

Report for the 3rd quarter ended
September 30, 2007



Nestlé

Nestlé Pakistan Ltd.



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DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors are pleased to submit the Third Quarter Report for 2007 along with the financial statements of the Company for the nine months ended September 30, 2007.

The Company recorded excellent sales turnover for the nine months, driven by our focused business strategies and expanded distribution and consumer reach. In addition, our portfolio grew with several new product launches including MAGGI Atta noodles, MAGGI Recipe mixes, NIDO yogurt, CERELAC baby biscuits, and a new Mango addition to the NESTLE juices range.

Fresh Milk volume grew by 17% over the same period last year; however, this was still not sufficient to meet our production requirements for the nine months. There has also been significant cost pressure on fresh milk as both local and international prices have increased dramatically.

The Company continues 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 quality milk.

PKR Million	Jan - Sep 2007	Jan - Sep 2006
Sales	21,396	16,715
Operating Profit	2,768	1,691
% of sales	12.9%	10.1%
Net Profit	1,491	856
% of sales	7.0%	5.1%
Earnings per share	32.88	18.88

Sales for the nine months exceeded Rs 21 billion, recording a growth of +28%, 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 +47% to Rs 1.4 billion compared to the same period last year.

Operating profit of Rs 2.8 billion for the nine months has shown an increase of 280 basis points. However, this primarily relates to higher fixed cost absorption from inventory that lead to lower profitability in 2006. In addition, efforts in 2007 include a favorable movement in sales mix and rigorous fixed cost control.

Net profit improved by 190 basis points in margin versus same period last year and reached Rs 1.5 billion. Higher financing costs and a larger tax burden was offset with some of the gain from operating profit. Earnings per share for the period also increased to Rs 32.88.

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 nine month performance is in line to achieve our aggressive annual targets.

For and on behalf of the Board of Directors

Lahore: October 22, 2007


ROLAND DECORVET
Chief Executive



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

	Notes	Sep. 30, 2007 (Rupees in thousands)	Dec. 31, 2006
Tangible fixed assets			
Property, plant and equipment	7.1	8,135,386	6,941,332
Assets subject to finance lease	7.2	141,160	44,717
Capital work-in-progress		877,818	1,107,052
		<u>9,154,364</u>	<u>8,093,101</u>
Intangible assets		103,041	135,020
Long term loans and advances		76,489	66,008
Long term security deposits		6,088	6,088
Current assets			
Stores and spares		442,719	329,346
Stock in trade		1,943,348	1,907,300
Trade debts		608,305	238,291
Current portion of long term loans and advances		20,148	8,771
Advances, deposits, prepayments and other receivables		1,948,705	2,109,314
Cash and bank balances		27,928	34,663
		<u>4,991,153</u>	<u>4,627,685</u>
Less: Current liabilities			
Current portion of long term finances		300,000	300,000
Current portion of liabilities against assets subject to finance lease		29,053	8,392
Short term borrowings - secured		1,360,000	700,000
Running finance under markup arrangements - secured		956,932	1,817,711
Customer security deposits - interest free		116,162	102,307
Trade and other payables		2,195,978	2,197,529
Interest and mark-up accrued		58,252	98,549
		<u>5,016,377</u>	<u>5,224,488</u>
Net working capital		<u>(25,224)</u>	<u>(596,803)</u>
Total capital employed		<u>9,314,758</u>	<u>7,703,414</u>
Long term and deferred liabilities			
Long term finances	5	3,946,150	3,963,700
Deferred taxation		1,225,060	942,858
Retirement and other benefits		240,294	234,305
Liabilities against assets subject to finance lease		107,684	31,471
		<u>5,519,188</u>	<u>5,172,334</u>
Net assets		<u>3,795,570</u>	<u>2,531,080</u>
Financed by:			
Share capital and reserves			
Authorized capital			
75,000,000 (2006: 75,000,000) ordinary shares of Rs 10 each		<u>750,000</u>	<u>750,000</u>
Issued, subscribed and paid up capital		453,496	453,496
Share premium		249,527	249,527
General reserve		280,000	280,000
Accumulated profit		2,812,547	1,548,057
		<u>3,795,570</u>	<u>2,531,080</u>

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



RAYMOND FRANKE
Head of Finance & Control



ROLAND DECORVET
Chief Executive



SYED YAWAR ALI
Chairman

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007 (UN-AUDITED)

