



Financial Statements

Nestlé Pakistan Limited

Auditors Report to the Members



We have audited the annexed balance sheet of Nestlé Pakistan Limited ("the Company") as at 31 December 2008 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2008 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

KPMG Taseer Hadi & Co
Chartered Accountants

Lahore: February 09, 2009

Balance Sheet

As at December 31, 2008



	Note	2008	2007
(Rupees in '000)			
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized capital 75,000,000 (2007: 75,000,000) ordinary shares of Rs. 10 each		750,000	750,000
Issued, subscribed and paid up capital	3	453,496	453,496
Share premium	4	249,527	249,527
General reserve		280,000	280,000
Accumulated profit		3,405,824	3,128,682
		4,388,847	4,111,705
Non current liabilities			
Long term finances	5	5,139,875	4,028,700
Deferred taxation	6	1,319,333	1,371,675
Retirement benefits	7	351,968	238,370
Liabilities against assets subject to finance lease	8	177,582	119,602
		6,988,758	5,758,347
Current liabilities			
Current portion of:			
Liabilities against assets subject to finance lease	8	54,042	29,863
Short term borrowings – secured	9	300,000	1,035,000
Short term running finance under mark-up arrangements – secured	10	1,924,287	1,637,799
Customer security deposits – interest free		127,884	124,572
Trade and other payables	11	2,798,185	3,062,027
Interest and mark-up accrued	12	102,173	89,261
		5,306,571	5,978,522
CONTINGENCIES AND COMMITMENTS			
	13		
		16,684,176	15,848,574

The annexed notes 1 to 41 form an integral part of these financial statements.

Balance Sheet

As at December 31, 2008



	Note	2008	2007
(Rupees in '000)			
ASSETS			
Tangible fixed assets			
Property, plant and equipment	14	9,464,373	9,074,428
Capital work-in-progress	15	1,382,401	971,183
		10,846,774	10,045,611
Intangible assets	16	49,744	92,382
Long term loans and advances	17	98,544	80,670
Long term security deposits		5,036	6,088
Current assets			
Stores and spares	18	804,647	436,573
Stock in trade	19	2,488,573	2,393,306
Trade debts	20	456,813	344,053
Current portion of long term loans and advances	17	26,615	21,279
Advances, deposits, prepayments and other receivables	21	1,488,103	2,022,387
Cash and bank balances	22	419,327	406,225
		5,684,078	5,623,823
		16,684,176	15,848,574

RAYMOND FRANKE
Head of Finance and Control

TREVOR CLAYTON
Chief Executive

SYED YAWAR ALI
Chairman

Profit and Loss Account

For the Year Ended December 31, 2008



	Note	2008	2007
(Rupees in '000)			
Sales – net	23	34,183,847	28,235,393
Cost of goods sold	24	(25,231,532)	(20,285,142)
Gross profit		8,952,315	7,950,251
Distribution and selling expenses	25	(3,890,352)	(3,538,284)
Administration expenses	26	(956,816)	(900,822)
Operating profit		4,105,147	3,511,145
Finance cost	27	(557,325)	(584,434)
Other operating expenses	28	(1,382,138)	(442,914)
		(1,939,463)	(1,027,348)
Other operating income	29	61,800	65,959
Profit before taxation		2,227,484	2,549,756
Taxation	30	(674,590)	(744,544)
Profit after taxation		1,552,894	1,805,212
Earnings per share – basic and diluted (Rupees)	31	34.24	39.81

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

The annexed notes 1 to 41 form an integral part of these financial statements.

RAYMOND FRANKE
Head of Finance and Control

TREVOR CLAYTON
Chief Executive

SYED YAWAR ALI
Chairman

Cash Flow Statement

For the Year Ended December 31, 2008



Note	2008	2007
	(Rupees in '000)	
Cash flow from operating activities		
Cash generated from operations	4,224,959	4,534,010
Decrease in long term security deposits	1,052	-
(Increase) in long term loans and advances	(23,210)	(27,170)
Retirement benefits paid	(89,867)	(74,690)
Finance cost paid	(544,413)	(593,722)
Taxes paid	(41,697)	(234,803)
Net cash generated from operating activities	3,526,824	3,603,625
Cash flow from investing activities		
Fixed capital expenditure	(1,871,296)	(2,909,391)
Sale proceeds of property, plant and equipment	74,233	67,321
Net cash used in investing activities	(1,797,063)	(2,842,070)
Cash flow from financing activities		
Repayment of long term finances	-	(300,000)
Net movement in short term borrowings – secured	(735,000)	335,000
Payment of finance lease liabilities	(66,383)	(18,333)
Dividend paid	(1,201,764)	(226,748)
Net cash (used in) financing activities	(2,003,147)	(210,081)
Net (decrease)/increase in cash and cash equivalents	(273,386)	551,474
Cash and cash equivalents at beginning of the year	(1,231,574)	(1,783,048)
Cash and cash equivalents at end of the year	34	(1,231,574)

The annexed notes 1 to 41 form an integral part of these financial statements.

RAYMOND FRANKE
Head of Finance and Control

TREVOR CLAYTON
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Changes in Equity

For the Year Ended December 31, 2008



	Capital reserve		Revenue reserve		Total
	Share capital	Share premium	General reserve	Accumulated profit	
	(Rupees in '000)				
Balance as at 31 December 2006	453,496	249,527	280,000	1,548,057	2,531,080
Final dividend for the year ended 31 December 2006 (Rs. 5 per share)	–	–	–	(226,748)	(226,748)
Total recognized income and expense for the year	–	–	–	1,807,373	1,807,373
Balance as at 31 December 2007	453,496	249,527	280,000	3,128,682	4,111,705
Final dividend for the year ended 31 December 2007 (Rs. 10 per share)	–	–	–	(453,496)	(453,496)
Interim dividend for the six months period ended 30 June 2008 (Rs. 9 per share)	–	–	–	(408,146)	(408,146)
Interim dividend for the nine months period ended 30 September 2008 (Rs. 7.5 per share)	–	–	–	(340,122)	(340,122)
Total recognized income and expense for the year	–	–	–	1,478,906	1,478,906
Balance as at 31 December 2008	453,496	249,527	280,000	3,405,824	4,388,847

Statement of Recognized Income and Expenses

For the year ended 31 December 2008

	2008	2007
	(Rupees in '000)	
Actuarial (losses)/gains recognized directly in the equity	(113,827)	3,325
Tax on actuarial gains/(losses) recognized directly in the equity	39,839	(1,164)
Net profit for the year	1,552,894	1,805,212
Total recognized income and expense for the year	1,478,906	1,807,373

The annexed notes 1 to 41 form an integral part of these financial statements.

RAYMOND FRANKE
Head of Finance and Control

TREVOR CLAYTON
Chief Executive

SYED YAWAR ALI
Chairman

Notes to the Financial Statements

For the Year Ended December 31, 2008



1 Legal status and nature of business

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation and statement of compliance

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

2.2 Accounting convention

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

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

2.3 Taxation

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

Notes to the Financial Statements

For the Year Ended December 31, 2008

Current

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

Deferred

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

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

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

2.4 Retirement benefits

Defined benefit plan

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

Defined contribution plan

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

2.5 Fixed capital expenditure and depreciation/amortization

Property, plant and equipment

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

Depreciation is charged to income, unless it is included in the carrying amount of another asset, on straight line method whereby cost of an asset is written off over its estimated useful life at the rates given in note 14.

