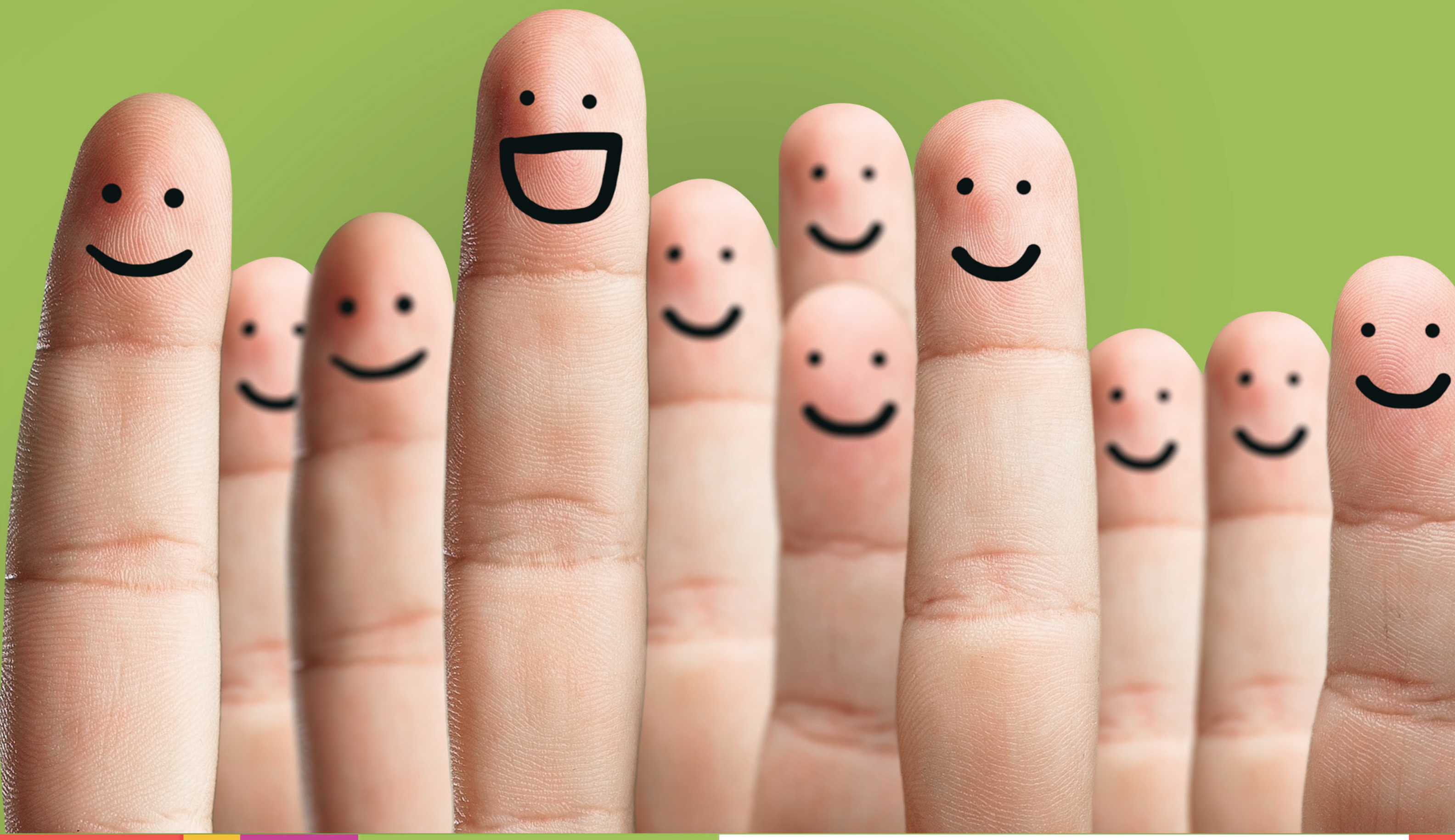
Financial Report of **Nestlé Pakistan Limited** for the year ended 31 December 2014

Together we grow



Nestlé

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 31 December 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

b) in our opinion:

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

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of the profit and of its comprehensive income, its cash flows and changes in equity for the year then ended; and

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

KPMG Taseer Hadi & Co.

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

Lahore: February 19, 2014

Balance Sheet

As at 31 December 2014

(Rupees in '000)	Note	2014	2013
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital			
75,000,000 (2013: 75,000,000) ordinary shares of Rs. 10 each		750,000	750,000
Issued, subscribed and paid up capital	3	453,496	453,496
Share premium	4	249,527	249,527
General reserve		280,000	280,000
Hedging reserve	5	(13,999)	–
Accumulated profit		11,658,601	10,876,134
		12,627,625	11,859,157
Non-current liabilities			
Long term finances	6	6,951,459	17,464,812
Deferred taxation	7	3,263,372	4,102,160
Retirement benefits	8	1,110,999	862,403
		11,325,830	22,429,375
Current liabilities			
Current portion of non-current liabilities	9	3,082,979	4,831,840
Short term borrowings	10	4,013,825	-
Short term running finance under mark-up arrangements - secured	11	5,949,914	3,356,591
Customer security deposits - interest free		220,957	181,977
Trade and other payables	12	14,361,913	9,366,805
Interest and mark-up accrued	13	147,652	263,776
		27,777,240	18,000,989
Contingencies and commitments	14		
		51,730,695	52,289,521

The annexed notes 1 to 47 form an integral part of these financial statements.

Balance Sheet
As at 31 December 2014

(Rupees in '000)	Note	2014	2013
ASSETS			
Non-current assets			
Tangible fixed assets			
Property, plant and equipment	15	30,550,199	31,467,872
Capital work-in-progress	16	2,233,971	2,351,556
		32,784,170	33,819,428
Intangible assets	17	–	2,392
Goodwill	18	167,546	167,546
Long term loans and advances	19	317,600	292,304
Long term deposits and prepayments	20	55,599	71,368
Current assets			
Stores and spares	21	1,208,547	1,273,538
Stock in trade	22	9,763,987	7,925,132
Trade debts	23	272,321	328,110
Current portion of long term loans and advances	19	76,082	55,784
Advances, deposits, prepayments and other receivables	24	6,858,700	7,633,854
Cash and bank balances	25	226,143	720,065
		18,405,780	17,936,483
		51,730,695	52,289,521

JOHN M. DAVIS
Head of Finance and Control

MAGDI BATATO
Chief Executive

SYED YAWAR ALI
Chairman

Profit and Loss Account

For the year ended 31 December 2014

(Rupees in '000)	Note	2014	2013
Sales - net	26	96,457,743	86,226,869
Cost of goods sold	27	(69,133,753)	(62,066,072)
Gross profit		27,323,990	24,160,797
Distribution and selling expenses	28	(11,085,448)	(10,731,584)
Administration expenses	29	(2,125,079)	(1,957,943)
Operating profit		14,113,463	11,471,270
Finance cost	30	(2,155,637)	(2,113,096)
Other operating expenses	31	(1,472,550)	(1,439,777)
		(3,628,187)	(3,552,873)
Other income	32	523,892	194,565
Profit before taxation		11,009,168	8,112,962
Taxation	33	(3,079,897)	(2,246,199)
Profit after taxation		7,929,271	5,866,763
Earnings per share - basic and diluted (Rupees)	34	174.85	129.37

The annexed notes 1 to 47 form an integral part of these financial statements.

JOHN M. DAVIS
Head of Finance and Control

MAGDI BATATO
Chief Executive

Syed Yawar Ali

SYED YAWAR ALI
Chairman

Statement of Comprehensive Income

For the year ended 31 December 2014

(Rupees in '000)	Note	2014	2013
Profit after taxation		7,929,271	5,866,763
Other comprehensive loss			
Items that are or may be classified subsequently to profit and loss:			
Cashflow hedges - effective portion of changes in fair value		(21,537)	–
Related tax		7,538	–
		(13,999)	–
Items that will never be reclassified to profit and loss:			
Remeasurement of net retirement			
benefit liability recognised directly in the equity		(175,550)	(190,796)
Related tax		57,932	64,871
		(117,618)	(125,925)
Total comprehensive income for the year		7,797,654	5,740,838

The annexed notes 1 to 47 form an integral part of these financial statements.

JOHN M. DAVIS
Head of Finance and Control

MAGDI BATATO
Chief Executive

SYED YAWAR ALI
Chairman

Cash Flow Statement

For the year ended 31 December 2014

(Rupees in '000)	Note	2014	2013
Cash flow from operating activities			
Cash generated from operations	36	20,945,785	14,846,883
Decrease in long term deposits and prepayments		15,769	27,295
Increase in long term loans and advances		(45,594)	(65,714)
Retirement benefits paid		(205,281)	(235,771)
Finance cost paid		(2,135,498)	(2,039,147)
Workers' profit participation fund paid		(613,420)	(437,176)
Workers' welfare fund paid		(164,004)	(84,436)
Taxes paid		(3,171,675)	(2,974,725)
Net cash generated from operating activities		14,626,082	9,037,209
Cash flow from investing activities			
Fixed capital expenditure		(2,975,985)	(3,700,563)
Sale proceeds of property, plant and equipment		179,653	183,855
Net cash used in investing activities		(2,796,332)	(3,516,708)
Cash flow from financing activities			
(Repayments) / proceeds from long term finances		(11,898,239)	6,372,935
Proceeds / (repayments) of short term borrowings		4,013,825	(3,900,000)
Payment of finance lease liabilities		–	(13,630)
Dividend paid		(7,032,581)	(5,439,789)
Net cash used in financing activities		(14,916,995)	(2,980,484)
Net (decrease) / increase in cash and cash equivalents		(3,087,245)	2,540,017
Cash and cash equivalents at beginning of the year		(2,636,526)	(5,176,543)
Cash and cash equivalents at end of the year	37	(5,723,771)	(2,636,526)

The annexed notes 1 to 47 form an integral part of these financial statements.