	Three months ended Sep. 30, 2007	Sep. 30, 2006	Nine months ended Sep. 30, 2007	Sep. 30, 2006
	(Rupees in thousands)			
Sales - Net	7,463,431	5,531,491	21,396,464	16,714,877
Cost of goods sold	(5,406,201)	(4,263,527)	(15,216,580)	(12,133,001)
Gross profit	2,057,230	1,267,964	6,179,884	4,581,876
Distribution and selling expenses	(912,323)	(690,473)	(2,762,403)	(2,375,618)
Administration expenses	(235,740)	(168,422)	(649,166)	(515,145)
	(1,148,063)	(858,895)	(3,411,569)	(2,890,763)
Operating profit	909,167	409,069	2,768,315	1,691,113
Finance cost	(143,413)	(124,261)	(445,937)	(321,470)
Other operating expenses	(99,735)	(16,026)	(274,572)	(141,672)
	(243,148)	(140,287)	(720,509)	(463,142)
Other operating income	(2,846)	19,753	64,264	39,647
Profit before taxation	663,173	288,535	2,112,070	1,267,618
Taxation	(181,862)	(92,725)	(620,832)	(411,266)
Profit after taxation	481,311	195,810	1,491,238	856,352
Earnings per share - Rupees	10.61	4.32	32.88	18.88

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



RAYMOND FRANKE
Head of Finance & Control



ROLAND DECORVET
Chief Executive



SYED YAWAR ALI
Chairman



CONDENSED INTERIM CASH FLOW STATEMENT FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007 (UN-AUDITED)

	Notes	Sep. 30, 2007	Sep. 30, 2006
(Rupees in thousands)			
Cash flow from operating activities			
Cash generated from operations	8	2,863,584	1,177,607
(Increase) in long term loans and advances		(21,858)	(10,302)
(Increase) in long term deposits		-	(756)
Increase in customer security deposits - interest free		13,855	22,959
Retirement and other benefits paid		(48,955)	(45,265)
Finance cost paid		(486,234)	(303,933)
Taxes paid		(202,009)	(430,131)
Net cash inflow from operating activities		2,118,383	410,179
Cash flow from investing activities			
Purchase of property, plant and equipment		(1,748,859)	(2,476,817)
Sale proceeds of property, plant and equipment		57,980	53,863
Net cash outflow from investing activities		(1,690,879)	(2,422,954)
Cash flow from financing activities			
Repayment of long term finances-secured		-	(950,000)
Loan from related party		-	3,011,500
Repayment of lease liabilities		(6,566)	(31)
Net movement of short term borrowings - secured		660,000	(125,000)
Dividend paid		(226,894)	(1,133,700)
Net cash inflow from financing activities		426,540	802,769
Net increase/(decrease) in cash and cash equivalents		854,044	(1,210,006)
Cash and cash equivalents at beginning of the period		(1,783,048)	(262,046)
Cash and cash equivalents at end of the period		<u>(929,004)</u>	<u>(1,472,052)</u>
Cash and cash equivalents			
Cash and bank balances		27,928	14,337
Running finance under mark-up arrangements - secured		(956,932)	(1,486,389)
		<u>(929,004)</u>	<u>(1,472,052)</u>

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



RAYMOND FRANKE
Head of Finance & Control



ROLAND DECORVET
Chief Executive



SYED YAWAR ALI
Chairman



CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 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	-	-	-	852,973	852,973
Balance as at September 30, 2006	453,496	249,527	280,000	1,053,088	2,036,111
Total recognized income and expenses for the period	-	-	-	494,969	494,969
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	<u>453,496</u>	<u>249,527</u>	<u>280,000</u>	<u>2,812,547</u>	<u>3,795,570</u>

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



RAYMOND FRANKE
Head of Finance & Control



ROLAND DECORVET
Chief Executive



SYED YAWAR ALI
Chairman

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

	Sep. 30, 2007	Sep. 30, 2006
	(Rupees in thousands)	
Amounts recognized directly into equity	-	(5,199)
Tax effect on actuarial losses recognized directly to equity	-	1,820
Net profit for the period	1,491,238	856,352
Total recognized income and expenses for the period	<u>1,491,238</u>	<u>852,973</u>

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



RAYMOND FRANKE
Head of Finance & Control



ROLAND DECORVET
Chief Executive



SYED YAWAR ALI
Chairman

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 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. 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 3,946 million (2006: US\$ 65 million amounting to Rs 3,964 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, 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 30.296 million (December 31, 2006: Rs 35.946 million).

	Sep. 30, 2007 (Rupees in thousands)	Dec. 31, 2006
6.3 Guarantees		
Outstanding guarantees	215,579	219,933
Un-utilized portion	14,421	30,067
6.4 Commitments in respect of capital expenditure	1,025,216	347,289
6.5 Letters of credit		
Outstanding letters of credit in respect of capital expenditures	416,717	33,572
Other outstanding letters of credit	13,450	253,366
Un-utilized portion	976,833	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 30 million has been accounted for during the first nine months of 2007.

