

Report for the 3rd quarter ended  
September 30, 2008



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**Nestlé**

Nestlé Pakistan Ltd.

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## Directors' Report to the Shareholders

Following the milestone 100<sup>th</sup> meeting of the Board of Directors of the Company, the Directors are pleased to submit the Third Quarter Report along with the financial information of the company for the period ended September 30, 2008.

The serious fiscal and economic crises (both local and international) continued through the third quarter of 2008. High inflation in raw & packing material prices, currency devaluation, and fuel/energy price increases are impacting consumers and industry alike.

The combined effect of these challenges has impacted consumer demand, increased cost pressures, and has had an adverse effect on our operating margins. The financial performance for the period under review is summarized below:

PKR Million	Jan - Sep 2008	Jan - Sep 2007	Change
Sales	24,885	21,396	+16%
Operating Profit	2,787	2,768	+1%
% of sales	11.2%	12.9%	
Net Profit	833	1,491	-44%
% of sales	3.3%	7.0%	
Earnings per share	18.36	32.88	-44%

Sales for the nine months grew +16% in a combination of volume growth and pricing increases.

Operating profit reached Rs 2.8 billion - slightly higher than third quarter last year. However, margins declined as a result of significant price pressure on input commodities like fuel, energy, and fresh milk which continues to be in short supply.

Net profit for the nine months period is down by 44% over the same period last year. The largest factor was exchange losses from devaluation of the PKR against

major currencies.

Our results reflect the challenges faced in the market today, and we expect the situation to persist for the rest of the year. However, we are driving critical cost efficiencies throughout our business model, and continuing to support our key brands with constant focus on the consumer.

Despite the current challenges, the Directors maintain a positive long term perspective on the outlook for the business. With this view, and the positive cash flow position of the Company, the Board of Directors recommended a second interim dividend: 90% (Rs 9 per share of Rs 10 each).

For and on behalf  
of the Board of Directors



TREVOR CLAYTON  
Chief Executive

Lahore: October 28, 2008



# Condensed Interim Balance Sheet

## As at September 30, 2008 (Un-audited)

	Notes	Sep. 30, 2008 Rs'000	Dec. 31, 2007 Rs'000
<b>Tangible fixed assets</b>			
Property, plant and equipment	7.1	8,772,685	8,913,465
Assets subject to finance lease	7.2	285,367	160,963
Capital work-in-progress		1,341,429	971,183
		10,399,481	10,045,611
<b>Intangible assets</b>			
		60,404	92,382
<b>Long term loans and advances</b>			
		106,462	80,670
<b>Long term security deposits</b>			
		5,036	6,088
<b>Current assets</b>			
Stores and spares		750,228	436,573
Stock in trade		2,412,108	2,393,306
Trade debts		299,530	344,053
Current portion of long term loans and advances		25,521	21,279
Cash and bank balances		306,502	406,225
Advances, deposits, prepayments and other receivables		1,625,807	2,022,387
		5,419,696	5,623,823
<b>Current liabilities</b>			
Current portion of liabilities against assets subject to finance lease		51,441	29,863
Short term borrowings - secured		300,000	1,035,000
Running finance under markup arrangements - secured		1,543,522	1,637,799
Interest free customer security deposits		130,424	124,572
Trade and other payables		3,158,719	3,062,027
Interest and mark up accrued		65,814	89,261
		5,249,920	5,978,522
<b>Net working capital</b>			
		169,776	(354,699)
<b>Total capital employed</b>			
		10,741,159	9,870,052
<b>Long term and deferred liabilities</b>			
Long term finances	5	5,079,750	4,028,700
Deferred taxation		1,089,280	1,371,675
Retirement and other benefits		245,360	238,370
Liabilities against assets subject to finance lease		175,928	119,602
		6,590,318	5,758,347
<b>Contingencies and commitments</b>			
	6		
<b>Net assets</b>			
		4,150,841	4,111,705



Notes	Sep. 30, 2008 Rs'000	Dec. 31, 2007 Rs'000
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**Financed by:**

**Share capital and reserves**

**Authorized capital**

75,000,000 (2007: 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	3,167,818	3,128,682
	4,150,841	4,111,705

The annexed notes 1 to 13 form an integral part of this financial information.



