

Report for the 3rd quarter ended  
September 30, 2011



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**Nestlé**

Good Food, Good Life



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# Directors' Report to the Shareholders

The Directors of the company are pleased to submit the 3rd quarter Report along with condensed interim financial information of the company for the nine month period ended September 30, 2011.

In spite of the trading environment remaining difficult impacted by the law and order situation, the flooding, the ongoing energy crises and high inflationary trends, we continue to deliver strong double digit profitable growth across all categories and to build our capabilities and position for the future

The financial performance for the nine months period is summarized below:

	Jan - Sep 2011 PKR Million	Jan - Sep 2010 PKR Million	Change %
Sales	48,850	38,274	+ 28%
Operating Profit	6,479	5,238	+ 24%
% of sales	13.3%	13.7%	
Net Profit	3,746	3,096	+ 21%
% of sales	7.7%	8.1%	
Earnings per share	82.61	68.28	+ 21%

## Sales:

The sales revenue recorded an increase of +28% and stood at PKR 48.9 billion, including exports to Afghanistan which increased by +30 % compared to same period last year.

## Operating Profit:

The fresh milk volume procurement remained under pressure during 3rd quarter. The constrained volume of milk at relatively higher prices coupled with acute energy crises adversely affected our gross margin which slipped by 100bps compared to same period last year.

The above mentioned drop of gross margin was partially off-set by effective fixed cost

management. The operating profit exceeded PKR 6.5 billion registering +24% growth over the same period last year.


## Net Profit:

The financial cost increased significantly vs. last year due to additional funds borrowed to meet the cash flow requirements to sustain growth. The impact of higher financial cost was diluted by lower taxes & other charges. The Net profit stood at PKR 3.7 billion registering +21% growth over same period last year

## Future Outlook:

The Company retains a positive outlook and will continue to invest to drive sustainable profitable growth and meet demand.

For and on behalf  
of the Board of Directors



IAN J. DONALD  
Chief Executive

Lahore: October 24, 2011



## Condensed Interim Balance Sheet As at September 30, 2011 (Un-audited)

	Note	Sep. 30, 2011 Rs'000	Dec. 31, 2010 Rs'000
<b>Tangible fixed assets</b>			
Property, plant and equipment	9.1	14,473,569	11,139,623
Assets subject to finance lease	9.2	209,793	230,988
Capital work-in-progress		1,601,516	3,076,472
		16,284,878	14,447,083
<b>Intangible assets</b>			
		13,149	16,735
<b>Long term loans and advances</b>			
		169,219	125,674
<b>Long term security deposits</b>			
		9,817	9,817
<b>Current assets</b>			
Stores and spares		1,231,767	1,050,804
Stock in trade		7,546,706	4,602,019
Trade debts		787,678	126,499
Current portion of long term loans and advances		30,840	19,149
Advances, deposits, prepayments and other receivables		3,834,862	2,048,936
Cash and bank balances		664,990	505,516
		14,096,843	8,352,923
<b>Less: Current liabilities</b>			
Current portion of Liabilities against assets subject to finance lease		48,504	57,786
Short term borrowings – secured		3,550,000	-
Short term borrowings from associated company – unsecured	6	2,186,250	2,143,750
Short term running finance under mark-up arrangements – secured		2,081,699	2,780,843
Customer security deposits – interest free		145,238	128,857
Trade and other payables		6,142,612	4,633,932
Interest and mark-up accrued		190,686	61,404
		14,344,989	9,806,572
<b>Net working capital</b>		(248,146)	(1,453,649)
<b>Total capital employed</b>		16,228,917	13,145,660
<b>Long term and deferred liabilities</b>			
Long term finances	7	5,684,250	5,573,750
Deferred taxation		2,310,033	1,705,508
Retirement and other benefits		248,254	229,114
Liabilities against assets subject to finance lease		18,535	55,415
		8,261,072	7,563,787
<b>Contingencies and commitments</b>			
	8		
<b>Net assets</b>		7,967,845	5,581,873



**Sep. 30,  
2011  
Rs'000**

**Dec. 31,  
2010  
Rs'000**

**Financed by:**

**Share capital and reserves**

Authorized capital

75,000,000 (2010: 75,000,000) ordinary  
shares of Rs 10 each

750,000 750,000

Issued, subscribed and paid-up capital

453,496 453,496

Share premium

249,527 249,527

General reserve

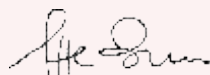
280,000 280,000

Accumulated profit

6,984,822 4,598,850

7,967,845 5,581,873

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.



