



# contents

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## Directors' Report to the Shareholders

The Directors of the Company are pleased to submit the first quarter report along with condensed interim financial information of the company for the three months period ended March 31, 2014.

During the first quarter of 2014, the sociopolitical situation of the country remained unchanged. The poor law and order conditions and constantly increasing inflation adversely impacted the purchasing power of the consumer.

Despite all these challenges, we are pleased to report a growth in top line by 17.5% way ahead of GDP of the Country, fuelled by strong volume growth of 12%.

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

	Jan - Mar 2014 PKR Million	Jan - Mar 2013 PKR Million	Change %
Sales	24,004	20,427	+ 17.5%
Gross Profit	7,080	6,459	+ 9.6%
% of sales	29.5%	31.6%	
Operating Profit	3,796	3,348	+ 13.4%
% of sales	15.8%	16.4%	
Net Profit after tax	2,079	1,892	+ 9.8%
% of sales	8.7%	9.3%	
Earnings per share	45.83	41.72	+ 9.8%

### Sales:

The sales revenue stood at PKR 24 billion registering growth of +17.5% compared to same period last year. Our export sales during the period stood at 1.4 billion.

### Gross Profit:

Our gross margins decreased by 210 bps compared to the same period last year mainly due to higher input cost of commodities, especially fresh milk.

### Operating Profit:

The operating profit reached PKR 3.8 billion registering a +13.4% growth vs. same period last year, this was achieved through effective cost management.

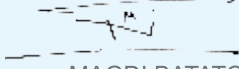
### Net Profit after tax:

Our net profit after tax decreased by 60 bps reaching to PKR 2.1 billion, registering a growth of 8.7% vs. same period last year.

### Future Outlook:

Having faith in strong potential of Pakistan fuelled by its growing population, 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

  
MAGDI BATATO  
Chief Executive

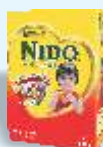
Lahore: April 16, 2014





## Condensed Interim Balance Sheet As at March 31, 2014 (Un-audited)

	Notes	Mar. 31, 2014 (Un-audited)	Dec. 31, 2013 (Audited)
		Rs'000	Rs'000
<b>Tangible fixed assets</b>			
Property, plant and equipment	6	31,396,985	31,467,872
Capital work-in-progress		1,741,751	2,351,556
		33,138,736	33,819,428
<b>Intangible assets</b>		1,195	2,392
<b>Goodwill</b>		167,546	167,546
<b>Long term loans and advances</b>	7	288,333	292,304
<b>Long term deposits and prepayments</b>		69,680	71,368
<b>Current assets</b>			
Stores and spares		1,213,081	1,273,538
Stock in trade		11,588,036	7,925,132
Trade debts		512,995	346,041
Current portion of long term loans and advances		57,830	55,784
Advances, deposits, prepayments and other receivables		8,754,769	7,615,923
Cash and bank balances		671,646	720,065
		22,798,357	17,936,483
<b>Less current liabilities</b>			
Current portion of non current liabilities:			
Associated company - unsecured	4	2,698,850	2,893,138
From banking companies - secured		5,197,115	1,938,702
Short term running finance under mark-up arrangements - secured		6,070,269	3,356,591
Customers security deposits - interest free		185,335	181,977
Trade and other payables		9,408,562	9,366,805
Interest and mark-up accrue		321,895	263,776
		23,882,026	18,000,989
<b>Net working capital</b>		(1,083,669)	(64,506)
<b>Total capital employed</b>		32,581,821	34,288,532
<b>Long term and deferred liabilities</b>			
Long term finances:			
Associated company - unsecured	4	3,005,538	3,945,187
From banking companies - secured		10,247,596	13,519,625
Deferred taxation		4,484,814	4,102,160
Retirement and other benefits		906,188	862,403
		18,644,136	22,429,375
<b>Contingencies and commitments</b>	5		
<b>Net assets</b>		13,937,685	11,859,157

