



# 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, 2023.

## Financial Performance:

Nestlé Pakistan reported its full-year financial results for the year 2023, recording an increase in revenue of 23.4% as compared to the prior fiscal year. The increase in revenue can be attributed to broad-based growth across our product portfolio, complemented by a favorable portfolio mix, demand-generating activities, and pricing management initiatives. Relentless focus on ensuring product availability, innovation, and renovation initiatives supported by investments behind the brands helped to offset market headwinds.

Our operating profit also improved through the localization of raw and packaging materials, an increase in exports, a favorable product mix, and tight 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 unprecedented external challenges during 2023, we drove innovation and renovation to create products that are right for consumers and can contribute towards addressing malnutrition, while accelerating efforts aimed at reducing our environmental impact.

## Summary of Financial Performance:

PKR Million	2023	2022	Change
Sales	200,605	162,516	+23.4%
Gross Profit margin	35.3%	34.1%	+120 bps
Operating Profit margin	17.2%	16.5%	+70 bps
Net Profit after tax	8.2%	9.3%	-110 bps
Net Profit after tax	16,493	15,050	+10%
Earnings per share	364	332	+10%

## Dividends:

In view of the financial performance of the Company, the Board of Directors has recommended to pay a final cash dividend of Rs.19 per share, in addition to the interim cash dividend of Rs. 174 per share already paid, which brings the total dividend to Rs.193 per share for 2023 compared to Rs.335 per share for 2022.

## Investment Projects:

In 2023, Nestlé Pakistan allocated PKR 3.35 billion CAPEX in cashflow statement in investments, with a strong focus on sustainability initiatives. Highlights related to 2023 investments are hereunder:

Project Description	PKR Million
Kabirwala Factory	933
Sheikhupura Factory	819
Distribution and Sales	624
Water Plants	361
Others	495

## 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 Securities and Exchanges Commission of Pakistan (SECP) and the related stock exchange listing regulations. The Company's statement of compliance with Code of Corporate Governance is set out below:

The Directors confirm that:

- The financial statements of the Company, as 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 the preparation of financial statements and the Company's accounting estimates are based on reasonable and prudent judgment
- International Financial Reporting Standards, as applicable in Pakistan and the requirements of the Companies Act, 2017, have been followed in the preparation of the financial statements; of the Company, and any departure thereof has been adequately disclosed and explained;
- The system of internal control of the Company is sound in design and has been effectively implemented and monitored;
- There are no significant doubts as to the Company's ability to continue as a going concern;

- g) There has been no material departure by the Company from the best practices of corporate governance, as detailed in the listing regulations;
- h) Statements regarding the following are annexed or disclosed in the notes to the financial statements:
  - i) Key financial data for the last six years;
  - ii) Pattern of shareholding;
  - iii) Trading in shares of the Company by its Directors, CEO, CFO and Company Secretary; and
  - iv) Number of Board meetings held during the year and attendance by each director.

## Remuneration Policy of 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 details of the remuneration, including other benefits paid during the year 2023, 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 2023 and retire at the conclusion of the 46th 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 a 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:

We believe that nurturing and promoting a diverse and inclusive culture makes Nestlé Pakistan a more attractive and exciting organization to work for. WiN, our Women in Nestlé Network, acts as a driving force in the organization, in inspiring, empowering, developing, and fostering a sense of community

among women in the organization. The inaugural WiN Connect brought together females from across the Company to celebrate "Empowered Connections". Through the WiN Leadership Connect, females in senior leadership positions were engaged in dynamic discussions centered around propelling the DE&I (Diversity, Equity and Inclusion) journey. Our Male Champions of Change were trained on gender sensitization and tackling unconscious biases in the workplace. Nestlé Pakistan's CEO Joselito Jr Avanceña joined the Male Champions of Change Coalition Pakistan, a high-profile Coalition of CEOs who take the lead and are accountable for change on gender equality issues in their organizations and communities.

Our initiative focusing on gender diversity, "Kero Aitemaad" continued to engage, motivate, and inspire young female professionals. Launched with a new look, the program invited 4,000+ female applicants. We inducted a pool of 40+ 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 People of Determination (people with disabilities). In 2023, 1,500+ applications were received of which we hired a total of 10 associates, with a focus on building a talent pipeline through these associates. We also increased our management female leaders' diversity from 18.4% in 2022 to 23.4% in 2023.

This year was also jam-packed with exciting development programs to enhance employee capability - sessions like Nestlé Leadership with Purpose, People Manager Learning Center, First Time People Leaders Training, People Managers Development Center, and ADVANCE learning Games were introduced. The key highlight was the launch of NESLEARN, the three-part Life Skills program, where Design Thinking & Decoding AI sessions were delivered on the Mind, Psychological Safety Workshops dedicated to the Heart segment, and fitness bootcamps for the NESLEARN Body segment. In this year alone, 70% of the leaders were trained through the Leadership Development Programs. Across all training programs, 80% of the management staff (1400+ employees) was trained.

We continued to build on our global commitments with a focus to achieve our ambition under Nestlé Needs YOUth. In 2023, we engaged with over 54,000 youth through various platforms to support this initiative. Our Nestlé LEAD Management Trainee Program, known for nurturing future leaders resulted in the engagement of 20,000 applicants and our flagship NESTLÉRNSHIP program played a pivotal role, engaging with more than 29,000 youth. This program included hiring of over 150 interns who worked on impactful projects across 10 sites.