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

Notes to the Financial Statements

For the Year Ended December 31, 2008

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

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

Capital work-in-progress

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

Intangible assets

Intangible assets are stated at cost less accumulated amortization and any identified impairment loss. These are amortized using the straight line method at the rates given in note 16. Amortization on additions is charged on a pro-rata basis from the month of use, while for disposals amortization is charged upto the month of disposal.

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

2.6 Leases

Operating leases

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

Finance leases

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

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

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

Assets acquired under a finance lease are depreciated over the estimated useful life of the asset on a straight-line method at the rates given in note 14. Depreciation of leased assets is charged to income.

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

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

Notes to the Financial Statements

For the Year Ended December 31, 2008

2.7 Impairment losses

Financial assets

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

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

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

Non financial assets

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

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

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

2.8 Financial liabilities

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

Interest bearing borrowings

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

Other financial liabilities

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

2.9 Trade and other payables

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

Notes to the Financial Statements

For the Year Ended December 31, 2008

2.10 Provisions

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

2.11 Dividend

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

2.12 Inventories

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

Store and spares

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

Stock in trade

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

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

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

Raw and packing material

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

2.13 Trade debts and other receivables

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

2.14 Revenue recognition

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

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

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

Notes to the Financial Statements

For the Year Ended December 31, 2008

2.15 Foreign currencies

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

2.16 Finance cost

Mark-up, interest and other charges are recognized as an expense in the period in which they are incurred.

2.17 Segment reporting

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

2.18 Financial instruments

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

2.19 Offsetting of financial assets and financial liabilities

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

2.20 Cash and cash equivalents

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

2.21 Related Party transactions

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

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

A number of new standards and amendments to standards are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements.

Notes to the Financial Statements

For the Year Ended December 31, 2008

Revised IAS 1 – Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The application of this standard is not likely to have any effect on the Company's financial statements.

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become effective for the Company's accounting period beginning on 01 January 2009 and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions, the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Company's financial statements.

IAS 27 'Consolidated and separate financial statements'(effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Company's financial investments.

Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Company's financial statements.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Company's financial statements.

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment is not likely to have an effect on Company's financial statements.

Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the Company's financial statements.

Notes to the Financial Statements

For the Year Ended December 31, 2008

Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Company's financial statements.

IFRS 5 Amendment – Improvements to IFRSs – IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 July 2009) specify that: if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met disclosures for discontinued operations would be required by the parent when a subsidiary meets the definition of a discontinued operation. The amendment is not likely to have an effect on Company's financial statements.

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes effective for the Company's accounting period beginning on 01 January 2009, will require the disclosure of segment information based on the internal reports regularly reviewed by the Board of the Company in order to assess each segment's performance and to allocate resources to them. Currently, the Company presents segment information in respect of its business segments (see note 38). Adoption of this new standard would impact the nature and extent of disclosures made in the future financial statements of the Company.

IFRIC 15– Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Company's operations.

IFRIC – 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a company distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognized in the income statement. As the Company does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Company's financial statements.

Notes to the Financial Statements

For the Year Ended December 31, 2008

	Note	2008	2007
		(Rupees in '000)	
3 Issued, subscribed and paid up capital			
29,787,058 (2007: 29,787,058) ordinary shares of Rs. 10 each as fully paid in cash		297,870	297,870
15,476,867 (2007: 15,476,867) ordinary shares of Rs. 10 each as fully paid bonus shares		154,769	154,769
85,659 (2007: 85,659) ordinary shares of Rs. 10 each issued for consideration other than cash		857	857
		453,496	453,496

As at 31 December 2008, Nestlé S.A. Switzerland, the holding company, holds 26,778,229 (2007: 26,778,229) ordinary shares of the Company. In addition, 8,753,766 (2007: 9,169,217) ordinary shares are held by the following related parties as at 31 December 2008:

	Note	2008	2007
		(Number of shares)	
Name of related party:			
Packages Limited		3,649,248	3,649,248
Percentage of equity held 8.0% (2007: 8.0%)			
International General Insurance Company of Pakistan Limited		4,319,897	4,304,797
Percentage of equity held 9.5% (2007: 9.5%)			
Zarai Taraqiati Bank Limited		–	430,551
Percentage of equity held 1.0% (2007: 1.0%)			
Industrial Technical and Educational Institution		21,666	21,666
Percentage of equity held 0.05% (2007: 0.05%)			
Gurmani Foundation		762,955	762,955
Percentage of equity held 1.7% (2007: 1.7%)			
		8,753,766	9,169,217

4 Share premium

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

	Note	2008	2007
		(Rupees in '000)	
5 Long term finances			
Long term finances utilized under mark up arrangements:			
Related party – Unsecured			
Associated company – Foreign currency	5.1	5,139,875	4,028,700

Notes to the Financial Statements

For the Year Ended December 31, 2008

Terms of repayment and securities

5.1 This represents US\$ 65 million loan from Nestlé Treasury Centre Middle East and Africa Limited, Dubai. US\$ 15 million is due in December 2010 and US\$ 50 million is due in May 2011. Mark-up is payable semi annually at six months average LIBOR plus 150 basis points.

	Note	2008	2007
(Rupees in '000)			
6 Deferred taxation			
This is composed of:			
Liability for deferred taxation comprising temporary differences related to:			
Accelerated tax depreciation		1,319,333	1,373,541
Others		–	(1,866)
		1,319,333	1,371,675
7 Retirement benefits			
Pension fund	7.1	100,224	104,761
Gratuity fund	7.1	251,744	133,609
		351,968	238,370

	Gratuity		Pension	
	2008	2007	2008	2007
(Rupees in '000)				
7.1 Present value of funded obligations				
Amounts recognized in the balance sheet are as follows:				
Present value of defined benefit obligation	429,967	349,287	474,713	474,019
Fair value of plan assets	(178,223)	(215,678)	(374,489)	(369,258)
Total employee benefit obligation	251,744	133,609	100,224	104,761
7.2 Movement in net obligation				
Net liability as at 01 January	133,609	134,340	104,761	99,965
Charge to profit and loss account	59,731	46,003	29,907	36,077
Actuarial (gains)/losses recognized in equity	107,344	(4,956)	6,483	1,631
Contribution made by the employees	–	–	17,662	14,435
Contribution made by the Company	(48,940)	(41,778)	(58,589)	(47,347)
	251,744	133,609	100,224	104,761

