Annual Financial Statements of Nestlé Pakistan Ltd.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Nestlé Pakistan Limited ("the Company") as at 31 December 2006 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for changes referred to in note 2.4 and 2.16 to the accounts with which we concur;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 2006 and of the profit, 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

Lahore: March 05, 2007

BALANCE SHEET AS AT DECEMBER 31, 2006

	Note	2006	2005 Restated
		(Rupees in thousands)	
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized capital			
75,000,000 (2005: 75,000,000)			
ordinary shares of Rs 10 each		750,000	750,000
Issued, subscribed and paid up capital	3	453,496	453,496
Share premium	4	249,527	249,527
General reserve		280,000	280,000
Accumulated profit		1,548,057	880,359
		2,531,080	1,863,382
Non Current Liabilities			
Long term finances	5	3,963,700	1,946,850
Deferred taxation	6	942,858	444,414
Retirement and other benefits	7	234,305	218,868
Liabilities against assets subject to finance lease	8	31,471	-
		5,172,334	2,610,132
Current liabilities			
Current portion of:			
Long term finances	5	300,000	400,000
Liabilities against assets subject to finance lease	8	8,392	31
Short term borrowings - secured	9	700,000	125,000
Short term running finance under mark-up arrangements - secured	10	1,817,711	1,121,041
Customer security deposits - interest free		102,307	80,472
Trade and other payables	11	2,197,529	2,188,402
Interest and mark-up accrued	12	98,549	45,258
Dividend payable		-	453,496
		5,224,488	4,413,700
CONTINGENCIES AND COMMITMENTS	13		
		12,927,902	8,887,214

The annexed notes from 1 to 42 form an integral part of these financial statements.

BALANCE SHEET AS AT DECEMBER 31, 2006

	Note	2006	2005 Restated
		(Rupees in thousands)	
ASSETS			
Tangible fixed assets			
Property, plant and equipment	14	6,941,332	3,298,880
Assets subject to finance lease	15	44,717	20
Capital work-in-progress	16	1,107,052	1,788,475
		8,093,101	5,087,375
Intangible assets	17	135,020	177,658
Long term loans and advances	18	66,008	47,691
Long term security deposits		6,088	5,338
Current assets			
Stores and spares	19	329,346	249,921
Stock in trade	20	1,907,300	1,492,983
Trade debts	21	238,291	47,298
Current portion of long term loans and advances	18	8,771	3,624
Advances, deposits, prepayments and other receivables	22	2,109,314	916,331
Cash and bank balances	23	34,663	858,995
		4,627,685	3,569,152
		12,927,902	8,887,214

RAYMOND FRANKE
Head of Finance & Control

ROLAND DECORVET
Chief Executive

SYED YAWAR ALI
Chairman

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005 Restated
		(Rupees in thousands)	
Sales - net	24	22,030,958	17,142,363
Cost of goods sold	25	(15,778,330)	(12,354,618)
Gross profit		6,252,628	4,787,745
Distribution and selling expenses	26	(2,925,118)	(2,090,469)
Administration expenses	27	(687,092)	(576,715)
Operating profit		2,640,418	2,120,561
Finance cost	28	(447,774)	(180,108)
Other operating expenses	29	(263,921)	(356,528)
		(711,695)	(536,636)
Other operating income	30	76,732	53,151
Profit before taxation		2,005,455	1,637,076
Taxation	31	(642,165)	(484,145)
Profit after taxation		1,363,290	1,152,931
Earnings per share - basic and diluted (Rupees)	32	30.06	25.42

Appropriations have been reflected in the statement of changes in equity.

The annexed notes from 1 to 42 form an integral part of these financial statements.

RAYMOND FRANKE	**ROLAND DECORVET**	**SYED YAWAR ALI**
Head of Finance & Control	Chief Executive	Chairman

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005 Restated
		(Rupees in thousands)	
Cash flow from operating activities			
Cash generated from operations	34	1,619,014	3,755,450
(Increase)/decrease in long term security deposits		(750)	659
(Increase) in long term loans and advances		(23,464)	(27,992)
Retirement and other benefits paid		(69,295)	(81,911)
Finance cost paid		(394,483)	(147,720)
Taxes paid		(484,975)	(582,411)
Net cash generated from operating activities		646,047	2,916,075
Cash flow from investing activities			
Fixed capital expenditure		(3,584,428)	(2,766,273)
Sale proceeds of property, plant and equipment		63,512	4,622
Net cash used in investing activities		(3,520,916)	(2,761,651)
Cash flow from financing activities			
Receipt of long term finances		3,066,850	896,850
Repayment of long term finances		(1,150,000)	(200,000)
Net movement in short term borrowings - secured		575,000	125,000
Payment of finance lease liabilities		(5,213)	(115)
Dividend paid		(1,132,770)	(226,346)
Net cash generated from financing activities		1,353,867	595,389
Net (decrease)/increase in cash and cash equivalents		(1,521,002)	749,813
Cash and cash equivalents at beginning of the year		(262,046)	(1,011,859)
Cash and cash equivalents at end of the year	35	(1,783,048)	(262,046)

The annexed notes from 1 to 42 form an integral part of these financial statements.

RAYMOND FRANKE
Head of Finance & Control

ROLAND DECORVET
Chief Executive

SYED YAWAR ALI
Chairman

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

		Capital reserve		Revenue reserve		
	Share capital	Share premium	Amalgamation reserve	General reserve	Accumulated profit	Total
			(Rupees in thousands)			
Balance as at December 31, 2004 as previously reported	452,730	249,527	(41,511)	280,000	547,440	1,488,186
Effect of change in accounting policy as refered in note 2.4	-	-	-	-	(85,495)	(85,495)
Balance as at December 31, 2004 - restated	452,730	249,527	(41,511)	280,000	461,945	1,402,691
Final dividend for the year ended December 31, 2004 (Rs 5 per share)	-	-	-	-	(226,365)	(226,365)
Excess of net capital acquired in Universal Aqua (Private) Limited	-	-	42,277	-	(42,277)	-
Issue of share capital to shareholders of Universal Aqua (Private) Limited under scheme of amalgamation	766	-	(766)	-	-	-
Total recognized income and expense for the year	-	-	-	-	1,140,552	1,140,552
Interim dividend (Rs 10 per share) for the year ended December 31, 2005	-	-	-	-	(453,496)	(453,496)
Balance as at December 31, 2005	453,496	249,527	-	280,000	880,359	1,863,382
Final dividend for the year ended December 31, 2005 (Rs 15 per share)	-	-	-	-	(680,244)	(680,244)
Total recognized income and expense for the year	-	-	-	-	1,347,942	1,347,942
Balance as at December 31, 2006	453,496	249,527	-	280,000	1,548,057	2,531,080

STATEMENT OF RECOGNIZED INCOME AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
	(Rupees in thousands)	
Acturial losses recognized directly in equity	(23,612)	(19,044)
Tax on actuarial losses recognized directly in equity	8,264	6,665
Net profit for the year	1,363,290	1,152,931
Total recognized income and expense for the year	1,347,942	1,140,552

The annexed notes from 1 to 42 form an integral part of these financial statements.

