

Report for the 1st quarter ended  
March 31, 2011



stlė



**Nestlé**

Nestlé Pakistan Ltd.

# contents



Directors' Report to the Shareholders	3
Condensed Interim Balance Sheet	4
Condensed Interim Profit and Loss Account	6
Condensed Interim Statement of Comprehensive Income	7
Condensed Interim Cash Flow Statement	8
Condensed Interim Statement of Changes in Equity	9
Selected Notes to the Condensed Interim Financial Information	10
Company Information	15



# 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, 2011.

In the first quarter of 2011, the economic and business conditions of the country continued to remain very challenging. The continued energy crises and security situation coupled with increase in fuel prices adversely impacted the economy of the country resulting into increased cost of living. However, despite all these challenges, the Company achieved a strong growth of 35% compared to same period last year.

The strong business growth was supported by good fresh milk intake. However, higher inflationary pressures continued impacting key commodities in first quarter of 2011, particularly in fresh milk resulting into cost increase of 23% compared to same period last year.

Financial performance of the Company is summarized below:

	Jan - Mar 2011 PKR Million	Jan - Mar 2010 PKR Million	Change %
Sales	16,278	12,052	+ 35%
Operating Profit	2,412	1,638	+ 47%
% of sales	14.8%	13.6%	
Net Profit	1,493	992	+ 51%
% of sales	9.2%	8.2%	
Earnings per share	32.93	21.88	+ 51%


Total sales of the first quarter of 2011 grew by 35% exceeding PKR 16 billion. This growth was mainly due to Real Internal Growth (RIG) of 19% across all major categories. Export sales strongly grew by +39% over same period last year to PKR 1.32 billion as we continue to leverage our

brand strength in Afghanistan.

Operating profit for the three months period exceeded PKR 2.4 billion registering a strong growth of 47% over same period last year. Our efforts on effective product mix management, containment of fixed overheads and finance costs impacted significantly on the bottom line resulting into Net Profit of PKR 1.5 billion with margins improvement by 100 bps over the same period last year.

Despite the challenges being faced in the country, the directors of the Company continue to have an optimistic outlook for the business. We remained confident in the strong potential of Pakistan specially related to its growing youthful population. Nestlé is committed to Pakistan and in bringing products to consumers that are affordable and deliver nutrition, health & wellness.

For and on behalf  
of the Board of Directors



IAN J. DONALD  
Chief Executive

Lahore: April 15, 2011



# Condensed Interim Balance Sheet

## As at March 31, 2011 (Un-audited)

	Note	Mar. 31, 2011 Rs'000	Dec. 31, 2010 Rs'000
<b>Tangible fixed assets</b>			
Property, plant and equipment	10.1	11,488,418	11,139,623
Assets subject to finance lease	10.2	223,922	230,988
Capital work-in-progress		3,403,244	3,076,472
		15,115,584	14,447,083
<b>Intangible assets</b>			
		15,540	16,735
<b>Long term loans and advances</b>			
		124,209	125,674
<b>Long term security deposits</b>			
		9,817	9,817
<b>Current assets</b>			
Stores and spares		1,045,584	1,050,804
Stock in trade		8,544,967	4,602,019
Trade debts		451,851	126,499
Current portion of long term loans and advances		16,870	19,149
Advances, deposits, prepayments and other receivables		2,906,223	2,048,936
Cash and bank balances		905,747	505,516
		13,871,206	8,352,923
<b>Less: Current liabilities</b>			
Current portion of long term finances		54,281	57,786
Short term borrowings from associated company – unsecured	7	2,133,500	2,143,750
Short term running finance under mark-up arrangements – secured		6,246,047	2,780,843
Customer security deposits – interest free		132,115	128,857
Trade and other payables		7,147,142	4,633,932
Interest and mark up accrued		89,191	61,404
		15,802,276	9,806,572
<b>Net working capital</b>		(1,931,070)	(1,453,649)
<b>Total capital employed</b>		13,334,080	13,145,660
<b>long Term and deferred liabilities</b>			
Long term finances	8	5,547,100	5,573,750
Deferred taxation		1,783,471	1,705,508
Retirement and other benefits		245,412	229,114
Liabilities against assets subject to finance lease		43,248	55,415
		7,619,231	7,563,787
<b>Contingencies and commitments</b>			
	9		
<b>Net assets</b>		5,714,849	5,581,873



	<b>Mar. 31, 2011 Rs'000</b>	<b>Dec. 31, 2010 Rs'000</b>
--	-------------------------------------	-------------------------------------

**Financed by:**  
**Share capital and reserves**

Authorized capital 75,000,000 (2009: 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	4,731,826	4,598,850
	<b>5,714,849</b>	<b>5,581,873</b>

The annexed notes 1 to 16 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 Three Months Period Ended March 31, 2011 (Un-audited)