JOHN M. DAVIS
Head of Finance and Control

MAGDI BATATO
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Changes in Equity

For the year ended 31 December 2014

(Rupees in '000)	Share capital	Capital reserve: Share premium	Capital reserve: Hedging reserve	Revenue reserve: General reserve	Revenue reserve: Accumulated profit	Total
Balance as at 01 January 2013	453,496	249,527	–	280,000	10,577,241	11,560,264
Final dividend for the year ended						
31 December 2012 (Rs. 70 per share)	–	–	–	–	(3,174,471)	(3,174,471)
Interim dividend for the nine months period ended						
30 September 2013 (Rs. 50 per share)	–	–	–	–	(2,267,474)	(2,267,474)
Total comprehensive income for the year:						
Profit after tax	–	–	–	–	5,866,763	5,866,763
Cashflow hedges - effective portion of changes						
in fair value-net	–	–	–	–	–	–
Remeasurement of net retirement benefit liability						
recognised directly in the equity	–	–	–	–	(125,925)	(125,925)
	–	–	–	–	5,740,838	5,740,838
Balance as at 31 December 2013	453,496	249,527	–	280,000	10,876,134	11,859,157
Final dividend for the year ended						
31 December 2013 (Rs. 75 per share)	–	–	–	–	(3,401,219)	(3,401,219)
Interim dividend for the six months period ended						
30 June 2014 (Rs. 30 per share)	–	–	–	–	(1,360,488)	(1,360,488)
Interim dividend for the nine months period ended						
30 September 2014 (Rs. 50 per share)	–	–	–	–	(2,267,479)	(2,267,479)
Total comprehensive income for the year:						
Profit after tax	–	–	–	–	7,929,271	7,929,271
Cashflow hedges - effective portion of changes						
in fair value-net	–	–	(13,999)	–	–	(13,999)
Remeasurement of net retirement benefit liability						
recognised directly in the equity	–	–	–	–	(117,618)	(117,618)
	–	–	(13,999)	–	7,811,653	7,797,654
Balance as at 31 December 2014	453,496	249,527	(13,999)	280,000	11,658,601	12,627,625

The annexed notes 1 to 47 form an integral part of these financial statements.

JOHN M. DAVIS
Head of Finance and Control

MAGDI BATATO
Chief Executive

SYED YAWAR ALI
Chairman

Notes to the Financial Statements

For the year ended 31 December 2014

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 including imported products (dairy, confectionery, culinary, coffee, beverages, infant nutrition and drinking water). Registered office of the Company is situated at Babar Ali Foundation Building, 308-Upper Mall, Lahore.

2 Summary of significant accounting policies

The significant accounting policies adopted in preparation of these 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's) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS's) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of, or directives issued under the Companies Ordinance, 1984 shall prevail.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except for recognition of certain employee benefits at present value, re-measurement of outstanding foreign currency amounts at the exchange rates prevailing at balance sheet date and recognition of certain items of 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 recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

	Note
• Impairment losses	2.8
• 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 recognised separately from goodwill the identified assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The Company measures the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill is recognised as the excess of cost of an acquisition over the fair value of net identifiable assets acquired in the business combination.

Notes to the Financial Statements

For the year ended 31 December 2014

2.4 Financial instruments

All financial assets and liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company loses control of the contractual right that comprise the financial assets. Financial liabilities are de-recognised when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-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 and hedge accounting

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

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

Fair value hedge

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

Cash flow hedges

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

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

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

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

Other financial liabilities

All other financial liabilities are initially recognised at fair value plus directly attributable cost, if any, and subsequently at amortised 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 recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

Non financial assets

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

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

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

2.9 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realised 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 profit and loss account, 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's net obligation in respect of defined benefit plans is calculated separately for plan by estimating the amount of future benefits that employees have earned in current and prior periods, discounting that amount and deducting the fair value of any plan assets.

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

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

Defined contribution plan

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

2.11 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 profit and loss account on a straight-line basis over the period of lease.

Finance leases

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

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

Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to income over the lease term.
Assets acquired under a finance lease are depreciated over the estimated useful life of the asset on a straight-line method at the rates given in note 15. Depreciation of leased assets is charged to income.

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

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

2.12 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost using effective interest rate method.

2.13 Dividend

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

2.14 Provisions and contingencies

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

2.15 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, applicable manufacturing overheads and borrowing costs on qualifying assets.

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

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

Capital work-in-progress

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

Intangible assets

Intangible assets are stated at cost less accumulated amortization and any identified impairment loss. These are amortised 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 intangible asset is disposed off.

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

2.16 Inventories

Inventories, except for stock in transit, are stated at lower of cost and net realisable 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 realisable 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 recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated cost incurred, or to be incurred, can be measured reliably.
Sales of products and services are recorded when the risks and rewards are transferred i.e. on dispatch of goods/products to customers or performance of services.

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

2.19 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 profit and loss account currently.

2.20 Borrowing cost

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

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 their 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 2015:

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The amendments are not likely to have an impact on the Company's financial statements.

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

- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements. Certain further amendments have been made to IFRS 10, IFRS 12 and IAS 28 clarifying the requirements relating to accounting for investment entities and would be effective for annual periods beginning on or after 1 January 2016. The amendments are not likely to have an impact on the Company's financial statements.

- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016. The adoption of this standard is not like to have an impact on the Company's financial statements.

- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. The adoption of this standard is not like to have an impact on the Company's financial statements.

- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The adoption of this standard is not like to have an impact on the Company's financial statements.

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

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) [effective for annual periods beginning on or after 1 January 2016]. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The adoption of this standard is not likely to have an impact in the Company's financial statements.

- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:

    o IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.

- o IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination.

- o IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria.

- o Amendments to IAS 16'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

- o IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

- o IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2014

3 Issued, subscribed and paid up capital

2014	2013		2014	2013
(Number of shares)			(Rupees in '000)	
		Ordinary shares of Rs. 10 each		
29,787,058	29,787,058	as fully paid in cash	297,870	297,870
		Ordinary shares of Rs. 10 each		
15,476,867	15,476,867	as fully paid bonus shares	154,769	154,769
		Ordinary shares of Rs. 10 each issued for		
85,659	85,659	consideration other than cash	857	857
45,349,584	45,349,584		453,496	453,496

As at 31 December 2014, Nestlé S.A. Switzerland, the holding company, holds 26,778,229 (2013: 26,778,229) ordinary shares representing 59% (2013: 59%) equity interest in the Company. In addition, 8,798,535 (2013: 8,791,435) ordinary shares are held by the following related parties as at 31 December:

(Number of shares)	2014	2013
Name of related party:		
IGI Insurance Limited	4,364,666	4,357,566
Percentage of equity held 9.62% (2013: 9.61%)		
Packages Limited	3,649,248	3,649,248
Percentage of equity held 8.05% (2013: 8.05%)		
Gurmani Foundation	538,235	538,235
Percentage of equity held 1.19% (2013: 1.19%)		
Industrial Technical and Educational Institution	21,666	21,666
Percentage of equity held 0.05% (2013: 0.05%)		
National Management Foundation	224,720	224,720
Percentage of equity held 0.50% (2013: 0.50%)		
	8,798,535	8,791,435

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.

Notes to the Financial Statements

For the year ended 31 December 2014

5 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cashflows pending subsequent recognition in the profit or loss as the hedged cashflows effect profit or loss.

(Rupees in '000)	Note	2014	2013
6 Long term finances			
Long term finances utilized under mark up arrangements:			
Related party - unsecured			
Associated company - foreign currency	6.1	3,764,813	6,838,325
From banking companies - secured	6.2	6,269,625	15,458,327
Less: Current maturity			
Associated company - foreign currency		(2,760,862)	(2,893,138)
From banking companies - secured		(322,117)	(1,938,702)
	9	(3,082,979)	(4,831,840)
		6,951,459	17,464,812

6.1 These represent US$ 65 million unsecured loan from Nestlé Treasury Centre Middle East and Africa Limited, Dubai - a related party. As per the original loan agreements, the repayments of US$ 15 million and US$ 50 million were to be made upon availability of funds with the Company before 27 December 2015 and 30 May 2016, respectively. Under the revised terms, duly authorised by the State Bank of Pakistan, US$ 15 million is now repayable in 8 equal quarterly instalments amounting to US$ 1.875 million each, starting from March 2014 and ending on December 2015 and US$ 50 million is now repayable in 10 equal quarterly instalments amounting to US$ 5 million each, starting from March 2014 and ending on May 2016. Mark-up is payable quarterly along with principal payment @ 6 months average LIBOR plus 150 basis points. The outstanding balance as at 31 December 2014 has been converted into rupees at the exchange rate prevailing as at the balance sheet date.

(Rupees in '000)	Note	Limit	2014	2013
6.2 From banking companies - Secured				
Allied Bank Limited				
Term Loan I	6.2.1	3,500,000	–	3,500,000
Term Loan II	6.2.2	2,500,000	2,500,000	2,500,000
Meezan Bank Limited				
Diminishing Musharika	6.2.1	2,000,000	–	2,000,000
United Bank Limited				
Long Term Finance Facility	6.2.3	1,500,000	1,269,625	1,458,327
Term Finance I	6.2.1	3,500,000	–	3,500,000
Term Finance II	6.2.4	2,500,000	2,500,000	2,500,000
			6,269,625	15,458,327

6.2.1 These loans have been fully repaid during the year.

6.2.2 This represents a term loan facility from Allied Bank Limited. The term of the loan is 5 years with a grace period of 4 years. The loan is repayable in 4 equal quarterly instalments starting from March 2018. The loan is secured by first pari passu charge over plant and machinery of the Company. Mark-up is payable quarterly at a flat rate of 12.9% per annum.

6.2.3 This represents a loan facility from United Bank Limited under long term finance facility arrangement of SBP. The loan has been fully drawn in 9 different tranches. Each tranche of loan is repayable in equal semi-annual instalments after the date of disbursement, having period from 3 to 6 years. Mark-up is payable quarterly at relevant SBP rate plus 25 basis points. The loan is secured by joint pari passu hypothecation charge over present and future fixed and current assets of the Company.

6.2.4 This represents a loan facility from United Bank Limited with a grace period of 4 years. The term of the loan is 5 years and the principal repayment to take place in 4 equal instalments during year starting from March 2018. Mark-up is payable semi annually at a flat rate of 12.9% per annum. The loan is secured by joint pari passu hypothecation charge over plant and machinery of the Company.

(Rupees in '000)	2014	2013
7 Deferred taxation		
This is composed of:		
Liability for deferred taxation comprising temporary differences related to:		
Accelerated tax depreciation	4,176,943	4,340,104
Foreign exchange difference	(490,970)	–
Provisions and others	(422,601)	(237,944)
	3,263,372	4,102,160

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

(Rupees in '000)	Note	2014	2013
7.2 Movement in deferred tax liability is as follows:			
Balance as at 01 January		4,102,160	3,304,091
Deferred tax related to cashflow hedges recognised in			
equity through OCI		(7,538)	–
Charge to profit and loss account		(831,250)	798,069
Balance as at 31 December		3,263,372	4,102,160
8 Retirement benefits			
Gratuity fund	8.1	552,473	528,222
Pension fund	8.1	558,526	334,181
		1,110,999	862,403

The Company contributes to following defined benefit plans.

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

- Pension plan entitles retired eligible management staff members excluding expatriates to receive a pension payment. Executive employees (members) retire at the age of 60 and are entitled to receive a monthly payment equal to 2.75% of average of last 12 months drawn basic salary plus cola multiplied by number of years of pensionable service with a cap of 82.5% of pensionable salary.

