

Report for the nine months ended
September 30, 2014



stlé



Nestlé

Good Food, Good Life



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Directors' Report to the Shareholders

The Directors of the Company are pleased to submit the third quarter report along with the condensed interim financial information of the company for the nine months period ended September 30, 2014.

During the first three quarters of 2014, the political situation of the country has further deteriorated and the difficult law and order conditions have not improved, exerting further pressure on the cost of living. The recent floods have also negatively affected the economic conditions of the country.

Despite all these challenges, we are pleased to report a growth in top line by 16.4%, fuelled by strong volume growth of 8.8%.

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

	Jan – Sep 2014 PKR Million	Jan – Sep 2013 PKR Million	Change
Sales	74,302	63,831	+ 16.4%
Gross Profit	21,674	18,641	+16.3%
% of sales	29.2%	29.2%	
Operating Profit	11,476	8,664	+ 32.4%
% of sales	15.4%	13.6%	
Net Profit after tax	6,405	4,471	+43.3%
% of sales	8.6%	7.0%	
Earnings per share	141.23	98.58	+43.3%

Sales:

The sales revenue growth was PKR 10.5 billion, +16.4% compared to same period last year. Our export sales during the period stood at PKR 4.7 billion.

Gross Profit:

Our gross margins have remained relatively the same compared to last year, primarily due to increase in input cost of commodities, especially fresh milk and higher repair & maintenance costs which

were offset by a strong growth in sales.

Operating Profit:

The operating profit reached PKR 11.5 billion registering a growth of +32.4% compared to same period last year, this was achieved through effective cost saving initiatives.

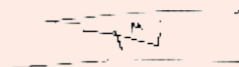
Net Profit after tax:

Our net profit after tax increased around 160 bps reaching to PKR 6.4 billion, registering a growth of 43.3% compared to same period last year.

Future Outlook:

Despite the challenges being faced, we continue to have an optimistic outlook for the business and will continue to drive sustainable profitable growth and enhance the quality of life for Pakistanis by delivering Nutrition, Health & Wellness products.

For and on behalf
of the Board of Directors



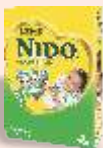
MAGDI BATATO
Chief Executive

Lahore: October 20, 2014



Condensed Interim Balance Sheet As at September 30, 2014 (Un-audited)

	Notes	Sep. 30, 2014 (Un-audited) Rs'000	Dec. 31, 2013 (Audited) Rs'000
Tangible fixed assets			
Property, plant and equipment	6	30,706,310	31,467,872
Capital work-in-progress		1,546,195	2,351,556
		32,252,505	33,819,428
Intangible assets			
Goodwill		-	2,392
Long term loans and advances	7	167,546	167,546
Long term deposits and prepayments		315,863	292,304
		52,552	71,368
Current assets			
Stores and spares		1,157,160	1,273,538
Stock in trade		8,742,506	7,925,132
Trade debts		570,247	346,041
Current portion of long term loans and advances		77,229	55,784
Advances, deposits, prepayments and other receivables		7,249,836	7,615,923
Cash and bank balances		207,247	720,065
		18,004,225	17,936,483
Current liabilities			
Current portion of non current liabilities		5,309,302	4,831,840
Short term running finance under mark-up arrangements - secured		6,008,003	3,356,591
Customer security deposits – interest free		213,944	181,977
Trade and other payables		12,954,594	9,366,805
Interest and mark-up accrued		235,336	263,776
		24,721,179	18,000,989
Net working capital		(6,716,954)	(64,506)
Total capital employed		26,071,512	34,288,532
Long term and deferred liabilities			
Long term finances	4	7,525,896	17,464,812
Deferred taxation		4,104,973	4,102,160
Retirement benefits		936,108	862,403
		12,566,977	22,429,375
Contingencies and commitments	5		
Net assets		13,504,535	11,859,157



	Sep. 30, 2014 (Un-audited) Rs'000	Dec. 31, 2013 (Audited) Rs'000
Financed by:		
Share capital and reserves		
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
Hedging reserve	2,253	-
Accumulated profit	12,519,259	10,876,134
	13,504,535	11,859,157

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



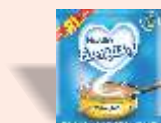
JOHN MICHAEL DAVIS
Head of Finance & Control



