



DIRECTORS' REPORT

To the Shareholders

The Directors of the Company
are pleased to present the Annual
Report along with the audited
financial statements for the year
ended December 31, 2019.

Financial Performance

2019 has been a challenging year for Pakistan's economy mainly due to twin deficit which resulted in lower GDP growth and economic slowdown. In order to address the macro-economic challenges the Government has entered into an International Monetary Fund (IMF) program and initiated various measures to increase tax revenues and removal of subsidies. In addition, there was sharp increase in the policy rate along with significant devaluation of the Rupee during the year. Consequently, all of these factors resulted into higher inflationary environment impacting the purchasing power of the people.

The Company recorded a revenue of PKR 116 billion (2018: PKR 121 billion), a decline of 3.9% mainly due to softness in consumer demand and consequent to price increases across the portfolio. During the year the Company increased consumer prices to off-set higher input costs resulting from significant increase in local and global commodity prices and energy costs which was impacted by Rupee devaluation. Imposition of Sales Tax on milk powders and Federal Excise Duty (FED) on beverages also necessitated adjustment in the consumer price. However, due to deteriorating purchasing power of the consumers and competitive pressures we were not able to fully pass on the above increases which negatively impacted the margins and Net profit for the year 2019 reduced by 36.7% compared to the previous year.

Despite the difficult economic conditions, the Company remained committed to its vision of positively enhancing the quality of life of our consumers by expanding its product base through continuous innovation & renovation. The major new product launches during 2019 included: NESTLÉ EVERYDAY Lite Tea Creamer, NESTLÉ Fruit Yogurt, NESTLÉ MILKPAK Whipping Cream, NESTLÉ FRUITA VITALS Royal Mangoes, NESCAFÉ RTD Chilled Latte, NESTLÉ LACTOGROW Recover, NESTLÉ PURE LIFE Active, NESCAFÉ Roast & Ground Coffee, NESTEA Honey Green tea.

PKR Million	2019	2018	Change
Sales	115,962	120,701	-3.9%
Gross Profit margin	28.8%	32.2%	-340 bps
Operating Profit margin	13.0%	16.6%	-360 bps
Net Profit after tax	7,354	11,612	-36.7%
Net Profit after tax (%)	6.3%	9.6%	-330 bps
Earnings per share	162.17	256.05	-36.7%

Dividends

In view of the financial performance of the Company, the Board of Directors has recommended to pay final cash dividend of Rs. 42 per share, in addition to the interim cash dividend already paid of Rs. 110 per share, which brings the total dividend for the year to Rs. 152 per share for 2019 compared to Rs. 248 per share in 2018.

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Investment Projects

With a market driven approach and commitment to satisfy the needs of our consumers, in 2019 Nestlé Pakistan made investments of PKR 3.8 billion including expansion and development projects. Highlights are hereunder:

Project Description	PKR Million
Sheikhupura Factory	2,112
Kabirwala Factory	654
Water Plants	237
Distribution and Sales	509
Others	285

Investments, of approximately PKR 4 billion, are planned for 2020, primarily in respect of operational reliability and capacity increase in order to meet consumer demands.

Corporate & Financial Reporting Framework

Nestlé Pakistan is committed to maintain high standards of corporate governance without any exception. The Directors are pleased to state that the Company is compliant with the provisions of the Code of Corporate Governance as required by SECP and formed as part of stock exchange listing regulations. Statement of Compliance with Code of Corporate Governance is as under.

The Directors confirm that:

- The financial statements prepared by the management of the Company presents fairly its state of affairs, the results of its operations, cash flow and changes in equity;
- Proper books of accounts of the Company have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Financial Reporting Standards, as applicable in Pakistan and the requirements of Companies Act, 2017 have been followed in preparation of the financial statements; and any departure thereof has been adequately disclosed and explained;
- The system of internal control is sound in design and has been effectively implemented and monitored;

- There are no significant doubts upon the Company's ability to continue as a going concern;
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations;
- The value of assets of employees' funds are as follows (PKR millions):

	Audited 2019	Audited 2018
Provident Fund	3,680	3,466
Gratuity Fund	1,796	1,706
Pension Fund	3,351	2,922

Statements regarding the following are annexed or disclosed in the notes to the accounts:

- Key financial data for the last six years
- Pattern of shareholdings
- Trading in shares of the Company by its Directors, CEO, CFO and Company Secretary
- Number of Board meetings held during the year and attendance by each director

Remuneration Policy of Non-Executive Directors

The fee of the Non-Executive and Independent Directors for attending the Board and Committee meetings of the Company is determined by the Board from time to time.

External Auditors

Messrs. KPMG Taseer Hadi & Company, Chartered Accountants have completed their assignment for the year 2019 and retiring at the conclusion of the 42nd Annual General Meeting. We place our sincere thanks and appreciation for their services.

