

Report for the Half Year ended
June 30, 2007



Nestlé

Nestlé Pakistan Ltd.



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DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors are pleased to submit the Half Yearly Report for 2007 along with the reviewed financial statements of the Company for the period ended June 30, 2007.

The Company continued its journey of strong growth as the sales turnover reached new heights for the first half of the year, driven by our focused business strategies and distribution expansion. In addition, our portfolio grew with several new product launches including MAGGI Atta noodles and NIDO yogurt.

Fresh Milk collection remained in line with our plans and matched the production requirements for the first half. The Company continued 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.

There has been significant cost pressure on fresh milk as both local and international prices have increased dramatically. The Company has been reasonably successful in protecting margins for the first half, but a greater challenge will follow in the second half of the year.

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

PKR Million	Jan - Jun 2007	Jan - Jun 2006	Change
Sales	13,933	11,183	+25%
Operating Profit	1,859	1,282	+45%
% of sales	13.3%	11.5%	
Net Profit	1,010	661	+53%
% of sales	7.2%	5.9%	
Earnings per share	22.27	14.57	+53%

Sales for the first half of 2007 were close to Rs 14 billion, recording a growth of +25%, with contribution coming from each of our main product categories. In particular, excellent growth came from milks, baby food and juice categories. Export sales in Afghanistan grew by +45% to Rs 0.9 billion compared to the same period last year.

Operating profit grew by +45% to Rs 1.9 billion for the first half, and showed an increase of 180 basis points in margin compared to the same period in 2006. The gain resulted largely from fixed cost control and timing elements as some key spending is planned for the second half.

Net profit exceeded Rs 1 billion, an improvement of 130 basis points in margin versus last year, as higher financing costs and a larger tax burden offset some of the gain from operating profit. Earning per share also grew by +53%.

The Company continues to invest heavily in the future, and with these cash flow requirements no interim dividend is proposed at this time. However, the first half performance is in line to achieve our aggressive annual targets.

For and on behalf of the Board of Directors



SYED YAWAR ALI
Chairman

Lahore: August 27, 2007



Independent Auditors Report on Review of Condensed Interim Financial Information to the Members

Introduction

We have reviewed the accompanying condensed interim balance sheet of **Nestlé Pakistan Limited** ("the Company") as at 30 June 2007 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity together with the notes forming part thereof for the half year then ended there-in-after referred to as ("the interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarter ended 30 June 2007 and 2006 have not been reviewed, as we are required to review only the cumulative figures for the half year ended 30 June 2007.

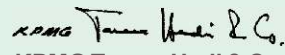
Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended 30 June 2007 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Lahore: August 27, 2007


KPMG Taseer Hadi & Co.
Chartered Accountants

CONDENSED INTERIM BALANCE SHEET AS AT JUNE 30, 2007 (UN-AUDITED)

	Notes	Jun. 30, 2007	Dec. 31, 2006
		(Rupees in thousands)	
Tangible fixed assets			
Property, plant and equipment	7.1	8,009,971	6,941,332
Assets subject to finance lease	7.2	121,113	44,717
Capital work-in-progress		1,002,325	1,107,052
		9,133,409	8,093,101
Intangible assets			
Long term loans and advances		113,362	135,020
Long term security deposits		88,454	66,008
		6,213	6,088
Current assets			
Stores and spares		360,335	329,346
Stock in trade		2,489,463	1,907,300
Trade debts		417,304	238,291
Current portion of long term loans and advances		5,241	8,771
Advances, deposits, prepayments and other receivables		1,897,281	2,109,314
Cash and bank balances		22,179	34,663
		5,191,803	4,627,685
Less: Current liabilities			
Current portion of long term finances		300,000	300,000
Current portion of liabilities against assets subject to finance lease		29,547	8,392
Short term borrowings - secured		1,205,000	700,000
Running finance under markup arrangements - secured		1,936,879	1,817,711
Trade and other payables		2,101,930	2,197,529
Interest and mark-up accrued		110,221	98,549
Customer security deposits - interest free		110,537	102,307
		5,794,114	5,224,488
Net working capital		(602,311)	(596,803)
Total capital employed		8,739,127	7,703,414
Long term and deferred liabilities			
Long term finances	5	3,931,850	3,963,700
Deferred taxation		1,168,415	942,858
Retirement and other benefits		242,545	234,305
Liabilities against assets subject to finance lease		82,058	31,471
		5,424,868	5,172,334
Contingencies and commitments	6		
Net assets		3,314,259	2,531,080
Financed by:			
Share capital and reserves			
Authorized capital			
75,000,000 (2006: 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		2,331,236	1,548,057
		3,314,259	2,531,080

The annexed notes 1 to 12 form an integral part of these financial statements.