RAYMOND FRANKE
Head of Finance & Control

ROLAND DECORVET
Chief Executive

SYED YAWAR ALI
Chairman

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. Legal status and nature of business

Nestlé Pakistan Limited ("the Company") is a public limited company incorporated in Pakistan and its shares are quoted on the Karachi and Lahore Stock Exchanges. The principal activity of the Company is manufacturing, processing and sale of food products (dairy, confectionery, culinary, coffee, beverages and drinking water). Registered office of the Company is situated at Babar Ali Foundation Building, 308-Upper Mall, Lahore.

2. Summary of significant accounting policies

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

2.1 Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, requirements of Companies Ordinance, 1984 or requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments at fair value, recognition of certain employee benefits at present value and recognition of certain property, plant and equipment at recoverable amount.

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgements 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

2.3 Taxation

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

Current

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

Deferred

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

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

2.4 Retirement and other benefits

Defined benefit plan

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

Change in accounting policy

During the year the accounting policy for recognition of actuarial gains/losses has been changed in accordance with option allowed by the revised IAS 19 "Employee Benefits". The actuarial gains and losses are now recognized in the period in which they occur directly in shareholders' equity and presented in the statement of recognized income and expenses. Previously actuarial gains/losses were recognized over the expected future services of current members, to the extent that cumulative unrecognized actuarial gain/loss exceed 10 percent of greater of opening balances of present value of defined benefit obligation and fair value of plan assets. The change in accounting policy has been recognized retrospectively and comparative statements have been restated in accordance with the requirements of IAS-8 "Accounting policies, changes in accounting estimates and errors". The change in accounting policy has the following impact on these financial statements.

	2006	2005
	(Rupees in thousands)	
Profit and loss account for the year ended:		
Decrease in cost of sale	2,824	2,461
Decrease in distribution and selling expenses	3,344	2,914
Decrease in administration expenses	1,263	1,101
Increase in income tax expense	(2,601)	(2,267)
Increase in profit from continuing operations	4,830	4,209
Recognised income and expense for the year ended:		
(Decrease) in net income recognised directly in equity	(23,612)	(19,044)
Increase in income tax on income and expense recognised directly in equity	8,264	6,665
Increase in profit for the year	4,830	4,209
(Decrease) in total recognised income and expense for the period	(10,518)	(8,170)
Balance sheet at December 31:		
Cumulative increase in liability for employee benefits	167,711	144,099
Cumulative increase in income tax recoverable	58,699	50,435
Cumulative decrease in retained earnings	109,012	93,664

The change in accounting policy has no material impact on earnings per share for the current and previous periods.

Defined contribution plan

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

Other benefits

The Company was operating a defined contributory gratuity scheme for staff of former Universal Aqua (Private) Limited. Monthly contributions were made by the Company at the rate of 8.33% of the basic salary plus cost of living allowance for management staff and 8.33% of the gross salary for non management staff. However, this obligation was fully settled during the year and these employees were made member of the defined benefit plans and the defined contribution plan.

2.5 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 impairment loss, if any. Freehold land is stated at cost or deemed cost less identified impairment loss, if any. Cost in relation to self constructed assets includes direct cost of material, labour and applicable manufacturing overheads.

Depreciation is charged to income on the straight line method whereby cost of an asset is written off over its estimated useful life at the rates given in note 14.1.

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

Depreciation on additions is charged on a pro-rata basis from the month of use, while for disposals depreciation is charged up to the month of disposal. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the assets revised carrying amount over its estimated useful life.

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

Capital work-in-progress

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

Intangible assets

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

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

2.6 Leases

Operating leases

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

Finance leases

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

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

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

Assets acquired under a finance lease are depreciated over the estimated useful life of the asset on a straight-line method at the rates given in note 15.1. 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.

2.7 Impairment losses

Financial assets

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

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

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

Non financial assets

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

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.

2.8 Financial liabilities

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

Interest bearing borrowings

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

Other financial liabilities

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

2.9 Trade and other payables

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

2.10 Provisions

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

2.11 Dividend

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

2.12 Inventories

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

Store and spares

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

Stock in trade

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

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

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

Raw and packing material

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

2.13 Trade debts and other receivables

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortized cost less impairment loss, if any. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

2.14 Revenue recognition

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

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

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

2.15 Foreign currencies

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

2.16 Finance cost

Mark-up, interest and other charges on borrowings are recognized as an expense in the period in which they are incurred. The accounting policy for finance cost has been changed during the year in accordance with the option allowed by IAS 23 "Borrowing Cost". Previously mark-up, interest and other charges on long term borrowings were capitalized upto the date of commissioning of the related qualifying assets, acquired out of the proceeds of such long term borrowings. This change in accounting policy has no impact on the current and prior period financial statements as the qualifiying assets capitalised in the initial years of the Company's formation have since been fully depreciated.

2.17 Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from other segments.

2.18 Financial instruments

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

2.19 Offsetting of financial assets and financial liabilities

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

2.20 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.

2.21 Related Party transactions

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

2.22 Standards, interpretations and amendments to be published approved accounting standards that are yet not effective

During the year International Accounting Standard Board has revised IAS-1, "Presentation of Financial Statements". The amendments impose additional requirements for Capital disclosures effective for financial period beginning on or after January 01, 2007.

Adoption of the above amendments would impact to the extent of disclosures only, presented in the future financial statements of the Company.

	2006	2005
	(Rupees in thousands)	

3. Issued, subscribed and paid up capital

	2006	2005
29,787,058 (2005: 29,787,058) ordinary shares of Rs 10 each as fully paid in cash	297,870	297,870
15,476,867 (2005: 15,476,867) ordinary shares of Rs 10 each as fully paid bonus shares	154,769	154,769
85,659 (2005: 85,659) ordinary shares of Rs 10 each issued for consideration other than cash	857	857
	453,496	453,496

As at December 31, 2006, Nestlé S.A. Switzerland, the holding company, holds 26,778,229 (2005: 26,778,229) ordinary shares of the Company. In addition 9,169,217 (2005: 9,163,617) ordinary shares are held by the following related parties at December 31, 2006:

	2006	2005
	(Number of shares)	
Name of related parties:		
Packages Limited	3,649,248	3,649,248
Percentage of equity held 8.0% (2005: 8.0%)		
International General Insurance Company of Pakistan Limited	4,304,797	4,299,197
Percentage of equity held 9.5% (2005: 9.5%)		
Zarai Taraqiati Bank Limited	430,551	430,551
Percentage of equity held 1.0% (2005: 1.0%)		
Industrial Technical and Educational Institution	21,666	21,666
Percentage of equity held 0.05% (2005: 0.05%)		
Gurmani Foundation	762,955	762,955
Percentage of equity held 1.7% (2005: 1.7%)		
	9,169,217	9,163,617

4. Share premium

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

	Note	2006	2005
		(Rupees in thousands)	
5. Long term finances			
Long term finances utilized under mark up arrangements:			
Banking companies - secured			
Finance 1	5.1	-	300,000
Finance 2	5.1	-	200,000
Finance 3	5.1	-	200,000
Finance 4	5.1	-	150,000
Finance 5	5.2	150,000	150,000
Finance 6	5.1	-	300,000
Finance 7	5.3	150,000	150,000
		300,000	1,450,000
Related party - Unsecured			
Associated company - Foreign currency	5.4	3,963,700	896,850
		4,263,700	2,346,850
Less: Current portion shown under current liabilities		(300,000)	(400,000)
		3,963,700	1,946,850

Terms of repayment and securities

5.1 Finance 1, 2, 3, 4 and 6

These finances have been repaid during the year.