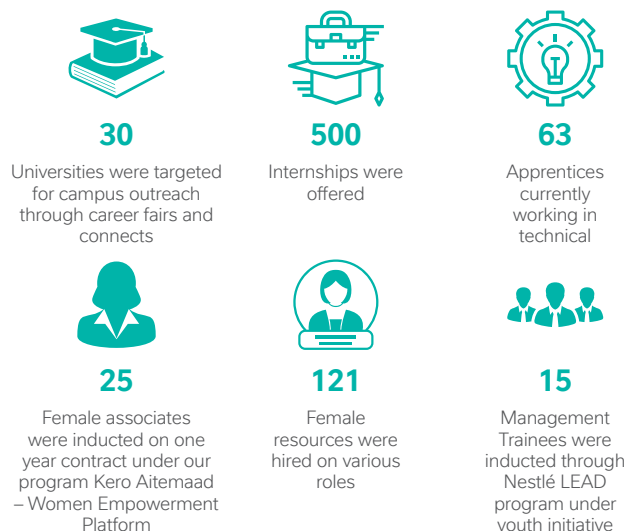
The Audit Committee of the Board has recommended the appointment of Messrs. Ernst & Young Ford Rhodes as auditors for the year ending 31 December 2020 for shareholders' consideration at the forthcoming Annual General Meeting. Messrs. Ernst & Young Ford Rhodes are being recommended for appointment in view of the change in the Auditors at the parent Company.

Holding Company and Principal Activity

Nestlé S.A., a Company incorporated in Switzerland (the holding company), holds 26,778,229 ordinary shares representing 59% equity interest in the Company. The principal activity of the Company is manufacturing, processing and sale of food products including imported products. No change has been occurred during the financial year relating to the nature of the business of the Company.

Human Resources Management & Employee Relations

In 2019, we focused on enhancing trust of our consumers and employees to make Nestlé as the brand of choice. To build employees as ambassadors for Nestlé, transparency and effective communication played a key role in understanding our commitment to Nutrition, Health, Wellness and Quality. Stories of employees' trust in Nestlé were shared internally and externally using social media platforms. Additionally, 68 awareness session, covering over 1,900 employees to increase awareness about our product and processes were completed across the organization and with our external stakeholders. We continued our focus on transforming our people processes in order to provide better services to our employees and sustain an edge over competition. Key focus areas for 2019 included Leadership Development, Capability Building, Utilization of Online Learning platforms, Employee Relations and Occupational Health for building high performance teams to achieve organizational goals while diversity and commitment to compliance continued, to remain at the heart of our agenda. Few of the highlights are:



Nestlé Pakistan gives great significance to the health of its people at work in line with its commitment under Nestlé Corporate Business Principles.

In 2019, a number of health awareness activities were conducted by utilizing different internal communication channels for people, organizing health camps at different sites and inviting top medical consultants for conducting knowledge sharing sessions with our people. 21 Health Camps and Surveillance Checks were conducted across all sites covering over 1400 employees.

Our focus has been on Employee Relations through continuous and consistent Employee Engagement sessions, with the purpose of strengthening our relationship with the employees. These activities included Sports Galas, Connect Sessions, connecting with families of our employees and employee recognition program. These cross-functional and cross sites interaction of employees led to a highly motivated, energized and committed workforce.

In order to engage, motivate and inspire young female professionals and equipping them with the skills and tools they need for successful and dynamic careers, we continued our “Karo Aitemaad” program, which helped us in equipping 27 females. Nestlé Pakistan is committed to give fair employment chance to differently-abled people and help them in increasing their employability in the job market through our program “Hay Tum Pe Yakeen” and twenty differently-abled individuals who were successful in the assessment center are now part of Nestlé Family.

Special focus was given to employee careers whereby career coaching clinics were conducted for employees, helping them foresee their future within the Company. In this context

- Performance & development sessions were conducted across the organization
- Career Clinics were arranged across sites to coach employees on career growth

To develop functional and leadership capability of our people, new organizational development catalogue was launched which caters to current and future development needs. Functional Capability Building has been the primary focus of our development initiative, thus conducted multiple local & international training programs. These programs are designed for capability building of employees by deploying tools and concepts in various situations enabling a positive impact on business leading up to total Management Training hours of 71,857. The drive on fostering the e-learning culture helped us close the year with 14,945 e-learning done on various topics in iLearn.

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Over 53 NiM (Management) Connect sessions were organized across the organization in order to engage and energize our employees. The Performance Management system improved the focus on having transparent conversations between the line manager and employees, with constant coaching and mentoring support to help them achieve their goals. All the learnings from this year will be utilized to further strengthen the performance management system for 2020.

Creating Shared Value (CSV) and Community Work

At Nestlé, we believe in the philosophy of Creating Shared Value (CSV). It is our belief that for a company to be able to create value for its shareholders, it must also create value for society. Nestlé Pakistan, as part of its global and local obligations, believes in Creating Shared Value (CSV) for the communities in which it works and operates. The health of our Company is intrinsically linked to the health and resilience of the society we operate in; this is why Nestlé's purpose is to enhance quality of life and contribute to a healthier future.

