

Report for the 3rd quarter ended
September 30, 2010



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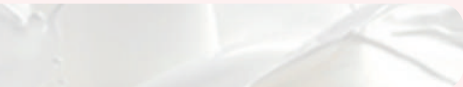
Nestlé

Nestlé Pakistan Ltd.



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Directors' Report to the Shareholders

The Directors of your company are pleased to submit the Third Quarter Report along with *condensed interim financial information* of the company for the period ended September 30, 2010.

The recent flooding has adversely affected the overall economy of the country, exerting additional pressures on the cost of living. The impact of these floods together with the prevailing security situation has resulted into very challenging operating conditions in the country.

Despite all these challenges, the management of the Company has remained focused and committed to achieve the performance targets. This enabled NPL to achieve a sales growth of +25.5% (Sep.2009: 23%) with contributions coming from all key brands. Fresh milk volume procurement was in line with our requirements, but higher milk price together with increase in energy cost has adversely affected our gross profit.

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

	Jan - Sep 2010 PKR Million	Jan - Sep 2009 PKR Million	Change %
Sales	38,274	30,501	+25.5
Operating Profit	5,238	4,241	+23.5
% of sales	13.7%	13.9%	
Net Profit	3,096	2,293	+35.1
% of sales	8.1%	7.5%	
Earnings per share	68.28	50.55	+35.1

Total sales for the nine month period ended grew by 25.5%, exceeding PKR 38 billion. This includes exports to Afghanistan which grew by (+31 %) vs. same period last year.

Operating profit exceeded PKR 5 billion with 23.5% growth over same period last

year. However, our margins have slightly slipped down due to above mentioned inflationary impact on our input costs. Our efforts on effective product mix management, containment of fixed overheads and finance costs helped us to off set the above mentioned negative impacts at bottom line. As a result, our Net Profit margins improved by 60 bps registering strongly growth of 35.1% vs. last year.

Despite these turbulent times compounded, the Directors' maintain a positive long term perspective on the outlook for the business.

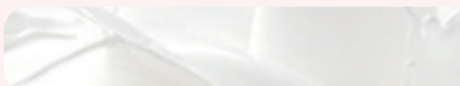
Nestlé remains committed to Pakistan and is deeply engaged in the recent flood relief activities. By the end of September, 2010 the Company has so far committed around PKR 24 million to relief efforts in the shape of food to affected people, water tankers supplying clean drinking waters, veterinary and vaccination support to cattle and other related relief. In addition Nestlé SA has donated PKR 20 million and Nestlé employees from Pakistan and other Nestlé Markets have also donated additional PKR 7 million, bringing total contribution to PKR 51 million.

For and on behalf
of the Board of Directors



IAN J. DONALD
Chief Executive

Lahore: October 22, 2010



Condensed Interim Balance Sheet As at September 30, 2010 (Un-audited)

	Note	Sep. 30, 2010 Rs'000	Dec. 31, 2009 Rs'000
Tangible fixed assets			
Property, plant and equipment	10.1	10,816,375	10,441,625
Assets subject to finance lease	10.2	238,052	259,249
Capital work-in-progress		776,612	914,956
		11,831,039	11,615,830
Intangible assets			
		-	7,106
Long term loans and advances			
		124,061	113,490
Long term security deposits			
		9,817	5,026
Current assets			
Stores and spares		1,004,625	868,984
Stock in trade		4,229,359	3,895,038
Trade debts		396,457	241,715
Current portion of long term loans and advances		20,110	21,012
Advances, deposits, prepayments and other receivables		2,456,954	1,503,009
Cash and bank balances		1,434,049	315,770
		9,541,554	6,845,528
Less: Current liabilities			
Current portion of:			
Liabilities against assets subject to finance lease		61,344	59,217
Long term finances – associated company, foreign currency		-	1,263,225
Short term borrowings from associated company – unsecured	7	2,151,250	2,105,375
Short term running finance under mark-up arrangements – secured		895,251	756,362
Customer security deposits – interest free		131,961	105,686
Trade and other payables		5,054,727	3,746,286
Interest and mark up accrued		13,700	46,979
		8,308,233	8,083,130
Net working capital		1,233,321	(1,237,602)
Total capital employed		13,198,238	10,503,850
Non - current liabilities			
Long term finances	8	5,593,250	4,210,750
Deferred taxation		1,598,050	1,531,945
Retirement and other benefits		230,478	215,925
Liabilities against assets subject to finance lease		67,177	118,275
		7,488,955	6,076,895
Contingencies and commitments			
	9		
Net assets		5,709,283	4,426,955



Sep. 30,
2010
Rs'000

Dec. 31,
2009
Rs'000

Financed by:
Share capital and reserves

Authorized capital 75,000,000 (2009: 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	4,726,260	3,443,932
	5,709,283	4,426,955

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.



