Grow Sustainably for

بہتر کل ہمارا

Nestlé

Good Food, Good Life

For over two decades, Nestlé has walked through our household doors and touched our lives in so many different ways. It has brought us products that lovingly relate to our rich culture and which are being inspired by our local taste. Nestlé has also provided us with a chance to empower ourselves and to pursue greater dreams.

Behind all of Nestlé's endeavours, lies its unflinching belief to immerse itself in our heritage, and to maintain the inherent connection it has with our country. A bond which has grown stronger with time, and which links our Nation's love for food with Nestlé's vision of healthier choices.

Nestlé at its core shall always remain - Forever Pakistani

ہردم پاکستانی

Contents

Business Review

Company Overview

Our Vision

Nestlé's vision is to be the globally recognized leading Nutrition, Health and Wellness Company. Nestlé Pakistan subscribes fully to this vision and the values that come with it.

In particular, we envision:

- Leading a dynamic, passionate and professional workforce – proud of our heritage and positive about the future.
- Meeting 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.
- Delivering 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, products and our CSV activities.

Our Ambition

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

Directors' Report to the Shareholders

In this challenging environment, the Company strengthened its position and continued to report double digit growth both at the top and bottom line.

The Directors of the Company are pleased to submit the Annual Report along with the audited financial statements for the year ended December 31, 2012.

Financial Performance:

During 2012, the social and economic environment continued to be challenging. Ongoing inflationary pressure and energy crisis further impacted the consumer purchasing power.

In this challenging environment, the Company strengthened its position and continued to report double digit growth both at the top and bottom line. We continued to bring enhanced nutrition, health and wellness benefits to the consumers, greater brand differentiation and increased value for shareholders.

The good growth was fuelled by effective product mix management and increased support behind our brands.

Innovation & renovation remains an integral part of the Company's vision to positively enhance the quality of life. The major new product launches during 2012 included: Nestlé PURE LIFE Protect, Nestlé MEETHAY, Nestlé ACTIPLUS Yogurt, Nestlé YELLY Yogurt, NESCAFE' Ready to Drink Coffee and Nestlé FRUITA VITALS Pomegranate.

Ongoing optimization of our value chain through Nestlé Continuous Excellence initiatives has helped us to partially offset rising input costs, improve our margins and offer a better value proposition to our consumers.

Summary Financial performance:

PKR Million	2012	2011	Change
Sales	79,088	64,824	+22.0%
Gross Profit margin	27.2%	25.8%	+1.4%
Operating Profit margin	13.9%	13.0%	+0.9%
Net Profit after tax margin	7.4%	7.2%	+0.2%
Net Profit after tax	5,865	4,668	+25.6%
Earnings per share	129.32	102.94	+25.6%

Total sales grew by 22% to PKR 79.1 billion. Export sales have reached PKR 6.0 billion (2011: 5.3 billion) recording a healthy growth of 15%.

The Gross Profit (GP) margin has increased by 140 bps as compared to last year. Increasing fuel prices, higher depreciation and maintenance costs has been offset by comparatively lower increase in commodity costs, improvement in product mix and cost saving initiatives.

During the year, the Company heavily invested in various projects related to capacity enhancement and infrastructure improvement. The capital expenditure for the year was PKR 14.4 billion. This, along with the working capital business requirements, has led to additional funding resulting in higher financial costs. Despite all these challenges, the net profit of the Company increased by 25.6% versus last year.

Dividends:

Keeping in view the good financial performance of the Company, the Board of Directors has recommended to pay final cash dividend of Rs. 70 per share.

Business Acquisition:

During the year, the Company has acquired the Infant Nutrition business from Wyeth Pakistan Limited. This acquisition is part of the global acquisition of Pfizer Infant Nutrition business by Nestle S.A. The products under this acquisition are S26 Gold, S26 Lactose Free, Promise Gold, Promise PE Gold and Promil Gold.

Investment Projects:

A core value of Nestlé Pakistan is to deliver short term performance whilst remaining focused on the longer term. The total investments in expansion & development projects for the year reached PKR 14.4 billion. The most significant projects were related to extension and capacity increase across the production sites of Sheikhupura, Kabirwala and Port Qasim.

Investments, of approximately PKR 6.0 billion, are planned in 2013 primarily with respect to capacity increase to meet consumer demand.

Corporate Governance:

Nestlé Pakistan is committed to maintaining 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. Statement of compliance with Code of Corporate Governance is as under.

Statement of Compliance with Code of Corporate Governance

The Directors confirm that:

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

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

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

d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any deviation has been adequately disclosed and explained.

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

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

g) There 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):

	2012	2011
Provident Fund	**1,516**	1,431
Gratuity Fund	**788**	639
Pension Fund	**1,144**	881

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

(i) Key financial data for the last six years

(ii) Pattern of shareholdings

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

External Auditors:

Messrs KPMG Taseer Hadi & Company, Chartered Accountants have completed their assignment for the year 2012 and retire at the conclusion of the 35th Annual General Meeting. Being eligible, they have offered themselves for re-appointment.

Human Resources Management & Employees Relations:

Nestlé Pakistan has embarked on a journey to foster a culture of continuous development and to create an environment which supports sustainable high performance. We are committed to give our employees the opportunity to grow, evolve and contribute. Thus, Nestlé offers a wholesome rewards structure which has enabled us to be positioned among the top employers in the country.
We drive our strength from our people, who are at the core of our business and inspire us for continuous improvement.
We firmly believe in adherence to our organizational values and business ethics that remain the guiding principle behind everything we do.

The key Human Resources activities completed in 2012 are:

- 2500 employees have gone through an extensive Nutrition training, using an internally developed tool (NQ).
- 1400 additional farmers have been trained at our experimental farms of Sarsabz and Sukheki.
- The new Nestle Leadership Framework (NLF) was launched. Its aim is to support the future requirements of our business allowing our Company to continuously evolve and to remain competitive.
- The Leadership Development as well as the Education and Training Pillar have been introduced across the value chains, as part of our NCE rollout.

Corporate Social Responsibility (CSR) And Community Work:

We recognize that if we are going to build businesses that are successful today and sustainable tomorrow, we need to create value for all our partners.
We have identified Nutrition, Water and Rural Development as the three main areas where we can Create Shared Value.
Our CSV activities go beyond few philanthropic activities and entrench into the entire value chain from offering quality products to the consumers, providing a fair and diverse work environment for our employees, capacity building and knowledge transfer to our partners and raw material providers, implementing responsible sourcing models into our relationships, supporting under privileged communities to working with small farmers, enhancing sustainability and environmental friendliness of our operations, embedding ethical and transparent business practices. Nestlé Pakistan, once again, was among the top ten corporates being recognized for its corporate philanthropy by the Pakistan Centre for Philanthropy (PCP). The fresh milk procurement worth PKR 21.7 billion has also added value to the rural economy.
The key CSV completed during 2012 are:

- Nutrition awareness to 30,000 school children in the rural and sub-urban area under Healthy Kids Program
- Continuation of Nutrition support for the under privileged
- Refurbishment of Water filtration plants
- Continued Support for the Dairy and Rural Development Foundation training program involving 16000 farmers including women for skill enhancement related to dairy and livestock sector
- Ongoing support, training and advisory services as support to the dairy sector
- Renewal of Memorandums Of Understanding (MOUs) with the leading educational institutions as education support for the under privileged
- School refurbishment program for the under privileged areas

Future Outlook:

In view of continuing economic uncertainties and volatility, we do not expect 2013 to be any easier. However the management of the Company continues to have a long term optimistic outlook for our business. We are still confident in the strong potential

of Pakistan fuelled by its growing and youthful population. Nestlé is committed to Pakistan and to bringing products to consumers that deliver Nutrition, Health & Wellness.

Acknowledgments:

We take this opportunity to thank our valued customers and consumers who have trust in our products and continued 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 stakeholders 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

Magdi Batato
Chief Executive

Lahore: February 18, 2013

Annexure to Directors' Report on Corporate Governance

The company is committed to adopt and implement high standards of Corporate Governance. It has adopted and implemented the Corporate Governance Principles of its parent company, Nestle 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 of 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 = 5

Date of Meeting	Time	Place
February 08, 2012	10:00 a.m.	Corporate Office, Lahore
April 17, 2012	10:00 a.m.	Corporate Office, Lahore
June 06, 2012	10:00 a.m.	Corporate Office, Lahore
August 07, 2012	10:00 a.m.	Corporate Office, Lahore
October 17, 2012	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 Attend	Remarks
Syed Yawar Ali	27-06-2010	5	
Naveed A. Khan	07-08-2012	2	
Magdi Batato	06-06-2012	3	
Pierre Schaufelberger	27-06-2010	5	
Syed Babar Ali	27-06-2010	5	
Syed Hyder Ali	27-06-2010	4	
Giuseppe Bonanno	27-06-2010	5	
Ian Donald	27-06-2010	3	
Edouard Simond	24-10-2011	3	

Role and Responsibilities of the Chairman and Chief Executive

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

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

Audit Committee

The Audit Committee comprises of 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 2012. The Chief Financial Officer, Internal Auditors as well as External Auditors were invited to the meetings.

Human Resources & Remuneration Committee

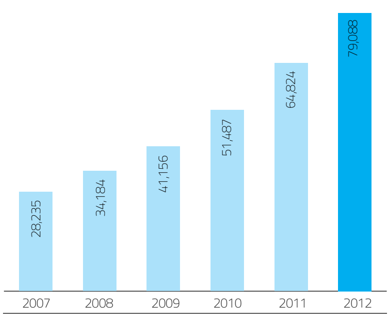
The company has established this committee in 2012 in accordance with requirements of Code of Corporate Governance. All issues of remuneration are fully disclosed, deliberated and decided at the meetings of the directors.

Strategic Planning

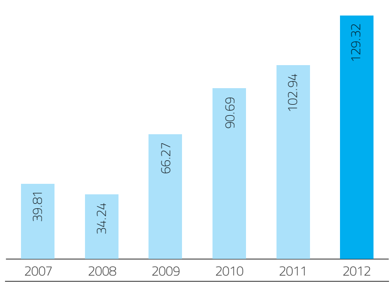
The company's strategic direction was reviewed at the meeting of Directors. A process has been put in place whereby long term Market Business Strategies and Annual Operational Plans established by management are regularly reviewed by the Directors in line with the company's overall business objectives.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

Company Performance 2012

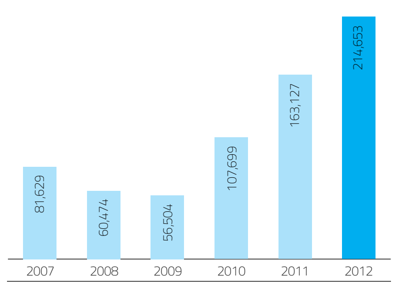
Sales
(Rs. in million)



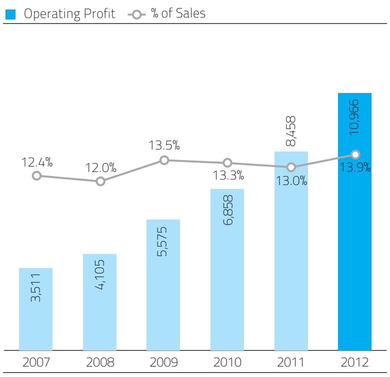
Earnings per Share
(Rupees)



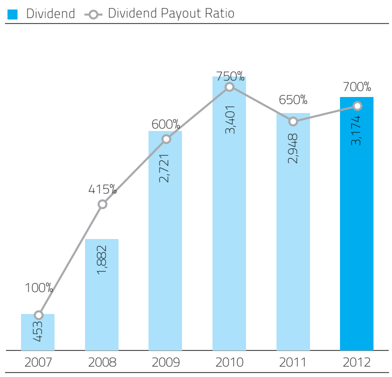
Market Capitalization
(Rs. in million)



Operating Profit and % of Sales

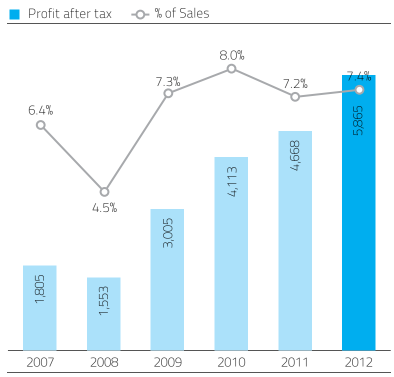


Dividend Payout Ratio*

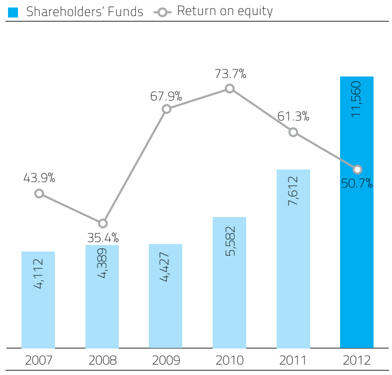


* Dividend paid/declared out of yearly profits

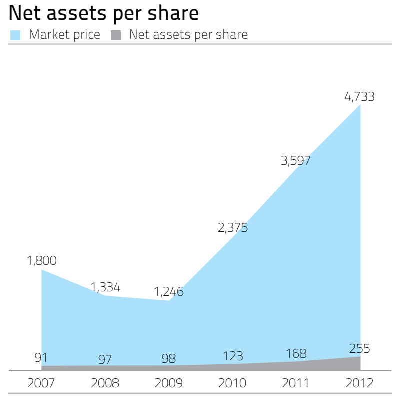
Profit after Tax & % of Sales



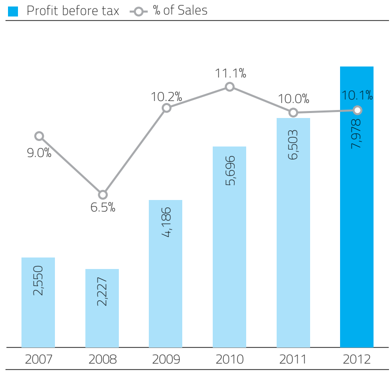
Shareholders' Funds & Return on Equity



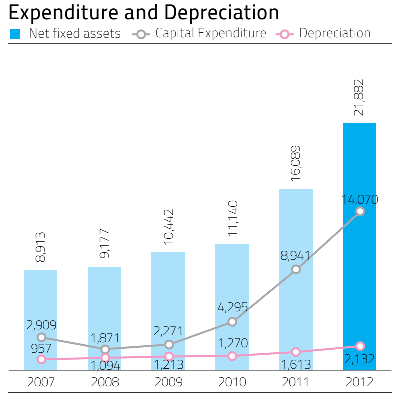
Market price per share vs. Net assets per share



Profit before Tax & % of Sales



Net Fixed Assets. Fixed Capital Expenditure and Depreciation



Statement of Wealth Creation and its Distribution

(Rupees in 000)	2012		2011	
Wealth Generated/ Value Added:				
Turnover (including Sales tax)	85,247,112		69,645,620	
Less: Purchased materials and services	(62,361,835)		(51,462,135)	
Value Added	22,885,277		18,183,485	
Other Income	160,142		159,545	
Wealth Created	23,045,419	100%	18,343,030	100%
Weath Distribution:				
To Employees:				
Salaries, benefits and other costs	5,538,710	24.0%	4,277,554	23.3%
To Government:				
Income tax, sales tax, excise & custom duty, WWF, WPPF	7,517,329	32.6%	6,650,444	36.3%
To Society and Development Initatives:				
Donations and CSR Projects	73,756	0.3%	62,736	0.3%
*Dairy Development (Non-business returns)	189,410	0.8%	158,900	0.9%
To Providers of Capital:				
Dividend to Shareholders	1,813,983	7.9%	2,494,228	13.6%
Mark-up/ interest expenses on borrowed funds	1,827,969	7.9%	1,050,355	5.7%
To Company:				
Depreciation, amortisation and retained profit	6,084,262	26.4%	3,648,813	19.9%
	23,045,419	100%	18,343,030	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 Initiatives' is calculated accordingly.

Key Financial Data
Six Years at a Galance

(Rupees in million)	2012	2011	2010	2009	2008	2007
Trading Results						
Sales	79,088	64,824	51,487	41,156	34,184	28,235
Gross Profit	21,523	16,725	13,879	11,899	8,952	7,950
Operating Profit	10,966	8,458	6,858	5,575	4,105	3,511
Profit Before Tax	7,978	6,503	5,696	4,186	2,227	2,550
Profit After Tax	5,865	4,668	4,113	3,005	1,553	1,805
Balance Sheet						
Shareholders' Funds	11,560	7,612	5,582	4,427	4,389	4,112
Reserves	11,107	7,159	5,128	3,973	3,935	3,658
Operating Fixed Assets	21,882	16,089	11,140	10,442	9,177	8,913
Net Current Assets/Liabilities*	(3,056)	(3,352)	(1,396)	85	432	(325)
Long Term Liabilities*	19,351	10,821	7,622	7,399	7,043	5,788
Investor information for six years						
Gross Profit Ratio	27%	26%	27%	29%	26%	28%
Operating Profit Ratio	14%	13%	13%	14%	12%	12%
Profit Before Tax Ratio	10%	10%	11%	10%	7%	9%
Profit After Tax Ratio	7%	7%	8%	7%	5%	6%
Inventory Turnover Ratio	7.6 : 1	8.2 : 1	8.9 : 1	9.2 : 1	10.3 : 1	9.4 : 1
Total Assets Turnover Ratio	1.8 : 1	2.2 : 1	2.5 : 1	2.3 : 1	2.1 : 1	2 : 1
Price Earning Ratio	36.6	34.9	26.2	18.8	38.9	45.2
Return on Capital Employed	26%	35.5%	43%	40%	20%	26%
Market Value Per Share	4,733	3,597	2,375	1,246	1,334	1,800
Debt Equity Ratio	69 : 31	69 : 31	66 : 34	66 : 34	63 : 37	62 : 38
Current Ratio*	0.8 : 1	0.8 : 1	0.9 : 1	1 : 1	1.1 : 1	0.9 : 1
Interest Cover Ratio	5.4 : 1	7.2 : 1	12.1 : 1	10.5 : 1	5 : 1	5.4 : 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, 2012

No. of Shareholders	Shareholding From	Shareholding To	Total Shares Held
372	1	100	11,354
162	101	500	43,068
94	501	1,000	72,154
92	1,001	5,000	201,080
17	5,001	10,000	127,388
10	10,001	15,000	121,975
3	15,001	20,000	53,930
6	20,001	25,000	141,200
1	30,001	35,000	32,783
1	35,001	40,000	38,137
1	40,001	45,000	40,023
1	50,001	55,000	54,910
1	60,001	70,000	66,289
1	80,001	85,000	82,717
1	100,001	105,000	103,340
1	175,001	180,000	176,064
1	210,001	215,000	210,865
1	220,001	225,000	224,720
1	260,001	265,000	262,915
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	535,001	540,000	538,235
1	1,020,001	1,025,000	1,024,901
1	1,365,001	1,370,000	1,365,956
1	3,575,001	3,580,000	3,580,000
1	3,645,001	3,650,000	3,649,248
1	4,355,001	4,360,000	4,356,666
1	26,775,001	26,780,000	26,778,229
779		Grand Total of CDC & Phy Shares	45,349,584

Classification of Shares by Categories

As at December 31, 2012

Categories of Members	Numbers	Shares Held	Percentage
Insurance Companies	4	35,148	0.08
Individuals	679	5,861,529	12.93
Associated Cos.,Undertakings	5	8,790,535	19.38
Directors CEO/Spouse/Minors	5	2,028,153	4.47
Financial Institutions	3	452,828	1.00
National Investment Trust (NIT)	1	100,796	0.22
Foreign Investors	13	28,021,461	61.79
Joint Stock Companies	21	6,260	0.01
Charitable Trust	4	17,125	0.04
Funds	32	19,368	0.04
Executives	11	381	0.00
Public Sector Companies & Corporations	1	16,000	0.04
Shareholders' Holding 5%	–	–	–
Total	779	45,349,584	100.00

Key Shareholding and Shares Traded

Information on shareholding required under reporting framework is as follows:

1	Associated Companies, undertakings and related parties	
	Nestlé S.A.	26,778,229
	Packages Limited	3,649,248
	IGI Insurance Limited	4,356,666
	Gurmani Foundation	538,235
	Industrial Technical and Educational Institution (Ali Institute of Education)	21,666
	National Management Foundation	224,720
2	Mutual Funds	
	National Bank of Pakistan, Trustee Department, Trustee Wing	100,796
3	Directors	
	Syed Yawar Ali	23,220
	Mrs. Syeda Nighat Ali	60
	Syed Babar Ali	1,365,956
	Mrs. Perwin Babar Ali	210,865
	Syed Hyder Ali	428,052
4	Executives	381
5	Public Sector Companies & Corporations	
	Employees Old Age Benefit Institution (EOBI)	16,000
6	Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds	1,741,468
7	Shareholders holding 5% or more voting rights	NIL
8	Details of purchase/sale of shares by Directors, *Executives and their spouses and minor children	NIL

* The Board has set the threshold of Executive, to be the member of NimCom (Nestlé in Market Committee)

Statement of Compliance with the code of Corporate Governance

For the year ended December 31, 2012

This statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulation no. 35 of 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 CCG 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:

Category	Names
Executive Directors	
	1. Syed Yawar Ali
	2. Mr. Magdi Batato
	3. Mr. Giuseppe Bonanno
	4. Mr. Naveed A. Khan
Non-Executive Directors	
	1. Syed Babar Ali
	2. Syed Hyder Ali
	3. Mr. Pierre Schaufelberger

Note: An independant non-executive director will be elected in addition to above, in next election of directors due in June 2013.

