

Report for the 3rd quarter ended
September 30, 2009



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Nestlé

Nestlé Pakistan Ltd.

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Directors' Report to the Shareholders

The Directors are pleased to submit the Third Quarter Report along with the financial information of the company for the period ended September 30, 2009.

The Company has made good progress in the first nine months. Sales grew by 23% 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 impacted our business.

Margins have weakened somewhat in the last three months from the levels reached in the half year results as fresh milk sourcing and cost inflation continue to affect the industry.

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

PKR Million	Jan - Sep 2009	Jan - Sep 2008	Change
Sales	30,501	24,885	+23%
Operating Profit	4,241	2,787	+52%
% of sales	13.9%	11.2%	
Net Profit	2,293	833	+175%
% of sales	7.5%	3.3%	
Earnings per share	50.55	18.36	+175%

Total Sales for the nine month grew +23% in a combination of volume and price changes, and exports continued to grow strongly (+52%) over the same period last year.

Operating profit reached PKR 4.2 billion with a +270 bps improvement in operating margins, mainly due to better ongoing value management, fixed cost containment, and more healthy stock levels. Net profit margin also improved by +420 bps, due to the above elements and the avoidance this year of the dramatic

currency devaluation experienced last year.

Despite the current security & socio-economic challenges the Directors continue to maintain a positive long term perspective on the outlook for the business.

For and on behalf
of the Board of Directors



IAN DONALD
Chief Executive

Lahore: October 26, 2009



Condensed Interim Balance Sheet As at September 30, 2009 (Un-audited)

	Notes	Sep. 30, 2009 Rs'000	Dec. 31, 2008 Rs'000
Tangible fixed assets			
Property, plant and equipment	8.1	9,527,439	9,176,864
Assets subject to finance lease	8.2	266,313	287,509
Capital work-in-progress		1,326,997	1,382,401
		11,120,749	10,846,774
Intangible assets		17,766	49,744
Long term loans and advances		113,940	98,544
Long term security deposits		5,036	5,036
Current assets			
Stores and spares		883,448	804,647
Stock in trade		2,531,410	2,488,573
Trade debts		447,615	456,813
Current portion of long term loans and advances		20,806	26,615
Advances, deposits, prepayments and other receivables		1,553,774	1,488,103
Cash and bank balances		1,075,922	419,327
		6,512,975	5,684,078
Less: Current liabilities			
Current portion of liabilities against assets subject to finance lease		57,905	54,042
Short term borrowings - secured		-	300,000
Short term borrowings from associated company - unsecured	5	2,078,875	-
Derivative financial liabilities		8,500	-
Short term running finance under mark-up arrangements - secured		31,029	1,924,287
Customer security deposits - interest free		126,979	127,884
Trade and other payables		4,205,260	2,798,185
Interest and mark-up accrued		20,969	102,173
		6,529,517	5,306,571
Net working capital		(16,542)	377,507
Total capital employed		11,240,949	11,377,605
Long term and deferred liabilities			
Long term finances	6	5,405,075	5,139,875
Deferred taxation		1,356,365	1,319,333
Retirement and other benefits		158,735	351,968
Liabilities against assets subject to finance lease		133,596	177,582
		7,053,771	6,988,758
Contingencies and commitments	7		
Net assets		4,187,178	4,388,847



Notes	Sep. 30, 2009 Rs'000	Dec. 31, 2008 Rs'000
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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	3,204,155	3,405,824
	4,187,178	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



IAN DONALD
Chief Executive



SYED YAWAR ALI
Chairman



Condensed Interim Profit and Loss Account


For the Nine Months Period Ended September 30, 2009 (Un-audited)

	<u>Three months ended</u>		<u>Nine months ended</u>	
	Sep. 30, 2009 Rs'000	Sep. 30, 2008 Rs'000	Sep. 30, 2009 Rs'000	Sep. 30, 2008 Rs'000
Sales - Net	10,808,392	8,442,542	30,501,106	24,885,481
Cost of goods sold	(7,893,500)	(6,476,784)	(21,546,232)	(18,338,562)
Gross profit	2,914,892	1,965,758	8,954,874	6,546,919
Distribution and selling expenses	(1,186,049)	(1,087,580)	(3,917,033)	(3,077,746)
Administration expenses	(293,190)	(223,959)	(796,865)	(682,232)
	(1,479,239)	(1,311,539)	(4,713,898)	(3,759,978)
Operating profit	1,435,653	654,219	4,240,976	2,786,941
Finance cost	(70,508)	(128,357)	(371,595)	(419,683)
Other operating expenses	(333,727)	(566,298)	(739,098)	(1,274,756)
	(404,235)	(694,655)	(1,110,693)	(1,694,439)
Other operating income	4,580	36,750	41,424	60,263
Profit before taxation	1,035,998	(3,686)	3,171,707	1,152,765
Taxation	(273,754)	16,320	(879,149)	(320,011)
Profit after taxation	762,244	12,634	2,292,558	832,754
Total comprehensive income for the period	762,244	12,634	2,292,558	832,754
Earnings per share - Rupees	16.81	0.28	50.55	18.36

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.