5.2 Finance 5

Finance 5 is redeemable in one installment due in December 2007. Mark-up is payable quarterly at three months average KIBOR plus 20 basis points. In case of default, liquidated damages at the rate of 4% per annum are payable.

5.3 Finance 7

Finance 7 is redeemable in one installment due in December 2007. Mark-up is payable quarterly at three months average KIBOR plus 15 basis points. In case of default, liquidated damages at the rate of 4% per annum are payable.

Security

All above finances are secured by a first pari passu hypothecation charge over fixed assets (property, plant and equipment) of the Company excluding land and building.

5.4 Associated company - Foreign currency

This represents US$ 65 million foreign currency loan from associated company. US$ 15 million is due in December 2010 and US$ 50 million due in May 2011. Mark-up is payable semi annually at six months average LIBOR plus 150 basis points.

	Note	2006	2005
		(Rupees in thousands)	
6. Deferred taxation			
This is composed of:			
Liability for deferred taxation comprising temporary differences related to:			
Accelerated tax depreciation		1,191,055	449,442
Others		(248,197)	(5,028)
		942,858	444,414
7. Retirement and other benefits			
Pension fund	7.1	99,965	127,765
Gratuity fund	7.1	134,340	88,119
Unfunded gratuity	7.12	-	2,984
		234,305	218,868

7.1 Present value of funded obligations

	Gratuity		Pension	
	2006	2005 Restated	2006	2005 Restated
	(Rupees in thousands)			
The amounts recognized in the balance sheet are as follows:				
Present value of defined benefit obligation	286,258	227,662	377,539	349,904
Fair value of plan assets	(151,918)	(139,543)	(277,574)	(222,139)
Total employee benefit obligation	134,340	88,119	99,965	127,765

7.2 Movement in net obligation

	Gratuity 2006	Gratuity 2005	Pension 2006	Pension 2005
Net liability as at January 01	88,119	69,091	127,765	130,012
Charge to profit and loss account	31,634	15,988	25,187	23,965
Actuarial (gains)/losses recognised in equity	48,224	26,384	(24,612)	(7,340)
Contribution made by the employees	-	-	11,405	8,740
Contribution by the Company	(33,637)	(23,344)	(39,780)	(27,612)
	134,340	88,119	99,965	127,765

7.3 Movement in the liability for funded defined benefit obligations

	Gratuity 2006	Gratuity 2005	Pension 2006	Pension 2005
Liability for defined benefit obligations at January 01	227,662	173,099	349,904	300,347
Benefits paid by the plan	(10,313)	(5,247)	(7,471)	(5,558)
Current service costs and interest	51,170	30,549	67,691	53,734
Actuarial (gains)/losses recognised in equity	17,739	29,261	(32,585)	1,381
Liability for defined benefit obligations at December 31	286,258	227,662	377,539	349,904

		Gratuity		Pension	
		2006	2005 Restated	2006	2005 Restated
			(Rupees in thousands)		
7.4	**Movement in fair value of plan assets**				
	Fair value of plan assets as at January 01	139,543	104,008	222,139	167,863
	Contributions paid into the plan	33,637	23,344	39,780	27,612
	Benefits paid by the plan	(10,313)	(5,247)	(7,471)	(5,558)
	Expected return on plan assets	19,536	14,561	31,099	23,501
	Actuarial (losses)/gains recognised in equity	(30,485)	2,877	(7,973)	8,721
	Fair value of plan assets as at December 31	151,918	139,543	277,574	222,139
7.5	**Plan assets consist of the following:**				
	Equity instruments	27,052	33,406	138,045	80,396
	Debt instruments	79,260	91,594	113,580	128,907
	Cash and other deposits	45,606	14,543	25,949	12,836
		151,918	139,543	277,574	222,139
7.6	**Salaries, wages, amenities and other benefits include the following in respect of retirement and other benefits:**				
	Interest cost for the year	20,490	13,848	31,491	24,028
	Current service cost	30,680	16,701	36,200	29,706
	Expected return on plan assets	(19,536)	(14,561)	(31,099)	(23,501)
	Amortization of non vested past service cost	-	-	-	2,472
	Contribution made by the employees	-	-	(11,405)	(8,740)
		31,634	15,988	25,187	23,965
7.7	**Actual return on plan assets**	10,949	17,438	23,126	32,222
7.8	**Actuarial gains and losses recognised directly in equity**				
	Cumulative amount at January 01	(70,026)	(43,642)	(80,549)	(87,889)
	Gain/(loss) recognised during the period	(48,224)	(26,384)	24,612	7,340
	Cumulative amount at December 31	(118,250)	(70,026)	(55,937)	(80,549)

7.9 Historical Information for Gratuity plan

	2006	2005	2004	2003	2002
		(Rupees in thousand)			
Present value of defined benefit obligation	286,258	227,662	173,099	142,049	117,568
Fair value of the plan assets	151,918	139,543	104,008	85,374	63,530
Deficit in the plan	134,340	88,119	69,091	56,675	54,038
Experience adjustment arising on plan liabilities	(17,739)	(29,261)	(12,760)	(7,662)	(3,635)
Experience adjustments arising on plan assets	(30,485)	2,877	1,013	2,868	1,227

The Company expects to pay Rs 31.553 million in contributions to defined gratuity plan in 2007.

7.10 Historical Information for Pension plan

	2006	2005	2004	2003	2002
		(Rupees in thousand)			
Present value of defined benefit obligation	377,539	349,904	300,347	246,177	158,307
Fair value of the plan assets	277,574	222,139	167,893	133,404	96,137
Deficit in the plan	99,965	127,765	132,454	112,773	62,170
Experience adjustment arising on plan liabilities	(14,782)	(36,869)	(14,641)	(10,155)	(4,763)
Experience adjustments arising on plan assets	(7,973)	8,721	6,375	9,410	1,185

The Company expects to pay Rs 41.010 million in contributions to defined pension plan in 2007.