GIUSEPPE BONANNO
Head of Finance & Control



IAN J. DONALD
Chief Executive



SYED YAWAR ALI
Chairman



Condensed Interim Profit and Loss Account For the Nine Months Period Ended September 30, 2010 (Un-audited)

	<u>Nine months ended</u>		<u>Three months ended</u>	
	Sep. 30, 2010 Rs'000	Sep. 30, 2009 Rs'000	Sep. 30, 2010 Rs'000	Sep. 30, 2009 Rs'000
Sales - net	38,273,886	30,501,106	12,672,471	10,808,392
Cost of goods sold	(27,783,129)	(21,546,232)	(9,123,398)	(7,893,500)
Gross profit	10,490,757	8,954,874	3,549,073	2,914,892
Distribution and selling expenses	(4,357,568)	(3,917,033)	(1,327,448)	(1,186,049)
Administrative expenses	(895,533)	(796,865)	(321,085)	(293,190)
	(5,253,101)	(4,713,898)	(1,648,533)	(1,479,239)
Operating profit	5,237,656	4,240,976	1,900,540	1,435,653
Finance cost	(303,230)	(371,595)	(66,881)	(70,508)
Other operating expenses	(699,366)	(739,098)	(284,392)	(333,727)
	(1,002,596)	(1,110,693)	(351,273)	(404,235)
Other operating income	65,510	41,424	18,518	4,580
Profit before taxation	4,300,570	3,171,707	1,567,785	1,035,998
Taxation	(1,204,259)	(879,149)	(441,965)	(273,754)
Profit after taxation	3,096,311	2,292,558	1,125,820	762,244
Earnings per share – basic and diluted (Rupees)	68.28	50.55	24.83	16.81

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.


GIUSEPPE BONANNO
Head of Finance & Control


IAN J. DONALD
Chief Executive


SYED YAWAR ALI
Chairman



Condensed Interim Statement of Comprehensive Income

For the Nine Months Period Ended September 30, 2010 (Un-audited)

	Sep. 30, 2010 Rs'000	Sep. 30, 2009 Rs'000
Profit after taxation	3,096,311	2,292,558
Other comprehensive income	-	-
Total comprehensive income for the period	3,096,311	2,292,558

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.



GIUSEPPE BONANNO
Head of Finance & Control



IAN J. DONALD
Chief Executive



SYED YAWAR ALI
Chairman



Condensed Interim Cash Flow Statement

For the Nine Months Period Ended September 30, 2010

(Un-audited)

	Note	Sep. 30, 2010 Rs'000	Sep. 30, 2009 Rs'000
Cash flow from operating activities			
Cash generated from operations	11	5,517,150	5,345,849
(Increase) in long term loans and advances		(9,669)	(9,587)
(Increase) in long term deposits		(4,791)	-
Increase/ (decrease) in customer security deposits - interest free		26,275	(905)
Retirement and other benefits paid		(79,902)	(270,847)
Finance cost paid		(336,509)	(452,799)
Taxes paid		(951,299)	(696,053)
Net cash inflow from operating activities		4,161,255	3,915,658
Cash flow from investing activities			
Fixed capital expenditure		(1,344,428)	(1,278,952)
Sale proceeds of property, plant and equipment		24,571	27,900
Net cash (used in) investing activities		(1,319,857)	(1,251,052)
Cash flow from financing activities			
Net movement in short term borrowings – secured		-	(300,000)
Short term borrowing from associated company – unsecured		-	1,995,000
Payment of finance lease liabilities		(48,971)	(40,123)
Dividend paid		(1,813,036)	(1,769,630)
Net cash (outflow) from financing activities		(1,862,007)	(114,753)
Net increase in cash and cash equivalents		979,391	2,549,853
Cash and cash equivalents at beginning of the period		(440,593)	(1,504,960)
Cash and cash equivalents at end of the period		538,798	1,044,893
Cash and cash equivalents			
Cash and bank balances		1,434,049	1,075,922
Short term running finance under mark-up arrangements – secured		(895,251)	(31,029)
		538,798	1,044,893

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.


