

# DIRECTORS' REPORT

To the Shareholders

The Directors of Nestlé Pakistan Limited (the "Company") are pleased to submit the Annual Report along with the audited financial statements of the Company for the year ended December 31, 2022.



## Financial Performance

Nestlé Pakistan reported its full year results for 2022, recording an increase of 21.9% in its revenue as compared to the same period last year. This growth was achieved despite external challenges of high inflation and devastating floods. Relentless focus on ensuring product availability, innovation and renovation initiatives supported by investments behind the brands helped to offset the headwinds mentioned above.

The Operating Profit also improved, as a result of sales growth, favorable product mix, pricing management and tighter control on fixed costs.

Nestlé is a Good food, Good life Company, and our Purpose – to unlock the power of food to enhance quality of life, today and for generations to come – is embedded in everything we do. Despite the pandemic, we drove innovation to create products that are right for consumers and positively contribute to public health and the environment. We adapted quickly and worked diligently across the Company to help us stand out from the competition.

In 2022, Dairy brought in a number of exciting new launches. These include LABAN drinking yogurt, MILKPAK Chocolate Breakfast Cream and MILO RTD in PET format for a better gulping experience. Launch of New IRON + (BUNYAD), with consistent investment, resulted into strong growth for the brand.

A new variant was added to Nestlé Nutrition's NESTLÉ CERELAC Nature's Selection portfolio, and an essential range of sachets introduced to drive the importance of fortified cereals in supporting physical and cognitive development. We also introduced new variants in RTD coffee and ICE mixes, and apple variant in our accretive sparkling range under our premium NESTLÉ FRUITA VITALS brand.

We aim to continue driving category innovations that fulfill our consumer needs and desires.

### Sales

2022	2021	Change
<b>162,516</b>	133,295	<b>+21.9%</b>

### Gross Profit Margin

2022	2021	Change
<b>30.54%</b>	30.38%	<b>+16 bps</b>

### Operating Profit Margin

2022	2021	Change
<b>16.48%</b>	16.19%	<b>+29 bps</b>

### Net Profit After Tax

2022	2021	Change
<b>9.26%</b>	9.58%	<b>-32 bps</b>

### Net Profit After Tax

2022	2021	Change
<b>15,050</b>	12,768	<b>+17.87%</b>

### Earnings Per Share

2022	2021	Change
<b>331.9</b>	281.6	<b>+17.87%</b>

## Dividends






In view of the financial performance of the Company, the Board of Directors has recommended to pay final cash dividend of Rs. 95 per share, in addition to the interim cash dividend already paid of Rs. 240 per share, which brings the total dividend for the year to Rs. 335 per share for 2022 compared to Rs. 285 per share in 2021.

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### Investment Projects

In 2022, Nestlé Pakistan made investments of PKR 3.4 billion, including projects on Renewable Energy. Highlights are hereunder:

	Sheikhupura Factory	<b>1,255</b> Rs. in Million
	Kabirwala Factory	<b>755</b> Rs. in Million
	Water Plants	<b>180</b> Rs. in Million
	Distribution and Sales	<b>519</b> Rs. in Million
	Others	<b>790</b> Rs. in Million

Investments of approximately PKR 3 billion, are planned for 2023, primarily in respect of operational reliability 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 present 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 the 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 investments of employee's funds are as follow (PKR millions):

	2022	2021
Provident Fund	3,981	3,941
Gratuity Fund	2,216	1,973
Pension Fund	4,623	4,152

- 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 for Non-Executive Directors and Disclosure of Remuneration of 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. The detail of the remuneration, including other benefits paid during the year 2022, to the Chief Executive Officer, Executive Directors, and Non-Executive Directors of the Company, are described in Note 41 of the financial statements.

### External Auditors:

Messrs. Ernst & Young Ford Rhodes, Chartered Accountants have completed their assignment for the year 2022 and retiring at the conclusion of the 45th Annual General Meeting. Being eligible, they have offered themselves for re-appointment.

### Holding Company and Principal Activity:

Société des Produits Nestlé SA (SPN), a Company incorporated in Switzerland (the holding company), holds 27,936,173 ordinary shares representing 61.6% 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 occurred during the financial year relating to the nature of the business of the Company.

## Human Resources Management & Employee Relations:

This year's highlight has been the New Nest – our new Head Office. The open layout, flexible seating and meeting spaces, bigger parking for employees, energy management have all been designed and picked to facilitate the employees' well-being and keep our promise of sustainability. The concept of hot desks has also been introduced to encourage more flexibility and cross functional collaboration.

Following relaxation in COVID restrictions there was a strong need to bring our workforce back to normalcy with the same energy and engagement. Happy Hours at the different themed pit stops coupled with fun snacks and boardgames, Xbox, football, cricket and table tennis tournaments are some of the activities that employees enjoyed most.

This year was also jam packed with exciting development programs to enhance employee capability – sessions like the People Manager Development Assessment Centre, People Academy Bootcamp, Digital Learning Portal, and Value Creation have brought back that learning spirit owing to on-ground trainings. The key highlight was the launch of NESLearn, the three-part Life Skills Learn Quest on Mind, Heart dedicated to Critical Thinking, Enabling Compassion & empathy in the workplace, as well as Mindfulness and Self-awareness. Combined training hours were recorded at 388+ as compared to last year's number of just 91.5. The increase in trainings was record-breaking at 324%.

People development and performance management activities were carried out to support employees to enable them to nurture their careers based on individual aspirations and succession plans. While the Career Coaching, 3-Party PDPs and Corporate & Functional Mentoring continued, we launched the first ever Cross-Generational Mentoring platform to enable our leaders to become more digital savvy and also build on their strengths using the Clifton Strengths assessments.

