

Report for the half year ended
June 30, 2008



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Nestlé

Nestlé Pakistan Ltd.

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Directors' Report to the Shareholders

The Directors are pleased to submit the Half Yearly Report along with the reviewed financial information of the company for the period ended June 30, 2008.

The economic circumstances (both domestic and international) in the first half of 2008 have lead to substantial increases in raw & packing materials, currency devaluation, interest rate hikes, and fuel price increases that are impacting consumers and industry alike. In addition, fresh milk continues to be in short supply.

The combined effect of these challenges has caused a moderate decrease in consumer demand, and cost pressures that have challenged our operating margins. The financial performance for the period under review is summarized below:

PKR Million	Jan - Jun 2008	Jan - Jun 2007	Change
Sales	16,443	13,933	+18%
Operating Profit	2,133	1,859	+15%
% of sales	13.0%	13.3%	
Net Profit	820	1,010	-19%
% of sales	5.0%	7.2%	
Earnings per share	18.08	22.27	-19%

First half sales grew +18% in a combination of volume growth and pricing increases. A strong contribution in particular came from our dairy and juice categories. Also, sales in Afghanistan exceeded the Rs 1.0 billion mark.

Operating profit grew by +15% to Rs 2.1 billion. However, margins declined by 30 basis points as a result of significant price pressure on input commodities - particularly fresh milk and fuel, and the capitalization of our investments in production capacity.

Net profit for the half year period stood at

Rs 0.8 billion which is down 19% over the same period last year. The largest factor in the reduction of 220 basis points was exchange losses on our foreign liabilities 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 into the second half of 2008. However, we have a robust business model and strong brands. With constant focus on the consumer, we are striving for operational efficiencies wherever feasible in pursuit of our objectives.

For and on behalf
of the Board of Directors


TREVOR CLAYTON
Chief Executive

Lahore: August 7, 2008



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 June 30, 2008 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity for the half year then ended (condensed interim financial information). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with the approved accounting standards as applicable in Pakistan relating to interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

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 condensed 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 condensed interim financial information as at and for the half year ended June 30, 2008 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan relating to interim financial reporting.

The figures for the quarter ended June 30, 2008 in the condensed interim profit and loss account have not been reviewed and we do not express an opinion on them.

Lahore: August 7, 2008



KPMG Taseer Hadi & Co.
Chartered Accountants



Condensed Interim Balance Sheet

As at June 30, 2008 (Un-audited)

	Notes	Jun. 30, 2008 Rs'000	Dec. 31, 2007 Rs'000
Tangible fixed assets			
Property, plant and equipment	7.1	8,740,661	8,913,465
Assets subject to finance lease	7.2	226,714	160,963
Capital work-in-progress		1,072,527	971,183
		10,039,902	10,045,611
Intangible assets		71,063	92,382
Long term loans and advances		107,236	80,670
Long term security deposits		5,219	6,088
Current assets			
Stores and spares		611,800	436,573
Stock in trade		3,353,268	2,393,306
Trade debts		362,496	344,053
Current portion of long term loans and advances		26,024	21,279
Advances, deposits, prepayments and other receivables		1,576,998	2,022,387
Cash and bank balances		267,939	406,225
		6,198,525	5,623,823
Current liabilities			
Current portion of liabilities against assets subject to finance lease		40,982	29,863
Short term borrowings - secured		300,000	1,035,000
Running finance under markup arrangements - secured		2,407,309	1,637,799
Trade and other payables		2,763,490	3,062,027
Interest and mark-up accrued		107,601	89,261
Customer security deposits - interest free		124,802	124,572
		5,744,184	5,978,522
Net working capital		454,341	(354,699)
Total capital employed		10,677,761	9,870,052
Long term and deferred liabilities			
Long term finances	5	4,446,000	4,028,700
Deferred taxation		1,364,878	1,371,675
Retirement and other benefits		244,562	238,370
Liabilities against assets subject to finance lease		143,992	119,602
		6,199,432	5,758,347
Contingencies and commitments	6		
Net assets		4,478,329	4,111,705

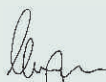


	Notes	Jun. 30, 2008 Rs'000	Dec. 31, 2007 Rs'000
Financed by:			
Share capital and reserves			
Authorized capital			
75,000,000 (2007: 75,000,000) ordinary shares of Rs 10 each		750,000	750,000
Issued, subscribed and paid up capital		453,496	453,496
Share premium		249,527	249,527
General reserve		280,000	280,000
Accumulated profit		3,495,306	3,128,682
		4,478,329	4,111,705

