



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, 2020.

Financial Performance

The year 2020 witnessed the COVID-19 pandemic which had a profound impact across the globe as well as in Pakistan. The country was under lockdown on and off for most part of the year which resulted in massive disruption in the economic activities and a contraction in GDP by 0.4% in the portion of the fiscal year ended June 2020. In order to address the adverse impact of the pandemic, the Government rolled out a fiscal stimulus package under which the policy rate was lowered during the year and multiple measures were implemented by the central bank to support businesses with their liquidity needs.

Despite unprecedented situation caused by the pandemic, the Company recorded a revenue growth of 2.4% through undisrupted supply and availability of products, innovation and renovation initiatives, numeric distribution expansion and investments behind the brands. Improvement in our profitability has been achieved through various cost savings initiatives, optimization projects and pricing management.

The Company remains committed to its purpose of unlocking the power of food to enhance quality of life for everyone, today and for generations to come. The major new product launches during 2020 included: NESTLÉ MILKPAK Butter (Salted & Unsalted), NESTLÉ FRUITA VITALS Qandhari Anaar, NESCAFÉ RTD Chilled Mocha, NESTLÉ CERELAC Recover, NESTLÉ CERELAC Nature's selection, NESTLÉ LACTOGEN Essentials, NESTLÉ NAN 2 & 3 (HMO), DOCELLO Dessert Mixes, NESTLÉ EVERYDAY Karak Chai 3-in-1, NESTLÉ NESCAFÉ Ice and NESTLÉ PURE LIFE (5G Active).

PKR Million	2020	2019	Change
Sales	118,781	115,962	+2.4%
Gross Profit margin	29.3%	28.8%	+50 bps
Operating Profit margin	13.5%	13.0%	+50 bps
Net Profit after tax	8,885	7,354	+20.8 %
Net Profit after tax (%)	7.5%	6.3%	+114 bps
Earnings per share	195.9	162.2	+20.8%

Dividends

In view of the financial performance of the Company, the Board of Directors has recommended to paying a final cash dividend of Rs. 61 per share, in addition to the interim cash dividend already paid of Rs. 133 per share, which brings the total dividend for the year to Rs. 194 per share for 2020 compared to Rs. 152 per share in 2019.

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Investment Projects

With a market driven approach and commitment to satisfying the needs of our consumers, in 2020 Nestlé Pakistan made investments of PKR 3.2 billion including expansion projects. Highlights are hereunder:

1,708 Rs. in Million	633 Rs. in Million
Sheikhupura Factory	Kabirwala Factory
63 Rs. in Million	312 Rs. in Million
Water Plants	Distribution and Sales
441 Rs. in Million	
Others	

Investments, of approximately PKR 3.4 billion, are planned for 2021, primarily focused on operational reliability and capacity increases in order to meet consumer demands.

Corporate & Financial Reporting Framework

Nestlé Pakistan is committed to maintaining 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 about 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 follows (PKR millions):

	Audited 2020	Audited 2019
Provident Fund	3,940	3,680
Gratuity Fund	1,845	1,796
Pension Fund	3,747	3,351

- 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. Ernst & Young Ford Rhodes, Chartered Accountants have completed their assignment for the year 2020 and retire at the conclusion of the 43rd Annual General Meeting. Being eligible, they have offered themselves for re-appointment.

Holding Company and Principal Activity

Nestlé S.A., a Company incorporated in Switzerland (the holding company), holds 26,778,229 ordinary shares representing a 59.05% 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

Businesses around the globe struggled with the global pandemic in 2020 and people had to adapt to new ways of working due to restrictions in movement. In response to the pandemic lockdowns and new working realities, the HR processes shifted to digital and virtual spaces, with greater focus on talent acquisition, employee engagement, employee health & wellness and learning & capability building.

We also 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 2020 included connecting desk-free employees to technology, 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.

We continued working on giving learning and development opportunities to youth in the country in collaboration with Universities/Technical Institutes. Few of the highlights are:

	9	Universities were targeted for Campus Drives and Job Fairs
	134	Internships were offered (mostly virtual due to Covid)
	28	Apprentices were taken onboard
	18	Management Trainees were inducted
	39	Campus Ambassadors were onboarded

Nestlé Pakistan gives great significance to the health of its people at work in line with its commitment under Nestlé Corporate Business Principles. In 2020, the focus shifted from providing primary / preventive health care to providing awareness regarding COVID-19 and implementation of related SOPs, reducing exposure and implementing health strategies

across all Nestlé sites. In 2020, Nestlé Pakistan’s routine functioning was redefined in accordance with COVID-19 protocols while ensuring zero production loss. In addition to the awareness on COVID-19 preventive measures, health awareness sessions were also conducted on various topics.

The main theme of employee relations is maintaining healthy relations by engaging with employees across sites. We remained focused on employee relations through continuous virtual employee engagement sessions, with the purpose of strengthening our relationship with the employees. 2020 was an important year for employee relations as negotiations were concluded and an agreement with the Union has been signed for 2020 and 2021 in an amicable way. Employee opinion survey “Nestlé & I” was successfully conducted in 2020 with 100% employee participation.

In order to engage, motivate and inspire young female professionals and equip them with the skills and tools they need for successful and dynamic careers, we continued our “Karo Aitemaad” program, which helped us in equipping 21 females. Nestlé Pakistan is committed to giving fair employment chances to differently abled people and help them in increasing their employability in the job market through our program “Hai Tum Pe Yakeen”. A batch of 16 differently abled was hired on one-year contracts, and 9 of them have already successfully moved to permanent and other contractual roles at Nestlé. A majority of the other differently abled batch is also under consideration for relevant permanent positions based on their performance. Two sessions of a corporate onboarding program for new joiners “Spirit of Nestlé” were conducted virtually where exposure to the entire value chain was given to the new hires and a virtual visit of our Sheikhpura factory plant was conducted.