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

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

4. Two casual vacancies occurring on the board on 06-June-2012 & 07-August-2012, were filled up by the directors within one day.

5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company alongwith its supporting policies and procedures.

6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. 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 CEO, other executive and non-executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met atleast once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. Subsequent to year end, two Board members attended Corporate Governance Leadership Skills – Director Education Program at Pakistan Institute of Corporate Governance (PICG).

10. The board has approved appointment of Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.

11. The Directors' Report for this year has been prepared in compliance with the requirements of the CCG 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 CCG.

15. The Board has formed an Audit Committee. It comprises of three members, of whom two are non-executive directors and one is executive director. The Chairman of the committee is non-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 CCG. The terms of reference of the Committee have been formed and advised to the committee for compliance.

17. The board has formed an HR and Remuneration Committee. It comprises of three members, of whom two are non-executive directors and the chairman of the committee is a non-executive director.

18. The board has set up an effective internal audit function.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP 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 ICAP.

20. 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.

21. The 'closed period', prior to the announcement of final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchanges.

22. Material / price sensitive information has been disseminated among all market participants at once through stock exchanges.

23. We confirm that all other material principles enshrined in the CCG have been complied with.

MAGDI BATATO
CEO

Lahore: February 18, 2013

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 ("Statement of Compliance") prepared by the Board of Directors of Nestlé Pakistan Limited ("the Company") to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub- Regulation (x) of Listing Regulation No. 35 of the respective Stock Exchanges where the Company is listed, requires the Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company tor the year ended 31 December 2012.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

Lahore
February 18, 2013

Notice of Annual General Meeting

Notice is hereby given that the 35th Annual General Meeting of Nestlé Pakistan Ltd; will be held at 11:30 a.m. on Friday, April 19, 2013 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, 2012 together with the Directors' and Auditors' reports thereon.

2. To appoint Auditors and fix their remuneration for the year ending December 31, 2013. 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 700 % i.e. Rs. 70 per share for the year ended December 31, 2012.

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

BY ORDER OF THE BOARD

Ali Sadozai
Company Secretary

Lahore
March 10, 2013

NOTES:

1. Share Transfer Books of the Company will remain closed from April 13, 2013 to April 19, 2013 (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 April 12, 2013 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.

7. The Securities & Exchange Commission of Pakistan (SECP) vide its SRO 779 (I)/2011 dated August 18, 2011 has made it mandatory that the dividend warrants should bear the Computerized Identity Card Number (CNIC) of the registered member or authorized person, except in the case of minor(s) and corporate members. Therefore individual members or their authorized representatives who have not yet provided an attested copy of their valid CNICs to the Company/ Shares Registrar are requested to provide the same at their earliest to avoid any inconvenience. The corporate entities are requested to provide their National Tax Number (NTN).

8. In case of joint holders, only one member whose name will appear as main title shareholder in our list of shareholders, will be allowed to attend the General Meeting.

Nestlé Sheikhupura Factory

About Nestlé

Nestlé Pakistan today, is the leading Food & Beverage Company in Pakistan with a key focus on nutrition, health and wellness reaching the remotest of locations throughout the country to serve consumers.

Nestlé Pakistan today, is a leading Food & Beverage Company in Pakistan with a key focus on nutrition, health and wellness reaching the remotest of locations throughout the country to serve consumers and continue to enhance the quality of life of people throughout its value chain.

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 their quality of life. Our 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 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 the joint venture with Milk Pak Ltd and took over the management in 1992. For last many years in a row, the company has won a place among the top 25 companies of the Karachi Stock Exchange.

Nestlé's existing products grow through innovation and renovation while maintaining a balance in geographic activities and product lines. Nestlé Pakistan operates in many ways but people, products and brands are the basis of the Company's image. It respects the cultures of the regions it operates in and recognizes the need for quality of life of their people. As a result our priority is to bring the best and most relevant products to people, wherever they are, whatever their needs are, and for all age groups which is ensured through our effective marketing, vast sales and distribution network. Having its center of operations in Lahore, the company operates four production facilities. Factories in Sheikhupura and Kabirwala are multi product factories, whereas the ones in Islamabad and Karachi produce water.

At Nestlé we believe to be successful in the long-term and create value for our shareholders, we must also create value for society; we call this Creating Shared Value. Making important contributions to society and going a step beyond by giving value to communities, we have strengthened our value chain across Pakistan.

Nestlé Pakistan is proud of its commitment to excellence in product taste and safety.

Board of Directors
as on December 31, 2012

Name	Member	Nationality	Term Expires
Syed Yawar Ali	Chairman	Pakistani	26.06.2013
Magdi Batato	Managing 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
Naveed A. Khan	Director	Pakistani	26.06.2013

Officers

Magdi Batato
Chief Executive

Giuseppe Bonanno
Chief Financial Officer

Ali Sadozai
Company Secretary

Ali Furqan Syed
Head of Internal Audit

Audit Committee

Syed Hyder Ali — Director
Chairman

Syed Babar Ali — Director
Member

Naveed A. Khan — Director
Member & Secretary

Human Resources & Remuneration Committee

Syed Babar Ali — Director
Chairman

Syed Hyder Ali — Director
Member

Magdi Batato — Managing Director
Member

Shahzad Umar — Head of Human Resources
Secretary

Company Directory

Registered & Corporate Office

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

Corporate Office Annex

- 304 – Upper Mall,
  Lahore, Pakistan.
- 309 – Upper Mall,
  Lahore, Pakistan

Resident Corporate Office

Plot BC/10, 8th Floor, Clifton Diamond,
Block 4, Clifton Karachi.
Phone: (021) 5833935-6
Fax: (021) 35833937

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-km Lahore - Sheikhupura Road,
Sheikhupura.
Phone: (056) 3406615-29
Fax: (056) 3406639

Kabirwala

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

Islamabad

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

Karachi

Plot No. A23, North Western
Industrial Area, Port Qasim Karachi.
Phone: (021) 34720152-4

Regional Sales Offices

South Zone

Karachi

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

Quetta

63-B-D, Chaman Housing Scheme,
Opp. Askari Park, Quetta
Phone: 081-2834887, 081-2821243,
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: 051-4859300-2
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, 091-5842415
Fax: 091-5854454

Management Committee

From Left to Right

Asim Rifat
Country Business Manager,
Maternal & Infant Nutrition

Salman Nazir
Head of Supply Chain

Ali Sadozai
Head of Legal Affairs & Company
Secretary

Waqar Ahmad Sheikh
Head of Corporate Affairs

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

Shaheen Sadiq
Head of Communication & Marketing
Services

Dr Usman Iqbal Bhatty
Country Business Manager, Waters

Abdul Wasey Khan
Head of Nestlé Continuous
Excellence

Samra Maqbool
Business Manager, Culinary & Food

Nauman Khan
Country Business Manager, Nestlé Professional

Magdi Batato
Managing Director

Amir Iqbal
Business Executive Manager, Ambient Dairy

Zafar Hussain Shah
Head of Sales

Shahzad Umar
Head of Human Resource

Abdullah Jawaid
Business Manager, Chilled Dairy

Arsalan Khan
Business Manager, Beverages

Giuseppe Bonano
Head of Finance & Control

Naveed Khan
Head of Technical

Human Resource

In 2012, Human Resource continued its journey from last year, to cultivate a culture of talent diversity, high performance and ensuring compliance.

Initiatives taken were focused towards enhancing performance principles, leadership development, and career growth, attracting right talent and providing avenues for learning. Additionally, Human Resource team has been thoroughly involved in the progress of the Nestlé Continuous Excellence journey, by providing its support and guidance in maintaining employee engagement, people development processes and appropriate goal alignment.

With a mindset towards achieving sustainable excellence, a comprehensive learning programme surrounding concepts of coaching and feedback was rolled-out to targeted groups of existing and upcoming leadership. With blended learning approach and meticulous evaluation technique, the programme was well-received and laid foundations for a community dedicated to drive the desired mindset to all levels within the organization.

To honour our commitment towards adapting Corporate Business Principles in daily transactions, awareness campaigns were conducted throughout the organization. Additionally, awareness sessions for industrial relations were conducted for enhancing understanding regarding labour laws and subsequent applications.

To further enhance our employer brand, steps were taken to enhance scope of acquisition to continue bringing on board diverse and talented workforce. The programmes designed to reach the new and upcoming talent were received positively.

To facilitate our commitment towards eradication of disparity, special initiatives were taken to align and improve the employee benefits across the organization. Furthermore, our recognition programme 'Maan Hamara Tum Se' continues to mature by becoming a major platform for recognizing extraordinary achievements on a company-wide scale.

With focus on bringing excellence in our service delivery, Human Resource continued to implement the findings of the survey results regarding level of satisfaction on our processes and services. The objective remains to fortify the strengths identified and work on gaps highlighted in our journey to continuous excellence.

For Human Resource, 2012 was about continuity, pursuing its drive for strengthening a high performance culture and developing the people by facilitating them with a progressive and healthy work environment.

Milk Collection & Dairy Development

The impact of the Milk Collection and Dairy Development team in 2012 has been significant, bringing betterment and opportunity to many rural communities.

The Milk Collection and Dairy Development activity continues to grow to meet the demand of our factories and our markets. The Milk Collection team is collecting milk from around 200,000 farmers through a network of 3,278 chilling points and more than 3,000 Village Milk Centres. This operation extends over 146,000 square kilometers and includes much of the Punjab plus a northern portion of the Sindh province.

The success of this operation lies in the CSV (Creating Shared Value) element that our Dairy Development team contributes to the development of rural communities as they encourage the introduction of Best Farm Practices that can bring increased production and profitability to farms of all sizes. Our successful Dairy Hub work in the Mian Chanu Region has been a pioneering programme from a strong team of female livestock and community development experts working with villages that are combined into a Dairy Hub. This programme is now being extended to a new area in the Kasur District and promises to bring the same results. This team, and more than 80 Dairy Development Executives working throughout the milk catchment area, are bringing new technology to the sector, changing the face of dairy farming to the benefit of all of our suppliers.

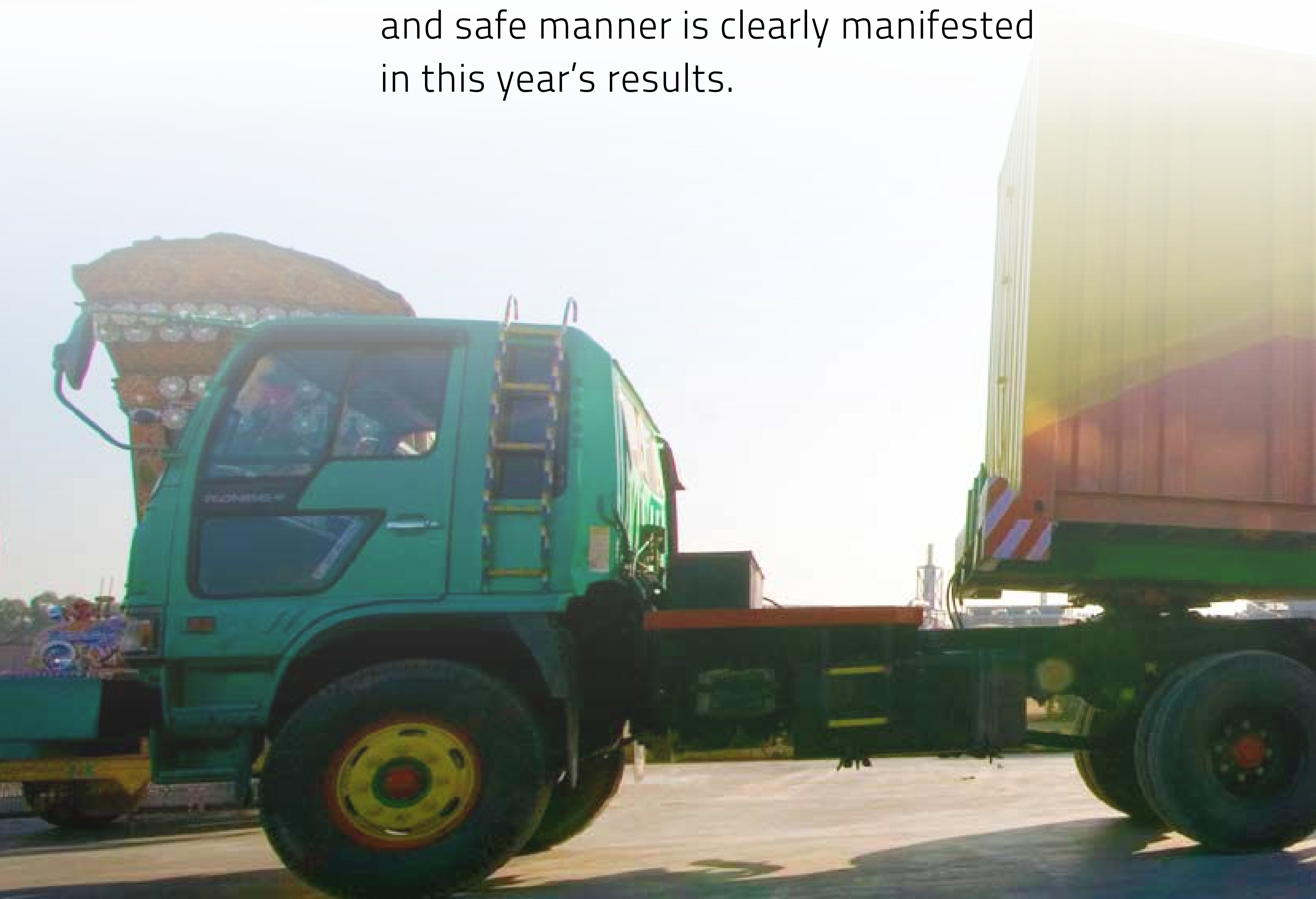
The Nestlé Pakistan demonstration farms, Sarsabz and Sukheki, continue to provide centres of excellence from which to develop farmer training programmes. To date more than 9000 farmers have been given the opportunity to learn modern dairy practices at these farms and the benefits are clear as they implement their learning on their own farms. In the farmers that we monitor most intensely, a group of more than 3,000 contracted suppliers, we have seen a 20% lift in per cow yield in the past year. This is a major factor in changing the life and income of the rural community, and is a programme that will continue in coming years.

In parallel with this activity we have encouraged the introduction of large farms which require substantial investment from the private sector. Through this range of farm size, from small village based units to large commercial investments, Nestlé Pakistan is ensuring continuity of supply that will match our manufacturing demand.

Our extensive network of chillers in isolated sites presents a real challenge in terms of the energy requirement to maintain milk quality through rapid chilling. We have introduced experimental solar powered chilling facilities at two sites that are giving excellent results and will become a focus of our search for cost effective solutions to the energy crisis in rural Pakistan. We are further adding to our knowledge through the introduction of a Bio Gas generating plant at the Sukheki demonstration farm and this too is leading to a cost effective solution to the same problems, in a farm environment. The impact of the Milk Collection and Dairy Development team in 2012 has been significant, bringing betterment and opportunity to many rural communities.

Supply Chain

Supply Chain's untethered and continuous commitment to competitively delight consumers and satisfy customers throughout the country in a sustainable, responsible and safe manner is clearly manifested in this year's results.



To enhance our competitiveness we work with a Continuous Improvement mindset. Our performance this year has been augmented by implementing more effective planning processes, simplifying operations and eliminating waste throughout our value stream.

We've successfully taken business planning to the next level by implementing a robust framework called Monthly Business Planning. This enables us to make focused decisions involving the right people at the right time with the right information while looking at its overall impact on profitability.

Supply Chain is supporting Nestlé's strategy of sustainable growth by ensuring non-essential costs are avoided which enables consumers to readily access good quality and affordable nutrition. By innovatively managing our resources and sourcing strategies we are saving costs related to transportation, handling and working capital. This is also helping us in combatting inflation, increasing competitiveness and positively impacting our bottom line. Supply Chain is actively supporting end-to-end value chain development. This year, in collaboration with Sales we launched a 'Distributor Development Programme' for capability building of our distributors' infrastructure. Nestlé remains committed to Responsible Sourcing. Procurement is ensuring that a wider vendor base is compliant with our Responsible Sourcing Programme which stipulates that our suppliers, their employees, agents and sub-contractors adhere to minimum standards (on business integrity, sustainability, labour, safety & health and environment) when conducting business with Nestlé. Finally, safety remained a non-negotiable key priority across Supply Chain. In order to drive continuous improvement in our safety culture we have augmented behavior based safety inclusive of road transport.

Technical

Journey towards Excellence

Out of four manufacturing facilities in Nestlé Pakistan three of them witnessed major investments in different product categories. All four factories achieved Excellent rating in "P" tests. Along with development of people across all technical division one important development was the appointment of Naveed Ahmad Khan as first ever Local Head of Technical. Technical division demonstrated improvement and progress in all dimensions specifically Safety, Health & Environment, Quality, Productivity, Cost Saving initiatives and people development, and Nestlé continuous excellence has been an important tool to achieve it.

SHEIKHUPURA FACTORY (SKP)

During the year 2012 we have continued to hold the responsibility for the environment, personal safety, and the safety of others.

In view of the growing demands of the market and changing consumer needs, an expansion in the current manufacturing foot print is under execution.

On one hand Nestlé Pakistan is investing to take care of health and wellness of the consumer while on the other hand the Company is keen to look after the needs of its employees, hence addition of new social block in the factory.

NCE along with LEAN implementation at Juice Line has been the key to bring continuous improvement.

Milestone achieved by QA Labs:

Sheikhupura QA labs have passed ISO 17025 lab accreditation audit by a government agency PNAC. This success is a result of rigorous efforts of the whole laboratory team (both Chemistry and Microbiology).

Installation of Roller-Dryer

This project was very tedious and difficult to handle as new roller dryer was supposed to be installed within the existing operational set-up. The job was completed professionally without any interruption.

Installation of Sprayer-Dryer

Due to increasing consumer demand and business needs of the market, this new facility is being constructed to meet future milk powder demand. The new Sprayer Dryer will be equipped with the latest technology developed in our product technology centre in Konolfingen. The team is fully committed to commission the plant ahead of time.