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

	2006		2005	
	Gratuity fund per annum	Pension fund per annum	Gratuity fund per annum	Pension fund per annum
Discount Rate	10%	10%	9%	9%
Expected rates of salary increase	10%	10%	9%	9%
Expected rates of return on plan assets	14%	14%	14%	14%
Average expected remaining working life	12	12	13	12

7.12 Unfunded gratuity

	2006	2005
	(Rupees in thousands)	
Opening balance	2,984	2,715
Charge for the year	-	1,183
Payments during the year	(2,984)	(914)
Closing balance	-	2,984

8. Liabilities against assets subject to finance lease

	2006	2005
	(Rupees in thousands)	
Present value of minimum lease payments	39,863	31
Less: Current portion shown under current liabilities	(8,392)	(31)
	31,471	-

The lease has been obtained from The Bank of Punjab under Kissan Dost Livestock Development Scheme. As per the terms of agreement the finance cost will be paid by, Pakistan Dairy Developments Company (PDDC). The interest rate is average 6 months KIBOR plus 100 basis points with a floor of 10% per annum.

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

	2006			2005		
Years	Minimum lease payment	Finance cost	Principal	Minimum lease payment	Finance cost	Principal
	(Rupees in thousands)					
Not later than one year	8,392	-	8,392	32	1	31
Later than one year but not later than five years	31,471	-	31,471	-	-	-
	39,863	-	39,863	32	1	31

9. Short term borrowings - secured

This represents money market loans obtained from commercial banks, which carry mark-up of 9.81% to 10.18% per annum (2005: 8.80% per annum). This loan is for a period of 30 days (2005: 15 days) and is secured against pari passu hypothecation charge over current assets of the Company.

10. Short term running finance under mark-up arrangements-secured

Short term running finances available from commercial banks under mark up arrangements amount to Rs 2,700 million (2005: Rs 2,075 million). Mark up is charged at rates ranging from 7.5% to 11.28 % per annum (2005: 7.7% to 10.69% per annum).

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

	Note	2006	2005
		(Rupees in thousands)	
11. Trade and other payables			
Trade creditors			
Related parties - associated companies		62,946	176,040
Others		516,258	246,760
		579,204	422,800
Accrued liabilities			
Related parties - associated companies		95,088	85,976
Others		1,184,435	1,045,371
		1,279,523	1,131,347
Excise duty payable		9,515	9,101
Sales tax payable		-	9,085
Advances from customers		56,525	455,992
Workers' profit participation fund	11.1	45,138	60,909
Workers' welfare fund		99,986	11,051
Royalty and technical assistance fee payable to holding company		49,415	29,296
Unclaimed dividend		2,949	1,979
Withholding tax payable		20,965	3,044
Employees benefits payable		-	4,299
Others		54,309	49,499
		2,197,529	2,188,402

11.1 Workers' profit participation fund

	Note	2006	2005
Opening balance		60,909	3,684
Provision for the year	29	107,703	86,974
Interest for the year	28	1,563	-
		170,175	90,658
Less: Payments during the year		(125,037)	(29,749)
Closing balance		45,138	60,909

12. Interest and mark-up accrued

Interest and mark-up on:

		2006	2005
Short term borrowings and short term running finance - secured		31,888	13,290
Long term finances - secured		11,867	31,196
Long term loan from associated company - unsecured		54,794	772
		98,549	45,258

13. Contingencies and commitments

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

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

13.2 In the suit for declaration, permanent injunction and cancellation of document filed in the Sindh High Court, Karachi by Sindh Institute of Urology and Transplantation, SZABIST and Agha Khan University vs. Nestle Pakistan Ltd, Government of Sindh, Land Utilization Department, Karachi, Environment Protection Agency and CDGK; parties to the suit have agreed to reach a compromise according to which Nestle Pakistan Limited shall not set up an industrial plant in Deh Chur, Gadap Town Karachi. With the signing of the compromise document, the pending litigation in the Sindh High Court shall be concluded. The management has decided to sell the 20 acres land in Deh Chur, upon conclusion of the litigation.

13.3 Claims against the Company not acknowledged as debts Rs 35.946 million (2005: Rs 69.208 million).

		2006	2005
		(Rupees in thousands)	
13.4	**Guarantees**		
	Outstanding guarantees	219,933	86,180
	Un-utilized portion	30,067	61,304
13.5	Commitments in respect of capital expenditure	347,289	1,016,917
13.6	**Letters of credit**		
	Outstanding letters of credit in respect of capital expenditures	33,572	218,657
	Other outstanding letters of credit	253,366	19,102
	Unutilized portion	1,703,062	1,867,241

13.7 In the year 2005 the Company had made a commitment to pay Rs 250 million to Lahore University of Management Sciences to set up a School for Science and Engineering. The amount is to be paid over a period of six years. Upto December 31, 2006 Rs 100 million (2005: Rs 50 million) has been paid.

14. Property, plant and equipment

14.1 The statement of the property, plant and equipment is as follows:

	Cost as at January 01	Acquisition through business combination	Reclassi-fication	Additions/ (Disposals)	Transfer	Cost as at December 31	Accumulated depreciation as at January 01	Acquisition through business combination	Reclassi-fication	Depreciation charge for the year/ (Disposals)	Transfer	Impairment charge/ (reversal)	Accumulated depreciation as at December 31	Net book value as at December 31	Depre-ciation rate %
	(Rupees in thousands)														
Freehold land	21,650	-	-	34,037	-	55,687	-	-	-	-	-	-	-	55,687	-
Leasehold land	32,347	-	-	-	-	32,347	1,658	-	2	366	-	-	2,026	30,321	1-6.67
Building on freehold land	694,821	-	-	671,191	-	1,366,012	204,186	-	-	28,577	-	-	232,763	1,133,249	2-4
Building on leasehold land	219,273	-	-	-	-	219,273	125,403	-	-	4,387	-	-	129,790	89,483	2-4
Plant and machinery	5,026,204	-	61	3,505,383	-	8,377,697	2,532,615	-	(11,002)	487,493	-	-	2,895,515	5,482,182	6.67-33
				(153,951)						(113,591)					
Furniture and fixtures	85,359	-	(1,622)	17,623	-	98,862	42,350	-	10,834	12,239	-	-	63,002	35,860	10
				(2,498)						(2,421)					
Vehicles	302,252	-	2,152	37,617	569	301,631	181,497	-	441	44,948	549	-	189,934	111,697	20
				(40,959)						(37,501)					
Office equipment	13,006	-	(591)	-	-	12,209	8,323	-	(275)	1,505	-	-	9,356	2,853	20
				(206)						(197)					
2006	6,394,912	-	-	4,265,851	569	10,463,718	3,096,032	-	-	579,515	549	-	3,522,386	6,941,332	
				(197,614)						(153,710)					
2005	4,869,087	59,810	-	1,589,204	-	6,394,912	2,517,806	17,315	-	515,959	-	158,430	3,096,032	3,298,880	
				(123,189)						(113,478)					

