

Report for the half year ended
June 30, 2009



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Nestlé

Nestlé Pakistan Ltd.

contents



Directors' Report to the Shareholders	2
Independent Auditors Report on Review of Condensed Interim Financial Information to the Members	3
Condensed Interim Balance Sheet	4
Condensed Interim Profit and Loss Account	6
Condensed Interim Cash Flow Statement	7
Condensed Interim Statement of Changes in Equity	8
Selected Notes to the Condensed Interim Financial Information	9
Company Information	15

Directors' Report to the Shareholders

The Directors are pleased to submit the Half Year Report along with the reviewed financial statements of the company for the period ended June 30, 2009.

Despite the various prevailing challenges in the country, and the international recession, the Company has made good progress in the first six months. Sales grew by 20% with contributions coming from our key brands in dairy and non-dairy categories. Profits have improved, but are somewhat magnified by the low base set in 2008, when severe economic difficulties began to impact upon our business.

Fresh milk sourcing continues to be a challenge as supply lags industrial demand; this also leads to ongoing inflation in fresh milk cost, contrary to international trends.

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

PKR Million	Jan - Jun 2009	Jan - Jun 2008	Change
Sales	19,693	16,443	+20%
Operating Profit	2,805	2,133	+32%
% of sales	14.2%	13.0%	
Net Profit	1,530	820	+87%
% of sales	7.8%	5.0%	
Earnings per share	33.74	18.08	+87%

Total sales for the first half reached PKR 19.7 billion – including exports which continue to grow strongly (+45%) over the same period last year.

Operating profit for the six month period reached PKR 2.8 billion with a +120 bps improvement in operating margins as a result of better value management and fixed cost containment. Net profit margin improved by +280 bps, largely due to a recovery from the dramatic foreign

currency impacts of last year.

First half results show a strong positive trend of improvement; however, with continuing supply pressure and cost inflation, we do expect margins to soften somewhat in the second half. We continue to maintain a positive long term perspective on the outlook for the business.

For and on behalf
of the Board of Directors



TREVOR CLAYTON
Chief Executive

Lahore: August 12, 2009

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, 2009 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 six months period then ended there-in-after referred to as ("The 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 for 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 of and for the six month ended June 30, 2009 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, 2009 in the condensed interim profit and loss account have not been reviewed and we do not express a conclusion on them.

Lahore: August 12, 2009



KPMG Taseer Hadi & Co.
Chartered Accountants



Condensed Interim Balance Sheet

As at June 30, 2009 (Un-audited)

	Notes	Jun. 30, 2009 Rs'000	Dec. 31, 2008 Rs'000
Tangible fixed assets			
Property, plant and equipment	8.1	9,053,636	9,176,864
Assets subject to finance lease	8.2	273,378	287,509
Capital work-in-progress		1,485,246	1,382,401
		10,812,260	10,846,774
Intangible assets		28,425	49,744
Long term loans and advances		99,549	98,544
Long term security deposits		5,036	5,036
Current assets			
Stores and spares		842,408	804,647
Stock in trade		3,584,211	2,488,573
Trade debts		342,245	456,813
Current portion of long term loans and advances		18,319	26,615
Advances, deposits, prepayments and other receivables		1,241,267	1,488,103
Cash and bank balances		916,913	419,327
		6,945,363	5,684,078
Current liabilities			
Current portion of:			
Liabilities against assets subject to finance lease		56,499	54,042
Short term borrowings - secured		-	300,000
Short term borrowings - unsecured	5	2,034,625	-
Running finance under mark-up arrangements - secured		537,912	1,924,287
Trade and other payables		3,081,176	2,798,185
Interest and mark-up accrued		101,558	102,173
Customer security deposits - interest free		126,762	127,884
Derivative financial liabilities		10,250	-
Taxation		90,322	-
		6,039,104	5,306,571
Net working capital		906,259	377,507
Total capital employed		11,851,529	11,377,605
Long term and deferred liabilities			
Long term finances	6	5,290,025	5,139,875
Deferred taxation		1,273,669	1,319,333
Retirement and other benefits		358,767	351,968
Liabilities against assets subject to finance lease		143,647	177,582
		7,066,108	6,988,758
Contingencies and commitments	7		
Net assets		4,785,421	4,388,847