These projects brought expansion in industrial services in the factory as well.

KABIRWALA FACTORY (KBF)

2012 was an exciting year for KBF; where we had to sustain all the good work done in the previous year and ensure continued growth of factory and the team. Numerous white belt and green belt projects were completed and emphasis enhanced on problem solving techniques.

Since Nestlé puts great emphasis on safety of all stake holders, it gives us great pleasure to communicate that in 2012, there was zero Lost Time Injury Frequency Rate (LTIFR), an excellent return to the KBF Team's efforts. We have now completed 2.5 years without any LTIFR and almost touching 10 million safe hours.

We maintained high quality products with a high level of efficiency. Trials were conducted and new products launched with a variety of flavours in noodles world and Everyday Lite in powders category. Audits for NIMS compliance and lab accreditation were cleared with flying colours. We managed to reduce milk tanker stay time in the factory by taking several initiatives to improve milk quality.

Highlights of the year were installation and commissioning of new noodles line and commissioning of new Confectionery plant; installation and commissioning of four new wolf machines; extension of the social block; extension of the Raw and Packaging store, housing colony extension, master guest house extension and Standardization up gradation. This brought expansion of utilities in the factory as well.

PORT QASIM FACTORY

2012 was the most significant year in the history of the factory with major expansions. Now the factory has got capacity of producing 5 gallons, 1.5 litre and 0.5 litre bottles along with preform manufacturing.

The factory showed very good results in SHE, Quality, Productivity and Cost during the year using NCE as a tool for continuous excellence.

ISLAMABAD FACTORY

Islamabad Factory is the leading site in Nestlé world with highest number of safe working days achieving record of 11 Safe Years in 2012. Productivity, delivery and quality results showed continuous improvement, and with strengthening of NCE and Focus improvement the factory is not far away from its goal of achieving Zero Waste.

Quality Control

Consumers have always preferred Nestlé Products due to their Quality and safe-to-consume attributes which are the strongest drives for our consumers' trust...

Consumers have always preferred Nestlé Products due to their Quality and safe-to-consume attributes which are the strongest drives of our consumers' trust whose sustainability is an indigenous part of Nestlé Operations. Nestlé has been continuously evolving its operations over the past years to satisfy its consumer's growing expectations particularly in an era of rapid communication and feedback.

In line with its commitment of putting the consumer first, all Nestlé operations across its value chain have been clubbed into Nestlé Quality Management System which assures that contribution by each and every function to Quality is being monitored and assured at each and every step. Further in order to safeguard the health and nutrition aspects of our valued consumers, Nestlé has developed Nestlé Food Safety Management System (NFSMS) which is aligned with the requirements of FSSC 22000. All Nestlé sites are audited and certified by a third party against FSSC 22000 (Food Safety System Certification) and ISO 9001:2008 (Quality Management System). All labs in Nestlé factories are regularly achieving A grade in third party sample analysis for service verification called "P tests" which confirms the competence level in our Lab operations. Our Quality assurance labs at Sheikhupura, Kabirwala, Port Qasim and Islamabad have undergone ISO 17025 accreditation to further strengthen our lab management system.

Our Milk collection and Dairy Development wing has also been certified against ISO 22000 and ISO 9001 to ensure quality and safe milk. In order to ensure the quality and food safety of our products from farm to fork, all our raw and packaging materials supplier's factories are audited and approved for material supply on quality and food safety basis under the process of Vendor Approval Process (VAP). Additionally Nestlé keeps on challenging and developing its distributions and retailers through periodic assessments to protect the product and ensure its quality till the consumer. This farm to fork approach has been the key to quality in supply chain.

Nestlé Continuous Excellence

Let us focus together
to make tomorrow
better than today.

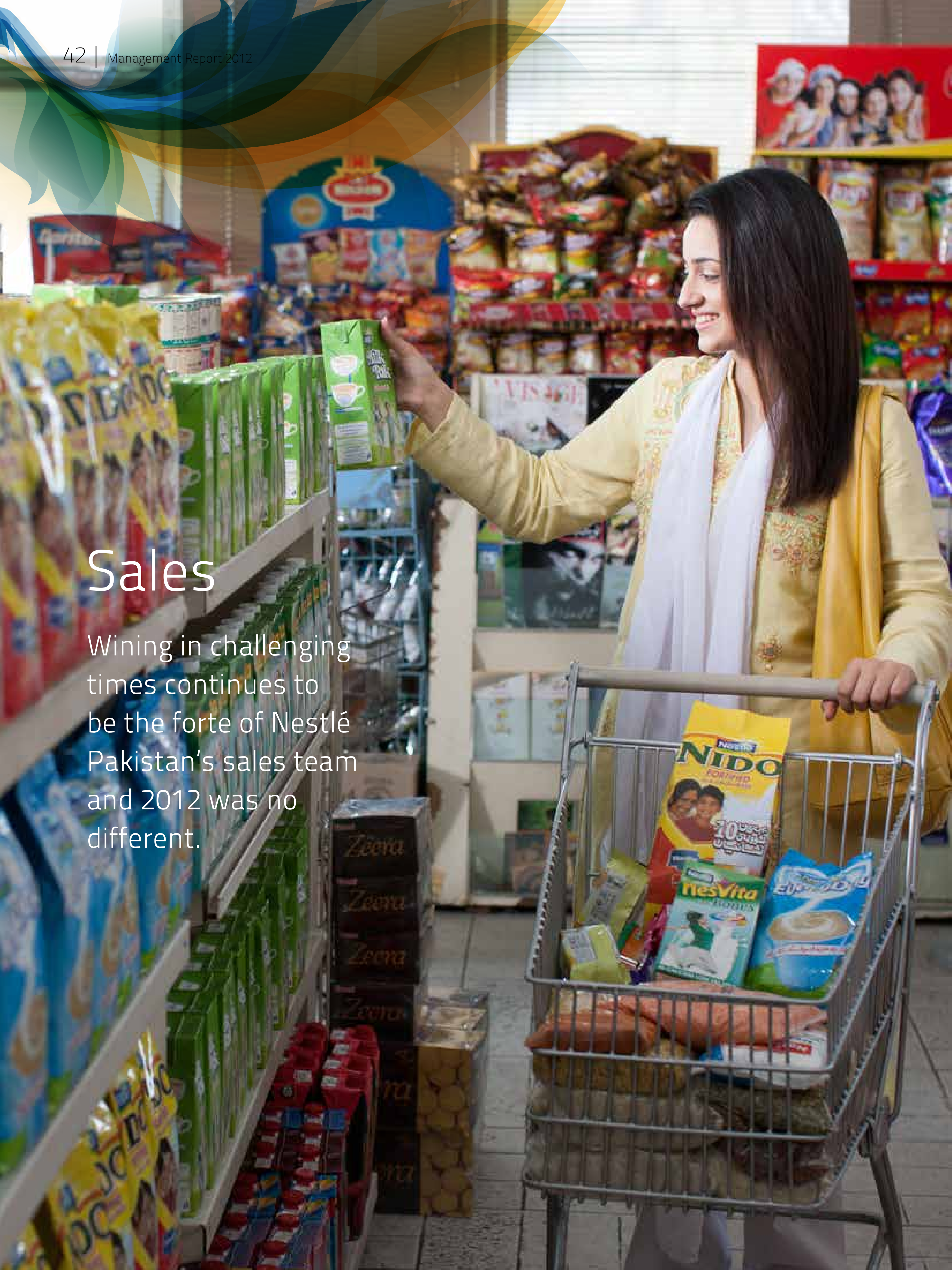
Nestlé Continuous Excellence (NCE) is a way of working, a mindset change, which embeds not only Nestlé's core values and principles but also encourages people to continuously strive for a better tomorrow.

It is a key element of our strategy to drive operational efficiency and strip out waste throughout the value chain and as a consequence ensure long-term sustainability.

Nestlé Pakistan embarked on the NCE journey in 2009. During the last three years we successfully laid down the foundations in operations and have gained significant results in areas such as Technical (across all factories), Milk Collection and Supply Chain. It's worth mentioning that Nestlé Pakistan is the first Nestlé market, which has successfully initiated the NCE journey in our Arifwala Milk Collection Zone covering all regional offices and employees. The plan is to cover all Milk Collection areas by end of 2014.

In recent years, over 1500 employees have been trained on NCE tools and methodologies which has successfully reduced waste across the value chain. In 2012, we embarked on the NCE journey in areas beyond operations such as Marketing, F&C, IT & Procurement with plans to incorporate all functions and departments in coming years.

Today, a rapidly intensifying competitive landscape offers us a huge opportunity to delight our consumers and customers better by strengthening our drive for continuous excellence. Doing this will ensure that tomorrow we can enrich the lives of millions of more Pakistanis through good food.



Sales

Wining in challenging times continues to be the forte of Nestlé Pakistan's sales team and 2012 was no different.

The year posed many challenges to the sales organization but simultaneously manifested opportunities for out of box thinking to capitalize on effective and cost efficient route to market operations for making our products available and visible 'Everywhere and Everyday' living on the principle of 'Whenever, Wherever, However'.

Driven by high enthusiasm, passion and motivation, our sales team continued its momentum this year for driving sustainable growth ensuring widespread access of quality Nestlé products to consumers and shoppers across all relevant channels and geographical areas. Ensuring brilliance at basics, our sales set up is structured to reach 600 cities and small towns across a widespread geography with distributor's sales force of more than 6000 people and 1500 vehicles working everyday to delight our consumers and shoppers.

To further deepen and widen our consumption base, we accelerated our efforts for enhancing our PPP distribution infrastructure through making joint investments with our distributors. This lead to induction and enhancement of new transportation mediums (bikes, 3 wheelers) for penetrating narrow streets where it was difficult earlier to reach with vans. This enhanced PPP infrastructure has not only supported the growth of many brands in our business portfolio but has resultantly also increased shopper and consumer access to affordable nutrition.

Another major initiative that we aggressively pursued this year was to capitalize on the automation of our sales system which enabled better transparency of daily complex operations and an integral tool for business decision making. This automated system has already been rolled out to all direct distributions and this year we started the roll out to sub-distributors for enabling better planning of channel based activities for effective monitoring and visibility.

Making Shopping Experience Delightful – Channel & Category Sales Development

Category and Channel Management has played an instrumental role this year in driving growth behind many categories. Amongst many new initiatives taken through proactive planning and leveraging available tools, this year we took a step further to understand our shoppers better in key categories through formal research and leverage this understanding for driving excellence at the point of purchase. A step further was to transfer this knowledge set across the organization from business to field sales to ensure alignment in what the shopper is expecting from us.

Channel Management Structure has also matured which has led to channel based activations and promotions planning. Targeted brand/SKU focus in right channels for the right shopper has brought excellent growth in channel sales both in Modern and General Trade.

Key Accounts

Collaborative working relationship with local as well as International key accounts, mutual respect and understanding of each other's business needs has been one of the major growth drivers behind the successful growth of our Key Accounts business year on year. This channel offers an increasingly important opportunity in terms of providing the right platform through which we can liaison with our growing urban modern shoppers. Effective Point Of Purchase communication, investment in right areas with our partners and aligning them with our objective of driving profitable growth has helped in establishing Nestlé as one of the preferred business partners for our customers. Innovative promotional planning this year in this channel has lead to Nestlé gaining market share in multiple categories ahead of national averages.

Winning in Difficult Times – Afghanistan Business

Our export business this year grew positively versus last year despite the difficult economic and political situation in Afghanistan. This was possible through the enthusiasm of highly motivated Nestlé and importers team aimed at increasing access to quality Nestlé products for Afghan consumers. This year, major restructuring followed in the distribution model to adapt to changing market dynamics with the induction of activations at key account channel and further enhancing the community agents model (city based whole sellers) in Kabul which is the major economic hub in Afghanistan. To further accelerate our momentum in Afghanistan, next year we look forward to a more structured investment model behind understanding the Afghani consumer needs and developing tailored made communication for major brands.

Consumer Communication

At Nestlé Pakistan, Marketing and Communication Services act as a key foundation of our overall business strategy and execution.

Communication is the lynchpin for all businesses to ensure that Nestlé is at the forefront to listen and engage with its consumers and also inspire them to benefit from Nestlé Products.

It all starts with ensuring that we listen to our consumers through formal researches as well as use nonconventional mediums like Nestlé NAATA (our 24/7 call centre) and digital. Proactively supporting Business Units, the communications team converts consumers' knowledge gathered from various channels into a winning business strategy and facilitates the business to reach millions of consumers across Pakistan through both innovative Above The Line and Below The Line (ATL & BTL) avenues.

On the listening front, Nestlé during 2012 made connects with over 10,000 consumers through our customer friendly call centre – NAATA and understood the needs of over 31,000 consumers through formal research.

During the year; we embarked on undertaking 121 contacts with approx. 2.5 million Pakistani mothers, children and youth. We also engaged online with over 1.3 Million Facebook fans of different brands.

Finally, the Communications team supported Business teams to empower our brands to reach 8 Million houses through entertaining Television Commercials (TVCs) to communicate that at Nestlé it's all about Good Food, Good Life.

Nutrition, Health & Wellness

Our core aim is to enhance the quality of consumers' lives every day, everywhere by offering tastier and healthier food and beverage choices and encouraging a healthy lifestyle. We express this via our corporate proposition Good Food, Good Life.

The Leader in NUTRITION, HEALTH AND WELLNESS "Our core aim is to enhance the quality of consumers' lives every day, everywhere by offering tastier and healthier food and beverage choices and encouraging a healthy lifestyle. We express this via our corporate proposition Good Food, Good Life." Nutrition, Health and Wellness is Nestlé's strategic direction and a key growth driver. Each of our product categories has a specific strategy to ensure that it can be the nutrition leader in its space. Our constant commitment to improve the Nutrition, Health, and Wellness is underpinned by our values and principles.

Positive Nutrition
We are committed to increasing nutritional value of our products, as well as to improve taste and pleasure. Wherever possible, promote a balanced healthy lifestyle and eating habits.

Moderation
We believe in encouraging variety and moderation of consumption to achieve a balanced healthy diet.

Authenticity and Transparency
We are committed to providing factual and transparent nutrition and health information in all our communication.

We will always encourage and empower consumers to make informed decisions about their diet and lifestyle.

We believe that science and research are the foundation upon which we can satisfy the consumer need for nutrition, variety, taste and convenience.

Our unique **6040+ programme** is to constantly optimise both taste preference and nutritional value of our products. It also verifies the direction to communicate clear and practical information on nutrient figures and beyond, on the taste and nutritional advantages of products.

The 60/40+ programme got its name from this dual objective, balancing taste and nutrition: that Nestlé products bring a nutritional 'Plus' while still winning at least 60% of consumers in a preference test against direct competitor products. 60/40+ embodies the spirit in which we do business as the recognized leading NHW Company.

60/40+ is nothing else than good marketing practice to drive increased consumer demand and profitable growth by delivering superior products both in taste and nutrition. And, most importantly

to communicate these taste and nutritional advantages of our products and brands!

As of today approximately 90% NNS of the Product Portfolio tested for 60:40+ achieved a Taste WIN.

Nestlé's worldwide strategy is to offer products that have proven superiority in consumer taste preference and nutritional value. As the World's leading Nutrition, Health and Wellness Company, Nestlé continually invests in the innovation and renovation of its large portfolio of products both to enhance and communicate their taste and nutritional value.

In order to analyse the nutritional value of its products, Nestlé has established a rigorous methodology based on public health recommendations and consumer science. This is called the **Nestlé Nutritional Profiling System.** 100% of the portfolio has undergone Nutritional Profiling and approximately 81% of Portfolio NNS stands at an achieved Nutritional Foundation (NF Yes).

As the world's leading NHW company providing Good Food, Good Life to consumers anytime, anywhere, Nestlé recognizes the significance of global micronutrient deficiencies and the unique role that the Company can play by fortifying products with micronutrients in a relevant and meaningful way.

Emerging consumers have specific nutritional needs; for example they are more likely to suffer from deficiencies in vitamins and minerals such as Iron, Vitamin A, Iodine and Zinc.

Our fortified offerings are now gaining share in the portfolio. In addition to MILKPAK & NIDO Bunyad, we now have our MAGGI Noodles & FLAVOUR World range 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.

Thinking about Nutrition, Health and Wellness (NHW), there is a large choice of foods that consumers can consider. At one end of this spectrum are 'Better for You' food and beverage products with an improved overall nutritional profile. Towards the other end are products with added proprietary ingredients or combinations of such ingredients that provide specific health benefits, called **Branded Active Benefits (BABs).** The Nestle Pakistan Product Portfolio currently offers Calci-lock, Prebio and BL in their respective Brands, NESVITA, NIDO and CERELAC.

The Nestlé Nutritional Compass® on packs goes beyond listing nutrient figures: simple, transparent, consumer friendly product information. Compass execution on pack remains the key to creating an impactful Compass for the consumer. The Nestle Nutritional Compass TM covers 100% of the market portfolio. Clear and practical information about daily food and beverage choices, via labeling and on-pack nutrition communication, is essential for consumers to make informed decisions.

We believe the mandatory **GDA Labeling** and the Nutritional Compass represent major steps forward in further strengthening our commitment to helping consumers make informed choices about their diet.

We aim to become the preferred nutritional partner for all Pakistani Consumers, providing for the nutritional needs at all stages of life & pleasure moments for all occasions.

Nutrition is everybody's business at Nestlé

Key to our success as the leading Nutrition, Health and Wellness Company is ensuring that we have an internal culture built upon a good understanding of nutrition. **NQ Programme** rolled out in 2007 achieved the first milestone in the market by reaching 100% permanent employees with the NQ Foundation Module in 2010.

In 2011, the Advanced and Specialist modules were rolled out to the product development and communication teams to take the next step towards the understanding and alignment of the NHW strategies for each business.

The launch of the NQ Foundation **E-Learning** proved to be a great tool to accelerate the NQ impact in the market. The module provides employees the convenience of learning basic nutrition at their workplaces and at a time suitable to them.

The **NQ Posters Series** is an interesting refresher of the foundation module learning for employees at factories and milk collection sites. The 12 unit poster series is towards the completion of roll out by the end of 2012.

NQ in the market is now also being extended beyond Nestlé employees to their families as well. **Nutri-Pro (Nutrition for Professionals),** the NQ expert course for NP Customers has also begun in the market this year with the pilot workshop done and well received by key customers of the center region.

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.

F&C and GLOBE

During 2012, Finance & Control continued adding value to the business mainly through help in identifying and implementing cost saving initiatives, strengthening internal controls and applying Nestlé Continuous Excellence Practices.

We embarked on daily, weekly and monthly operational reviews which are now recognized in Nestlé World for their quality and effectiveness. Various people development initiatives were carried out throughout the year ensuring effective objective setting and development plans.

F&C Team successfully lead cross functional teams, leading towards implementation of Monthly Business Planning Best Practices (MBP BP) and Period End Closing (PEC) projects. These global certifications are a great recognition for our people and will further enhance our planning and financial reporting quality. We are confident that focused people development initiatives and "zero waste" mindset will contribute in achieving F&C mission, which is "to drive sound business decision making and innovative planning to optimize profitable growth, cash flow and total return to shareholders".

In 2012, the GLOBE organization introduced a new Operation Model with a renewed focus on leveraging the core solution. The team also provided a strong drive in the Digital and Mobility Solutions which is helping the organization in effective consumer engagement and in providing flexibility to users. The new model also addresses improved Business Analytics, Knowledge Management, Security, Compliance and Data protection.

We had 7 GLOBE Solution Success stories across the business this year. Nestlé Pakistan won the 5th position in Nestlé CIO Awards for the 'Employee Services Portal'. This initiative is improving efficiency, eliminating waste and improving End User satisfaction.

The Local Globe Organization is continuing its journey towards Continuous Excellence. We have been engaged in capability building and enhancing operational efficiencies, using Nestlé Continuous Excellence mindset.

