
# Unilever Pakistan Limited

ANNUAL REPORT 2009

Front cover:

Child of an employee sharing moments of joy at the Wall's ice cream parlour at the company's office. Day care facilities are provided to all Unilever employees at the head office.

Back cover:

The power of teams & diversity - Unilever managers taking a break at the chai khana in the head office. This is also used for small meetings.

At Unilever all business activities are carried out in a socially and environmentally responsible manner. To promote a greener Pakistan and as tangible demonstration of its Corporate & Social Responsibility, Unilever's annual report has been printed on 100% recycled paper.

Further information on our brands, business and Corporate & Social Responsibility initiatives is available on our website: **www.unileverpakistan.com.pk**

# contents

# vision

**WE WORK TO CREATE A BETTER FUTURE EVERY DAY** We help people feel good, look good and get more out of life with brands and services that are good for them and good for others. We will inspire people to take small everyday actions that can add up to a big difference in the world. We will develop new ways of doing business that will allow us to double the size of our company while reducing our environmental impact.

# core values

### Impeccable Integrity

We are honest, transparent and ethical in our dealings at all times.

### Demonstrating a Passion for Winning

We deliver what we promise.

### Wowing our Consumers & Customers

We win the hearts and minds of our consumers and customers.

### Bringing out the Best in All of Us

We are empowered leaders, who are inspired by new challenges and have a bias for action.

### Living an Enterprise Culture

We believe in trust, truth and outstanding teamwork. We value a creative & fun environment.

### Making a Better World

We care about and actively contribute to the community in which we live.

# Company information

## BOARD OF DIRECTORS

Mr. Ehsan A. Malik
Chairman & Chief Executive

Mr. Imran Husain
Executive Director / CFO

Mr. M. Qaysar Alam
Executive Director

Ms. Shazia Syed
Executive Director

Mr. Amir R. Paracha
Executive Director

Mr. Zaffar A. Khan
Non - Executive Director

Mr. Khalid Rafi
Non - Executive Director

## COMPANY SECRETARY

Mr. Amar Naseer

## AUDIT COMMITTEE

Mr. Zaffar A. Khan
Chairman

Mr. Khalid Rafi
Member

Mr. M. Qaysar Alam
Member

Mr. Imtiaz Jaleel
Head of Internal Audit & Secretary

## AUDITORS

Messrs A. F. Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road
Karachi.

## REGISTERED OFFICE

Avari Plaza
Fatima Jinnah Road
Karachi - 75530

## SHARE REGISTRATION OFFICE

C/o Famco Associates (Pvt.) Ltd.
State Life Building No. 1-A
I.I. Chundrigar Road
Karachi.

## WEBSITE ADDRESS

www.unileverpakistan.com.pk

# Notice of Annual General Meeting

Notice is hereby given that the 61st Annual General Meeting of Unilever Pakistan Limited will be held at Hotel Sheraton, Club Road, Karachi, on Monday, April 19, 2010, at 10:30 a.m. to transact the following business:

## A. Ordinary Business

1. To receive and consider the Company's Financial Statements for the year ended December 31, 2009, together with the Reports of the Auditors and Directors thereon.

2. To approve and declare dividend (2009) on the Ordinary Shares of the Company. The Directors have recommended final dividend of 274% (or Rs.137.00 per share) on the Ordinary Shares. Together with the interim dividend of 184% (or Rs.92.00 per share) already paid, the total dividend for 2009 will thus amount to 458% (or Rs.229.00 per share).

3. To appoint Auditors for the ensuing year, and to fix their remuneration. (Messrs A. F. Ferguson & Co., Chartered Accountants, retire and being eligible have offered themselves for re-appointment).

## B. Special Business

4. To approve the remuneration of Executive Directors including the Chief Executive.

By Order of the Board

Karachi.
March 19, 2010

**Amar Naseer**
Company Secretary

# Notice of Annual General Meeting

**Notes:**

1. Share Transfer Books will be closed from April 13, 2010 to April 19, 2010 (both days inclusive).

2. All Members (whether holding Preference or Ordinary Shares) are entitled to attend and vote at the meeting. A Member may appoint a proxy who need not be a Member of the Company.

3. Duly completed instrument of proxy, and the other authority under which it is signed, or a notarially certified copy thereof, must be lodged with the Company Secretary at the Company's Registered Office (1st Floor, Avari Plaza, Fatima Jinnah Road, Karachi) at least 48 hours before the time of the meeting.

4. Any change of address of Members should be immediately notified to the Company's Share Registrars, Famco Associates (Private) Limited, State Life Building 1-A (1st Floor), I. I. Chundrigar Road, Karachi.

   CDC Account Holders will further have to follow the under-mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan:

A. For Attending the Meeting:

i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original Computerised National Identity Card (CNIC) or original passport at the time of attending the meeting.

ii) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.

# Notice of Annual General Meeting

B. For Appointing Proxies:

i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form accordingly.

ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iv) The proxy shall produce his / her original CNIC or original passport at the time of meeting.

v) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted along with proxy form to the Company.

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

Statement in respect of Special Business and related Draft Resolution

This statement sets out the material facts concerning the Special Business to be transacted at the Annual General Meeting and the proposed Resolution related thereto:

**Item 4 of the Agenda** - Remuneration of Executive Directors including Chief Executive.

**For the year 2009:** Rs. 41.3 million to Executive Directors, and Rs. 27.2 million to Chief Executive.

# Notice of Annual General Meeting

**Estimated for the year 2010:** Rs. 62.6 million for Executive Directors, and Rs. 44.5 million for Chief Executive, as under:

| | Chief Executive | Executive Directors |
|---|---|---|
| | (Rs in million) | |
| Managerial Remuneration & Allowances | 26.2 | 43.3 |
| Retirement Benefits | 2.3 | 4.1 |
| Rent & Allowances | 0.9 | - |
| Medical | 0.2 | 0.4 |
| Other Expenses | 2.8 | 3.2 |
| | 32.4 | 51.0 |
| Parent Co.'s Share Based Remuneration * | 12.1 | 11.6 |
| | 44.5 | 62.6 |

* Estimated Charge for performance based remuneration in the shape of Parent Company's shares to the executives of the Company.

Executive Directors and CEO are also entitled to use Company car.

**Estimated for January 2011 to March 2011:** Rs.12.9 million for Executive Directors and Rs.13.0 million for Chief Executive.

Approval of the Members is required for remuneration for holding their respective office of profit in respect of the Executive Directors. For this purpose it is proposed that, the following resolution be passed as an Ordinary Resolution:

# Notice of Annual General Meeting

**"RESOLVED THAT** approval be and is hereby granted for the holding of offices of profit in the Company by the Executive Directors including the Chairman / Chief Executive, and the payment of remuneration to them for their respective periods of service in accordance with the shared service agreements, their individual contracts and the rules of the Company; amounting in the aggregate to Rs.68.5 million approximately, actual for the year January-December 2009; Rs.107.1 million approximately estimated for January to December 2010 which includes variable pay for the year 2009 and Rs. 25.9 million approximately estimated for January to March 2011."

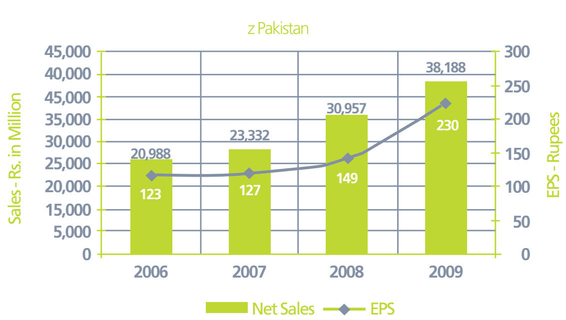
# Directors' Report

Unilever Pakistan Limited

# Directors' Report

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

In addition to the generally difficult operating environment that impacted all businesses in 2009, rampant smuggling of tea affected the growth and profitability of our business. Despite this the Company delivered 54% higher profit after tax on the back of strong and competitive 23.4% growth in sales. Sharper focus on enhancing consumer value in inflationary times, more impactful advertising and innovation, deeper and wider reach through improved customer connectivity and a continuing quest to find new ways of doing business have resulted in near doubling of turnover and profit over the last three years. This demonstrates the resilience of our Company's portfolio, the power of its brands, the effectiveness of its distribution, the validity of locally manufacturing over 95% of what we sell, and last but not the least, the quality of its people.




Pakistan faced multiple challenges during 2009. Low GDP growth, double digit inflation, deteriorating security environment, continuing devaluation of the Rupee and debilitating power cuts impacted business in general. Our Tea business which represents 30.6% of turnover suffered due to rampant misuse of the Afghanistan Transit Treaty. Smuggled tea now represents nearly half the 170,000 tons of tea consumed in Pakistan. Less than 100,000 tons are imported by legitimate operators. The annual loss of import duty and GST to Government of Pakistan is estimated at Rs. 7 billion. Our Company has been lobbying for change in tariffs to reduce the incentive to smuggle. This will also result in lower consumer price of what is the common man's beverage. Failing change in tariffs, it is proposed that quantitative and qualitative limits be placed on tea imported under Afghan transit treaty in line with that country's population and consumption habit. Afghanis drink green tea, yet the vast majority of what is imported ostensibly for Afghanistan is black tea, the type consumed in (and smuggled into) Pakistan.

Home & Personal Care continues to grow profitably and competitively. 27% growth in HPC was broad-based with each of the principal categories - laundry, hair care and skin recording impressive growth. New launches, product innovations and market activations continue to be the drivers behind growth. The Company is continuously exploring new avenues to make offerings more affordable for the common man. Despite nearly half the national consumption now reliant on smuggled tea, our Beverages business registered a turnover growth of 21.9% on the back of higher prices but lower volume. Sharply higher raw tea costs also resulted in reduced margins. Ice Cream turnover grew by 8.9% despite power cuts and an unfavourable economic and security environment, the latter impacting sales of impulse products.

Our brand portfolio stretches across the socio-economic pyramid and our aim is to improve the quality of life of all sections of society. Our price positioning enables us to cushion against consumer down trading. This together with a deep distribution reach and sustained brand investment enabled us to grow in these difficult times.

Overall operating profit increased by 45.8%, whereas profit after tax and earnings per share rose sharply by 54%. Higher volumes and a favourable change in mix resulted in a Gross Margin improvement of 23 basis points. Operational efficiencies improved the Operating Margin by a significant 200 bps.

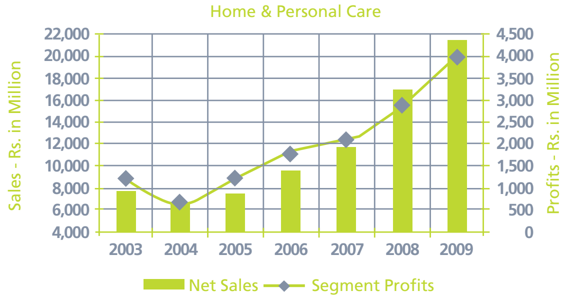
The key business milestones were:

## Home and Personal Care

The Home and Personal Care business grew by 27% on account of robust performance in the key categories. In three years this business has more than doubled in size. In 2009, the business saw overall reduction in material cost, benefit of which was shared with consumers. As a result, gross margin improved from last year. With improved advertising effectiveness, the business selectively invested behind innovations and on-ground activations. Optimal advertising and lower operating costs led to operating profit growth of 37.4%.

### Summary of Financial Performance

| | 2009 (Rs. Million) | 2008 (Rs. Million) |
|---|---|---|
| Sales | 38,188 | 30,957 |
| Gross Profit | 13,335 | 10,738 |
| Gross Profit as a % of sales | 34.92 | 34.69 |
| Profit from Operations | 4,943 | 3,391 |
| Profit from Operations % sales | 12.94 | 10.95 |
| Profit before tax | 4,516 | 2,925 |
| Profit after tax | 3,056 | 1,984 |
| **EPS (Rs)** | **230** | **149** |




## Dividend

The Board of Directors has recommended final cash dividend of Rs 137 per share. With the interim dividend of Rs 92 per share already paid during the year, the total dividend for the year 2009 amounts to Rs 229 (2008: Rs 123) per ordinary share of Rs 50 each. Total profit distributed by way of dividend amounts to 99.6% (2008 82.4%).

## Key brand highlights were:

**Surf Excel** grew impressively. Two campaigns - the emotionally linked “Dirt is Good” and the efficacy-led "Khara Paani Meetha Paani" improved the brand equity, setting it apart from any brand in the market.

**Sunsilk** also grew on the back of affordable packs. Marketing campaigns on Conditioners and new variants were also key sources of growth.

**Lifebuoy shampoo's** success was a result of consumer down-trading in the current inflationary environment, coupled with a new "Hair Fall" variant.

**Lux** remained under pressure due to consumer down-trading. However, a mega price-off consumer promotion followed by price reduction helped in arresting declining sales.

**Lifebuoy** successfully transformed into a new range, endorsing the patriotic message of "Healthy Hoga Pakistan". Other parallel campaigns were Global Hand Washing Day and Swine Flu. Lifebuoy also benefited from consumer down-trading in the current inflationary environment.

**Fair & Lovely** delivered its 6th year of double digit turnover growth with strong communication on its low unit priced sachets as well as thematic interpretation of "women's empowerment".

**Ponds** transformed its imagery with "Anti-Aging" cream launch, which has been very well-received by consumers.

Sales growth was 21.9% which was mainly price led. Free availability of smuggled tea through Afghan Trade remained a point of concern for all local branded players. Gross Margins were under pressure during the year as tea prices hit record high due to drought in Kenya and currency devaluation.

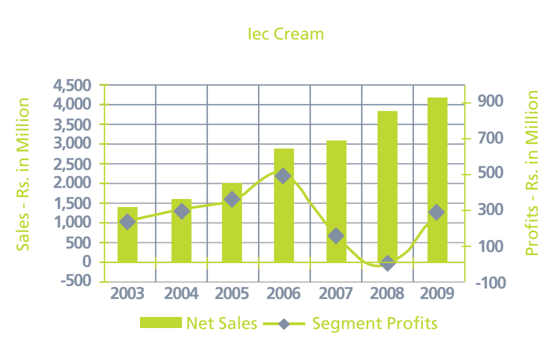
**Lipton** with a blend of best teas from various tea gardens around the world brings vitality, quality and natural goodness into our life. Lipton Yellow Label, our flagship brand is synonymous with consistently good taste and healthy goodness. This was strengthened through the "Theanine" campaign. The brand continues to lead the tea based beverage market. The riddles consumer activation and aggressive sampling of tea bags were growth drivers.

**Brooke Bond Supreme** Pakistan's largest tea brand faced stiff competition from mushroom brands due to unchecked smuggling of Kenyan tea into the market. Supreme continued to deliver its promise of family togetherness through its "Chaskey Zindagi Ke" campaign. Supreme also ventured into fast growing Rs. 10 sachet segment in the fourth quarter.

**Pearl Dust** after experiencing a tough 1st half, recovered in the 2nd through the launch of its "Teen Jo Kamal"campaign. The brand created big news about its superior dust blend.

## Beverages


## Ice Cream



**Wall's** continued its journey towards habit building and making ice cream and frozen dessert consumption an inherent part of occasions and celebrations. Despite severe electricity crisis in the summer season, Wall's delivered a growth of 8.9% in 2009. This was achieved by correcting the price value equation across the portfolio and building consumer pull through exciting innovations like Pyrata (Paddle Pop), Moo Cone, 2 in1 and Ramadan Tubs. Fuel generated through margin improvement was partially ploughed back into business in the form of advertising & promotion. Profitability has been restored in the Ice Cream business.

## Spreads

Spreads category grew by 28.4% driven by a healthy volume growth.

**Blue Band Margarine** embarked upon increasing its base by driving penetration outside Karachi. This was done by focusing on the Rs. 10 pack economic offering, increasing availability by inducting visi-coolers and by creating outstanding outdoor visibility. Further, the overall Brand Communication on "Growth Meter" helped established the child growth message and gained market share.

## Our People

Unilever takes pride in its people. The performance of the business in such difficult times demonstrates the calibre, resilience and commitment of our people to grow. There is a focused approach to talent management and developing leadership skills.