We continued to build on our global commitments with the focus to achieve our ambition under Nestlé Needs Youth. NestGen and International Youth Day celebrations were two notable zone led conventions where influential industry leaders from Google, Facebook, Microsoft, Accenture & TikTok spoke on various topics to inculcate a creative mindset in the future ready workforce. Pakistan market stood out with one of the highest participations with 10,413 youth attendees. Alongside, 20 young people were hired through the Management Trainee program and 190+ Nesterns were on boarded through various internship programs throughout the year. In totality in 2022, we engaged and provided support & development to 55,000+ aspiring youth of Pakistan.

Nestlé believes diversity in our workforce is an asset that impacts the way we think and the way we work together. We are committed to be an inclusive workplace that respects and supports our people to perform to the best of their abilities. Our initiative focusing on gender diversity, "Kero Aitemad" continued

to engage, motivate and inspire young female professionals. We inducted a pool of 33 females this year under this program, equipping them with the knowledge, skills and experience required for a successful career. Another such initiative is "Hay Tum Pe Yakeen", exclusively designed to break mental barriers associated with employing differently-abled persons. After successfully converting 40% employees to permanent roles in the preceding batch, 10 associates were hired for the year 2022 with a strong focus on building a strong talent pipeline through these associates for the future. We also increased our management female diversity from 27% to 30% in 2022.

## Creating Shared Value (CSV) and Community Work

Nestlé Pakistan believes in Creating Shared Value (CSV) for the communities in which it works and lives. The health of our company is intrinsically linked to the health and resilience of the society we operate in. It is our belief that for a company to be able to create value for its shareholders, it must also create value for society. At Nestlé, social responsibility does not end with a few philanthropic activities. Instead, CSV is embedded in our business model, where direct engagement and support to communities is extended across the value chain. A signatory to the UN Global Compact for Ethical Business, the Company is committed to the stakeholders and the communities for mutual growth and sustainability. From offering quality products to consumers and providing a fair and diverse work environment for our employees; from our partners and raw material providers to implementing responsible sourcing models into our relationships; from supporting under privileged 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 in the entire value chain of Nestlé.

Contributing to nutritious and sustainable diets, strengthening communities and helping to protect, renew and restore natural resources remain our focus areas for CSV. Our efforts in each of these areas are supported through our specific commitments. These commitments will, in turn, enable us to meet our ambitions for 2030 in line with the timescale of the Sustainable Development Goals (SDGs).

The key CSV initiatives of 2022 include:

- Continuation of our Market Sustainability Roadmap to 2025 as part of our global commitment to become a Net Zero company by 2050
- We reduced our carbon footprint in 2022 by replacing low-yield local cows with high-yield imported cows and switching to renewable energy resources such as solar energy and biogas
- Facilitation for collection and management of more than 700 tons of waste under our waste management project "Clean Gilgit-Baltistan Project" (CGBP) to encourage waste collection and management in Gilgit-Baltistan in alignment with our vision of a waste free future

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- We have trained nearly 400 hospitality professionals till date and aired public awareness campaign on selected FM radios under 'Travel Responsibly for Experiencing Ecotourism in Khyber Pakhtunkhwa' (TREK) – a collaboration between KP Government, World Bank Group and Nestlé Pakistan
- Nutrition awareness for another 35,000 school children in the rural, suburban and urban areas under Nestlé for Healthier Kids (N4HK), extending the overall outreach to more than 320,000 kids and 1,750 teachers on nutrition in 380 schools in the country
- Overall enrollment of nearly 2,500 women as Nestlé BISP Rural Women Sales Agents, a program in partnership with Benazir Income Support Program (BISP) and Akhuwat Foundation
- Provision of Clean and Safe Drinking Water to more than 60,000 people on daily basis through facilities in our operational areas
- Donations for flood affected communities which include in-kind support of 325,000 liters of water and 10,000 liters of milk to National Disaster Management Authority (NDMA), more than 700,000 servings of NESTLÉ BUNYAD, cash donations worth PKR 3 million which were matched 1:1 by the company (A total of PKR 6 million was donated to Akhuwat Foundation for flood rehabilitation efforts). We also extended cash donation to Prime Minister's Flood Relief Fund 2022 to support the rehabilitation process led by the government
- Installation of water sensors and drip irrigation in Punjab and Sindh with the help of farmers and partners including Punjab Agriculture Department, Lahore University of Management Sciences and Pakistan Agriculture Research Council to help reduce water wastage in agriculture
- Continued support for programs involving dairy farmers and rural women for skill enhancement related to dairy and livestock sector
- Continued product support through Nutrition Support Program for the underprivileged institutions and to the areas affected by natural calamities
- Continuation of Chaunsa Project and Apple sourcing project with integration of fruit farmers in our value chain
- Support for Driver Training Facility at the National Highways & Motorway Police Training Institute, Sheikhpura and Road Safety Institute, Karachi
- Plantation of 25,000 trees at different locations near our factories

## 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 which might affect consumer demand
- Increase in existing sales tax rates and levy of new taxes/duties

## Future Outlook:

The Company maintains a cautious outlook for 2023 due to external challenges e.g. restriction on imports, low Foreign exchange availability, pressure on the local currency, and an increase in taxes.

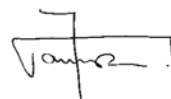
Despite all the challenges, the Company remains committed to profitable growth in the coming year, capitalizing on strong brand equity and highly committed workforce supported by continuous initiatives for operational excellence.

## Acknowledgments:

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 they have demonstrated their commitment once again throughout the pandemic by ensuring timely supply and availability of our products. We are guided by our 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 changes in the external environment.

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

February 27, 2023  
Lahore