Notes to the Financial Statements

For the Year Ended December 31, 2008

	Gratuity		Pension	
	2008	2007	2008	2007
	(Rupees in '000)		(Rupees in '000)	
7.3 Movement in the liability for funded defined benefit obligations				
Liability for defined benefit obligations as at 01 January	349,287	286,258	474,019	377,539
Benefits paid by the plan	(14,346)	(15,423)	(9,799)	(7,874)
Current service costs	50,683	28,626	44,478	46,067
Interest cost	34,929	35,607	47,402	37,754
Actuarial losses/(gains) on present value of defined benefit obligations	9,414	14,219	(81,387)	20,533
Liability for defined benefit obligations as at 31 December	429,967	349,287	474,713	474,019
7.4 Movement in fair value of plan assets				
Fair value of plan assets as at 01 January	215,678	151,918	369,258	277,574
Contributions paid into the plan	48,940	41,778	58,589	47,347
Benefits paid by the plan	(14,346)	(15,423)	(9,799)	(7,874)
Expected return on plan assets	25,881	18,230	44,311	33,309
Actuarial gains/(losses) on plan assets	(97,930)	19,175	(87,870)	18,902
Fair value of plan assets as at 31 December	178,223	215,678	374,489	369,258
7.5 Plan assets consist of the following:				
Equity instruments	63,277	90,620	54,389	227,449
Debt instruments	42,359	65,938	66,848	76,202
Cash and other deposits	72,587	59,120	253,252	65,607
	178,223	215,678	374,489	369,258
7.6 Salaries, wages and amenities include the following in respect of retirement and other benefits:				
Interest cost for the year	34,929	35,607	47,402	37,754
Current service cost	50,683	28,626	44,478	46,067
Expected return on plan assets	(25,881)	(18,230)	(44,311)	(33,309)
Contribution made by the employees	–	–	(17,662)	(14,435)
	59,731	46,003	29,907	36,077
7.7 Charge for the year has been allocated as follows:				
Cost of goods sold	18,703	19,021	11,963	10,938
Distribution and selling expenses	25,888	14,115	9,649	11,272
Administration expenses	14,577	12,678	7,539	13,698
Capitalized during the year	563	189	756	169
	59,731	46,003	29,907	36,077

Notes to the Financial Statements

For the Year Ended December 31, 2008

	Gratuity		Pension	
	2008	2007	2008	2007
	(Rupees in '000)		(Rupees in '000)	
7.8 Actual return on plan assets	72,049	37,405	43,559	52,211
7.9 Actuarial gains and (losses) recognized directly in the equity				
Cumulative amount at 01 January	(113,294)	(118,250)	(57,568)	(55,937)
Gains/(losses) recognized during the year	(107,344)	4,956	(6,483)	(1,631)
Cumulative amount at 31 December	(220,638)	(113,294)	(64,051)	(57,568)

	2008	2007	2006	2005	2004
	(Rupees in '000)				
7.10 Historical Information for Gratuity plan					
Present value of defined benefit obligation	429,967	349,287	286,258	227,662	173,099
Fair value of the plan assets	(178,223)	(215,678)	(151,918)	(139,543)	(104,008)
Deficit in the plan	251,744	133,609	134,340	88,119	69,091
Experience adjustment arising on plan liabilities	(9,414)	(14,219)	(17,739)	(29,261)	(12,760)
Experience adjustments arising on plan assets	(97,930)	19,175	(30,485)	2,877	1,013

The Company expects to pay Rs. 53.033 million in contributions to gratuity fund in 2009.

	2008	2007	2006	2005	2004
	(Rupees in '000)				
7.11 Historical Information for Pension plan					
Present value of defined benefit obligation	474,713	474,019	377,539	349,904	300,347
Fair value of the plan assets	(374,489)	(369,258)	(277,574)	(222,139)	(167,893)
Deficit in the plan	100,224	104,761	99,965	127,765	132,454
Experience adjustment arising on plan liabilities	81,387	(20,533)	(14,782)	(36,869)	(14,641)
Experience adjustments arising on plan assets	(87,870)	18,902	(7,973)	8,721	6,375

The Company expects to pay Rs. 44.772 million in contributions to pension fund in 2009.

Notes to the Financial Statements

For the Year Ended December 31, 2008

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

	2008		2007	
	Gratuity fund per annum	Pension fund per annum	Gratuity fund per annum	Pension fund per annum
Discount Rate	15%	15%	10%	10%
Expected rates of salary increase	15%	15%	10%	10%
Expected rates of return on plan assets	12%	12%	12%	12%
Average expected remaining working life	13	13	13	13

Note	2008	2007
	(Rupees in '000)	

8 Liabilities against assets subject to finance lease

Present value of minimum lease payments	231,624	149,465
Less: Current portion shown under current liabilities	(54,042)	(29,863)
	177,582	119,602

The lease has been obtained under Kissan Dost Livestock Development Scheme. As per the terms of agreement, the finance cost will be paid by Pakistan Dairy Development Company (PDDC). The interest rate ranges from average 6 months to 1 year KIBOR plus 100 to 200 basis points with a floor of 10% per annum and agency fee (profit) under Ijarah agreement ranges from 14.01% to 17% per annum.

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

Years	2008			2007		
	Minimum lease payments	Finance cost	Principal	Minimum lease payments	Finance cost	Principal
	(Rupees in '000)			(Rupees in '000)		
Not later than one year	54,042	-	54,042	29,863	-	29,863
Later than one year but not later than five years	177,582	-	177,582	119,602	-	119,602
	231,624	-	231,624	149,465	-	149,465

9 Short term borrowings - secured

This represents money market loans obtained from various commercial banks, which carry mark-up ranging from 9.71% to 16.62% per annum (2007: 9.71% to 10.03% per annum). These loans are obtained for a period of 30 days to 90 days (2007: 30 days) and are secured against pari passu hypothecation charge over current assets of the Company.

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

Short term running finances available from commercial banks under mark up arrangements amount to Rs. 4,300 million (2007 : Rs. 4,300 million). Mark up is charged at rates ranging from 9.92% to 17.58% per annum (2007 : 9.8% to 10.75 % per annum).

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

Notes to the Financial Statements

For the Year Ended December 31, 2008

	Note	2008	2007
(Rupees in '000)			
11 Trade and other payables			
Trade creditors			
Related parties - associated companies		608,126	188,482
Others		406,220	728,897
		1,014,346	917,379
Accrued liabilities			
Related parties - associated companies		181,569	146,883
Others		1,198,881	1,599,758
		1,380,450	1,746,641
Excise duty payable		14,044	12,012
Advances from customers		88,069	61,474
Workers' profit participation fund	11.1	9,250	96,156
Workers' welfare fund		149,473	104,015
Royalty and technical assistance fee payable to holding company		89,566	59,008
Unclaimed dividend		2,997	2,777
Withholding tax payable		24,872	8,152
Others		25,118	54,413
		2,798,185	3,062,027
11.1 Workers' profit participation fund			
Opening balance		96,156	93,146
Provision for the year	28	119,629	136,936
		215,785	230,082
Less: Payments during the year		(206,535)	(133,926)
Closing balance		9,250	96,156
12 Interest and mark-up accrued			
Short term borrowings		1,090	7,702
Short term running finances - secured		44,460	28,084
Long term loan from associated company-unsecured		56,623	53,475
		102,173	89,261

Notes to the Financial Statements

For the Year Ended December 31, 2008

13 Contingencies and commitments

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

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

- 13.2** Claims against the Company not acknowledged as debt amount to Rs. 35.809 million (2007: Rs. 41.535 million).

Note	2008	2007
	(Rupees in '000)	
13.3 Guarantees		
Outstanding guarantees	160,053	242,068
Un-utilized portion	184,947	77,932
13.4 Commitments in respect of capital expenditure	253,873	222,329
13.5 Letters of credit		
Outstanding letters of credit in respect of capital expenditure	370,172	332,821
Other outstanding letters of credit	57,097	44,485
Un-utilized portion	1,109,731	1,029,694

- 13.6** In 2005, the Company had made a commitment to pay Rs. 250 million to Lahore University of Management Sciences to set up a School for Science and Engineering. The amount is to be paid over a period of six years. Upto 31 December 2008, Rs. 140 million has been paid, while Rs. 40 million has been accounted for during the year.