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

These defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk. As at balance sheet date, an actuarial valuation has been performed by M/s Nauman Associates (Actuarial experts) for valuation of defined benefit obligation. The disclosure made in notes 8.1 to 8.13 are based on the information included in the actuarial report.

These defined benefit plans are fully funded by the Company. The funding requirements are evaluated by the management using the funds' actuarial measurement framework set out in the funding policies of the plans. The funding of each plan is based on the a separate actuarial valuation for funding purposes for which the assumptions may differ from time to time. Employees are not required to contribute to gratuity plan, however, the employees are required to contribute to the pension plan at the rate of 5% of basic salary plus cola.

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

	Gratuity		Pension	
(Rupees in '000)	2014	2013	2014	2013
8.1 Present value of funded obligations				
Amounts recognised in balance sheet are as follows:				
Present value of defined benefit obligation	1,736,589	1,523,346	2,290,437	1,765,958
Fair value of plan assets	(1,184,116)	(995,124)	(1,731,911)	(1,431,777)
Net retirement benefit obligation	552,473	528,222	558,526	334,181
8.2 Movement in net obligation				
Net liability as at 01 January	528,222	275,607	334,181	362,378
Charge to profit and loss account	195,521	127,417	140,738	141,976
Actuarial losses/ (gains) arising due to remeasurements of net retirement benefit obligation	(26,738)	255,254	202,288	(64,458)
Contribution made by the employees	–	–	52,053	46,366
Contribution made by the Company	(144,532)	(130,056)	(170,734)	(152,081)
Net liability as at 31 December	552,473	528,222	558,526	334,181

		Gratuity		Pension	
(Rupees in '000)	Note	2014	2013	2014	2013
8.3 Movement in the liability for funded defined benefit obligations					
Liability for defined benefit obligations as at 01 January		1,523,346	1,063,970	1,765,958	1,506,356
Benefits paid by the plan		(68,656)	(62,649)	(57,502)	(39,813)
Current service costs		140,806	104,253	162,933	156,845
Interest cost		178,682	113,591	208,465	163,509
Remeasurements on obligation:					
Actuarial losses/(gains) on present value					
- Changes in demographic assumptions		(1,953)	–	116,845	–
- Changes in financial assumptions		(1,724)	–	66,799	(159,971)
- Experience adjustments		(33,912)	304,181	26,939	139,032
		(37,589)	304,181	210,583	(20,939)
Liability for defined benefit obligations as at 31 December		1,736,589	1,523,346	2,290,437	1,765,958
8.4 Movement in fair value of plan assets					
Fair value of plan assets as at 01 January		995,124	788,363	1,431,777	1,143,978
Contributions paid into the plan		144,532	130,056	170,734	152,081
Benefits paid by the plan		(68,656)	(62,649)	(57,502)	(39,813)
Interest income on plan assets		123,967	90,427	178,607	132,012
Remeasurements on fair value of plan assets		(10,851)	48,927	8,295	43,519
Fair value of plan assets as at 31 December		1,184,116	995,124	1,731,911	1,431,777
8.5 Plan assets consist of the following:					
In terms of amount:					
Equity instruments		133,095	80,406	201,768	111,392
Debt instruments		594,663	78,416	801,355	115,258
Cash and other deposits		456,358	836,302	728,788	1,205,127
	8.5.1	1,184,116	995,124	1,731,911	1,431,777

Notes to the Financial Statements
For the year ended 31 December 2014

(Rupees in '000)	Gratuity 2014	Gratuity 2013	Pension 2014	Pension 2013
8.5.1 Plan assets				
Plan assets comprise:				
Equity instrument				
Fertilizers	15,296	14,078	23,572	20,507
Packaging	–	9,466	–	13,240
Construction and chemical	3,083	–	4,796	–
Oil and gas	48,319	13,053	75,250	18,883
Power	30,116	34,708	46,853	50,518
Financial institutions	26,690	553	41,582	811
Mutual funds	9,416	7,420	9,416	7,358
Others	175	1,128	299	75
	133,095	80,406	201,768	111,392
Debts instruments				
Government bonds	568,738	52,545	764,981	79,009
TFCs	25,925	25,871	36,374	36,249
	594,663	78,416	801,355	115,258
Cash at bank				
Cash and bank balances	256,304	526,608	428,708	689,380
Term deposit receipts	200,054	309,694	300,080	515,747
	456,358	836,302	728,788	1,205,127
	1,184,116	995,124	1,731,911	1,431,777

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

(Rupees in '000)	Gratuity 2014	Gratuity 2013	Pension 2014	Pension 2013
8.6 Profit and loss account includes the following in respect of retirement benefits:				
Interest cost for the year	178,682	113,591	208,465	163,509
Current service cost	140,806	104,253	162,933	156,845
Interest income on plan assets	(123,967)	(90,427)	(178,607)	(132,012)
Contribution made by the employees	–	–	(52,053)	(46,366)
	195,521	127,417	140,738	141,976

(Rupees in '000)	Gratuity 2014	Gratuity 2013	Pension 2014	Pension 2013
8.7 Charge for the year has been allocated as follows:				
Cost of goods sold	93,627	57,270	47,375	46,630
Distribution and selling expenses	50,622	42,407	32,704	47,334
Administration expenses	51,272	27,740	60,659	48,012
	195,521	127,417	140,738	141,976
8.8 Actual return on plan assets	113,116	139,354	186,902	175,531
8.9 Actuarial (gains) and losses recognised directly in other comprehensive income				
Cumulative amount at 01 January	602,569	347,315	297,184	361,642
Remeasurements on obligation:				
Actuarial (losses)/ gains on present value				
- Changes in demographic assumptions	(1,953)	–	116,845	–
- Changes in financial assumptions	(1,724)	–	66,799	(159,971)
- Experience adjustments	(33,912)	304,181	26,939	139,032
	(37,589)	304,181	210,583	(20,939)
Interest income on plan assets	10,851	(48,927)	(8,295)	(43,519)
Losses / (gains) recognised during the year	(26,738)	255,254	202,288	(64,458)
Cumulative amount at 31 December	575,831	602,569	499,472	297,184

(Rupees in '000)	2014	2013	2012	2011	2010
8.10 Historical Information for Gratuity plan					
Present value of defined benefit obligation	1,736,589	1,523,346	1,063,970	868,980	646,990
Fair value of the plan assets	(1,184,116)	(995,124)	(788,363)	(638,921)	(501,186)
Deficit in the plan	552,473	528,222	275,607	230,059	145,804
Experience adjustments arising on plan liabilities	(33,912)	304,181	67,328	(92,602)	(35,378)
Experience adjustments arising on plan assets	(10,851)	48,927	35,335	3,586	683

The Company expects to pay Rs. 214.03 million in contributions to gratuity fund in 2015.

(Rupees in '000)	2014	2013	2012	2011	2010
8.11 Historical Information for Pension plan					
Present value of defined benefit obligation	2,290,437	1,765,958	1,506,356	1,090,883	782,220
Fair value of the plan assets	(1,731,911)	(1,431,777)	(1,143,978)	(880,565)	(698,910)
Deficit in the plan	558,526	334,181	362,378	210,318	83,310
Experience adjustments arising on plan liabilities	26,939	139,032	38,393	(134,686)	11,468
Experience adjustments arising on plan assets	8,295	43,519	58,614	2,801	7,524

The Company expects to pay Rs. 188.78 million in contributions to pension fund in 2015.

Notes to the Financial Statements

For the year ended 31 December 2014

	2014		2013	
	Gratuity fund per annum	Pension fund per annum	Gratuity fund per annum	Pension fund per annum
8.12 Significant actuarial assumptions used for valuation of these plans are as follows:				
Discount rate used for profit and loss charge	12.00%	12.00%	11.00%	11.00%
Discount rate used for year-end obligation	11.25%	11.25%	12.00%	12.00%
Expected rates of salary increase	11.25%	11.25%	12.00%	12.00%
Expected rates of return on plan assets	11.25%	11.25%	12.00%	12.00%
Mortality rate	SLIC	SLIC	EFU (61-66)	EFU (61-66)
	2001-2005	2001-2005		
	Setback	Setback	Mortality	Mortality
	1 year	1 year		

8.13 Actuarial assumptions sensitivity analysis

If the significant actuarial assumptions used to estimate the defined benefit obligation at the reporting date, had fluctuated by 50 bps with all other variables held constant, the impact on the present value of the defined benefit obligation as at 31 December 2014 would have been as follows:

		Gratuity		Pension	
		Impact on present value of defined benefit obligation as at 31 December			
(Rupees in '000)	Change	Increase	Decrease	Increase	Decrease
Discount rate	50 bps	(85,569)	92,499	(16,837)	186,956
Future salary increase	50 bps	93,249	(87,057)	103,563	(97,094)

		Gratuity		Pension	
		Impact on present value of defined benefit obligation as at 31 December			
(Rupees in '000)	Change	Scale up by	Scale down by	Scale up by	Scale down by
Expected mortality rates	1 year	(563)	605	(26,132)	25,194

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

8.14 Weighted average duration of the defined benefit obligation is 10 years and 16 years for gratuity and pension plans, respectively.

Notes to the Financial Statements

For the year ended 31 December 2014

(Rupees in '000)	Note	2014	2013
9 Current portion of non current liabilities			
Long term finances	6	3,082,979	4,831,840
		3,082,979	4,831,840
10 Short term borrowings			
Money market deals- secured	10.1	500,000	–
Revolving credit facility- unsecured, foreign currency	10.2	3,513,825	–
		4,013,825	–

10.1 These represent money market deals obtained from various commercial banks which carries mark-up ranging from 9.75% to 10.14% (2013: 8.80% to 9.58%) per annum. These deals are obtained for a period ranging from 11 to 90 days and are secured by a hypothecation charge over current and fixed assets of the Company excluding land and building.

10.2 This represents short term US$ 35 million loan from Deutsche Bank A.G Frankfurt repayable in March 2015. This loan carries an interest rate of 1%. The outstanding balance as at 31 December 2014 has been converted into rupees at the exchange rate prevailing as at the balance sheet date.

(Rupees in '000)	Note	2014	2013
11 Short term running finance under mark-up arrangements-secured			
Running finance		2,934,546	356,281
Export refinance facility		3,015,368	3,000,310
	11.1	5,949,914	3,356,591

11.1 The Company has obtained short term running finance and export refinance available from various commercial banks under mark-up arrangements having an aggregate limit of Rs 33,020 million (2013: Rs 23,087 million) including sub-limits of other short term facilities. The mark up on these facilities ranges from 6.65% to 11.89% (2013: 8.40% to 10.21%) per annum. These facilities are secured by joint pari passu hypothecation charge over fixed and current assets of the Company excluding land and building and assignment of receivables of the Company.