Our personal vitality health passport initiative has consistently been delivering results in terms of employee well-being. Initiatives like the gym facility and healthy eating options through a vitality menu at our cafeteria, have all along been key contributors in strengthening wellness of our people. Further, we continue to place emphasis on work life balance. Together with the Day Care Centre- a facility fully utilised by working mothers as well as managers whose wives are also working, flexi working hours introduced in 2009 and sports activities have helped in generating positive energy in the business which acts as an important catalyst for growth.

We believe that continuous and consistent communication is vital for engaging our people. Two Global Unilever Pulse surveys - one conducted in April and the other in November, together with two in-house pulse surveys helped in engaging people. Further in the Unilever Global People Survey of November, in 9 of the 13 dimensions on which feedback was sought, Pakistan scored higher than Unilever's Asia Africa Central Eastern Europe (AAC) region to which we belong. High levels of positive scores were registered in the areas of pride, satisfaction and passion for working for Unilever. The Chairman's quarterly web cast remains an important platform to engage employees, share business initiatives, performance and to reiterate our vision. This is re-enforced each Monday in the Values meetings.

Unilever Standards of Leadership (SOL), a set of behaviours that are deemed vital in developing good leaders are well embedded. We have taken personal development to another level of excellence, through coaching, mentoring and the appraisal system we call 'Performance Development Planning'.

We continue to leverage our parent company's wealth of knowledge to develop talent in leading edge marketing, sales, supply chain, finance and human resource management. Unilever globally has transitioned training from classroom to virtual. E-Learning provides latest international training modules on-line. This has also helped to reduce travel costs. We have kept talent retention as a top priority and with less than 1% regretted loss rate, our efforts will be focused on sustaining it in 2010.

## Community Involvement

Unilever Pakistan is part of the multinational Unilever which operates in 100 countries with strong local roots in each. We contribute to environmental and social agendas through our own actions and by working with reliable local, national and international partners. The aim is to provide consumers with better, healthier and environmentally friendly products which meet their everyday need. We also strive to uplift communities in which our consumers reside. Unilever believes that the highest standards of corporate behaviour are essential to success. Doing well by doing good is a constant theme that underlines our actions.

During 2009, our main initiatives included;

### i. Corporate Philanthropy: Rs. 25.96 million

a. Making quality primary education available to the lesser privileged - working with
   - The Citizens Foundation (TCF) in its school programme
   - Supporting government schools through Public Private Partnerships

b. Economic empowerment through education - Partnerships with Lahore University of Management Sciences (LUMS), Ghulam Ishaq Khan Institute of Technology and the Beaconhouse National University.

c. Supporting health care organizations such as Layton Rahmatullah Benevolent Trust (LRBT), The Aga Khan University and Hospital, The Kidney Centre Postgraduate Training Institute and Marie-Adelaide Leprosy Centre.

### ii. Energy Conservation:

Unilever has initiated an internal programme to reduce energy consumption by encouraging employees to switch off lights, computer monitors and other electronic equipment when not required. Additionally, a number of initiatives have been taken in factories, depots and in transportation to conserve energy. Some of these are:

a. Engineering improvements in manufacturing.
b. Reducing road mileage in logistics through cross-docking and route rationalization.
c. Balancing air conditioning load and use of eco-efficient lighting at the offices.

These initiatives have resulted in the reduction of energy consumption by 3.5 million kWh, generating savings worth of Rs. 32 million.

### iii. Environmental Protection Measures:

Unilever constantly innovates in products and processes to reduce the environmental impact. Examples are environmentally friendly raw materials and packaging and eco-efficient technologies. Unilever Pakistan invested Rs. 33 million in expanding its effluent treatment plant at the Ice cream factory. At the same time, the Company spent Rs. 3.5 million in solid waste recycling. The company also extended its initiative to employees who are actively involved with tree plantation within the factory sites.

### iv. Community Investment and Welfare Schemes: Rs.22.99 million

a) Unilever contributes to multiple community projects through the Unilever Annual Grant Scheme. Four projects in health and education were selected for funding under this grant scheme.

b) Lifebuoy partnered with USAID in the Safe Drinking Water project. The brand also worked with Pakistan Poverty Alleviation Fund in raising awareness of hygiene. It is a sponsor of the Friendship Hospital which operates mobile clinics in NWFP and has been assisting IDPs.

c) The brand Surf through the "Every Child Has the Right Campaign" partnered with Idara-e-Taleem-O-Aaghai for training teachers in the Early Childhood curriculum. It also set up play areas in public parks and organised a national art competition for children to encourage experiential learning.

d) For the third year, Blue Band worked with the UN World Food Programme in the rural school feeding initiative. Our employees are also voluntarily donating through a payroll deduction system for the WFP hunger campaign.

### v. Consumer Protection Measures:

The Company operates a complaints call centre called Raabta to receive consumer feedback. Additionally it is engaged in raising awareness of and addressing the growing menace of counterfeiting.

### vi. Employment of Special Persons:

The Company believes in equal opportunity hiring. Unilever has built ramps in the head office this year to facilitate a new employee who uses a wheel chair.

### vii. Occupational Safety and Health:

Occupational safety & health continues to be among the company's top priorities. Unilever Pakistan's management has been persistent in pursuing the journey of achieving excellence in Safety, Health & Environment (SHE) in 2009 taking cognizance of the adverse external factors in Pakistan. The management continues to review and provide policy guidelines to all business units.

Unilever's global SHE standards are the key building blocks of its system and the top management regularly monitors the performance through leading and lagging indicators.

In 2009, the Company invested more than Rs. 50 million in infrastructure, equipment and skill development with the aim of making business operations significantly safer.

In line with Unilever's mission to Add Vitality to Life, it places SHE at the heart of its business agenda. Unilever has taken strides to engage other companies and its business partners through external SHE networks. Internally it initiated the 'Safety Week' and the 'Wellness Week' to raise awareness of key issues.

Unilever Pakistan continues to excel in Safe Travel by pursuing some leading edge initiatives such as "defensive driving", "behavioural risk assessment" and "route risk assessments" to proactively identify and manage driving-related risks.

### viii. Business Ethics and Anti-Corruption Measures:

Unilever holds frequent activities to ensure that the employees are working within the Code of Business Principles (CoBP). The CoBP is rigorously followed throughout the organization. Employees are also required to sign off on the CoBP each year.

### ix. National Cause Donations: Rs. 7 million

Unilever has supported the Internally Displaced Persons in 2009 through monetary and product donations channelled through partners such as Oxfam. The employees also extended their support through personal donations which were matched by the company. Additionally our brand Lifebuoy ran messages in media requesting the public to contribute to this worthwhile cause by donating to organisations of their choice.

### x. Contribution to National Exchequer: Rs. 10,952 million

The Company contributed 64.69% (2008 62.83%) of its value added to the national exchequer by way of import duties, general sales tax, income tax and other government levies.

## Employee Involvement

Community and environment support at Unilever Pakistan is extended beyond Company initiatives to its "people". Our employees work with various organizations giving monetary as well as skill support: The Citizens' Foundation, Acumen, WWF Pakistan, The Kidney Centre, Layton Rahmatullah Benevolent Trust, World Food Programme, Pleasures and Sehat First.

## Recognition Awards

Surf, Unilever Pakistan's leading laundry brand won the Unilever 'Dirt Is Good Challenge 2009' award for its 'Every Child Has the Right' campaign launched under the "Dirt is Good" platform. We are proud that our campaign in Pakistan was rated the best amongst several leading ones in Unilever's global operations.

## Investment in Retirement Benefits

The cost of investments made by the staff retirement funds operated by the Company as per their financial statements at December 31, 2009 are as follows:

| | Rs million |
|---|---|
| The Union Pakistan Provident Fund | 806 |
| DC Pension Fund | 241 |
| Unilever Pension Plan | 1,473 |
| Unilever Gratuity Plan | 41 |
| Unilever Non Management Staff Gratuity Fund | 10 |
| **Total** | **2,571** |
| Total – 2008 | 2,577 |

## Code of Corporate Governance

The management of the Company is committed to good corporate governance and complying with the best practices. As required under the Code of Corporate Governance, the Directors are pleased to state as follows:

- The financial statements prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the listed Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes as stated in note 2.1.3 of the financial statement and accounting estimates are based on reasonable and prudent judgement.
- International Financial Reporting Standards have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored. The Audit Committee comprises of two non-executive directors including the chairman of the committee.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no departure from the best practices of corporate governance, as detailed in the listing regulations.
- Statements regarding the following are annexed or are disclosed in the notes to the financial statements.

- Number of Board meetings held and attendance by directors.
- Key financial data for the last six years.
- Pattern of shareholding.
- Trading in shares of the company by its Directors, Chief Executive, Chief Financial Officer and Company Secretary and their spouses and minor children.

- Casual vacancy due to resignation of one executive director was filled by the Board of Directors within 30 days.
- Amir R. Paracha appointed on 21.01.10 to replace Noeman Shirazi

The Board records its appreciation for the valuable services rendered to the Company by the outgoing Director

The three years term of office of the present Directors expires on April 18, 2011.

## Subsidiary Companies and Consolidated Financial Statements

The financial statements of the under mentioned subsidiaries of Unilever Pakistan Limited are included in the consolidated financial statements. None had any significant or material business transactions during the year.

- Lever Chemicals (Private) Limited
- Levers Associated Pakistan Trust (Private) Limited
- Sadiq (Private) Limited

## Holding Company

Through its wholly owned subsidiary, Unilever Overseas Holdings Limited (UOHL), UK, Unilever PLC, a company incorporated in the United Kingdom, is the holding company, owning 75.07% of the shares in Unilever Pakistan Limited.

## Auditors

The Auditors, Messrs A. F. Ferguson & Co., Chartered Accountants, retire at the conclusion of the meeting. Being eligible, they have offered themselves for re-appointment.

## Reserve appropriations

| | RESERVES (Rs in thousands) | | | | |
|---|---|---|---|---|---|
| | CAPITAL | | | REVENUE | TOTAL |
| | Arising under schemes of arrangements for amalgamations | Contingency | Others | Unappropriated profit | |
| Balance as at December 31, 2008 | 70,929 | 321,471 | - | 1,153,881 | 1,546,281 |
| Net profit for the year | - | - | - | 3,055,740 | 3,055,740 |
| Transferred from surplus on revaluation of fixed assets - net of deferred taxation: | | | | | |
| - incremental depreciation for the year | - | - | - | 648 | 648 |
| Dividends | | | | | |
| For the year ended December 31, 2008 | | | | | |
| - On cumulative preference shares @ 5% per share | - | - | - | (239) | (239) |
| - Final dividend on ordinary shares @ Rs 57 per share | - | - | - | (757,751) | (757,751) |
| For the year ended December 31, 2009 | | | | | |
| - Interim dividend on ordinary shares @ Rs 92 per share | - | - | - | (1,223,036) | (1,223,036) |
| Balance as at December 31, 2009 | **70,929** | **321,471** | **-** | **2,229,243** | **2,621,643** |

## Business Risks and Future Outlook

After some respite, there is a growing fear that with the surge in price of oil, sugar, tea and other food items, inflation will increase. Continuing rupee devaluation, down trading of consumers due to lower disposable income and increase in acts of terrorism will put pressure on business performance.

Smuggling of black tea through Afghan transit trade is an ongoing threat to the tea category. Counterfeiting of our popular brands continues to impact results generally.

With no reprieve in the ongoing electricity crisis, the ice cream and spreads businesses are likely to come under pressure.

On behalf of the Board

**Ehsan A. Malik**
Chairman & Chief Executive

Karachi
March 2, 2010

# Board Meetings Attendance

During the year 2009, six Board Meetings were held and were attended as follows:

| Directors | No. of Meetings attended |
|---|---|
| Mr. Ehsan A. Malik | 6 |
| Mr. Imran Husain | 6 |
| Mr. Zaffar A. Khan | 6 |
| Mr. M. Qaysar Alam | 5 |
| Mr. Khalid Rafi | 5 |
| Ms. Shazia Syed | 4 |
| Mr. Noeman Shirazi | 3 |

# Operating and Financial Highlights

| | Unit | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|
| **FINANCIAL POSITION** | | | | | | | |
| Balance sheet | | | | | | | |
| Property, plant and equipment | Rs in M | 4,737 | 4,428 | 3,531 | 2,137 | 1,761 | 1,524 |
| Other non-current assets | Rs in M | 777 | 969 | 479 | 607 | 609 | 615 |
| Current assets | Rs in M | 5,912 | 5,989 | 4,075 | 3,686 | 3,437 | 3,753 |
| **Total assets** | Rs in M | 11,426 | 11,386 | 8,084 | 6,430 | 5,807 | 5,892 |
| Ordinary share capital | Rs in M | 664 | 664 | 664 | 664 | 664 | 664 |
| Preference share capital | Rs in M | 5 | 5 | 5 | 5 | 5 | 5 |
| Reserves | Rs in M | 2,622 | 1,547 | 1,311 | 1,161 | 1,178 | 1,437 |
| **Total equity** | Rs in M | 3,291 | 2,216 | 1,980 | 1,830 | 1,847 | 2,106 |
| **Surplus on revaluation of fixed assets** | Rs in M | 13 | 13 | 14 | 15 | 16 | 16 |
| Non-current liabilities | Rs in M | 1,020 | 687 | 502 | 348 | 369 | 90 |
| Current liabilities | Rs in M | 7,102 | 8,470 | 5,588 | 4,237 | 3,575 | 3,680 |
| **Total liabilities** | Rs in M | 8,122 | 9,157 | 6,090 | 4,585 | 3,944 | 3,770 |
| **Total equity and liabilities** | Rs in M | 11,426 | 11,386 | 8,084 | 6,430 | 5,807 | 5,892 |
| **Net current (liabilities) / assets** | Rs in M | (1,190) | (2,481) | (1,513) | (551) | (138) | 73 |
| **OPERATING AND FINANCIAL TRENDS** | | | | | | | |
| Profit and loss | | | | | | | |
| **Net sales** | Rs in M | 38,188 | 30,957 | 23,332 | 20,988 | 17,671 | 18,238 |
| Gross profit | Rs in M | 13,335 | 10,738 | 9,083 | 7,743 | 6,854 | 5,559 |
| Operating profit | Rs in M | 4,943 | 3,391 | 2,639 | 2,550 | 2,559 | 2,242 |
| Profit before tax | Rs in M | 4,516 | 2,925 | 2,530 | 2,486 | 2,482 | 2,167 |
| Profit after tax | Rs in M | 3,056 | 1,984 | 1,687 | 1,632 | 1,602 | 1,725 |
| Ordinary cash dividends | Rs in M | 3,044 | 1,635 | 1,635 | 1,622 | 1,595 | 1,795 |
| Capital expenditure | Rs in M | 872 | 1,369 | 1,714 | 684 | 510 | 479 |
| **Cash flows** | | | | | | | |
| Operating activities | Rs in M | 5,138 | 97 | 2,406 | 2,431 | 1,901 | 259 |
| Investing activities | Rs in M | (809) | (1,246) | (1,656) | (534) | (433) | 1,173 |
| Financing activities | Rs in M | (2,001) | (1,742) | (1,570) | (1,675) | (1,862) | (1,833) |
| Cash and cash equivalents at the end of the year | Rs in M | (798) | (3,126) | (235) | 586 | 365 | 759 |

