

Report for the 1st quarter ended  
March 31, 2007



**Nestlé**

Nestlé Pakistan Ltd.



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## DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors are pleased to submit the First Quarter Report for 2007 along with the un-audited financial statements of the company for the period ended March 31, 2007.

The sales turnover recorded a new height as the company crossed the level of 7 billion mark in one quarter. Our continued focus on sales and marketing strategies and innovation and renovation were the key elements for this impressive sales growth and the market share gains.

Fresh Milk collection remained in line with requirements during the first quarter. The Company continued pursuing its dairy development initiatives in collaboration with the Government and other institutions to accelerate fresh milk production in the country and to boost our ability to collect incremental good quality milk from remote areas.

The financial performance for the period under review is summarized below:

PKR Million	Jan - Mar 2007	Jan - Mar 2006	Change
Sales	7,037	5,914	+19%
Operating Profit	1,074	829	+30%
% of sales	15.3%	14.0%	
Net Profit	580	464	+25%
% of sales	8.2%	7.8%	
Earnings per share	12.80	10.23	+25%

First quarter sales have recorded a value growth of +19%, with contribution coming from each of our pillar product categories. In particular, excellent growth came from milks and juices categories. In addition, sales in Afghanistan grew by +40% to Rs 0.46 billion compared to the same period last year.

Operating profit grew by +30% to Rs 1.1 billion for the quarter, and showed an increase of 130 basis points in margin compared to the same period in 2006.

Net profit amounted to Rs 0.6 billion, recording an improvement of 30 basis points in margins compared to 1<sup>st</sup> quarter 2006. Earning per share also grew by 25% and stands at Rs 12.80.

The first quarter performance is a very positive start and a strong step towards achievement of our aggressive annual targets.

For and on behalf of the Board of Directors



RÖLAND DËCÖRVËT  
Chief Executive

Lahore: April 23, 2007



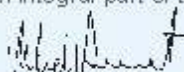
## CONDENSED INTERIM BALANCE SHEET AS AT MARCH 31, 2007 (UN-AUDITED)

	Notes	Mar. 31, 2007	Dec. 31, 2006
(Rupees in thousands)			
<b>Tangible fixed assets</b>			
Property, plant and equipment	6	6,705,384	6,941,332
Assets subject to finance lease		101,444	44,717
Capital work in progress		<u>1,768,258</u>	<u>1,107,052</u>
		8,575,086	8,093,101
<b>Intangible assets</b>			
Long term loans and advances		124,191	135,020
Long term security deposits		68,413	66,008
		6,088	6,088
<b>Current assets</b>			
Stores and spares		314,793	329,346
Stock in trade		2,097,412	1,907,300
Trade debts		432,091	238,291
Current portion of long term loans and advances		12,445	8,771
Advances, deposits, prepayments and other receivables		<u>2,073,717</u>	<u>2,109,314</u>
Cash and bank balances		<u>24,234</u>	<u>34,663</u>
		4,954,692	4,627,685
<b>Less: Current liabilities</b>			
Current portion of long term finances		300,000	300,000
Current portion of liabilities against assets subject to finance lease		18,486	8,392
Short term borrowings - secured		700,000	700,000
Running finance under markup arrangements - secured		2,031,617	1,817,711
Customer security deposits - interest free		102,928	102,307
Trade and other payables		2,195,571	2,197,529
Interest and mark-up accrued		66,785	98,549
Dividend payable		226,748	-
		<u>5,642,135</u>	<u>5,224,488</u>
<b>Net working capital</b>		<u>(687,443)</u>	<u>(596,803)</u>
<b>Total capital employed</b>		<u>8,086,335</u>	<u>7,703,414</u>
<b>Long term and deferred liabilities</b>			
Long term finances		3,948,100	3,963,700
Deferred taxation		942,858	942,858
Retirement and other benefits		240,157	234,305
Liabilities against assets subject to finance lease		<u>70,498</u>	<u>31,471</u>
		5,201,613	5,172,334
<b>Contingencies and commitments</b>	5		
<b>Net assets</b>		<u>2,884,722</u>	<u>2,531,080</u>
<b>Financed by:</b>			
<b>Share capital and reserves</b>			
<b>Authorized capital</b>			
75,000,000 (2006: 75,000,000) ordinary shares of Rs 10 each		<u>750,000</u>	<u>750,000</u>
Issued, subscribed and paid up capital		453,496	453,496
Share premium		249,527	249,527
General reserve		280,000	280,000
Accumulated profit		<u>1,901,699</u>	<u>1,548,057</u>
		<u>2,884,722</u>	<u>2,531,080</u>

The annexed notes 1 to 11 form an integral part of these financial statements.