14.2 Reclassification

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

	Note	2006	2005
		(Rupees in thousands)	
14.3 Depreciation charge for the year has been allocated as follows:			
Cost of goods sold	25	451,734	407,695
Distribution and selling expenses:			
Own assets		90,239	69,700
Leased assets		328	122
	26	90,567	69,822
Administration expenses	27	37,217	38,564
Capitalized during the year		325	-
		579,843	516,081

14.4 Detail of certain property, plant and equipment sold during the year is as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
	(Rupees in thousands)					
Plant and machinery						
	25,548	19,235	6,313	321	Negotiation	Godown No. 48/4 Misri Shah Lahore.
	94	30	64	-	Scrapped	J. F Enterprises
	488	205	283	12	Scrapped	J. F Enterprises
	458	350	108	12	Scrapped	J. F Enterprises
	245	187	58	6	Scrapped	J. F Enterprises
	716	242	474	18	Scrapped	J. F Enterprises
	543	229	314	14	Scrapped	J. F Enterprises
	26,301	2,849	23,452	23,670	Negotiation	Tetra pack Limited
	799	87	712	720	Negotiation	Tetra pack Limited
	12,924	12,470	454	2,677	Negotiation	PT Nestlé Indonesia
	12,924	12,470	454	3,406	Negotiation	PT Nestlé Indonesia
	7,130	2,032	5,098	3,296	Negotiation	Nestle JMP Jamaica Ltd.
	1,020	282	738	471	Negotiation	Nestle JMP Jamaica Ltd.
	136	23	113	3	Scrapped	Ghulam Dustagheer
	389	291	98	11	Scrapped	M. Din & Sons
	448	300	148	9	Scrapped	M. Din & Sons
	448	300	148	9	Scrapped	M. Din & Sons
	433	320	113	12	Scrapped	M. Din & Sons
Vehicles						
	325	263	62	301	Negotiation	Employee (Raheel Afzal)
	351	213	138	250	Negotiation	Empoloyee (Shaista Umer)
	559	358	201	382	Negotiation	Employee (Majid Ali)
	559	358	201	393	Negotiation	Employee (Farhan Ali Zaidi)
	555	234	321	433	Negotiation	Employee (Ahsan Shamim)
	590	439	151	412	Negotiation	Employee (M. Nasir)
	553	486	67	355	Negotiation	Employee (Azeem Siddiqi)
	564	200	364	516	Negotiation	Employee (Shariq Mustafa)
	57	2	55	-	Scrapped	J. F Enterprises
	1,119	851	268	825	Insurance claim	International General Insurance Co. of Pakistan Ltd.
	1,223	578	645	624	Negotiation	Employee (Haseeb Aslam)
	938	538	400	508	Negotiation	Employee (M. Zahid)
	731	506	225	650	Insurance claim	International General Insurance Co. of Pakistan Ltd.
Items with book value below Rs 50,000	98,446	96,782	1,664	23,196		
Total	197,614	153,710	43,904	63,512		

15. Assets subject to finance lease

15.1 The statement of assets subject to finance lease is as follows:

	Cost as at January 01	Acquisitions through business combination	Additions/ (Transfers)	Cost as at December 31	Accumulated depreciation as at January 01	Acquisitions through business combination	Depreciation for the year	Transfers	Accumulated depreciation as at December 31	Net book value as at December 31	Depre-ciation rate %
	(Rupees in thousands)										
Plant and machinery	-	-	45,045	45,045	-	-	328	-	328	44,717	6.67-20
Vehicles	569	-	- (569)	-	549	-	-	- (549)	-	-	20
2006	569	-	45,045 (569)	45,045	549	-	328	(549)	328	44,717	
2005	-	569	-	569	-	427	122	-	549	20	

16. Capital work-in-progress

	Note	2006	2005
		(Rupees in thousands)	
Tangible			
Civil works		376,738	305,211
Plant and machinery	16.1	625,333	1,463,993
Others		104,981	19,271
		1,107,052	1,788,475

16.1 This includes plant and machinery in transit amounting to Rs 20.160 million (2005: Rs 711.712 million).

17. Intangible assets

	2006	2005
Cost		
Balance as at January 01	213,189	-
Additions	-	213,189
Balance as at December 31	213,189	213,189
Amortization		
Balance as at January 01	35,531	-
Charge for the year	42,638	35,531
Balance as at December 31	78,169	35,531
Net book value	135,020	177,658
Amortization rate	20%	20%

Intangible assets represent GLOBE software capitalized in 2005.

	Note	2006	2005
		(Rupees in thousands)	
18. Long term loans and advances			
To employees - secured and considered good			
Executives	18.1	10,109	4,990
Other employees		38,089	29,875
		48,198	34,865
To suppliers - unsecured and considered good	18.2	26,581	16,450
		74,779	51,315
Less: current portion shown under current assets		8,771	3,624
		66,008	47,691

18.1 These represent long term interest free loans to employees for the purchase of cars and motor cycles as per the Company policy and are repayable within a period of 5 years. Loans are secured by registration of vehicles in the name of the Company. None of the loans is outstanding for period exceeding three years.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs 10.109 million (2005: Rs 4.990 million).

	Note	2006	2005
		(Rupees in thousands)	
Reconciliation of carrying amounts of loans to executives.			
Opening balance		4,990	2,208
Disbursements during the year		3,250	2,226
Promotion of non-executive employees as executives		2,750	1,315
Loans recovered during the year		(881)	(759)
Closing balance		10,109	4,990

18.2 This carries mark-up at the rate of 1.5% per annum (2005: 1.5% per annum).

	Note	2006	2005
19. Stores and spares			
Stores		22,114	36,966
Spares, including in transit Rs 6.838 million (2005: Rs Nil)		309,462	212,955
		331,576	249,921
Less: Provision for obsolescence	19.2	(2,230)	-
		329,346	249,921

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

	Note	2006	2005
		(Rupees in thousands)	
19.2 Provision for obsolescence			
Opening balance		-	418
Addition during the year		35,258	6,628
Less: Write off during the year		(33,028)	(7,046)
Closing balance		2,230	-

20. Stock in trade

	Note	2006	2005
Raw and packing materials including in transit Rs 303.618 million (2005: Nil)		1,253,755	456,348
Work-in-process		136,218	130,560
Finished goods		399,550	822,272
Goods purchased for resale including in transit Rs 9.963 million (2005: Nil)		117,777	83,803
		1,907,300	1,492,983
Less: Provision for obsolescence	20.1	-	-
		1,907,300	1,492,983

	2006	2005
20.1 Provision for obsolescence		
Opening balance	-	918
Addition during the year	-	-
Less: Write off during the year	-	(918)
Closing balance	-	-

21. Trade debts

	Note	2006	2005
Considered good:			
Related parties - unsecured	21.1	2,695	4,142
Others - unsecured		235,596	43,156
Considered doubtful - others		848	848
		239,139	48,146
Less: Provision for doubtful debts	21.2	(848)	(848)
		238,291	47,298

	Note	2006	2005
		(Rupees in thousands)	
21.1 Due from related parties			
Nestrade - associated company		2,695	4,142

These are in the normal course of business and are interest free.