Notes to the Financial Statements

For the Year Ended December 31, 2008

14 Property, plant and equipment

	Owned assets							Leased assets		Total
	Freehold Land	Lease hold land	Building on freehold land	Building on leasehold land	Plant and machinery	Furniture and fixtures	Vehicles	Office equipment	Plant and machinery	
(Rupees in '000)										
Cost										
Balance as at 01 January 2007	55,687	32,347	1,366,012	219,273	8,377,697	98,862	301,631	12,209	45,045	10,508,763
Reclassifications	-	-	-	-	5,960	-	-	-	-	-
Additions during the year	430,673	-	544,625	-	1,965,975	29,117	74,870	-	127,935	3,173,195
Disposals	-	-	(1,659)	-	(369,270)	(4,017)	(43,665)	(255)	-	(418,866)
Balance as at 31 December 2007	486,360	32,347	1,908,978	219,273	9,980,362	123,962	332,836	5,994	172,980	13,263,092
Balance as at 01 January 2008	486,360	32,347	1,908,978	219,273	9,980,362	123,962	332,836	5,994	172,980	13,263,092
Additions during the year	-	-	87,075	-	1,249,675	84,361	38,967	-	148,542	1,608,620
Disposals	-	-	(8,917)	-	(178,685)	(3,265)	(103,838)	(27)	-	(294,732)
Balance as at 31 December 2008	486,360	32,347	1,987,136	219,273	11,051,352	205,058	267,965	5,967	321,522	14,576,980
Depreciation and impairment losses										
Balance as at 01 January 2007	-	2,026	232,763	129,790	2,895,515	63,002	189,934	9,356	328	3,522,714
Reclassifications	-	-	-	-	4,720	-	-	(4,720)	-	-
Depreciation charge for the year	-	360	63,825	4,266	810,306	14,162	48,551	654	11,689	953,813
Depreciation on disposals	-	-	(1,020)	-	(281,456)	(3,566)	(40,968)	(250)	-	(327,260)
Impairment charge	-	-	-	-	39,340	51	-	6	-	39,397
Balance as at 31 December 2007	-	2,386	295,568	134,056	3,468,425	73,649	197,517	5,046	12,017	4,188,664
Balance as at 01 January 2008	-	2,386	295,568	134,056	3,468,425	73,649	197,517	5,046	12,017	4,188,664
Depreciation charge for the year	-	361	57,892	3,005	946,500	17,020	46,594	553	21,996	1,093,921
Depreciation on disposals	-	-	(1,867)	-	(125,268)	(2,925)	(95,891)	(27)	-	(225,978)
Impairment charge	-	-	-	-	56,000	-	-	-	-	56,000
Balance as at 31 December 2008	-	2,747	351,593	137,061	4,345,657	87,744	148,220	5,572	34,013	5,112,607
Net book value as at 31 December 2007	486,360	29,961	1,613,410	85,217	6,511,937	50,313	135,319	948	160,963	9,074,428
Net book value as at 31 December 2008	486,360	29,600	1,635,543	82,212	6,705,695	117,314	119,745	395	287,509	9,464,373
Rate of depreciation in %	-	1-6.67	2-5	2-5	4-33	20	20	20	6.67-20	

14.1 Reclassification

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

Note	2008	2007
	(Rupees in '000)	

14.2 Depreciation charge for the year has been allocated as follows:

	Note	2008	2007
Cost of goods sold	24	896,521	796,349
Distribution and selling expenses	25	127,629	104,078
Administration expenses	26	69,744	52,941
Capitalized during the year		27	445
		1,093,921	953,813

Notes to the Financial Statements

For the Year Ended December 31, 2008

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

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
Building						
	3,391	527	2,864	–	Scrapped	Various
	3,472	690	2,782	309	Sale	J.F. Enterprises
	2,016	638	1,378	593	Sale	Kold Kraft Pvt. Ltd.
Furniture & Fixtures						
	149	72	77	–	Scrapped	Various
	144	70	74	–	Scrapped	Various
	102	32	70	7	Sale	Mr. Omar Khan Niazi
Plant and machinery						
	22,660	17,150	5,510	7,727	Sale	Tetra Pak Pakistan Ltd.
	4,705	2,675	2,030	208	Sale	J.F. Enterprises
	4,441	2,755	1,686	54	Sale	Kamran Caterers
	4,434	2,751	1,683	54	Sale	Kamran Caterers
	2,916	1,539	1,377	–	Scrapped	Various
	2,264	1,132	1,132	–	Scrapped	Various
	1,846	718	1,128	–	Scrapped	Various
	1,679	606	1,073	–	Scrapped	Various
	2,178	1,150	1,028	–	Scrapped	Various
	2,049	1,024	1,025	–	Scrapped	Various
	1,760	782	978	–	Scrapped	Various
	2,691	1,715	976	750	Sale	Bismillah Trading Co.
	1,454	497	957	100	Sale	F.F Enterprises
	1,426	475	951	–	Scrapped	Various
	2,010	1,117	893	–	Scrapped	Various
	2,262	1,382	880	–	Scrapped	Various
	1,488	620	868	–	Scrapped	Various
	1,611	806	805	–	Scrapped	Various
	1,693	893	800	–	Scrapped	Various
	1,696	942	754	–	Scrapped	Various
	1,293	575	718	–	Scrapped	Various
	1,344	635	709	–	Scrapped	Various
	1,160	451	709	–	Scrapped	Various
	1,402	701	701	–	Scrapped	Various
	987	329	658	–	Scrapped	Various
	1,573	918	655	–	Scrapped	Various
	1,340	744	596	–	Scrapped	Various
	904	327	577	–	Scrapped	Various
	1,131	565	566	–	Scrapped	Various
	960	400	560	–	Scrapped	Various
	800	260	540	273	Sale	Tetra Pak Pakistan Ltd.
	871	339	532	–	Scrapped	Various

Notes to the Financial Statements

For the Year Ended December 31, 2008

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	793	271	522	65	Sale	F.F Enterprises
	1,075	567	508	–	Scrapped	Various
	666	167	499	–	Scrapped	Various
	559	93	466	–	Scrapped	Various
	923	461	462	–	Scrapped	Various
	1,358	905	453	–	Scrapped	Various
	577	128	449	–	Scrapped	Various
	860	418	442	–	Scrapped	Various
	685	247	438	–	Scrapped	Various
	827	391	436	–	Scrapped	Various
	730	304	426	–	Scrapped	Various
	1,237	824	413	–	Scrapped	Various
	703	293	410	–	Scrapped	Various
	1,035	633	402	–	Scrapped	Various
	759	359	400	–	Scrapped	Various
	862	527	335	–	Scrapped	Various
	896	572	324	–	Scrapped	Various
	586	277	309	–	Scrapped	Various
	742	433	309	–	Scrapped	Various
	1,099	794	305	–	Scrapped	Various
	557	263	294	–	Scrapped	Various
	908	631	277	–	Scrapped	Various
	689	421	268	–	Scrapped	Various
	873	606	267	–	Scrapped	Various
	563	313	250	–	Scrapped	Various
	740	490	250	226	Sale	F.F Enterprises
	365	123	242	20	Sale	Raouf Engineering Works
	574	335	239	–	Scrapped	Various
	612	374	238	–	Scrapped	Various
	402	167	235	–	Scrapped	Various
	381	148	233	–	Scrapped	Various
	372	145	227	–	Scrapped	Various
	622	397	225	–	Scrapped	Various
	520	303	217	–	Scrapped	Various
	427	213	214	–	Scrapped	Various
	375	167	208	–	Scrapped	Various
	458	254	204	–	Scrapped	Various
	382	180	202	–	Scrapped	Various
	353	157	196	–	Scrapped	Various
	322	134	188	–	Scrapped	Various
	663	478	185	–	Scrapped	Various
	388	205	183	–	Scrapped	Various
	376	196	180	–	Scrapped	Various
	367	188	179	–	Scrapped	Various
	565	392	173	–	Scrapped	Various