The Chief Executive is out of Pakistan and in his absence these financial statements have been signed by two directors as required under section 241 (2) of the Companies Ordinance, 1984.



RAYMOND FRANKE
Head of Finance & Control



SYED HYDER ALI
Director



SYED YAWAR ALI
Chairman

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2007
(UN-AUDITED)**

	Three months ended		Six months ended	
	Jun. 30, 2007	Jun. 30, 2006	Jun. 30, 2007	Jun. 30, 2006
	(Rupees in thousands)			
Sales - Net	6,896,158	5,268,624	13,933,033	11,183,386
Cost of goods sold	(4,973,158)	(3,799,284)	(9,810,379)	(7,869,474)
Gross profit	1,923,000	1,469,340	4,122,654	3,313,912
Distribution and selling expenses	(929,066)	(842,903)	(1,850,080)	(1,685,145)
Administration expenses	(208,983)	(173,696)	(413,426)	(346,723)
	(1,138,049)	(1,016,599)	(2,263,506)	(2,031,868)
Operating profit	784,951	452,741	1,859,148	1,282,044
Finance cost	(163,067)	(130,125)	(302,524)	(197,209)
Other operating expenses	(73,182)	(54,399)	(174,837)	(125,646)
	(236,249)	(184,524)	(477,361)	(322,855)
Other operating income	39,211	13,492	67,110	19,894
Profit before taxation	587,913	281,709	1,448,897	979,083
Taxation	(158,376)	(84,871)	(438,970)	(318,541)
Profit after taxation	429,537	196,838	1,009,927	660,542
Earnings per share - Rupees	<u>9.47</u>	<u>4.34</u>	<u>22.27</u>	<u>14.57</u>

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RAYMOND FRANKE
Head of Finance & Control


SYED HYDER ALI
Director


SYED YAWAR ALI
Chairman



**CONDENSED INTERIM CASH FLOW STATEMENT
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2007
(UN-AUDITED)**

	Notes	Jun. 30, 2007	Jun. 30, 2006
(Rupees in thousands)			
Cash flow from operating activities			
Cash generated from operations	8	1,528,422	(370,153)
(Increase)/decrease in long term loans and advances		(18,916)	3,012
(Increase) in long term deposits		(125)	(765)
Increase in customer security deposits - interest free		8,230	13,122
Retirement and other benefits paid		(29,904)	(29,145)
Finance cost paid		(290,852)	(120,856)
Taxes paid		(163,954)	(319,391)
Net cash inflow/(outflow) from operating activities		1,032,901	(824,176)
Cash flow from investing activities			
Purchase of property, plant and equipment		(1,441,774)	(1,403,892)
Sale proceeds of property, plant and equipment		7,525	14,565
Net cash (outflow) from investing activities		(1,434,249)	(1,389,327)
Cash flow from financing activities			
Repayment of long term finances-secured		-	(950,000)
Loan from related party		-	3,011,500
Repayment of lease liabilities		(8,416)	(31)
Receipt/(repayment) of short term borrowings - secured		505,000	(125,000)
Dividend paid		(226,888)	(1,133,683)
Net cash inflow from financing activities		269,696	802,786
Net (decrease) in cash and cash equivalents		(131,652)	(1,410,717)
Cash and cash equivalents at beginning of the period		(1,783,048)	(262,046)
Cash and cash equivalents at end of the period		<u>(1,914,700)</u>	<u>(1,672,763)</u>
Cash and cash equivalents			
Cash and bank balances		22,179	73,835
Running finance under mark-up arrangements - secured		(1,936,879)	(1,746,598)
		<u>(1,914,700)</u>	<u>(1,672,763)</u>

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RAYMOND FRANKE
Head of Finance & Control


SYED HYDER ALI
Director


SYED YAWAR ALI
Chairman

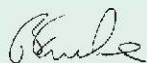


**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2007 (UN-AUDITED)**

	Share capital	Share premium	General reserve	Accumulated profits	Total
	(Rupees in thousands)				
Balance as at December 31, 2005 - restated	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	-	-	-	658,290	658,290
Balance as at June 30, 2006	453,496	249,527	280,000	858,405	1,841,428
Total recognized income and expenses for the period	-	-	-	689,652	689,652
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	-	-	-	1,009,927	1,009,927
Balance as at June 30, 2007	<u>453,496</u>	<u>249,527</u>	<u>280,000</u>	<u>2,331,236</u>	<u>3,314,259</u>

The annexed notes 1 to 12 form an integral part of these financial statements.