Ambient Dairy

NESTLÉ NIDO FORTIFIED

NIDO FORTIFIED is for children between 5 to 12 years of age and carries a strong heritage in children's nutrition. In addition to having all the goodness of milk, NIDO FORTIFIED comes with 24 vitamins and minerals to help your child perform well in the classroom as well as on the playing field. It provides holistic growth to children, which empowers them to excel in their growing years.

NESTLÉ NIDO 1+

NIDO 1+ is especially developed for children aged 1-3 years. It is specialized milk that includes dual action of prebiotics and probiotics along with calcium, proteins and essential mineral and vitamins. This combination helps keep the child's tummy healthy and contributes to optimum growth and development.

NESTLÉ NIDO BUNYAD

NIDO BUNYAD was added to NIDO's family of offerings in 2009 for children between 4 to 12 years of age. Every third child in Pakistan has an iron deficiency and NIDO BUNYAD, with its proposition of affordability and iron fortification, has taken on the mission to reach out to mothers of low income households and be their partner in ensuring that their children can achieve the best in life.

NESTLÉ NIDO 3+

NIDO 3+ is especially developed for children aged 3-5 years. It is enriched with protective benefits of Prebio 1 plus calcium to strengthen the child's bones, and EFA and iodine, which play an important role in growth and brain development.

NESTLÉ NESVITA

With growing interest and an increasing trend 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.

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 white milks category.

We at Nestlé source the best quality milk from farmers across Pakistan and process each drop with the utmost care to ensure high quality and great tasting milk reaches the consumer every day.

This is why today MILKPAK is every home-maker's partner in helping her strengthen her home.

NESTLÉ MEETHAY

For Pakistani consumers with a sweet tooth, Nestlé has entered into the indulgent desserts category. Nestlé MEETHAY is a ready to eat dairy dessert in two delicious flavors – vanilla and strawberry. The product can be consumed as it is or be used to make other premium desserts like tiramisu and fondue. With its unique ready to eat format that requires no cooking, MEETHAY range of desserts aims to make your life delicious!

Ambient Dairy

NESTLÉ EVERYDAY

Tea drinking culture is an integral part of daily Pakistani life so when it comes to tea, it's about NESTLÉ EVERYDAY. Strongly established as a specialized tea creamer, today Nestlé EVERYDAY has not only become the heart of tea but also the heart of every tea lover across Pakistan. A wide portfolio ranging from mainstream to sachets perform equally in mixed tea and separate tea.

Be it the powder format or liquid format, NESTLÉ EVERYDAY equally delivers that great taste in every cup of tea

NESTLÉ EVERYDAY LITE

TThe latest addition to our NESTLÉ EVERYDAY portfolio, it delivers the same great taste that NESTLÉ EVERYDAY is loved for but with zero sugar and less than 1% fat.

Breakfast Cereals

NESTLÉ BREAKFAST CEREALS provide you and your family with 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 GRAINS. Whole grains keep all the parts of the grain intact retaining its natural content of fiber, vitamins and minerals.

Kids Range:

NESTLÉ KOKO KRUNCH is a flagship brand in kids 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 confidence, energy and spirit to succeed in active life.

All Family Range

NESTLÉ CORN FLAKES is a nutritious cereal made with whole grain corn, fortified with vitamins and minerals.

Adult Weight Management

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

Nestlé 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, Nestlé juices are the perfect lifestyle fit in consumer's demanding daily routine.

NESTLÉ FRUITA VITALS is our premium range of fruit juices and nectars aiming to fulfill the need of today's young and dynamic consumers. Nestlé FRUITA VITALS juices are made from pulps sourced directly from the best fruit gardens of the world to ensure the ultimate juice experience.

This year we also made our foray into the super premium juice category with the successful launch of Pomegranate Nectar.

NESTLÉ NESFRUTA is our affordable range of fruit drinks. Launched last year amidst an aura of anticipation, the brand has grown tremendously this year.

Light and refreshing, the product taste is tailored to suit the local palette and win against competition.

Beverages

MILO stands for the champion spirit which helps you win on and off the sports field.

NESTLĒ MILO

MILO due to its unique choco-malt taste and strong association to sports continues to be a key player in the flavoured milk category. The success of this brand is largely a function of a cohesive and consistent strategy delivering on the "Healthy Energy" platform. MILO is fortified with PROTOMALT a special malt extract made from malted barley "Jau", which has many positive health benefits associated to it. MILO being a strong patron for sports is popular both with kids and adults looking for energy and taste. MILO stands for the champion spirit which helps you win on and off the sports field.

Chilled Dairy

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 continued to lead the growth of 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, NESTLÉ Yogurt Sweet 'n' Tasty offers healthy everyday pleasure when consumed with meals or simply scooped with a spoon.

NESTLÉ Rivayatti 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 Rivayatti Mazaa offering an all-purpose yogurt. NESTLÉ Rivayatti 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 it with a spoon.

NESTLÉ ACTIPLUS Yogurt

Many people, especially women, suffer from digestive problems such as constipation. This is caused by an unbalanced diet, some medicines or certain health conditions that decrease probiotics count in intestines. Realizing this we launched NESTLÉ ACTIPLUS Yogurt in 2012. In addition to the known health benefits of yogurt, NESTLÉ ACTIPLUS Yogurt contains fiber and probiotics that help keep the digestive system healthy by increasing the probiotics count in the intestines. NESTLÉ ACTIPLUS Yogurt assists a smooth intestinal transit that not only makes them feel light and comfortable but also liberates them to give the best to their family.

NESTLÉ Raita

NESTLÉ Zeera Raita was launched in 2004, becoming an instant favourite of the Pakistani cuisine lovers. This was followed by the launch of NESTLÉ Podina Raita in 2006, which further strengthened NESTLÉ Raita's position 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 meals special and gaining appreciation for homemakers.

NESTLÉ YELLY

To provide kids with a scrumptious treat that lets them enjoy the delicious health of yogurt with the yummy fun of jelly, we launched NESTLÉ YELLY in 2012. Available in mouth-watering mango and lip smacking strawberry flavors, NESTLÉ YELLY is a tasty snack that can be enjoyed any time.

Nestlé Pure Life

NESTLÉ PURE LIFE

THE HEALTHY HYDRATION BRAND

NESTLÉ PURE LIFE is the world's number one bottled water brand with presence in over 41 countries. Pakistan is the proud birth place of this global healthy hydration brand where it was launched in 1998 and continues to be the favorite healthy beverage option for Pakistani consumers.

NESTLÉ PURE LIFE – GOING GREEN

With the start of the new Port Qasim Factory in Karachi, the brand introduced new ECO-FRIENDLY bottles that use less PET.

NESTLÉ PURE LIFE PROTECT

Keeping consumers' nutrition, health and wellness at the heart of all initiatives, NESTLÉ PURE LIFE launched its first fortified water, NESTLÉ PURE LIFE PROTECT, with Zinc that is scientifically proven to support the immune system.

This has been a global award winning launch claiming the coveted title of "Best Bottled Water" at InterBev Awards 2012"

Nestlé Coffee

NESCAFÉ

Nescafé the world's favorite coffee brand is synonymous with coffee in Pakistan. NESCAFÉ is a pioneer in coffee, with generations of loyal consumers throughout the world. We endeavor to continuously delight our consumers through the richness of our coffee 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 your coffee black, creamy/frothy or cold, we have the perfect offering for you. So enjoy NESCAFÉ to lift your mood and revive your senses!

Culinary

MAGGI NOODLES

2012 was a year of delighting consumers beyond their expectations with new flavours and launches, aimed at satisfying a wider pallet and more consumption occasions. Overall, the category showed strong growth, which invited new competitors to join the race.

With the accompanying campaigns consumers were engaged at the most relevant contact points. On our digital Facebook fan page we reached another milestone and enjoyed enormous growth touching 253,000 fans. We have engaged our fans with original, fresher content. With digital increasingly becoming the easiest and one of the most effective ways to directly connect with consumers, MAGGI bonded with its target consumers by focusing on occasions such as Ramadan, Eid and Independence Day among others.

MAGGI FLAVOR WORLD

MAGGI Umda Maza

After the successful launch of MAGGI Umda Maza in Lahore in 2010 and 3 additional cities in 2011, the product was launched nation-wide in January 2012. Through this launch MAGGI has not only helped Nestlé deepen and widen its consumer consumption base but has also provided affordable nutrition to our consumers.

MAGGI Staples Solutions

MAGGI Umda Chaawal and MAGGI Umda Paratha were launched in March 2012 to widen our offering to consumers. These products provide flavour solutions that help Pakistani homemakers make everyday staples (Rice and Paratha) more tasty and healthy for their loved ones, offering convenience and affordability.

The entire MAGGI Umda range is Iron fortified. Iron is a critical mineral for our health, which Pakistanis are hugely deficient in. The MAGGI Umda range fulfills 15% of daily requirement of iron of an adult.

The overall consumer and trade response to the MAGGI Flavor World portfolio is very positive and Nestlé remains committed to make consistent and persistent effort to create, own and grow this new food category.

Nestlé Professional

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

2012 was a very challenging yet successful year for Nestlé Professional with continuous volume growth and robust improvements in the bottom line. The key contributing factor to the strong results was the business ability to offer a basket of products and solutions that fulfilled the requirements of the Out-of-Home 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.

Infant Nutrition

CERELAC is the leading brand for baby nutrition in Pakistan and a key option for mothers to start weaning. CERELAC has a 99% share of the branded weaning food category and is virtually the branded infant cereal category.

Over the years, CERELAC has shown remarkable performance, consistently delivering profitable growth. This growth is a reflection of the strong trust that the consumer has developed in the brand over generations.

In 2012, the brand maintained an active presence with the consumers through heavy TV and radio airing, extensive outdoor presence, medical detailing and sampling to health care professionals and channel specific point of purchase solutions.

In line with the brand's growth driver to increase the share of stomach in consumption, CERELAC introduced "CERELAC with Yogurt", offering the same nutrition and protection of CERELAC along with the extra goodness of yogurt. Introduced in two variants, a Stage 2 CERELAC with Yogurt-Mango Orange and a Stage 3 CERELAC with Yogurt - Apple, Pear and Banana Pieces, the new offerings help leverage the tummy-health perception of yogurt to build on the protection promise of Probiotics.

Offering a convenient and hygienic way to wean babies while ensuring all the necessary nutrition at each stage of the baby's development, along with the immune protection, CERELAC promises to provide "Big Nutrition for Small Tummies".

Infant formula portfolio prescribed in cases with a legitimate need of breast milk substitute, continues to enjoy strong acceptance with the Health Care Professionals.

LACTOGEN, the flagship infant formula brand underwent major renovation in 2011 with addition of Probiotics. The premium infant formula range including NAN continued to offer the most scientifically advanced infant formula formulation to consumers.

Pediatric specialties range comprising of formulations including AL110, Pre-NAN and LACTOGEN RECOVER continue to provide nutritional solution to infants with specific requirements.

The Nestlé Nutrition Institute is a not for profit organization that fosters "Science for Better Nutrition".

NNI contributes to the enhancement of the quality of people's lives, all over the world, by sharing leading science based unbranded information and education, with health care professionals.

> In Pakistan, NNI initiated activities to establish the "Importance of Nutrition in the first 1000 days of life" with Health Care Professionals.

In this context, scientific symposia were conducted on multiple topics including "Role of Probiotics in Infants and Children" and "Nutritional Management of Diarrhea in Developing Countries". Similarly, Health Care Professionals all over the country were involved by organizing round table discussions on key nutritional challenges.

NNI is the world's largest private publisher of nutritional information and disseminates updated knowledge through Medline listed publication series.

In year 2012 more than 35,000 copies of multiple publications like The Nest, Annales and workshop series were distributed among the medical community.

Total number of NNI website members exceeded 6000 with ~1000 new members being enrolled in year 2012.


بہتر کل ہمارا

www.nestle.pk

308 Upper Mall, Lahore, Pakistan.
Tel +92 42 111 637 853, Fax +92 42 35789303

Nestlé in society

Creating Shared Value and meeting our commitments 2012

Nestlé

Good Food, Good Life

Contents

Magdi Batato
Chief Executive

Dear all,

We have decided this year to dedicate a special report on Nestlé in the Society Creating Shared Value as part of our annual report. This reflects our commitment to this Country and its people. Over the last two decades, we have grown to become part and parcel of Pakistan, delighting our consumers with products manufactured in Pakistan, by Pakistanis. Our ہردم پاکستانی is our "reality" and we are proud of it. We are also proud to strive for world class, bringing in our international expertise and quality standards in everything we do.

We engage more than a million individuals throughout our value chain in the example of our milk products and overall dairy category, we deal with 200,000 farmers and we manage thousands of milk collection centers. This is what ensures the food quality of our milk as our products stand for quality, purity and taste.

We are also very active in 'Corporate Social Responsibility' (CSR) and you will see in this report alot of our CSV and CSR activities from farmers' education to nutrition programmes, to Healthy Kids programme, to the National Highway and Motorway Drive Training Institute sponsorship, to the community engagement and refurbishing of schools, to name a few.

We are proud of all this and rely on all our stakeholders to continue to help us achieve those great things as we are committed more than ever to Pakistan and its people, and our vision of providing بہتر کل ہمارا to all.

Creating Shared Value

There is a huge potential of rural development, particularly in the livestock sector, where Nestlé is adding real value for improving the quality of life in socio-economic terms for the rural communities.

Creating Shared Value for the communities is a core essence of the Company and is embedded into our business model. Nestlé Pakistan, as part of its global and local obligations, believes in Creating Shared Value (CSV) for the communities in which it works and lives. Pakistan is a developing economy and more than 60% population lives in the rural areas with huge potential for development in quality of life. Additionally, ethical business practices, transparency and consumer trust, on the basis of high quality products with focus on nutrition, health and wellness, remain the hall mark of the core business. The Company is committed to the stakeholders and the communities for mutual growth and sustainability. Nestlé Pakistan is also a signatory to the local chapter of UN Global Compact for Ethical Business.

The key focus areas for Nestlé Pakistan's Creating Shared Value (CSV) programs are as follows:

- Nutrition
- Water
- Rural Development

Nutrition

Nutrition, Health and Wellness (NHW): our values

Our products and brands are the flag bearers of Nutrition, Health and Wellness (NHW) and we build our nutrition credentials with continuous research and development. Our CSV initiatives through business engagements include the Fortified products addressing the needs of millions of consumers. Furthermore, NHW communication to internal and external stakeholders and awareness to consumers through packaging, business communication and personal interaction are also an integral part of our strong commitment to our NHW Values.

Nutrition Support Programme

Nestlé Pakistan also engages in community support projects such as the "Nutrition Support Programme" for underprivileged schools and underprivileged people, particularly women, whereby we provide milk to selected poor schools and other welfare institutions. The programme also supports organizations working with destitute women as well as social welfare organizations for sports, culture, special children and the disabled. Nestlé Pakistan also extends support to national and international communities that are victims of natural disasters.

Water

Nestlé Pakistan continues to engage in supporting initiatives for water and environmental sustainability, both at business and at community level. The Company endeavours to continuously improve its processes and systems to reduce its water foot print and also engages with the community and external institutions to support water and environmental initiatives. Nestlé Pakistan focuses on water and environmental sustainability with;

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

b) Community clean water supply schemes – Water filtration plants in selected underprivileged communities living around our value chain.

c) Refurbishment and up-gradation of existing water filtration plants

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

e) Hydration message through Nestlé Pure Life (NPL) providing safe drinking bottled water option to millions of consumers across Pakistan

Rural Development

Farmer Training & Development

The Biggest Segment of our Rural Development support in Pakistan is through our Milk Collection and Dairy Development Department which is as follows:

- Procured milk and provided Dairy Development Advisory support to 200,000 farmers spread over 146,000 sq Km.
- Have impacted small farmers for income growth by 25%.
- Increase in girls school education
- Milk yield increase by 20% to 50%
- Establishment of two dairy farmers training and demonstration farms (i.e Sarsabz & Sukheki)
- Trained over 5000 farmers directly
- 2000 students and 3000 farmers for partner institution and external projects (UNDP-CELDEC, SDC, DRDF etc.) on dairy development and best farm practices

Education Support Programme

Nestlé Pakistan is continuously extending support to improve existing academic facilities for R&D in the Dairy sector and for the student support programme. The Company through its Education Support Programme provides support to Agriculture

University, Veterinary University and Business Schools for Research, Laboratories and merit cum needy Scholarships in food, nutrition, agriculture and animal husbandry.

Community Engagement

Nestlé Pakistan in the Rural Development segment of its CSV initiatives has also refurbished 11 schools in and around its operational areas. The support included:

- New buildings and educational blocks
- Class rooms and computer labs
- Physical exercise and game areas
- Hygiene and cleanliness facilities
- School bags and books for the school children

Public Private Partnerships

Nestlé Park

Nestlé Pakistan has developed a Nestlé Park under the Public Private Partnership segment of Rural Development, with the cooperation and support of Punjab Sports Council, Government of Punjab. It is our humble contribution to provide a perfect environment for recreation and healthy entertainment for youngsters. The playfield has a cricket pitch with a pavilion, a full-sized basketball court equipped with floodlights to accommodate night matches.

Peerano Goth School

Nestlé Pakistan under the Public Private partnership segment of our Creating Shared Value Initiatives, inaugurated the 'Government Primary School' at Peerano Goth, a village located in the suburbs of Port Qasim Water Factory, Karachi. The school which was abandoned a decade ago fell to disrepair and is now completely rebuilt by Nestlé Pakistan. The school now caters to the

educational needs of the village Peerano Goth and the surrounding villages. Due to our intervention, the number of students has doubled.

Humanitarian Assistance

Nestlé Pakistan has always been active in supporting and providing humanitarian assistance to communities in natural calamities by providing food products, where Nestlé staff also participates as volunteers in delivering the relief goods. These relief packages, which also include Company products, are donated directly by the Nestlé teams, through the provincial government and other government organizations involved in the process.

SOS Children's Villages of Pakistan

Nestlé Pakistan extended support to the SOS Children's Villages Pakistan where 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 home which is now a loving home for a family of ten, and the academic block are complete and are being utilized for the education needs of the children living in the SOS village.

Nestlé – National Highway & Motorway Driver Training Institute

Lack of proper knowledge, absence of safe driving practices and procedures is one of the major causes of accidents on the highways. Nestlé Pakistan in collaboration with the National Highway and Motorway Police (NH & MP) established the first drivers' training institute near Sheikhupura with the objective of safety and well-being of the communities it operates in.

The Nestlé-National Highways and Motorway Police (NH&MP) Driver Training Institute is a fully equipped training facility that has been providing training under the supervision of experts, not just to the drivers of Nestlé Pakistan and NH & MP, but also catering for the drivers training need of the other public and corporate organizations of the country. The entire facility features a driving safety training track, 02 building blocks comprising of driver training classrooms and also a high-tech driving simulator.

The training facility now allows participants to acquire specialized driving practices and would curb accident rates on motorway through requisite skills that will be gained during the training period.

It is heartening to see the positive impact of the Nestlé's Drivers Training program at various levels. The multifaceted impact of the program extends beyond its envisaged scope and target audience, given that more organizations including the government agencies are engaging with the institute and benefitting from it. Till date, Drivers Safety Program has trained more than 13,000 drivers (Includes 2200 plus Nestlé drivers).
Aside from the professional and economic impacts, the drivers' training program has also created a positive social impact not only on the drivers themselves but also on their families and the communities they live in.

Nestlé Healthy Kids Programme

Nestlé Healthy Kids Program Pakistan started in 2010; the programme being developed in line with the global vision of Creating Shared Value focused on improving basic knowledge of nutrition and physical activity levels in children. The aim for NHK Pakistan was to create an educational programme to raise awareness related to the nutrition, health and wellness of school-going children of 6 to 16 years, through better understanding of the nutritional value of food, and the importance of physical activity, a healthy lifestyle and basic hygiene.