MAGDI BATATO
Chief Executive



SYED YAWAR ALI
Chairman



Condensed Interim Profit and Loss Account For the Nine Months Period Ended September 30, 2014 (Un-audited)

	<u>Nine months ended</u>		<u>Three months ended</u>	
	Sep. 30, 2014 Rs'000	Sep. 30, 2013 Rs'000	Sep. 30, 2014 Rs'000	Sep. 30, 2013 Rs'000
Sales - net	74,302,031	63,830,660	23,970,534	21,402,230
Cost of goods sold	(52,628,299)	(45,189,375)	(17,127,012)	(15,980,436)
Gross profit	21,673,732	18,641,285	6,843,522	5,421,794
Distribution and selling expenses	(8,601,679)	(8,550,537)	(2,536,060)	(2,587,662)
Administration expenses	(1,596,332)	(1,426,438)	(539,490)	(463,015)
	(10,198,011)	(9,976,975)	(3,075,550)	(3,050,677)
Operating profit	11,475,721	8,664,310	3,767,972	2,371,117
Finance cost	(1,714,365)	(1,598,714)	(498,718)	(572,741)
Other operating expenses	(843,264)	(1,227,473)	(539,882)	(630,611)
	(2,557,629)	(2,826,187)	(1,038,600)	(1,203,352)
Other income	350,428	151,535	102,537	44,827
Profit before taxation	9,268,520	5,989,658	2,831,909	1,212,592
Taxation	(2,863,688)	(1,519,005)	(1,066,080)	(234,809)
Profit after taxation	6,404,832	4,470,653	1,765,829	977,783
Earnings per share – basic and diluted (Rupees)	141.23	98.58	38.94	21.56

The annexed notes 1 to 15 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

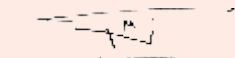
For the Nine Months Period Ended September 30, 2014 (Un-audited)

	<u>Nine months ended</u>		<u>Three months ended</u>	
	Sep. 30, 2014 Rs'000	Sep. 30, 2013 Rs'000	Sep. 30, 2014 Rs'000	Sep. 30, 2013 Rs'000
Profit after taxation	6,404,832	4,470,653	1,765,829	977,783
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
- Amount transferred to initial carrying amount of hedged items	3,466	-	3,466	-
- Income tax relating to hedging reserve	(1,213)	-	(1,213)	-
	2,253	-	2,253	-
Total comprehensive income for the period	6,407,085	4,470,653	1,768,082	977,783

The annexed notes 1 to 15 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 Cash Flow Statement

For the Nine Months Period Ended September 30, 2014

(Un-audited)

	Note	Sep. 30, 2014 Rs'000	Sep. 30, 2013 Rs'000
Cash flow from operating activities			
Cash generated from operations	8	13,997,603	7,359,470
Increase in long term loans and advances		(45,004)	(56,663)
Decrease in long term deposits and prepayments		18,816	15,490
Increase / (decrease) in customer security deposits - interest free		31,967	(7,492)
Retirement and other benefits paid		(111,746)	(128,506)
Finance cost paid		(1,742,805)	(1,411,971)
Taxes paid		(1,702,739)	(1,323,933)
Net cash generated from operating activities		10,446,092	4,446,395
Cash flow from investing activities			
Fixed capital expenditure		(1,082,459)	(2,528,781)
Sale proceeds of property, plant and equipment		104,633	99,437
Net cash (used in) investing activities		(977,826)	(2,429,344)
Cash flow from financing activities			
(Repayment of) / Proceeds from long term finances		(9,231,871)	1,388,185
Payment of finance lease liabilities		-	(13,630)
Proceeds from short term borrowing - secured		-	2,292,559
Net movement in hedging reserves		2,253	-
Dividend paid		(3,402,878)	(3,174,817)
Net cash (used in) / generated from financing activities		(12,632,496)	492,297
Net decrease in cash and cash equivalents		(3,164,230)	2,509,348
Cash and cash equivalents at beginning of the period		(2,636,526)	(5,176,543)
Cash and cash equivalents at end of the period		(5,800,756)	(2,667,195)
Cash and cash equivalents			
Cash and bank balances		207,247	1,239,250
Short term running finance under mark-up arrangements – secured		(6,008,003)	(3,906,445)
		(5,800,756)	(2,667,195)