		2006	2005
21.2 Provision for doubtful debts			
Opening balance		848	5,326
Addition during the year		80	633
Less: Write off during the year		(80)	(5,111)
Closing balance		848	848

22. Advances, deposits, prepayments and other receivables

	Note	2006	2005
Advances to employees - considered good	22.1	9,503	9,050
Advances to suppliers - considered good		762,899	309,878
Due from related parties - unsecured	22.2	227,238	79,213
Trade deposits and prepayments - considered good		45,245	27,214
Income tax recoverable		816,536	467,018
Sales tax refundable		186,777	-
Other receivables - considered good		61,116	23,958
		2,109,314	916,331

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

	2006	2005
	(Rupees in thousands)	
22.2 Due from related parties:		
Foreign Associated Companies		
Nestrade	130,526	-
Nestlé Morocco SA	52	52
Nestlé Food Malaysia Sdn Bhd	-	26
Nestlé Cote D ' Ivorie	122	3,376
Nestlé China Ltd.	421	316
PT Nestlé Indonesia	11,222	1,798
Nestlé Iran P. J. S.Co.	605	605
Nestlé Shanghai Limited	-	34
Nestlé Vietnam Ltd.	37	37
Nestlé UK Limited	1,821	1,821
Nestlé Dairy Cambodia Ltd.	575	575
Nestlé France S.A.	-	2,193
Nestlé Middle East FZE	609	708
Nestlé Nederland B.V.	-	3,785
Nestlé Manufacturing Malaysia	416	2,273
Nestlé Tianjin Limited	2,961	5,067
Nestlé India Ltd.	33	1,179
Nestlé Australia Limited	562	1,775
Nestlé Deutschland AG	-	1,919
Nestlé Water Philipines Inc.	-	547
Nestlé Turkiye Gida Sanayi A.S.	621	621
SBECM	-	201
Nestlé Espana SA	4,087	3,547
CPW Philippines	5,951	1,341
Nestlé South Africa Pty Limited	-	149
Tetra Pak Export Ltd.	-	44,517
Nestlé Asean (Malaysia) Sdn Bhd	207	-
Nestlé Thai Limited	432	-
Nestlé Chile S.A	65,470	-
Societe De Bouchages Emballages	70	-
Perrier Vittel (Thailand) Ltd	67	-
Nestlé Water Middle East	67	-
Epond	304	-
Local Associated Companies		
Siemens Pakistan Engineering Limited	-	598
Wazir Ali Industries Limited	-	153
	227,238	79,213

These mainly represent sharing of expense on behalf of each other in the normal course of business and are interest free.

	Note	2006	2005
		(Rupees in thousands)	
23. Cash and bank balances			
At banks on:			
Saving accounts	23.1	-	2,494
Deposit accounts	23.2	-	850,000
Current accounts		820	30
		820	852,524
Cash and cheques in hand	23.3	33,843	6,471
		34,663	858,995

23.1 The balances in saving accounts bear mark up at the rate of 0.1% - 1% per annum during 2005. The Company has closed all saving accounts during the year.

23.2 The balances in deposit accounts bear mark up at the rate of Nil (2005: 11.25% to 11.5%) per annum.

23.3 Cash in hand includes Rs 9.162 million (2005: Rs 4.753 million) in respect of imprest cash given to employees in ordinary course of business.

	2006	2005
	(Rupees in thousands)	
24. Sales - net		
Own manufactured		
Local	22,050,093	17,163,797
Export	1,355,324	1,001,590
	23,405,417	18,165,387
Goods purchased for resale	656,591	620,390
Less :		
Sales tax	(700,703)	(625,331)
Trade discounts	(1,330,347)	(1,018,083)
	22,030,958	17,142,363

	Note	2006	2005 Restated
		(Rupees in thousands)	
25, Cost of goods sold			
Raw and packing materials consumed	25.1	11,676,369	9,493,948
Salaries, wages and amenities	25.2	832,743	575,993
Fuel and power		591,589	521,244
Insurance		15,418	17,504
Repairs, maintenance and stores consumption	25.3	442,731	346,747
Rent, rates and taxes		90,138	40,274
Depreciation	14.3	451,734	407,695
Amortization		17,152	13,398
Expenses on information technology		84,092	60,525
Stationery expenses		19,718	11,862
Quality assurance		77,629	37,268
Royalty and technical assistance fee		584,553	441,775
Others		130,279	93,390
		15,014,145	12,061,623
(Increase) in work in process		(5,658)	(35,443)
Cost of goods manufactured		15,008,487	12,026,180
Decrease/(increase) in finished goods		422,722	(57,336)
Cost of goods sold - own manufactured		15,431,209	11,968,844
Cost of goods sold - purchased for resale		347,121	385,774
		15,778,330	12,354,618

25.1 Included in raw and packing materials consumed is provision for obsolete stock of Rs Nil (2005: Rs Nil). Also included in raw and packing materials consumed is stock directly written off of Rs Nil million (2005: Rs 0.209 million).

25.2 Salaries, wages and amenities include Rs 12.021 million (2005 - restated: Rs 6.529 million) in respect of gratuity, Rs 9.571 million (2005 - restated: Rs 8.310 million) in respect of pension and Rs 19.386 million (2005: Rs 14.131 million) in respect of provident fund.

25.3 Included in repairs, maintenance and stores consumption is provision of Rs 2.230 million (2005: Rs 6.628 million) and reversal of provision for obsolete stores of Rs Nil (2005: Rs Nil). Also included in repair, maintenance and stores consumed is store and spares directly written off of Rs 33.028 million (2005: Rs 22.283 million)

	Note	2006	2005 Restated
		(Rupees in thousands)	
26. Distribution and selling expenses			
Salaries, wages, amenities and other benefits	26.1	603,708	434,841
Training		24,145	16,504
Rent, rates and taxes		56,427	36,433
Insurance		5,829	5,903
Freight outward		751,444	553,940
Depreciation	14.3	90,567	69,822
Amortization		1,115	835
Sales promotion and advertisement		1,195,870	801,352
Legal and professional charges		5,474	6,901
Vehicle running and maintenance		18,050	17,354
Utilities		11,832	11,575
Repairs and maintenance		24,767	19,333
Subscription, stationery, printing and publication		8,044	9,268
Communications		12,914	10,470
Travelling, conveyance and vehicle running		80,119	75,573
Provision for doubtful debts		80	613
Other expenses		34,733	19,752
		2,925,118	2,090,469

26.1 Salaries, wages, amenities and other benefits include Rs 14.235 million (2005 - restated: Rs 7.854 million) in respect of gratuity, Rs 11.334 million (2005 - restated: Rs 9.550 million) in respect of pension and Rs 23.391 million (2005: Rs 15.796 million) in respect of provident fund.