Notes to the Financial Statements

For the Year Ended December 31, 2008

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	276	104	172	–	Scrapped	Various
	270	109	161	–	Scrapped	Various
	386	225	161	–	Scrapped	Various
	240	82	158	–	Scrapped	Various
	257	100	157	–	Scrapped	Various
	303	160	143	–	Scrapped	Various
	344	200	144	–	Scrapped	Various
	177	49	128	–	Scrapped	Various
	306	178	128	–	Scrapped	Various
	552	426	126	–	Scrapped	Various
	237	111	126	–	Scrapped	Various
	161	38	123	–	Scrapped	Various
	161	38	123	–	Scrapped	Various
	286	167	119	–	Scrapped	Various
	175	68	107	–	Scrapped	Various
	214	107	107	–	Scrapped	Various
	231	128	103	–	Scrapped	Various
	259	159	100	–	Scrapped	Various
	206	109	97	–	Scrapped	Various
	258	165	93	–	Scrapped	Various
	367	283	84	–	Scrapped	Various
	113	39	74	–	Scrapped	Various
	121	47	74	–	Scrapped	Various
	319	247	72	–	Scrapped	Various
	310	239	71	–	Scrapped	Various
	105	44	61	–	Scrapped	Various
	774	716	58	–	Scrapped	Various
	69	11	58	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	66	10	56	–	Scrapped	Various
	245	189	56	–	Scrapped	Various
	135	82	53	–	Scrapped	Various
	220	169	51	–	Scrapped	Various

Notes to the Financial Statements

For the Year Ended December 31, 2008

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
Vehicles						
	568	161	407	509	Sale	Employee (M. Arsalan Jamal)
	568	161	407	490	Sale	Employee (Syed Nauman Iqbal)
	568	161	407	473	Sale	Employee (Haroon Saleem)
	567	170	397	473	Sale	Employee (Shamyle Javed)
	555	222	333	461	Sale	Employee (Usman Azeem)
	555	222	333	506	Sale	Employee (Mansoor Saeed)
	555	222	333	457	Sale	Employee (Muhammad Hussain Zaidi)
	371	80	291	331	Sale	Employee (Nazia Firdous)
	864	581	283	520	Sale	Employee (Syed Nadeem Mustafa)
	369	111	258	311	Sale	Employee (Syed Murtaza Ali)
	360	126	234	293	Sale	Employee (Khawaja Naeem Ur Rehman)
	360	126	234	328	Sale	Employee (Ayaz Rashid)
	360	126	234	306	Sale	Employee (Tariq Mahmood)
	560	345	215	436	Sale	Employee (Wajahat Khan)
	560	345	215	158	Sale	Employee (Javaid Akhtar)
	555	342	213	402	Sale	Employee (Junaid Sadiq)
	555	342	213	399	Sale	Employee (Umar Hassan)
	555	342	213	391	Sale	Employee (Tariq Aziz)
	560	349	211	398	Sale	Employee (Kashif Naqvi)
	560	354	206	441	Sale	Employee (Shaphan Samuel)
	849	679	170	520	Sale	Employee (Ali Muhammad Chaudhry)
	560	399	161	377	Sale	Employee (Qaiser Iqbal)
	360	222	138	258	Sale	Employee (Roohi Raza)
	360	222	138	299	Sale	Employee (Saood Abdullah Khan)
	560	423	137	373	Sale	Employee (Hussain Naqi)
	560	423	137	373	Sale	Employee (Syed Muhammad Kashif Waheed)
	557	446	111	464	Sale	Employee (Syed Waqar Haider Razvi)
	564	478	86	80	Sale	Employee (Naveed Zaffar)
	564	478	86	401	Sale	Employee (Farhan Khan)
	739	654	85	280	Sale	Employee (Laeq Ahmed Durrani)
	739	682	57	320	Sale	Employee (Asif Ali Khan)
Assets with book value less than Rs. 50,000	148,798	146,129	2,669	52,019		
Total	294,732	225,978	68,754	74,233		

Notes to the Financial Statements

For the Year Ended December 31, 2008

	Note	2008	2007
(Rupees in '000)			
15 Capital work-in-progress			
Civil works		88,559	66,373
Plant and machinery	15.1	1,285,430	879,601
Others		8,412	25,209
		1,382,401	971,183

15.1 There was no plant and machinery in transit at the year end (2007: Nil).

	Note	2008	2007
(Rupees in '000)			
16 Intangible assets			
Cost			
Balance as at 01 January/ 31 December		213,189	213,189
Amortization			
Balance as at 01 January		120,807	78,169
Charge for the year		42,638	42,638
Accumulated amortization as at 31 December		163,445	120,807
Net book value as at 31 December		49,744	92,382
Amortization rate		20%	20%

17 Long term loans and advances			
To employees – secured and considered good			
Executives	17.1	59,527	26,514
Other employees		16,081	14,230
		75,608	40,744
To suppliers – unsecured and considered good	17.2	45,551	61,205
To related party – unsecured and considered good	17.3	4,000	–
		125,159	101,949
Less: current portion shown under current assets		26,615	21,279
		98,544	80,670

17.1 These represent long term interest free loans to employees for the purchase of cars and motor cycles as per the Company policy and are repayable within a period of 5 years. Loans are secured by registration of vehicles in the name of the Company for collateral purpose.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs. 59.527 million (2007 : Rs. 26.514 million).

Chief Executive and Directors have not taken any loans and advances from the Company (2007: Nil).

Notes to the Financial Statements

For the Year Ended December 31, 2008

Note	2008	2007
	(Rupees in '000)	
Reconciliation of carrying amount of loans to executives		
Opening balance	26,514	10,109
Disbursements during the year	31,750	2,560
Promotion of non-executive employees as executives	9,081	20,717
Loans recovered during the year	(7,818)	(6,872)
Closing balance	59,527	26,514

17.2 This includes an un-secured loan of Rs. 14.805 million (2007: Rs. 16.45 million) given to Sui Northern Gas Pipelines Limited for the development of infrastructure for supply of natural gas to the plant at Kabirwala. Mark-up is charged at the rate of 1.5% per annum (2007: 1.5% per annum) and is receivable annually. This amount is receivable in 10 equal annual installments commencing from 2008.

17.3 An interest free loan given to Babar Ali Foundation to establish an educational agricultural farm/training facility for the farmers. This loan will be repaid through operational income generated by the farm.