# Operating and Financial Highlights -continued

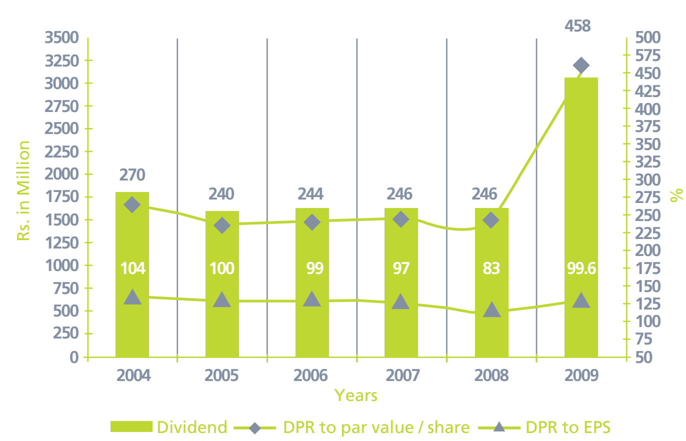
| | Unit | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|
| **FINANCIAL RATIOS** | | | | | | | |
| Rate of return | | | | | | | |
| Pre tax return on equity | % | 137 | 132 | 128 | 136 | 134 | 103 |
| Post tax return on equity | % | 93 | 90 | 85 | 89 | 87 | 82 |
| Return on average capital employed | % | 63 | 49 | 77 | 82 | 72 | 75 |
| Interest cover | times | 20 | 18 | 84 | 223 | 141 | 107 |
| **Profitability** | | | | | | | |
| Gross profit margin | % | 35 | 35 | 39 | 37 | 38 | 30 |
| Pre tax profit to sales | % | 12 | 9 | 11 | 12 | 14 | 12 |
| Post tax profit to sales | % | 8 | 6 | 7 | 8 | 9 | 9 |
| **Liquidity** | | | | | | | |
| Current ratio | | 0.8 | 0.7 | 0.7 | 0.9 | 1.0 | 1.0 |
| Quick ratio | | 0.3 | 0.2 | 0.2 | 0.4 | 0.5 | 0.5 |
| **Financial gearing** | | | | | | | |
| Debt equity ratio | | 0.2 | 0.6 | 0.1 | - | - | - |
| Total debt ratio | | 0.1 | 0.3 | 0.1 | - | - | 0.1 |
| **Capital efficiency** | | | | | | | |
| Debtors turnover | days | 4 | 3 | 3 | 2 | 2 | 6 |
| Inventory turnover | days | 58 | 64 | 63 | 54 | 59 | 64 |
| Total assets turnover | times | 3 | 3 | 3 | 3 | 3 | 3 |
| Property, plant and equipment turnover | times | 8 | 7 | 7 | 10 | 10 | 12 |
| **Investment measures per ordinary share** | | | | | | | |
| Earnings | Rs | 230 | 149 | 127 | 123 | 120 | 130 |
| Dividend payout (including proposed) | Rs | 229 | 123 | 123 | 122 | 120 | 135 |
| Dividend payout ratio - earnings | % | 100 | 83 | 97 | 99 | 100 | 104 |
| Dividend payout ratio - par value | % | 458 | 246 | 246 | 244 | 240 | 270 |
| Dividend yield | % | 10 | 7 | 5 | 6 | 7 | 9 |
| Price earning ratio | times | 10 | 12 | 18 | 16 | 15 | 11 |
| Breakup value without surplus on revaluation | Rs | 248 | 167 | 149 | 138 | 139 | 158 |
| Breakup value with surplus on revaluation | Rs | 249 | 168 | 150 | 139 | 140 | 160 |
| Market value - low | Rs | 1,725 | 1,808 | 2,000 | 1,760 | 1,280 | 1,400 |
| Market value - high | Rs | 2,475 | 2,501 | 2,625 | 2,060 | 1,775 | 1,635 |
| Market value - average | Rs | 2,100 | 2,154 | 2,286 | 1,910 | 1,528 | 1,518 |
| Market value - year end | Rs | 2,300 | 1,808 | 2,280 | 2,000 | 1,775 | 1,475 |
| Market capitalisation - year end | Rs in M | 30,576 | 24,032 | 30,310 | 26,588 | 23,597 | 19,609 |
| Ordinary shares of Rs 50 each | No. in thousand | 13,294 | 13,294 | 13,294 | 13,294 | 13,294 | 13,294 |

**Note:** Previous years' figures have been restated in accordance with the audited financial statements.

# Operating and Financial Highlights

Profit before tax and as % of sales


Ordinary dividend payout

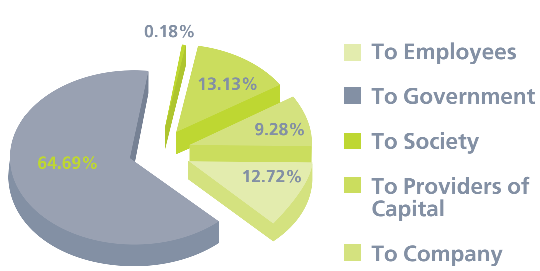



Earning per share

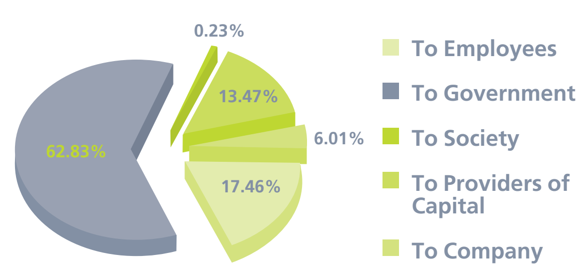
# Statement of Value Addition & its Distribution

| | 2009 Rs in '000 | % | 2008 Rs in '000 | % |
|---|---|---|---|---|
| **WEALTH GENERATED** | | | | |
| Total revenue inclusive of sales tax and other income | 46,861,851 | | 37,766,686 | |
| Bought-in material and services | (29,930,364) | | (24,350,366) | |
| | 16,931,487 | 100% | 13,416,320 | 100% |
| **WEALTH DISTRIBUTION** | | | | |
| **To Employees** | | | | |
| Salaries, benefits and other costs | 2,153,205 | 12.72% | 1,852,630 | 13.81% |
| Restructuring Cost | - | 0.00% | 489,280 | 3.65% |
| **To Government** | | | | |
| Income tax, sales tax, excise duty and custom duty, WWF, WPPF | 10,952,390 | 64.69% | 8,429,862 | 62.83% |
| **To Society** | | | | |
| Donation towards education, health and environment | 30,215 | 0.18% | 30,498 | 0.23% |
| **To Providers of Capital** | | | | |
| Dividend to shareholders | 1,980,787 | 11.70% | 1,635,385 | 12.19% |
| Mark-up/ interest expenses on borrowed funds | 243,070 | 1.43% | 171,183 | 1.28% |
| **To Company** | | | | |
| Depreciation, amortization & retained profit | 1,571,820 | 9.28% | 807,482 | 6.01% |
| Contingency Reserve | - | 0.00% | - | 0.00% |
| | 16,931,487 | 100% | 13,416,320 | 100% |

**WEALTH DISTRIBUTION 2009**




**WEALTH DISTRIBUTION 2008**



# Pattern of Shareholding
as at December 31, 2009

| Number of Share-holders | Shareholding From | Shareholding To | Total Number of Shares Held* |
|---|---|---|---|
| 2,728 | 1 | 100 | 82,563 |
| 803 | 101 | 500 | 182,200 |
| 160 | 501 | 1,000 | 116,148 |
| 157 | 1,001 | 5,000 | 309,470 |
| 16 | 5,001 | 10,000 | 106,915 |
| 4 | 10,001 | 15,000 | 48,375 |
| 5 | 15,001 | 20,000 | 90,871 |
| 3 | 20,001 | 25,000 | 69,322 |
| 2 | 25,001 | 30,000 | 52,014 |
| 3 | 30,001 | 35,000 | 99,417 |
| 2 | 40,001 | 45,000 | 83,341 |
| 1 | 45,001 | 50,000 | 45,040 |
| 1 | 50,001 | 55,000 | 54,541 |
| 1 | 80,001 | 85,000 | 84,400 |
| 1 | 95,001 | 100,000 | 100,000 |
| 2 | 110,001 | 115,000 | 226,536 |
| 1 | 205,001 | 210,000 | 209,652 |
| 1 | 575,001 | 580,000 | 576,080 |
| 1 | 820,001 | 825,000 | 823,402 |
| 1 | 9,980,001 | 9,985,000 | 9,981,417 |
| **3,893** | | | **13,341,704** |

| Shareholders' Category | Number of Share-holders | Number of Shares Held | Percentage % |
|---|---|---|---|
| Associated Co., Undertakings * | 1 | 10,015,152 | 75.07 |
| NIT and ICP * | 5 | 226,848 | 1.70 |
| Directors, CEO | 2 | 1,120 | 0.01 |
| Executives | 2 | 66 | 0.00 |
| Public Sector Co. and Corporation | 1 | 823,402 | 6.17 |
| Banks, DFI, NBFI's | 7 | 136,671 | 1.02 |
| Modarabas and Mutual Funds | 6 | 12,984 | 0.10 |
| Insurance Companies | 7 | 78,562 | 0.59 |
| Others | 87 | 1,260,816 | 9.45 |
| Individuals * | 3,775 | 786,083 | 6.15 |
| | **3,893** | **13,341,704** | **100.00** |

* Includes Voting Preference Shares.

# Pattern of Shareholding - Additional Information

as at December 31, 2009

| Shareholders' Category | Number of Shareholders | Number of Shares Held |
|---|---|---|
| **Associated Companies (name wise details)** | | |
| Unilever Overseas Holdings Ltd. | 1 | 10,015,152 |
| **NIT & ICP (name wise details)** | | |
| Investment Corporation of Pakistan | 1 | 2 |
| National Bank of Pakistan,Trustee Deptt. | 1 | 226,846 |
| **Directors, CEO and their spouses and minor children (name wise details)** | | |
| Mr. Zaffar A. Khan | 1 | 1020 |
| Mr. M. Qaysar Alam | 1 | 100 |
| **Executives** | | |
| Mr. Amar Naseer | 1 | 6 |
| Mrs. Mahvash Imad W/O. Syed Imad Mashhadi (Unilever Employee) | 1 | 60 |
| **Public Sector Companies & Corporation** | 1 | 823,402 |
| **Banks, Development Finance Institutions Non-Banking Finance Institutions** | 7 | 136,671 |
| **Modarabas and Mutual Funds** | 6 | 12,984 |
| **Insurance Companies** | 7 | 78,562 |
| **Others** | 87 | 1,260,816 |
| **Shareholders holding 10% or more voting interest (name wise details)** | | |
| Unilever Overseas Holdings Ltd. | 1 | 10,015,152 |

# Statement of Compliance with the Code of Corporate Governance

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes two independent non-executive directors.

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

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

4. Casual vacancy on the Board of Directors occurred on December 31, 2009 which was duly filled.

5. The Company had already adopted and circulated a 'Code of Business Principles', which has been signed by all the directors and employees of the Company.

6. The Company has a Mission Statement, and has also defined Strategic Thrusts. The Company, traditionally, maintains and follows policies designed to align with the Unilever group of companies and global best practices in agreement with the Board. The Board considers any significant amendments to the policies, as and when required. However, a complete record of particulars of significant policies along with the dates on which these were enacted has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, based on the significance of the matters involved, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman, and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Company arranges orientation courses / meetings for its directors.

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

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

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

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

14. The Board has formed an audit committee. It comprises of three members, of whom at least two are non-executive directors including the chairman of the committee.

15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

16. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors along with pricing methods for transactions carried out on terms equivalent to those that prevail in the arm's length transactions.

17. The Company has an effective internal audit function. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International

Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. The management of the Company is committed to good corporate governance, and appropriate steps are taken to comply with the best practices.

Karachi
March 2, 2010

**Ehsan A. Malik**
Chairman & Chief Executive

# Auditors' Review Report

## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Unilever Pakistan Limited to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal controls covers all controls and the effectiveness of such internal controls.

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2009.

**A.F. Ferguson & Co.**
**Chartered Accountants**

Karachi

March 2, 2010

# Financial

## Statements 2009

Unilever Pakistan Limited

# Auditors' Report to the Members

We have audited the annexed balance sheet of Unilever Pakistan Limited as at December 31, 2009 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 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 accounts 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 accounts and are further in accordance with accounting policies consistently applied except for the changes as stated in note 2.1.3, 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 December 31, 2009 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 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

**A. F. Ferguson & Co.**
Chartered Accountants

Karachi

March 2, 2010

Name of Engagement Partner: Ali Muhammad Mesia

# Balance Sheet
## as at December 31, 2009

| | Note | 2009 | 2008 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 3 | 4,736,619 | 4,428,278 |
| Intangibles | 4 | 2,433 | 7,303 |
| Long term investments | 5 | 95,202 | 95,202 |
| Long term loans | 6 | 98,117 | 120,545 |
| Long term deposits and prepayments | 7 | 392,896 | 540,027 |
| Retirement benefits - prepayments | 8 | 188,054 | 205,355 |
| | | 5,513,321 | 5,396,710 |
| **Current assets** | | | |
| Stores and spares | 9 | 265,420 | 241,753 |
| Stock in trade | 10 | 3,649,070 | 4,251,914 |
| Trade debts | 11 | 506,357 | 228,763 |
| Loans and advances | 12 | 131,852 | 123,904 |
| Trade deposits and short term prepayments | 13 | 682,949 | 516,443 |
| Other receivables | 14 | 82,141 | 218,329 |
| Tax refunds due from the Government | 15 | 355,052 | 301,813 |
| Cash and bank balances | 16 | 239,553 | 106,789 |
| | | 5,912,394 | 5,989,708 |
| **Total assets** | | 11,425,715 | 11,386,418 |

| | Note | 2009 | 2008 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 17 | 669,477 | 669,477 |
| Reserves | 18 | 2,621,643 | 1,546,281 |
| | | 3,291,120 | 2,215,758 |
| Surplus on revaluation of fixed assets | 19 | 12,965 | 13,613 |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Liabilities against assets subject to finance leases | 20 | 56,762 | 77,327 |
| Deferred taxation | 21 | 636,130 | 369,653 |
| Retirement benefits obligations | 8 | 327,060 | 239,794 |
| | | 1,019,952 | 686,774 |
| Current liabilities | | | |
| Trade and other payables | 22 | 5,785,776 | 4,547,794 |
| Accrued interest / mark up | | 28,892 | 64,075 |
| Short term borrowings | 23 | 1,037,911 | 3,232,523 |
| Current maturity of liabilities against assets subject to finance leases | 20 | 28,419 | 32,322 |
| Provisions | 24 | 220,680 | 593,559 |
| | | 7,101,678 | 8,470,273 |
| **Total liabilities** | | 8,121,630 | 9,157,047 |
| **Contingencies and commitments** | 25 | | |
| **Total equity and liabilities** | | 11,425,715 | 11,386,418 |

The annexed notes 1 to 46 form an integral part of these financial statements.

**Ehsan A. Malik**
Chairman & Chief Executive

**Imran Husain**
Director & Chief Financial Officer

# Profit and Loss Account
## for the year ended December 31, 2009

| | Note | 2009 | 2008 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Sales | 26 | 38,187,582 | 30,956,839 |
| Cost of sales | 27 | (24,852,625) | (20,219,184) |
| Gross profit | | 13,334,957 | 10,737,655 |
| Distribution costs | 28 | (7,179,694) | (5,847,845) |
| Administrative expenses | 29 | (1,030,478) | (1,002,214) |
| Other operating expenses | 30 | (373,785) | (247,266) |
| Other operating income | 31 | 192,313 | 239,918 |
| | | 4,943,313 | 3,880,248 |
| Restructuring cost | | - | (489,280) |
| Profit from operations | | 4,943,313 | 3,390,968 |
| Finance costs | 32 | (427,708) | (466,166) |
| Profit before taxation | | 4,515,605 | 2,924,802 |
| Taxation | 33 | (1,459,865) | (940,476) |
| Profit after taxation | | 3,055,740 | 1,984,326 |
| Earnings per share (Rupees) | 34 | 230 | 149 |

The annexed notes 1 to 46 form an integral part of these financial statements.