**RAYMOND FRANKE**  
Head of Finance & Control



**ROLAND DECORVET**  
Chief Executive

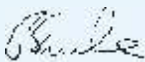


**SYED YAWAR ALI**  
Chairman

## CONDENSED INTERIM PROFIT AND LOSS ACCOUNT FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2007 (UN-AUDITED)

	Mar. 31, 2007	Mar. 31, 2006
	(Rupees in thousands)	
Sales - Net	7,036,875	5,914,762
Cost of goods sold	(4,837,221)	(4,070,190)
<b>Gross profit</b>	<b>2,199,654</b>	<b>1,844,572</b>
Distribution and selling expenses	(921,014)	(842,242)
Administration expenses	(204,443)	(173,027)
	(1,125,457)	(1,015,269)
<b>Operating profit</b>	<b>1,074,197</b>	<b>829,303</b>
Finance cost	(139,457)	(67,084)
Other operating expenses	(101,655)	(71,247)
	(241,112)	(138,331)
Other operating income	27,899	6,402
<b>Profit before taxation</b>	<b>860,984</b>	<b>697,374</b>
Taxation	(280,594)	(233,670)
<b>Profit after taxation</b>	<b>580,390</b>	<b>463,704</b>
Earnings per share - Rupees	<u>12.80</u>	<u>10.23</u>

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Head of Finance & Control



**ROLAND DECORVET**  
Chief Executive



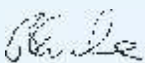
**SYED YAWAR ALI**  
Chairman



## CONDENSED INTERIM CASH FLOW STATEMENT FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2007 (UN-AUDITED)

	Notes	Mar. 31, 2007	Mar. 31, 2006
<b>(Rupees in thousands)</b>			
<b>Cash flow from operating activities</b>			
Cash generated from operations	7	797,528	(96,345)
(Increase)/decrease in long term loans and advances		(6,079)	2,145
Decrease in long term deposits		-	60
Increase in customer security deposits - interest free		621	3,533
Retirement and other benefits paid		(11,837)	(47,806)
Finance cost paid		(171,221)	(46,030)
Taxes paid		(164,471)	(117,171)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>444,541</b>	<b>(301,614)</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(662,831)	(694,630)
Sale proceeds of property, plant and equipment		2,571	55
<b>Net cash outflow from investing activities</b>		<b>(660,260)</b>	<b>(694,575)</b>
<b>Cash flow from financing activities</b>			
Repayment of long term finances		-	(200,000)
Repayment of lease liabilities		(8,589)	(31)
Dividend paid		(27)	(452,685)
<b>Net cash outflow from financing activities</b>		<b>(8,616)</b>	<b>(652,716)</b>
Net (decrease) in cash and cash equivalents		(224,335)	(1,648,905)
Cash and cash equivalents at beginning of the period		(1,783,048)	(387,046)
Cash and cash equivalents at end of the period		<u>(2,007,383)</u>	<u>(2,035,951)</u>
<b>Cash and cash equivalents</b>			
Cash and bank balances		24,234	13,258
Running finance under mark-up arrangements - secured		(2,031,617)	(2,049,209)
		<u>(2,007,383)</u>	<u>(2,035,951)</u>

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Head of Finance & Control



**ROLAND DECORVET**  
Chief Executive



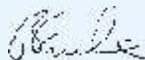
**SYED YAWAR ALI**  
Chairman




## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2007 (UN-AUDITED)

	Share capital	Share premium	General reserve	Accumulated profits	Total
	(Rupees in thousands)				
Balance as at December 31, 2005	453,496	249,527	280,000	880,359	1,863,382
Final dividend for the year ended December 31, 2005 (Rs 15 per share)	-	-	-	(680,244)	(680,244)
Total recognized income and expenses for the period	-	-	-	460,609	460,609
Balance as at March 31, 2006 - restated	<u>453,496</u>	<u>249,527</u>	<u>280,000</u>	<u>660,724</u>	<u>1,643,747</u>
Total recognized income and expenses for the period	-	-	-	887,333	887,333
Balance as at December 31, 2006	<u>453,496</u>	<u>249,527</u>	<u>280,000</u>	<u>1,548,057</u>	<u>2,531,080</u>
Final dividend for the year ended December 31, 2006 (Rs 5 per share)	-	-	-	(226,748)	(226,748)
Total recognized income and expenses for the period	-	-	-	580,390	580,390
Balance as at March 31, 2007	<u>453,496</u>	<u>249,527</u>	<u>280,000</u>	<u>1,901,699</u>	<u>2,884,722</u>

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Head of Finance & Control



**ROLAND DECORVET**  
Chief Executive



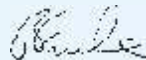
**SYED YAWAR ALI**  
Chairman




## CONDENSED INTERIM STATEMENT OF RECOGNIZED INCOME AND EXPENSES FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2007 (UN-AUDITED)

	Mar. 31, 2007	Mar. 31, 2006
	(Rupees in thousands)	
Amounts recognized directly into equity	-	(4,761)
Tax on actuarial losses recognized directly to equity	-	1,666
Net profit for the period	<u>580,390</u>	463,704
Total recognized income and expenses for the period	<u>580,390</u>	<u>460,609</u>

The annexed notes 1 to 11 form an integral part of these financial statements.