	Note	2006	2005 Restated
		(Rupees in thousands)	
27. Administration expenses			
Salaries, wages, amenities and other benefits	27.1	290,798	221,968
Training		16,746	10,283
Rent, rates and taxes		39,113	33,019
Insurance		2,029	2,597
Depreciation	14.3	37,217	38,564
Amortization		24,371	21,298
Legal and professional charges	27.2	17,766	12,512
Vehicles running and maintenance		7,235	6,039
Utilities		10,489	11,299
Repairs and maintenance		9,294	16,792
Subscription, stationery, printing and publication		18,473	27,554
Communications		36,975	35,720
Travelling and conveyance		43,660	42,796
Expenses on information technology		103,196	66,684
Other expenses		29,730	29,590
		687,092	576,715

27.1 Salaries, wages, amenities and other benefits include Rs 5.378 million (2005 - restated: Rs 2.788 million) in respect of gratuity, Rs 4.282 million (2005 - restated: Rs 6.105 million) in respect of pension and Rs 8.941 million (2005: Rs 6.726 million) in respect of provident fund.

	Note	2006	2005
		(Rupees in thousands)	
27.2 Legal and professional charges include the following:			
Statutory audit		375	375
Half yearly review		125	125
Services in connection with review and reporting of accounts to parent company auditors		100	-
Audit of accounts of staff retriement benefits		36	-
Other sundry certificates		12	12
Out of pocket expenses		133	62
		781	574

28. Finance cost

	Note	2006	2005
Mark-up on long term finances - secured		80,190	106,100
Mark-up on short term running finances - secured		159,216	51,515
Mark-up on loan from associated company		186,373	772
Finance cost on liability against assets subject to finance lease		1	15
Interest on workers' profit participation fund	11.1	1,563	-
Others		20,431	21,706
		447,774	180,108

29. Other operating expenses

	Note	2006	2005
Workers' profit participation fund	11.1	107,703	86,974
Workers' welfare fund		40,927	21,911
Donations	29.1	54,050	67,854
Loss on disposal of fixed assets		-	5,089
Impairment loss on property, plant and equipment		-	158,430
Exchange loss		55,350	2,899
Others		5,891	13,371
		263,921	356,528

29.1 Donations

	2006	2005
Name of donee in which a director or his spouse has an interest:		
Lahore University of Management Sciences (LUMS), Defence Housing Authority, Lahore	50,000	50,167
(Syed Babar Ali, Director is also Pro-Chancellor of the LUMS)		
	50,000	50,167

30. Other operating income

	2006	2005
	(Rupees in thousands)	
Income from financial assets		
Return on bank deposits	3,016	4
Exchange gain	18,771	-
	21,787	4
Income from non-financial assets		
Profit on disposal of property, plant and equipment	19,608	-
Sale of scrap	28,758	17,881
Reversal of sale tax provision	-	32,221
Others	6,579	3,045
	54,945	53,147
	76,732	53,151

31. Taxation

	2006	2005 Restated
	(Rupees in thousands)	
Current year		
Current	110,724	384,322
Deferred	506,708	258,965
	617,432	643,287
Prior year		
Current	24,733	(169,320)
Deferred	-	10,178
	642,165	484,145

31.1 Tax charge reconciliation

	2006 %	2005 Restated %
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are:		
Not deductible for tax purposes	0.94	1.34
Allowable for tax purposes	(0.13)	(1.06)
Effect of items not allowable due to change in legislation	0.46	-
Effect of changes in prior years' tax/surcharge	1.23	(2.64)
Effect of prior year taxes related to items accounted for in equity	(0.41)	(0.41)
Tax effect under presumptive tax regime	(5.48)	(3.06)
	(3.39)	(5.83)
Average effective tax rate charged to profit and loss account	31.61	29.17

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

32. Earnings per share

32.1 Basic earnings per share

		2006	2005 Restated
Profit after taxation available for distribution to ordinary shareholders	Rupees in '000'	1,363,290	1,152,931
Weighted average number of ordinary shares	Number in '000'	45,350	45,350
Basic earnings per share	Rupees	30.06	25.42

32.2 Diluted earnings per share

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

33. Transactions with related parties

The related parties comprise associated undertakings, key management personnel and employees retirement benefit funds. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables. Amounts due from key management personnel are shown under receivables and remuneration of key management personnel is disclosed in note 36. Other significant transactions with related parties are as follows:

	2006	2005 Restated
	(Rupees in thousands)	
Associated companies		
Royalty and technical assistance fee	584,447	441,609
Purchase of goods, services and rental	5,225,872	3,540,811
Sale of goods and services	64,875	54,967
Contribution to staff retirement benefit plan	69,295	42,216
Interest on loan	186,373	772
Sale of fixed assets	34,240	-

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

34. Cash generated from operations

	2006	2005 Restated
Profit before taxation	2,005,455	1,637,076
Adjustment for non-cash charges and other items:		
Depreciation and amortization	622,481	551,612
Impairment loss on property, plant and equipment	-	158,430
(Profit)/loss on disposal of property, plant and equipment	(19,608)	5,089
Stock in trade directly written off	-	209
Provision for obsolete stores and spares	2,230	6,628
Store and spares directly written off	33,028	22,283
Provision for doubtful debts	80	633
Retirement and other benefits	56,821	77,789
Finance cost	447,774	180,108
Profit before working capital changes	3,148,261	2,639,857
Effect on cash flow due to working capital changes:		
(Increase) in stores and spares	(114,683)	(16,684)
(Increase)/decrease in stock in trade	(414,317)	203,107
(Increase) in trade debts	(191,073)	(21,530)
(Increase) in advances, deposits, prepayments and other receivables	(843,465)	(222,763)
Increase in trade and other payables	12,456	1,157,873
Increase in customer security deposits - interest free	21,835	15,590
	(1,529,247)	1,115,593
	1,619,014	3,755,450

	Note	2006	2005 Restated
		(Rupees in thousands)	

35, Cash and cash equivalents

	Note	2006	2005
Cash and bank balances	23	34,663	858,995
Short term running finance under mark-up arrangements - secured		(1,817,711)	(1,121,041)
		(1,783,048)	(262,046)

36. Remuneration of Chairman, Chief Executive and Executives

The aggregate amount charged in these financial statements during the year for remuneration, including certain benefits to the Chairman, Chief Executive and Executives of the Company were as follows:

	Chairman		Chief Executive		Executives	
	2006	2005	2006	2005	2006	2005
	(Rupees in thousands)					
Managerial remuneration	1,465	1,465	9,157	8,418	283,110	208,781
Bonus	-	-	2,721	1,141	72,773	33,203
Retirement benefits	-	237	-	-	42,209	28,003
Housing	-	-	2,460	2,570	7,179	4,530
Utilities	120	120	-	-	15,442	9,860
Reimbursable expenses	539	539	2,983	1,415	46,445	38,136
	2,124	2,361	17,321	13,544	467,158	322,513
Number of persons	1	1	1	1	193	137

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

Aggregate amount charged in these financial statements for the year for fee to directors was Rs Nil (2005: Rs Nil).