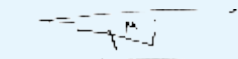


	Mar. 31, 2014 (Un-audited)	Dec. 31, 2013 (Audited)
	Rs'000	Rs'000
<b>Financed by:</b>		
<b>Share capital and reserves</b>		
Authorized capital		
75,000,000 (2013: 75,000,000) ordinary shares of Rs 10 each	750,000	750,000
Issued, subscribed and paid-up capital	453,496	453,496
Share premium	249,527	249,527
General reserve	280,000	280,000
Accumulated profit	12,954,662	10,876,134
	<b>13,937,685</b>	<b>11,859,157</b>

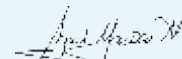
The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



**JOHN MICHAEL DAVIS**  
Head of Finance & Control



**MAGDI BATATO**  
Chief Executive



**SYED YAWAR ALI**  
Chairman





## Condensed Interim Profit and Loss Account For Three Months Period Ended March 31, 2014 (Un-audited)

	<u>Three months ended</u>	
	<b>Mar. 31, 2014 Rs'000</b>	<b>Mar. 31, 2013 Rs'000</b>
Sales - net	24,003,553	20,427,003
Cost of goods sold	(16,923,165)	(13,967,698)
<b>Gross profit</b>	<b>7,080,388</b>	<b>6,459,305</b>
Distribution and selling expenses	(2,729,598)	(2,620,354)
Administration expenses	(554,010)	(490,578)
	(3,283,599)	(3,110,932)
<b>Operating profit</b>	<b>3,796,789</b>	<b>3,348,373</b>
Finance cost	(583,190)	(412,744)
Other operating expenses	(449,472)	(394,625)
	(1,032,662)	(807,369)
Other operating income	584,938	49,721
<b>Profit before taxation</b>	<b>3,349,065</b>	<b>2,590,725</b>
Taxation	(1,270,537)	(698,614)
<b>Profit after taxation</b>	<b>2,078,528</b>	<b>1,892,111</b>
Earnings per share – basic and diluted (Rupees)	<b>45.83</b>	<b>41.72</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

**JOHN MICHAEL DAVIS**  
Head of Finance & Control

**MAGDI BATATO**  
Chief Executive

**SYED YAWAR ALI**  
Chairman



## Condensed Interim Statement of Comprehensive Income

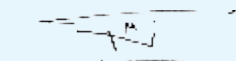
### For the Three Months Period Ended March 31, 2014 (Un-audited)

	<u>Three months ended</u>	
	<b>Mar. 31, 2014 Rs'000</b>	<b>Mar. 31, 2013 Rs'000</b>
<b>Profit after taxation</b>	2,078,528	1,892,111
<b>Other comprehensive income</b>	-	-
<b>Total comprehensive income for the period</b>	<b>2,078,528</b>	<b>1,892,111</b>

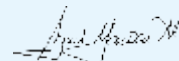
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**JOHN MICHAEL DAVIS**  
Head of Finance & Control