	Sep. 30, 2007 (Rupees in thousands)	Dec. 31, 2006
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	1,978,093	4,265,851
Book value of leased assets transferred to fixed assets	-	20
	<u>8,919,425</u>	<u>7,564,751</u>
Book value of property, plant and equipment disposed off during the period	(73,610)	(43,904)
Depreciation charged during the period	(684,869)	(579,515)
Impairment charge	(25,560)	-
Net book value of property, plant and equipment	<u>8,135,386</u>	<u>6,941,332</u>



	Sep. 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	103,440	45,045
	<u>148,157</u>	<u>45,065</u>
Book value of leased assets transferred to fixed assets	-	(20)
Depreciation charged during the period	(6,997)	(328)
Net book value of assets subject to finance lease	<u>141,160</u>	<u>44,717</u>

	Sep. 30, 2007	Sep. 30, 2006
	(Rupees in thousands)	
8. Cash generated from operations		
Profit before taxation	2,112,070	1,267,618
Adjustment for non-cash charges and other items:		
Depreciation and impairment	717,427	411,109
Amortization of intangible assets	31,978	32,610
Loss/(profit) on disposal of property, plant and equipment	15,630	(17,517)
Stores and spares directly written off	15,844	3,035
Retirement and other benefits	54,944	43,727
Exchange gain on foreign currency loan	(17,550)	-
Finance cost	445,937	321,470
Profit before working capital changes	<u>3,376,280</u>	<u>2,062,052</u>
Effect on cash flow due to working capital changes:		
(Increase)/decrease in current assets:		
Stores and spare	(129,217)	(67,558)
Stock in trade	(36,048)	251,473
Trade debts	(370,014)	(246,844)
Advances, deposits, prepayments and other receivables	23,990	(401,023)
Increase/(decrease) in current liabilities:		
Trade and other payables	(1,407)	(420,493)
	<u>(512,696)</u>	<u>(884,445)</u>
	<u>2,863,584</u>	<u>1,177,607</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 summarized as follows:



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

Associated companies:

Royalty and technical assistance fee	589,732	440,155
Purchase of goods, services and rental	3,158,109	3,045,423
Sale of goods and services	34,994	74,634
Contribution to staff retirement benefit plans	54,944	43,619
Interest on loan	204,674	115,672
Donation	30,000	37,500

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, 2007:

	Milk & Nutrition Products	Beverages	Other Operations	Total
	(Rupees in thousands)			
Sales				
External sales	18,302,162	2,820,624	273,678	21,396,464
Inter-segment sales	-	-	-	-
Total revenue	<u>18,302,162</u>	<u>2,820,624</u>	<u>273,678</u>	<u>21,396,464</u>
Profit before tax and unallocated expenses	<u>2,719,439</u>	<u>108,627</u>	<u>(82,757)</u>	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				<u>(1,419,238)</u>



Segment analysis for the nine months ended September 30, 2006:

	Milk & Nutrition Products	Beverages	Other Operations	Total
	(Rupees in thousands)			
Sales				
External sales	14,238,854	2,214,653	261,370	16,714,877
Inter-segment sales	-	-	-	-
Total revenue	<u>14,238,854</u>	<u>2,214,653</u>	<u>261,370</u>	<u>16,714,877</u>
Profit before tax and unallocated expenses	<u>1,636,197</u>	<u>71,592</u>	<u>(16,676)</u>	1,691,113
Unallocated corporate expenses:				
Finance cost				(321,470)
Other operating expenses				(141,672)
Other operating income				39,647
Taxation				<u>(411,266)</u>
Profit after taxation				<u>856,352</u>

11. Date of authorization for issue

These condensed interim financial statements were authorized for issue on October 22, 2007 by the Board of Directors.

12. Corresponding Figures

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



RAYMOND FRANKE
Head of Finance & Control



ROLAND DECORVET
Chief Executive



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

Raymond Franke

Management Committee

Adil Aali	Head of Quality Assurance
Ali Aziz	Product Unit Manager-Beverages & Confectionery
Faiz Rasool	Project Manager NQMS
Fakhar Ahmed	Head of Corporate Affairs
Haseeb Aslam	Country Business Manager-Water
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
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. 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)

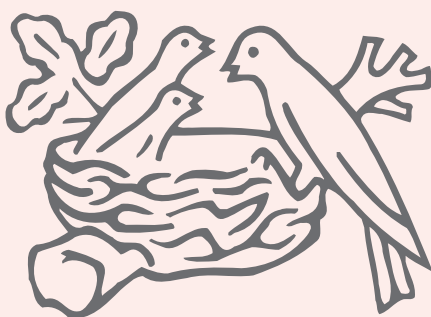
Legal Advisor

Chima & Ibrahim (Advocates)

Bankers

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