**GIUSEPPE BONANNO**  
Head of Finance & Control



**IAN J. DONALD**  
Chief Executive



**SYED YAWAR ALI**  
Chairman

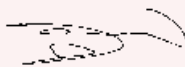


## Condensed Interim Profit and Loss Account For the Nine Months Period Ended September 30, 2011 (Un-audited)

	<u>Nine months ended</u>		<u>Three months ended</u>	
	<b>Sep. 30, 2011 Rs'000</b>	<b>Sep. 30, 2010 Rs'000</b>	<b>Sep. 30, 2011 Rs'000</b>	<b>Sep. 30, 2010 Rs'000</b>
Sales - net	48,850,413	38,273,886	15,908,880	12,672,471
Cost of goods sold	(35,938,218)	(27,783,129)	(11,902,489)	(9,123,398)
<b>Gross profit</b>	<b>12,912,195</b>	<b>10,490,757</b>	<b>4,006,391</b>	<b>3,549,073</b>
Distribution and selling expenses	(5,357,096)	(4,357,568)	(1,613,930)	(1,327,448)
Administrative expenses	(1,076,422)	(895,533)	(357,417)	(321,085)
	(6,433,518)	(5,253,101)	(1,971,347)	(1,648,533)
<b>Operating profit</b>	<b>6,478,677</b>	<b>5,237,656</b>	<b>2,035,044</b>	<b>1,900,540</b>
Finance cost	(826,366)	(303,230)	(332,928)	(66,881)
Other operating expenses	(631,359)	(699,366)	(268,139)	(284,392)
	(1,457,725)	(1,002,596)	(601,067)	(351,273)
Other operating income	139,082	65,510	55,339	18,518
<b>Profit before taxation</b>	<b>5,160,034</b>	<b>4,300,570</b>	<b>1,489,316</b>	<b>1,567,785</b>
Taxation	(1,413,575)	(1,204,259)	(373,604)	(441,965)
<b>Profit after taxation</b>	<b>3,746,459</b>	<b>3,096,311</b>	<b>1,115,712</b>	<b>1,125,820</b>
Earnings per share – basic and diluted (Rupees)	82.61	68.28	24.60	24.83

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

  
**GIUSEPPE BONANNO**  
Head of Finance & Control

  
**IAN J. DONALD**  
Chief Executive

  
**SYED YAWAR ALI**  
Chairman

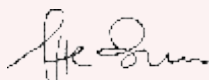


# Condensed Interim Statement of Comprehensive Income

## For the Nine Months Period Ended September 30, 2011 (Un-audited)

	Sep. 30, 2011 Rs'000	Sep. 30, 2010 Rs'000
Profit after taxation	3,746,459	3,096,311
Other comprehensive income	-	-
<b>Total comprehensive income for the period</b>	<b>3,746,459</b>	<b>3,096,311</b>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.