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RAYMOND FRANKE
Head of Finance & Control



SYED HYDER ALI
Director



SYED YAWAR ALI
Chairman



CONDENSED INTERIM STATEMENT OF RECOGNIZED INCOME AND EXPENSES FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2007 (UN-AUDITED)

	Jun. 30, 2007	Jun. 30, 2006
	(Rupees in thousands)	
Amounts recognized directly into equity	-	(3,465)
Tax effect on actuarial losses recognized directly to equity	-	1,213
Net profit for the period	<u>1,009,927</u>	<u>660,542</u>
Total recognized income and expenses for the period	<u>1,009,927</u>	<u>658,290</u>

The annexed notes 1 to 12 form an integral part of these financial statements.

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RAYMOND FRANKE
Head of Finance & Control



SYED HYDER ALI
Director



SYED YAWAR ALI
Chairman



SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2007 (UN-AUDITED)

1. 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, 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 condensed interim financial statements are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and are un-audited but subject to limited scope review by external auditors as required by Code of Corporate Governance. These have been presented in accordance with the requirements of International Accounting Standard "IAS-34 (Interim Financial Reporting)".
3. Accounting policies adopted for the preparation of the condensed interim financial statements are same as those applied in the preparation of annual audited financial statements of Nestlé Pakistan Limited ("the Company") for the 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. **Long term finances**

This represents US\$ 65 million foreign currency loan amounting to Rs 3,931 million (2006: US\$ 65 million amounting to Rs 3,963 million), from associated company. US\$ 15 million is due in December 2010 and US\$ 50 million 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 as the 300 acres are earmarked by the 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 50.299 million (December 31, 2006: Rs 35.946 million).

	Jun. 30, 2007	Dec. 31, 2006
	(Rupees in thousands)	
6.3 Guarantees		
Outstanding guarantees	157,479	219,933
Un-utilized portion	92,521	30,067
6.4 Commitments in respect of capital expenditure	601,606	347,289
6.5 Letters of credit		
Outstanding letters of credit in respect of capital expenditures	13,787	33,572
Other outstanding letters of credit	104,503	253,366
Un-utilized portion	1,871,709	1,703,062

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, 2006, Rs 100 million has been paid, while Rs 20 million has been accounted for during the first six months of 2007.

	Jun. 30, 2007	Dec. 31, 2006
	(Rupees in thousands)	
7. Tangible fixed assets		
7.1 Property, plant and equipment		
Opening balance of written down value	6,941,332	3,298,880
Additions during the period	1,546,501	4,265,851
Book value of leased assets transferred to fixed assets	-	20
	<u>8,487,833</u>	<u>7,564,751</u>
Book value of property, plant and equipment disposed off during the period	(13,449)	(43,904)
Depreciation charged during the period	(438,853)	(579,515)
Impairment charge	(25,560)	-
Net book value of property, plant and equipment	<u>8,009,971</u>	<u>6,941,332</u>



	Jun. 30, 2007	Dec. 31, 2006
	(Rupees in thousands)	
7.2 Assets subject to finance lease		
Opening balance of written down value	44,717	20
Additions during the period	80,158	45,045
	<u>124,875</u>	<u>45,065</u>
Book value of leased assets transferred to fixed assets	-	(20)
Depreciation charged during the period	(3,762)	(328)
Net book value of assets subject to finance lease	<u>121,113</u>	<u>44,717</u>