**Ehsan A. Malik**
Chairman & Chief Executive

**Imran Husain**
Director & Chief Financial Officer

# Cash Flow Statement
## for the year ended December 31, 2009

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| **Cash flows from operating activities** | | |
| **Profit before taxation** | 4,515,605 | 2,924,802 |
| Adjustments for non-cash charges and other items | | |
| Depreciation | 496,867 | 453,671 |
| Amortisation of software | 4,870 | 4,870 |
| Loss / (Gain) on disposal of property, plant and equipment | 8,901 | (29,805) |
| Dividend income | (12) | (12) |
| Finance cost | 427,708 | 466,166 |
| Provision for staff retirement benefits | 523,039 | 449,772 |
| Return on savings accounts | (993) | (1,065) |
| | 1,460,380 | 1,343,597 |
| Profit before working capital changes | 5,975,985 | 4,268,399 |
| **Effect on cash flows due to working capital changes** | | |
| Decrease / (Increase) in current assets | | |
| Stores and spares | (23,667) | (78,471) |
| Stock in trade | 602,844 | (1,525,850) |
| Trade debts | (277,594) | 10,550 |
| Loans and advances | (7,948) | (1,016) |
| Trade deposits and short term prepayments | (166,506) | (280,379) |
| Other receivables | 136,188 | 30,810 |
| Sales tax refundable | - | 11,457 |
| | 263,317 | (1,832,899) |
| Increase / (Decrease) in current liabilities | | |
| Trade and other payables | 1,264,662 | (243,457) |
| Provisions | (372,879) | 222,532 |
| | 891,783 | (20,925) |
| | 1,155,100 | (1,853,824) |
| **Cash generated from operations** (carried forward) | 7,131,085 | 2,414,575 |

# Cash Flow Statement - Continued
## for the year ended December 31, 2009

| | Note | 2009 | 2008 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **Cash generated from operations** (brought forward) | | 7,131,085 | 2,414,575 |
| Finance costs paid | | (462,891) | (405,760) |
| Income tax paid | | (1,281,629) | (1,066,274) |
| Retirement benefits obligations paid | | (418,472) | (304,918) |
| Decrease / (Increase) in long term loans | | 22,428 | (5,157) |
| Decrease / (Increase) in long term deposits and prepayments | | 147,131 | (535,107) |
| Net cash from operating activities | | 5,137,652 | 97,359 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (872,311) | (1,369,388) |
| Sale proceeds of property, plant and equipment | | 62,155 | 120,630 |
| Return received on savings accounts | | 993 | 2,180 |
| Dividend received | | 12 | 12 |
| Net cash used in investing activities | | (809,151) | (1,246,566) |
| **Cash flows from financing activities** | | | |
| Decrease in liabilities against assets subject to finance leases | | (28,421) | (33,370) |
| Dividends paid | | (1,972,704) | (1,708,282) |
| Net cash used in financing activities | | (2,001,125) | (1,741,652) |
| Net increase / (decrease) in cash and cash equivalents | | 2,327,376 | (2,890,859) |
| Cash and cash equivalents at the beginning of the year | | (3,125,734) | (234,875) |
| Cash and cash equivalents at the end of the year | 35 | (798,358) | (3,125,734) |

The annexed notes 1 to 46 form an integral part of these financial statements.

**Ehsan A. Malik**
Chairman & Chief Executive

**Imran Husain**
Director & Chief Financial Officer

# Statement of Changes in Equity
## for the year ended December 31, 2009

| | SHARE CAPITAL | RESERVES | | | | | TOTAL |
|---|---|---|---|---|---|---|---|
| | | CAPITAL | | | REVENUE | SUB TOTAL | |
| | | Arising under schemes of arrangements for amalgamations | Contingency | Other - | Unappropriated profit | | |
| | ( Rupees in thousand ) | | | | | | |
| Balance as at January 1, 2008 | 669,477 | 70,929 | 363,106 | 33,895 | 842,420 | 1,310,350 | 1,979,827 |
| Net profit for the year | - | - | - | - | 1,984,326 | 1,984,326 | 1,984,326 |
| Transferred from surplus on revaluation of fixed assets - net of deferred taxation: - incremental depreciation for the year | - | - | - | - | 648 | 648 | 648 |
| Transferred from contingency reserve to unappropriated profit - Note 25.1.1 | - | - | (41,635) | - | 41,635 | - | - |
| Reclassification of Share-based Payment as liability - Note 22.3 | - | - | - | (33,895) | - | (33,895) | (33,895) |
| Dividends | | | | | | | |
| For the year ended December 31, 2007 | | | | | | | |
| - On cumulative preference shares @ 5% per share | - | - | - | - | (239) | (239) | (239) |
| - Final dividend on ordinary shares @ Rs 63 per share | - | - | - | - | (837,514) | (837,514) | (837,514) |
| For the year ended December 31, 2008 | | | | | | | |
| - Interim dividend on ordinary shares @ Rs 66 per share | - | - | - | - | (877,395) | (877,395) | (877,395) |
| Balance as at December 31, 2008 | 669,477 | 70,929 | 321,471 | - | 1,153,881 | 1,546,281 | 2,215,758 |
| Net profit for the year | - | - | - | - | 3,055,740 | 3,055,740 | 3,055,740 |
| Transferred from surplus on revaluation of fixed assets - net of deferred taxation: - incremental depreciation for the year | - | - | - | - | 648 | 648 | 648 |
| Dividends | | | | | | | |
| For the year ended December 31, 2008 | | | | | | | |
| - On cumulative preference shares @ 5% per share | - | - | - | - | (239) | (239) | (239) |
| - Final dividend on ordinary shares @ Rs 57 per share | - | - | - | - | (757,751) | (757,751) | (757,751) |
| For the year ended December 31, 2009 | | | | | | | |
| - Interim dividend on ordinary shares @ Rs 92 per share | - | - | - | - | (1,223,036) | (1,223,036) | (1,223,036) |
| **Balance as at December 31, 2009** | **669,477** | **70,929** | **321,471** | **-** | **2,229,243** | **2,621,643** | **3,291,120** |

The annexed notes 1 to 46 form an integral part of these financial statements.

**Ehsan A. Malik**
Chairman & Chief Executive

**Imran Husain**
Director & Chief Financial Officer

# Notes to and Forming Part of the Financial Statements
## for the year ended December 31, 2009

### 1. THE COMPANY AND ITS OPERATIONS

The Company is a limited liability Company incorporated in Pakistan and is listed on the Karachi, Lahore and Islamabad Stock Exchanges. It manufactures and markets home and personal care products, beverages, ice cream and spreads. The registered office of the Company is situated at Avari Plaza, Fatima Jinnah Road, Karachi.

The Company is a subsidiary of Unilever Overseas Holdings Limited, UK, whereas its ultimate parent company is Unilever PLC, UK.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are the same as those applied for the previous financial year except for the changes as disclosed in note 2.1.3 below:

### 2.1 Basis of preparation

#### 2.1.1 Statement of compliance

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

#### 2.1.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

**i. Taxation**

The Company accounts for provision for income tax based on current best estimates. However, where the final tax outcome is different from the amounts that were initially recorded, such differences impact the income tax provision in the period in which such determination is made.

ii. **Post employment benefits**

Significant estimates relating to post employment benefits are disclosed in note 8.

iii. **Provisions**

Provisions are considered, among others, for legal matters, disputed indirect taxes, employee termination cost and restructuring where a legal or constructive obligation exists at the balance sheet date and reliable estimate can be made of the likely outcome. The nature of these costs is such that judgement is involved in estimating the timing and amount of cash flows.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There have been no critical judgements made by the Company's management in applying the accounting policies that would have significant effect on the amounts recognised in the financial statements.

### 2.1.3 Changes in accounting policies

**a) Changes arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year**

(i) IAS 1 (Revised), 'Presentation of financial statements' requires presentation of transactions with owners in statement of changes in equity and with non-owners in the Statement of Comprehensive Income. The revised standard requires an entity to opt for presenting such transactions either in a single statement of comprehensive income or in an income statement and a separate statement of comprehensive income. There are no items for Other Comprehensive Income, therefore no impact on the Company's financial statements.

(ii) IAS 23 (Amendment), 'Borrowing costs' requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing borrowing costs has been removed. Further, the definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. There is no material impact on the Company's financial statements due to change in the interest calculation method.

(iii) IFRS 7, 'Financial Instruments: Disclosures' introduces new disclosures relating to financial instruments. Adoption of the standard has extended the disclosures presented in note 40 to the financial statements.

(iv) IFRS 8, 'Operating segments' replaces IAS 14 and requires an entity to determine and present operating segments based on the information that is provided internally to the Chief Operating Decision maker who is responsible for allocating resources and assessing performance of the operating segments. Adoption of this standard has not resulted in any change in the reportable segments.

(v) IFRIC 13, 'Customer loyalty programmes' clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. There is no significant impact on its application.

#### b) Change in presentation

Cash flow statement has been presented using indirect method as against the direct method in the prior year for the purpose of better presentation. The prior year's figures have been rearranged accordingly.

### 2.1.4 Standards, interpretations and amendments to published approved accounting standards effective in 2009 but not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

### 2.1.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective but relevant

IFRS 2 (Amendments), 'Group cash-settled and share-based payment transactions' is effective for the accounting periods beginning on or after January 1, 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Company's financial statements.

IFRS 8 (Amendment), 'Disclosure of information about segment assets' (effective from January 1, 2010). This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the Chief Operating Decision-maker. The new guidance is not expected to have a material impact on the Company's financial statements.

## 2.2 Overall valuation policy

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policy notes.

## 2.3 Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and impairment, if any, except capital work in progress which is stated at cost. Depreciation is calculated using the straight-line method on all assets in use at the beginning of each quarter to charge off their cost excluding residual value, if not insignificant, over their estimated useful lives.

Certain land, buildings and plant and machinery were revalued in 1973, 1975, 1978 and 1981 by independent valuers, which are shown at such revalued figures. In compliance with the revised International Accounting Standard No. 16, 'Property, Plant and Equipment', the Company adopted cost model for its property, plant and equipment and the revalued figures were treated as deemed costs. The surplus on revaluation of these assets, however, is recognised in accordance with section 235 of the Companies Ordinance, 1984.

Company accounts for impairment, where indication exists, by reducing assets carrying value to the assessed recoverable amount.

Maintenance and normal repairs are charged to income as and when incurred; also individual assets costing up to Rs. 10,000 are charged to income. Major renewals and improvements are capitalised and assets so replaced, if any, are retired. Gains and losses on disposal of property, plant and equipment are recognised in the profit and loss account.

## 2.4 Intangibles

Intangibles are stated at cost less amortisation. Major computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of five years using the straight-line method.

Costs associated with maintaining computer software programmes are recognised as an expense as and when incurred.

## 2.5 Investments

### i. In subsidiaries

These are stated at cost.

### ii. In unlisted entity not being subsidiary

These are valued at cost and are classified under investment available-for-sale.

## 2.6 Taxation

### i. Current

The charge for current taxation is based on taxable income at the applicable rates of taxation determined in accordance with the prevailing law for taxation after taking into account tax credits and rebates available, if any.

### ii. Deferred

Deferred tax is provided using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liability is generally recognised for all taxable temporary differences and deferred tax asset is 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 utilised.

## 2.7 Retirement benefits

### Defined contribution plans

### i) Provident fund

The Company operates an approved contributory provident fund for all employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 6% per annum of the gross salary. Obligation for contributions to defined contribution plan is recognised as an expense in the profit and loss account as and when incurred.

### ii) DC Pension fund

The Company has established a defined contribution plan - DC Pension Fund during the year for the following management employees:

a) permanent employees who joined on or after January 1, 2009; and

b) permanent employees who joined on or before December 31, 2008 and opted for DC Pension plan in lieu of future benefits under the existing pension, management gratuity and pensioners' medical plans.

As advised by the Company's actuary present value of the obligations as at December 31, 2008 under existing pension and gratuity funds in respect of the employees who opted for the new scheme has been transferred to the DC Pension Fund.

Contributions are made by the Company to the plan at the rate of 9% per annum of the gross salary. Obligation for contributions to defined contribution plan is recognised as an expense in the profit and loss account as and when incurred.

### Defined benefit plans

The Company operates the following schemes:

i) Funded pension scheme for management employees of the Company. Contributions are made on the basis of the actuarial valuation. The latest actuarial valuation was carried out as at December 31, 2009, using the 'Projected Unit Credit Method'.

ii) Funded gratuity scheme for management and non-management employees of the Company. Contributions are made on the basis of the actuarial valuation. The latest actuarial valuation was carried out as at December 31, 2009, using the 'Projected Unit Credit Method'.

iii) Pensioners' medical plan, which is a book reserve plan. The plan reimburses actual medical expenses as defined in the plan.

The above defined benefit plans are available only to those management employees who joined on or before December 31, 2008 and not opted for DC Pension scheme.

Actuarial gains and losses are changes in present value of defined benefit obligation and fair value of plan assets due to differences between long term actuarial assumptions and actual short term experience. The Company amortises such gains and losses each year by dividing the unrecognised balance at the beginning of the year by the average expected remaining service of current members.

Amounts recognized in the balance sheet represent the present value of defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, if any, and as reduced by the fair value of plan assets. Any assets resulting from the calculation is limited to the unrecognised actuarial losses and unrecognised past service cost plus the present value of available refunds and reduction in future contribution to the plan.

### 2.8 Stores and spares

These are valued at average cost and provision is made for slow moving and obsolete stores and spares. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

## 2.9 Stock in trade

This is stated at the lower of cost and estimated net realisable value. Cost is determined using the weighted average method except for those in transit where it represents invoice value and other charges paid thereon. Cost of work in process includes direct cost of materials whereas that of finished goods also includes direct cost of labour and production overheads. Net realisable value is the estimated selling price in the ordinary course of business less cost necessarily to be incurred in order to make the sale.

By-product (glycerine) is valued at estimated cost except for the stock covered by a firm forward sale contract, which is valued at the contracted price.

## 2.10 Trade and other debts

Trade and other debts are recognised at fair value of consideration receivable. Debts considered irrecoverable are written off and provision is made against those considered doubtful of recovery.

## 2.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, with banks on current and savings accounts, term deposits with maturities of three months or less and short term finance.

## 2.12 Leases

### i. Finance leases

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets on finance lease are capitalised at the commencement of the lease term at the lower of the fair value of leased assets and the present value of minimum lease payments, each determined at the inception of the lease. Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the finance balance outstanding. The finance cost is charged to profit and loss account and is included under finance costs.

### ii. Operating leases

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit and loss on a straight-line basis over the period of the lease.

## 2.13 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services.

## 2.14 Borrowings and their cost

Borrowings are recorded at the proceeds received.

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalised as part of the cost of that asset.

### 2.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Restructuring cost provisions comprise staff redundancy payments, relocation and dismantling of factory, and are recognised in the period in which the Company becomes legally or constructively committed to incur.

### 2.16 Financial assets and liabilities

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be.

### 2.17 Foreign currency transactions and translation

Foreign currency transactions are converted into Pak Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses are recognised in the profit and loss account.

The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

### 2.18 Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, and is recognised on the following basis:

- sale is recognised when the product is despatched to customers;
- dividend income is recognised when the Company's right to receive the payment is established; and
- return on savings accounts and deposits is recognised using the effective interest rate method.

### 2.19 Segment information

Operating segments are reported in a manner consistent with the internal reporting.

### 2.20 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

### 2.21 Share based payment

The cost of awarding shares of Group companies to employees is reflected by recording a charge in the profit and loss account equivalent to the fair value of shares over the vesting period, corresponding provision created is reflected in the liability.