37. Financial assets and liabilities

	Interest/mark up bearing				Non interest/markup bearing				Total	
	Maturity upto one year	Maturity from two to five years	Maturity of more than five years	Sub total	Maturity upto one year	Maturity from two to five years	Maturity of more than five years	Sub total	2006	2005
	(Rupees in thousands)									
Financial assets										
Long term loans and advances	-	26,581	-	26,581	8,771	39,427	-	48,198	74,779	51,315
Long term security deposits	-	-	-	-	-	-	6,088	6,088	6,088	5,338
Trade debts	-	-	-	-	238,291	-	-	238,291	238,291	47,298
Advances, deposits, prepayments and other receivables	-	-	-	-	288,354	-	-	288,354	288,354	103,171
Cash and bank balances	-	-	-	-	34,663	-	-	34,663	34,663	858,995
	-	26,581	-	26,581	570,079	39,427	6,088	615,594	642,175	1,066,117
Financial liabilities										
Long term finances-secured	300,000	3,963,700	-	4,263,700	-	-	-	-	4,263,700	2,346,850
Customer security deposits - interest free	-	-	-	-	102,307	-	-	102,307	102,307	80,472
Short term borrowings - secured	700,000	-	-	700,000	-	-	-	-	700,000	125,000
Short term running finance under mark-up arrangements - secured	1,817,711	-	-	1,817,711	-	-	-	-	1,817,711	1,121,041
Liabilities against assets subject to finance lease	-	-	-	-	8,392	31,471	-	39,863	39,863	31
Trade and other payables	-	-	-	-	1,965,400	-	-	1,965,400	1,965,400	1,634,921
Interest and mark up accrued	-	-	-	-	98,549	-	-	98,549	98,549	45,358
	2,817,711	3,963,700	-	6,781,411	2,174,648	31,471	-	2,206,119	8,987,530	5,353,673
Off balance sheet financial instruments										
Contingencies and commitments									383,236	1,086,125
Guarantees									219,933	86,180
Letters of credit									286,938	237,759
									890,107	1,410,064

The effective interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

37.1 Financial risk management objectives

The Company finances its operations through equity, borrowings and management of working capital with a view to obtain a reasonable mix between the various sources of finance to minimize risk.

Taken as a whole, risk arising from the Company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

37.1.1 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currency. The Company is exposed to foreign currency risk on sales, purchases and borrowings that are entered in a currency other than Pak Rupees. The Company uses forward exchange contracts to hedge its foreign currency risk, when considered appropriate.

37.1.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and loans and advances. The Company has no significant concentration of credit risk as exposure is spread over a large number of counter parties in the case of trade debts. Of the total financial assets of Rs 642.175 million (2005: Rs 1,066.117 million) financial assets which are subject to credit risk amount to Rs 607.512 million (2005: Rs 207.122 million). To manage exposure to credit risk, the Company applies credit limits to its customers and obtains advances from them.

37.1.3 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

37.1.4 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The company follows an effective cash management and planning policy and maintains flexibility in funding by keeping committed credit lines available.

37.1.5 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company has adopted appropriate policies to cover interest rate risk.

	Capacity		Production	
	2006	2005	2006	2005
38. Capacity and production				
Liquid products - litres (000)	708,919	574,626	499,259	392,812
Non-liquid products - kgs (000)	80,963	69,583	44,215	39,308

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

39. Segment reporting

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

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

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

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

- **Milk and nutrition products; and**

- **Beverages**

Segment analysis for the year ended December 31, 2006

	Milk and Nutrition Products	Beverages	Other Operations	Total
	(Rupees in thousands)			
Sales				
External sales	18,829,817	2,870,761	330,380	22,030,958
Inter-segment sales	-	-	-	-
Total revenue	18,829,817	2,870,761	330,380	22,030,958
Profit before tax and unallocated expenses	2,702,976	(31,719)	(30,839)	2,640,418
Unallocated corporate expenses:				
Finance cost				(4 47,774)
Other operating expenses				(263,921)
Other operating income				76,732
Taxation				(642,165)
Profit after taxation				1,363,290

	Milk and Nutrition Products	Beverages	Other Operations	Total
	(Rupees in thousands)			
Segment assets and liabilities				
Segment assets	7,012,872	1,434,044	51,955	8,498,871
Unallocated assets				4,429,031
Consolidated total assets				12,927,902
Segment liabilities	1,506,802	315,178	517,811	2,339,791
Unallocated liabilities				8,057,031
Consolidated total liabilities				10,396,822
Segment capital expenditure	2,741,606	649,247	-	3,390,853
Unallocated capital expenditure				193,575
				3,584,428
Non-cash expenses other than depreciation and amortization				
Bad debts	80	-	-	80
Depreciation and amortization	442,512	167,170	12,799	622,481
Segment analysis for the year ended December 31, 2005 - restated				
Sales				
External sales	14,729,654	2,110,077	302,632	17,142,363
Inter-segment sales	-	-	-	-
Total revenue	14,729,654	2,110,077	302,632	17,142,363
Profit before tax and unallocated expenses	2,019,992	20,473	(59,113)	1,981,352
Unallocated corporate expenses:				
Finance cost				(180,108)
Other operating expenses				(185,098)
Other operating income				20,930
Taxation				(484,145)
Profit after taxation				1,152,931

	Milk and Nutrition Products	Beverages	Other Operations	Total
	(Rupees in thousands)			
Segment assets	5,563,516	1,416,372	176,446	7,156,334
Unallocated assets				1,730,880
Consolidated total assets				8,887,214
Segment liabilities	1,351,015	393,280	531,064	2,275,359
Unallocated liabilities				4,748,473
Consolidated total liabilities				7,023,832
Segment capital expenditure	2,163,592	156,229	4,757	2,324,578
Unallocated capital expenditure				441,695
				2,766,273
Impairment loss on property, plant and equipment	-	129,419	29,011	158,430
Depreciation and amortization	414,359	106,730	30,523	551,612

40. Date of authorization for issue

These financial statements were authorized for issue on March 05, 2007 by the Board of Directors.

41. Dividend

The Board of Directors in their meeting held on March 05, 2007 have proposed a final dividend for the year ended December 31, 2006 @ Rs 5 per share, amounting to Rs 226.748 million for approval of the members in the Annual General Meeting to be held on April 23, 2007. These financial statements do not reflect this dividend.

42. General

42.1 Corresponding figures

Previous year's figures have been rearranged, wherever necessary for the purpose of comparison. Material rearrangements include reclassification of customer security deposits from long term liabilities to current liabilities.

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

RAYMOND FRANKE	**ROLAND DECORVET**	**SYED YAWAR ALI**
Head of Finance & Control	Chief Executive	Chairman