	Jun. 30, 2007	Jun. 30, 2006
	(Rupees in thousands)	
8. Cash generated from operations		
Profit before taxation	1,448,897	979,083
Adjustment for non-cash charges and other items:		
Depreciation and impairment	468,175	270,001
Amortization of intangible assets	21,658	21,951
Loss/(profit) on disposal of property, plant and equipment	5,924	(6,409)
Stores and spares directly written off	8,198	7,293
Retirement and other benefits	38,144	28,624
Exchange gain on foreign currency loan	(31,850)	-
Finance cost	302,524	197,209
Profit before working capital changes	<u>2,261,670</u>	<u>1,497,752</u>
Effect on cash flow due to working capital changes:		
(Increase)/decrease in current assets:		
Stores and spare	(39,187)	(55,479)
Stock in trade	(582,163)	(319,560)
Trade debts	(179,013)	(406,162)
Advances, deposits, prepayments and other receivables	162,574	(314,919)
Increase/(decrease) in current liabilities:		
Trade and other payables	(95,459)	(771,785)
	<u>(733,248)</u>	<u>(1,867,905)</u>
	<u>1,528,422</u>	<u>(370,153)</u>

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 summarised as follows:



Jun. 30,
2007 **Jun. 30,**
2006
(Rupees in thousands)

Associated companies:

Royalty and technical assistance fee	366,901	287,976
Purchase of goods, services and rental	2,215,033	2,594,710
Sale of goods and services	23,850	69,631
Contribution to staff retirement benefits plan	38,144	30,215
Interest on loan	135,934	46,409
Donation	20,000	25,000

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 six months ended June 30, 2007

	Milk & Nutrition Products	Beverages	Other Operations	Total
	(Rupees in thousands)			
Sales				
External sales	11,906,412	1,852,449	174,172	13,933,033
Inter-segment sales	-	-	-	-
Total revenue	<u>11,906,412</u>	<u>1,852,449</u>	<u>174,172</u>	<u>13,933,033</u>
Profit before tax and unallocated expenses	<u>1,867,503</u>	<u>21,911</u>	<u>(52,908)</u>	1,836,506
Unallocated corporate expenses:				
Finance cost				(302,524)
Other operating expenses				(143,921)
Other operating income				58,836
Taxation				(438,970)
Profit after taxation				<u>1,009,927</u>



Segment analysis for the six months ended June 30, 2006

	Milk & Nutrition Products	Beverages	Other Operations	Total
(Rupees in thousands)				
Sales				
External sales	9,546,979	1,465,643	170,764	11,183,386
Inter-segment sales	-	-	-	-
Total revenue	<u>9,546,979</u>	<u>1,465,643</u>	<u>170,764</u>	<u>11,183,386</u>
Profit before tax and unallocated expenses	<u>1,304,998</u>	<u>(7,525)</u>	<u>(15,429)</u>	1,282,044
Unallocated corporate expenses:				
Finance cost				(197,209)
Other operating expenses				(125,646)
Other operating income				19,894
Taxation				<u>(318,541)</u>
Profit after taxation				<u>660,542</u>

11. **Date of authorization for issue**

These condensed interim financial statements were authorized for issue on August 27, 2007 by the Board of Directors.

12. **Figures**

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

The Chief Executive is out of Pakistan and in his absence these financial statements have been signed by two directors as required under section 241 (2) of the Companies Ordinance, 1984.



RAYMOND FRANKE
Head of Finance & Control



SYED HYDER ALI
Director



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 Committee

Adil Aali	Head of Quality Assurance
Ali Aziz	Product Unit Manager-Beverages & Confectionery
Azeem Naqvi	Head of Legal Affairs
Faiz Rasool	Project Manager NQMS
Fakhar Ahmed	Head of Corporate Affairs
Hassan Razak	Product Unit Manager-Chilled Dairy
Jack Moser	Head of Milk Collection and Agri-Services
Khurram Zia	Business Manager-Dairy-1
Khurram Javed	Business Manager-Dairy-2
Nauman Khan	National Food Services Manager
Peter Wuethrich	Head of Technical
Raymond Franke	Head of Finance & Control
Roland Decorvet	Managing Director
Salman Altaf	Product Unit Manager-Culinary
Salman Nazir	Head of Supply Chain
Shaheen Sadiq	Head of Communications
Shahab Bachani	Country Business Manager-Water
Usman Bhatti	Country Business Manager-Nutrition
Uzma Butt	Head of Human Resources
Zafar Hussain Shah	Head of Sales

Registered & Corporate Office

308 - Upper Mall, Lahore, Pakistan
 PABX : (042) 5757082 - 95
 Fax : (042) 5789303 - 04

Corporate Office Annex

304 - Upper Mall, Lahore, Pakistan
 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

Auditors

KPMG Taseer Hadi & Co. (Chartered Accountants)

**Legal
Advisor**

Chima & Ibrahim (Advocates)

Bankers

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



NE