In Phase I, 2500 students from 2 schools were provided awareness on healthy and nutritious life style. Along with this, 20 teachers of Care Foundation were also trained.

In phase II, the Nestlé Healthy Kids programme was expanded to reach 30,000 students across 30 schools in Pakistan in collaboration with Care Foundation in 2012, our implementing partner for the Nestlé Healthy Kids project. Also 90 teachers were trained on Nutrition along with 100 mothers, who were also provided information on healthy and nutritious life style. Furthermore, all the program schools have developed their Healthy Kids Rooms/Corners. The Healthy Kids Team has also organized 03 Healthy Kids and Wellness days during 2012.

We will extend our outreach with the support of our partners during 2013. We plan to expand the program to school children from CARE adopted schools during along with trainings to teachers and mothers. A New curriculum for the Healthy Kids programme has been designed which will be in 02 parts. The first book will be the guidelines for children from the age group of 6 – 12 yrs and the 2nd book will be for children in the age group of 13-16 yrs. Furthermore, we are anticipating partnerships and endorsement of Nestlé Healthy Kids programme with reputed international organizations working in the field of health & nutrition.

The Dairy Project & Nestlé Pakistan

The Dairy Project is a joint effort of the Dairy and Rural Development Foundation (DRDF), Nestlé Pakistan and other international donors to foster sustainable increase in dairy and livestock productivity through adoption of best dairy farming practices, breed improvement, availability of timely extension services, and promotion of livestock businesses. The Dairy Project is being implemented in all four provinces, with major focus on Punjab and a time frame of three years (July 2011- July 2014).

As part of its efforts towards ensuring corporate social responsibility and creating shared value, Nestlé Pakistan has partnered with the Dairy and Rural Development Foundation (DRDF) for implementation of the Dairy Project, through provision of technical support. In addition to professional resource management, Nestlé Pakistan has also dedicated two dairy farmer training centers including Sukheki and Sarsabz farms.

These training farms demonstrate best dairy farming practices such as silage-making, calf-rearing, free access to drinking water, animal nutrition and feeding, which when translated into the Dairy Project's farmer trainings, produce optimum awareness for the project's associated beneficiaries.

The Dairy Project's overall targets are:

- Training of 9000 dairy farmers and 100 farm managers to improve prevalent dairy farming practices for improving livestock productivity and enhancing incomes of rural households.

- Training of 2000 unemployed rural youth to establish them as self-employed entrepreneurs working as Artificial Insemination Technicians (AITs). The artificial insemination services provided by them will play a significant role in improving dairy farmers' access to AI services for dairy breed improvement, better livestock productivity and enhanced incomes.

- Training of 5000 educated rural women to become skilled Women Livestock Extension Workers (WLEWs). The livestock extension services provided by them will increase the use and availability of livestock services for improving livestock productivity and enhancing incomes.

- Implementing a mass awareness campaign to increase knowledge of best dairy farming practices.

SUCCESS STORY

Rural Woman Takes Charge

The Dairy Project helps 21-year old Rahat become a Vanda seller and support her family of 14

"I participated in the Dairy Project WLEW training course and it has altered my vision in life. I have become a successful profiteering Vanda-seller in my district. The Dairy Project invested in me, and I am extremely thankful to the team."

-Rahat Parveen, Dairy Project trained Woman Livestock Extension Worker (WLEW) from Tehsil Kamalia, District Toba Tek Singh

21-year old Rahat Parveen's life appeared to be like a dead-end, after she was prohibited to return to school two years ago, due to financial constraints.

"We're a big family of 14! It never occurred to me that my family would have to struggle this much for barely making ends meet, with my father being ill for the past many years; my brothers are younger and two of my married sisters separated from their husbands and returned home. There was little or no source of income."

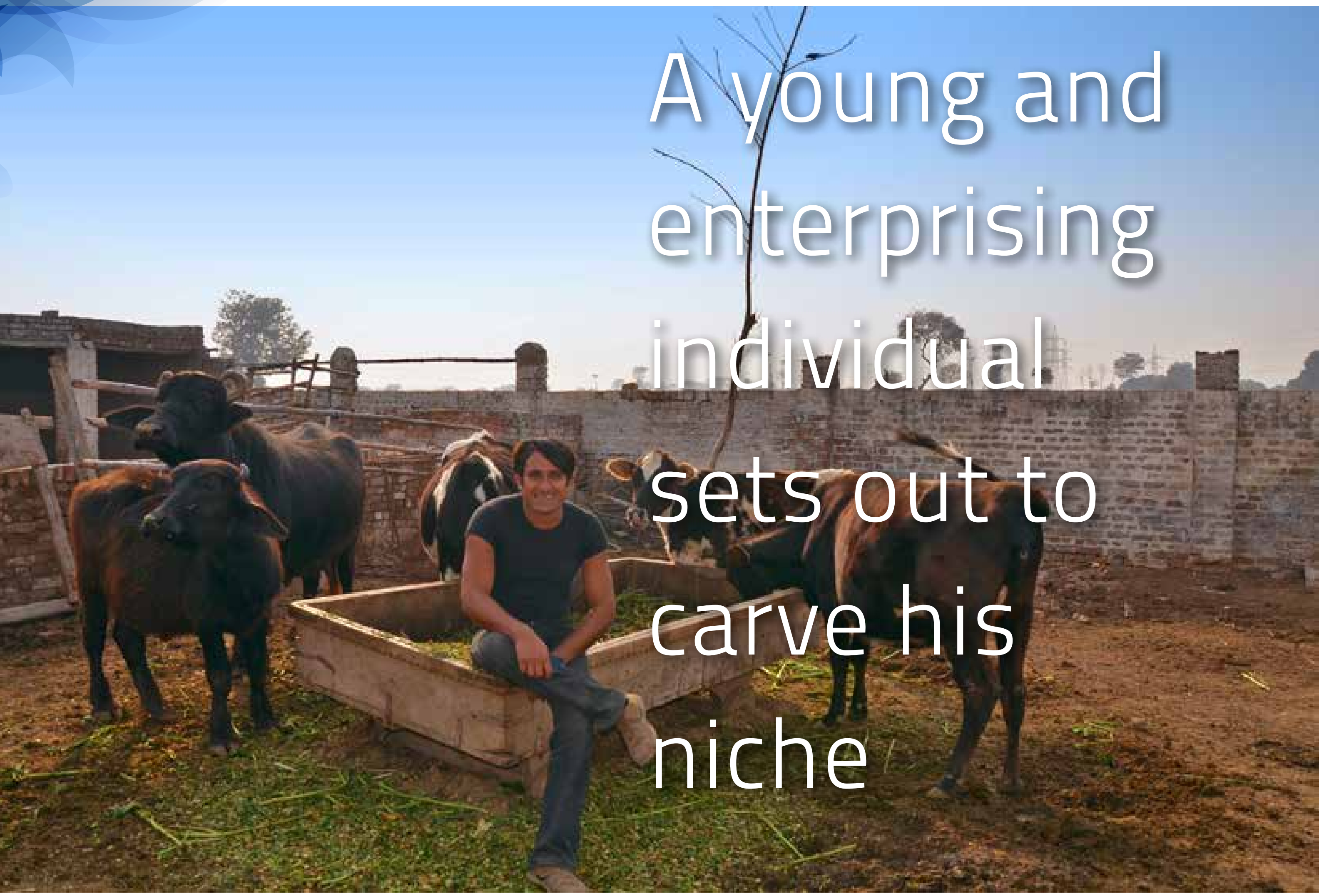
The Dairy Project is providing trainings to women from Punjab's rural communities to become livestock extension workers. The Dairy Project provides a basic one month long course, and the curriculum and graduation certificates are provided in joint collaboration with the University of Veterinary and Animal Sciences (UVAS).

In December 2011, Rahat had the opportunity to meet a Dairy Project social mobilizer and was introduced to the project. On January 2, 2012, a keen Rahat began the one month training program and passed her UVAS exam successfully. "During the training, I learnt various new techniques, including controlling dairy animals through the crisscross method, preventing a fatal respiratory disease such as Hemorrhagic Septicemia (HS), animal nutrition and feeding, and free access to water for animals. Towards the end, I was selected by the project to sell Vanda, a top quality feed which contains the vital ingredients necessary for the well-being of animals, especially those which are young and producing milk," she explains.
In April 2012, Rahat was given 30 free-of-cost Vanda bags by the Dairy Project, for sale in her village. She marketed her product (Vanda bags) through flyers, and successfully sold 30 bags for PKR 1000 each and earned an income of PKR 30,000. Now she is in a profitable business by selling the Vanda bags at her small general store in the village.

In addition, Dairy Project has given Rahat a cellular phone, so she can liaise with Vanda suppliers in the market. With the profit she earned, she has brought back the tradition of two proper meals being served at home and has been able to regularly purchase medicines for her ill father. More importantly, the family owns a very small piece of land, and she has bought some water for her crops. Once the harvest reaps an income, she will reinvest it into the Vanda business and purchase more bags to sell.

"The Dairy Project has not just made me a seller of Vanda bags; it has opened my eyes towards dairy farming. With this income, I'm also going to arrange for free access to water for my three dairy animals," she says on a positive note.

SUCCESS STORY



A young and enterprising individual sets out to carve his niche

Nestlé's Sarsabz training farm helps grow a young farming enthusiast.

I started my small dairy business with no prior knowledge or expertise. Thanks to Nestlé for their support on making my business grow sustainably through educational workshops on modern farming techniques. Today with more than 50 animals, I am very enthusiastic about growing my business even further.

-Shahbaz Khan, Progressive Dairy Farmer, Chak17, Renala Khurd.

Meet Shahbaz – A young and enterprising individual set out to carve his niche in Pakistan's dairy industry. His inspiring story leads us to believe that just a spoonful of enthusiasm and drive can make it all possible.

Shahbaz had just passed his matriculation examination and had huge aspirations to join the police force but unfortunately failed to enlist. This did not deter him and he was determined to improve circumstances for himself and his family. He had high hopes to turn things around and wasn't going to settle with his lot in life.

Unlike many who resign to fate, Shahbaz could have given up at this point. He could have accepted himself as a failure and spent his life having resigned to fate.However, he did not lose hope, strong- willed as he was. He started a small dairy business with two cows.

With endless hours of hard work working both day and night, Shahbaz's business slowly and gradually grew. Today he has 50 animals with an average yield of 17-20 liters of milk per day. Shahbaz is enthusiastic about growing his business further and plans to add ten more cows this year.

Shahbaz owes a huge part of his success to Nestlé, having supported him over the years.He says, *"The beauty of business with Nestlé is that I get weekly payment"*.Apart from providing him much needed liquidity, Nestlé's training and expert tips has also helped him manage his business better and has increased his understanding of the milk industry. Nestlé's Sarsabz training farms provides free training to farmers on modern farming techniques with the average of 2000 farmers per year. They plan to step up training by investing in another 30,000 farmers over the next five years.

Thank you Nestlé!

Nestlé in Society: Creating Shared Value

It is our firm belief that, for a company to be successful over time and create value for its shareholders, it must also create value for society. We call this Creating Shared Value (CSV). Based on strong foundations of compliance and sustainable business practices, this is our basic way of doing business.

We have identified the most fertile opportunities for Creating Shared Value, in areas that are core to our business activities and vital for our value chain. These are nutrition, water and rural development.

Why Nutrition
Because food and nutrition are the basis of health and of our business as the leading Nutrition, Health and Wellness company.

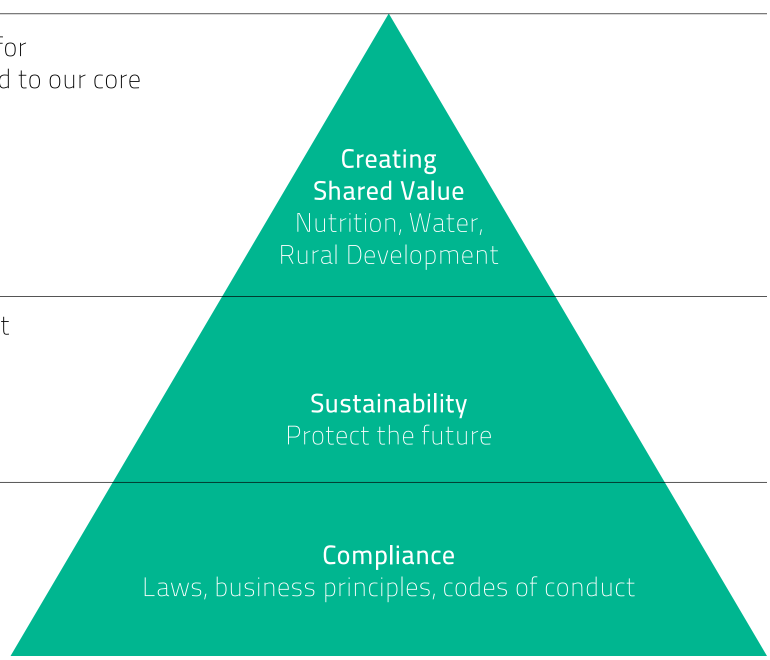
Why Water
Because the ongoing quality and availability of this resource is critical to life, the production of food and to our operations.

Why Rural Development
Because the overall well-being of farmers, rural communities, small entrepreneurs and suppliers is intrinsic to the long term success of our business.

"... beyond sustainability, to create value for shareholders and society – integrally linked to our core business ..."

"... meet the needs of the present without compromising future generations ..."

Comply with the highest standards



www.nestle.pk

For further information please write to
csv@pk.nestle.com
308 Upper Mall, Lahore, Pakistan.
Tel +92 42 111 637 853, Fax +92 42 35789303

Financial Statements 2012

Good Food, Good Life

Contents

Auditors' Report to the Members

We have audited the annexed balance sheet of Nestlé Pakistan Limited ("the Company") as at December 31, 2012 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, 2012 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 (XVIII of 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 18, 2013

Balance Sheet

As at 31 December 2012

	Note	2012	2011
			(Rupees in '000)
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized capital			
75,000,000 (2011: 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		10,577,241	6,629,393
		11,560,264	7,612,416
Non current liabilities			
Long term finances	5	15,366,964	7,848,050
Deferred taxation	6	3,304,091	2,476,871
Retirement benefits	7	637,985	440,377
Liabilities against assets subject to finance lease	8	-	13,690
		19,309,040	10,778,988
Current liabilities			
Current portion of non current liabilities	9	41,686	41,587
Short term borrowings - secured	10	3,900,000	4,950,000
Short term running finance under mark-up arrangements - secured	11	5,937,374	4,175,236
Customer security deposits - interest free		184,441	149,791
Trade and other payables	12	9,743,567	7,343,507
Interest and mark-up accrued	13	196,345	128,334
		20,003,413	16,788,455
CONTINGENCIES AND COMMITMENTS	14		
		50,872,717	35,179,859

The annexed notes 1 to 45 form an integral part of these financial statements.

Balance Sheet
As at 31 December 2012

	Note	2012	2011
			(Rupees in '000)
ASSETS			
Non Current assets			
Tangible fixed assets			
Property, plant and equipment	15	21,970,957	16,230,528
Capital work-in-progress	16	11,549,623	5,370,561
		33,520,580	21,601,089
Intangible assets	17	7,173	11,954
Goodwill	18	104,178	-
Long term loans and advances	19	236,639	161,982
Long term deposits and prepayments	20	98,663	9,817
Current assets			
Stores and spares	21	1,373,239	1,278,416
Stock in trade	22	8,025,653	7,064,170
Trade debts	23	491,842	276,858
Current portion of long term loans and advances	19	45,735	30,914
Advances, deposits, prepayments and other receivables	24	6,208,184	4,042,634
Cash and bank balances	25	760,831	702,025
		16,905,484	13,395,017
		50,872,717	35,179,859

GIUSEPPE BONANNO
Head of Finance and Control

MAGDI BATATO
Chief Executive

SYED YAWAR ALI
Chairman

Profit and Loss Account

For the year ended 31 December 2012

	Note	2012	2011
			(Rupees in '000)
Sales - net	26	79,087,696	64,824,364
Cost of goods sold	27	(57,564,265)	(48,099,046)
Gross profit		21,523,431	16,725,318
Distribution and selling expenses	28	(8,787,508)	(6,862,113)
Administration expenses	29	(1,769,803)	(1,405,298)
Operating profit		10,966,120	8,457,907
Finance cost	30	(1,827,969)	(1,050,355)
Other operating expenses	31	(1,320,319)	(1,064,233)
		(3,148,288)	(2,114,588)
Other operating income	32	160,142	159,545
Profit before taxation		7,977,974	6,502,864
Taxation	33	(2,113,463)	(1,834,507)
Profit after taxation		5,864,511	4,668,357
Earnings per share - basic and diluted (Rupees)	34	129.32	102.94

The annexed notes 1 to 45 form an integral part of these financial statements.

GIUSEPPE BONANNO
Head of Finance and Control

MAGDI BATATO
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Comprehensive Income

For the year ended 31 December 2012

	2012	2011
		(Rupees in '000)
Profit after taxation	5,864,511	4,668,357
Other comprehensive loss :		
Actuarial losses recognized directly in the equity	(157,970)	(220,901)
Tax on actuarial losses recognized directly in the equity	55,290	77,315
Other comprehensive loss for the year, net of tax	(102,680)	(143,586)
Total comprehensive income for the year	5,761,831	4,524,771

The annexed notes 1 to 45 form an integral part of these financial statements.

GIUSEPPE BONANNO
Head of Finance and Control

MAGDI BATATO
Chief Executive

SYED YAWAR ALI
Chairman

Cash Flow Statement

For the year ended 31 December 2012

	Note	2012	2011
			(Rupees in '000)
Cash flow from operating activities			
Cash generated from operations	36	12,722,899	8,384,781
Increase in long term deposits and prepayments		(88,846)	-
Increase in long term loans and advances		(89,478)	(48,073)
Retirement benefits paid		(136,227)	(92,103)
Finance cost paid		(2,110,131)	(983,425)
Taxes paid		(2,042,636)	(1,776,948)
Net cash generated from operating activities		8,255,581	5,484,232
Cash flow from investing activities			
Fixed capital expenditure		(14,070,392)	(8,940,862)
Acquisition of Pfizer infant nutrition business		(193,060)	-
Sale proceeds of property, plant and equipment		123,711	111,945
Net cash used in investing activities		(14,139,741)	(8,828,917)
Cash flow from financing activities			
Proceeds from long term finances		7,084,170	2,000,000
Repayment of short term borrowings from associated company-unsecured		-	(2,252,000)
(Repayment of)/Proceeds from short term borrowings - secured		(1,050,000)	4,950,000
Payment of lease liabilities		(41,647)	(57,924)
Dividend paid		(1,811,695)	(2,493,275)
Net cash generated from financing activities		4,180,828	2,146,801
Net decrease in cash and cash equivalents		(1,703,332)	(1,197,884)
Cash and cash equivalents at beginning of the year		(3,473,211)	(2,275,327)
Cash and cash equivalents at end of the year	37	(5,176,543)	(3,473,211)

The annexed notes 1 to 45 form an integral part of these financial statements.

GIUSEPPE BONANNO
Head of Finance and Control

MAGDI BATATO
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Changes in Equity

For the year ended 31 December 2012

		Capital reserve	Revenue reserve		
	Share capital	Share premium	General reserve	Accumulated profit	Total
					(Rupees in '000)
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
Final dividend for the year ended 31 December 2011 (Rs. 40 per share)	-	-	-	(1,813,983)	(1,813,983)
Total comprehensive income for the year	-	-	-	5,761,831	5,761,831
Balance as at 31 December 2012	453,496	249,527	280,000	10,577,241	11,560,264

The annexed notes 1 to 45 form an integral part of these financial statements.