Responding to the new ways of learning, digital and virtual Learning and Capability building tools and content were made available by global and local training teams. While our face to face trainings were put on hold, most of our training programs were converted to virtual sessions to help develop functional and leadership capabilities. 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 a total of 32,724 Management Training hours. Due to the pandemic, a greater focus was placed on fostering the e-learning culture than ever before. Market Digital Learning calendar - “iLearn Byte-Sized Learning” was designed to share key e-learnings and our employees completed 35,703 e-learning sessions on various topics. In line with our CSV commitment, 100% of our employees completed “Human Rights in Nestlé” training. In addition to this, 100% of our People Managers completed “Diversity and Inclusion”, “Sexual

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Harassment Prevention" and "Compliance: A Leadership Responsibility" e-learnings. "Global Connect & Learn" program was launched to connect employees with subject matter experts from around the globe for their capability development. 12 Masters and 15 Learners from Pakistan joined the global platform.

Creating Shared Value (CSV) and Community Work

Nestlé Pakistan believes in Creating Shared Value (CSV) for the communities and 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. This adds value to the business and supports socioeconomic development for the communities. Our inspiration is governed by the Nestlé Corporate Business Principles. 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 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.

Our global focus areas are firmly embedded in our purpose. Individuals and families, our communities and the planet 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).

The key CSV activities during 2020 are:

- Nestlé Pakistan stepped its commitment to vulnerable communities by donating 4 million servings of fortified products to meet the nutritional needs of both affectees and frontline workers from Quetta to Gilgit, in close collaboration with Government and NGOs.
- Nutrition awareness was extended to another 30,000 school children in the rural, suburban and urban areas under Nestlé for Healthier Kids Program extending the overall outreach to more than 250,000 children across the country
- Continued product support through Nutrition Support Program for the underprivileged institutions and to the areas affected by natural calamities
- Nestlé BISP Rural Women Sales Program in partnership with Benazir Income Support Program (BISP), as part of the Ehsaas Program, increased our outreach with overall enrollment of over 1500 women as Nestlé BISP Rural Women Sales Agents
- Under our Caring for Water initiative, clean drinking water facilities in our operational areas provided clean drinking water to more than 60,000 people on a daily basis
- The Alliance for Water Stewardship Certification was implemented for all of our sites
- We implemented a Water Resource Management Project in partnership with the Agriculture Department Punjab which resulted in saving of 428 million liters of water
- We endeavored to achieve the least possible environmental impact throughout our operational stages by complying with environmental laws and regulations
- We continued our support, training and advisory services for dairy farmers under our Farmer Support Program
- We extended our support for programs involving dairy farmers and rural women for skill enhancement related to the dairy and livestock sector
- We continued Nestlé Chaunsa Project in partnership with the Agriculture Department Punjab with integration of Mango farmers in our value chain
- We provided support to the Driver Training Facility at the National Highways & Motorway Police Training Institute, Sheikhpura
- Clean Hunza Project, in partnership with Gilgit-Baltistan Waste Management Company (GBWMC) and Karakoram Area Development Organization (KADO) was launched to focus on waste segregation and recycling system for Hunza by encouraging waste management of 200,000 kgs of plastics in 2021, eventually leading up to 1000 tons by 2025 to make Hunza waste-free and promote sustainable tourism in the region
- We are accelerating our actions to tackle packaging waste. We have partnered with the World Bank Group and Khyber Pakhtunkhwa Government to launch "Travel Responsibly for Experiencing Ecotourism in Khyber Pakhtunkhwa (TREK)" for promotion of Responsible Tourism. The initiative includes awareness campaigns for

tourists, and training of local communities and businesses on waste minimization, collection and recycling

- As part of our plans to reduce greenhouse gas emissions, we accelerated the adoption of renewable energy and promoted our approach within our farmers' network. We planted 50,000 trees in partnership with the Clean Green Pakistan movement during the Nestlé Cares Tree plantation campaign in 2020.

Subsequent Events

No material changes and commitments affecting the financial position of the Company have occurred between the end of financial year 2020 and the date of the Directors' Report.

Principal Risk & Uncertainty

The principal risks and uncertainties impacting our business include:

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

Future Outlook

The evolution of the pandemic, the availability and accessibility of the vaccine, fluctuating demand and supply patterns along with the external trade conditions will be the key factors for the economic outlook of the country. Despite all the challenges, the Company remains cautiously optimistic about the performance in the coming year on the back of strong brand equity and highly committed workforce supported by continuous initiatives for operational excellence. Amidst this global pandemic, Nestlé Pakistan remains committed to delivering Nutrition, Health & Wellness products to its customers and the Company will continue to work tirelessly to keep its employees, business partners and communities safe and healthy.

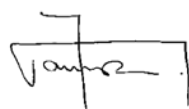
Acknowledgments

As this historic year draws to a close and even in the toughest moments of 2020, it has been inspiring to see our team rise to the challenge with determination, passion, speed and innovation.

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 and we are driven by a compelling purpose – unlocking the power of food to enhance quality of life for everyone, today and for generations to come. We are guided by strong values rooted in respect. Our purpose and our 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 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

Dated: February 25, 2021