**RAYMOND FRANKE**  
Head of Finance & Control



**TREVOR CLAYTON**  
Chief Executive



**SYED YAWAR ALI**  
Chairman



## Condensed Interim Profit and Loss Account For the Nine Months Period Ended September 30, 2008 (Un-audited)

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<b>Sep. 30, 2008 Rs'000</b>	<b>Sep. 30, 2007 Rs'000</b>	<b>Sep. 30, 2008 Rs'000</b>	<b>Sep. 30, 2007 Rs'000</b>
Sales - Net	8,442,542	7,463,431	24,885,481	21,396,464
Cost of goods sold	(6,476,784)	(5,406,201)	(18,338,562)	(15,216,580)
<b>Gross profit</b>	<b>1,965,758</b>	<b>2,057,230</b>	<b>6,546,919</b>	<b>6,179,884</b>
Distribution and selling expenses	(1,087,580)	(912,323)	(3,077,746)	(2,762,403)
Administration expenses	(223,959)	(235,740)	(682,232)	(649,166)
	(1,311,539)	(1,148,063)	(3,759,978)	(3,411,569)
<b>Operating profit</b>	<b>654,219</b>	<b>909,167</b>	<b>2,786,941</b>	<b>2,768,315</b>
Finance cost	(762,107)	(156,195)	(1,470,733)	(458,719)
Other operating expenses	67,452	(86,953)	(223,706)	(261,790)
	(694,655)	(243,148)	(1,694,439)	(720,509)
Other operating income	36,750	(2,846)	60,263	64,264
<b>Profit before taxation</b>	<b>(3,686)</b>	<b>663,173</b>	<b>1,152,765</b>	<b>2,112,070</b>
Taxation	16,320	(181,862)	(320,011)	(620,832)
<b>Profit after taxation</b>	<b>12,634</b>	<b>481,311</b>	<b>832,754</b>	<b>1,491,238</b>
Earnings per share - Rupees	0.28	10.61	18.36	32.88

The annexed notes 1 to 13 form an integral part of this financial information.

  
**RAYMOND FRANKE**  
Head of Finance & Control

  
**TREVOR CLAYTON**  
Chief Executive

  
**SYED YAWAR ALI**  
Chairman



# Condensed Interim Cash Flow Statement

## For the Nine Months Period Ended September 30, 2008

### (Un-audited)

	Notes	Sep. 30, 2008 Rs'000	Sep. 30, 2007 Rs'000
<b>Cash flow from operating activities</b>			
Cash generated from operations	8	3,227,853	2,863,584
(Increase) in long term loans and advances		(30,034)	(21,858)
Decrease in long term deposits		1,052	-
Increase in customer security deposits - interest free		5,852	13,855
Retirement and other benefits paid		(59,261)	(48,955)
Finance cost paid		(443,130)	(486,234)
Taxes paid		(1,342)	(202,009)
<b>Net cash inflow from operating activities</b>		<b>2,700,990</b>	<b>2,118,383</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(1,131,515)	(1,748,859)
Sale proceeds of property, plant and equipment		13,808	57,980
<b>Net cash (outflow) from investing activities</b>		<b>(1,117,707)</b>	<b>(1,690,879)</b>
<b>Cash flow from financing activities</b>			
Repayment of short term borrowings - secured		(735,000)	660,000
Repayment of lease liabilities		(61,431)	(6,566)
Dividend paid		(792,298)	(226,894)
<b>Net cash (outflow) from financing activities</b>		<b>(1,588,729)</b>	<b>426,540</b>
Net decrease in cash and cash equivalents		(5,446)	854,044
Cash and cash equivalents at beginning of the period		(1,231,574)	(1,783,048)
Cash and cash equivalents at end of the period		(1,237,020)	(929,004)
<b>Cash and cash equivalents</b>			
Cash and bank balances		306,502	27,928
Running finance under mark-up arrangements - secured		(1,543,522)	(956,932)
		(1,237,020)	(929,004)

The annexed notes 1 to 13 form an integral part of this financial information.



**RAYMOND FRANKE**  
Head of Finance & Control



**TREVOR CLAYTON**  
Chief Executive



**SYED YAWAR ALI**  
Chairman







## Condensed Interim Statement of Changes in Equity

### For the Nine Months Period Ended September 30, 2008 (Un-audited)

	Share capital	Share premium	General reserve	Accumulated profits	Total
	(Rs'000)				
Balance as at December 31, 2006	453,496	249,527	280,000	1,548,057	2,531,080
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	-	-	-	1,491,238	1,491,238
Balance as at September 30, 2007	453,496	249,527	280,000	2,812,547	3,795,570
Total recognized income and expenses for the period	-	-	-	316,135	316,135
Balance as at December 31, 2007	453,496	249,527	280,000	3,128,682	4,111,705
Final dividend for the year ended December 31, 2007 (Rs 10 per share)	-	-	-	(453,496)	(453,496)
Total recognized income and expenses for the period	-	-	-	832,754	832,754
1st interim dividend (Rs 7.5 per share)	-	-	-	(340,122)	(340,122)
<b>Balance as at September 30, 2008</b>	<b>453,496</b>	<b>249,527</b>	<b>280,000</b>	<b>316,7818</b>	<b>4,150,841</b>

The annexed notes 1 to 13 form an integral part of this financial information.