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| **3. PROPERTY, PLANT AND EQUIPMENT** | | |
| Operating assets - note 3.1 | **4,563,048** | 3,988,216 |
| Capital work in progress - at cost - note 3.2 | **173,571** | 440,062 |
| | **4,736,619** | 4,428,278 |

### 3.1 Operating assets

| | Land | | Buildings | | Plant and machinery | Electrical, mechanical and office equipment | Furniture and fittings | Motor vehicles | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| | Freehold | Leasehold | On freehold land | On leasehold land | | | | Owned | Held under finance leases | |
| | Rupees in thousands | | | | | | | | | |
| **Net carrying value basis** | | | | | | | | | | |
| **Year ended December 31, 2009** | | | | | | | | | | |
| Opening net book value (NBV) | 25,575 | 421 | 514,886 | 19,387 | 3,101,093 | 157,352 | 17,048 | 34,782 | 117,672 | 3,988,216 |
| Additions (at cost) | - | - | 90,693 | 2,359 | 875,108 | 162,144 | 5,797 | 2,701 | 3,953 | 1,142,755 |
| Disposals (at NBV) | - | (181) | - | - | (60,045) | (497) | (310) | (8,804) | (1,219) | (71,056) |
| Depreciation charge | - | (6) | (15,773) | (898) | (384,656) | (31,359) | (2,309) | (24,067) | (37,799) | (496,867) |
| Closing net book value (NBV) | 25,575 | 234 | 589,806 | 20,848 | 3,531,500 | 287,640 | 20,226 | 4,612 | 82,607 | 4,563,048 |
| **Gross carrying value basis** | | | | | | | | | | |
| **At December 31, 2009** | | | | | | | | | | |
| Cost | 25,575 | 529 | 753,412 | 80,923 | 5,540,930 | 692,172 | 41,044 | 117,029 | 168,799 | 7,420,413 |
| Accumulated depreciation | - | (295) | (163,606) | (60,075) | (2,009,430) | (404,532) | (20,818) | (112,417) | (86,192) | (2,857,365) |
| Net book value (NBV) | 25,575 | 234 | 589,806 | 20,848 | 3,531,500 | 287,640 | 20,226 | 4,612 | 82,607 | 4,563,048 |
| Net carrying value basis | | | | | | | | | | |
| Year ended December 31, 2008 | | | | | | | | | | |
| Opening net book value (NBV) | 25,575 | 428 | 434,963 | 16,564 | 2,279,927 | 134,432 | 15,879 | 108,669 | 80,684 | 3,097,121 |
| Additions (at cost) | - | - | 93,960 | 3,651 | 1,155,323 | 70,080 | 3,710 | 36,053 | 72,814 | 1,435,591 |
| Disposals (at NBV) | - | - | - | - | (16,574) | (13,316) | (393) | (58,840) | (1,702) | (90,825) |
| Depreciation charge | - | (7) | (14,037) | (828) | (317,583) | (33,844) | (2,148) | (51,100) | (34,124) | (453,671) |
| Closing net book value (NBV) | 25,575 | 421 | 514,886 | 19,387 | 3,101,093 | 157,352 | 17,048 | 34,782 | 117,672 | 3,988,216 |
| Gross carrying value basis | | | | | | | | | | |
| At December 31, 2008 | | | | | | | | | | |
| Cost | 25,575 | 716 | 662,719 | 78,564 | 4,810,210 | 537,470 | 36,412 | 194,749 | 178,107 | 6,524,522 |
| Accumulated depreciation | - | (295) | (147,833) | (59,177) | (1,709,117) | (380,118) | (19,364) | (159,967) | (60,435) | (2,536,306) |
| Net book value (NBV) | 25,575 | 421 | 514,886 | 19,387 | 3,101,093 | 157,352 | 17,048 | 34,782 | 117,672 | 3,988,216 |
| Depreciation rate % per annum | - | 1.05 | 1.5 to 2.5 | 1.5 to 2 | 8 to 20 | 8 to 20 | 8 to 14 | 25 | 25 | |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

### 3.2 Capital Work in Progress – at cost

| | 2009 | 2008 |
|---|---|---|
| Civil works | 12,147 | 25,600 |
| Plant and machinery | 161,424 | 414,462 |
| | 173,571 | 440,062 |

3.3 Details of property, plant and equipment disposed of during the year are given in note 42.

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 4. INTANGIBLES - computer software

**Net carrying value basis**

| | 2009 | 2008 |
|---|---|---|
| Opening net book value | 7,303 | 12,173 |
| Amortisation charge | (4,870) | (4,870) |
| Closing net book value | 2,433 | 7,303 |

**Gross carrying value basis**

| | 2009 | 2008 |
|---|---|---|
| Cost | 24,348 | 24,348 |
| Accumulated amortisation | (21,915) | (17,045) |
| Net book value | 2,433 | 7,303 |
| Remaining useful life in years | 0.50 | 1.50 |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 5. LONG TERM INVESTMENTS

### Investments in related parties

In unquoted wholly owned subsidiary companies - at cost

| | 2009 | 2008 |
|---|---|---|
| **Lever Chemicals (Private) Limited**<br>9,500,000 fully paid ordinary shares of Rs. 10 each | 95,000 | 95,000 |
| **Levers Associated Pakistan Trust (Private) Limited**<br>100 fully paid ordinary shares of Rs. 10 each | 1 | 1 |
| **Sadiq (Private) Limited**<br>100 fully paid ordinary shares of Rs. 10 each | 1 | 1 |
| **Investment available for sale - at cost** | | |
| **Futehally Chemicals (Private) Limited**<br>2,000 6% redeemable cumulative preference shares of Rs. 100 each | 200 | 200 |
| | 95,202 | 95,202 |

## 6. LONG TERM LOANS - considered good

| | | 2009 | 2008 |
|---|---|---|---|
| Related Parties | note 6.1, 6.2 and 6.3 | | |
| Directors | | 1,462 | 8,128 |
| Chief Executive | | 8,399 | 11,454 |
| Key management personnel other than Directors and Chief Executive | | - | 1,859 |
| | | 9,861 | 21,441 |
| Others | | | |
| Executives | | 96,708 | 122,602 |
| Other employees | | 40,546 | 33,623 |
| | | 137,254 | 156,225 |
| | | 147,115 | 177,666 |
| Recoverable within one year - note 12 | | (48,998) | (57,121) |
| Long term portion | | 98,117 | 120,545 |

6.1 Reconciliation of carrying amount of loans to Directors, Chief Executive, other key management personnel and executives:

| | Directors | | Chief Executive | | Other Key Management Personnel | | Executives | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | Rupees in Thousands | | | | | | | |
| Balance as at January 1 | 8,128 | 7,751 | 11,454 | 14,509 | 1,859 | 5,975 | 122,602 | 107,194 |
| Loans granted during the year | - | - | - | - | - | - | 29,691 | 59,184 |
| Transfers | - | 3,215 | - | - | - | (3,452) | - | 237 |
| Recoveries | (6,666) | (2,838) | (3,055) | (3,055) | (1,859) | (664) | (55,585) | (44,013) |
| | 1,462 | 8,128 | 8,399 | 11,454 | - | 1,859 | 96,708 | 122,602 |

6.2 The above loans under the terms of employment have been given interest free to facilitate purchase of houses, vehicles and computers repayable in monthly installments over a period of three to five years.

These loans are secured against retirement benefits of the employees.

6.3 The maximum aggregate amount of loans due at the end of any month during the year was:

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Directors | 2,523 | 9,878 |
| Chief Executive | 11,199 | 14,254 |
| Key management personnel other than Directors and Chief Executive | 1,704 | 6,176 |
| Executives | 100,725 | 126,259 |

## 7. LONG TERM DEPOSITS AND PREPAYMENTS

| | 2009 | 2008 |
|---|---|---|
| Security deposits | 4,627 | 4,480 |
| Prepaid rent | 368,064 | 503,548 |
| Others | 23,130 | 31,999 |
| | 395,821 | 540,027 |
| Less: Provision for doubtful deposits | (2,925) | - |
| | 392,896 | 540,027 |

## 8. RETIREMENT BENEFITS

8.1 The disclosures made in notes 8.2 to 8.8 and 8.11 to 8.13 are based on the information included in the actuarial valuation as of December 31, 2009.

| | Pension Fund | | Gratuity Funds | | Pensioners' Medical Plan | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | (Rupees in thousand) | | | | | |
| **8.2 Balance Sheet Reconciliation** | | | | | | |
| Fair value of plan assets | 1,484,380 | 1,571,499 | 36,182 | 231,305 | - | - |
| Present value of defined benefit obligations | (1,563,709) | (1,468,346) | (246,505) | (416,803) | (192,663) | (163,174) |
| Funded status | (79,329) | 103,153 | (210,323) | (185,498) | (192,663) | (163,174) |
| Unrecognised net actuarial loss | 267,383 | 102,202 | 38,990 | 90,855 | 36,936 | 18,023 |
| Recognised asset / (liability) | 188,054 | 205,355 | (171,333) | (94,643) | (155,727) | (145,151) |
| **8.3 Movement in the fair value of plan assets** | | | | | | |
| Fair value as at January 1 | 1,571,499 | 1,522,551 | 231,305 | 368,948 | | |
| Expected return on plan assets | 186,586 | 137,194 | 8,352 | 33,250 | | |
| Actuarial gains / (losses) | (15,202) | 19,917 | 10,274 | (15,594) | | |
| Employer contributions | - | 38,019 | 428,302 | 256,409 | | |
| Settlement and curtailment | (113,700) | - | (107,253) | - | | |
| Benefits paid | (144,803) | (146,182) | (534,798) | (411,708) | | |
| Fair value as at December 31 | 1,484,380 | 1,571,499 | 36,182 | 231,305 | | |
| **8.4 Movement in the defined benefit obligations** | | | | | | |
| Obligation as at January 1 | 1,468,346 | 1,497,882 | 416,803 | 404,129 | 163,174 | 132,181 |
| Service cost | 9,716 | 32,410 | 11,498 | 31,157 | 834 | 1,546 |
| Interest cost | 205,222 | 145,920 | 38,577 | 42,446 | 24,222 | 14,052 |
| Settlement and curtailment | (143,412) | - | 310,502 | 340,286 | (7,070) | - |
| Actuarial losses / (gains) | 168,640 | (61,684) | 3,923 | 10,493 | 21,676 | 25,885 |
| Benefits paid | (144,803) | (146,182) | (534,798) | (411,708) | (10,173) | (10,490) |
| Obligation as at December 31 | 1,563,709 | 1,468,346 | 246,505 | 416,803 | 192,663 | 163,174 |
| **8.5 Cost** | | | | | | |
| Current service cost | 9,716 | 32,410 | 11,498 | 31,157 | 834 | 1,546 |
| Interest cost | 205,222 | 145,920 | 38,577 | 42,446 | 24,222 | 14,052 |
| Expected return on plan assets | (186,586) | (137,194) | (8,352) | (33,250) | - | - |
| Settlement and curtailment | (29,712) | - | 417,755 | 340,286 | (7,070) | - |
| Recognition of actuarial loss / (gain) | 18,661 | 11,139 | 45,514 | 1,680 | 2,763 | (420) |
| Expense | 17,301 | 52,275 | 504,992 | 382,319 | 20,749 | 15,178 |
| Actual return on plan assets | 171,384 | 157,111 | 18,626 | 17,656 | | |

8.6 Principal actuarial assumptions used are as follows:

| | 2009 | 2008 |
|---|---|---|
| Discount rate & expected return on plan assets | 12.75% | 16.00% |
| Future salary increases | 10.60% | 13.79% |
| Future pension increases | 6.66% | 9.73% |
| Medical cost trend rates | 7.38% | 10.48% |

Expected contributions to retirement benefit plans for the year ending December 31, 2010 are Rs. 148 million (2009: Rs. 560 million).

## 8.7 Comparison for five years:

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| As at December 31 | | | | | |
| Fair value of plan assets | 1,520,562 | 1,802,804 | 1,891,499 | 1,933,581 | 1,812,268 |
| Present value of defined benefit obligations | (2,002,877) | (2,048,323) | (2,034,192) | (1,984,522) | (1,750,814) |
| (Deficit) / surplus | (482,315) | (245,519) | (142,693) | (50,941) | 61,454 |
| **Experience adjustments** | | | | | |
| (Loss) / Gain on plan assets (as percentage of plan assets) | (0.3%) | 0.2 % | (0.7%) | 0.3 % | (6.5%) |
| Loss / (Gain) on obligations (as percentage of plan obligations) | 9.7 % | (1.2%) | (1.2%) | 7.5 % | 1.5 % |

8.8 The effects of a 1% movement in the assumed medical cost trend rate are as follows:

| | Increase | Decrease |
|---|---|---|
| | (Rupees in thousand) | |
| Effect on the aggregate of current service and interest costs | 3,116 | 2,586 |
| Effect on the defined benefit obligations | 20,819 | 17,878 |

8.9 Plan assets comprise of the following:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Rupees in thousand | % | Rupees in thousand | % |
| Equity | 147,552 | 9.7 | 23,974 | 1.3 |
| Debt | 897,310 | 59.0 | 130,827 | 7.3 |
| Others (include cash and bank balances) | 475,700 | 31.3 | 1,648,003 | 91.4 |
| | 1,520,562 | 100.0 | 1,802,804 | 100.0 |

8.10 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

8.11 The actuary conducts separate valuations for calculating contribution rates and the Company contributes to the pension and gratuity funds according to the actuary's advice. Expense of the defined benefit plans is calculated by the actuary.

8.12 Based on the above actuarial valuation the retirement benefits - asset amounts to Rs. 188.05 million (2008: Rs. 205.35 million) and retirement benefits - liability amounts to Rs. 327.06 million (2008: Rs. 239.79 million).

8.13 During the year the Company contributed Rs. 52.77 million (2008: Rs. 51.39 million) to the provident fund and Rs. 48.26 million (2008: Nil) to the DC pension fund.

## 9. STORES AND SPARES

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Stores (including in transit Rs. 19.10 million; 2008: Rs. 8.80 million) | 80,825 | 78,744 |
| Spares (including in transit Rs. 10.15 million; 2008: Nil) | 219,657 | 194,971 |
| Others | 3,595 | 2,920 |
| | 304,077 | 276,635 |
| Provision for slow moving and obsolete stores and spares | (38,657) | (34,882) |
| | 265,420 | 241,753 |

The Company made a provision of Rs. 8.31 million (2008: Rs. 8.63 million) for obsolescence and has written off stores and spares of Rs. 4.54 million (2008: Nil) by utilising the provision during the year.

## 10. STOCK IN TRADE

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Raw and packing materials at cost (including in transit Rs. 868 million; 2008: Rs. 565 million) | 2,416,934 | 2,802,659 |
| Provision for obsolescence | (95,007) | (140,440) |
| | 2,321,927 | 2,662,219 |
| Work in process | 72,736 | 102,466 |
| Finished goods (including in transit Rs. 181 million; 2008: Rs. 264 million) | 1,293,954 | 1,550,391 |
| By product - glycerine | 11,500 | 18,710 |
| | 1,305,454 | 1,569,101 |
| Provision for obsolescence | (51,047) | (81,872) |
| | 1,254,407 | 1,487,229 |
| | 3,649,070 | 4,251,914 |

10.1 Stock in trade includes Rs. 1.79 billion (2008: Rs. 1.72 billion) held with third parties.

10.2 The above balances include items costing Rs. 238.13 million (2008: Rs. 337.90 million) valued at net realisable value of Rs. 92.07 million (2008: Rs. 80.70 million).

10.3 The Company made a provision of Rs. 109.19 million for obsolescence (2008: Rs. 196.06 million) and has written off inventory amounting to Rs. 185.45 million (2008: Rs. 105.14 million) by utilising the provision during the year.

## 11. TRADE DEBTS

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Considered good | 506,357 | 228,763 |
| Considered doubtful | 43,402 | 47,491 |
| | 549,759 | 276,254 |
| Provision for doubtful debts - note 11.1 | (43,402) | (47,491) |
| | 506,357 | 228,763 |

11.1 The Company has reversed Rs. 2.04 million (2008: recognised a provision of Rs. 3.25 million) and has written off debts amounting to Rs. 2.05 million (2008: Rs. 9.91 million) by utilising the provision during the year.

11.2 As of December 31, 2009 trade debts of Rs. 42.87 million (2008: Rs. 43.96 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The age analysis of these trade debts is as follows:

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Up to 3 months | 35,962 | 30,686 |
| 3 to 6 months | 5,559 | 4,951 |
| More than 6 months | 1,345 | 8,324 |
| | 42,866 | 43,961 |

## 12. LOANS AND ADVANCES

| | 2009 | 2008 |
|---|---|---|
| **Considered good** | | |
| Current portion of loans to employees - note 6 | 48,998 | 57,121 |
| Advances to: | | |
| Executives - note 12.1 | 12,435 | 10,374 |
| Suppliers and others | 70,419 | 56,409 |
| | 131,852 | 123,904 |
| **Considered doubtful** | | |
| Advances to suppliers and others | 6,244 | 6,244 |
| | 138,096 | 130,148 |
| Provision for doubtful advances to suppliers and others | (6,244) | (6,244) |
| | 131,852 | 123,904 |

12.1 The advances to executives are given to meet business expenses and are settled as and when the expenses are incurred.

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| **13. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS** | | |
| Trade and margin deposits | 16,192 | 130,808 |
| Prepayments | | |
| ERP implementation | 355,123 | 141,274 |
| Rent | 151,155 | 146,073 |
| Others - note 13.1 | 160,479 | 98,288 |
| | 682,949 | 516,443 |

13.1 This includes prepayment of Rs. 9.54 million in respect of shares matched by the Company under the following share-based compensation plan.