RAYMOND FRANKE
Head of Finance & Control


IAN DONALD
Chief Executive


SYED YAWAR ALI
Chairman



Condensed Interim Cash Flow Statement

For the Nine Months Period Ended September 30, 2009 (Un-audited)

	Notes	Sep. 30, 2009 Rs'000	Sep. 30, 2008 Rs'000
Cash flow from operating activities			
Cash generated from operation	9	5,345,849	3,227,853
(Increase) in long term loans and advances		(9,587)	(30,034)
Decrease in long term deposits		-	1,052
(Decrease)/increase in customer security deposits - interest free		(905)	5,852
Retirement and other benefits paid		(270,847)	(59,261)
Finance cost paid		(452,799)	(443,130)
Taxes paid		(696,053)	(1,342)
Net cash generated from operating activities		3,915,658	2,700,990
Cash flow from investing activities			
Fixed capital expenditure		(1,278,952)	(1,131,515)
Sale proceeds of property, plant and equipment		27,900	13,808
Net cash (used in) investing activities		(1,251,052)	(1,117,707)
Cash flow from financing activities			
Repayment of short term borrowings - secured		(300,000)	(735,000)
Receipt of short term borrowings from associated company - unsecured		1,995,000	-
Repayment of lease liabilities		(40,123)	(61,431)
Dividend paid		(1,769,630)	(792,298)
Net cash (used in) financing activities		(114,753)	(1,588,729)
Net increase/(decrease) in cash and cash equivalents		2,549,853	(5,446)
Cash and cash equivalents at beginning of the period		(1,504,960)	(1,231,574)
Cash and cash equivalents at end of the period		1,044,893	(1,237,020)
Cash and cash equivalents			
Cash and bank balances		1,075,922	306,502
Running finance under mark-up arrangements - secured		(31,029)	(1,543,522)
		1,044,893	(1,237,020)

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



RAYMOND FRANKE
Head of Finance & Control



IAN DONALD
Chief Executive



SYED YAWAR ALI
Chairman





Condensed Interim Statement of Changes in Equity

For the Nine Months Period Ended September 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)
Interim dividend for the six months period ended June 30, 2008 (Rs 7.5 per share)	-	-	-	(340,122)	(340,122)
Total comprehensive income for the period	-	-	-	832,754	832,754
Balance as at September 30, 2008	453,496	249,527	280,000	3,167,818	4,150,841
Interim dividend for the nine months period ended September 30, 2008 (Rs 9 per share)	-	-	-	(408,146)	(408,146)
Total comprehensive income for the period	-	-	-	646,152	646,152
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)
Interim dividend for the six months period ended June 30, 2009 (Rs 30 per share)	-	-	-	(1,360,488)	(1,360,488)
Total comprehensive income for the period	-	-	-	2,292,558	2,292,558
Balance as at September 30, 2009	453,496	249,527	280,000	3,204,155	4,187,178

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

RAYMOND FRANKE
Head of Finance & Control

IAN DONALD
Chief Executive

SYED YAWAR ALI
Chairman

Selected Notes to the Condensed Interim Financial Information

For the Nine Months Period Ended September 30, 2009 (Un-audited)

1. Nestlé Pakistan Ltd. ("the Company") is a public limited company incorporated in Pakistan and its shares are quoted on the Karachi and Lahore Stock exchanges. The principal activity of the Company is manufacturing, 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. These financial statements are un-audited and have been presented in accordance with the requirements of International Accounting standards "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 these 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 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 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 35.793 million (December 31, 2008: Rs 35.809 million).

	Sep. 30, 2009 Rs'000	Dec. 31, 2008 Rs'000
7.3 Guarantees		
Outstanding guarantees	170,120	160,053
Un-utilized portion	74,880	184,947
7.4 Commitments in respect of capital expenditure	513,187	253,873
7.5 Letters of credit		
Outstanding letters of credit in respect of capital expenditures	8,319	370,172
Other outstanding letters of credit	-	57,097
Un-utilized portion	1,114,682	1,109,731

- 7.6 In the year 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 September 30, 2009 Rs 140 million has been paid, while another Rs 30 million is due but has not been paid as at September 30, 2009.