	Notes	Jun. 30, 2009 Rs'000	Dec. 31, 2008 Rs'000
Financed by:			
Share capital and reserves			
Authorized capital			
75,000,000 (2008: 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		3,802,398	3,405,824
		4,785,421	4,388,847

The annexed notes 1 to 14 form an integral part of this condensed interim 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, 2009


(Un-audited)

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>Jun. 30,</u> <u>2009</u> <u>Rs'000</u>	<u>Jun. 30,</u> <u>2008</u> <u>Rs'000</u>	<u>Jun. 30,</u> <u>2009</u> <u>Rs'000</u>	<u>Jun. 30,</u> <u>2008</u> <u>Rs'000</u>
Sales - Net	10,453,832	8,015,687	19,692,715	16,442,939
Cost of goods sold	(7,386,114)	(5,858,452)	(13,652,731)	(11,861,778)
Gross profit	3,067,718	2,157,235	6,039,984	4,581,161
Distribution and selling expenses	(1,551,386)	(1,013,478)	(2,730,985)	(1,990,166)
Administration expenses	(257,353)	(223,072)	(503,676)	(458,273)
	(1,808,739)	(1,236,550)	(3,234,661)	(2,448,439)
Operating profit	1,258,979	920,685	2,805,323	2,132,722
Finance cost	(129,370)	(101,471)	(301,087)	(291,326)
Other operating expenses	(189,130)	(570,106)	(405,371)	(708,458)
	(318,500)	(671,577)	(706,458)	(999,784)
Other operating income	10,833	12,959	36,844	23,513
Profit before taxation	951,312	262,067	2,135,709	1,156,451
Taxation	(268,277)	(68,471)	(605,395)	(336,331)
Profit after taxation	683,035	193,596	1,530,314	820,120
Total comprehensive income for the period	683,035	193,596	1,530,314	820,120
Earnings per share - Rupees	15.06	4.27	33.74	18.08

The annexed notes 1 to 14 form an integral part of this condensed interim 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, 2009

(Un-audited)

	Notes	Jun. 30, 2009 Rs'000	Jun. 30, 2008 Rs'000
Cash flow from operating activities			
Cash generated from operations	9	2,725,373	947,320
(Increase)/decrease in long term loans and advances		7,291	(31,311)
Decrease in long term deposits		-	869
(Decrease)/increase in customer security deposits - interest free		(1,122)	230
Retirement and other benefits paid		(45,137)	(37,898)
Finance cost paid		(301,702)	(272,986)
Taxes (paid)/refund		(471,685)	246,264
Net cash inflow from operating activities		1,913,018	852,488
Cash flow from investing activities			
Purchase of property, plant and equipment		(579,543)	(542,795)
Sale proceeds of property, plant and equipment		20,350	10,152
Net cash (outflow) from investing activities		(559,193)	(532,643)
Cash flow from financing activities			
Repayment of lease liabilities		(31,478)	(39,260)
(Repayment) of short term borrowings - secured		(300,000)	(735,000)
Receipt of short term borrowing - unsecured		1,995,000	-
Dividend paid		(1,133,386)	(453,381)
Net cash inflow/(outflow) from financing activities		530,136	(1,227,641)
Net increase/(decrease) in cash and cash equivalents		1,883,961	(907,796)
Cash and cash equivalents at beginning of the period		(1,504,960)	(1,231,574)
Cash and cash equivalents at end of the period		379,001	(2,139,370)
Cash and cash equivalents			
Cash and bank balances		916,913	267,939
Running finance under mark-up arrangements - secured		(537,912)	(2,407,309)
		379,001	(2,139,370)

The annexed notes 1 to 14 form an integral part of this condensed interim 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, 2009 (Un-audited)