GIUSEPPE BONANNO
 Head of Finance & Control


IAN J. DONALD
 Chief Executive


SYED YAWAR ALI
 Chairman



Condensed Interim Statement of Changes in Equity For the Nine Months Period Ended September 30, 2010 (Un-audited)

	Share capital	Share premium	General reserve	Accumulated profits	Total
	(Rs'000)				
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
Interim dividend for the nine months period ended September 30, 2009 (Rs. 10 per share)	-	-	-	(453,496)	(453,496)
Total comprehensive income for the period	-	-	-	693,274	693,274
Balance as at December 31, 2009	453,496	249,527	280,000	3,443,933	4,426,956
Final dividend for the year ended December, 31 2009 (Rs. 20 per share)	-	-	-	(906,992)	(906,992)
Interim dividend for the six months period ended June 30, 2010 (Rs. 20 per share)	-	-	-	(906,992)	(906,992)
Total comprehensive income for the period	-	-	-	3,096,311	3,096,311
Balance as at September 30, 2010	453,496	249,527	280,000	4,726,260	5,709,283

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.



GIUSEPPE BONANNO
Head of Finance & Control



IAN J. DONALD
Chief Executive



SYED YAWAR ALI
Chairman

Selected Notes to the Condensed Interim Financial Information

For the Nine Months Period Ended September 30, 2010 (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. This condensed interim financial information is un-audited and has been presented in accordance with the requirements of International Accounting standards "IAS-34 (Interim financial reporting)".
3. This condensed interim financial information of the company for the nine months period ended September 30, 2010 has been presented in accordance with the requirement of the International Accounting Standard 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.
4. 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, 2009.
5. The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect 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, 2009.

6. Long term loans and advances

This includes a long term advance of Rs. 37.65 million paid by the Company for the future supplies of milk from the educational dairy farm and training facility owned by Baber Ali Foundation (the Foundation). The chairman of the Foundation is the director of the company.

7. Short term borrowings from associated company – unsecured

This represents US\$ 25 million (2009 : US\$ 25 million) loan from Nestlé Treasury Centre Middle East and Africa Limited, Dubai. Mark-up is payable semi annually at six months LIBOR plus 100 basis points.

8. Long term finances

This represents US\$ 65 million (2009 : US\$ 65 million) loan from Nestlé Treasury Centre Middle East and Africa Limited, Dubai. US\$ 15 million was due in December 2010 and US\$ 50 million was due in May 2011. As per the terms of agreement these loans would be rolled over on maturity. Mark-up is payable semi annually at six months LIBOR plus 150 basis points.

9. Contingencies and commitments

9.1 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.

- 9.2 Claims against the company not acknowledged as debts Rs. 32.448 million (December 31, 2009: Rs. 35.793 million).

	Sep. 30, 2010 Rs'000	Dec. 31, 2009 Rs'000
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9.3 Guarantees

Outstanding guarantees	194,402	183,300
Un-utilized portion	50,598	61,700

- 9.4 **Commitments in respect of capital expenditure** 2,696,878 74,053

9.5 Letters of credit

Outstanding letters of credit in respect of capital expenditures	452,298	-
Other outstanding letters of credit	540,224	23,369
Un-utilized portion	138,578	1,107,731

- 9.6 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 2010. Rs 220 million has been paid up till December 31,2009, while another Rs. 22.5 million is due but has not been paid as at September 30, 2010.

	Sep. 30, 2010 Rs'000	Dec. 31, 2009 Rs'000
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10. Tangible fixed assets

10.1 Property, plant and equipment

Opening balance – Net book value	10,441,625	9,176,864
Additions during the period	1,482,774	2,738,714
	11,924,399	11,915,578
Book value of property, plant and equipment disposed off during the period	(115,667)	(94,095)
Depreciation charged during the period	(949,889)	(1,184,795)
Impairment charge	(42,468)	(195,063)
Closing balance – Net book value	10,816,375	10,441,625

10.2 Assets subject to finance lease

Opening balance – Net book value	259,249	287,509
Additions during the period	-	-
	259,248	287,509
Depreciation charged during the period	(21,197)	(28,260)
Closing balance – Net book value	238,052	259,249



	Sep. 30, 2010 Rs'000	Sep. 30, 2009 Rs'000
11. Cash generated from operations		
Profit before taxation	4,300,570	3,171,707
Adjustment for non-cash charges and other items:		
Depreciation and amortization	978,191	909,852
Impairment loss	42,468	72,424
Loss on disposal of property, plant and equipment	91,096	26,777
Provision for bad debts	4,826	-
Retirement benefits	94,455	77,614
Exchange loss on associated company loan	165,150	357,575
Finance cost	303,230	371,595
Profit before working capital changes	5,979,986	4,987,544
Effect on cash flow due to working capital changes:		
Decrease / (increase):		
Stores and spare	(135,641)	(78,801)
Stock in trade	(334,321)	(42,837)
Trade debts	(159,569)	9,198
Advances, deposits, prepayments and other receivables	(1,064,537)	(154,722)
(Decrease) / increase in:		
Trade and other payables	1,231,232	625,467
	(462,836)	358,305
	5,517,150	5,345,849