Variable Pay in Shares (VPIS):

Under this plan, employees eligible as per policy can choose to take between 10% and 25%, or none at all, of their gross variable pay in shares of Unilever PLC or Unilever NV. If the employee opts for the shares, Unilever PLC and Unilever NV will grant matching shares, on the condition that the employee stays with the Company and holds these shares for at least three years.

| | | VPIS | |
|---|---|---|---|
| Shares of | | Unilever PLC | Unilever NV |
| Date of grant | 2008 | March 20, 2008 | March 20, 2008 |
| | 2009 | March 19, 2009 | March 19, 2009 |
| Total number of shares granted | 2008 | 1,532 | 1,539 |
| | 2009 | 2,195 | 2,136 |
| Fair value / Share price on grant date | 2008 | £16.72 | € 21.30 |
| | 2009 | £12.46 | € 13.95 |
| Contractual life (years) | | 3 | 3 |
| Vesting conditions | | Service conditions | Service conditions |
| Settlement | | Shares | Shares |
| Expected lapse per year | | 20% | 20% |
| Expected outcome of meeting the performance criteria (at the grant date) | 2008 | by March 20, 2011 | by March 20, 2011 |
| | 2009 | by March 19, 2012 | by March 19, 2012 |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 14. OTHER RECEIVABLES

| | 2009 | 2008 |
|---|---|---|
| **Receivable from related parties** | | |
| Unilever Pakistan Foods Limited | - | 63,669 |
| Unilever Gratuity Fund | 32,985 | 37,234 |
| Associated undertakings | 13,315 | 20,458 |
| Workers' Profits Participation Fund - note 14.1 | 8,960 | 55,571 |
| **Others** | | |
| Receivable from distributors on account of equipment supply | - | 5,320 |
| Receivable in respect of sale of fixed assets | - | 16,464 |
| Others | 40,815 | 28,331 |
| | 96,075 | 227,047 |
| Provision for doubtful receivables | (13,934) | (8,718) |
| | 82,141 | 218,329 |

### 14.1 Workers' Profits Participation Fund

| | 2009 | 2008 |
|---|---|---|
| Balance as at January 1 | 55,571 | 9,128 |
| Allocation for the year | (242,514) | (157,078) |
| | (186,943) | (147,950) |
| Amount paid to the trustees | 195,903 | 203,521 |
| Balance as at December 31 | 8,960 | 55,571 |

## 15. TAX REFUNDS DUE FROM THE GOVERNMENT

| | 2009 | 2008 |
|---|---|---|
| Sales tax refundable - amounts paid under protest - note 15.1 | 137,012 | 137,012 |
| Taxation - payments less provision | 218,013 | 164,774 |
| Others | 27 | 27 |
| | 355,052 | 301,813 |

15.1 This includes a sum of Rs. 131 million (2008: Rs. 131 million) paid by way of abundant caution under the Amnesty Scheme, to avoid additional Sales Tax and Surcharge being levied in the event of unfavourable decisions of the appeals pending in the High Courts. These appeals were filed by third party manufacturers in respect of disallowance of input tax claimed by them on the ground that tax invoices and bills of entry were in the Company's name. The contracts with such manufacturers provided that in the event of any liability arising against them on this account, the Company would reimburse the tax. The Company's management and legal advisors expect a favourable outcome of the appeals, owing to the fact that the demands arose as a result of procedural matters and that there was no loss of revenue to the Government. Without prejudice to the earlier appeals filed, the Company has referred one of the above cases to the Alternate Dispute Resolution Committee, constituted under the Sales Tax law, the decision of which is still awaited.

| | | 2009 | 2008 |
|---|---|---|---|
| | | (Rupees in thousand) | |

## 16. CASH AND BANK BALANCES

| | 2009 | 2008 |
|---|---|---|
| With banks on: | | |
| current accounts | 238,365 | 104,988 |
| savings accounts | 444 | - |
| In hand: | | |
| cash | 744 | 1,801 |
| | 239,553 | 106,789 |

## 17. SHARE CAPITAL

**Authorised share capital**

| | | 2009 | 2008 |
|---|---|---|---|
| 47,835 | 5% cumulative preference shares of Rs. 100 each | 4,783 | 4,783 |
| 15,904,330 | Ordinary shares of Rs. 50 each | 795,217 | 795,217 |
| | | 800,000 | 800,000 |

**Issued, subscribed and paid up capital**

| | | 2009 | 2008 |
|---|---|---|---|
| 5% cumulative preference shares of Rs. 100 each | Shares allotted: | | |
| 43,835 | for consideration paid in cash | 4,383 | 4,383 |
| 4,000 | for acquisition of an undertaking | 400 | 400 |
| 47,835 | | 4,783 | 4,783 |
| Ordinary shares of Rs. 50 each | | | |
| | Shares allotted: | | |
| 467,704 | for consideration paid in cash | 23,385 | 23,385 |
| 4,979,208 | for consideration other than cash under schemes of arrangements for amalgamations | 248,961 | 248,961 |
| 7,846,957 | as bonus shares | 392,348 | 392,348 |
| 13,293,869 | | 664,694 | 664,694 |
| | | 669,477 | 669,477 |

At December 31, 2009 Unilever Overseas Holdings Limited, UK, a wholly owned subsidiary of Unilever PLC, UK holds 9,981,417 ordinary shares and 33,735 preference shares of Unilever Pakistan Limited (December 31, 2008: 9,711,293 ordinary shares and 33,735 preference shares).

|  | 2009 | 2008 |
|---|---|---|
|  | (Rupees in thousand) |  |

## 18. RESERVES

| | | |
|---|---|---|
| **Capital reserves** | | |
| Arising under schemes of arrangements for amalgamations - note 18.1 | 70,929 | 70,929 |
| Contingency - note 25.1.1 | 321,471 | 321,471 |
| | 392,400 | 392,400 |
| **Revenue reserves** | | |
| Unappropriated profit | 2,229,243 | 1,153,881 |
| | 2,621,643 | 1,546,281 |

18.1 This represents amounts of Rs. 18.36 million and Rs. 52.57 million that arose under schemes of arrangement for amalgamations of former Mehran International (Private) Limited, former Ambrosia International Limited and former Pakistan Industrial Promoters (Private) Limited with the Company.

## 19. SURPLUS ON REVALUATION OF FIXED ASSETS

This represents surplus over book values resulting from the revaluations of property, plant and equipment carried out in 1973, 1975, 1978 and 1981, adjusted only by surplus realised on disposal of revalued assets, incremental depreciation arising out of revaluation and deferred taxation.

|  | 2009 | 2008 |
|---|---|---|
|  | (Rupees in thousand) |  |
| Balance as at January 1 | 13,613 | 14,261 |
| Transferred to unappropriated profit - net of deferred taxation: incremental depreciation for the year | (648) | (648) |
| Balance as at December 31 | 12,965 | 13,613 |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

| | 2009 | 2008 |
|---|---|---|
| Present value of minimum lease payments | 85,181 | 109,649 |
| Current maturity shown under current liabilities | (28,419) | (32,322) |
| | 56,762 | 77,327 |
| **Minimum lease payments** | | |
| Not later than 1 year | 45,099 | 46,297 |
| Later than 1 year and not later than 5 years | 48,708 | 84,449 |
| | 93,807 | 130,746 |
| Finance charges not yet due | (8,626) | (21,097) |
| Present value of finance lease liabilities | 85,181 | 109,649 |
| Present value of finance lease liabilities | | |
| Not later than 1 year | 28,419 | 32,322 |
| Later than one year and not later than 5 years | 56,762 | 77,327 |
| | 85,181 | 109,649 |

The above represents finance leases entered into with modarbas for motor vehicles. The liability is payable by January 2013 in semi-annual and quarterly instalments.

Lease payments bearing variable markup rates include finance charge at KIBOR + 0.85% to 2% per annum. KIBOR is determined on semi-annual basis for next two quarterly and semi-annual rentals.

## 21. DEFERRED TAXATION

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Credit balance arising in respect of: | | |
| - accelerated tax depreciation allowances | 874,445 | 713,527 |
| - surplus on revaluation of fixed assets | 6,761 | 6,985 |
| | 881,206 | 720,512 |
| Debit balance arising in respect of: | | |
| - provision for retirement benefits | (47,069) | (11,476) |
| - share-based compensation | (16,292) | (11,984) |
| - provision for stock in trade and stores and spares | (62,962) | (86,281) |
| - provision for doubtful debts, advances and other receivables | (36,010) | (36,544) |
| - provision for restructuring | (3,138) | (161,737) |
| - others | (79,605) | (42,837) |
| | (245,076) | (350,859) |
| | 636,130 | 369,653 |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 22. TRADE AND OTHER PAYABLES

| | 2009 | 2008 |
|---|---|---|
| Creditors | 866,814 | 701,789 |
| Bills payable | 264,784 | 412,345 |
| Accrued liabilities | 3,599,177 | 2,627,780 |
| Royalty and technical services fee | 291,852 | 246,507 |
| Advance payment from customers | 144,122 | 87,011 |
| Sales tax payable | 216,400 | 91,309 |
| Excise duty payable | 114,444 | 90,814 |
| Workers' Welfare Fund | 92,155 | 93,497 |
| Security deposits from dealers - note 22.1 | 17,137 | 17,137 |
| Unclaimed dividend | 114,793 | 106,471 |
| Union Pakistan Provident Fund - related party | - | 11,937 |
| Unilever Pension Plan - related party | - | 11,989 |
| Liability for share-based compensation plans - note 22.3 | 48,130 | 35,953 |
| Others | 15,968 | 13,255 |
| | 5,785,776 | 4,547,794 |

22.1 This represents security deposits obtained by former Pakistan Industrial Promoters (Private) Limited against freezer cabinets placed with dealers.

22.2 Amounts due to related parties included in trade and other payables are as follows:

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Ultimate parent company | 291,852 | 246,507 |
| Associated companies | 918,508 | 847,651 |
| Subsidiaries | 2 | 2 |
| Company in which close family member of a Director is holding directorship | 33,551 | 28,418 |

### 22.3 Share-based compensation plans

As at December 31, 2009 share-based compensation plans of the Company include:

**Global Performance Share Plan (GPSP) and Leadership Performance Share Plan (LPSP):**

Under the plans, employees eligible as per policy can be awarded conditional shares of Unilever PLC or Unilever NV which will vest three years later depending on Unilever's achievement of set targets for Underlying Sales Growth (USG), Ungeared Free Cash Flow (UFCF) and Total Shareholder Return (TSR) ranking over the three-year performance period.

The details of the arrangements are as follows :

| | | GPSP | | LPSP | |
|---|---|---|---|---|---|
| Shares of | | Unilever PLC | Unilever NV | Unilever PLC | Unilever NV |
| Date of grant | 2007 | March 21, 2007 | March 21, 2007 | May 22, 2007 | May 22, 2007 |
| | 2008 | March 21, 2008 | - | March 20, 2008 | March 20, 2008 |
| | 2009 | March 19, 2009 | - | March 19, 2009 | March 19, 2009 |
| Total number of shares granted | 2007 | 10,480 | 180 | 1,530 | 1,530 |
| | 2008 | 6,494 | - | 1,225 | 1,225 |
| | 2009 | 9,965 | - | 1,962 | 1,962 |
| | | 26,939 | 180 | 4,717 | 4,717 |
| Fair value / Share price on grant date | 2007 | £14.88 | € 21.33 | £15.82 | € 22.20 |
| | 2008 | £16.72 | - | £16.72 | € 21.27 |
| | 2009 | £12.46 | - | £12.46 | € 13.22 |
| Contractual life (years) | | 3 | 3 | 3 | 3 |
| Vesting conditions | | Performance conditions | Performance conditions | Performance and market conditions | Performance and market conditions |
| Settlement | | Shares | Shares | Shares | Shares |
| Expected lapse per year | | 20% | 20% | 20% | 20% |
| Expected outcome of meeting the performance criteria (at the grant date) | 2007 | by March 21, 2010 | by March 21, 2010 | by May 22, 2010 | by May 22, 2010 |
| | 2008 | by March 20, 2011 | - | by March 20, 2011 | by March 20, 2011 |
| | 2009 | by March 19, 2012 | - | by March 19, 2012 | by March 19, 2012 |

No dividend payments were expected; consequently, the measurement of the fair value did not consider dividends.

### 22.3.1 Details of plan that vested during the year are:

| | GPSP | | LPSP | |
|---|---|---|---|---|
| Shares of | Unilever PLC | Unilever NV | Unilever PLC | Unilever NV |
| Date of grant | March 21, 2006 | March 21, 2006 | March 21, 2006 | March 21, 2006 |
| Vesting date | March 21, 2009 | March 21, 2009 | March 21, 2009 | March 21, 2009 |
| Fair value / Share price on grant date | £13.01 | € 19.03 | £13.01 | € 19.03 |
| Fair value / Share price on vesting date | £12.45 | € 13.94 | £12.45 | € 13.94 |
| Difference of grant date and settlement date fair value | -£ 0.56 | -€ 5.09 | -£ 0.56 | -€ 5.09 |
| Contractual life (years) | 3 | 3 | 3 | 3 |
| Vesting conditions | Performance conditions | Performance conditions | Performance and market conditions | Performance and market conditions |
| Settlement | Cash | Cash | Cash | Cash |

In view of recharge arrangements and payments in cash, the Company has treated these share-based plans as liability.

## 23. SHORT TERM BORROWINGS

**Short term running finance - secured**

The facilities for running finance available from various banks amount to Rs. 6.67 billion (2008: Rs. 5.99 billion). The rates of markup range between 12.52% to 16.00% per annum (2008: 13.90% to 16.26% per annum).

The arrangements are secured by way of pari-passu charge against hypothecation of Company's stock in trade.

The facilities for opening letters of credit and guarantees as at December 31, 2009 amounted to Rs. 4.63 billion (2008: Rs. 2.37 billion), of which the amount remaining unutilised at the year end was Rs. 4.29 billion (2008: Rs. 1.34 billion).

## 24. PROVISIONS

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Provision for cess less payments - note 25.1 | 211,415 | 108,341 |
| **Restructuring** | | |
| Balance as at January 1 | 485,218 | 371,027 |
| Provision during the year | - | 489,280 |
| Reversal during the year | (25,719) | - |
| Utilised during the year | (450,234) | (375,089) |
| Balance as at December 31 | 9,265 | 485,218 |
| | 220,680 | 593,559 |

## 25. CONTINGENCIES AND COMMITMENTS

### 25.1 Contingencies

25.1.1 Government of Sindh through Finance Act, 1994 levied fee for services rendered in respect of development and maintenance of infrastructure on the import and export of goods. However, the Company filed a constitutional petition against the levy of such fee in the High Court of Sindh and the Court granted stay for the payment of the fee. During the year 2001, the Government of Sindh introduced Cess in place of infrastructure fee with retrospective effect. As a result, Unilever's petition became infractuous and a fresh suit was filed by Unilever to challenge the levy. A stay against recovery of the aforesaid levy of Cess was also obtained from the Court. In 2003 the High Court decided the issue against the Company. Against this order an intra court appeal was filed with the High Court. The appeal was disposed of in August 2008, whereby the levy imposed and collected with effect from December 28, 2006 was declared valid and all imposition and collection before such date as invalid. The Court further ordered that all bank guarantees / securities furnished for transactions before December 28, 2006 stand discharged and are liable to be returned back and those furnished in respect of transactions after December 28, 2006 are liable to be encashed. The Company as well as the Government of Sindh have filed appeals in the Supreme Court against the said order. A provision amounting to Rs. 235.07 million concerning the levy with respect from December 28, 2006 has been recognised in the financial statements. Moreover, the Company has paid an amount of Rs. 23.65 million under protest against the said order.

As a matter of prudence, a total of Rs 321.47 million as at December 31, 2009 (Rs 321.47 million as at December 31, 2008) out of the revenue reserves has been earmarked as contingency reserve for the levy uptill December 2006.

25.1.2 During the year, the Taxation Officer (TO) passed amended assessment orders for tax years 2006 and 2007 enhancing income tax liability by Rs. 286 million and Rs. 78 million respectively, in respect of certain disallowances made by the tax officer while finalising the assessment order.

The Company has already filed an appeal before the Commissioner of Inland Revenue (Appeals) which is expected to be fixed shortly.