	Share capital	Share premium	General reserve	Accumulated profits	Total
	(Rs'000)				
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 comprehensive income 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
Interim dividend for the six months ended June 30, 2008 (Rs 9 per share)	-	-	-	(408,146)	(408,146)
Interim dividend for the nine months ended September 30, 2008 (Rs 7.5 per share)	-	-	-	(340,122)	(340,122)
Total comprehensive income for the period	-	-	-	658,786	658,786
Balance as at December 31, 2008	453,496	249,527	280,000	3,405,824	4,388,847
Final dividend for the year ended December 31, 2008 (Rs 25 per share)	-	-	-	(1,133,740)	(1,133,740)
Total comprehensive income for the period	-	-	-	1,530,314	1,530,314
Balance as at June 30, 2009	453,496	249,527	280,000	3,802,398	4,785,421

The annexed notes 1 to 14 form an integral part of this condensed interim 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, 2009 (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, 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 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, 2008 except for the change in accounting policy of capitalizing borrowing costs as per the transitional provision of International Accounting Standard "IAS-23 (Borrowing Costs)". Mark-up, interest and other charges on long term borrowings, which were previously recognised as an expense in the period in which they are incurred, are now being capitalized upto the date of commissioning of the related qualifying assets, acquired out of the proceeds of such long term borrowings. This change in accounting policy is applicable on borrowing cost relating to qualifying asset for which the commencement date for capitalization is on or after the effective date i.e. January 01, 2009 and has no impact on the current financial information.
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, 2008.
5. **Short term borrowings - unsecured**
This represents US\$ 25 million (2008 : Nil) loan from Nestle Treasury Centre Middle East and Africa Limited, Dubai. Mark-up is payable semi annually at six months LIBOR plus 100 basis points.
6. **Long term finances**
This represents US\$ 65 million (2008 : 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.



7. Contingencies and commitments

- 7.1 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 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.

- 7.2 Claims against the Company not acknowledged as debts Rs. 35.973 million (31 December 2008: Rs. 35.809 million)

	Jun. 30, 2009 Rs'000	Dec. 31, 2008 Rs'000
7.3 Guarantees		
Outstanding guarantees	163,141	160,053
Un-utilized portion	181,859	184,947
7.4 Commitments in respect of capital expenditure	654,965	253,873
7.5 Letters of credit		
Outstanding letters of credit in respect of capital expenditures	-	370,172
Other outstanding letters of credit	84,433	57,097
Un-utilized portion	1,452,567	1,109,731

- 7.6 In 2005, the Company had made a commitment to pay Rs. 250 million to National Management Foundation to set up a School for Science and Engineering. The amount is to be paid over a period of six years. Upto 30 June 2009, Rs. 140 million has been paid, while another Rs. 20 million is due but has not been paid as at 30 June 2009.



7.7 The Company has given an interest free loan to Babar Ali Foundation ("the Foundation") amounting to Rs.23.395 million to establish an agricultural farm and educational training facility for rural farmers. The Chairman of this Foundation is a Director of the Company.

	Jun. 30, 2009 Rs'000	Dec. 31, 2008 Rs'000
8. Tangible fixed assets		
8.1 Property, plant and equipment		
Opening balance - Net book value	9,176,864	8,913,465
Additions during the period	476,698	1,460,078
	9,653,562	10,373,543
Book value of property, plant and equipment disposed off during the period	(33,523)	(68,754)
Depreciation charged during the period	(566,403)	(1,071,925)
Impairment charge	-	(56,000)
Net book value of property, plant and equipment	9,053,636	9,176,864
8.2 Assets subject to finance lease		
Opening balance - Net book value	287,509	160,963
Additions during the period	-	148,542
	287,509	309,505
Depreciation charged during the period	(14,131)	(21,996)
Net book value of assets subject to finance lease	273,378	287,509
	Jun. 30, 2009 Rs'000	Jun. 30, 2008 Rs'000
9. Cash generated from operations		
Profit before taxation	2,135,709	1,156,451
Adjustment for non-cash charges and other items:		
Depreciation	580,534	530,913
Impairment on fixed assets	-	56,000
Amortization of intangible assets	21,319	21,319
Loss on disposal of property, plant and equipment	13,173	26,208
Loss on foreign exchange contract	10,250	-
Retirement and other benefits	51,936	44,090
Finance cost and exchange loss on foreign currency loan	490,862	708,626
Profit before working capital changes	3,303,783	2,543,607