	<u>Three months ended</u>	
	<b>Mar. 31, 2011 Rs'000</b>	<b>Mar. 31, 2010 Rs'000</b>
Sales - net	16,278,193	12,051,544
Cost of goods sold	(11,714,617)	(8,696,918)
<b>Gross profit</b>	<b>4,563,576</b>	<b>3,354,626</b>
Distribution and selling expenses	(1,796,152)	(1,441,364)
Administrative expenses	(355,235)	(274,987)
	(2,151,387)	(1,716,351)
<b>Operating profit</b>	<b>2,412,189</b>	<b>1,638,275</b>
Finance cost	(190,491)	(142,231)
Other operating expenses	(199,978)	(139,835)
	(390,469)	(282,066)
Other operating income	79,343	25,436
<b>Profit before taxation</b>	<b>2,101,063</b>	<b>1,381,645</b>
Taxation	(607,600)	(389,287)
<b>Profit after taxation</b>	<b>1,493,463</b>	<b>992,358</b>
Earnings per share – basic and diluted (Rupees)	32.93	21.88

The annexed notes 1 to 16 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 Three Months Period Ended March 31, 2011 (Un-audited)

	Mar. 31, 2011 Rs'000	Mar. 31, 2010 Rs'000
Profit after taxation	1,493,463	992,358
Other comprehensive income	-	-
<b>Total comprehensive income for the period</b>	<b>1,493,463</b>	<b>992,358</b>

The annexed notes 1 to 16 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 Three Months Period Ended March 31, 2011


### (Un-audited)

	Note	Mar. 31, 2011 Rs'000	Mar. 31, 2010 Rs'000
<b>Cash flow from operating activities</b>			
Cash generated from operations	11	(1,461,005)	(210,094)
Decrease/ (increase) in long term loans and advances		3,743	(4,652)
Decrease in long term deposits		-	117
Increase in customer security deposits - interest free		3,258	6,559
Retirement and other benefits paid		(17,780)	(18,380)
Finance cost paid		(162,705)	(145,791)
Taxes paid		(395,078)	(346,596)
<b>Net cash (outflow) from operating activities</b>		<b>(2,029,567)</b>	<b>(718,837)</b>
<b>Cash flow from investing activities</b>			
Fixed capital expenditure		(1,051,806)	(282,904)
Sale proceeds of property, plant and equipment		32,240	18,453
<b>Net cash (used in) investing activities</b>		<b>(1,019,566)</b>	<b>(264,451)</b>
<b>Cash flow from financing activities</b>			
Payment of finance lease liabilities		(15,672)	(14,310)
Dividend paid		(168)	(36)
<b>Net cash (outflow)/ inflow from financing activities</b>		<b>(15,840)</b>	<b>(14,346)</b>
Net increase in cash and cash equivalents		(3,064,973)	(997,634)
Cash and cash equivalents at beginning of the period		(2,275,327)	(440,593)
Cash and cash equivalents at end of the period		<b>(5,340,300)</b>	<b>(1,438,227)</b>
<b>Cash and cash equivalents</b>			
Cash and bank balances		905,747	530,655
Short term running finance under mark-up arrangements – secured		(6,246,047)	(1,968,882)
		<b>(5,340,300)</b>	<b>(1,438,227)</b>

The annexed notes 1 to 16 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 Three Months Period Ended March 31, 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	3,443,932	4,426,955
Final dividend for the year ended December 31, 2009 (Rs 20 per share)	-	-	-	(906,992)	(906,992)
Total comprehensive income for the period	-	-	-	992,358	992,358
Balance as at March 31, 2010	453,496	249,527	280,000	3,529,298	4,512,321
Interim dividend for the six months period ended June 30, 2010 (Rs. 20 per share)	-	-	-	(906,992)	(906,992)
Interim dividend for the six months period ended September 30, 2010 (Rs. 25 per share)	-	-	-	(1,133,740)	(1,133,740)
Total comprehensive income for the period	-	-	-	3,110,284	3,110,284
Balance as at December 31, 2010	453,496	249,527	280,000	4,598,850	5,581,873
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	-	-	-	1,493,463	1,493,463
<b>Balance as at March 31, 2011</b>	<b>453,496</b>	<b>249,527</b>	<b>280,000</b>	<b>4,731,826</b>	<b>5,714,849</b>

The annexed notes 1 to 16 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 Three Months Period Ended March 31, 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 three months period ended March 31, 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 December 31, 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 December 31, 2010.
6. **Long term loans and advances**  
 'This includes a long term advance of Rs.37.65 million paid by the Company for the future supplies of milk from the educational dairy farm and training facility owned by Baber Ali Foundation ( the Foundation). The chairman of the Foundation is the director of the company.
7. **Short term borrowings from associated company – unsecured**  
 This includes a long term advance of Rs. 37.65 million paid by the Company for the future supplies of milk from the educational dairy farm and training facility owned by Baber ali Foundatin (the Foundation ). The chairman of the Foundation is the director of the company.
8. **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.
9. **Contingencies and commitments**
  - 9.1 Claims against the company not acknowledged as debts Rs 5.749 million (December 31, 2010: Rs 5.749 million).