**GIUSEPPE BONANNO**  
Head of Finance & Control



**IAN J. DONALD**  
Chief Executive



**SYED YAWAR ALI**  
Chairman





# Condensed Interim Cash Flow Statement


## For the Nine Months Period Ended September 30, 2011

### (Un-audited)

	Note	Sep. 30, 2011 Rs'000	Sep. 30, 2010 Rs'000
<b>Cash flow from operating activities</b>			
Cash generated from operations	10	3,984,667	5,517,150
Increase in long term loans and advances		(55,237)	(9,669)
Decrease in long term deposits		-	(4,791)
Decrease in customer security deposits - interest free		16,381	26,275
Retirement and other benefits paid		(109,516)	(79,902)
Finance cost paid		(697,084)	(336,509)
Taxes paid		(1,373,639)	(951,299)
<b>Net cash inflow from operating activities</b>		<b>1,765,572</b>	<b>4,161,255</b>
<b>Cash flow from investing activities</b>			
Fixed capital expenditure		(3,144,930)	(1,344,428)
Sale proceeds of property, plant and equipment		93,743	24,571
<b>Net cash (used in) investing activities</b>		<b>(3,051,188)</b>	<b>(1,319,857)</b>
<b>Cash flow from financing activities</b>			
Net movement in short term borrowings – secured		3,550,000	-
Payment of finance lease liabilities		(46,162)	(48,971)
Dividend paid		(1,359,603)	(1,813,036)
<b>Net cash (outflow)/ inflow from financing activities</b>		<b>2,144,235</b>	<b>(1,862,007)</b>
Net increase in cash and cash equivalents		858,619	979,391
Cash and cash equivalents at beginning of the period		(2,275,327)	(440,593)
Cash and cash equivalents at end of the period		(1,416,708)	538,798
<b>Cash and cash equivalents</b>			
Cash and bank balances		664,990	1,434,049
Short term running finance under mark-up arrangements – secured		(2,081,698)	(895,251)
		<b>(1,416,708)</b>	<b>538,798</b>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

  
**GIUSEPPE BONANNO**  
 Head of Finance & Control

  
**IAN J. DONALD**  
 Chief Executive

  
**SYED YAWAR ALI**  
 Chairman



# Condensed Interim Statement of Changes in Equity

## For the Nine Months Period Ended September 30, 2011 (Un-audited)

	Share capital	Share premium	General reserve	Accumulated profits	Total
	(Rs'000)				
Balance as at December 31, 2009	453,496	249,527	280,000	3,443,933	4,426,956
Final dividend for the year ended December 31, 2009 (Rs 20 per share)	-	-	-	(906,992)	(906,992)
Interim dividend for the six months period ended June 30, 2010 (Rs. 20 per share)	-	-	-	(906,992)	(906,992)
Total comprehensive income for the period	-	-	-	3,096,311	3,096,311
Balance as at September 30, 2010	453,496	249,527	280,000	4,726,260	5,709,283
Interim dividend for the nine months period ended September 30, 2010 (Rs. 25 per share)	-	-	-	(1,133,740)	(1,133,740)
Total comprehensive income for the period	-	-	-	1,006,331	1,006,331
Balance as at December 31, 2010	453,496	249,527	280,000	4,598,851	5,581,874
Final dividend for the year ended December, 31 2010 (Rs. 30 per share)	-	-	-	(1,360,488)	(1,360,488)
Total comprehensive income for the period	-	-	-	3,746,459	3,746,459
<b>Balance as at September 30, 2011</b>	<b>453,496</b>	<b>249,527</b>	<b>280,000</b>	<b>6,984,822</b>	<b>7,967,845</b>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

  
**GIUSEPPE BONANNO**  
 Head of Finance & Control

  
**IAN J. DONALD**  
 Chief Executive

  
**SYED YAWAR ALI**  
 Chairman

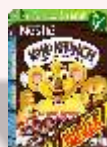
# Selected Notes to the Condensed Interim Financial Information

## For the Nine Months Period Ended September 30, 2011 (Un-audited)

1. Nestlé Pakistan Ltd. ("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, purchase, 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. This condensed interim financial information is un-audited and has been presented in accordance with the requirements of International Accounting standards "IAS-34 (Interim financial reporting)".
  3. This condensed interim financial information of the company for the nine months period ended 30 September 2011 has been presented in accordance with the requirement of the International Accounting Standard 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.
  4. Accounting policies adopted for the preparation of the condensed interim financial information are same as those applied in the preparation of annual audited financial statements of the Company for the year ended 31 December 2010.
  5. The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed interim financial information, the significant judgments made by the management in applying accounting policies and key sources of estimation were the same as those that were applied to the financial statements as at and for the year ended 31 December 2010.
  6. **Short term borrowings from associated company – unsecured**  
This represents US\$ 25 million (2010 : US\$ 25 million) loan from Nestle Treasury Centre Middle East and Africa Limited, Dubai. Mark-up is payable semi annually at six months LIBOR plus 100 basis points.
  7. **Long term finances**  
This represents US\$ 65 million (2010 : US\$ 65 million) loan from Nestle Treasury Centre Middle East and Africa Limited, Dubai. US\$ 15 million is due in December 2015 and US\$ 50 million is due in May 2016. Mark-up is payable semi annually at six months average LIBOR plus 150 basis points.
- Contingencies and commitments**
8. 8.1 Claims against the company not acknowledged as debts Rs 5.179 million (December 31, 2010: Rs 5.745 million).