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



RAYMOND FRANKE
Head of Finance & Control



TREVOR CLAYTON
Chief Executive



SYED YAWAR ALI
Chairman



Condensed Interim Profit and Loss Account For the Six Months Period Ended June 30, 2008 (Un-audited)

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>Jun. 30, 2008 Rs'000</u>	<u>Jun. 30, 2007 Rs'000</u>	<u>Jun. 30, 2008 Rs'000</u>	<u>Jun. 30, 2007 Rs'000</u>
Sales - Net	8,015,687	6,896,158	16,442,939	13,933,033
Cost of goods sold	(5,858,452)	(4,973,158)	(11,861,778)	(9,810,379)
Gross profit	2,157,235	1,923,000	4,581,161	4,122,654
Distribution and selling expenses	(1,013,478)	(929,066)	(1,990,166)	(1,850,080)
Administration expenses	(223,072)	(208,983)	(458,273)	(413,426)
	(1,236,550)	(1,138,049)	(2,448,439)	(2,263,506)
Operating profit	920,685	784,951	2,132,722	1,859,148
Finance cost	(518,771)	(163,067)	(708,626)	(302,524)
Other operating expenses	(152,806)	(73,182)	(291,158)	(174,837)
	(671,577)	(236,249)	(999,784)	(477,361)
Other operating income	12,959	39,211	23,513	67,110
Profit before taxation	262,067	587,913	1,156,451	1,448,897
Taxation	(68,471)	(158,376)	(336,331)	(438,970)
Profit after taxation	193,596	429,537	820,120	1,009,927
Earnings per share - Rupees	4.27	9.47	18.08	22.27

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


RAYMOND FRANKE
Head of Finance & Control


TREVOR CLAYTON
Chief Executive


SYED YAWAR ALI
Chairman



Condensed Interim Cash Flow Statement

For the Six Months Period Ended June 30, 2008

(Un-audited)

	Notes	Jun. 30, 2008 Rs'000	Jun. 30, 2007 Rs'000
Cash flow from operating activities			
Cash generated from operations	8	947,320	1,528,422
(Increase) in long term loans and advances		(31,311)	(18,916)
Decrease/(increase) in long term deposits		869	(125)
Increase in customer security deposits - interest free		230	8,230
Retirement and other benefits paid		(37,898)	(29,904)
Finance cost paid		(272,986)	(290,852)
Taxes refund		246,264	(163,954)
Net cash inflow from operating activities		852,488	1,032,901
Cash flow from investing activities			
Purchase of property, plant and equipment		(542,795)	(1,441,774)
Sale proceeds of property, plant and equipment		10,152	7,525
Net cash (outflow) from investing activities		(532,643)	(1,434,249)
Cash flow from financing activities			
Repayment of lease liabilities		(39,260)	(8,416)
(Repayment)/receipt of short term borrowings - secured		(735,000)	505,000
Dividend paid		(453,381)	(226,888)
Net cash (outflow)/inflow from financing activities		(1,227,641)	269,696
Net (decrease) in cash and cash equivalents		(907,796)	(131,652)
Cash and cash equivalents at beginning of the period		(1,231,574)	(1,783,048)
Cash and cash equivalents at end of the period		(2,139,370)	(1,914,700)
Cash and cash equivalents			
Cash and bank balances		267,939	22,179
Running finance under mark-up arrangements - secured		(2,407,309)	(1,936,879)
		(2,139,370)	(1,914,700)

The annexed notes 1 to 13 form an integral part of these 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 Six Months Period Ended June 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	-	-	-	1,009,927	1,009,927
Balance as at June 30, 2007	453,496	249,527	280,000	2,331,236	3,314,259
Total recognized income and expenses for the period	-	-	-	797,446	797,446
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	-	-	-	820,120	820,120
Balance as at June 30, 2008	453,496	249,527	280,000	3,495,306	4,478,329

The annexed notes 1 to 13 form an integral part of these 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 Six Months Period Ended June 30, 2008 (Un-audited)

	Six months ended	
	Jun. 30, 2008 Rs'000	Jun. 30, 2007 Rs'000
Net profit for the period	820,120	1,009,927
Total recognized income and expenses for the period	820,120	1,009,927



The annexed notes 1 to 13 form an integral part of these 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 Six Months Period Ended June 30, 2008 (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, 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 being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and is un-audited but subject to limited scope review by external auditors as required by Code of Corporate Governance. This has 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 information are same as those applied in the preparation of annual audited financial statements of the Company for the year ended December, 31 2007.
4. The preparation of condensed interim financial information 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 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 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 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 38.156 million (December 31 2007: Rs 41.535 million)