Several e-learning festivals were organized with a focus on advancing our goals under the Nestlé Needs YOUTH initiative. In 2023, the International Youth Day celebration, a zone-led initiative, was a prominent event, with an incredible turnout of 1,000+ viewers where distinguished speakers from within Nestlé Pakistan addressed a range of topics aimed at nurturing a creative mindset in our forward-looking workforce.

Nestlé Pakistan also conducted its first-ever Employee Value Proposition (EVP) Campaign. This campaign serves as a testament to the true essence of how Nestlé has a workplace culture that fosters growth, innovation, and employee well-being.

People development and performance management activities were conducted with the aim of providing challenging opportunities for individuals to nurture and advance their careers. While 3-Party PDPs, 360 feedback and Corporate & Functional Mentoring continued, we launched Grow@Nestlé, a campaign designed to accelerate the career development mindset at Nestlé Pakistan. Moreover, 30+ Cross Functional Projects enabled our people to explore projects beyond their designated functions, allowing them to pursue their career aspirations and unlock their full potential.

Throughout the year, we initiated various activities to create a sense of connection, value, and pride among all Nestlé Pakistan family members. Orange Day, NESTversary, Breakfast Series, Table Tennis and Cricket are some of the activities the employees enjoyed the most.

Looking ahead, our commitment remains steadfast in fostering an environment where innovation, collaboration, and employee well-being.

## Creating Shared Value (CSV) and Community Work:

Nestlé Pakistan believes in the philosophy of Creating Shared Value (CSV). For a Company to be able to create value for its shareholders, it must also create value for society. The CSV focus areas of the Nestlé Group are firmly embedded in its purpose of unlocking the power of food to enhance the quality of life for everyone, today and for generations to come. The Company is committed to be a force for good throughout its value chain by Creating Shared Value (CSV) for communities and delivering on its sustainability commitments. This adds value to the business and supports socioeconomic development for the communities.

Nestlé SA, as a participant in the UN Global Compact for Ethical Business, and Nestlé Pakistan, as a member of the UN Global Compact Pakistan chapter, pledge their dedication to

foster mutual growth and sustainability within stakeholders and communities. 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 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 in the entire value chain of Nestlé Pakistan.

This past year, we delivered value and contributed to the United Nations Sustainable Development Goals (SDGs) through all our focus areas – helping to protect, renew, and restore natural resources, contributing to nutritious and sustainable diets, and strengthening communities.

The key CSV initiatives of 2023 include:

- Continuation of our Market Sustainability Roadmap to 2025 as part of our global commitment to become a Net Zero Company by 2050;
- An investment of PKR 2 billion towards renewable energy for our efforts to reduce greenhouse gas emissions across our operations;
- Collection of more than 2,600 tons of waste under our “Clean Gilgit Baltistan Project” to encourage waste collection and management in Gilgit Baltistan in alignment with our vision of a waste-free future;
- We trained more than 400 hospitality professionals and aired a public awareness campaign across FM radios under ‘Travel Responsibly for Experiencing Ecotourism in Khyber Pakhtunkhwa’ (TREK) – a collaboration between the KP Government, World Bank Group and Nestlé Pakistan;
- Nutrition awareness for another 40,000 school children in the rural, suburban and urban areas under Nestlé for Healthier Kids (N4HK), extending the overall outreach to more than 360,000 kids and 2,300 teachers in 400 schools in the country;
- Enhancing enrollment to 3,000 women as Nestlé BISP Rural Women Sales Program, that we run in partnership with Benazir Income Support Program (BISP) ;
- Corporate Contribution to Akhuwat for Nestlé-BISP Rural Women Sales Program;
- Provision of Clean and Safe Drinking Water to more than 70,000 people on a daily basis through 7 facilities in our operational areas;
- Corporate contributions for SOS Children Villages of Pakistan and Pakistan Red Crescent Society as support for their operations in Pakistan;



- Installation of water sensors on 548 acres and drip irrigation on 311 acres of land in north Punjab and Sindh while working with farmers and partners including 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 the Nutrition Support Program for underprivileged institutions and to the areas affected by natural calamities;
- Continuation of the Chaunsa Project and Apple Sourcing Project with the integration of fruit farmers in our value chain;
- Support for Driver Training Facility at the National Highways & Motorways Police Training Institute, Sheikhpura and Road Safety Institute, Karachi; and
- Plantation of 38,000 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 2023, and the date of this Directors' Report.

## Principal Risks & Uncertainty:

We have identified the following principal risks and uncertainties related to our current business operations:

- Increase in input cost due to rising inflation and devaluation of the currency;
- Macro economic uncertainties which might affect consumer demand; and
- 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 including restrictions on imports, low foreign exchange availability, pressure on the local currency, and increased costs.

Despite the challenges, the Company remains cautiously optimistic about staying on course in the coming year capitalizing on its 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. We also thank our employees who are our greatest strength and they have demonstrated their commitment once again throughout the year by ensuring timely supply and availability of our products. Our purpose and values are the reasons why we all work for Nestlé Pakistan's success. They are fundamental to everything we do, particularly in times of significant changes in the external environment.

Nestlé Pakistan brings international expertise and standards to its products. 'Achai se Bana, Achai ke Liye' (made with goodness, for goodness) our Corporate Campaign in 2023 truly resonates with our purpose of unlocking the power of food to enhance the quality of life for everyone; today and for generations to come.

## FOR AND ON BEHALF OF THE BOARD OF DIRECTORS



**Joselito Jr. Avanceña**

Chief Executive Officer



**Syed Yawar Ali**

Chairman

Dated: February 26, 2024