(Rupees in '000)	Note	2014	2013
12 Trade and other payables			
Trade creditors			
Related parties - associated companies		1,468,738	930,188
Others		4,328,403	2,497,775
		5,797,141	3,427,963
Accrued liabilities			
Related parties - associated companies		31,715	153,652
Others		7,401,388	5,091,715
		7,433,103	5,245,367
Excise duty payable		10,454	10,454
Advances from customers		397,053	235,915
Workers' profit participation fund	12.1	68,950	91,115
Workers' welfare fund		224,677	164,004
Royalty and technical assistance fee payable			
to holding company		74,844	48,195
Unclaimed dividend		7,322	10,717
Withholding income tax payable		70,739	30,566
Withholding sales tax payable		50,810	58,357
Derivative financial liability - cashflow hedge	12.2	28,651	–
Other forward exchange contracts		130,580	3,565
Others		67,589	40,587
		14,361,913	9,366,805
12.1 Workers' profit participation fund			
Balance as at 01 January		91,115	96,701
Provision for the year	31	591,255	431,590
		682,370	528,291
Less: Payments made during the year		(613,420)	(437,176)
Balance as at 31 December		68,950	91,115

12.2 The Company has outstanding exchange rate forward contracts with various banks for amounts aggregating to US$ 10.70 million and Euros 1.60 million to manage exchange rate exposure on outstanding foreign currency payments under the terms of commitments of letters of credit. Under the aforementioned contracts, the Company would pay respective rate agreed at the initiation of the contracts on respective settlement dates. As at December 31, 2014 the fair value of these derivatives is Rs. 1,297.75 million (2013: Nil).

(Rupees in '000)	2014	2013
13 Interest and mark-up accrued		
Long term loan from associated company - unsecured	1,189	8,137
Long term finance from banking companies - secured	37,815	158,478
Short term borrowings	9,016	–
Short term running finance under mark-up arrangements - secured	99,632	97,161
	147,652	263,776

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. Nil (2013: Nil).

(Rupees in '000)	2014	2013
14.3 Guarantees		
Outstanding guarantees	164,966	160,500
Un-utilised portion	385,034	234,500
14.4 Commitments in respect of capital expenditure	254,401	412,710
14.5 Letters of credit		
Outstanding letters of credit	1,409,258	1,390,607
Un-utilised portion	6,992,915	4,532,393

Notes to the Financial Statements

For the year ended 31 December 2014

15 Property, plant and equipment

(Rupees in '000)	Owned assets: Freehold Land	Owned assets: Lease hold land	Owned assets: Building on freehold land	Owned assets: Building on lease hold land	Owned assets: Plant and machinery	Owned assets: Furniture and fixtures	Owned assets: Vehicles	Owned assets: IT equipment	Owned assets: Office equipment	Leased assets: Plant and machinery	Total
Cost											
Balance as at 01 January 2013	1,426,937	32,244	3,712,656	219,273	24,524,847	312,825	666,901	783,128	3,203	148,542	31,830,556
Transfers during the year	-	-	-	-	148,542	-	-	-	-	(148,542)	-
Additions during the year	40,319	-	2,149,091	-	10,285,924	36,814	195,041	200,508	-	-	12,907,696
Disposals / scrapped	-	-	(3,775)	-	(1,371,657)	(15,830)	(56,762)	(50,358)	-	-	(1,498,382)
Balance as at 31 December 2013	1,467,256	32,244	5,857,972	219,273	33,587,656	333,809	805,180	933,278	3,203	-	43,239,870
Balance as at 01 January 2014	1,467,256	32,244	5,857,972	219,273	33,587,656	333,809	805,180	933,278	3,203	-	43,239,871
Transfers during the year	-	-	-	-	-	-	-	-	-	-	-
Additions during the year	-	68,150	396,514	-	2,062,730	56,508	148,339	87,051	-	-	2,819,292
Disposals / scrapped	-	-	(51)	-	(886,554)	-	(145,927)	(40,912)	-	-	(1,073,444)
Balance as at 31 December 2014	1,467,256	100,394	6,254,435	219,273	34,763,832	390,317	807,592	979,417	3,203	-	44,985,719
Depreciation and impairment losses											
Balance as at 01 January 2013	122,639	4,131	644,852	149,541	7,991,842	192,255	247,235	444,343	3,203	59,558	9,859,599
Transfers during the year	-	-	-	-	64,857	-	-	-	-	(64,857)	-
Depreciation charge for the year	-	364	186,200	3,120	2,467,344	48,813	147,290	143,203	-	5,299	3,001,633
Depreciation and impairment on disposals	-	-	(1,159)	-	(1,052,514)	(15,153)	(39,465)	(49,772)	-	-	(1,158,063)
Impairment charge for the year	-	-	-	-	68,829	-	-	-	-	-	68,829
Balance as at 31 December 2013	122,639	4,495	829,893	152,661	9,540,358	225,915	355,060	537,774	3,203	-	11,771,998
Balance as at 01 January 2014	122,639	4,495	829,893	152,661	9,540,358	225,915	355,060	537,774	3,203	-	11,771,998
Transfers during the year	-	-	-	-	-	-	-	-	-	-	-
Depreciation charge for the year	-	2,444	212,007	780	2,715,624	4,478	150,331	151,566	-	-	3,237,230
Depreciation and impairment on disposals	-	-	(35)	-	(622,054)	-	(83,218)	(39,709)	-	-	(745,016)
Impairment charge for the year	-	-	-	-	171,308	-	-	-	-	-	171,308
Balance as at 31 December 2014	122,639	6,939	1,041,865	153,441	11,805,236	230,393	422,173	649,631	3,203	-	14,435,520
Net bookvalue as at 31 December 2014	1,344,617	93,455	5,212,570	65,832	22,958,596	159,924	385,419	329,786	-	-	30,550,199
Net book value as at 31 December 2013	1,344,617	27,749	5,028,079	66,612	24,047,298	107,894	450,120	395,504	-	-	31,467,872
Rate of depreciation in %	-	1-6.67	2-5	2-5	4-33	20	20	10-33.3	20	6.67-20	

(Rupees in '000)	Note	2014	2013
15.1 Depreciation and impairment charge for the year has been allocated as follows:			
Cost of goods sold	27	2,720,126	2,504,366
Distribution and selling expenses	28	401,012	359,704
Administration expenses	29	113,234	123,198
Charged to projects during the year		2,858	14,365
		3,237,230	3,001,633

Notes to the Financial Statements

For the year ended 31 December 2014

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)						
Plant and Machinery						
	616	(375)	241	74	Negotiation	SMI Packing
	616	(375)	241	74	Negotiation	SMI Packing
	616	(375)	241	74	Negotiation	SMI Packing
	525	(319)	206	63	Negotiation	SMI Packing
	11,034	(3,774)	7,260	2,219	Negotiation	SMI Packing
	2,045	(928)	1,117	341	Negotiation	SMI Packing
	3,368	(1,529)	1,839	562	Negotiation	SMI Packing
	10,165	(4,614)	5,551	1,697	Negotiation	SMI Packing
	2,226	(1,010)	1,216	372	Negotiation	SMI Packing
	2,196	(996)	1,200	367	Negotiation	SMI Packing
	9,083	(4,122)	4,961	1,516	Negotiation	SMI Packing
	398	(146)	252	77	Negotiation	SMI Packing
	1,308	(1,231)	77	259	Negotiation	Noor Trading Corporation
	691	(640)	51	145	Negotiation	Noor Trading Corporation
	691	(640)	51	145	Negotiation	Noor Trading Corporation
	721	(644)	77	135	Negotiation	Noor Trading Corporation
	721	(650)	71	135	Negotiation	Noor Trading Corporation
	721	(644)	77	150	Negotiation	Noor Trading Corporation
	721	(644)	77	150	Negotiation	Noor Trading Corporation
	721	(636)	85	135	Negotiation	Noor Trading Corporation
	270	(205)	65	51	Negotiation	Noor Trading Corporation
	1,303	(1,226)	77	150	Negotiation	Muhammad Amjad & Traders
	1,327	(1,249)	78	150	Negotiation	Muhammad Amjad & Traders
	1,334	(1,256)	78	150	Negotiation	Muhammad Amjad & Traders
	1,303	(1,226)	77	150	Negotiation	Muhammad Amjad & Traders
	691	(640)	51	80	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	490	(339)	151	56	Negotiation	Muhammad Amjad & Traders
	396	(241)	155	46	Negotiation	Muhammad Amjad & Traders
	489	(407)	82	125	Negotiation	Nestlé Milk Suppliers (Miscellaneous)
	1,308	(1,231)	77	150	Negotiation	Muhammad Amjad & Traders
	1,217	(1,145)	72	150	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	721	(644)	77	83	Negotiation	Muhammad Amjad & Traders
	249	(93)	156	6	Negotiation	Pervaiz Jalal
	721	(665)	56	157	Negotiation	Sheikh Ejaz & sons
	721	(665)	56	193	Negotiation	Sheikh Ejaz & sons
	721	(665)	56	157	Negotiation	Sheikh Ejaz & sons
	1,512	(1,365)	147	405	Negotiation	Sheikh Ejaz & sons
	575	(335)	240	154	Negotiation	Sheikh Ejaz & sons
	311	(204)	107	83	Negotiation	Sheikh Ejaz & sons
	155	(103)	52	42	Negotiation	Sheikh Ejaz & sons
	155	(103)	52	42	Negotiation	Sheikh Ejaz & sons
	456	(285)	171	122	Negotiation	Sheikh Ejaz & sons
	2,446	(2,385)	61	22	Negotiation	Maqsood Barlas & sons
	224	(127)	97	17	Negotiation	Maqsood Barlas & sons
	8,000	(7,887)	113	81	Negotiation	TM Engineering
	8,000	(7,887)	113	81	Negotiation	TM Engineering
	424	(234)	190	4	Negotiation	Maqsood Barlas & sons
	10,000	(4,664)	5,336	81	Negotiation	TM Engineering
	10,000	(4,664)	5,336	81	Negotiation	TM Engineering
	2,800	(1,306)	1,494	80	Negotiation	TM Engineering
	10,411	(9,185)	1,226	294	Negotiation	Maqsood Barlas & sons
	1,000	(941)	59	17	Negotiation	Maqsood Barlas & sons
	21,518	(8,685)	12,833	222	Negotiation	TM Engineering
	945	(778)	167	26	Negotiation	TM Engineering
	3,000	(952)	2,048	80	Negotiation	TM Engineering
	3,000	(2,888)	112	80	Negotiation	TM Engineering
	3,000	(2,888)	112	80	Negotiation	TM Engineering
	2,500	(577)	1,923	80	Negotiation	TM Engineering
	2,500	(577)	1,923	80	Negotiation	TM Engineering
	21,300	(20,404)	896	642	Negotiation	TM Engineering
	338	(270)	68	4	Negotiation	Maqsood Barlas & sons
	1,512	(1,378)	134	235	Negotiation	Sheikh Ejaz & sons
	14,241	(1,899)	12,342	85	Scrap	Maqsood Barlas & sons
	3,661	(336)	3,325	85	Scrap	Maqsood Barlas & sons
	1,256	(1,193)	63	33	Negotiation	Maqsood Barlas & sons
	1,836	(1,641)	195	274	Negotiation	Maqsood Barlas & sons
	3,547	(591)	2,956	297	Negotiation	Karachi Scrap
	3,475	(579)	2,896	332	Negotiation	Karachi Scrap
Vehicles						
	80	(27)	53	65	Insurance Claim	IGI Insurance
	1,529	(918)	611	860	Company Policy	Employee (Mr. M. Zaheer Babar)
	1,529	(917)	612	860	Company Policy	Employee (Mr. Mumtaz Hussain)
	1,529	(918)	611	860	Company Policy	Employee (Mr.Muhammad Ashraf)