Note	2008	2007
	(Rupees in '000)	
18 Stores and spares		
Stores	47,302	24,355
Spares, including in transit Rs. Nil (2007: Nil)	757,345	412,218
	804,647	436,573
Less: Provision for obsolescence	18.2	-
	804,647	436,573

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

Note	2008	2007
	(Rupees in '000)	
18.2 Provision for obsolescence		
Opening balance	-	2,230
Addition during the year	-	9,172
Less: write off during the year	-	(11,402)
Closing balance	-	-

Notes to the Financial Statements

For the Year Ended December 31, 2008

	Note	2008	2007
(Rupees in '000)			
19 Stock in trade			
Raw and packing materials including in transit Rs.348.084 million (2007: Nil)		1,787,846	1,157,125
Work-in-process		180,897	298,331
Finished goods		386,408	817,967
Goods purchased for resale including in transit Rs.Nil (2007: Nil)		133,422	133,650
		2,488,573	2,407,073
Less: Provision for obsolescence	19.1	–	13,767
		2,488,573	2,393,306
19.1 Provision for obsolescence			
Opening balance		13,767	–
Addition during the year		–	53,793
Less: write off during the year		(13,767)	(40,026)
Closing balance		–	13,767
20 Trade debts			
Considered good – unsecured		456,813	344,053
Considered doubtful – unsecured		1,749	1,749
		458,562	345,802
Less: Provision for doubtful debts	20.1	1,749	1,749
		456,813	344,053
20.1 Provision for doubtful debts			
Opening balance		1,749	848
Addition during the year		–	901
Less: write off during the year		–	–
Closing balance		1,749	1,749
21 Advances, deposits, prepayments and other receivables			
Advances to employees – secured and considered good	21.1	844	3,014
Advances to suppliers – unsecured and considered good		429,994	453,474
Due from related parties – unsecured and considered good	21.2	75,962	69,112
Trade deposits and prepayments – considered good		109,614	102,815
Income tax recoverable		89,052	734,448
Sales tax refundable		645,332	410,654
Other receivables – considered good		137,305	248,870
		1,488,103	2,022,387

21.1 Chief Executive and Directors have not taken any advance from the Company (2007: Rs. Nil).

Notes to the Financial Statements

For the Year Ended December 31, 2008

Note	2008	2007
	(Rupees in '000)	
21.2 Due from related parties		
Foreign Associated Companies		
Nestrade	48,446	18,001
Nestlé Cote D ' Ivorie	–	122
Nestlé China Limited	–	364
PT Nestlé Indonesia	250	7,741
Nestlé (Fiji) Limited	–	1,002
Nestlé Iran P. J. S.Co.	–	605
Nestlé Vietnam Limited	181	37
Nestlé UK Limited	–	200
Nestlé Egypt S.A.E.	1,261	–
Nestlé Middle East FZE	566	609
Nestlé Nederland B.V.	47	27,654
Nestlé Qingdao Limited	17	–
Nestlé Tianjin Limited	–	8,974
Nestlé Suisse S.A.	8,457	–
Quality Coffee Products Limited	7,503	869
Nestec S.A	–	85
Nestlé Australia Limited	1,116	–
Nestlé Philippines Inc.	–	460
SBECM	–	70
CPW Philippines	660	1,010
Nestlé South Africa Pty Limited	1,325	655
Nestlé Singapore Pte Limited	–	550
Nestlé Thai Limited	–	83
Nestlé Waters Management & Technology	5,702	–
Saudi Food Industries Limited	22	21
Nestlé Water Middle East	409	–
	75,962	69,112
These relate to normal business of the Company and are interest free.		
22 Cash and bank balances		
Cash at bank – current accounts	415,014	404,922
	415,014	404,922
Cash and cheques in hand	4,313	1,303
	419,327	406,225

Notes to the Financial Statements

For the Year Ended December 31, 2008

	Note	2008	2007
(Rupees in '000)			
23 Sales- net			
Own manufactured			
Local		33,922,714	27,959,032
Export		2,206,878	1,902,751
		36,129,592	29,861,783
Goods purchased for resale		628,649	593,669
Less :			
Sales tax		(750,587)	(588,870)
Trade discounts		(1,823,807)	(1,631,189)
		34,183,847	28,235,393
24 Cost of goods sold			
Raw and packing materials consumed	24.1	18,665,394	16,006,343
Salaries, wages and amenities	24.2	1,180,428	1,027,603
Fuel and power		1,064,810	625,427
Insurance		26,611	20,777
Repairs, maintenance and stores consumption		838,666	776,654
Rent, rates and taxes		113,028	81,695
Depreciation	14.2	896,521	796,349
Expenses on information technology		165,512	121,415
Stationery expenses		24,526	21,416
Communication		43,051	38,632
Quality assurance		115,572	90,417
Royalty and technical assistance fee		962,597	779,912
Others		181,858	165,881
		24,278,574	20,552,521
Decrease/(increase) in work in process		117,434	(162,113)
Cost of goods manufactured		24,396,008	20,390,408
Decrease/(increase) in finished goods		431,559	(418,417)
Cost of goods sold – own manufactured		24,827,567	19,971,991
Cost of goods sold – purchased for resale		403,965	313,151
		25,231,532	20,285,142

24.1 Included in raw and packing materials consumed is provision for obsolete stock of Rs. Nil (2007: Rs. 13.767 million). Also included in raw and packing materials consumed is stock written off of Rs. Nil (2007: Rs. 40.026 million).

24.2 Salaries, wages and amenities include Rs. 18.703 million (2007: Rs. 19.021 million) in respect of gratuity, Rs. 11.963 million (2007: Rs. 10.938 million) in respect of pension and Rs. 28.763 million (2007: Rs. 24.386 million) in respect of provident fund.

Notes to the Financial Statements

For the Year Ended December 31, 2008

	Note	2008	2007
(Rupees in '000)			
25 Distribution and selling expenses			
Salaries, wages and amenities	25.1	760,227	675,653
Training		20,033	23,455
Rent, rates and taxes		81,287	76,276
Insurance		6,265	5,560
Freight outward		1,072,991	915,165
Depreciation	14.2	127,629	104,078
Sales promotion and advertisement		1,509,616	1,447,339
Legal and professional charges		5,373	7,478
Vehicle running and maintenance		16,974	13,623
Utilities		16,670	12,872
Repairs and maintenance		29,008	32,261
Subscription, stationery, printing and publication		9,768	11,946
Communications		13,765	13,947
Traveling, conveyance and vehicle running		94,081	95,921
Provision for doubtful debts		–	901
Expenses on information technology		28,371	24,888
Other expenses		98,294	76,921
		3,890,352	3,538,284

25.1 Salaries, wages and amenities include Rs. 25.888 million (2007: Rs. 14.115 million) in respect of gratuity, Rs. 9.649 million (2007: Rs. 11.272 million) in respect of pension and Rs. 29.878 million (2007: Rs. 25.681 million) in respect of provident fund.

	Note	2008	2007
(Rupees in '000)			
26 Administration expenses			
Salaries, wages and amenities	26.1	428,043	368,943
Training		20,003	25,485
Rent, rates and taxes		78,617	66,363
Insurance		2,591	1,777
Depreciation	14.2	69,744	52,941
Amortization		42,638	42,638
Legal and professional charges	26.2	22,722	21,072
Vehicles running and maintenance		9,138	8,224
Utilities		16,751	10,847
Repairs and maintenance		14,783	15,605
Subscription, stationery, printing and publication		11,126	20,964
Communications		36,778	32,180
Traveling and conveyance		43,214	69,953
Expenses on information technology		138,094	119,351
Other expenses		22,574	44,479
		956,816	900,822

Notes to the Financial Statements

For the Year Ended December 31, 2008

- 26.1** Salaries, wages and amenities include Rs. 14.577 million (2007: Rs. 12.678 million) in respect of gratuity, Rs. 7.539 million (2007: Rs. 13.698 million) in respect of pension and Rs. 16.011 million (2007: Rs. 14.033 million) in respect of provident fund.