	Sep. 30, 2011 Rs'000	Dec. 31, 2010 Rs'000
<b>8.2 Guarantees</b>		
Outstanding guarantees	190,964	194,401
Un-utilized portion	144,036	200,598
<b>8.3 Commitments in respect of capital expenditure</b>	3,856,225	605,202
<b>8.4 Letters of credit</b>		
Outstanding letters of credit in respect of capital expenditures	-	-
Other outstanding letters of credit	1,876,257	359,010
Un-utilized portion	1,746,743	2,217,090
<b>9. Tangible fixed assets</b>		
<b>9.1 Property, plant and equipment</b>		
Opening balance – Net book value	11,139,623	10,441,625
Additions during the period	4,619,886	2,133,812
	15,759,509	12,575,437
Book value of property, plant and equipment disposed off during the period	(140,458)	(151,561)
Depreciation charged during the period	(1,138,124)	(1,241,785)
Impairment charge	(7,359)	(42,468)
Closing balance – Net book value	14,473,569	11,139,623
<b>9.2 Assets subject to finance lease</b>		
Opening balance – Net book value	230,988	259,249
Additions during the period	-	-
	230,988	259,249
Depreciation charged during the period	(21,195)	(28,261)
Closing balance – Net book value	209,793	230,988



	Sep. 30, 2011 Rs'000	Sep. 30, 2010 Rs'000
<b>10. Cash generated from operations</b>		
Profit before taxation	5,160,034	4,300,570
Adjustment for non-cash charges and other items:		
Depreciation and amortization	1,159,319	978,191
Impairment loss	7,359	42,468
Amortization on intangible assets	3,586	-
Provision for bad debts	6,088	4,826
Loss on disposal of property, plant and equipment	46,716	91,096
Retirement benefits	128,656	94,455
Finance cost and exchange loss on foreign currency loan	979,366	468,380
Profit before working capital changes	7,491,124	5,979,986
Effect on cash flow due to working capital changes:		
Decrease / (increase):		
Stores and spare	(180,963)	(135,641)
Stock in trade	(2,944,688)	(334,321)
Trade debts	(667,266)	(159,569)
Advances, deposits, prepayments and other receivables	(1,221,338)	(1,064,537)
(Decrease) / increase in:		
Trade and other payables	1,507,798	1,231,232
	(3,506,457)	(462,836)
	<b>3,984,667</b>	<b>5,517,150</b>

#### 11. Transactions with related parties

Related parties comprise of Nestlé S.A, its subsidiaries and associates, and other companies with common directors that of Nestlé Pakistan Ltd. with significant influence on these companies, employees retirement benefit funds and key employees. Significant transactions with related parties are summarized as follows:

	Sep. 30, 2011 Rs'000	Sep. 30, 2010 Rs'000
<b>Associated companies:</b>		
Royalty and technical assistance fee	1,325,568	927,012
Purchase of goods, services and rental	5,535,443	5,827,223
Sales	-	1,105
Interest on loan	105,998	108,784
Donation	-	22,500
Contribution to staff retirement benefits plan	128,656	94,455

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



## 12. Segment reporting:

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

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

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

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

- **Milk and nutrition products**

- **Beverages**

These segments comprise of following major types of products:

- **Milk and nutrition products**

Milk based products and cereals

- **Beverages**

Juices & water

Segment analysis for the nine months ended September 30, 2011

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	41,386,414	7,047,347	416,652	48,850,413
Inter-segment sales	-	-	-	-
Total revenue	41,386,414	7,047,347	416,652	48,850,413
Depreciation and amortization	914,570	240,704	7,631	1,162,905
Profit before tax and unallocated expenses	5,921,642	748,084	(191,049)	6,478,677
Unallocated corporate expenses:				
Finance cost				(826,366)
Other operating expenses				(631,359)
Other operating income				139,082
Taxation				(1,413,575)
Profit after taxation				3,746,459



## Segment analysis for the nine months period ended September 30, 2010

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	32,957,999	5,037,417	278,470	38,273,886
Inter-segment sales	-	-	-	-
Total revenue	32,957,999	5,037,417	278,470	38,273,886
Depreciation and amortization	797,196	176,527	4,468	978,191
Profit before tax and unallocated expenses	5,007,486	345,052	(114,882)	5,237,656
Unallocated corporate expenses:				
Finance cost				(303,230)
Other operating expenses				(699,366)
Other operating income				65,510
Taxation				(1,204,259)
Profit after taxation				3,096,311

### 13. Date of authorization for issue

This condensed interim financial information was authorized for issue on October 24, 2011 by the Board of Directors.

