

a) Currency Risk

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

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

Notes to the Financial Statements

For the year ended 31 December 2011

Particulars	Currency	2011	2010
			(Rupees in '000)
Foreign currency bank accounts	US $	19,411	3,210
Cash in hand			
	US $	2,691	2,565
	EUR €	812	790
		3,503	3,355
Receivables			
	US $	12,133	19,009
	CHF	122	154,688
	EUR €	120,769	25,430
		133,024	199,127
		155,938	205,692
Less :			
Long term loan from associated undertaking	US $	5,848,050	5,573,750
Short term borrowing from associated company-unsecured	US $	-	2,143,750
Payables	US $	942,768	615,476
	EUR €	610,818	321,462
	CHF	7,462	-
	GB £	2,333	1,166
	SGP $	1,562	-
	JPY	284	3,869
	AED	3,900	-
	CNY	64	-
	DKK	119	-
	NZD	121	-
		1,569,431	941,973
		7,417,481	8,659,473
On balance sheet exposure		(7,261,543)	(8,453,781)
Outstanding letters of credit		(1,403,221)	(359,010)
Off balance sheet exposure		(1,403,221)	(359,010)

Notes to the Financial Statements

For the year ended 31 December 2011

The following significant exchange rates were applied during the year :

	2011		2010	
	Average Rate	Reporting date rate	Average Rate	Reporting date rate
				(Rupees per currency unit)
US $	87.86	89.97	84.99	85.75
EUR €	115.51	116.44	117.98	114.58
CHF	94.58	97.70	86.57	91.45
GB £	136.83	141.00	133.95	132.65
SGP $	68.63	70.50	63.38	66.75
JPY	1.11	1.16	0.98	1.05
CNY	13.50	13.50	13.45	13.50
AED	24.10	24.90	23.18	23.30
DKK	15.75	16.30	15.78	15.20
NZD	68.10	72.40	61.95	63.80

Currency rate sensitivity analysis

If the functional currency, at reporting date, had fluctuated by 10% against the foreign currencies with all other variables held constant, the impact on profit after taxation for the year and 2010 would have been as follows :

	2011	2010
		(Rupees in '000)
Effect on Profit and loss		
US Dollar	439,178	540,032
Euro	31,800	19,191
Swiss Franc	477	(10,055)
Great Britain Pound	152	76
Singapore Dollar	102	-
Japanese Yen	18	251
Chineese Yuan	4	-
UAE Dirham	254	-
Danish Krone	8	-
Newzealand Dollar	8	-
	472,001	549,495

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.

Notes to the Financial Statements

For the year ended 31 December 2011

b) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

c) Interest rate risk

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

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

	2011	2010
		(Rupees in '000)
Variable rate instruments		
Long term finances from associated undertaking - US $	(5,848,050)	(5,573,750)
Effective interest rate in %age	1.78	1.96
Long term finances from banking companies - PKR	(2,000,000)	-
Effective interest rate in %age	12.76	-
Short term borrowings from associated undertaking - US $	-	(2,143,750)
Effective interest rate in %age	-	1.46
Short term borrowings from local banks - PKR	(9,125,236)	(2,780,843)
Effective interest rate in %age	13.97	11.40

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

If interest rates on loans from associates and borrowings from banks, at the year end date, fluctuate by 100 bps higher / lower with all other variables, in particularly foreign exchange rates held constant, profit after taxation for the year and 2010 would have been effected as follows:

	2011	2010
		(Rupees in '000)
Effect on Profit and loss of an increase	(74,892)	(58,569)
Effect on Profit and loss of a decrease	74,892	58,569

Notes to the Financial Statements

For the year ended 31 December 2011

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

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

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:

Particulars	2011	2010
		(Rupees in '000)
Long term loans	161,982	125,674
Long term deposits & prepayments	9,817	9,817
Current maturity of long term loans	30,914	19,149
Trade debts - domestic	276,858	126,499
Advances, deposits, prepayments and other receivable	1,177,874	528,168
Bank balance	622,235	297,144
	2,279,680	1,106,451

The aging of trade debts at the reporting date is:		
Past due 0 - 30 days	168,281	119,463
Past due 31 - 60 days	90,399	5,915
Past due 61 - 90 days	5,462	-
Past due 91 - 120 days	12,543	-
Past due 120 days	173	1,121
	276,858	126,499

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.