	Note	2008	2007
(Rupees in '000)			
26.2 Legal and professional charges include the following in respect of auditors' services for:			
Statutory audit		460	420
Half yearly review		140	125
Services in connection with review and reporting of accounts to parent company auditors		25	25
Audit of accounts of staff retirement benefits		55	50
Other sundry certificates		12	12
Out of pocket expenses		128	128
		820	760
27 Finance cost			
Mark-up on long term finances – secured		–	30,265
Mark-up on short term running finances – secured		202,264	135,670
Mark-up on short term borrowings – secured		73,484	114,255
Mark-up on loan from associated company		247,169	272,458
Bank charges		34,408	31,786
		557,325	584,434
28 Other operating expenses			
Workers' Profit Participation Fund	11.1	119,629	136,936
Workers' Welfare Fund		45,459	52,036
Donations	28.1	58,529	88,436
Loss on disposal of property, plant and equipment		–	20,008
Impairment loss on property, plant and equipment		56,000	39,397
Exchange loss		1,101,998	105,670
Others		523	431
		1,382,138	442,914
28.1 Donations			
Name of donee in which a director or his spouse has an interest:			
Lahore University of Management Sciences (LUMS), Defence Housing Authority, Lahore (Syed Babar Ali, Director is also a Pro-Chancellor of LUMS)		40,000	40,000
		40,000	40,000

Notes to the Financial Statements

For the Year Ended December 31, 2008

	Note	2008	2007
(Rupees in '000)			
29 Other operating income			
Income from non-financial assets			
Profit on disposal of property, plant and equipment	29.1	4,511	–
Sale of scrap		57,112	46,041
Others		177	19,918
		61,800	65,959

29.1 It includes amortization of loss on sale and lease back transaction for the year amounting to Rs.0.968 million (2007: Rs.0.565 million).

	Note	2008	2007
(Rupees in '000)			
30 Taxation			
Current year			
Current		791,661	315,728
Deferred		(52,342)	428,816
		739,319	744,544
Prior year			
Current		(64,729)	–
		674,590	744,544

	2008	2007
%		
30.1 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are:		
Not deductible for tax purposes	1.73	2.19
Allowable for tax purposes	(1.29)	(1.52)
Effect of changes in prior years' tax/surcharge	(4.69)	–
Tax effect under presumptive tax regime	(2.25)	(6.47)
	(6.50)	(5.80)
Average effective tax rate charged to profit and loss account	28.50	29.20

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

Notes to the Financial Statements

For the Year Ended December 31, 2008

		2008	2007
31 Earnings per share			
31.1 Basic earnings per share			
Profit after taxation available for distribution to ordinary shareholders	Rupees in '000'	1,552,894	1,805,212
Weighted average number of ordinary shares	Number in '000'	45,350	45,350
Basic earnings per share	Rupees	34.24	39.81

31.2 Diluted earnings per share

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

32 Transactions with related parties

The related parties comprise associated undertakings, key management personnel and employees retirement benefit funds. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, amounts due from key management personnel are shown under receivables and remuneration of key management personnel is disclosed in note 35. Other significant transactions with related parties are as follows:

Note	2008	2007	
(Rupees in '000)			
Associated companies			
Royalty and technical assistance fee	894,838	742,416	
Purchase of goods, services and rental	5,211,073	4,025,518	
Sale of goods and services	1,856	34,994	
Interest on foreign currency loan	247,169	272,458	
Loan to associates	4,000	–	
Other related parties			
Contribution to staff retirement benefit plans	89,867	74,690	

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

Notes to the Financial Statements

For the Year Ended December 31, 2008

Note	2008	2007
	(Rupees in '000)	
33 Cash generated from operations		
Profit before taxation	2,227,484	2,549,756
Adjustment for non-cash charges and other items:		
Depreciation	1,093,921	953,813
Amortization	42,638	42,638
Impairment loss on property, plant and equipment	56,000	39,397
Loss/(profit) on disposal of property, plant and equipment	(4,511)	20,008
Exchange loss on long term foreign currency loan	1,111,175	65,000
Provision for obsolete stock	–	13,767
Stocks written off	–	40,026
Stores and spares written off	–	11,402
Provision for doubtful debts	–	901
Retirement benefits	89,638	82,080
Finance cost	557,325	584,434
Profit before working capital changes	5,173,670	4,403,222
Effect on cash flow due to working capital changes:		
(Increase) in stores and spares	(368,074)	(118,629)
(Increase) in stock in trade	(95,267)	(539,799)
(Increase) in trade debts	(112,760)	(106,663)
Decrease/(increase) in advances, deposits, prepayments and other receivables	(112,080)	9,116
Increase/(decrease) in trade and other payables	(263,842)	864,498
Increase in customer security deposits – interest free	3,312	22,265
	(948,711)	130,788
	4,224,959	4,534,010
34 Cash and cash equivalents		
Cash and bank balances	22	419,327
Short term running finance under mark-up arrangements – secured		(1,924,287)
		(1,504,960)
		(1,231,574)

Notes to the Financial Statements

For the Year Ended December 31, 2008

35 Remuneration of chairman, chief executive and executives

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

	Chairman		Chief Executive		Executives	
	2008	2007	2008	2007	2008	2007
	(Rupees in '000)		(Rupees in '000)		(Rupees in '000)	
Managerial	1,465	1,465	11,460	9,567	439,082	355,601
Bonus	–	–	4,561	2,993	71,041	81,034
Retirement benefits	–	–	–	–	79,234	56,444
Housing	–	–	2,753	2,706	13,411	9,824
Utilities	120	120	–	–	24,472	19,760
Reimbursable	539	539	6,784	3,127	73,151	55,735
	2,124	2,124	25,558	18,393	700,391	578,398
Number of persons	1	1	1	1	291	237

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

No meeting fee was paid to the directors during the year (2007: Rs. Nil).

Notes to the Financial Statements

For the Year Ended December 31, 2008

36 Financial assets and liabilities

	Interest /mark up bearing				Non interest/mark up bearing				Total	
	Maturity upto one year	Maturity from two to five years	Maturity from more than five years	Sub total	Maturity upto one year	Maturity from two to five years	Maturity from more than five years	Sub Total	2008	2007
(Rupees in '000)										
Financial assets										
Long term loans and advances	1,645	6,580	6,580	14,805	24,970	85,384	-	110,354	125,159	101,949
Long term security deposits	-	-	-	-	-	-	5,036	5,036	5,036	6,088
Trade debts	-	-	-	-	456,813	-	-	456,813	456,813	344,053
Advances, deposits, prepayments and other receivables	-	-	-	-	213,267	-	-	213,267	213,267	317,982
Cash and bank balances	-	-	-	-	419,327	-	-	419,327	419,327	406,225
	1,645	6,580	6,580	14,805	1,114,377	85,384	5,036	1,204,797	1,219,602	1,176,297
Financial liabilities										
Long term finances-secured	-	5,139,875	-	5,139,875	-	-	-	-	5,139,875	4,028,700
Customer security deposits-interest free	-	-	-	-	127,884	-	-	127,884	127,884	124,572
Short term borrowings-secured	300,000	-	-	300,000	-	-	-	-	300,000	1,035,000
Short term running finance under mark-up arrangements - secured	1,924,287	-	-	1,924,287	-	-	-	-	1,924,287	1,637,799
Liabilities against assets subject to finance lease	-	-	-	-	54,042	177,582	-	231,624	231,624	149,465
Trade and other payables	-	-	-	-	2,512,477	-	-	2,512,477	2,512,477	2,780,218
Interest and mark up accrued	-	-	-	-	102,173	-	-	102,173	102,173	89,261
	2,224,287	5,139,875	-	7,364,162	2,796,576	177,582	-	2,974,158	10,338,320	9,845,015
Off balance sheet financial instruments										
Commitments									253,873	222,329
Guarantees									160,053	242,068
Letters of credit									427,269	377,306
									841,195	841,703

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

36.1 Financial risk management objectives

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

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

36.2 Foreign exchange risk management

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

Notes to the Financial Statements

For the Year Ended December 31, 2008

36.3 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail completely to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and loans and advances. The Company has no significant concentration of credit risk as exposure is spread over a large number of counter parties in the case of trade debts. Of the total financial assets of Rs. 1,219 million (2007: Rs. 1,176 million) financial assets which are subject to credit risk amount to Rs. 800.275 million (2007: Rs. 770.072 million). To manage exposure to credit risk, the Company applies credit limits to its customers and obtains advances from them.