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	1,509	(905)	604	819	Company Policy	Employee (Mr. Muhammad Suhail Ather)
	1,623	(785)	838	1,066	Company Policy	Employee (Mr. Zafar Barkat)
	1,529	(918)	611	860	Company Policy	Employee (Mr. Akmal Saeed)
	1,529	(917)	612	829	Company Policy	Employee (Mr. Muhammad Shahzad Mazhar)
	1,509	(906)	603	819	Company Policy	Employee (Mr. Muhammad Arshad)
	1,447	(989)	458	738	Company Policy	Employee (Mr. Arshad Hussain)
	1,529	(917)	612	860	Company Policy	Employee (Mr. Awais Nawaz)
	1,475	(1,008)	467	726	Company Policy	Employee (Mr. Muhammad Suleman Anwar)
	1,711	(261)	1,450	1,543	Company Policy	Employee (Mr. Tariq Aziz)
	1,726	(546)	1,180	1,352	Company Policy	Employee (Mr. Laeeq Ahmed Gill)
	1,694	(649)	1,045	1,194	Company Policy	Employee (Mr. Athar Nizam Butt)
	1,751	(350)	1,401	1,510	Company Policy	Employee (Mr. Bashir Ahmad)
	1,694	(621)	1,073	1,194	Company Policy	Employee (Mr. Faisal Haroon)
	1,752	(380)	1,372	1,496	Company Policy	Employee (Mr. M. Saleem Javaid)
	1,752	(380)	1,372	1,496	Company Policy	Employee (Mr. Ali Zia Khan)
	1,638	(901)	737	963	Company Policy	Employee (Mr. Zakir Hussain)
	1,752	(380)	1,372	1,496	Company Policy	Employee (Mr. Zulfiqar Shaikh)
	1,593	(770)	823	1,025	Company Policy	Employee (Mr. Sheikh Waqar Ahmad)
	1,726	(546)	1,180	1,352	Company Policy	Employee (Mr. Muhammad Kamil Saroop Khan)
	1,711	(261)	1,450	1,544	Company Policy	Employee (Mr. Usman Ejaz)
	1,755	(556)	1,199	1,344	Company Policy	Employee (Mr. Syed Faisal Raza)
	1,635	(790)	845	1,040	Company Policy	Employee (Mr. Syed Muhammad Ahmed Qadri)
	1,564	(938)	626	855	Company Policy	Employee (Mr. Muhammad Hassan)
	1,753	(468)	1,285	1,392	Company Policy	Employee (Mr. Mohammad Amin Piracha)
	1,549	(929)	620	871	Company Policy	Employee (Mr. Fuad Saqib Ghazanfar)
	1,718	(344)	1,374	1,453	Company Policy	Employee (Mr. Ashfaq Ahmad Mian)
	1,752	(380)	1,372	1,496	Company Policy	Employee (Mr. Shahzad Hameed)
	1,447	(989)	458	697	Company Policy	Employee (Mr. Faisal Nadeem)
	1,753	(584)	1,169	1,343	Company Policy	Employee (Mr. Muhammad Akhtar)
	1,567	(653)	914	1,002	Company Policy	Employee (Mr. Munir Ahmad Chughtai)

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	1,529	(917)	612	838	Company Policy	Employee (Mr. Tanveer Zia Siddiqui)
	1,529	(917)	612	830	Company Policy	Employee (Mr. Ayub Ur Rehman)
	1,529	(917)	612	838	Company Policy	Employee (Mr. Asad Rauf)
	1,694	(621)	1,073	1,249	Company Policy	Employee (Mr. Maqsood Ahmad Anjum)
	849	(594)	255	566	Company Policy	Employee (Mr. Muhammad Qasim)
	1,008	(286)	722	856	Company Policy	Employee (Mr. Sajid Iqbal)
	1,317	(922)	395	806	Company Policy	Emplyee (Mr. Mumtaz Khan)
	1,529	(943)	586	841	Company Policy	Employee (Mr. Sobia Naheed)
	849	(594)	255	564	Company Policy	Employee (Mr. Qaisar Zaman)
	921	(445)	476	687	Company Policy	Employee (Mr. Faiz Farooqui)
	836	(613)	223	536	Company Policy	Employee (Mr. Syed Khurram Haider)
	826	(606)	220	535	Company Policy	Employee (Mr. Adnan Ahmad Dharra)
	1,008	(286)	722	885	Company Policy	Employee (Mr. Muhammad Shoaib Meer)
	877	(468)	409	630	Company Policy	Employee (Mr. Shamayl Ali Dogar)
	917	(443)	474	678	Company Policy	Employee (Mr. Adnan Hayat)
	837	(586)	251	578	Company Policy	Employee (Mr. Irfan Aziz)
	822	(644)	178	514	Company Policy	Employee (Mr. Waseem sheikh)
	982	(327)	655	886	Company Policy	Employee (Mr. Changez Rehmat)
	917	(459)	458	564	Company Policy	Employee (Mr. Ammad Alam Sheikh)
	982	(278)	704	877	Company Policy	Employee (Ms. Syed Benish Hassan)
	836	(613)	223	561	Company Policy	Employee (Mr. Hassan Abbas Hussain)
	845	(620)	225	561	Company Policy	Employee (Mr. Faheem Ahmad Chauhan)
	1,753	(584)	1,169	1,427	Company Policy	Employee (Mr. Abul Hassan)
	1,752	(438)	1,314	1,695	Insurance Claim	IGI Insurance
	815	(706)	109	493	Company Policy	Employee (Mr. Ghulam Hussain)
	982	(393)	589	791	Company Policy	Employee (Mr. Arsalan Tauheed)
	1,002	(351)	651	824	Company Policy	Employee (Mr. Ilyas Baig)
	1,017	(152)	865	983	Company Policy	Employee (Mr. Waqas Ather Saeed)
	1,027	(240)	787	928	Company Policy	Employee (Mr. Haris Rashid)
	988	(395)	593	772	Company Policy	Employee (Mr. Tahir Ali)
	834	(667)	167	526	Company Policy	Employee (Mr. Muhammad Umer Javaid)

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	917	(505)	412	671	Company Policy	Employee (Mr. Abid Moinud Din Ahmad Zuberi)
	849	(651)	198	568	Company Policy	Employee (Mr. Saad Aziz)
	1,025	(171)	854	969	Company Policy	Employee (Mr. Muhammad Saeed Awan)
	1,003	(351)	652	816	Company Policy	Employee (Mr. Asif Taimur)
	834	(667)	167	631	Company Policy	Employee (Mr. Rai Muhammad Tahir Iqbal)
	982	(393)	589	858	Company Policy	Employee (Mr. Yahya Hansia)
	627	(272)	355	478	Company Policy	Employee (Mr. Abdul Huda Abbasi)
	1,052	(210)	842	925	Company Policy	Employee (Mr. Muhammad Murtaza)
	1,317	(1,053)	264	527	Company Policy	Employee (Mr. Ikram Baig)
	1,002	(384)	618	788	Company Policy	Employee (Mr. Umair Ahmad)
	982	(425)	557	750	Company Policy	Employee (Mr. Syed Atif Murtaza Qaiser)
	1,008	(387)	621	793	Company Policy	Employee (Mr. Ali Raza Syed)
	988	(428)	560	747	Company Policy	Employee (Mr. Muhammad Usman)
	837	(670)	167	518	Company Policy	Employee (Mr. Fahad Hameed)
	982	(425)	557	750	Company Policy	Employee (Mr. Wajih Ullah Khattak)
	1,034	(190)	844	954	Company Policy	Employee (Mr. Shahzad Ahmad Jan)
	83	(32)	51	67	Company Policy	Employee (Mr. Zeeshan Khokhar)
	982	(425)	557	742	Company Policy	Employee (Mr. Mohsin Ali)
	982	(425)	557	766	Company Policy	Employee (Mr. Humair Bin Hamayun)
	897	(553)	344	638	Company Policy	Employee (Mr. Mansoor Ahmad khan)
	1,023	(256)	767	892	Company Policy	Employee (Mr. Muhammad Imran)
	822	(726)	96	493	Company Policy	Employee (Mr. Waqas Mir)
	1,022	(272)	750	871	Company Policy	Employee (Mr. Muhammad Rameez Jehangir)
	837	(670)	167	508	Company Policy	Employee (Mr. Imtiaz Ud Din)
	889	(623)	266	587	Company Policy	Employee (Mr. Fahad Waqar)
	1,028	(257)	771	1,000	Insurance Claim	IGI Insurance
	1,028	(274)	754	877	Company Policy	Employee (Mr. Tariq Mahmood)
	1,017	(187)	830	961	Company Policy	Employee (Ms. Zainab Sohail)
	823	(727)	96	548	Company Policy	Employee (Mr. Hasan Siddique)
	1,008	(387)	621	847	Company Policy	Employee (Mr. Yaser Mahmood Khan)

Notes to the Financial Statements

For the year ended 31 December 2014

Description	Cost	Accumulated depreciation	Book value	Sale proceeds
(Rupees in '000)				
Assets with book value less than Rs. 50,000 "	743,672	(561,610)	182,062	81,076
2014	1,073,444	(745,016)	328,428	179,653
2013	1,498,382	(1,158,063)	340,319	183,855

(Rupees in '000)	Note	2014	2013
16 Capital work-in-progress			
Civil works		78,690	80,897
Plant and machinery	16.1	2,094,865	1,678,178
Others		337,551	592,481
		2,511,106	2,351,556
Less: Provision for impairment loss		(277,135)	–
		2,233,971	2,351,556

16.1 Included in plant and machinery are borrowing costs of Rs. 22.02 million (2013: Rs. 234.65 million). The average rate used for computing borrowing cost for capitalization is 10.65% (2013: 9.94%) per annum.