**MAGDI BATATO**  
Chief Executive



**SYED YAWAR ALI**  
Chairman





## Condensed Interim Cash Flow Statement For the Three Months Period Ended March 31, 2014 (Un-audited)

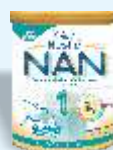
	Note	Mar. 31, 2014 Rs'000	Mar. 31, 2013 Rs'000
<b>Cash flow from operating activities</b>			
Cash generated from operations	8	(546,242)	(3,354,952)
Decrease /(increase) in long term loans and advances		1,925	(19,497)
Decrease /(increase) in long term deposits and prepayments		1,688	(2,706)
Increase in customer security deposits - interest free		3,358	4,102
Retirement and other benefits paid		(17,822)	(37,587)
Finance cost paid		(525,072)	(238,286)
Taxes paid		(831,372)	(185,702)
<b>Net cash (outflow) from operating activities</b>		<b>(1,913,537)</b>	<b>(3,834,628)</b>
<b>Cash flow from investing activities</b>			
Fixed capital expenditure		(175,287)	(939,766)
Sale proceeds of property, plant and equipment		14,043	2,408
<b>Net cash (used in) investing activities</b>		<b>(161,244)</b>	<b>(937,358)</b>
<b>Cash flow from financing activities</b>			
(Repayment) /proceeds from long term finances		(13,616)	1,388,598
Net movement in short term borrowings - secured		-	1,200,000
Repayment of long term finance from associated company - unsecured		(672,778)	-
Payments of finance lease liabilities		-	(4,253)
Dividend paid		(922)	(19)
<b>Net cash (outflow) /inflow from financing activities</b>		<b>(687,316)</b>	<b>2,584,326</b>
Net decrease in cash and cash equivalents		(2,762,097)	(2,187,660)
Cash and cash equivalents at beginning of the period		(2,636,526)	(5,176,543)
Cash and cash equivalents at end of the period		(5,398,623)	(7,364,203)
<b>Cash and cash equivalents</b>			
Cash and bank balances		671,646	775,677
Short term running finance under mark-up arrangements – secured		(6,070,269)	(8,139,880)
		<b>(5,398,623)</b>	<b>(7,364,203)</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

  
**JOHN MICHAEL DAVIS**  
Head of Finance & Control

  
**MAGDI BATATO**  
Chief Executive

  
**SYED YAWAR ALI**  
Chairman

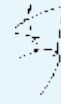




## Condensed Interim Statement of Changes in Equity For the Three Months Period Ended march 31, 2014 (Un-audited)

	Share capital	Share premium	General reserve	Accumulated profits	Total
	(Rs'000)				
Balance as at December 31, 2012	453,496	249,527	280,000	10,577,241	11,560,264
Total comprehensive income for the period	-	-	-	1,892,111	1,892,111
Balance as at March 31, 2013	453,496	249,527	280,000	12,469,352	13,452,375
Final dividend for the year ended December 31, 2012 (Rs. 70 per share)	-	-	-	(3,174,471)	(3,174,471)
Interim dividend for the nine months period ended September 30, 2013 (Rs. 50 per share)	-	-	-	(2,267,474)	(2,267,474)
Total comprehensive income for the period	-	-	-	3,848,727	3,848,727
Balance as at December 31, 2013	453,496	249,527	280,000	10,876,134	11,859,157
Total comprehensive income for the period	-	-	-	2,078,528	2,078,528
<b>Balance as at March 31, 2014</b>	<b>453,496</b>	<b>249,527</b>	<b>280,000</b>	<b>12,954,662</b>	<b>13,937,685</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



**JOHN MICHAEL DAVIS**  
Head of Finance & Control



**MAGDI BATATO**  
Chief Executive



**SYED YAWAR ALI**  
Chairman





## Selected Notes to the Condensed Interim Financial Information For the Three Months Period Ended March 31, 2014 (Un-audited)

### 1. Legal status and nature of business

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. Basis of preparation

#### 2.1 Statement of compliance

This condensed interim financial information is being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984. This has been prepared in accordance with the requirements of International Accounting Standard "IAS-34 (Interim financial Reporting)".

This condensed interim financial information of the Company for the three months period ended March 31, 2014 has been prepared 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.

#### 2.2 Judgements and estimates

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 December 31, 2013.

### 3. Significant accounting policies

Accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are same as those applied in the preparation of the financial statements for the year ended December 31, 2013.

### 4. Long term finances from associated company - unsecured

These represent US\$ 58.12 million unsecured loan from Nestlé Treasury Centre Middle East and Africa Limited, Dubai - a related party. As per the original loan agreements, the repayments of US\$ 15 million and US\$ 50 million were to be made on 27 December 2015 and 30 May 2016, respectively. Under the revised terms, duly authorized by the State Bank of Pakistan, US\$ 15 million is now payable in 8 equal quarterly instalments amounting to US\$ 1.875 million each, starting from March 2014 and ending on December 2015 and US\$ 50 million is now payable in 10 equal quarterly instalments amounting to US\$ 5 million each, starting from March 2014 and ending on May 2016. Mark-up is also payable along with new principal repayment schedule (Quarterly) at 6 months LIBOR plus 150 basis points. The outstanding balance as at 31 March 2014 has been converted into rupees at the exchange rate prevailing at the balance sheet date.