GIUSEPPE BONANNO
Head of Finance and Control

MAGDI BATATO
Chief Executive

SYED YAWAR ALI
Chairman

Notes to the Financial Statements

For the year ended 31 December 2012

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	2.9
▪ Retirement benefits	2.10
▪ Provisions and contingencies	2.14
▪ Useful life of depreciable assets	2.15

2.3 Business combination

Business combinations are accounted for using the acquisition method. Under this method, as of the acquisition date, the Company recognized separately from goodwill the identified asset acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from the contingent consideration arrangement, if any. Acquisition-related costs are expensed as

Notes to the Financial Statements

For the year ended 31 December 2012

incurred. The Company measures the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill is recognized as the excess of cost of an acquisition over the fair value of net identifiable assets acquired in the business combination.

2.4 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.

2.5 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.

2.6 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.

2.7 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.

Notes to the Financial Statements

For the year ended 31 December 2012

2.8 Impairment losses

Financial assets

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

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

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

Non financial assets

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

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

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

2.9 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.

Notes to the Financial Statements

For the year ended 31 December 2012

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.

2.10 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. The Company recognizes actuarial gains and losses for each of its defined benefit plan in other comprehensive income for the year.

Defined contribution plan

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

2.11 Leases

Operating leases

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

Finance leases

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

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

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

Assets acquired under a finance lease are depreciated over the estimated useful life of the asset on a straight-line method at the rates given in note 15. Depreciation of leased assets is charged to income.

Notes to the Financial Statements

For the year ended 31 December 2012

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.

2.12 Trade and other payables

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

2.13 Dividend

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

2.14 Provisions and contingencies

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 resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate. Where outflow of resources embodying economic benefits is not probable, a contingent liability is disclosed, unless the possibility of outflow is remote.

2.15 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 and borrowing costs on qualifying asset.

Depreciation is charged to income, unless it is included in the carrying amount of another asset, on straight line method whereby cost of an asset is written off over its estimated useful life at the rates given in note 15.

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

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

Notes to the Financial Statements
For the year ended 31 December 2012

Intangible assets

Intangible assets are stated at cost less accumulated amortization and any identified impairment loss. These are amortized using the straight line method at the rates given in note 17. Amortization on additions is charged from the month in which an intangible asset is acquired, while no amortization is charged for the month in which the intangible asset is disposed off.

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

2.16 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.

2.17 Trade debts and other receivables

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

2.18 Revenue recognition

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

Sales of products and services are recorded when the risks and rewards are transferred i.e. on dispatch of goods/ products to customers or performance of services.

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

Notes to the Financial Statements

For the year ended 31 December 2012

2.19 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.

2.20 Borrowing cost

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

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 2013:

- 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 recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize 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 recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Company's policy for recognition of actuarial gains and losses is already in compliance with the amendment.

- 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

Notes to the Financial Statements

For the year ended 31 December 2012

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.

- 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.

Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following five standards, with consequential amendments to other standards and interpretations:

- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.

- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories.

- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.

- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The amendments have no impact on financial statements of the Company.

- IFRIC 20 - Stripping cost in the production 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.

Notes to the Financial Statements

For the year ended 31 December 2012

3 Issued, subscribed and paid up capital

2012	2011 (Number of shares)		2012	2011 (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 2012, Nestlé S.A. Switzerland, the holding company, holds 26,778,229 (2011: 26,778,229) ordinary shares of the Company. In addition, 8,790,535 (2011: 8,766,849) ordinary shares are held by the following related parties as at 31 December:

	2012	2011 (Number of shares)
Name of related party:		
IGI Insurance Limited	4,356,666	4,332,980
Percentage of equity held 9.61% (2011: 9.6%)		
Packages Limited	3,649,248	3,649,248
Percentage of equity held 8.0% (2011: 8.0%)		
Gurmani Foundation	538,235	762,955
Percentage of equity held 1.19% (2011: 1.7%)		
Industrial Technical and Educational Institution	21,666	21,666
Percentage of equity held 0.05% (2011: 0.05%)		
National Management Foundation	224,720	-
Percentage of equity held 0.50% (2011: Nil)		
	8,790,535	8,766,849

4 Share premium

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

	Note	2012	2011 (Rupees in '000)
5 Long term finances			
Long term finances utilized under mark up arrangements:			
Related party - Unsecured			
Associated company - Foreign currency	5.1	6,310,850	5,848,050
From banking companies - Secured	5.2	9,084,170	2,000,000
Less: Current maturity	9	(28,056)	-
		15,366,964	7,848,050

Notes to the Financial Statements

For the year ended 31 December 2012

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 2012 has been converted into PKR at the rate prevailing on the balance sheet date.

	Limit Rupees in million	Note	2012	2011
				(Rupees in '000)
5.2 From banking companies - Secured				
Allied Bank Limited				
Term Finance-I	2,000	5.2.1	-	2,000,000
Term Finance-II	3,500	5.2.2	3,500,000	-
Meezan Bank Limited				
Diminishing Musharika	2,000	5.2.3	2,000,000	-
United Bank Limited				
Term Finance Facility	3,500	5.2.4	3,500,000	-
Long Term Finance Facility	1,500	5.2.5	84,170	-
			9,084,170	2,000,000

5.2.1 This facility has been repaid during the year.

5.2.2 This represents a loan facility from Allied Bank Limited with a grace period of 2 years. The term of the loan is 3 years and the principal repayment to take place in 4 equal quarterly installments starting form 21 March 2015. Mark up is payable quarterly at a flat rate of 11.10%. The loan is secured by joint pari passu hypothecation charge over present and future fixed assets (plant and equipment) of the Company excluding land and building.

5.2.3 This represents diminishing musharika facility from Meezan Bank Limited. The term of the loan is 3 years with a grace period of 2 years. The loan will be repaid in 4 equal quarterly installments starting from 26 March 2015. Mark up is payable semi annually at a fixed rate of 11.00%. The loan is secured by joint pari passu hypothecation charge over present and future fixed assets (plant and equipment) of the Company excluding land and building.

5.2.4 This represents a loan facility from United Bank Limited with a grace period of 21 months. The term of the loan is 27 months and the principal repayment to take place in 2 equal installments during last six month falling due on 28 December 2014 and 28 March 2015 respectively. Mark up is payable semi annually at a flat rate of 11.10%. The loan is secured by joint pari passu hypothecation charge over present and future fixed assets (plant and equipment) of the Company excluding land and building.

5.2.5 This represents a loan facility from United Bank Limited under SBP's Long Term Finance Facility (LTFF). The term of the loan is 3 years. The loan will be repaid in 6 equal semi-annual installments starting from 19 June 2013. Mark up is payable semi-annually at 3 years SBP rate of refinance plus 2.5 basis points. The loan is secured by joint pari passu hypothecation charge over present and future fixed assets (plant and equipment) of the Company excluding land and building.

Notes to the Financial Statements

For the year ended 31 December 2012

	Note	2012	2011 (Rupees in '000)
6 Deferred taxation			
This is composed of:			
Liability for deferred taxation comprising temporary differences related to:			
Accelerated tax depreciation		3,453,146	2,698,568
Others		(149,055)	(221,697)
		3,304,091	2,476,871
7 Retirement benefits			
Gratuity fund	7.1	275,607	230,059
Pension fund	7.1	362,378	210,318
		637,985	440,377

	Gratuity		Pension	
	2012	2011	2012	2011 (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	1,063,970	868,980	1,506,356	1,090,883
Fair value of plan assets	(788,363)	(638,921)	(1,143,978)	(880,565)
Total employee benefit obligation	275,607	230,059	362,378	210,318
7.2 Movement in net obligation				
Net liability as at 01 January	230,059	145,804	210,318	83,310
Charge to profit and loss account	115,940	92,626	115,215	67,154
Actuarial losses recognized in equity	31,993	89,016	125,977	131,885
Contribution made by the employees	-	-	39,097	32,068
Contribution made by the Company	(102,385)	(97,387)	(128,229)	(104,099)
Net liability as at 31 December	275,607	230,059	362,378	210,318
7.3 Movement in the liability for funded defined benefit obligations				
Liability for defined benefit obligations as at 01 January	868,980	646,990	1,090,883	782,220
Benefits paid by the plan	(68,143)	(28,392)	(33,502)	(16,103)
Current service costs	87,182	73,671	116,308	88,391
Interest cost	108,623	84,109	136,360	101,689
Vested past service cost due to pension indexation	-	-	11,715	-
Actuarial losses on present value of defined benefit obligations	67,328	92,602	184,592	134,686
Liability for defined benefit obligations as at 31 December	1,063,970	868,980	1,506,356	1,090,883

Notes to the Financial Statements

For the year ended 31 December 2012

	Gratuity		Pension	
	2012	2011	2012	2011
				(Rupees in '000)
7.4 Movement in fair value of plan assets				
Fair value of plan assets as at 01 January	638,921	501,186	880,565	698,910
Contributions paid into the plan	102,385	97,387	128,230	104,099
Benefits paid by the plan	(68,143)	(28,392)	(33,502)	(16,103)
Expected return on plan assets	79,865	65,154	110,071	90,858
Actuarial gains on plan assets	35,335	3,586	58,614	2,801
Fair value of plan assets as at 31 December	788,363	638,921	1,143,978	880,565
7.5 Plan assets consist of the following:				
Equity instruments	99,563	118,921	132,991	161,310
Debt instruments	517,147	463,119	744,826	680,252
Cash and other deposits	171,653	56,881	266,161	39,003
	788,363	638,921	1,143,978	880,565
7.6 Salaries, wages and amenities include the following in respect of retirement and other benefits:				
Interest cost for the year	108,623	84,109	136,360	101,689
Current service cost	87,182	73,671	116,308	88,391
Vested past service cost due to pension indexation	-	-	11,715	-
Expected return on plan assets	(79,865)	(65,154)	(110,071)	(90,858)
Contribution made by the employees	-	-	(39,097)	(32,068)
	115,940	92,626	115,215	67,154
7.7 Charge for the year has been allocated as follows:				
Cost of goods sold	48,687	39,851	32,845	21,208
Distribution and selling expenses	40,218	32,036	39,724	22,451
Administration expenses	27,035	20,739	42,646	23,495
	115,940	92,626	115,215	67,154
7.8 Actual return on plan assets	115,200	68,740	168,685	93,659
7.9 Actuarial gains and (losses) recognized directly in other comprehensive income				
Cumulative amount as at 01 January	(315,322)	(226,306)	(235,665)	(103,780)
Losses recognized during the year	(31,993)	(89,016)	(125,977)	(131,885)
Cumulative amount as at 31 December	(347,315)	(315,322)	(361,642)	(235,665)

Notes to the Financial Statements

For the year ended 31 December 2012

	2012	2011	2010	2009	2008
					(Rupees in '000)
7.10 Historical Information for Gratuity plan					
Present value of defined benefit obligation	1,063,970	868,980	646,990	512,304	429,967
Fair value of the plan assets	(788,363)	(638,921)	(501,186)	(392,936)	(178,223)
Deficit in the plan	275,607	230,059	145,804	119,368	251,744
Experience adjustments arising on plan liabilities	(67,328)	(92,602)	(35,378)	7,569	(9,414)
Experience adjustments arising on plan assets	35,335	3,586	683	21,458	(97,930)

The Company expects to pay Rs. 127.916 million in contributions to gratuity fund in 2013.

	2012	2011	2010	2009	2008
					(Rupees in '000)
7.11 Historical Information for Pension plan					
Present value of defined benefit obligation	1,506,356	1,090,883	782,220	651,918	474,713
Fair value of the plan assets	(1,143,978)	(880,565)	(698,910)	(555,361)	(374,489)
Deficit in the plan	362,378	210,318	83,310	96,557	100,224
Experience adjustments arising on plan liabilities	(184,592)	(134,686)	11,468	(68,514)	81,387
Experience adjustments arising on plan assets	58,614	2,801	7,524	9,793	(87,870)

The Company expects to pay Rs. 141.366 million in contributions to pension fund in 2013.

	2012		2011	
	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	11%	11%	12.5%	12.5%
Expected rates of salary increase	11%	11%	12.5%	12.5%
Expected rates of return on plan assets	12.5%	12.5%	13%	13%
Average expected remaining working life	13 years	12 years	13 years	13 years

Notes to the Financial Statements

For the year ended 31 December 2012

	Note	2012	2011
			(Rupees in '000)
8 Liabilities against assets subject to finance lease			
Present value of minimum lease payments		13,630	55,277
Less: Current portion shown under current liabilities	9	(13,630)	(41,587)
		-	13,690

The lease has been obtained under Kissan Dost Livestock Development Scheme. The interest rate ranges from average 6 months to 1 year KIBOR plus 20 basis points and agency fee ranges from 12.29% to 12.32% (2011 : 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:

	2012			2011		
Years	Minimum lease payments	Finance cost	Principal	Minimum lease payments	Finance cost	Principal
Not later than one year	14,744	1,114	13,630	48,573	6,986	41,587
Later than one year but not later than five years	-	-	-	14,932	1,242	13,690
	14,744	1,114	13,630	63,505	8,228	55,277

	Note	2012	2011
			(Rupees in '000)
9 Current portion of non current liabilites			
Liabilities against assets subject to finance lease	8	13,630	41,587
Long term finances	5	28,056	-
		41,686	41,587

10 Short term borrowings - secured

This represents money market loans obtained from various commercial banks, which carry mark up ranging from 9.22% to 12.18% (2011: 11.97% to 13.88%) per annum. These loans are obtained for a period ranging from 4 to 94 (2011: 4 to 62) days and are secured by hypothecation charge over fixed assets, stores, stocks and assignment of receivables of the Company.

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

Short term running finances available from commercial banks under mark up arrangements amount to Rs. 30,050 million including sub-limits of money market facilities (2011 : Rs. 24,385 million). Mark up is charged at rates ranging from 8.65% to 13.10% (2011 : 9.20% to 14.54%) 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.

Notes to the Financial Statements

For the year ended 31 December 2012

	Note	2012	2011
			(Rupees in '000)
12 Trade and other payables			
Trade creditors			
Related parties - associated companies		329,362	423,590
Others		2,373,150	1,421,588
		2,702,512	1,845,178
Accrued liabilities			
Related parties - associated companies		855,347	322,390
Others		5,315,246	4,351,312
		6,170,593	4,673,702
Excise duty payable		10,454	10,293
Advances from customers		200,318	330,491
Workers' profit participation fund	12.1	96,701	70,155
Workers' welfare fund		161,017	156,550
Royalty and technical assistance fee payable to holding company		240,358	148,774
Unclaimed dividend		8,561	6,273
Withholding tax payable		37,047	3,737
Withholding sales tax payable		25,538	64,742
Others		90,468	33,612
		9,743,567	7,343,507

	Note	2012	2011
12.1 Workers' profit participation fund			
Balance as at 01 January		70,155	182,336
Provision for the year	31	423,729	349,241
		493,884	531,577
Less: Payments during the year		(397,183)	(461,422)
Balance as at 31 December		96,701	70,155

	Note	2012	2011
13 Interest and mark-up accrued			
Long term loan from associated company-unsecured		9,769	9,366
Long term finance from banking companies - secured		15,325	-
Short term borrowings - secured		37,020	44,067
Short term running finance under mark-up arrangements - secured		134,231	74,901
		196,345	128,334

Notes to the Financial Statements

For the year ended 31 December 2012

14 Contingencies and commitments

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

14.2 Claims against the Company not acknowledged as debt amount to Rs. 5.179 million (2011: 5.179 million).

	Note	2012	2011
			(Rupees in '000)
14.3 Guarantees			
Outstanding guarantees		262,249	218,633
Un-utilized portion		132,751	116,367
14.4 Commitments in respect of capital expenditure		148,847	363,958
14.5 Letters of credit			
Other outstanding letters of credit		1,091,476	1,403,221
Un-utilized portion		3,481,689	2,269,944

Notes to the Financial Statements

For the year ended 31 December 2012

15 Property, plant and equipment

	Owned assets								Leased assets	
	Freehold Land	Lease hold land	Building on freehold land	Building on lease hold land	Plant and machinery	Furniture and fixtures	Vehicles	Office equipment	Plant and machinery	Total
										(Rupees in '000)
Cost										
Balance as at 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
Balance as at 01 January 2012	1,426,937	32,244	2,877,573	219,273	18,761,928	248,127	573,561	3,203	214,272	24,357,118
Transfers during the year	-	-	-	-	65,730	-	-	-	(65,730)	-
Additions during the year	-	-	869,068	-	7,136,766	68,293	167,376	-	-	8,241,503
Disposals / scrapped	-	-	(33,985)	-	(656,449)	(3,595)	(74,036)	-	-	(768,065)
Balance as at 31 December 2012	1,426,937	32,244	3,712,656	219,273	25,307,975	312,825	666,901	3,203	148,542	31,830,556
Depreciation and impairment losses										
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
Balance as at 01 January 2012	122,639	3,772	554,396	146,421	6,874,929	152,686	195,871	3,203	72,673	8,126,590
Transfers during the year	-	-	-	-	29,465	-	-	-	(29,465)	-
Depreciation charge for the year	-	359	100,589	3,120	1,858,624	42,835	109,756	-	16,350	2,131,633
Depreciation and impairment on disposals	-	-	(10,133)	-	(476,477)	(3,266)	(58,392)	-	-	(548,268)
Impairment charge for the year	-	-	-	-	149,644	-	-	-	-	149,644
Balance as at 31 December 2012	122,639	4,131	644,852	149,541	8,436,185	192,255	247,235	3,203	59,558	9,859,599
Net book value as at 31 December 2012	1,304,298	28,113	3,067,804	69,732	16,871,790	120,570	419,666	-	88,984	21,970,957
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
Rate of depreciation in %	-	1-6.67	2-5	2-5	4-33	20	20	20	6.67-20	

	Note	2012	2011
			(Rupees in '000)
15.1 Depreciation and impairment charge for the year has been allocated as follows:			
Cost of goods sold	27	1,759,858	1,337,682
Distribution and selling expenses	28	272,470	203,508
Administration expenses	29	92,030	70,652
Charged to projects during the year		7,275	1,647
		2,131,633	1,613,489

Notes to the Financial Statements

For the year ended 31 December 2012

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

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
Building						
	605	55	550	-	Scrapped	Various
	265	175	90	-	Scrapped	Various
	1,378	438	940	-	Scrapped	Various
	10,699	1,320	9,379	-	Scrapped	Various
	420	35	385	-	Scrapped	Various
	1,802	816	986	-	Scrapped	Various
	2,960	2,823	137	-	Scrapped	Various
	87	31	56	-	Scrapped	Various
	3,200	419	2,781	-	Scrapped	Various
	2,000	293	1,707	-	Scrapped	Various
	2,053	281	1,772	-	Scrapped	Various
	2,554	617	1,937	-	Scrapped	Various
	600	169	431	-	Scrapped	Various
	154	46	108	-	Scrapped	Various
	694	169	525	-	Scrapped	Various
	2,638	623	2,015	-	Scrapped	Various
Plant and machinery						
	21,518	3,766	17,752	17,000	Sale	Tetra Pak Pakistan Limited
	18,213	1,199	17,014	14,000	Sale	Tetra Pak Pakistan Limited
	2,847	1,424	1,423	2,032	Sale	Polyplast Polymer
	2,646	1,323	1,323	1,979	Sale	Polyplast Polymer
	6,031	2,406	3,625	1,565	Sale	Polyplast Polymer
	3,304	1,469	1,835	1,522	Sale	Polyplast Polymer
	3,710	1,443	2,267	1,518	Sale	Polyplast Polymer
	7,101	2,959	4,142	1,431	Sale	Polyplast Polymer
	1,332	629	703	950	Sale	Polyplast Polymer
	1,634	590	1,044	1,364	Sale	Polyplast Polymer
	2,709	1,354	1,355	1,310	Sale	Polyplast Polymer
	2,575	1,287	1,288	1,202	Sale	Polyplast Polymer
	3,600	1,500	2,100	1,187	Sale	Polyplast Polymer
	2,480	1,033	1,447	1,177	Sale	Polyplast Polymer
	1,072	625	447	870	Sale	Polyplast Polymer
	4,153	1,730	2,423	1,077	Sale	Polyplast Polymer
	4,075	1,698	2,377	1,011	Sale	Polyplast Polymer
	3,338	1,669	1,669	1,975	Sale	Polyplast Polymer
	2,528	1,264	1,264	968	Sale	Polyplast Polymer
	3,385	1,316	2,069	952	Sale	Polyplast Polymer