(Rupees in '000)	Note	2014	2013
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		229,923	225,142
Charge for the year	29	2,392	4,781
Accumulated amortization as at 31 December		232,315	229,923
Net book value as at 31 December		–	2,392
Amortization rate		25%	25%

17.1 Intangible assets represent SAP software.

18 Goodwill

18.1 The Company acquired 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 was done as part of global acquisition of Pfizer Infant Nutrition business by Nestlé S.A Switzerland, the holding company, of the Company. On 09 October 2012, the Competition Commission of Pakistan approved the pre-merger application of Nestlé S.A Switzerland subject to written undertaking by Nestlé 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 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 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 The acquisition of 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 arising on the acquisition of Pfizer Infant Nutrition business is Rs. 167.55 million (2013: 167.55)

18.4 During the year, the Company has earned revenues amounting to Rs. 41.73 million (2013: Rs. 79.86 million) out of the Pfizer Infant Nutrition business acquired.

18.5 Goodwill arising on the business combination has been allocated to the Nutrition business of the Company and management is expecting to benefit from the synergies of this business combination.

18.6 For impairment testing, the estimated recoverable amount of Nutrition business has been determined using the discounted cash flows for the period of ten years. Key assumptions used in estimation of recoverable amount includes budgeted EBITDA average growth rate of 15.48% (over ten years period) and discount rate of 16.79%. The estimated recoverable amount determined using the discounted cashflows exceeds the carrying value of Nutrition business. The management has identified that the discounted cashflows are sensitive to discount rate and local inflation rates. No impairment loss has arisen on goodwill previously or during the year.

(Rupees in '000)	Note	2014	2013
19 Long term loans and advances			
To employees - secured, considered good			
Chief executive and executives		295,748	220,172
Other employees		92,999	121,336
	19.1	388,747	341,508
To suppliers - unsecured, considered good	19.3	4,935	6,580
		393,682	348,088
Less: current portion shown under current assets		(76,082)	(55,784)
		317,600	292,304

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. This loan has not been discounted to present value as the impact is not considered to be material.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs. 327.75 million (2013 : 281.17 million).

A loan amounting to Rs. 3.30 million has been given to Chief Executive for the purchase of car in line with Company policy. The loan has been approved by the SECP and Board of Directors of the Company. No other director has obtained any loan or advance from the Company.

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

(Rupees in '000)	2014	2013
Less than one year	76,082	55,784
More than one year but not more than 3 years	165,426	149,622
More than 3 years	147,239	136,102
	388,747	341,508
Reconciliation of carrying amount of loans to executives		
Balance as at 01 January	220,172	144,896
Disbursements during the year	152,007	121,486
Status change of non-executive employees as executives	37,123	22,103
Loans recovered during the year	(113,554)	(68,313)
Balance as at 31 December	295,748	220,172

19.3 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 (2013: 1.5% per annum) and is receivable annually. This amount is recoverable in 10 equal annual instalments which commenced from October 2008. This loan has not been discounted to present value as the impact is not considered to be material.

(Rupees in '000)	Note	2014	2013
20 Long term deposits and prepayments			
Long term security deposits		33,052	20,799
Long term prepayments	20.1	22,547	50,569
		55,599	71,368

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

(Rupees in '000)	Note	2014	2013
21 Stores and spares			
Stores		178,830	235,728
Spares, including in transit amounting to Rs. 44.04 million			
(2013: Rs. 10.94 million)		1,450,614	1,238,017
		1,629,444	1,473,745
Less: Provision for obsolete stores	21.2	(420,897)	(200,207)
		1,208,547	1,273,538

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

(Rupees in '000)	Note	2014	2013
21.2 Provision for obsolete stores			
Balance as at 01 January		200,207	–
Addition during the year		220,690	200,207
Balance as at 31 December		420,897	200,207
22 Stock in trade			
Raw and packing materials including in transit amounting			
to Rs. 1,459.99 million (2013: Rs. 1,485.77 million)		6,305,287	5,382,032
Work-in-process		855,537	368,198
Finished goods		2,375,073	1,714,053
Goods purchased for resale including in transit amounting			
to Rs. 86.93 million (2013: Rs. 98.59 million)		391,068	460,849
		9,926,965	7,925,132
Less: Provision for unusable raw and packaging material	22.2	(162,978)	-
		9,763,987	7,925,132

22.1 The amount charged to profit and loss account on account of provision for write down of goods purchased for resale to net realisable value amounts to Rs. 28.13 million (2013: Nil).

(Rupees in '000)	2014	2013
22.2 Provision for unusable raw and packaging material		
Balance as at 01 January	–	–
Addition during the year	162,978	–
Balance as at 31 December	162,978	–

Notes to the Financial Statements
For the year ended 31 December 2014

(Rupees in '000)	Note	2014	2013
23 Trade debts			
Considered good - unsecured		272,321	328,110
Considered doubtful - unsecured		7,994	5,526
		280,315	333,636
Less: Provision for doubtful debts	23.1	(7,994)	(5,526)
		272,321	328,110
23.1 Provision for doubtful debts			
Balance as at 01 January		5,526	5,794
Addition during the year		2,468	–
Less: reversals during the year		–	(268)
Balance as at 31 December		7,994	5,526
24 Advances, deposits, prepayments and other receivables			
Advances to employees - secured,			
considered good	24.1	1,425	222
Advances to suppliers - unsecured, considered good		143,326	313,161
Due from related parties - unsecured,			
considered good	24.2	38,620	25,327
Trade deposits and prepayments - considered good		116,699	113,482
Income tax recoverable - net		231,547	1,748,312
Sales tax refundable		5,868,716	5,066,335
Derivative financial asset - cashflow hedge	12.2	7,114	–
Other receivables - considered good		451,253	367,015
		6,858,700	7,633,854

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

Notes to the Financial Statements

For the year ended 31 December 2014

(Rupees in '000)	2014	2013
24.2 Due from related parties		
Foreign Associated Companies		
Nestlé UK Limited	–	606
Wyeth Nutritionals (Singapore)	–	6,872
Nestlé Central and West Africa	–	911
Nestlé China Limited	–	825
Nestlé Asean (Malaysia) Sdn Bhd	188	–
Nestlé Waters Management and Technology (France)	–	6,439
Cereal Partners (Malaysia) Sdn Bhd	3,806	–
Nestlé (South Africa) (Pty) Limited	1,662	4,924
Nestlé Australia Limited	582	–
Nestlé Business Services AOA, Inc.	1,243	–
Nestlé Egypt S.A.E.	1,357	–
Nestlé ROH Thailand Limited	–	448
Nestlé Iran	267	-
Nestlé Kenya Limited	939	848
Nestlé S.A	–	1,484
Nestlé Lanka Plc	97	–
Nestlé Middle East FZE	1,128	1,125
Nestlé Nigeria Plc	1,257	–
Nestlé Philippines, Inc.	25,155	–
Nestlé Zimbabwe (Private) Limited	939	845
	38,620	25,327

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

24.3 None of the balance of the above parties is past due.

(Rupees in '000)	Note	2014	2013
25 Cash and bank balances			
Local currency			
- Current accounts		210,845	665,299
- Saving accounts	25.1	5	560
		210,850	665,859
Foreign currency			
- Current accounts		11,669	49,990
Cash in hand		3,624	4,216
		226,143	720,065

25.1 The balances in saving accounts carry return ranging from 5.00% to 8.45% (2013 : 2.50% to 7.65%) per annum.

Notes to the Financial Statements

For the year ended 31 December 2014

(Rupees in '000)	Note	2014	2013
26 Sales- net			
Own manufactured			
Local		97,358,469	85,967,586
Export		5,972,365	6,244,748
		103,330,834	92,212,334
Goods purchased for resale		1,640,941	1,525,663
Less :			
Sales tax		(3,629,248)	(2,997,284)
Trade discounts		(4,884,784)	(4,513,844)
		96,457,743	86,226,869
27 Cost of goods sold			
Raw and packing materials consumed		50,152,486	44,869,798
Salaries, wages and amenities	27.1	4,099,134	3,398,104
Fuel and power		3,797,559	3,724,925
Insurance		70,391	54,692
Repairs, maintenance and stores consumption		3,080,010	2,422,235
Rent, rates and taxes		430,286	291,014
Depreciation	15.1	2,720,126	2,504,366
Expenses on information technology		354,692	342,112
Stationery expenses		50,549	39,311
Communication		66,136	65,041
Quality assurance		354,432	298,595
Royalty and technical assistance fee including duties and taxes		3,915,206	2,450,666
Others		290,689	169,969
		69,381,696	60,630,828
Decrease/(increase) in work in process		(487,339)	82,094
Cost of goods manufactured		68,894,357	60,712,922
Decrease/(increase) in finished goods		(778,632)	282,316
Cost of goods sold - own manufactured		68,115,725	60,995,238
Cost of goods sold - purchased for resale		1,018,028	1,070,834
		69,133,753	62,066,072

27.1 Salaries, wages and amenities include Rs. 93.63 million (2013: Rs.57.27 million) in respect of gratuity, Rs. 47.38 million (2013: Rs. 46.63 million) in respect of pension and Rs. 103.97 million (2013: Rs. 86.04 million) in respect of provident fund.

Notes to the Financial Statements

For the year ended 31 December 2014

(Rupees in '000)	Note	2014	2013
28 Distribution and selling expenses			
Salaries, wages and amenities	28.1	2,134,925	1,785,337
Training		38,086	18,096
Rent, rates and taxes		54,538	24,817
Insurance		14,353	11,403
Freight outward		2,621,836	2,448,195
Depreciation	15.1	401,012	359,704
Sales promotion and advertisement		5,101,224	5,529,158
Legal and professional charges		7,277	10,016
Vehicle running and maintenance		31,700	30,646
Utilities		82,423	73,709
Repairs and maintenance		113,523	68,732
Subscription, stationery, printing and publication		21,920	21,385
Communications		34,400	29,410
Travelling, conveyance and vehicle running		170,352	148,954
Provision for doubtful advances/debts - net		5,808	2,908
Expenses on information technology		88,750	60,726
Other expenses		163,321	108,388
		11,085,448	10,731,584

28.1 Salaries, wages and amenities include Rs. 50.62 million (2013: Rs. 42.41 million) in respect of gratuity, Rs. 32.70 million (2013: Rs. 47.33 million) in respect of pension and Rs. 69.18 million (2013: Rs. 63.56 million) in respect of provident fund.