The management of the Company is of the view that the disallowances have been made erroneously and, therefore, the ultimate decision in appeal will be in Company's favour. No provision has, therefore, been made in the financial statements.

### 25.2 Commitments

**25.2.1** Aggregate commitments for capital expenditure amounted to Rs. 36.66 million (2008: Rs. 126.23 million).

**25.2.2** Aggregate commitments for operating lease rentals as at December 31, are as follows:

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Not later than one year | 42,360 | 93,330 |
| Over one year to five years | 147,485 | 107,102 |
| | 189,845 | 200,432 |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 26. SALES

| | 2009 | 2008 |
|---|---|---|
| Manufactured goods | | |
| Gross sales | 47,807,308 | 37,516,467 |
| Sales tax | (7,219,672) | (5,578,696) |
| Excise duty | (1,238,271) | (922,191) |
| | 39,349,365 | 31,015,580 |
| Imported goods | | |
| Gross sales | 1,298,391 | 1,540,705 |
| Sales tax | (23,596) | (59,374) |
| Excise duty | (417) | (9,668) |
| | 1,274,378 | 1,471,663 |
| Rebates and allowances | (2,436,161) | (1,530,404) |
| | 38,187,582 | 30,956,839 |

## 27. COST OF SALES

| | 2009 | 2008 |
|---|---|---|
| Raw and packing materials consumed | 20,593,398 | 17,151,890 |
| Manufacturing charges paid to third parties | 686,529 | 535,630 |
| Stores and spares consumed | 141,308 | 108,634 |
| Staff costs - note 27.1 | 1,077,303 | 949,290 |
| Utilities | 471,273 | 398,084 |
| Repairs and maintenance | 208,631 | 207,902 |
| Rent, rates and taxes | 56,242 | 35,686 |
| Depreciation | 412,764 | 340,681 |
| Travelling and entertainment | 49,835 | 62,850 |
| Stationery and office expenses | 35,776 | 43,599 |
| Expenses on information technology | 3,985 | 1,326 |
| Other expenses | 47,318 | 36,701 |
| Charges by related party | 3,096 | 2,081 |
| Recovery of charges from related party | (2,095) | (2,889) |
| | 23,785,363 | 19,871,465 |
| Opening work in process | 102,466 | 66,192 |
| | 23,887,829 | 19,937,657 |
| Closing work in process | (72,736) | (102,466) |
| Cost of goods manufactured | 23,815,093 | 19,835,191 |
| Opening stock of finished goods including by product glycerine | 1,414,059 | 929,087 |
| Closing stock of finished goods including by product glycerine | (1,210,086) | (1,414,059) |
| | 24,019,066 | 19,350,219 |
| Imported goods | | |
| Opening stock | 73,170 | 71,557 |
| Purchases | 804,710 | 870,578 |
| | 877,880 | 942,135 |
| Closing stock | (44,321) | (73,170) |
| | 833,559 | 868,965 |
| | 24,852,625 | 20,219,184 |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 27.1 Staff costs

| | | |
|---|---|---|
| Salaries and wages | 1,019,000 | 908,167 |
| Medical | 17,184 | 21,145 |
| Share based compensation | - | (74) |
| Pension costs - defined benefit plan | 9,051 | 9,273 |
| Gratuity costs - defined benefit plan | 18,720 | 2,160 |
| Pensioners' medical plan | 3,801 | 2,648 |
| Provident fund cost - defined contribution plan | 3,915 | 5,971 |
| Pension fund cost - defined contribution plan | 5,632 | - |
| | 1,077,303 | 949,290 |

## 28. DISTRIBUTION COSTS

| | | |
|---|---|---|
| Staff costs - note 28.1 | 726,293 | 600,446 |
| Advertisement and sales promotion | 3,819,159 | 2,889,465 |
| Outward freight and handling | 986,614 | 800,384 |
| Royalty and technical fee | 1,292,108 | 1,096,243 |
| Utilities | 7,625 | 8,367 |
| Repairs and maintenance | 21,444 | 24,854 |
| Rent, rates and taxes | 127,575 | 132,675 |
| Depreciation | 47,098 | 63,275 |
| Amortisation of computer software | 2,727 | 2,727 |
| Travelling and entertainment | 70,048 | 97,648 |
| Stationery and office expenses | 63,555 | 49,783 |
| Expenses on information technology | 3,629 | 1,887 |
| Legal, professional and other consultancy charges | 7,553 | 21,198 |
| Other expenses | 48,325 | 86,943 |
| Charges by related party | 54,600 | 34,563 |
| Recovery of charges from related party | (98,659) | (62,613) |
| | 7,179,694 | 5,847,845 |

## 28.1 Staff costs

| | | |
|---|---|---|
| Salaries and wages | 619,114 | 526,269 |
| Medical | 17 | 243 |
| Share based compensation | 20,400 | 13,209 |
| Pension costs - defined benefit plan | 1,808 | 12,204 |
| Gratuity costs - defined benefit plan | 19,026 | 17,544 |
| Pensioners' medical plan | 4,865 | 5,513 |
| Provident fund cost - defined contribution plan | 30,203 | 25,464 |
| Pension fund cost - defined contribution plan | 30,860 | - |
| | 726,293 | 600,446 |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 29. ADMINISTRATIVE EXPENSES

| | 2009 | 2008 |
|---|---|---|
| Staff costs - note 29.1 | 349,609 | 330,370 |
| Utilities | 33,847 | 31,635 |
| Repairs and maintenance | 13,752 | 19,240 |
| Rent, rates and taxes | 159,322 | 103,945 |
| Depreciation | 37,005 | 49,715 |
| Amortisation of computer software | 2,143 | 2,143 |
| Travelling and entertainment | 30,859 | 51,884 |
| Stationery and office expenses | 56,729 | 61,575 |
| Expenses on information technology | 230,892 | 164,572 |
| Legal, professional and other consultancy charges | 62,739 | 73,820 |
| Auditors' remuneration - note 29.2 | 12,718 | 11,976 |
| Provision for doubtful debts - others | - | 10,000 |
| Provision for doubtful debts - trade | - | 3,247 |
| Other expenses | 57,401 | 99,812 |
| Charges by related party | 3,771 | 2,496 |
| Recovery of charges from related party | (20,309) | (14,216) |
| | 1,030,478 | 1,002,214 |

### 29.1 Staff costs

| | 2009 | 2008 |
|---|---|---|
| Salaries and wages | 233,899 | 227,178 |
| Medical | 25,912 | 18,832 |
| Share based compensation | 8,826 | 19,523 |
| Pension costs - defined benefit plan | 4,179 | 15,532 |
| Gratuity costs - defined benefit plan | 43,974 | 22,329 |
| Pensioners' medical plan | 11,245 | 7,017 |
| Provident fund cost - defined contribution plan | 13,068 | 19,959 |
| Pension fund cost - defined contribution plan | 8,506 | - |
| | 349,609 | 330,370 |

### 29.2 Auditors' remuneration

| | 2009 | 2008 |
|---|---|---|
| Audit fee | 3,700 | 3,100 |
| Taxation services | 5,500 | 4,026 |
| Limited review, audit of consolidated financial statements, pension, provident and gratuity funds, third party expense verifications and certifications for various government agencies | 3,068 | 4,500 |
| Out of pocket expenses | 450 | 350 |
| | 12,718 | 11,976 |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 30. OTHER OPERATING EXPENSES

| | 2009 | 2008 |
|---|---|---|
| Donations and Corporate Social Responsibility - note 30.1 | 30,215 | 30,498 |
| Workers' Profits Participation Fund - note 14.1 | 242,514 | 157,078 |
| Workers' Welfare Fund | 92,155 | 59,690 |
| Loss on disposal of property, plant and equipment | 8,901 | - |
| | 373,785 | 247,266 |

### 30.1 Donations and corporate social responsibility

Donations include the following in whom a director is interested:

| Name of Director(s) | Interest in Donee | Name and address of Donee | 2009 (Rupees in thousand) | 2008 (Rupees in thousand) |
|---|---|---|---|---|
| 1. Ehsan A. Malik | Board member | The Kidney Centre 172/R, Rafiqui Shaheed Road, Karachi | 150 | 2,065 |
| | Trustee | The Duke of Edinburgh Awards Pakistan | 25 | - |
| | Board member Pro-Chancellor | Lahore University of Management Sciences, DHA, Lahore | 2,161 | 2,599 |
| | Corporate Member President-Emeritus | World Wide Fund for Nature Ferozepur Road, Lahore | 150 | - |

## 31. OTHER OPERATING INCOME

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| **Income from financial assets** | | |
| Dividend income | 12 | 12 |
| Return on savings accounts - note 31.1 | 993 | 1,065 |
| **Income from non-financial assets** | | |
| Scrap sales | 22,422 | 27,312 |
| Profit on disposal of property, plant and equipment | - | 29,805 |
| Sundries | 66,614 | 36,892 |
| **Others** | | |
| Service fee from related parties - note 31.2 | 37,420 | 40,251 |
| Provision for doubtful trade debts written back | 2,036 | - |
| Provision no longer required written back | 25,719 | - |
| Liabilities no longer payable written back | 37,097 | 104,581 |
| | 192,313 | 239,918 |

31.1 Mark-up on saving accounts was earned at the rates ranging from 5% to 9% per annum (2008: 5% to 8.5%).

31.2 This includes amount charged by the Company for certain management and other services rendered to its related party - Unilever Pakistan Foods Limited, in accordance with the Service Agreement between the two companies.

## 32. FINANCE COST

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Mark-up on short term borrowings | 229,009 | 138,705 |
| Bank charges | 29,194 | 36,780 |
| Exchange loss | 155,444 | 258,203 |
| Finance charge on finance leases | 13,474 | 12,814 |
| Others | 587 | 193 |
| | 427,708 | 446,695 |
| **Interest on loan from related party** | | |
| Interest on short term loan | - | 19,471 |
| | 427,708 | 466,166 |

## 33. TAXATION

| | 2009 | 2008 |
|---|---|---|
| Current - for the year | | |
| Pakistan | 1,170,027 | 859,002 |
| Azad Kashmir | 23,361 | 20,865 |
| | 1,193,388 | 879,867 |
| Deferred tax charge | 266,477 | 60,609 |
| | 1,459,865 | 940,476 |

### 33.1 Relationship between tax expense and accounting profit

| | 2009 | 2008 |
|---|---|---|
| Accounting profit before tax | 4,515,605 | 2,924,802 |
| Tax at the applicable tax rate of 35% | 1,580,462 | 1,023,681 |
| Tax effect of permanent differences | (648) | 5,083 |
| Tax effect of final tax regime | (119,949) | (88,288) |
| Tax expense for the year | 1,459,865 | 940,476 |

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 34. EARNINGS PER SHARE

| | 2009 | 2008 |
|---|---|---|
| Profit after tax | 3,055,740 | 1,984,326 |
| Preference dividend on cumulative preference shares | (239) | (239) |
| Profit after taxation attributable to ordinary shareholders | 3,055,501 | 1,984,087 |
| Weighted average number of shares in issue during the year (in thousands) | 13,294 | 13,294 |
| Earnings per share (Rupees) | 230 | 149 |

There is no dilutive effect on the basic earnings per share of the Company.

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |

## 35. CASH AND CASH EQUIVALENTS

| | 2009 | 2008 |
|---|---|---|
| Cash and bank balances | 239,553 | 106,789 |
| Short term borrowings - running finance under markup arrangements | (1,037,911) | (3,232,523) |
| | (798,358) | (3,125,734) |

## 36. SEGMENT INFORMATION

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. Management has determined the operating segments based on the information that is presented to the Chief Executive Officer of the Company for allocation of resources and assessment of performance. Based on internal management reporting structure and products produced and sold, the Company is organised into the following four operating segments:

- Home and Personal Care
- Beverages - tea
- Ice Cream
- Spreads

Management monitors the operating results of above mentioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Finance cost, restructuring cost, other operating income and expenses, and taxation are managed at Company level. Further, unallocated assets include long term investments, long term loans and advances, long term deposits and prepayments, loans and advances, accrued interest, trade deposits and short term prepayments, other receivables, tax refunds due from Government and cash and bank balances.

### 36.1 Segment analysis

The segment information for the reportable segments for the year ended December 31, 2009 is as follows:

| | Home and Personal Care | Beverages | Ice Cream | Other | Total |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| Year ended December 31, 2009 | | | | | |
| Revenue | 21,390,814 | 11,694,926 | 4,162,718 | 939,124 | 38,187,582 |
| Segment results | 4,060,076 | 659,183 | 276,632 | 128,894 | 5,124,785 |
| Year ended December 31, 2008 | | | | | |
| Revenue | 16,808,870 | 9,591,663 | 3,824,605 | 731,701 | 30,956,839 |
| Segment results | 2,955,571 | 659,103 | (13,147) | (37,988) | 3,563,539 |

Reconciliation of segment results with profit from operations:

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Total results for reportable segments | 5,124,785 | 3,563,539 |
| Restructuring costs | - | (165,223) |
| Other operating expenses | (373,785) | (247,266) |
| Other operating income | 192,313 | 239,918 |
| Finance cost | (427,708) | (466,166) |
| Profit from operations | 4,515,605 | 2,924,802 |

Information on assets and liabilities by segment is as follows:

| | Home and Personal Care | Beverages | Ice Cream | Other | Total |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| As at December 31, 2009 | | | | | |
| Segment assets | 3,840,917 | 2,136,525 | 3,017,197 | 127,856 | 9,122,495 |
| Segment liabilities | 2,022,647 | 835,801 | 509,326 | 187,576 | 3,555,350 |
| As at December 31, 2008 | | | | | |
| Segment assets | 3,448,520 | 1,779,154 | 3,469,902 | 66,356 | 8,763,932 |
| Segment liabilities | 1,741,309 | 735,218 | 392,298 | 131,176 | 3,000,001 |

Reconciliation of segments' assets and liabilities with totals in the balance sheet is as follows:

| | As at December 31, 2009 | | As at December 31, 2008 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| | (Rupees in thousand) | | | |
| Total for reportable segments | 9,122,495 | 3,555,350 | 8,763,932 | 3,000,001 |
| Unallocated assets / liabilities | 2,303,220 | 4,566,280 | 2,622,486 | 6,157,046 |
| Total as per balance sheet | 11,425,715 | 8,121,630 | 11,386,418 | 9,157,047 |

Other segment information is as follows:

| | Home and Personal Care | Beverages | Ice Cream | Other | Total |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| **Year ended December 31, 2009** | | | | | |
| Staff costs | 1,083,836 | 666,237 | 371,821 | 31,311 | 2,153,205 |
| Advertisement and sales promotion | 2,629,760 | 555,718 | 487,894 | 145,787 | 3,819,159 |
| Outward freight and handling | 601,881 | 135,873 | 228,834 | 20,026 | 986,614 |
| Royalty and technical fee | 762,449 | 341,685 | 156,717 | 31,257 | 1,292,108 |
| Depreciation | 163,691 | 44,064 | 279,932 | 9,180 | 496,867 |
| **Year ended December 31, 2008** | | | | | |
| Staff costs | 839,292 | 594,659 | 413,557 | 32,598 | 1,880,106 |
| Advertisement and sales promotion | 1,867,571 | 455,322 | 409,625 | 156,947 | 2,889,465 |
| Outward freight and handling | 422,556 | 147,837 | 209,391 | 20,600 | 800,384 |
| Royalty and technical fee | 604,739 | 318,841 | 149,980 | 22,683 | 1,096,243 |
| Depreciation | 128,107 | 48,657 | 270,969 | 5,938 | 453,671 |

36.2 Sales to domestic customers in Pakistan are 97.40% (2008: 96.82%) and to customers outside Pakistan are 2.60% (2008: 3.18%) of the revenue during the year.