The annexed notes 1 to 15 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 Nine Months Period Ended September 30, 2014 (Un-audited)

	Share capital	Reserve			Revenue Reserve	Total
		Capital Reserve		Hedging reserve	Accumulated profits	
	Share premium	General reserve				
	(Rs'000)					
Balance as at December 31, 2012	453,496	249,527	280,000	-	10,577,241	11,560,264
Final dividend for the year ended December 31, 2012 (Rs 70 per share)	-	-	-	-	(3,174,471)	(3,174,471)
Total comprehensive income for the period	-	-	-	-	4,470,653	4,470,653
Balance as at September 30, 2013	453,496	249,527	280,000	-	11,873,423	12,856,446
Interim dividend for the nine months period ended September 30, 2013 (Rs. 50 per share)	-	-	-	-	(2,267,479)	(2,267,479)
Total comprehensive income for the period	-	-	-	-	1,270,190	1,270,190
Balance as at December 31, 2013	453,496	249,527	280,000	-	10,876,134	11,859,157
Final dividend for the year ended December 31, 2013 (Rs. 75 per share)	-	-	-	-	(3,401,219)	(3,401,219)
Interim dividend for the six months period ended June 30, 2014 (Rs. 30 per share)	-	-	-	-	(1,360,488)	(1,360,488)
Total comprehensive income for the period	-	-	-	2,253	6,404,832	6,407,085
Balance as at September 30, 2014	453,496	249,527	280,000	2,253	12,519,259	13,504,535

The annexed notes 1 to 15 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



Notes to the Condensed Interim Financial Information

For the Nine Months Period Ended September 30, 2014 (Un-audited)

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, purchase, processing and sale of food products including imported 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 nine months period ended September 30, 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

Except as described below, the 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.

The Company has adopted all the applicable new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 01, 2014, as mentioned in the financial statements for the year ended December 31, 2013.

There is no significant impact of such changes on this condensed interim financial information of the Company. However, a change in presentation of cash flow hedge has been made as per International Accounting Standard "IAS-39 (Financial Instruments Recognition and Measurement)".



	Note	Sep. 30, 2014 Rs'000	Dec. 31, 2013 Rs'000
4. Long term finances			
Long term finances utilized under markup arrangements:			
Related party - unsecured			
Associated company - foreign currency	4.1	4,551,544	6,838,325
From banking companies - secured			
		8,283,654	15,458,327
Less: Current maturity			
Associated company - foreign currency		(2,322,114)	(2,893,138)
From banking companies - secured		(2,987,188)	(1,938,702)
		(5,309,302)	(4,831,840)
		7,525,896	17,464,812

4.1 This represents outstanding amount of US\$ 44.37 million unsecured loans obtained 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 December 27, 2015 and May 30, 2016, respectively. Under the revised terms, duly authorized by the State Bank of Pakistan, US\$ 15 million is 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 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 September 30, 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.

	Sep. 30, 2014 Rs'000	Dec. 31, 2013 Rs'000
5.2 Guarantees		
Outstanding guarantees	242,766	160,500
Un-utilized portion of limit with banks	132,234	234,500
5.3 Commitments in respect of capital expenditure		
	1,823,421	412,710
5.4 Letters of credit		
Outstanding letters of credit	1,817,916	1,309,607
Un-utilized portion of limit with banks	3,755,084	4,532,393



**Sep. 30,
2014**
Rs'000

**Dec. 31,
2013**
Rs'000

6. Property, plant and equipment

Opening balance - Net book value	31,467,872	21,970,957
Additions during the period	1,887,820	12,907,696
	33,355,692	34,878,653
Book value of property, plant and equipment disposed off during the period	(169,532)	(340,319)
Depreciation charged during the period	(2,415,544)	(3,001,633)
Impairment charge	(64,306)	(68,829)
Closing balance - Net book value	30,706,310	31,467,872

7. Long term loans and advances

This includes long term interest free car loan given to Chief Executive of the Company amounting to Rs 1.248 million. The loan has been approved by the Board of Directors of the Company and SECP.