	Jun. 30, 2008 Rs'000	Dec. 31, 2007 Rs'000
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6.3 Guarantees

Outstanding guarantees	210,966	242,068
Un-utilized portion	109,034	77,932

- 6.4 **Commitments in respect of capital expenditure** 719,349 222,329

6.5 Letters of credit

Outstanding letters of credit in respect of capital expenditures	5,125	332,821
Other outstanding letters of credit	20,817	44,485
Un-utilized portion	1,381,059	1,029,694

- 6.6 In 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 June 30, 2008, Rs 140 million has been paid , while Rs 20 million has been accounted for.

	Jun. 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	6,941,332
Additions during the period	441,451	3,045,260
	9,354,916	9,986,592

Book value of property, plant and equipment disposed off during the period	(36,360)	(91,606)
Depreciation charged during the period	(521,895)	(942,124)
Impairment charge	(56,000)	(39,397)

Net book value of property, plant and equipment	8,740,661	8,913,465
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	Jun. 30, 2008 Rs'000	Dec. 31, 2007 Rs'000
7.2 Assets subject to finance lease		
Opening balance - net book value	160,963	44,717
Additions during the period	74,769	127,935
	235,732	172,652
Depreciation charged during the period	(9,018)	(11,689)
Net book value of property, plant and equipment	226,714	160,963
	Jun. 30, 2008 Rs'000	Jun. 30, 2007 Rs'000
8. Cash generated from operations		
Profit before taxation	1,156,451	1,448,897
Adjustment for non-cash charges and other items:		
Depreciation	530,913	442,615
Impairment on fixed assets	56,000	25,560
Amortization of intangible assets	21,319	21,658
Loss on disposal of property, plant and equipment	26,208	5,924
Stores and spares directly written off	-	8,198
Exchange gain on foreign currency loan	-	(31,850)
Retirement and other benefits	44,090	38,144
Finance cost and exchange loss on foreign currency loan	708,626	302,524
Profit before working capital changes	2,543,607	2,261,670
Effect on cash flow due to working capital changes:		
(Increase)/decrease in current asset:		
Stores and spare	(175,227)	(39,187)
Stock in trade	(959,962)	(582,163)
Trade debts	(18,443)	(179,013)
Advances, deposits, prepayments and other receivables	(144,003)	162,574
Increase/(decrease) in current liabilities:		
Trade and other payables	(298,652)	(95,459)
	(1,596,287)	(733,248)
	947,320	1,528,422

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:



	Jun. 30, 2008 Rs'000	Jun. 30, 2007 Rs'000
Associated companies:		
Royalty and technical assistance fee	435,058	366,901
Purchase of goods, services and rental	2,273,640	2,215,033
Sale of goods and services	-	23,850
Interest on loan	135,934	135,934
Donation	20,000	20,000
Other related parties		
Contribution to staff retirement benefit plan	37,898	38,144

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, 2008:

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	14,057,587	2,186,791	198,561	16,442,939
Inter-segment sales	-	-	-	-
Total revenue	14,057,587	2,186,791	198,561	16,442,939
Profit before tax and unallocated expenses	2,029,629	141,400	(38,307)	2,132,722
Unallocated corporate expenses:				
Finance cost				(708,626)
Other operating expenses				(291,158)
Other operating income				23,513
Taxation				(336,331)
Profit after taxation				820,120



Segment analysis for the six months ended June 30, 2007:

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	11,906,412	1,852,449	174,172	13,933,033
Inter-segment sales	-	-	-	-
Total revenue	11,906,412	1,852,449	174,172	13,933,033
Profit before tax and unallocated expenses	1,867,503	21,911	(52,908)	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				1,009,927

11. Date of authorization for issue

This condensed interim financial information was authorized for issue on August 07, 2008 by the Board of Directors.

12. Dividend

The board of directors in their meeting held on August 07, 2008 have proposed an interim cash dividend for the six months ended June 30, 2008 of Rs 7.5 per share, amounting to Rs 340.122 million (2007 : Rs 453.496 million). This financial information does not reflect this dividend.

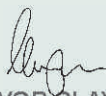
13. General

13.1 Figures have been rounded off to the nearest thousands of rupees.

13.2 Previous year's figures have been rearranged, wherever necessary for the purpose of comparison.



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,
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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

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



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