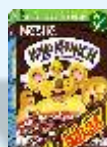
### 5. Contingencies and commitments

5.1 There is no material contingency as at balance sheet date.

5.2 'Claims against the company not acknowledged as debts Rs Nil (December 31, 2013: Rs Nil).



	Mar. 31, 2014 Rs'000	Dec. 31, 2013 Rs'000
5.3 Guarantees		
Outstanding guarantees	207,766	262,249
Un-utilized portion	187,234	132,751
5.4 Commitments in respect of capital expenditure	793,321	148,847
5.5 Letters of credit		
Other outstanding letters of credit	806,506	1,091,476
Un-utilized portion	5,116,494	3,481,689
<b>6. Tangible fixed assets</b>		
6.1 Property, plant and equipment		
Opening balance at net book value	31,467,872	21,881,973
Additions during the period	785,092	12,991,381
	32,252,964	34,873,354
Book value of property, plant and equipment disposed off during the period	(50,570)	(340,319)
Depreciation charged during the period	(805,409)	(2,996,334)
Impairment charge	-	(68,829)
Closing balance at net book value	31,396,985	31,467,872
6.2 Assets subject to finance lease		
Opening balance at net book value	-	88,984
Additions during the period	-	-
	-	88,984
Book value of leased asset transferred during the period	-	(83,685)
Depreciation charged during the period	-	(5,299)
Closing balance at net book value	-	-





## 7. Long term loans and advances

It includes long term interest free loan amounting to Rs. 1.932 million given to Chief Executive of the Company for purchase of vehicle.

	Mar. 31, 2014 Rs'000	Mar. 31, 2013 Rs'000
<b>8. Cash generated from operations</b>		
Profit before taxation	3,349,065	2,590,725
Adjustment for non-cash charges and other items:		
Depreciation and amortization	806,604	655,865
Loss on disposal of property, plant and equipment	36,529	19,268
Retirement benefits	61,607	52,287
Exchange (gain) /loss on associated company loan	(461,159)	86,125
Finance cost	583,190	412,744
Profit before working capital changes	4,375,836	3,817,014
Effect on cash flow due to working capital changes:		
Decrease /(increase) in:		
Stores and spare	60,457	(13,033)
Stock in trade	(3,662,904)	(4,723,367)
Trade debts	(166,954)	(1,469,984)
Advances, deposits, prepayments and other receivables	(1,195,357)	(1,504,465)
Increase in:		
Trade and other payables	42,680	538,883
	(4,922,078)	(7,171,966)
	(546,242)	(3,354,952)

## 9. 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:

	Mar. 31, 2014 Rs'000	Mar. 31, 2013 Rs'000
<b>Associated companies:</b>		
Royalty and technical assistance fee	655,023	550,859
Purchase of goods, services and rental	3,904,187	3,731,397
Interest on loan	27,454	32,236
<b>Other related parties</b>		
Contribution to staff retirement benefit plan	61,607	52,287
Remuneration to key management personal	380,818	346,320

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



#### 10. 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 three months ended March 31, 2014

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	19,756,959	4,030,186	216,408	24,003,553
Inter-segment sales	-	-	-	-
Total revenue	19,756,959	4,030,186	216,408	24,003,553
Depreciation and amortization	561,016	215,183	30,405	806,604
Profit before tax and unallocated expenses	3,302,429	601,308	(106,948)	3,796,789
Unallocated corporate expenses:				
Finance cost				(583,190)
Other operating expenses				(449,472)
Other operating income				584,938
Taxation				(1,270,537)
Profit after taxation				2,078,528