12. 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 Ltd. with significant influence on these companies, employees retirement benefit funds and key employees. Significant transactions with related parties are summarized as follows:

	Sep. 30, 2010 Rs'000	Sep. 30, 2009 Rs'000
Associated companies:		
Royalty and technical assistance fee	927,012	814,219
Purchase of goods, services and rental	5,827,223	4,545,064
Sales	1,105	-
Interest on loan	108,784	184,392
Other related parties:		
Donation	22,500	30,000
Contribution to staff retirement benefits plan	94,455	77,614

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



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
Depreciation and amortization	735,775	168,798	5,280	909,853
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

13.2 **Geographical segments**

All segments of the Company are managed on nation-wide basis and operate manufacturing facilities and sales offices in Pakistan only.

14. **Date of authorization for issue**

This condensed interim financial information was authorized for issue on October 22, 2010 by the Board of Directors.

15. **Dividend**

The board of directors in their meeting held on October 22, 2010 has proposed interim cash dividend for the nine months period ended September 30, 2010 of Rs. 25 per share, amounting to Rs.1,133.74 million (September 30, 2009 : Rs. 453.496 million). This financial information does not reflect this dividend.

16. **Corresponding figures**

- 16.1 Previous year's figures have been re-arranged, wherever necessary for the purpose of comparison. However, no significant rearrangements have been made.
- 16.2 Figures have been rounded off to the nearest of thousand of rupee.


GIUSEPPE BONANNO
 Head of Finance & Control


IAN J. DONALD
 Chief Executive


SYED YAWAR ALI
 Chairman



COMPANY INFORMATION

Board of Directors

Syed Yawar Ali	Chairman
Ian J. Donald	Managing Director
Fritz Van Dijk	Director
Giuseppe Bonnano	Director
Pierre Schaufelberger	Director
Syed Babar Ali	Director
Syed Hyder Ali	Director

Company Secretary

Ali Sadozai

Management

Arsalan Khan	Business Manager-Beverages
Ali Sadozai	Head of Legal Affairs
Haseeb Aslam	Country Business Manager-Water
Ian J. Donald	Managing Director
Ifzal Akhtar	Head of Quality Assurance
Rudolphus Engelman	Head of Milk Collection and Agri-Services
Khurram Zia	Business Executive Manager-Ambient Dairy
Nauman Khan	Country Business Manager - Nestle Professional
Edouard Simond	Head of Technical
Giuseppe Bonanno	Head of Finance & Control
Samra Maqbool	Product Unit Manager-Culinary
Salman Nazir	Head of Supply Chain
Shaheen Sadiq	Head of Communications
Syed Fakhar Ahmed	Head of Corporate Affairs
Usman Iqbal Bhatti	Country Business Manager-Nutrition
Michel Juillerat	Head of Human Resources
Zafar Hussain Shah	Head of Sales

Registered & Corporate Office

308 – Upper Mall, Lahore – 54000, Pakistan.
 PABX : (042) 111 637 853
 Fax : (042) 35789303 - 4

Corporate Office Annex

304 – Upper Mall, Lahore – 54000, Pakistan.
 Park Lane Tower
 1st & 2nd Floor, 172 – Tufail Road,
 Lahore Cantt., Pakistan.
 PABX : (042) 36099300



Factories

Sheikhupura

29th Kilometer, Lahore – Sheikhupura Road
Sheikhupura, Punjab, Pakistan.
Phone: (056) 3406615 - 25

Kabirwala

10th Kilometer, Khanewal - Kabirwala Road, Kabirwala
District Khanewal, Punjab, Pakistan.
Phone: (065) 111 637 853 Fax: (065) 2411432

Karachi

Plot No. A – 23, North Western Industrial Zone,
Port Qasim, Karachi, Pakistan.
Phone: (021) 34720151-4

Islamabad

Plot No. 32, Sector (I-10/3), Industrial Area,
Islamabad, Pakistan.
Phone: (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 , 0324-4460109 Fax: 042-37230865

Legal Advisor

Chima & Ibrahim (Advocates)

Bankers

The Royal Bank of Scotland 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 Ltd.
Barclays Bank PLC, Pakistan
Bank Al Habib Ltd.
The Hongkong and Shanghai Bank Corporation Limited
my Bank Ltd.



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