	Mar. 31, 2011 Rs'000	Dec. 31, 2010 Rs'000
<b>9.2 Guarantees</b>		
Outstanding guarantees	195,276	194,401
Un-utilized portion	199,724	200,598
<b>9.3 Commitments in respect of capital expenditure</b>	1,709,185	605,202
<b>9.4 Letters of credit</b>		
Other outstanding letters of credit	136,295	359,010
Un-utilized portion	2,439,805	2,217,090
<b>10. Tangible fixed assets</b>		
<b>10.1 Property, plant and equipment</b>		
Opening balance at net book value	11,139,623	10,441,621
Additions during the period	725,034	2,133,812
	11,864,657	12,575,433
Book value of property, plant and equipment disposed off during the period	(40,210)	(151,561)
Depreciation charged during the period	(336,029)	(1,241,781)
Impairment charge	-	(42,468)
Closing balance at net book value	11,488,418	11,139,623
<b>10.2 Assets subject to finance lease</b>		
Opening balance at net book value	230,988	259,253
Additions during the period	-	-
	230,988	259,253
Depreciation charged during the period	(7,066)	(28,265)
Closing balance at net book value	223,992	230,988



	Mar. 31, 2011 Rs'000	Mar. 31, 2010 Rs'000
<b>11. Cash generated from operations</b>		
Profit before taxation	2,101,063	1,381,645
Adjustment for non-cash charges and other items:		
Depreciation and amortization	344,290	332,612
Loss on disposal of property, plant and equipment	7,971	27,689
Retirement benefits	34,078	29,683
Exchange loss/ (gain) on associated company loan	(36,900)	(450)
Finance cost	190,491	142,231
Profit before working capital changes	2,640,993	1,913,410
Effect on cash flow due to working capital changes:		
Decrease / (increase) in:		
Stores and spare	5,257	(944)
Stock in trade	(3,942,949)	(1,200,810)
Trade debts	(325,352)	(15,271)
Advances, deposits, prepayments and other receivables	(991,847)	(450,190)
(Decrease) / increase in:		
Trade and other payables	1,152,893	456,289
	(4,101,998)	(2,123,504)
	<b>(1,461,005)</b>	<b>(210,094)</b>

## 12. 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, 2011 Rs'000	Mar. 31, 2010 Rs'000
Associated companies:		
Royalty and technical assistance fee	442,792	327,162
Purchase of goods, services and rental	2,140,507	1,732,838
Interest on loan	34,844	51,631
Donation	-	7,500
Contribution to staff retirement benefits plan	34,078	29,683

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



### 13. 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, 2011

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	14,391,034	1,753,201	133,958	16,278,193
Inter-segment sales	-	-	-	-
Total revenue	14,391,034	1,753,201	133,958	16,278,193
Profit before tax and unallocated expenses	2,370,117	102,654	(60,582)	2,412,189
Unallocated corporate expenses:				
Finance cost				(190,491)
Other operating expenses				(199,978)
Other operating income				79,343
Taxation				(607,600)
Profit after taxation				1,493,463



## Segment analysis for the three months ended March 31, 2010

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	10,656,022	1,304,814	90,708	12,051,544
Inter-segment sales	-	-	-	-
Total revenue	10,656,022	1,304,814	90,708	12,051,544
Profit before tax and unallocated expenses	1,666,559	(5,240)	(23,044)	1,638,275
Unallocated corporate expenses:				
Finance cost				(142,231)
Other operating expenses				(139,835)
Other operating income				25,436
Taxation				(389,287)
Profit after taxation				992,358

### 14. Date of authorization for issue

This condensed interim financial information was authorized for issue on April 15, 2011 by the Board of Directors.

### 15. Dividend

The board of directors in their meeting held on April 15, 2011 have proposed interim cash dividend for the three months ended March 31, 2011 of Rs. Nil per share, amounting to Rs. Nil (2010:Rs. Nil). This financial information does not reflect this dividend.

### Corresponding figures

16. 16.1 Previous year's figures have been re-arranged, wherever necessary for the purpose of comparison. However, no significant rearrangements have been made.
- 16.2 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 Fakhar 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.

Park Lane Tower  
1st & 2nd Floor, 172 – Tufail Road,  
Lahore Cantt., Pakistan.  
PABX : (042) 36099300





## 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  
my Bank Ltd.



[www.nestle.pk](http://www.nestle.pk)



# Nes

©Nestlé Pakistan Ltd.

308 – Upper Mall, Lahore, Pakistan.

Tel: +92 42 111 637 853 Fax: +92 42 35789303