### 14. Dividend

The board of directors in their meeting held on October 24, 2011 have proposed interim cash dividend for the nine months ended September 30, 2011 of Rs. 25 per share, amounting to Rs. 1,133.740 million (2010:Rs.1,360.488 million). This financial information does not reflect this dividend.

### 15. Corresponding figures

- 15.1 Previous year's figures have been re-arranged, wherever necessary for the purpose of comparison. However, no significant rearrangements have been made.
- 15.2 Figures have been rounded off to the nearest of thousand of rupee.

  
**GIUSEPPE BONANNO**  
 Head of Finance & Control

  
**IAN J. DONALD**  
 Chief Executive

  
**SYED YAWAR ALI**  
 Chairman



## COMPANY INFORMATION

### Board of Directors

Syed Yawar Ali	Chairman
Ian J. Donald	Managing Director
Fritz Van Dijk	Director
Giuseppe Bonnano	Director
Pierre Schaufelberger	Director
Syed Babar Ali	Director
Syed Hyder Ali	Director

### Company Secretary

Ali Sadozai

### Management

Arsalan Khan	Business Manager-Beverages
Ali Sadozai	Head of Legal Affairs
Usman Iqbal Bhatti	Country Business Manager-Water
Ian J. Donald	Managing Director
Ifzal Akhtar	Head of Quality Assurance
Bill Stevenson	Head of Milk Collection and Agri-Services
Khurram Zia	Business Executive Manager-Ambient Dairy
Nauman Khan	Country Business Manager - Nestle Professional
Edouard Simond	Head of Technical
Giuseppe Bonanno	Head of Finance & Control
Samra Maqbool	Product Unit Manager-Culinary
Salman Nazir	Head of Supply Chain
Shaheen Sadiq	Head of Communications
Syed Fakhhar Ahmed	Head of Corporate Affairs
Rizwan Yousaf	Country Business Manager-Nutrition
Michel Juillerat	Head of Human Resources
Zafar Hussain Shah	Head of Sales

### Registered & Corporate Office

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

### Corporate Office Annex

304 – Upper Mall, Lahore – 54000, Pakistan.  
309 – Upper Mall, Lahore – 54000, Pakistan.  
309-A – Upper Mall, Lahore – 54000, Pakistan.





## Factories

### Sheikhupura

29th Kilometer, Lahore – Sheikhupura Road  
Sheikhupura, Punjab, Pakistan.  
Phone: (056) 3406615 - 25

### Kabirwala

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

### Karachi

Plot No. A – 23, North Western Industrial Zone,  
Port Qasim, Karachi, Pakistan.  
Phone: (021) 34720151-4

### Islamabad

Plot No. 32, Sector (I-10/3), Industrial Area,  
Islamabad, Pakistan.  
Phone: (051) 4445997

## Auditors

KPMG Taseer Hadi & Co. (Chartered Accountants)

## Share Registrar / Transfer Agent

Gorsi Associates (Pvt.) Limited.  
2nd Floor, 202 – Sufi Chamber, Link McLeod Road, Lahore  
Cell: 0346-4479601 , 0324-4460109 Fax: 042-37230865

## Legal Advisor

Chima & Ibrahim (Advocates)

## Bankers

Faysal Bank Limited  
Allied Bank Limited  
Citibank N.A.  
Deutsche Bank A.G.  
Habib Bank Ltd.  
MCB Bank Ltd.  
Standard Chartered Bank (Pakistan) Ltd.  
United Bank Limited  
National Bank of Pakistan Ltd.  
Barclays Bank PLC, Pakistan  
Bank Al Habib Ltd.  
The Hongkong and Shanghai Bank Corporation Limited  
Summit Bank Ltd.



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