36.3 The Company's customer base is diverse with no single customer accounting for more than 10% of net revenues.

## 37. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties during the year:

| Relationship with the Company | Nature of transactions | 2009 | 2008 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| i. Ultimate parent company | | | |
| | Royalty and technical fee | 1,292,108 | 1,010,709 |
| ii. Associated companies | | | |
| | Purchase of goods | 8,326,205 | 7,071,870 |
| | Sale of goods | 610 | 252 |
| | Fee for receiving of services from related party | 1,041 | 670 |
| | Reimbursement of expenses to related parties | 61,467 | 39,140 |
| | Recovery of expenses from related party | 121,063 | 79,718 |
| | Fee for providing of services to related party | 37,420 | 40,251 |
| | Purchase of operating assets | 31,329 | - |
| | Sale of operating assets | - | 7,674 |
| | Short term loan received | - | 1,023,000 |
| | Short term loan repaid | - | 1,062,600 |
| | Interest on short term loan | - | 19,471 |
| iii. Key management personnel | | | |
| | Salaries and other short-term employee benefits | 91,734 | 75,515 |
| | Post-employment benefits | 7,690 | 6,787 |
| | Consideration received for vehicle sold | 37 | 773 |
| iv. Others | | | |
| | Donations | 2,486 | 6,565 |
| | Corporate social responsibility | - | 1,174 |

Royalty and technical fee are paid in accordance with the agreements duly acknowledged by the State Bank of Pakistan. Other transactions with related parties are settled in the ordinary course of business.

The Company has entered into agreements with its associate, Unilever Pakistan Foods Limited to share various administrative and other resources. The charges by and recovery of costs from the associate have been disclosed in notes 27, 28 and 29.

The related party status of outstanding balances as at December 31, 2009 are included in trade debts, other receivables and trade and other payables respectively.

Arrangements with parent company and an associated company for granting of their shares to employees of Unilever Pakistan Limited are disclosed in notes 13.1 and 22.3.

## 38. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

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

| | Executive Directors | | Chief Executive | | Executives | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | (Rupees in thousand) | | | | | |
| Managerial remuneration and allowances | **24,757** | 23,230 | **13,550** | 12,428 | **362,612** | 337,683 |
| Share based compensation | **8,857** | 10,122 | **7,958** | 10,550 | **12,411** | 11,987 |
| Retirement benefits * | **3,874** | 3,147 | **1,942** | 1,773 | **64,801** | 57,860 |
| Rent and utilities | **3,544** | 3,857 | **1,535** | 1,423 | **118,511** | 108,960 |
| Medical expenses | **311** | 462 | **115** | 234 | **7,548** | 7,099 |
| Other expenses | **-** | - | **2,106** | 1,422 | **6,122** | 2,448 |
| | **41,343** | 40,818 | **27,206** | 27,830 | **572,005** | 526,037 |
| Number of persons | **5** | 4 | **1** | 1 | **325** | 300 |

In addition to this, a lump sum amount of Rs. 246.14 million (2008: Rs. 157.06 million) on account of variable pay has been accounted for in the financial statements for the current year payable in 2010 after verification of target achievement.

Out of the variable pay recognised for 2008 and 2007 following payments were made:

| | Paid in 2009 relating to 2008 | Paid in 2008 relating to 2007 |
|---|---|---|
| | (Rupees in thousand) | |
| Executive Directors | **11,652** | 4,903 |
| Chief Executive | **6,433** | 4,117 |
| Executives | **93,135** | 80,210 |
| Other employees | **45,797** | 24,706 |
| | **157,017** | 113,936 |

* Retirement benefits represent amount contributed towards various retirement benefit plans.

The executive directors, chief executive and certain executives of the Company are provided with free use of cars and household equipments.

Aggregate amount charged in these financial statements for the year for fee to 2 non-executive directors was Rs. 300 thousand (2008: 5 non-executive directors Rs. 165 thousand).

## 39. CAPACITY

| | Annual Capacity | | | Actual Production | |
|---|---|---|---|---|---|
| | 2009 | 2008 | | 2009 | 2008 |
| | | | Metric Tons | | |
| **Own manufacture** | | | | | |
| Home and Personal Care | 58,883 | 57,741 | | 46,299 | 42,175 |
| Beverages | 58,587 | 50,000 | | 34,240 | 36,687 |
| | | | Million Litres | | |
| Ice Cream | 77 | 77 | | 37 | 39 |

Annual capacity of Beverages was increased in lieu of higher anticipated sales in future. The current capacity was under utilised on account of lower demand.

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 40.1 Financial risk factors

The Company's activities expose it to variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on having cost effective funding as well as manage financial risk to minimise earnings volatility and provide maximum return to shareholders.

### 40.2 Financial assets and liabilities by category and their respective maturities

| | Interest bearing | | | Non-interest bearing | | | Total |
|---|---|---|---|---|---|---|---|
| | Maturity up to one year | Maturity after one year | Sub-total | Maturity up to one year | Maturity after one year | Sub-total | |
| | (Rupees in thousand) | | | | | | |
| **FINANCIAL ASSETS** | | | | | | | |
| **Loans and receivables** | | | | | | | |
| Loans and advances to employees | - | - | - | 48,998 | 98,117 | 147,115 | 147,115 |
| Deposits | - | - | - | 16,192 | 1,702 | 17,894 | 17,894 |
| Trade debts | - | - | - | 506,357 | - | 506,357 | 506,357 |
| Other receivables | - | - | - | 73,181 | - | 73,181 | 73,181 |
| Cash and bank balances | 444 | - | 444 | 239,109 | - | 239,109 | 239,553 |
| **Long term investments at cost** | - | - | - | - | 95,202 | 95,202 | 95,202 |
| **December 31, 2009** | 444 | - | 444 | 883,837 | 195,021 | 1,078,858 | 1,079,302 |
| December 31, 2008 | - | - | - | 686,239 | 220,227 | 906,466 | 906,466 |
| **FINANCIAL LIABILITIES** | | | | | | | |
| **At amortised cost** | | | | | | | |
| Trade and other payables | - | - | - | 5,218,655 | - | 5,218,655 | 5,218,655 |
| Accrued interest / mark up | - | - | - | 28,892 | - | 28,892 | 28,892 |
| Liabilities against assets subject to finance leases | 28,419 | 56,762 | 85,181 | - | - | - | 85,181 |
| Short term borrowings | 1,037,911 | - | 1,037,911 | - | - | - | 1,037,911 |
| **December 31, 2009** | 1,066,330 | 56,762 | 1,123,092 | 5,247,547 | - | 5,247,547 | 6,370,639 |
| December 31, 2008 | 3,264,845 | 77,327 | 3,342,172 | 4,249,238 | - | 4,249,238 | 7,591,410 |
| **ON BALANCE SHEET GAP** | | | | | | | |
| **December 31, 2009** | (1,065,886) | (56,762) | (1,122,648) | (4,363,710) | 195,021 | (4,168,689) | (5,291,337) |
| December 31, 2008 | (3,264,845) | (77,327) | (3,342,172) | (3,562,999) | 220,227 | (3,342,772) | (6,684,944) |
| **OFF BALANCE SHEET ITEMS** | | | | | | | |
| Letters of credit / guarantees | | | | | | | 334,600 |
| December 31, 2008 | | | | | | | 1,029,967 |

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

### i) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed to perform as contracted. The maximum exposure to credit risk is equal to the carrying amount of financial assets. Out of the total financial assets of Rs. 1.08 billion the financial assets that are subject to credit risk amounted to Rs. 506 million.

For trade debts, internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Individual risk limits are set based on internal or external credit worthiness ratings in accordance with limits set by the management. As of December 31, 2009 trade debts of Rs. 42.87 million were past due but not impaired. The carrying amount of trade debts relates to a number of independent customers for whom there is no recent history of default.

Deposits have been placed mainly against shipping guarantees and letters of credit hence exposed to no significant credit risk.

Loans and advances to employees are not exposed to any material credit risk since these are secured against their retirement benefits.

Other receivables constitute mainly receivables from the related parties, therefore, are not exposed to any significant credit risk.

The bank balances represent low credit risk as they are placed with banks having good credit ratings assigned by credit rating agencies.

The management does not expect any losses from non-performance by these counterparties.

### ii) Liquidity risk

Liquidity risk reflects the Company's inability in raising funds to meet commitments. The Company manages liquidity risk by maintaining sufficient cash and bank balances and the availability of financing through banking arrangements.

### iii) Market risk

### a) Foreign exchange risk

Foreign exchange risk arises mainly where receivables and payables exist in foreign currency. As at December 31, 2009, financial assets of Rs. 13.32 million (2008: Rs. 75.41 million) and financial liabilities of Rs. 1.20 billion (2008: Rs. 1.10 billion) were in foreign currency which were exposed to foreign currency risk.

As at December 31, 2009, if the Pakistan Rupee had weakened / strengthened by 8% against US Dollar with all other variables held constant, profit before tax for the year would have been lower/ higher by Rs. 3.46 million (2008: Rs. 7.11 million), mainly as a result of foreign exchange losses/ gains on translation of US Dollar denominated financial assets and liabilities.

As at December 31, 2009, if the Pakistan Rupee had weakened / strengthened by 10% against Euro with all other variables held constant, profit before tax for the year would have been lower/ higher by Rs. 119.72 million (2008: Rs. 90.49 million), mainly as a result of foreign exchange losses/ gains on translation of Euro denominated financial assets and liabilities.

The sensitivity of foreign exchange rate looks at the outstanding foreign exchange balances of the Company only as at the balance sheet date and assumes this is the position for a full twelve-month period. The volatility percentages for movement in foreign exchange rates have been used due to the fact that historically (5 years) rates have moved on average basis by the mentioned percentages per annum.

### b) Interest rate risk

The Company's interest rate risk arises from borrowings as the Company has no significant interest-bearing assets. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk.

At December 31, 2009, the Company had variable interest bearing financial liabilities of Rs. 1.12 billion (2008: Rs.3.34 billion), and had the interest rate varied by 200 basis points with all the other variables held constant, profit before tax for the year would have been approximately Rs. 22.46 million (2008: Rs. 66.84 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings.

## 41. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During 2009 the Company's strategy was to maintain leveraged gearing. The gearing ratios as at December 31, 2009 and 2008 were as follows:

| | 2009 | 2008 |
|---|---|---|
| | (Rupees in thousand) | |
| Total borrowings | 1,123,092 | 3,342,172 |
| Cash and bank | (239,553) | (106,789) |
| Net debt | 883,539 | 3,235,383 |
| Total equity | 3,291,120 | 2,215,758 |
| Total equity and debt | 4,174,659 | 5,451,141 |
| Gearing ratio | 21% | 59% |

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance.

## 42. DETAILS OF PROPERTY, PLANT AND EQUIPMENT DISPOSALS

The details of property, plant and equipment disposed of during the year are given below:

| | Cost | Accumulated Depreciation / Impairment | Book Value | Sale Proceeds | Mode of Disposal | Particulars of Purchaser |
|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | |
| Plant and Machinery | 1,514 | 411 | 1,103 | 112 | Open bidding | Mahboob Brothers, S87/11 Bank Colony, Samanabad, Lahore. |
| Electrical, mechanical and office equipment | 845 | 523 | 322 | 8 | Open bidding | Mr. Sufi Shah Mohammad, Opposite Brooke Bond Tea Factory, Khanewal. |
| | 182 | 109 | 73 | 37 | Company policy | Mr. Jamal Mustafa Siddique - Ex-executive |
| | 1,027 | 632 | 395 | 45 | | |
| Furniture and Fittings | 136 | 25 | 111 | 112 | Company policy | Mr. Viranga - Ex-executive |
| Motor vehicles | | | | | | |
| | 849 | 530 | 319 | 372 | Company policy | Mr. Abid Sultan - Ex-executive |
| | 1,350 | 505 | 845 | 929 | " | Ms. Asiya Zaidi - Executive |
| | 1,809 | 224 | 1,585 | 1,698 | " | Ms. Ayesha Janjua - Executive |
| | 1,376 | 859 | 517 | 603 | " | Ms. Farheen - Executive |
| | 1,043 | 847 | 196 | 534 | " | Mr. Farooq Kalim - Ex-executive |
| | 1,288 | 1,045 | 243 | 354 | " | Mr. Khuram Khan - Ex-executive |
| | 1,279 | 1,040 | 239 | 384 | " | Ms. Khursheed Kotwal - Ex-executive |
| | 1,147 | 1,002 | 145 | 315 | " | Mr. Masood Khalid - Ex-executive |
| | 847 | 264 | 583 | 744 | " | Mr. Muhammad Furrukh - Ex-executive |
| | 1,198 | 674 | 524 | 339 | " | Mr. Nosherwan - Executive |
| | 1,102 | 206 | 896 | 965 | " | Mr. Omer bin Younus - Executive |
| | 939 | 645 | 294 | 344 | " | Mr. Qanit Khalil - Ex-executive |
| | 2,461 | 1,384 | 1,077 | 1,231 | " | Mr. Saeed Mustafa - Executive |
| | 981 | 367 | 614 | 675 | " | Mr. Sajid Manzor - Executive |
| | 911 | 341 | 570 | 627 | " | Mr. Tahir Anis - Ex-executive |
| | 2,278 | 951 | 1,327 | 2,238 | Insurance claim | New Jubilee Insurance Company Ltd. NJI House, I.I. Chundrigar Road, Karachi. |
| | 20,858 | 10,884 | 9,974 | 12,352 | | |
| Leasehold land | 187 | 6 | 181 | 17,140 | Open bidding | Mr. Haroon Rashid s/o Mr.Hafiz Abdul Rashid, resident of B-145, Block A, KDA, Officers Housing Society, Karachi. |
| **Assets having book value less than Rs. 50,000 each** | | | | | | |
| Electrical, mechanical and office equipment | 5,636 | 5,534 | 102 | 195 | | |
| Motor Vehicles | 72,827 | 72,778 | 49 | 24,852 | | |
| Furniture and Fittings | 1,029 | 830 | 199 | 254 | | |
| Plant and Machinery | 54,012 | 45,610 | 8,402 | 7,093 | | |
| **Assets written off** | | | | | | |
| Plant and Machinery - freezer cabinets | 88,861 | 38,321 | 50,540 | - | | |
| Electrical, mechanical and office equipment | 779 | 779 | - | - | | |
| | 246,866 | 175,810 | 71,056 | 62,155 | | |

## 43. MONOPOLY CONTROL AUTHORITY ORDER

With respect to the Monopoly Control Authority Order dated December 19, 2006, terminating the non-competition agreement and requiring the Company to refund the amount of Rs. 250 million to Dalda Foods (Private) Limited (DFL) within fifteen days of receipt of the Order, the management, based on legal advice, is of the view that the agreement between the Company and DFL is not in the violation of Monopolies and Restrictive Trade Practices Ordinance 1970; The Company filed an appeal in the High Court of Sindh against the Order which was admitted and the operation of MCA's order was stayed. At present, the appeal is pending for hearing.

## 44. CORRESPONDING FIGURES

Prior year's figures have been reclassified for the purpose of better presentation. Significant changes made during the year are as follows:

| Reclassification from component | Reclassification to component | Rupees in thousand |
|---|---|---|
| Stock in trade | Stores | 9,856 |
| Administrative expenses | Cost of sales | |
| - staff costs | - staff costs | 153,308 |
| - utilities | - utilities | 651 |
| - repairs and maintenance | - repairs and maintenance | 4,649 |
| - travelling and entertainment | - travelling and entertainment | 17,245 |
| - stationery and office expenses | - stationery and office expenses | 6,198 |
| - legal, professional and other consultancy charges | - other expenses | 10,857 |
| - other expenses | -do- | 5,117 |

## 45. PROPOSED AND DECLARED DIVIDENDS

### On 5% cumulative preference shares

At the Board meeting held on March 2, 2010, dividend in respect of 2009 of Rs. 239 thousand has been declared (2008: Rs. 239 thousand).

### On ordinary shares

At the Board meeting held on March 2, 2010, a final dividend in respect of 2009 of Rs. 137 per share amounting to a total dividend of Rs. 1.82 billion is proposed (2008: Rs. 57 per share amounting to a total dividend of Rs. 757.75 million).

The interim dividend declared and already paid in respect of 2009 was Rs. 92 per share amounting to a total dividend of Rs. 1.22 billion (2008: Rs. 66 per share amounting to a total dividend of Rs. 877.40 million).

These financial statements do not reflect the proposed final dividend on ordinary shares and the dividend declared on cumulative preference shares as payable, which will be accounted for in the statement of changes in equity as an appropriation from the unappropriated profit in the year ending December 31, 2010.

## 46. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 2, 2010 by the Board of Directors of the Company.

**Ehsan A. Malik**
Chairman & Chief Executive

**Imran Husain**
Director & Chief Financial Officer