Our global focus areas are firmly embedded in our purpose. Individuals and families, our communities and the planet as a whole are interconnected, and our efforts in each of these areas are supported through our 42 specific commitments, the vast majority of which have been reframed and feature objectives to 2020. These commitments will, in turn, enable us to meet our ambitions for 2030 in line with the timescale of the Sustainable Development Goals (SDGs).

From offering quality products to consumers, to providing a fair and diverse work environment for our employees; from capacity building and knowledge transfer to our partners and raw material providers, to implementing responsible sourcing models into our relationships; from supporting underprivileged communities, to working with small farmers; from enhancing sustainability and environmental friendliness of our operations, to embedding ethical and transparent business practices, CSV is entrenched into the entire value chain.

Our goal is to provide products that are not only tastier and healthier, but also better for the environment. This gives our consumers yet another reason to trust Nestlé.

In 2019, the Company continued the "Seeing is Believing" initiative to showcase our Dairy Value Chain from 'Grass to Glass' to create advocates among our stakeholders and to make them aware of the quality and safety standards that we adhere to.

The Key CSV initiatives completed during 2019 are:

- Nutrition awareness extended to another 40,000 school children in the rural, suburban and urban areas under Nestlé

for Healthier Kids Program extending the overall outreach to more than 220,000 kids across the country

- Under our partnership with Prime Minister's "Clean Green Pakistan" initiative, we planted 50,000 trees across our operational sites along with cleaning activities in Lahore and Karachi
- Organized health and nutrition sessions for over 1700 BISP beneficiaries
- Continued product support through Nutrition Support Program for the underprivileged institutions and to the areas affected by natural calamities
- Nestlé Pakistan in partnership with the Ehsaas Kifalat Program actively engaged over 900 women as Nestlé BISP Rural Women Sales Agents
- Clean Drinking Water facilities in our operational areas providing clean drinking water to more than 60,000 people on daily basis
- Alliance for Water Stewardship Certification of Kabirwala and Port Qasim Factories in collaboration with WWF
- Water Resource Management Project in partnership with Agriculture Department Punjab with saving of 391+ million liters of water
- Endeavoring to achieve the least possible environmental impact throughout its operational stages by complying with environmental laws and regulations
- Continued support for programs involving dairy farmers and rural women for skill enhancement related to dairy and livestock sector
- Continuation of Chaunsa Project in partnership with Agriculture Department Punjab with integration of Mango farmers in our Value Chain
- Support for Driver Training Facility at the National Highways & Motorway Police Training Institute, Sheikhpura
- Launched Clean Hunza Project in partnership with District Council Hunza, Gilgit Baltistan Waste Management Company (GBWMC) and Karakoram Area Development Organization (KADO) to encourage waste management of 150,000 kgs of plastics annually, collect 50,000 kgs paper packaging (used beverage cartons) and distribute 10,000 reusable bags in the community during 2020
- Achieved 704 tons of material reduction in packaging and have eliminated usage of single use plastics across our sites
- 265 tons of plastic waste from Sheikhpura Factory has been converted into 600 plastic pallets, which are being used across the market for transportation and storage of finished goods.

Subsequent Events

No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year to which this Balance Sheet relates and the date of the Directors' Report.

Principal Risk & Uncertainty

- Increase in input cost due to rising inflation and likely further devaluation of the currency.
- Macro-economic uncertainties leading to lower GDP and economic activities which might affect consumer demand.
- Increase in existing sales tax rates and levy of new taxes/ duties.

Future Outlook

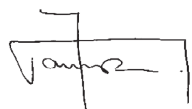
The measures taken by the Government to address the macro-economic challenges will require time and we foresee another 18 to 24 months for the economic activities to normalize. Despite these short-term challenges, the Company maintains positive outlook on the back of strong brand equity and highly committed workforce and has laid the foundation to achieve sustained profitable results, financial flexibility and operational excellence. Furthermore, the Company is committed to delight its consumers and positively enhance the quality of life of people by offering them more Nutrition, Health & Wellness products.

Acknowledgements

We take this opportunity to thank our valued consumers who have trust in our products and continue to provide sustained support in ensuring the progress of the Company. Our people are our greatest strength and we are driven by a compelling purpose – enhancing quality of life and contributing to a healthier future. We are guided by strong values rooted in respect. Our purpose and our values are the reasons why we all work for Nestlé's success. They are fundamental to everything we do, particularly in times of significant change inside and outside our Company.

Nestlé Pakistan, whilst bringing international expertise and standards into its products, processes and manufacturing sites, remains a "Har Dam Pakistani" Company, very proud of its achievements in Pakistan.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS



Samer Chedid

Chief Executive Officer



Syed Yawar Ali

Chairman

Dated: February 26, 2020