(Rupees in '000)	Note	2014	2013
29 Administration expenses			
Salaries, wages and amenities	29.1	1,137,475	1,011,502
Training		38,779	28,694
Rent, rates and taxes		106,112	99,350
Insurance		2,934	3,037
Depreciation	15.1	113,234	123,198
Amortization	17	2,392	4,781
Legal and professional charges	29.2	114,644	81,192
Vehicles running and maintenance		23,600	23,880
Utilities		39,718	38,249
Repairs and maintenance		26,933	23,456
Subscription, stationery, printing and publication		35,248	33,715
Communications		75,666	68,600
Travelling and conveyance		93,910	82,828
Expenses on information technology		261,589	299,787
Other expenses		52,845	35,674
		2,125,079	1,957,943

29.1 Salaries, wages and amenities include Rs. 51.27 million (2013: Rs. 27.74 million) in respect of gratuity, Rs. 60.66 million (2013: Rs. 48.01 million) in respect of pension and Rs. 49.45 million (2013: Rs. 41.58 million) in respect of provident fund.

(Rupees in '000)	Note	2014	2013
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
Other sundry certificates		12	12
Out of pocket expenses		125	125
		1,317	1,317
30 Finance cost			
Mark-up on lease finances		–	1,084
Exchange loss on foreign commitments		136,263	6,518
Mark-up on short term running finances - secured		390,775	552,690
Mark-up on short term borrowings - secured		54,275	487,971
Mark-up on loan from associated company		100,454	132,321
Mark-up on long term loan		1,429,406	884,650
Bank charges		44,464	47,862
		2,155,637	2,113,096
31 Other operating expenses			
Workers' profit participation fund	12.1	591,255	431,590
Workers' welfare fund		224,677	87,423
Donations	31.1	59,400	53,290
Loss on disposal of property, plant and equipment		148,775	156,464
Impairment losses on			
Property, plant and equipment	15 & 16	448,443	68,829
Exchange loss on foreign currency loan		–	528,697
Others		–	113,484
		1,472,550	1,439,777
31.1 Donations			
Name of donee in which a director or his spouse has an interest:			
Dairy & Rural Development Foundation (DRDF),		2,500	2,500
72-B-II, Swiss Avenue, Gulberg III, Lahore			
(Syed Yawar Ali, Director is also Governor of DRDF)			
National Management Foundation (NMF),		10,000	10,000
Defence Housing Authority, Lahore			
(Syed Babar Ali, Director is also Chairman of NMF)			
Pakistan Dairy Association (PDA)		1,200	1,500
7/B-2, Aziz Avenue, Canal Bank Road, Gulberg V, Lahore			
(Syed Yawar Ali, Director is also Director of PDA)			
		13,700	14,000

Notes to the Financial Statements

For the year ended 31 December 2014

(Rupees in '000)	2014	2013
32 Other income		
Income from financial assets		
Return on bank accounts	18,975	18,257
Exchange gain on foreign currency loan	325,425	–
Exchange gain on foreign currency transactions	38,550	–
	382,950	18,257
Income from non - financial assets		
Sale of scrap	140,942	175,930
Others	–	378
	140,942	176,308
	523,892	194,565
33 Taxation		
Current year		
For the year	3,470,398	1,144,452
Prior year	440,749	303,677
	3,911,147	1,448,129
Deferred	(831,250)	798,070
	3,079,897	2,246,199

33.1 During the year the Federal Government of Pakistan through an amendment vide Finance Act, 2014 reduced the tax rate for the tax year 2015 from 34% to 33%. The current tax expense has been computed using the tax rate enacted for the tax year 2015.

%	2014	2013
33.2 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
Applicable tax rate	33.00	34.00
Tax effect of amounts that are:		
Not deductible for tax purposes	0.09	3.59
Allowable for tax purposes	(6.80)	(12.85)
Effect of changes in prior years' tax	4.00	3.74
Tax effect under presumptive tax regime	(2.84)	(1.59)
	(5.55)	(7.11)
Average effective tax rate charged to profit and loss account	27.45	26.89

Notes to the Financial Statements

For the year ended 31 December 2014

		2014	2013
34 Earnings per share			
34.1 Basic earnings per share			
Profit after taxation available for distribution to ordinary shareholders	Rupees in '000'	7,929,271	5,866,763
Weighted average number of ordinary shares	Number in '000'	45,350	45,350
Basic earnings per share	Rupees	174.85	129.37

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:

(Rupees in '000)	Note	2014	2013
35.1 Transactions during the year			
Associated companies			
- Royalty and technical assistance fee		2,604,660	2,315,483
- Purchase of goods, services and rental		11,927,015	14,561,800
- Sale of fixed assets		–	7,432
- Interest on foreign currency loan		100,454	132,321
Other related parties			
- Contribution to staff retirement benefit plans		336,259	282,328
- Donations	31.1	13,700	14,000
- Insurance Claims		2,760	3,835
- Sale of fixed assets		–	44,511
- Remuneration to key management personnel	38	2,888,038	2,399,995

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 2014

(Rupees in '000)	Note	2014	2013
36 Cash generated from operations			
Profit before taxation		11,009,168	8,112,962
Adjustment for non-cash charges and other items:			
Depreciation		3,234,372	2,987,268
Amortization		2,392	4,781
Impairment loss on property, plant and equipment		448,443	68,829
Loss on disposal of property, plant and equipment		148,775	156,464
Exchange (gain) / loss on foreign currency translations		(363,975)	528,697
Provision for workers' profit participation fund		591,255	431,590
Provision for workers' welfare fund		224,677	87,423
Provision for doubtful advances/debts - net		5,808	2,908
Provision for stores and spares		220,690	200,207
Provision for unusable raw and packing material		162,978	–
Provision for staff retirement benefits		336,259	269,393
Exchange loss on derivative financial liability		136,263	6,518
Finance cost		2,019,374	2,106,578
Profit before working capital changes		18,176,479	14,963,618
Effect on cash flow due to working capital changes:			
(Increase) in stores and spares		(155,699)	(100,506)
(Increase) / decrease in stock in trade		(2,001,833)	54,483
Decrease in trade debts		53,321	146,337
Decrease in advances, deposits, prepayments and other receivables		57,430	198,884
Increase / (decrease) in trade and other payable		4,777,107	(413,469)
Increase / (decrease) in customer security deposits - interest free		38,980	(2,464)
		2,769,306	(116,735)
		20,945,785	14,846,883
37 Cash and cash equivalents			
Cash and bank balances	25	226,143	720,065
Short term running finance under mark-up arrangements - secured		(5,949,914)	(3,356,591)
		(5,723,771)	(2,636,526)

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:

	Chairman		Chief Executive		Executive Director		Executive	
(Rupees in '000)	2014	2013	2014	2013	2014	2013	2014	2013
Fee / managerial remuneration	4,050	3,600	21,842	18,190	27,567	24,268	1,727,574	1,469,343
Bonus	–	–	7,685	5,242	9,546	6,604	400,487	268,901
Retirement benefits	–	–	–	–	2,066	1,818	303,534	254,635
Housing	–	–	10,517	10,327	2,520	4,455	10,732	11,411
Utilities	–	–	–	–	–	–	6,211	3,992
Reimbursable expenses	696	646	21,439	20,535	12,963	27,199	318,609	268,829
	4,746	4,246	61,483	54,294	54,662	64,344	2,767,147	2,277,111
Number of persons	1	1	1	1	2	2	1021	847

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

38.2 The aggregate amount charged in these financial statements in respect of contribution to provident fund of key management personnel is Rs. 127.299 million (2013: Rs. 106.37 million).

38.3 No remuneration / meeting fee was paid to the non executive directors other than Chairman during the year.

	Capacity		Production	
	2014	2013	2014	2013
39 Capacity and production				
Liquid products - liters (000)	1,528,374	1,461,735	867,734	848,124
Non-liquid products - Kgs (000)	178,261	182,188	120,128	88,335

Under utilization of capacity was mainly due to seasonal impact of fresh milk and increased capacity through new investment to meet future requirements.

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 the following main business segments:

i) Milk and nutrition products

These segments comprise following major types of products :

- Milk and nutrition products
- Milk based products and cereals

ii) Beverages

- Beverages.
- Juices and water

40.1 Segment analysis and reconciliation for the year ended 31 December

	Milk and Nutrition Products		Beverages		Other Operations		Total	
(Rupees in '000)	2014	2013	2014	2013	2014	2013	2014	2013
Sales								
External sales	77,432,902	69,487,381	18,251,270	15,939,953	773,571	799,535	96,457,743	86,226,869
Inter-segment sales	–	–	–	–	–	–	–	–
Total revenue	77,432,902	69,487,381	18,251,270	15,939,953	773,571	799,535	96,457,743	86,226,869
Depreciation and amortization	(2,402,725)	(2,168,531)	(739,105)	(735,532)	(97,792)	(87,986)	(3,239,622)	(2,992,049)
Operating profit before tax and before unallocated expenses	10,512,161	10,254,792	3,995,231	2,032,124	(393,929)	(815,646)	14,113,463	11,471,270
Unallocated corporate expenses								
Finance cost							(2,155,637)	(2,113,096)
Exchange gain / (loss) on translation of foreign currency loan							325,425	(528,697)
Other operating expenses							(1,024,107)	(842,251)
Other operating income							198,467	194,565
Taxation							(3,079,897)	(2,246,199)
Other material non-cash items								
Impairment loss on property, plant and equipment	(376,360)	(33,572)	(40,552)	–	(31,531)	(35,257)	(448,443)	(68,829)
Profit after taxation							7,929,271	5,866,763
Segment assets	30,510,109	30,387,249	12,574,043	11,980,192	937,624	974,638	44,021,776	43,342,079
Unallocated assets							7,708,919	8,947,442
Total assets							51,730,695	52,289,521
Segment liabilities	11,523,190	9,487,099	2,937,023	1,913,530	108,004	86,854	14,568,217	11,487,483
Unallocated liabilities							24,534,853	28,942,881
Total liabilities							39,103,070	40,430,364
Segment capital expenditure	1,586,600	2,428,017	624,373	623,886	155,115	65,244	2,366,088	3,117,147
Unallocated capital expenditure							609,897	583,416
							2,975,985	3,700,563

Notes to the Financial Statements
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(Rupees in '000)	2014	2013
40.2 Geographical segments		
Sales are made by the Company in the following countries:		
Pakistan	90,485,378	79,982,121
Afghanistan	5,972,365	6,244,748
	96,457,743	86,226,869

The Company manages and operates 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.