36.4 Fair values of financial assets and liabilities

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

36.5 Liquidity risk

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

36.6 Interest rate risk

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

36.7 Capital management

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

The Company's objectives when managing capital are:

- a) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- b) to provide an adequate return to shareholders.

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

The Company monitors capital on the basis of the debt-to-equity ratio - calculated as a ratio of total debt to equity.

The debt-to-equity ratios as at 31 December 2008 and at 31 December 2007 were as follows:

Notes to the Financial Statements

For the Year Ended December 31, 2008

	2008	2007
	(Rupees in '000)	
Total debt	7,595,786	6,850,964
Total equity and debt	11,984,633	10,962,669
Debt-to-equity ratio	63:37	62:38

There was no major variation in debt to equity ratio in 2008.

There were no changes in the Company's approach to capital management during the year and the Company is subject to externally imposed capital requirements.

	Capacity		Production	
	2008	2007	2008	2007
37 Capacity and production				
Liquid products - liters (000)	939,239	920,386	588,845	533,750
Non-liquid products - Kgs (000)	155,094	119,481	57,118	52,881

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

38 Segment reporting

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

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

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

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

- Milk and nutrition products; and
- Beverages.

Notes to the Financial Statements

For the Year Ended December 31, 2008

Segment analysis for the year ended 31 December 2008

	Milk and Nutrition Products	Beverages	Other Operations	Total
(Rupees in '000)				
Sales				
External sales	29,575,157	4,194,323	414,367	34,183,847
Inter-segment sales	–	–	–	–
Total revenue	29,575,157	4,194,323	414,367	34,183,847
Profit/(loss) before tax and unallocated expenses	3,924,230	247,516	(66,599)	4,105,147
Unallocated corporate expenses				
Finance cost				(557,325)
Other operating expenses				(1,382,138)
Other operating income				61,800
Taxation				(674,590)
Profit after taxation				1,552,894
Segment assets	10,085,700	3,559,434	108,992	13,754,126
Unallocated assets				2,930,050
Consolidated total assets				16,684,176
Segment liabilities	2,640,721	481,989	34,983	3,157,693
Unallocated liabilities				9,137,636
Consolidated total liabilities				12,295,329
Segment capital expenditure	1,292,338	465,273	–	1,757,611
Unallocated capital expenditure				113,685
				1,871,296
Non-cash expenses other than depreciation and amortization				
Impairment loss on property, plant and equipment	–	56,000	–	56,000
Depreciation and amortization	928,126	204,943	3,490	1,136,559

Notes to the Financial Statements

For the Year Ended December 31, 2008

Segment analysis for the year ended 31 December 2007

	Milk and Nutrition Products	Beverages	Other Operations	Total
(Rupees in '000)				
Sales				
External sales	24,369,902	3,510,948	354,543	28,235,393
Inter-segment sales	–	–	–	–
Total revenue	24,369,902	3,510,948	354,543	28,235,393
Profit/(loss) before tax and unallocated expenses	3,477,452	94,336	(94,753)	3,477,035
Unallocated corporate expenses				
Finance cost				(584,434)
Other operating expenses				(393,822)
Other operating income				50,977
Taxation				(744,544)
Profit after taxation				1,805,212
Segment assets	9,017,544	2,422,348	99,552	11,539,444
Unallocated assets				4,309,130
Consolidated total assets				15,848,574
Segment liabilities	2,930,341	529,592	40,873	3,500,806
Unallocated liabilities				8,236,063
Consolidated total liabilities				11,736,869
Segment capital expenditure	1,644,657	1,069,570	–	2,714,227
Unallocated capital expenditure				195,164
				2,909,391
Non-cash expenses other than depreciation and amortization				
Provision for bad debts	657	244	–	901
Impairment loss on property, plant and equipment	13,837	25,560	–	39,397
Depreciation and amortization	770,629	211,776	14,046	996,451

Notes to the Financial Statements

For the Year Ended December 31, 2008

39 Date of authorization for issue

These financial statements were authorized for issue on 09 February 2009 by the Board of Directors.

40 Dividend

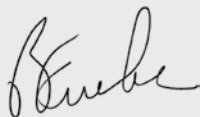
The Board of Directors in their meeting held on 09 February 2009 have proposed a final cash dividend for the year ended 31 December 2008 of Rs. 25 (2007: Rs. 10) per share, amounting to Rs. 1,133.74 million (2007: Rs. 453.496 million) for approval of the members at Annual General Meeting to be held on 30 March 2009. These financial statements do not reflect this dividend.

41 General

41.1 Corresponding figures

Previous year's figures have been re-arranged, wherever necessary for the purpose of comparison. However no material re-arrangements have been made.

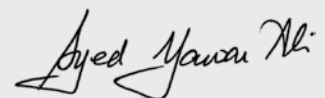
41.2 Figures have been rounded off to the nearest of thousand of rupee.



RAYMOND FRANKE
Head of Finance and Control



TREVOR CLAYTON
Chief Executive



SYED YAWAR ALI
Chairman

Notes

Form of Proxy

Nestlé Pakistan Ltd.

308-Upper Mall, Lahore-Pakistan

I/We, _____
of _____
being a member of Nestlé Pakistan Ltd., holder of _____
Ordinary Share(s) as per Register Folio No. _____
hereby Appoint Mr. _____
Folio No. _____ of _____ or failing him _____
Mr. _____ Folio No. _____ of _____
who is also a member of Nestlé Pakistan Ltd., as my / our proxy in my / our absence to attend and vote for me / us, and on my /
our behalf at the Annual General Meeting of the Company to be held on March 30, 2009 and at any adjournment thereof.

Signed under my/our hand this _____ day of March, 2009.

Signature across Rs. 5
Revenue Stamp

Signature should agree
with the specimen signature
registered with the company

Signed in the presence of:

Signature of Witness

NOTES:

- 1 This instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or if the appointer is a corporation either under the common seal or under the hand of an official or attorney so authorized. No person shall be appointed as proxy who is not a member of the Company qualified to vote except that a corporation being a member may appoint a person who is not a member.
- 2 The instrument appointing a proxy and the power of attorney or other authority (if any), under which it is signed or a notarially certified copy of that power of authority, shall be deposited at the office of the Company not less than 48 (forty eight) hours before the time for holding the meeting at which the person named in the instrument proposes to vote, and in default the instrument of a proxy shall not be treated as valid.

The Company Secretary

Nestlé Pakistan Ltd.

308 - Upper Mall, Lahore, Pakistan

AFFIX
CORRECT
POSTAGE