**RAYMOND FRANKE**  
Head of Finance & Control

**TREVOR CLAYTON**  
Chief Executive

**SYED YAWAR ALI**  
Chairman

## Condensed Interim Statement of Recognized Income and Expenses

### For the Nine Months Period Ended September 30, 2008 (Un-audited)

	Nine months ended	
	Sep. 30, 2008	Sep. 30, 2007
	Rs'000	Rs'000
Amounts recognized directly into equity	-	-
Tax on actuarial losses recognized directly to equity	-	-
Net profit for the period	832,754	1,491,238
Total recognized income and expenses for the period	832,754	1,491,238

The annexed notes 1 to 13 form an integral part of this financial information.



  
**RAYMOND FRANKE**  
 Head of Finance & Control

  
**TREVOR CLAYTON**  
 Chief Executive

  
**SYED YAWAR ALI**  
 Chairman

# Selected Notes to the Condensed Interim Financial Information

## For the Nine Months Period Ended September 30, 2008 (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, 2007.
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, 2007.

### 5. Long term finances

This represents US\$ 65 million (2007 : US\$ 65 million) loan from Nestle Treasury Centre Middle East and Africa Limited, Dubai. US\$ 15 million is due in December 2010 and US\$ 50 million is due in May 2011. Mark-up is payable semi annually at six months average LIBOR plus 150 basis points.

### 6. Contingencies and commitments

- 6.1 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.



6.2 Claims against the Company not acknowledged as debts Rs 38.156 million  
(December 31 2007: Rs 41.535 million)

	Sep. 30, 2008 Rs'000	Dec. 31, 2007 Rs'000
<b>6.3 Guarantees</b>		
Outstanding guarantees	210,966	242,068
Un-utilized portion	109,034	77,932
<b>6.4 Commitments in respect of capital expenditure</b>	638,395	222,329
<b>6.5 Letters of credit</b>		
Outstanding letters of credit in respect of capital expenditures	6,725	332,821
Other outstanding letters of credit	17,329	44,485
Un-utilized portion	1,382,946	1,029,694

6.6 In the year 2005 the Company had made a commitment to pay Rs 250 million to Lahore University of Management Sciences to set up a School for Science and Engineering. The amount is to be paid over a period of six years. Upto December 31, 2007 Rs 100 million has been paid, while Rs 30 million has been accounted for upto 3rd quarter of 2008.

	Sep. 30, 2008 Rs'000	Dec. 31, 2007 Rs'000
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## 7. Tangible fixed assets

### 7.1 Property, plant and equipment

Opening balance - net book value	8,913,465	6,986,049
Additions during the period	761,270	3,045,260
	9,674,735	10,031,309
Book value of property, plant and equipment disposed off during the period	(48,567)	(91,606)
Depreciation charged during the period	(797,483)	(986,841)
Impairment charge	(56,000)	(39,397)
Net book value of property, plant and equipment	8,772,685	8,913,465



	Sep. 30, 2008 Rs'000	Dec. 31, 2007 Rs'000
<b>7.2 Assets subject to finance lease</b>		
Opening balance - net book value	160,963	44,717
Additions during the period	139,335	127,935
	300,298	172,652
Depreciation charged during the period	(14,931)	(11,689)
	285,367	160,963
	Sep. 30, 2008 Rs'000	Sep. 30, 2007 Rs'000
<b>8. Cash generated from operations</b>		
Profit before taxation	1,152,765	2,112,070
Adjustment for non-cash charges and other items:		
Depreciation and amortization	812,413	691,867
Amortization of intangible assets	31,978	31,978
Impairments loss	56,000	25,560
Loss on disposal of property, plant and equipment	34,759	15,630
Stores and spares directly written off	-	15,844
Retirement and other benefits	66,251	54,944
Exchange loss/(gain) on associated company loan	1,051,050	(17,550)
Finance cost	419,683	445,937
Profit before working capital changes	3,624,899	3,376,280
Effect on cash flow due to working capital changes:		
Decrease/(increase) in:		
Stores and spare	(313,655)	(129,217)
Stock in trade	(18,802)	(36,048)
Trade debts	44,523	(370,014)
Advances, deposits, prepayments and other receivables	(204,485)	23,990
Decrease/(increase) in:		
Trade and other payables	95,373	(1,407)
	(397,046)	(512,696)
	3,227,853	2,863,584

#### 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 Limited with significant influence on these companies, employees retirement benefit funds and key employees. Significant transactions with related parties are summarized as follows:



	Sep. 30, 2008 Rs'000	Sep. 30, 2007 Rs'000
Associated companies:		
Royalty and technical assistance fee	667,397	589,732
Purchase of goods, services and rental	3,390,944	3,158,109
Sale of goods and services	1,856	34,994
Interest on foreign currency loan	177,154	204,674
Donation	30,000	30,000
Contribution to staff retirement benefit plan	66,251	54,994

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 analysis for the nine months ended September 30, 2008

	Milk & Nutrition Products	Beverages	Other Operations	Total
	(Rs'000)			
Sales				
External sales	21,269,217	3,311,381	304,883	24,885,481
Inter-segment sales	-	-	-	-
Total revenue	21,269,217	3,311,381	304,883	24,885,481
Profit before tax and unallocated expenses	2,664,051	180,355	(57,465)	2,786,941
Unallocated corporate expenses:				
Finance cost				(1,470,733)
Other operating expenses				(223,706)
Other operating income				60,263
Taxation				(320,011)
Profit after taxation				832,754



## Segment analysis for the nine months ended September 30, 2007

	Milk & Nutrition Products	Beverages	Other Operations	Total
	(Rs'000)			
Sales				
External sales	18,302,162	2,820,624	273,678	21,396,464
Inter-segment sales	-	-	-	-
Total revenue	18,302,162	2,820,624	273,678	21,396,464
Profit before tax and unallocated expenses	2,719,439	108,627	(82,757)	2,745,309
Unallocated corporate expenses:				
Finance cost				(445,937)
Other operating expenses				(243,292)
Other operating income				55,990
Taxation				(620,832)
Profit after taxation				1,491,238

### 11. Date of authorization for issue

This condensed interim financial information was authorized for issue on October 28, 2008 by the Board of Directors.

### 12. Dividend

The board of directors in their meeting held on October 28, 2008 have proposed a second interim cash dividend for the nine months ended September 30, 2008 of Rs 9 per share, amounting to Rs 408.146 million (2007: Rs 453.496 million). This financial information does not reflect this dividend.

### 13. Corresponding figures

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

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



**RAYMOND FRANKE**  
Head of Finance & Control



**TREVOR CLAYTON**  
Chief Executive



**SYED YAWAR ALI**  
Chairman



## COMPANY INFORMATION

### Board of Directors

Syed Yawar Ali  
Trevor Clayton  
Fritz Van Dijk  
Roger Stettler  
A. Cantacuzene  
Syed Babar Ali  
Syed Hyder Ali

Chairman  
Managing Director  
Director  
Director  
Director  
Director  
Director

### Company Secretary

Raymond Franke

### Management Committee

Adil Aali  
Ali Aziz

Ali Sadozai  
Fakhar Ahmed  
Haseeb Aslam  
Jack Moser  
Khurram Zia  
Khurram Javed  
Nauman Khan  
Peter Wuethrich  
Raymond Franke  
Trevor Clayton  
Samra Maqbool  
Salman Nazir  
Shaheen Sadiq  
Usman Bhatti  
Uzma Butt  
Zafar Hussain Shah

Head of Quality Assurance  
Product Unit Manager-Beverages  
& Confectionery  
Head of Legal Affairs  
Head of Corporate Affairs  
Country Business Manager-Water  
Head of Milk Collection and Agri-Services  
Business Manager-Dairy-1  
Business Manager-Dairy-2  
National Food Services Manager  
Head of Technical  
Head of Finance & Control  
Managing Director  
Product Unit Manager-Culinary  
Head of Supply Chain  
Head of Communications  
Country Business Manager-Nutrition  
Head of Human Resources  
Head of Sales

### Registered & Corporate Office

308 - Upper Mall, Lahore, Pakistan  
PABX : (042) 111 637 853  
Fax : (042) 5789303

### Corporate Office Annex

304 - Upper Mall, Lahore.  
  
Park Lane Towers  
1st & 2nd Floor, Tufail Road,  
Lahore, Pakistan  
PABX : (042) 6099300





## 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) 111 637 853 Fax: (065) 2411432

### Karachi

Plot No. 823, North Western Industrial Area,  
Port Qasim, Karachi - 74900, Pakistan  
Phone: (021) 4720151-3 Fax: (021) 4720154  
  
Plot No. 33/7, Sector 15, Korangi Industrial Area,  
Karachi - 74900, Pakistan  
Phone: (021) 111 123 333 Fax: (021) 5066996

### Islamabad

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

## Auditors

KPMG Taseer Hadi & Co. (Chartered Accountants)

## Legal Advisor

Chima & Ibrahim (Advocates)

## Bankers

The Royal Bank of Scotland Limited  
(Formerly: ABN Amro Bank Pakistan 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



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



# Nes

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