Notes to the Financial Statements

For the year ended 31 December 2011

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

	Rating 2011		
	Short Term	Long Term	Agency
Barclays Bank PLC	A1	A+	S & P
Standard Chartered Bank Limited	A1+	AAA	PACRA
Citibank N.A.	A1	A+	S & P
MCB Bank Limited	A1+	AA+	PACRA
Deutsché Bank AG	A1	A+	S & P
Habib Bank Limited	A1+	AA+	JCR-VIS
United Bank Limited	A1+	AA+	JCR-VIS
Bank Al Habib	A1+	AA+	PACRA
HSBC	P1	A1	Moody's
Summit Bank Limited (formerly "My Bank Limited").	A2	A	JCR-VIS
Bank of Punjab	A1+	AA-	PACRA
Burj Bank	A2	A	JCR-VIS
Meezan Bank	A1+	AA-	JCR-VIS
Allied Bank	A1+	AA	PACRA

	Rating 2010		
	Short Term	Long Term	Agency
Barclays Bank PLC	A1+	AA-	S & P
Standard Chartered Bank Limited	A1+	AAA	PACRA
Citibank N.A.	A1	A+	S & P
MCB Bank Limited	A1+	AA+	PACRA
Deutsché Bank AG	A1	A+	S & P
Habib Bank Limited	A1+	AA+	JCR-VIS
United Bank Limited	A1+	AA+	JCR-VIS
Bank Al Habib	A1+	AA+	PACRA
HSBC	A1+	AA	S & P
Summit Bank Limited (formerly "My Bank Limited").	A2	A-	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.

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.

Notes to the Financial Statements

For the year ended 31 December 2011

The following are the contractual maturity analysis of financial liabilities as at 31 December 2011:

	Less than 6 months	6 to 12 months	1 year to 5 years	6 to 10 years	More than 10 years	Total
Non-derivative financial liability						
Long term finances	-	-	7,848,050	-	-	7,848,050
Short term borrowings under markup arrangement	4,175,236	-	-	-	-	4,175,236
Short term borrowings-secured	4,950,000	-	-	-	-	4,950,000
Liability against assets subject to finance lease	23,824	17,763	13,690	-	-	55,277
Customer security deposits	-	149,791	-	-	-	149,791
Trade and other payables	7,343,507	-	-	-	-	7,343,507
Interest and markup accrued	128,334	-	-	-	-	128,334
	16,620,901	167,554	7,861,740	-	-	24,650,195

The following are the contractual maturity analysis of financial liabilities as at 31 December 2010:

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

Fair values of financial assets and liabilities

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

Notes to the Financial Statements

For the year ended 31 December 2011

41 Capital risk management

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

The Company's objectives when managing capital are:

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

ii) To provide an adequate return to shareholders.

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

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

The debt to equity ratio as at 31 December 2011 and 31 December 2010 were as follows:

	2011	2010
		(Rupees in '000)
Total borrowing	17,028,563	10,611,544
Total equity	7,612,416	5,581,873
Total Debt and equity	24,640,979	16,193,417
Debt Equity ratio	69:31	66:34

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

Notes to the Financial Statements

For the year ended 31 December 2011

42 Date of authorization for issue

These financial statements were authorized for issue on 8 February 2012 by the Board of Directors of the Company.

43 Dividend

The Board of Directors in their meeting held on 8 February 2012 have proposed a final cash dividend for the year ended 31 December 2011 of Rs. 40 (2010: Rs. 30) per share, amounting to Rs. 1,813.983 million (2010: Rs. 1,360.488 million) for approval of the members at the Annual General Meeting to be held on 27 March 2012. 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.

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

Form of Proxy

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

I/We, ____, of ______________________________________, being a member of Nestlé Pakistan Ltd., holder of ___________________________________ Ordinary Share(s) as per Register Folio No. _________________________________ hereby Appoint Mr.____ Folio No. __________ of _________________________or failing him Mr.___________________________ Folio No. ________________ of __________________, who is also a member of Nestlé Pakistan Ltd., as my / our proxy in my / our absence to attend and vote for me / us, and on my / our behalf at the Annual General Meeting of the Company to be held on March 27, 2012 and at any adjournment thereof.

Signed under my / our hand this _______ day of March, 2012.

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
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The Company Secretary

Nestlé Pakistan Ltd.

308 – Upper Mall, Lahore, Pakistan

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Fax No. +92 42 3578 9303

www.nestle.pk

"The touching moments of happiness of the children of Peerano Goth in the suburbs of Port Qasim Industrial zone Karachi, at the time when Nestlé team finalized to rebuild their decade old abandoned primary school"

This project initiated in December 2011 and will be completed within 2012.

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