Notes to the Financial Statements

For the year ended 31 December 2012

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
	1,643	913	730	788	Sale	Polyplast Polymer
	3,780	3,528	252	632	Sale	Karachi Scrap
	1,167	616	551	579	Sale	Polyplast Polymer
	1,913	1,833	80	561	Sale	Maqsood Barlas & Sons
	1,725	911	814	539	Sale	Polyplast Polymer
	2,521	1,401	1,120	533	Sale	Polyplast Polymer
	438	304	134	225	Sale	Polyplast Polymer
	2,238	1,306	932	484	Sale	Polyplast Polymer
	763	424	339	461	Sale	Polyplast Polymer
	1,454	767	687	432	Sale	Polyplast Polymer
	1,116	620	496	372	Sale	Polyplast Polymer
	946	771	175	269	Sale	Maqsood Barlas & Sons
	3,013	1,915	1,098	180	Sale	Maqsood Barlas & Sons
	535	428	107	124	Sale	Ejaz & Shahbaz Metal Merchants
	721	594	127	104	Sale	Ejaz & Shahbaz Metal Merchants
	622	571	51	73	Sale	Ejaz & Shahbaz Metal Merchants
	2,786	2,020	766	54	Sale	Maqsood Barlas & Sons
	668	601	67	45	Sale	Maqsood Barlas & Sons
	335	192	143	45	Sale	Maqsood Barlas & Sons
	3,747	978	2,769	37	Sale	Haider Engineering
	3,747	978	2,769	37	Sale	Haider Engineering
	338	256	82	36	Sale	Maqsood Barlas & Sons
	338	256	82	36	Sale	Maqsood Barlas & Sons
	456	198	258	26	Sale	Ejaz & Shahbaz Metal Merchants
	432	147	285	26	Sale	Ejaz & Shahbaz Metal Merchants
	432	147	285	26	Sale	Ejaz & Shahbaz Metal Merchants
	350	172	178	26	Sale	Ejaz & Shahbaz Metal Merchants
	139	32	107	19	Sale	Ejaz & Shahbaz Metal Merchants
	139	32	107	19	Sale	Ejaz & Shahbaz Metal Merchants
	119	55	64	19	Sale	Ejaz & Shahbaz Metal Merchants
	110	59	51	19	Sale	Ejaz & Shahbaz Metal Merchants
	190	133	57	15	Sale	Maqsood Barlas & Sons
	367	290	77	10	Sale	Ejaz & Shahbaz Metal Merchants
	788	735	53	8	Sale	Maqsood Barlas & Sons
	390	197	193	8	Sale	Maqsood Barlas & Sons
	332	271	61	8	Sale	Maqsood Barlas & Sons
	182	48	134	8	Sale	Maqsood Barlas & Sons
	1,250	921	329	6	Sale	Maqsood Barlas & Sons
	222	161	61	5	Sale	Maqsood Barlas & Sons
	345	190	155	4	Sale	Maqsood Barlas & Sons
	338	256	82	4	Sale	Maqsood Barlas & Sons
	222	161	61	4	Sale	Maqsood Barlas & Sons

Notes to the Financial Statements

For the year ended 31 December 2012

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
	220	121	99	4	Sale	Maqsood Barlas & Sons
	214	162	52	4	Sale	Maqsood Barlas & Sons
	811	162	649	2	Sale	Maqsood Barlas & Sons
	19,190	6,610	12,580	-	Scrapped	Various
	9,849	2,462	7,387	-	Scrapped	Various
	9,394	8,486	908	-	Scrapped	Various
	7,094	3,547	3,547	-	Scrapped	Various
	6,566	2,553	4,013	-	Scrapped	Various
	5,524	1,105	4,419	-	Scrapped	Various
	5,197	2,598	2,599	-	Scrapped	Various
	4,777	2,256	2,521	-	Scrapped	Various
	4,669	2,205	2,464	-	Scrapped	Various
	4,209	1,520	2,689	-	Scrapped	Various
	4,000	1,555	2,445	-	Scrapped	Various
	3,935	1,749	2,186	-	Scrapped	Various
	3,744	1,768	1,976	-	Scrapped	Various
	3,520	1,369	2,151	-	Scrapped	Various
	3,261	1,812	1,449	-	Scrapped	Various
	2,994	1,580	1,414	-	Scrapped	Various
	2,469	1,461	1,008	-	Scrapped	Various
	2,443	1,290	1,153	-	Scrapped	Various
	2,265	1,132	1,133	-	Scrapped	Various
	2,189	912	1,277	-	Scrapped	Various
	2,184	849	1,335	-	Scrapped	Various
	2,050	1,869	181	-	Scrapped	Various
	2,046	739	1,307	-	Scrapped	Various
	2,046	739	1,307	-	Scrapped	Various
	2,045	1,079	966	-	Scrapped	Various
	1,970	821	1,149	-	Scrapped	Various
	1,913	850	1,063	-	Scrapped	Various
	1,853	824	1,029	-	Scrapped	Various
	1,720	717	1,003	-	Scrapped	Various
	1,713	809	904	-	Scrapped	Various
	1,656	1,343	313	-	Scrapped	Various
	1,590	795	795	-	Scrapped	Various
	1,573	830	743	-	Scrapped	Various
	1,326	663	663	-	Scrapped	Various
	1,288	465	823	-	Scrapped	Various
	1,246	658	588	-	Scrapped	Various
	1,176	588	588	-	Scrapped	Various
	996	554	442	-	Scrapped	Various
	981	463	518	-	Scrapped	Various

Notes to the Financial Statements

For the year ended 31 December 2012

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
	937	390	547	-	Scrapped	Various
	889	494	395	-	Scrapped	Various
	878	642	236	-	Scrapped	Various
	795	102	693	-	Scrapped	Various
	662	331	331	-	Scrapped	Various
	626	522	104	-	Scrapped	Various
	618	378	240	-	Scrapped	Various
	610	500	110	-	Scrapped	Various
	549	290	259	-	Scrapped	Various
	530	250	280	-	Scrapped	Various
	465	246	219	-	Scrapped	Various
	463	143	320	-	Scrapped	Various
	418	220	198	-	Scrapped	Various
	367	204	163	-	Scrapped	Various
	350	292	58	-	Scrapped	Various
	346	250	96	-	Scrapped	Various
	345	255	90	-	Scrapped	Various
	340	28	312	-	Scrapped	Various
	338	214	124	-	Scrapped	Various
	331	123	208	-	Scrapped	Various
	331	169	162	-	Scrapped	Various
	329	192	137	-	Scrapped	Various
	326	244	82	-	Scrapped	Various
	322	72	250	-	Scrapped	Various
	305	250	55	-	Scrapped	Various
	304	169	135	-	Scrapped	Various
	295	192	103	-	Scrapped	Various
	286	55	231	-	Scrapped	Various
	276	115	161	-	Scrapped	Various
	274	48	226	-	Scrapped	Various
	273	182	91	-	Scrapped	Various
	270	165	105	-	Scrapped	Various
	262	131	131	-	Scrapped	Various
	258	93	165	-	Scrapped	Various
	257	193	64	-	Scrapped	Various
	253	160	93	-	Scrapped	Various
	248	179	69	-	Scrapped	Various
	245	116	129	-	Scrapped	Various
	214	136	78	-	Scrapped	Various
	210	140	70	-	Scrapped	Various
	209	128	81	-	Scrapped	Various

Notes to the Financial Statements

For the year ended 31 December 2012

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
	202	84	118	-	Scrapped	Various
	201	106	95	-	Scrapped	Various
	198	132	66	-	Scrapped	Various
	170	95	75	-	Scrapped	Various
	143	75	68	-	Scrapped	Various
	143	67	76	-	Scrapped	Various
	110	57	53	-	Scrapped	Various
	92	35	57	-	Scrapped	Various
	81	20	61	-	Scrapped	Various
	81	20	61	-	Scrapped	Various
	98	14	84	-	Scrapped	Various
Vehicles						
	1,315	329	986	1,300	Sale	IGI Insurance Company Limited
	1,443	481	962	1,430	Sale	IGI Insurance Company Limited
	1,443	553	890	1,100	Sale	Employee (Khalid Zafar Munj)
	917	107	810	867	Sale	Employee (Asad Khan)
	897	135	762	820	Sale	Employee (M. Abdullah Bajwa)
	1,443	698	745	920	Sale	Employee (Tahir Mehmood)
	901	180	721	842	Sale	Employee (M. Shahzeb Saeed)
	849	212	637	850	Sale	IGI Insurance Company Limited
	837	237	600	719	Sale	Employee (Salman Ali Khan)
	822	233	589	705	Sale	Employee (Ahed Ali)
	849	269	580	721	Sale	Employee (Rafiullah Khan)
	834	264	570	701	Sale	Employee (Naeem Abbas shah)
	852	341	511	664	Sale	Employee (Javed Ahsan)
	849	340	509	698	Sale	Employee (Tanveer Ahmed)
	815	312	503	664	Sale	Employee (Ali Imran Haidery)
	815	340	475	643	Sale	Employee (M. Zeeshan Tahir)
	783	392	391	567	Sale	Employee (Suleman Arshad Pall)
	765	383	382	560	Sale	Employee (Azam Khan)
	772	424	348	560	Sale	Employee (Sohail Jarjees)
	496	157	339	417	Sale	Employee (Abbasi Ms. Amna)
	787	459	328	537	Sale	Employee (Sayed Jamal Haider)
	812	501	311	572	Sale	Employee (Faraz Hafeez)
	808	498	310	554	Sale	Employee (Ahmed Ihsan)
	485	186	299	395	Sale	Employee (Saira Mazhar)
	812	569	243	546	Sale	Employee (Qawi Naseer)
	466	248	218	344	Sale	Employee (Farhana Sultan)
	680	465	215	465	Sale	Employee (Faisal Durrani)
	509	297	212	365	Sale	Employee (M. Nasir Masood)

Notes to the Financial Statements

For the year ended 31 December 2012

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
						(Rupees in '000)
	767	614	153	474	Sale	Employee (Asif Ali)
	677	542	135	419	Sale	Employee (M. Saad Arshad Khan)
	413	282	131	279	Sale	Employee (Imran Saeed)
	415	297	118	268	Sale	Employee (Imran Rasool)
	403	316	87	254	Sale	Employee (Sayed Rizwan Shameem)
	402	315	87	262	Sale	Employee (Zulfiqar Ali Sheikh)
	402	315	87	253	Sale	Employee (Atif Khan)
	610	528	82	372	Sale	Employee (M. Shoaib Ata Khan)
	598	528	70	360	Sale	Employee (M. Usman Khan)
	72	13	59	65	Sale	Employee (Junaid Muhammad)
Assets with book value less than Rs. 50,000	407,504	395,748	11,756	39,173		
Total	768,065	548,268	219,797	123,711		

	Note	2012	2011
			(Rupees in '000)
16 Capital work-in-progress			
Civil works		1,548,147	1,240,501
Plant and machinery	16.1	9,361,941	3,726,909
Others		639,535	403,151
		11,549,623	5,370,561

16.1 This includes borrowing costs amounting to Rs. 350.173 million (2011: Rs. Nil) relating to general borrowings capitalized at an annual capitalization rate of 11.33% per annum (2011: Nil).

	Note	2012	2011
			(Rupees in '000)
17 Intangible assets			
Cost			
Balance as at 01 January		232,315	232,315
Addition during the year		-	-
Balance as at 31 December		232,315	232,315
Amortization			
Balance as at 01 January		220,361	215,580
Charge for the year	29	4,781	4,781
Accumulated amortization as at 31 December		225,142	220,361
Net book value as at 31 December		7,173	11,954
Amortization rate		25%	25%

Notes to the Financial Statements

For the year ended 31 December 2012

18 Goodwill

18.1 During the year, the Company has acquired a Infant Nutrition business from Wyeth Pakistan Limited which was approved by the Board of Directors of the Company in their meeting held on 17 October 2012. The Company acquired 100% business for cash consideration of US$ 2 million on the acquisition date of 30 November 2012. This acquisition is part of global acquisition of Pfizer Infant Nutrition business by Nestle S.A Switzerland, the holding company, of the Company. On 09 October 2012, the Competition Commission of Pakistan has approved the pre-merger application of Nestle S.A Switzerland subject to written undertaking by Nestle S.A Switzerland that Pfizer Infant Nutrition products will continue to be available in market for a period of three years from the date of the acquisition. On acquisition date, the Company hired 25 employees of Pfizer Infant Nutrition business from Wyeth Pakistan Limited with the terms of new employment with the Company and it shall not constitute continuation of their employment with the Wyeth Pakistan Limited.

18.2 The acquisition has been accounted for by applying the acquisition method in accordance with the requirements of IFRS 3 Business Combinations. The cost of the acquisition has been measured at the fair value of the consideration given. Identified assets acquired, liabilities assumed or incurred have been carried at the fair value as at the acquisition date. The excess of the consideration paid over the fair value of the identifiable net assets acquired has been recorded as the goodwill in the financial statements of the Company.

18.3 Details of the purchase consideration given, fair values of the net assets acquired and goodwill are as follows:

	Note	(Rupees in '000)
Fair value of the identifiable net assets of Pfizer Infant Nutrition business as on 30 November 2012	18.4	88,882
Percentage of identifiable net assets acquired		100%
Fair value of the identifiable net assets of Pfizer Infant Nutrition business acquired as on 30 November 2012		88,882
Less: Purchase consideration paid in cash		(193,060)
Goodwill	18.5	(104,178)
Acquisition related cost (included in profit and loss account for the year ended 31 December 2012)		108

Notes to the Financial Statements

For the year ended 31 December 2012

18.4 The fair value and carrying amount of the identifiable assets and liabilities of Pfizer Infant Nutrition business unit (owned by Wyeth Pakistan Limited) at the date of acquisition are as follows:

	Acquiree's carrying amount as on 30 November 2012	Fair value adjustments	Fair value as on 30 November 2012
			(Rupees in '000)
Stock in trade	92,482	-	92,482
Total assets	92,482	-	92,482
Other payables	(3,600)	-	(3,600)
Total liabilities	(3,600)	-	(3,600)
Net assets	88,882	-	88,882

18.5 As mentioned in note 18.3 to these financial statements, the acquisition of the Pfizer Infant Nutrition business generates goodwill as the consideration paid by the Company in cash as at the acquisition date exceeds the fair value of the identifiable net assets acquired. Goodwill arise on the acquisition of the Pfizer Infant Nutrition business is Rs. 104.178 million.

18.6 The Company has not earned any revenues from the Pfizer Infant Nutrition business from the date of the acquisition to 31 December 2012. Since Wyeth Pakistan Limited operated under the single reporting segment and the infant nutrition business was not reviewed as a separate reporting segment by the management of Wyeth. It is impracticable to disclose any information relating to revenues and profit or loss had the acquisition occurred and accounted with effect from 01 January 2012.

18.7 The goodwill arising on the business combination has not been allocated to the cash generating units of the Company as at the year end as the management is in the process of allocating it to different groups of cash generating units from which the Company is expecting to benefit from the synergies of the combination.

	Note	2012	2011
			(Rupees in '000)
19 Long term loans and advances			
To employees - secured, considered good	19.1		
Executives		144,896	101,879
Other employees		129,254	81,147
		274,150	183,026
To suppliers - unsecured, considered good	19.2	8,224	9,870
		282,374	192,896
Less: current portion shown under current assets		(45,735)	(30,914)
		236,639	161,982

Notes to the Financial Statements

For the year ended 31 December 2012

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. 233.448 million (2011 : 154.084 million).

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

	Note	2012	2011
			(Rupees in '000)
Reconciliation of carrying amount of loans to executives			
Balance as at 01 January		101,879	67,365
Disbursements during the year		55,612	58,650
Status change of non-executive employees as executives		25,221	6,011
Loans recovered during the year		(37,816)	(30,147)
Balance as at 31 December		144,896	101,879

19.2 This represents an un-secured loan given to Sui Northern Gas Pipelines Limited for the development of infrastructure for supply of natural gas to the plant at Kabirwala. Mark-up is charged at the rate of 1.5% per annum (2011: 1.5% per annum) and is receivable annually. This amount is receivable in 10 equal annual installments which commenced from October 2008.

	Note	2012	2011
			(Rupees in '000)
20 Long term deposits and prepayments			
Long term security deposits		20,799	9,817
Long term prepayments		77,864	-
		98,663	9,817
21 Stores and spares			
Stores		195,181	204,985
Spares, including in transit Rs. 23.945 million (2011: Rs. 14.682 million)		1,178,058	1,073,431
		1,373,239	1,278,416

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

Notes to the Financial Statements

For the year ended 31 December 2012

	Note	2012	2011 (Rupees in '000)
22 Stock in trade			
Raw and packing materials including			
in transit Rs.1,556.831 million (2011: Rs. 599.857 million)		5,159,664	4,805,093
Work-in-process		450,292	265,620
Finished goods		2,133,848	1,887,586
Goods purchased for resale including			
in transit Rs.63.151 million (2011: Rs.25.975million)		281,849	105,871
		8,025,653	7,064,170
23 Trade debts			
Considered good - unsecured		491,842	276,858
Considered doubtful - unsecured		5,794	6,349
		497,636	283,207
Less: Provision for doubtful debts	23.1	5,794	6,349
		491,842	276,858
23.1 Provision for doubtful debts			
Balance as at 01 January		6,349	3,410
Addition during the year		324	6,122
Less: reversals/written off during the year		(879)	(3,183)
Balance as at 31 December		5,794	6,349
24 Advances, deposits, prepayments and other receivables			
Advances to employees - secured and considered good	24.1	4,097	-
Advances to suppliers - unsecured and considered good		678,477	863,398
Due from related parties - unsecured and considered good	24.2	25,090	98,779
Trade deposits and prepayments - considered good		95,808	98,127
Income tax recoverable		1,689,925	933,532
Sales tax refundable		3,514,923	1,931,228
Other receivables - considered good		199,864	117,570
		6,208,184	4,042,634

24.1 Chief Executive and Director have taken advances from the Company against expenses amounting to Rs. 3.4 million (2011: Nil) and Rs. 0.227 million (2011: Nil) respectively.