41.1 Market risk

a) Currency Risk

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

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

Particulars (Rupees in '000)	Currency	2014	2013
Foreign currency bank accounts	US $	11,646	49,813
Cash in hand			
	US $	3,003	3,144
	EUR	852	1,012
		3,855	4,156
Receivables			
	US $	290,392	725,005
	GB £	2,338	723
	DKK	40	81
	CHF	2,162	–
	JPY	31,370	–
	SGD	7,099	–
	EUR	160,656	129,404
		494,057	855,213
		509,558	909,182
Less :			
Long term loan from associated undertaking (including current maturity)	US $	3,764,813	6,838,325
Short term borrowing from associated company-unsecured	US $	3,513,825	–
Payables	US $	705,317	158,439
	EUR	336,747	149,475
	CHF	95,481	216,648
	GB £	7,597	1,268
	SGP $	68,093	43,425
	JPY	5,177	6,897
	AED	968	–
	AUD	884	–
	DKK	684	–
		1,220,948	576,152
		8,499,586	7,414,477
On balance sheet exposure		(7,990,028)	(6,505,295)
Outstanding letters of credit		(1,409,258)	(1,390,607)
Off balance sheet exposure		(1,409,258)	(1,390,607)

The following significant exchange rates were applied during the year :

(Rupees per currency unit)	2014 Average Rate	2014 Reporting date rate	2013 Average Rate	2013 Reporting date rate
US $	102.80	100.40	101.10	105.21
EUR	133.42	122.01	136.57	144.83
CHF	109.84	101.44	112.26	118.24
GB £	164.61	156.19	164.97	173.03
SGP $	79.45	75.92	81.23	82.98
JPY	0.92	0.84	1.07	1.01
CNY	16.81	16.21	15.46	17.42
AED	27.96	27.33	27.52	28.59
AUD	88.06	82.18	102.47	93.95
DKK	17.93	16.43	18.31	19.42
NZD	82.59	78.89	83.17	86.29

Currency rate sensitivity analysis

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

(Rupees in '000)	2014	2013
Effect on Profit and loss		
US Dollar	499,129	410,441
Euro	11,391	1,258
Swiss Franc	6,066	14,299
Great Britain Pound	342	36
Singapore Dollar	3,965	2,866
Australian Dollar	57	–
Japanese Yen	(1,703)	455
Arab Emirates Dirham	63	–
Danish Krone	42	(5)
	519,352	429,350

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

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

b) Other price risk

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

c) Interest rate risk

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

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

(Rupees in '000)	2014	2013
Variable rate instruments		
Long term finances from associated undertaking - US $	(3,764,813)	(6,838,325)
Effective interest rate in %age	1.86	1.97
Long term finances from banking companies - PKR	(6,269,625)	(15,458,327)
Effective interest rate in %age	11.54	10.81
Short term borrowings from banking company - US $	(3,513,825)	–
Effective interest rate in %age	8.64	–
Short term borrowings from local banks - PKR	(5,949,914)	(3,356,591)
Effective interest rate in %age	8.76	9.15

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 2014 would have been affected as follows:

(Rupees in '000)	2014	2013
Effect on Profit and loss of an increase	(150,936)	(173,407)
Effect on Profit and loss of a decrease	150,936	173,407

The effect may be higher / lower, mainly as a result of higher / lower mark-up income on floating rate loans / investments.
The sensitivity analysis prepared is not necessarily indicative of the effects on the profit for the year and assets / liabilities of the Company.

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:

(Rupees in '000)	2014	2013
Long term deposits	33,052	20,799
Trade debts	272,321	346,041
Advances, deposits and		
other receivables	758,437	637,244
Bank balance	222,514	715,289
	1,286,324	1,719,373
The aging of trade debts at the reporting date is:		
Past due 0 - 30 days	270,529	322,118
Past due 31 - 60 days	1,121	19,297
Past due 61 - 90 days	32	1,478
Past due 91 - 120 days	249	105
Past due 120 days	390	3,043
	272,321	346,041

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 counter party default rate:

	Rating 2014			Rating 2013		
	Short Term	Long Term	Agency	Short Term	Long Term	Agency
Allied Bank Limited	A1+	AA+	PACRA	A1+	AA+	PACRA
Bank Al Falah Limited	A1+	AA	PACRA	A1+	AA	PACRA
Bank Al Habib Limited	A1+	AA+	PACRA	A1+	AA+	PACRA
Bank of Punjab	A1+	AA-	PACRA	A1+	AA-	PACRA
Barclays Bank PLC	A-1	A	S&P	A1+	A	S&P
Burj Bank	A-1	A	JCR-VIS	A-1	A	JCR-VIS
Citibank N.A.	P-1	A2	Moody's	A3	P2	Moody's
Deutsché Bank AG	A-1	A	S&P	A1	A	S&P
Faysal Bank Limited	A1+	AA	PACRA	A1+	AA	PACRA
Habib Bank Limited	A-1+	AAA	JCR-VIS	A1+	AAA	JCR-VIS
HSBC	P-1	A2	Moody's	P1	A1	Moody's
KASB	C	B	PACRA	A3	BBB	PACRA
MCB Bank Limited	A1+	AAA	PACRA	A1+	AAA	PACRA
Meezan Bank Limited	A1+	AA	JCR-VIS	A-1+	AA-	JCR-VIS
National Bank of Pakistan	A-1+	AAA	JCR-VIS	A1+	AAA	JCR-VIS
Soneri Bank Limited	A1+	AA-	PACRA	A1+	AA-	PACRA
Standard Chartered						
Bank Limited	A-1+	AAA	PACRA	A1+	AAA	PACRA
Summit Bank Limited	A-3	A-	JCR-VIS	A3	A-	JCR-VIS
United Bank Limited	A-1+	AA+	JCR-VIS	A1+	AA+	JCR-VIS
Afghanistan International Bank	Not available	Not available	Not available	Not available	Not available	Not available

Due to the Company's long standing business relationships with these counter parties 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.

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 2014:

(Rupees in '000)	Carrying value	Contractual cash flows	Less than 6 months	6 to 12 months	1 year to 5 year	Total
Financial liability						
Derivative financial liability						
- cashflow hedge	28,651	28,651	28,651	–	–	28,651
Other forward exchange contracts	130,580	130,580	130,580	–	–	130,580
Long term finances	10,034,438	12,718,989	1,948,679	1,936,220	8,834,090	12,718,989
Short term borrowings	4,013,825	4,113,457	4,113,457	–	–	4,113,457
Short term running finance						
under mark-up arrangement	5,949,914	5,958,930	5,958,930	–	–	5,958,930
Customer security deposits	220,957	220,957	–	220,957	–	220,957
Trade and other payables	14,202,682	14,202,682	14,202,682	–	–	14,202,682
Interest and mark-up accrued	147,652	147,652	147,652	–	–	147,652
	34,728,699	37,521,898	26,530,631	2,157,177	8,834,090	37,521,898

The following are the contractual maturity analysis of financial liabilities as at 31 December 2013:

(Rupees in '000)	Carrying value	Contractual cash flows	Less than 6 months	6 to 12 months	1 year to 5 year	Total
Financial liability						
Derivative financial liability						
- cashflow hedge	–	–	–	–	–	–
Other forward exchange contracts	3,565	3,565	3,565	–	–	3,565
Long term finances	22,296,652	26,269,773	2,448,219	11,097,318	12,724,236	26,269,773
Short term running finance						
under mark-up arrangement	3,356,591	3,453,752	3,453,752	–	–	3,453,752
Customer security deposits	181,977	181,977	–	181,977	–	181,977
Trade and other payables	9,363,238	9,363,238	9,363,238	–	–	9,363,238
Interest and mark-up accrued	263,776	263,776	263,776	–	–	263,776
	35,465,799	39,536,081	15,532,550	11,279,295	12,724,236	39,536,081

Fair values of financial assets and liabilities

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

Derivative assets and liabilities designated as cash flow hedges

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

Notes to the Financial Statements

For the year ended 31 December 2014

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 2014 and 2013 were as follows:

(Rupees in '000)	2014	2013
Total borrowings	19,998,177	25,653,243
Total equity	12,627,625	11,859,157
Total debt and equity	32,625,802	37,512,400
Debt to equity ratio	61:39	68:32

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.

43 Number of employees

The total average number of employees during the year and as at 31 December 2014 and 2013, are as follows:

(No. of Employees)	2014	2013
Average number of employees during the year	4,017	3,870
Number of employees as at 31 December	4,149	3,867

44 Provident related disclosures

The following information is based on latest un-audited financial statements of the Fund as of 31 December 2014:

Notes to the Financial Statements

For the year ended 31 December 2014

(Rupees in '000)	2014 Un-audited	2013 Audited
Size of the fund - total assets	2,603,221	2,186,727
Cost of investments made	2,059,216	1,811,337
Percentage of investments made	82%	84%
Fair value of investments	2,130,222	1,836,219

	2014		2013	
	(Rs in '000)	%	(Rs in '000)	%
44.1 The break-up of fair value of investments is:				
Pakistan investment bonds	1,041,696	49%	115,614	6%
Term finance certificates	31,254	1%	29,994	2%
Term deposit receipts	300,081	14%	400,000	22%
Shares in listed companies	295,104	14%	171,360	9%
Mutual funds	29,456	1%	23,827	1%
Cash at bank	432,631	20%	1,095,424	60%
	2,130,222	100%	1,836,219	100%

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

45 Date of authorization for issue

These financial statements were authorised for issue on February 19, 2015 by the Board of Directors of the Company.

46 Dividend

The Board of Directors in their meeting held on February 19, 2015 have proposed a final cash dividend for the year ended 31 December 2014 of Rs. 90 (2013: Rs. 75) per share, amounting to Rs. 4081.46 million (2013: Rs. 3,401.22 million) for approval of the members at the Annual General Meeting to be held on April 23, 2015. These financial statements do not reflect this dividend.

47 General

47.1 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.

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

JOHN M. DAVIS	MAGDI BATATO	SYED YAWAR ALI
Head of Finance and Control	Chief Executive	Chairman

Form of Proxy

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

I/We, ____, of ________________________________, being a member of Nestlé Pakistan Ltd., holder of __________________________ Ordinary Share(s) as per registered Folio No. ______________________________ hereby appoint Mr.________________________________ Folio No. _________ of ______________________or failing him Mr.________________________ Folio No. ______________ of _________________, who is also a member of Nestlé Pakistan Ltd., as my / our proxy in my / our absence to attend and vote for me / us, and on my / our behalf at the Annual General Meeting of the Company to be held on April 23, 2015 and at any adjournment thereof.

Signed under my / our hand this _______ day of ___________, 2015.

Signed by the said: __________________________

Shareholder's Folio No.: ______________________

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

and Sub- Account No.: ________________________

Shareholder's CNIC : _________________________

In the presence of:

Signature across Rs. 5 Revenue Stamp

Signature should agree with the specimen signature registered with the company

Signature of Witness No. 1	Signature of Witness No. 2
Name: ______________________	Name: ______________________
CNIC No.: ___________________	CNIC No.: ___________________

NOTES:

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

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

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

AFFIX
CORRECT
POSTAGE

The Company Secretary

Nestlé Pakistan Ltd.

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Acronyms Used in Financial Statement

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

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