**Sep. 30,
2014**
Rs'000

**Sep. 30,
2013**
Rs'000

8. Cash generated from operations

Profit before taxation	9,268,520	5,989,658
Adjustment for non-cash charges and other items:		
Depreciation	2,415,544	2,196,566
Amortization of intangible assets	2,392	3,586
Impairment loss	64,306	-
Loss on disposal of property, plant and equipment	64,898	102,309
Retirement and other benefits	185,451	157,842
Provision for doubtful debt	2,040	-
Finance cost and exchange loss on foreign currency loan	1,484,781	2,167,846
Profit before working capital changes	13,487,932	10,617,807
Effect on cash flow due to working capital changes:		
Increase in current assets:		
Stores and spare	116,378	(76,731)
Stock in trade	(817,373)	(2,242,601)
Trade debts	(226,247)	(173,241)
Advances, deposits, prepayments and other receivables	(792,048)	(1,193,910)
Increase in current liabilities:		
Trade and other payables	2,228,961	428,146
	509,671	(3,258,337)
	13,997,603	7,359,470



9. Transactions with related parties

Related parties comprise of Nestlé S.A (holding company), its subsidiaries and associates, and other companies with common directors that of Nestlé Pakistan Limited, employees retirement benefit funds and key management personnel. Significant transactions with related parties are summarized as follows:

	Sep. 30, 2014 Rs'000	Sep. 30, 2013 Rs'000
Associated companies:		
Royalty and technical assistance fee	2,005,041	1,869,369
Purchase of goods, services and rental	9,048,321	8,769,140
Interest on foreign currency loan	79,782	97,900
Other related parties		
Contribution to staff retirement benefit plan	185,451	157,842
Remuneration to key management personnel	2,182,520	1,920,618
Donation	2,500	12,757

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 and nutrition products
 - Milk based products and cereals
- Beverages
 - Juices & water



10.1 Segment analysis for the nine months ended September 30, 2014

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	58,586,022	15,126,908	589,101	74,302,031
Inter-segment sales	-	-	-	-
Total revenue	58,586,022	15,126,908	589,101	74,302,031
Depreciation and amortization	1,769,210	571,649	77,079	2,417,938
Profit before tax and unallocated expenses	9,647,426	2,100,757	(272,462)	11,475,721
Unallocated corporate expenses:				
Finance cost				(1,714,365)
Other operating expenses				(843,264)
Other income				350,428
Taxation				(2,863,688)
Profit after taxation				6,404,832

Segment analysis for the nine months ended September 30, 2013

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	50,324,956	12,895,626	610,078	63,830,660
Inter-segment sales	-	-	-	-
Total revenue	50,324,956	12,895,626	610,078	63,830,660
Depreciation and amortization	1,551,671	574,107	74,374	2,200,152
Profit before tax and unallocated expenses	7,712,858	1,616,871	(665,419)	8,664,310
Unallocated corporate expenses:				
Finance cost				(1,598,714)
Other operating expenses				(1,227,473)
Other income				151,535
Taxation				(1,519,005)
Profit after taxation				4,470,653



Reportable segment assets and liabilities

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
As at September 30, 2014				
Segment assets	29,649,090	12,114,726	958,602	42,722,418
Unallocated assets				8,070,273
Total assets				50,792,691
<hr/>				
Segment liabilities	10,214,500	2,851,328	102,710	13,168,538
Unallocated liabilities				24,119,618
Total liabilities				37,288,156
<hr/>				
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
<hr/>				
Segment liabilities	9,487,099	1,913,530	86,854	11,487,483
Unallocated liabilities				28,942,881
Total liabilities				40,430,364

10.2 Geographical segments

All segments of the Company are managed on nation-wide basis and operate manufacturing facilities and sales offices in Pakistan only.

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 un-audited condensed interim financial information was authorized for issue on October 20, 2014 by the Board of Directors.

13. Dividend

The Board of Directors in their meeting held on October 20, 2014 have proposed an interim cash dividend for the nine months ended September 30, 2014 of Rs. 50 per share, amounting to Rs. 2,267.48 million (2013 : Rs. 2,267.479 million). This financial information does not reflect this dividend.

14. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However no significant re-arrangement has been made.

15. General

Figures have been rounded off to the nearest thousand of rupee unless otherwise stated.



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 Jawaid	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
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
Rustem Oguz	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

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