Notes to the Financial Statements

For the year ended 31 December 2012

	Note	2012	2011
			(Rupees in '000)
24.2 Due from related parties			
Foreign Associated Companies			
Nestlé SA		-	291
Nestlé Australia		7,522	-
Nestlé Canada Inc		-	137
Nestlé Dubai Manufacturing LLC		-	316
Nestlé U.S.A Inc		-	27
Nestlé Hong Kong Limited		-	1,470
Nestlé Vietnam Limited		-	145
Nestlé Ghana Limited		-	1,471
Nestlé Nederland B.V.		-	11,115
Nestlé Suisse S.A.		13,588	18,005
Nestlé Asean (Malaysia) Sdn Bhd		460	-
Nestlé France		-	641
Nestlé Philippines Inc.		-	36,671
Nestlé Operational Services		3,520	-
Nestlé Nigeria Plc		-	1,570
Nestlé Asean Malaysia		-	813
Nestlé Waters Management & Technology		-	11,469
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
		25,090	98,779

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

	Note	2012	2011
25 Cash and bank balances			
Cash at bank			
- Current accounts		746,583	622,235
- Saving accounts	25.1	10,142	77,083
		756,725	699,318
Cash and cheques in hand		4,106	2,707
		760,831	702,025

25.1 The balances in saving accounts carry return ranging from 1.25% to 13.55% per annum (2011 : 5% to 11% per annum).

Notes to the Financial Statements

For the year ended 31 December 2012

	Note	2012	2011
			(Rupees in '000)
26 Sales- net			
Own manufactured			
Local		78,250,634	63,804,716
Export		6,116,460	5,303,414
		84,367,094	69,108,130
Goods purchased for resale		880,018	537,490
Less :			
Sales tax		(2,205,003)	(1,648,412)
Trade discounts		(3,954,413)	(3,172,844)
		79,087,696	64,824,364
27 Cost of goods sold			
Raw and packing materials consumed		43,228,390	37,270,680
Salaries, wages and amenities	27.1	3,057,081	2,317,731
Fuel and power		3,628,624	2,877,125
Insurance		46,658	38,450
Repairs, maintenance and stores consumption		2,176,458	1,778,487
Rent, rates and taxes		150,363	107,546
Depreciation	15.1	1,759,858	1,337,682
Expenses on information technology		259,194	265,896
Stationery expenses		40,261	34,690
Communication		46,043	44,419
Quality assurance		231,402	171,864
Royalty and technical assistance fee		2,355,944	1,934,573
Others		428,643	285,349
		57,408,919	48,464,492
Increase in work in process		(184,672)	(27,443)
Cost of goods manufactured		57,224,247	48,437,049
Increase in finished goods		(309,413)	(828,119)
Cost of goods sold - own manufactured		56,914,834	47,608,930
Cost of goods sold - purchased for resale		649,431	490,116
		57,564,265	48,099,046

27.1 Salaries, wages and amenities include Rs. 48.687 million (2011: Rs. 39.851 million) in respect of gratuity, Rs. 32.845 million (2011: Rs. 21.208 million) in respect of pension and Rs. 64.917 million (2011: Rs. 51.668 million) in respect of provident fund.

Notes to the Financial Statements

For the year ended 31 December 2012

	Note	2012	2011 (Rupees in '000)
28 Distribution and selling expenses			
Salaries, wages and amenities	28.1	1,553,763	1,267,925
Training		34,579	22,951
Rent, rates and taxes		25,849	63,107
Insurance		12,179	9,083
Freight outward		2,463,953	2,069,350
Depreciation	15.1	272,470	203,508
Sales promotion and advertisement		3,763,608	2,814,958
Legal and professional charges		17,037	21,560
Vehicle running and maintenance		26,017	20,978
Utilities		63,262	43,301
Repairs and maintenance		95,899	55,477
Subscription, stationery, printing and publication		25,498	17,691
Communications		27,582	23,591
Traveling, conveyance and vehicle running		136,221	111,705
Provision for doubtful debts		324	6,122
Expenses on information technology		66,921	28,058
Other expenses		202,346	82,748
		8,787,508	6,862,113

28.1 Salaries, wages and amenities include Rs. 40.218 million (2011: Rs. 32.036 million) in respect of gratuity, Rs. 39.724 million (2011: Rs. 22.451 million) in respect of pension and Rs. 53.772 million (2011: Rs. 46.624 million) in respect of provident fund.

	Note	2012	2011 (Rupees in '000)
29 Administration expenses			
Salaries, wages and amenities	29.1	927,866	691,898
Training		61,482	45,993
Rent, rates and taxes		77,915	70,849
Insurance		2,794	2,292
Depreciation	15.1	92,030	70,652
Amortization	17	4,781	4,781
Legal and professional charges	29.2	61,216	72,857
Vehicles running and maintenance		18,425	13,650
Utilities		30,902	23,920
Repairs and maintenance		22,963	23,122
Subscription, stationery, printing and publication		45,650	37,695
Communications		66,896	54,447
Traveling and conveyance		71,660	71,700
Expenses on information technology		234,898	184,277
Other expenses		50,325	37,165
		1,769,803	1,405,298

Notes to the Financial Statements

For the year ended 31 December 2012

29.1 Salaries, wages and amenities include Rs. 27.035 million (2011: Rs. 20.739 million) in respect of gratuity, Rs. 42.646 million (2011: Rs. 23.495 million) in respect of pension and Rs. 35.614 million (2011: Rs. 30.178 million) in respect of provident fund.

	Note	2012	2011
			(Rupees in '000)
29.2 Legal and professional charges include the following in respect of auditors' services for:			
Statutory audit		1,000	1,000
Half yearly review		180	180
Audit of accounts of staff retirement benefits		60	60
Other sundry certificates		62	42
Out of pocket expenses		125	145
		1,427	1,427
30 Finance cost			
Mark-up on lease finances		6,340	23,069
Exchange loss on derivative financial liability		-	98,746
Mark-up on short term running finances - secured		453,194	434,131
Mark-up on short term borrowings - secured		1,011,568	303,708
Mark-up on loan from associated company		140,291	142,566
Mark-up on long term loan		506,980	-
Bank charges		59,769	48,135
		2,178,142	1,050,355
Less: borrowing costs capitalized	16.1	(350,173)	-
		1,827,969	1,050,355
31 Other operating expenses			
Workers' profit participation Fund	12.1	423,729	349,241
Workers' welfare fund		72,876	132,711
Donations	31.1	73,756	62,736
Loss on disposal of property, plant and equipment		96,086	53,622
Impairment loss on property, plant and equipment	15	149,644	7,800
Exchange loss		462,800	382,550
Others		41,428	75,573
		1,320,319	1,064,233

Notes to the Financial Statements

For the year ended 31 December 2012

	2012	2011
		(Rupees in '000)
31.1 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	2,500	3,500
(Syed Yawar Ali, Director is also Governor of DRDF)		
National Management Foundation (NMF),		
Defence Housing Authority, Lahore	10,000	-
(Syed Babar Ali, Director is also Chairman of NMF)		
	12,500	3,500
32 Other operating income		
Sale of scrap	132,453	145,149
Others	27,689	14,396
	160,142	159,545
33 Taxation		
Current year		
Current	1,191,532	1,010,796
Deferred	827,221	771,362
	2,018,753	1,782,158
Prior year		
Current	94,710	52,349
	2,113,463	1,834,507

	2012	2011
		(%)
33.1 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	4.28	3.26
Allowable for tax purposes	(11.49)	(7.28)
Effect of changes in prior years' tax/surcharge	1.19	0.81
Tax effect under presumptive tax regime	(2.49)	(3.58)
	(8.51)	(6.79)
Average effective tax rate charged to profit and loss account	26.49	28.21

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

Notes to the Financial Statements

For the year ended 31 December 2012

		2012	2011
34 Earnings per share			
34.1 Basic earnings per share			
Profit after taxation available for distribution			
to ordinary shareholders	Rupees in '000'	5,864,511	4,668,357
Weighted average number of ordinary shares	Number in '000'	45,350	45,350
Basic earnings per share	Rupees	129.32	102.94

34.2 Diluted earnings per share

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

35 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 38. Other significant transactions with related parties are as follows:

	Note	2012	2011 (Rupees in '000)
35.1 Transactions during the year			
Associated companies			
- Royalty and technical assistance fee		2,141,768	1,758,703
- Purchase of goods, services and rental		15,264,169	10,949,999
- Interest on foreign currency loan		140,291	142,566
- Repayment of short term borrowings		-	2,143,750
Other related parties			
- Contribution to staff retirement benefit plans		230,614	201,486
- Donation		12,500	3,500
- Sale of fixed assets		31,000	59,200
35.2 Amounts outstanding as at year end			
Associated companies			
- Royalty and technical assistance fee payable		146,329	135,249
- Interest on foreign currency loan payable		9,769	9,366

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

Notes to the Financial Statements

For the year ended 31 December 2012

	Note	2012	2011
			(Rupees in '000)
36 Cash generated from operations			
Profit before taxation		7,977,974	6,502,864
Adjustment for non-cash charges and other items			
Depreciation		2,131,633	1,613,489
Amortization		4,781	4,781
Impairment loss on property, plant and equipment		149,644	7,800
Loss on disposal of property, plant and equipment		96,086	53,622
Exchange loss on foreign currency loan		462,800	382,550
Provision for doubtful debts - net		324	6,122
Retirement benefits		231,155	159,780
Finance cost		1,827,969	1,050,355
Profit before working capital changes		12,882,366	9,781,363
Effect on cash flow due to working capital changes			
Increase in stores and spares		(94,823)	(227,612)
Increase in stock in trade		(869,001)	(2,462,151)
Increase in trade debts		(215,308)	(156,481)
Increase in advances, deposits, prepayments and other receivables		(1,409,157)	(1,279,894)
Increase in trade and other payables		2,394,172	2,708,622
Increase in customer security deposits - interest free		34,650	20,934
		(159,467)	(1,396,582)
		12,722,899	8,384,781
37 Cash and cash equivalents			
Cash and bank balances	25	760,831	702,025
Short term running finance under mark-up arrangements - secured		(5,937,374)	(4,175,236)
		(5,176,543)	(3,473,211)

Notes to the Financial Statements

For the year ended 31 December 2012

38 Remuneration of chief executive, directors and executives

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

	Chief Executive		Executive Directors		Executives	
	2012	2011	2012	2011	2012	2011
						(Rupees in '000)
Managerial remuneration	10,209	15,124	24,537	20,017	1,256,535	999,117
Bonus	4,168	7,322	7,259	3,516	269,749	235,370
Retirement benefits	-	-	1,560	1,244	211,828	162,498
Housing	9,773	3,218	1,983	6,815	13,034	21,798
Utilities	-	-	-	-	3,378	2,635
Reimbursable expenses	5,507	2,460	5,683	2,673	142,911	128,092
	29,657	28,124	41,022	34,265	1,897,435	1,549,510
Number of persons	1	1	3	3	723	565

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

No remuneration, benefits, allowances and meeting fees were paid to the non-executive directors during the year (2011: Rs. Nil).

	Capacity		Production	
	2012	2011	2012	2011
39 Capacity and production				
Liquid products - liters (000)	1,292,470	1,249,098	767,027	781,292
Non-liquid products - Kgs (000)	146,780	135,251	86,348	86,251

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 2012

40 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	Beverages.
Milk based products and cereals	Juices & water

40.1 Segment analysis and reconciliation for the year ended 31 December

	Milk and Nutrition Products		Beverages		Other Operations		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
								(Rupees in '000)
Sales								
External sales	66,039,480	54,503,691	12,211,715	9,619,058	836,501	701,615	79,087,696	64,824,364
Inter-segment sales	-	-	-	-	-	-	-	-
Total revenue	66,039,480	54,503,691	12,211,715	9,619,058	836,501	701,615	79,087,696	64,824,364
Depreciation and amortization	(1,621,111)	(1,267,357)	(473,329)	(338,167)	(34,699)	(11,099)	(2,129,139)	(1,616,623)
Profit before tax and unallocated expenses	10,108,165	7,840,488	1,172,095	872,867	(314,140)	(255,448)	10,966,120	8,457,907
Unallocated corporate expenses								
Finance cost							(1,827,969)	(1,050,355)
Exchange loss on foreign currency loan							(462,800)	(382,550)
Other operating expenses							(707,875)	(673,883)
Other operating income							160,142	159,545
Taxation							(2,113,463)	(1,834,507)
Other material non-cash items								
Impairment loss on property, plant and equipment	-	-	(149,644)	(7,800)	-	-	(149,644)	(7,800)
Profit after taxation							5,864,511	4,668,357
Segment assets	24,902,767	21,854,982	17,856,647	7,939,858	652,923	452,511	43,412,337	30,247,351
Unallocated assets							7,460,380	4,932,508
Total assets							50,872,717	35,179,859
Segment liabilities	7,854,324	6,225,789	1,634,306	1,238,791	99,316	79,432	9,587,946	7,544,012
Unallocated liabilities							29,724,507	20,023,431
Total liabilities							39,312,453	27,567,443
Segment capital expenditure	8,163,406	5,332,861	2,502,432	1,775,086	533,612	276,240	11,199,450	7,384,187
Unallocated capital expenditure							2,870,942	1,556,675
							14,070,392	8,940,862

Notes to the Financial Statements

For the year ended 31 December 2012

40.2 Geographical segments

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

41 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 2012

Particulars	Currency	2012	2011
			(Rupees in '000)
Foreign currency bank accounts	US $	31,885	19,411
Cash in hand			
	US $	2,905	2,691
	EUR €	896	812
		3,801	3,503
Receivables			
	US $	40,008	12,133
	CHF	3,508	122
	EUR €	52,868	120,769
		96,384	133,024
		132,070	155,938
Less :			
Long term loan from associated undertaking	US $	6,310,850	5,848,050
Payables	US $	1,020,950	942,768
	EUR €	530,682	610,818
	CHF	2,347	7,462
	GB £	3,889	2,333
	SGP $	11,464	1,562
	JPY	9,151	284
	AED	-	3,900
	CNY	-	64
	DKK	291	119
	NZD	-	121
		1,578,774	1,569,431
		7,889,624	7,417,481
On balance sheet exposure		(7,757,554)	(7,261,543)
Outstanding letters of credit		(1,091,476)	(1,403,221)
Off balance sheet exposure		(1,091,476)	(1,403,221)

Notes to the Financial Statements

For the year ended 31 December 2012

The following significant exchange rates were applied during the year :

	2012		2011	
	Average Rate	Reporting date rate	Average Rate	Reporting date rate
				(Rupees per currency unit)
US $	93.54	97.10	87.86	89.97
EUR €	122.38	128.31	115.51	116.44
CHF	101.99	106.28	94.58	97.70
GB £	148.95	156.90	136.83	141.00
SGP $	74.99	79.47	68.63	70.50
JPY	1.14	1.13	1.11	1.16
CNY	13.50	13.50	13.50	13.50
AED	25.67	26.44	24.10	24.90
DKK	16.75	17.20	15.75	16.30
NZD	76.22	80.04	68.10	72.40

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 2011 would have been as follows :

	2012	2011
		(Rupees in '000)
Effect on Profit and loss		
US Dollar	471,705	439,178
Euro	31,000	31,800
Swiss Franc	(75)	477
Great Britain Pound	253	152
Singapore Dollar	745	102
Japanese Yen	595	18
Chinese Yuan	-	4
UAE Dirham	-	254
Danish Krone	19	8
Newzealand Dollar	-	8
	504,242	472,001

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 2012

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:

	2012	2011
		(Rupees in '000)
Variable rate instruments		
Long term finances from associated undertaking - US $	(6,310,850)	(5,848,050)
Effective interest rate in %age	2.25	1.78
Long term finances from banking companies - PKR	(9,084,170)	(2,000,000)
Effective interest rate in %age	12.87	12.76
Short term borrowings from local banks - PKR	(9,837,374)	(9,215,236)
Effective interest rate in %age	10.95	13.97

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 2011 would have been effected as follows:

	2012	2011
		(Rupees in '000)
Effect on Profit and loss of an increase	(135,397)	(74,892)
Effect on Profit and loss of a decrease	135,397	74,892

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.

Notes to the Financial Statements

For the year ended 31 December 2012

41.2 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	2012	2011
		(Rupees in '000)
Long term loans and advances	236,639	161,982
Long term deposits & prepayments	98,663	9,817
Current portion of long term loans and advances	45,735	30,914
Trade debts - domestic	491,842	276,858
Advances, deposits, prepayments and other receivables	1,003,336	1,177,874
Bank balances	756,725	699,318
	2,632,940	2,356,763
The aging of trade debts at the reporting date is:		
Past due 0 - 30 days	477,653	168,281
Past due 31 - 60 days	8,081	90,399
Past due 61 - 90 days	1,293	5,462
Past due 91 - 120 days	1,036	12,543
Past due 120 days	3,779	173
	491,842	276,858

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

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

Notes to the Financial Statements
For the year ended 31 December 2012

	Rating 2012		
	Short Term	Long Term	Agency
Barclays Bank PLC	A1	A+	S & P
Standard Chartered Bank Limited	A1+	AAA	PACRA
Citibank N.A.	P1	A1	Moody's
MCB Bank Limited	A1+	AA+	PACRA
Deutsché Bank AG	P1	A2	Moody's
Habib Bank Limited	A1+	AA+	JCR-VIS
United Bank Limited	A1+	AA+	JCR-VIS
Bank Al Habib Limited	A1+	AA+	PACRA
HSBC	P1	A1	Moody's
Summit Bank Limited (formerly "My Bank Limited").	A-2	A-	JCR-VIS
Bank of Punjab	A1+	AA-	PACRA
Burj Bank	A-1	A	JCR-VIS
Meezan Bank Limited	A-1+	AA-	JCR-VIS
Allied Bank Limited	A1+	AA+	PACRA
Faysal Bank Limited	A1+	AA	PACRA
National Bank of Pakistan	A-1+	AAA	JCR-VIS
KASB	A3	BBB	PACRA
Bank Al Falah Limited	A1+	AA	PACRA
Soneri Bank Limited	A1+	AA-	PACRA
Afghanistan International Bank	Not available	Not available	Not available

	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 Limited	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 Limited	A1+	AA-	JCR-VIS
Allied Bank Limited	A1+	AA	PACRA

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

Notes to the Financial Statements

For the year ended 31 December 2012

41.3 Liquidity risk

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

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

The following are the contractual maturity analysis of financial liabilities as at 31 December 2012:

	Carrying amount	Contractual amount	Less than 6 months	6 to 12 months	1 year to 5 year
Non-derivative financial liability					
Long term finances	15,366,964	15,366,964	-	-	15,366,964
Short term borrowings					
under markup arrangement	5,937,374	5,937,374	5,937,374	-	-
Short term borrowings-secured	3,900,000	3,900,000	3,900,000	-	-
Liability against assets					
subject to finance lease	13,630	13,630	13,630	-	-
Customer security deposits	184,441	184,441	-	184,441	-
Trade and other payables	9,732,155	9,732,155	9,743,567	-	-
Interest and markup accrued	196,345	196,345	196,345	-	-
	35,330,909	35,330,909	19,790,916	184,441	15,366,964

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

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

Notes to the Financial Statements

For the year ended 31 December 2012

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.

42 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 2012 and 31 December 2011 were as follows:

	2012	2011
		(Rupees in '000)
Total borrowing	25,246,024	17,028,563
Total equity	11,560,264	7,612,416
Total debt and equity	36,806,288	24,640,979
Debt equity ratio	69:31	69:31

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 2012

43 Date of authorization for issue

These financial statements were authorized for issue on 18 February 2013 by the Board of Directors of the Company.

44 Dividend

The Board of Directors in their meeting held on 18 February 2013 have proposed a final cash dividend for the year ended 31 December 2012 of Rs.70 (2011: Rs. 40) per share, amounting to Rs. 3,174.471 million (2011: Rs. 1,813.983 million) for approval of the members at the Annual General Meeting to be held on 19 April 2013. These financial statements do not reflect this dividend.

45 General

45.1 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.

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

GIUSEPPE BONANNO Head of Finance and Control	MAGDI BATATO Chief Executive	SYED YAWAR ALI Chairman

Form of Proxy

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

I/We, ____, of ___________________________________, being a member of Nestlé Pakistan Ltd., holder of __________________________________ Ordinary Share(s) as per 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 April 19, 2013 and at any adjournment thereof.

Signed under my / our hand this _______ day of ___________, 2013.

Signature across Rs. 5
Revenue Stamp

Signature should agree
with the specimen signature
registered with the company

Signed in the presence of:

____
Signature of Witness

NOTES:

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

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

AFFIX
CORRECT
POSTAGE

The Company Secretary

Nestlé Pakistan Ltd.

308 – Upper Mall, Lahore, Pakistan

Phone No. +92 42 111 637 853

Fax No. +92 42 3578 9303

www.nestle.pk

Acronyms Used in Financial Statement

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

www.nestle.pk

308 Upper Mall, Lahore, Pakistan.
Tel +92 42 111 637 853, Fax +92 42 35789303