**RAYMOND FRANKE**  
Head of Finance & Control



**ROLAND DECORVET**  
Chief Executive



**SYED YAWAR ALI**  
Chairman

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2007 (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, processing and sale of food products (dairy, confectionery, culinary, coffee, beverages and drinking water). Registered office of the Company is situated at Babar Ali Foundation Building, 308 - Upper Mall, Lahore.
2. These financial statements are un-audited and have been presented in accordance with the requirements of International Accounting Standard "IAS-34 (Interim financial reporting)".
3. Accounting policies adopted for preparation of the condensed interim financial statements are same as those applied in the preparation of annual audited financial statements of the Company for year ended December 31, 2006.
4. The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that effect 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 these condensed interim financial statements, 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, 2006.

### 5. Contingencies and commitments

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

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

- 5.2 Claims against the company not acknowledged as debts Rs 37.459 million (December 31, 2006: Rs 35.946 million).



	<b>Mar. 31, 2007</b>	<b>Dec. 31, 2006</b>
	<b>(Rupees in thousands)</b>	
<b>5.3 Guarantees</b>		
Outstanding guarantees	157,479	219,933
Un-utilized portion	92,521	30,067
<b>5.4 Commitments in respect of capital expenditure</b>	<b>531,455</b>	<b>347,289</b>
<b>5.5 Letters of credit</b>		
Outstanding letters of credit in respect of capital expenditures	18,854	33,572
Other outstanding letters of credit	3,882	253,366
Un-utilized portion	1,967,264	1,703,062

5.6 In the year 2005 the Company had made a commitment to pay Rs 250 million to Lahore University of Management Sciences to setup a School for Science and Engineering. The amount is to be paid over a period of six years. Upto December 31, 2006 Rs 100 million has been paid, while Rs 10 million has been accounted for during first quarter of 2007.

	<b>Mar. 31, 2007</b>	<b>Dec. 31, 2006</b>
	<b>(Rupees in thousands)</b>	
<b>6. Property, plant and equipment</b>		
Opening balance of written down value	6,941,332	3,298,880
Assets transferred in from leased assets	-	20
Additions during the period	1,625	4,265,851
	<u>6,942,957</u>	<u>7,564,751</u>
Book value of property, plant and equipment disposed off during the period	(4,301)	(43,904)
Depreciation charged during the period	(207,712)	(579,515)
Impairment charge	(25,560)	-
Net book value of property, plant and equipment	<u>6,705,384</u>	<u>6,941,332</u>



	<b>Mar. 31, 2007</b>	<b>Mar. 31, 2006</b>
	<b>(Rupees in thousands)</b>	
<b>7. Cash generated from operations</b>		
Profit before taxation	860,984	697,374
Adjustment for non-cash charges and other items:		
Depreciation and amortization	219,524	144,125
Impairment loss	25,560	-
Loss/(profit) on disposal of property, plant and equipment	1,730	(26)
Provision for obsolete stores and spares	-	3,686
Stores and spares directly written off	5,547	-
Retirement and other benefits	17,689	47,612
Exchange gain on associated company loan	(15,600)	-
Finance cost	139,457	67,084
Profit before working capital changes	<u>1,254,891</u>	<u>959,855</u>
Effect on cash flow due to working capital changes:		
Decrease/(increase) in stores and spare	9,006	(24,856)
(Increase) in stock in trade	(190,112)	(164,643)
(Increase) in trade debts	(193,800)	(150,357)
(Increase) in advances, deposits, prepayments and other receivables	(80,525)	(661,992)
(Decrease) in trade and other payables	(1,932)	(54,352)
	<u>(457,363)</u>	<u>(1,056,200)</u>
	<u>797,528</u>	<u>(96,345)</u>

#### 8. Transactions with related parties

Related parties comprise of associates undertakings, key management personnel and employees retirement benefit funds. Significant transactions with related parties are summarized as follows:



	<b>Mar. 31, 2007</b>	<b>Mar. 31, 2006</b>
	<b>(Rupees in thousands)</b>	
Associated companies:		
Royalty and technical assistance fee	186,758	156,149
Purchase of goods and services and rental	1,061,051	1,588,279
Sale of goods and services	4,969	31,307
Contribution to staff retirement benefits plan	17,689	47,612
Interest on loan	67,757	13,901
Donation	10,000	12,500

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

## 9. 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 analysis for the three months ended March 31, 2007

	<b>Milk Products &amp; Nutrition</b>	<b>Beverages</b>	<b>Other Operations</b>	<b>Total</b>
	<b>(Rupees in thousands)</b>			
Sales				
External sales	6,154,358	782,734	99,783	7,036,875
Inter-segment sales	-	-	-	-
Total revenue	<u>6,154,358</u>	<u>782,734</u>	<u>99,783</u>	<u>7,036,875</u>
Profit before tax and unallocated expenses				
Unallocated corporate expenses:	1,073,454	2,624	(27,441)	1,048,637
Finance cost				(139,457)
Other operating expenses				(76,095)
Other operating income				27,899
Taxation				<u>(280,594)</u>
Profit after taxation				<u>580,390</u>



Segment analysis for the three months ended March 31, 2006

	Milk Products & Nutrition	Beverages	Other Operations	Total
(Rupees in thousands)				
Sales				
External sales	5,088,300	666,122	160,340	5,914,762
Inter-segment sales	-	-	-	-
Total revenue	<u>5,088,300</u>	<u>666,122</u>	<u>160,340</u>	<u>5,914,762</u>
Profit before tax and unallocated expenses	<u>798,351</u>	<u>17,439</u>	<u>13,513</u>	829,303
Unallocated corporate expenses:				
Finance cost				(67,084)
Other operating expenses				(71,247)
Other operating income				6,402
Taxation				<u>(233,670)</u>
Profit after taxation				<u>463,704</u>

10. [Date of authorization for issue](#)

These condensed interim financial statements were authorized for issue on April 23, 2007 by the Board of Directors.

11. [Corresponding figures](#)

11.1 Previous year's figures have been rearranged, wherever necessary for the purpose of comparison. However, no significant rearrangements have been made.

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



**RAYMOND FRANKE**  
Head of Finance & Control



**ROLAND DECORVET**  
Chief Executive



**SYED YAWAR ALI**  
Chairman



## COMPANY INFORMATION

### Board of Directors

Roland Decorvet	Chief Executive
Syed Yawar Ali	Chairman
Syed Babar Ali	
Frits Wout Marie van Dijk	
Roger Stettler	
Alexandre Jean Cantacuzène	
Syed Hyder Ali	

### Company Secretary

Syed Azeem Abbas Naqvi

### Management Team

Roland Decorvet	Chief Executive
Raymond Franke	Chief Financial Officer
Peter Wuethrich	Technical Manager
Uzma Qaiser Butt	Human Resources Manager
Salman Nazir	Supply Chain Manager
Shahab A. Bachani	Business Unit Manager - Water
Syed Zafar Hussain Shah	Head of Sales

### Registered & Corporate Office

308 - Upper Mall, Lahore  
 PABX : (042) 5757082 - 95  
 Fax : (042) 5789305

### Corporate Office Annex

304 - Upper Mall, Lahore  
 PABX : (042) 5754339, 5754393

### Factories

#### Sheikhupura

29th Kilometer, Lahore - Sheikhupura Road  
 Sheikhupura, Punjab, Pakistan  
 Phone: (056) 3406615 - 29 Fax: (042) 6368710

#### Kabirwala

Khanewal - Kabirwala Road, Kabirwala  
 District Khanewal, Punjab, Pakistan  
 Phone: (065) 2411433 - 36 Fax: (065) 2411432

#### Karachi

Plot No. 33/7, Sector 15, Korangi Industrial Area,  
 Karachi - 74900, Pakistan  
 Phone: (021) 5066991 - 5 Fax: (021) 5066996

Plot No. 91, Sector 15, Korangi Industrial Area,  
 Karachi - 74900, Pakistan.  
 Phone: (021) 5067031 - 5 Fax: (021) 5050215

#### Islamabad

Plot No. 32, Street 3, Sector I-10/3, Industrial Area,  
 Islamabad, Pakistan  
 Phone: (051) 4445991 - 93 Fax: (051) 4445997



<b>Auditors</b>	KPMG Taseer Hadi & Co. (Chartered Accountants)
<b>Legal Advisor</b>	Chima & Ibrahim (Advocates)
<b>Bankers</b>	ABN Amro Bank 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







**Nestlé**

*Good Food, Good Life*



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