	Sep. 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	1,334,356	1,460,078
	10,511,220	10,373,543
Book value of property, plant and equipment disposed off during the period	(54,678)	(68,754)
Depreciation charged during the period	(856,679)	(1,071,925)
Impairment charge	(72,424)	(56,000)
Net book value of property, plant and equipment	9,527,439	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	(21,196)	(21,996)
Net book value of assets subject to finance lease	266,313	287,509
	Sep. 30, 2009 Rs'000	Sep. 30, 2008 Rs'000
9. Cash generated from operations		
Profit before taxation	3,171,707	1,152,765
Adjustment for non-cash charges and other items:		
Depreciation and amortization	909,852	844,391
Impairment loss	72,424	56,000
Loss on foreign exchange contract	8,500	-
Loss on disposal of property, plant and equipment	26,777	34,759
Retirement benefits	77,614	66,251
Exchange loss on associated company loan	349,075	1,051,050
Finance cost	371,595	419,683
Profit before working capital changes	4,987,544	3,624,899



	Sep. 30, 2009 Rs'000	Sep. 30, 2008 Rs'000
Effect on cash flow due to working capital changes:		
Decrease/(increase) in:		
Stores and spares	(78,801)	(313,655)
Stock in trade	(42,837)	(18,802)
Trade debts	9,198	44,523
Advances, deposits, prepayments and other receivables	(154,722)	(204,485)
(Decrease)/increase in:		
Trade and other payables	625,467	95,373
	358,305	(397,046)
	5,345,849	3,227,853

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:

	Sep. 30, 2009 Rs'000	Sep. 30, 2008 Rs'000
Associated companies:		
Royalty and technical assistance fee	814,219	667,397
Purchase of goods, services and rental	4,545,064	3,390,944
Sale of goods and services	-	1,856
Interest on loan	184,392	177,154
Donation	30,000	30,000
Contribution to staff retirement benefits plan	77,614	66,251

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 nine months period ended September 30, 2009:

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	26,091,979	4,117,913	291,214	30,501,106
Inter-segment sales	-	-	-	-
Total revenue	26,091,979	4,117,913	291,214	30,501,106
Profit before tax and unallocated expenses	4,065,983	247,722	(72,729)	4,240,976
Unallocated corporate expenses:				
Finance cost				(371,595)
Other operating expenses				(739,098)
Other operating income				41,424
Taxation				(879,149)
Profit after taxation				2,292,558



Segment analysis for the nine months period ended September 30, 2008.

	Milk & Nutrition Products	Beverages	Other Operations	Total
	Rs'000			
Sales				
External sales	21,269,217	3,311,381	304,883	24,885,481
Inter-segment sales	-	-	-	-
Total revenue	21,269,217	3,311,381	304,883	24,885,481
Profit before tax and unallocated expenses	2,664,051	180,355	57,465	2,786,941
Unallocated corporate expenses:				
Finance cost				(419,683)
Other operating expenses				(1,274,756)
Other operating income				60,263
Taxation				(320,011)
Profit after taxation				832,754

12. **Date of authorization for issue**

These condensed interim financial information was authorized for issue on October 26, 2009 by the Board of Directors.

13. **Dividend**

The board of directors in their meeting held on October 26, 2009 have proposed a second interim cash dividend for the nine months period ended September 30, 2009 of Rs 10/- per share, amounting to Rs 453.496 million (2008: Rs 408.146 million). This financial information does not reflect this dividend.

14. **Corresponding figures**

14.1 Previous year's figures have been re-arranged, wherever necessary for the purpose of comparison.

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



RAYMOND FRANKE
Head of Finance & Control



IAN DONALD
Chief Executive



SYED YAWAR ALI
Chairman



COMPANY INFORMATION

Board of Directors

Syed Yawar Ali
Ilan Donald
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
Ilan Donald
Jack Moser
Khurram Zia
Khurram Javed
Nauman Khan
Peter Wuethrich
Raymond Franke
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
Managing Director
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
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
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Fax : (042) 35789303

Corporate Office Annex

304 - Upper Mall, Lahore.
Park Lane Towers
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Lahore, Pakistan
PABX : (042) 36099300



Factories

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Sheikhupura, Punjab, Pakistan
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Kabirwala

Khanewal - Kabirwala Road, Kabirwala
District Khanewal, Punjab, Pakistan
Phone: (065) 111 637 853 Fax: (065) 2411432

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Plot No. 823, North Western Industrial Area,
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Plot No. 33/7, Sector 15, Korangi Industrial Area,
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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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