# Segment analysis for the three months period ended March 31, 2013

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	16,997,936	3,315,261	133,806	20,427,003
Inter-segment sales	-	-	-	-
Total revenue	16,977,936	3,315,261	133,806	20,427,003
Depreciation and amortization	445,341	188,992	21,532	655,865
Profit before tax and unallocated expenses	3,126,764	358,370	(136,761)	3,348,373
Unallocated corporate expenses:				
Finance cost				(412,744)
Other operating expenses				(394,625)
Other operating income				49,721
Taxation				(698,614)
Profit after taxation				1,892,111

## Reportable segment assets and liabilities

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
As at March 31, 2014				
Segment assets	33,409,301	12,063,379	981,363	46,454,043
Unallocated assets				10,009,804
Total assets				56,463,847
Segment liabilities	7,744,044	1,765,029	84,824	9,593,897
Unallocated liabilities				32,932,265
Total liabilities				42,526,162
As at December 31, 2013				
Segment assets	30,387,249	11,980,192	974,638	43,342,079
Unallocated assets				8,947,442
Total assets				52,289,521
Segment liabilities	9,487,099	1,913,530	86,854	11,487,483
Unallocated liabilities				28,942,881
Total liabilities				40,430,364



#### 11. **Financial risk management**

The Company's financial risk management objective and policies are consistent with that disclosed in the financial statements for the year ended December 31, 2013.

#### 12. **Date of authorization for issue**

This condensed interim financial information was authorized for issue on April 16, 2014 by the Board of Directors.

#### 13. **Dividend**

The board of directors in their meeting held on April 16, 2014 have proposed interim cash dividend for the three months ended March 31, 2014 of Rs. Nil per share, amounting to Rs. Nil (March 31, 2013 : Rs. Nil). This financial information does not reflect this dividend.

#### 14. **Corresponding figures**

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

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

  
**JOHN MICHAEL DAVIS**  
Head of Finance & Control

  
**MAGDI BATATO**  
Chief Executive

  
**SYED YAWAR ALI**  
Chairman





## COMPANY INFORMATION

### Board of Directors

Syed Yawar Ali	Chairman
Mr. Magdi Batato	Managing Director
Syed Babar Ali	Director
Syed Hyder Ali	Director
Mr. Osman Khalid Waheed	Director
Mr. John Davis	Director
Mr. Pierre Schaufelberger	Director
Mr. Naveed A. Khan	Director
Mr. Faïçal Krichane	Director

### Company Secretary

Ali Sadozai

### Management

Abdullah Jawaïd	Business Manager Chilled Dairy
Ali Sadozai	Head of Legal Affairs & Company Secretary
Arsalan Khan	Head of Sales
Asim Rifat	CBM, Maternal & Infant Nutrition
Babar Khan	Business Manager, Beverages
Dr Usman Iqbal Bhatti	Country Business Manager, Nestlé Waters
Faisal Akhtar Rana	Business Manager Coffee, Milk Modifiers & Cereals
John Davis	Head of Finance and Control
Magdi Batato	Managing Director
Nadia Omer	Head of Nestlé Continuous Excellence
Nadji Rekhif	Business Manager, Culinary & Food
Nauman Khan	CBM, Nestlé Professional
Naveed Khan	Head of Technical
Roland Stieger	Business Executive Manager, Ambient Dairy
Salman Nazir	Head of Supply Chain
Samra Maqbool	Head of Communication & Marketing Services
Shahzad Umar	Head of Human Resource
Waqar Ahmad Sheikh	Head of Corporate Affairs

### 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**

Allied Bank Limited  
Barclays Bank PLC, Pakistan  
Citibank N.A.  
Deutsche Bank A.G.  
Faysal Bank Limited  
Habib Bank Ltd.  
KASB Bank Ltd  
MCB Bank Ltd.  
Meezan Bank  
National Bank of Pakistan Ltd.  
Standard Chartered Bank (Pakistan) Ltd.  
United Bank Limited