	Jun. 30, 2009 Rs'000	Jun. 30, 2008 Rs'000
Effect on cash flow due to working capital changes:		
(Increase)/decrease in current assets:		
Stores and spare	(37,761)	(175,227)
Stock in trade	(1,095,638)	(959,962)
Trade debts	114,568	(18,443)
Advances, deposits, prepayments and other receivables	157,784	(144,003)
Increase/(decrease) in current liabilities:		
Trade and other payables	282,637	(298,652)
	(578,410)	(1,596,287)
	2,725,373	947,320

10. 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, 2009 Rs'000	Jun. 30, 2008 Rs'000
Associated companies:		
Royalty and technical assistance fee	524,793	435,058
Purchase of goods, services and rental	3,410,048	2,273,640
Interest on loan	129,532	135,934
Other related parties:		
Contribution to staff retirement benefits plan	51,936	44,090
Donation	20,000	20,000

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



11. 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 30 June 2009:

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	16,784,378	2,706,681	201,656	19,692,715
Inter-segment sales	-	-	-	-
Total revenue	16,784,378	2,706,681	201,656	19,692,715
Profit before tax and unallocated expenses	2,703,763	162,328	(60,768)	2,805,323
Unallocated corporate expenses:				
Finance cost				(301,087)
Other operating expenses				(405,371)
Other operating income				36,844
Taxation				(605,395)
Profit after taxation				1,530,314



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				(291,326)
Other operating expenses				(708,458)
Other operating income				23,513
Taxation				(336,331)
Profit after taxation				820,120

12. Date of authorization for issue

This condensed interim financial information was authorized for issue on August 12, 2009 by the Board of Directors.

13. Dividend

The Board of Directors in their meeting held on August 12, 2009 have proposed an interim cash dividend for the six months ended June 30, 2009 of Rs. 30/- per share, amounting to Rs. 1360.488 million (2008 : Rs. 340.122). This financial information does not reflect this dividend.

14. General

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

14.2 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
Raymond Franke
A. Cantacuzene
Syed Babar Ali
Syed Hyder Ali

Chairman
Managing Director
Director
Director
Director
Director
Director

Company Secretary

Mohammad Ali Sadozai

Management

Adil Aali
Arsalan Khan
Mohammad 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
Business Manager-Beverages
Head of Legal Affairs
Head of Corporate Affairs
Country Business Manager-Water
Head of Milk Collection and Agri-Services
Business Executive Manager-Ambient Dairy
Business Manager-Chilled Dairy
Country Business Manager - Nestle Professional
Head of Technical
Head of Finance & Control
Managing Director
Business 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) 35789303

Corporate Office Annex

304 - Upper Mall, Lahore.
Park Lane Towers
1st & 2nd Floor, Tufail Road,
Lahore, Pakistan
PABX : (042) 36099300



Factories

Sheikhupura

29th Kilometer, Lahore - Sheikhupura Road
Sheikhupura, Punjab, Pakistan
Phone: (056) 3406615 - 29 Fax: (042) 36368710

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) 34720151-3 Fax: (021) 34720154

Plot No. 33/7, Sector 15, Korangi Industrial Area,
Karachi - 74900, Pakistan
Phone: (021) 111 123 333 Fax: (021) 35066996

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)

Share Registrar / Transfer Agent

Gorsi Associates (Pvt.) Limited.
2nd Floor, 202-Sufi Chamber, Link McLeod Road, Lahore.
Cell: 0346-4479601 Fax: 042-37230865

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



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308 Upper Mall, Lahore, Pakistan

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