

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, 2021.



Financial Performance

The country observed multiple waves of COVID-19, which led to intermittent micro lockdowns to limit the infection rate while permitting economic activities to continue. This resulted in real GDP growth of 3.9% for FY 21 from a contraction of 0.5 percent in FY20.

Despite the challenges caused by the pandemic, the company continued its journey towards recovery, recording a revenue growth of 12.2% versus 2020. This was achieved through uninterrupted supply and availability of products, numeric distribution expansion and innovation and renovation initiatives supported by investments behind the brands. Volume growth, cost savings initiatives across the value chain and portfolio and pricing management contributed to the improvement in profitability.

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 which helped us stand out from the competition.

In 2021, we launched a number of products across various categories. We introduced a range of innovative coffee products in RTD and 3in1, new sparkling drinks under our premium NESTLÉ FRUITA VITALS brand, and introduced a new PET single-serve format for the premium Gold Range. Dairy brought in an exciting new launch in the form of EVERYDAY KASHMIRI CHAI and in Waters, we added NESTLÉ PURE LIFE ACTIVE into 5-gallon format, owing to the encouraging response on ACTIVE 230ml SKU launch. We introduced a breakthrough solution in NIDO GUFs Nutritods with No Added Sucrose along with affordable nutrition offerings in growing-up formula and baby food categories. We also had a wide range of launches by Nestlé Professional, across the portfolio, addressing the needs of our OOH customers.

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

PKR Million	2021	2020	Change
Sales	133,295	118,781	+12.2%
Gross Profit margin	30.4%	29.3%	+110 bps
Operating Profit margin	16.2%	13.5%	+270 bps
Net Profit after tax	9.6%	7.5%	+210 bps
Net Profit after tax	12,768	8,885	+43.7%
Earnings per share	281.6	195.9	+43.7%

Dividends:

In view of the financial performance of the company, the Board of Directors has recommended to pay final cash dividend of Rs.90 per share, in addition to the interim cash dividend already paid of Rs. 195 per share, which brings the total dividend for the year to Rs. 285 per share for 2021 compared to Rs. 194 per share in 2020.

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Investment Projects

Nestlé Pakistan made investments of PKR 2.6 billion, including expansion projects, in 2021. Highlights are hereunder:

1,181 Rs. in Million	485 Rs. in Million
Sheikhupura Factory	Kabirwala Factory
57 Rs. in Million	496 Rs. in Million
Water Plants	Distribution and Sales
383 Rs. in Million	
Others	

Investments of approximately PKR 3 billion, are planned for 2022, primarily in respect of operational reliability and capacity increase 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 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 accounting estimates are based on reasonable and prudent judgement
- 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
- 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 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 2021, 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 2021 and retired at the conclusion of the 44th 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

Though 2021 was yet another year with partial lockdowns, it was marked by resilience where our offices returned to a hybrid way of working while maintaining 50% office occupancy. We engaged, motivated, onboarded, and grew our teams to ensure an uninterrupted supply of quality products to our consumers nationwide. HR processes shifted to digital and virtual spaces, with a greater focus on Talent Acquisition, Employee Engagement, Employee Health & Wellness, and Learning & Capability Building.

Nestlé Pakistan's priority is the well-being of its workforce. Our focused initiatives around Mental & Physical Well-being and Inoculation and its benefits played a vital role in shaping behavioral changes that ensured the health, safety and well-being of our teams. We also facilitated our employees by providing on-site vaccination camps at our factories and currently 97% of our employees are fully vaccinated.

In 2021, we leveraged our iLearn platform to encourage self-paced learning amongst employees, which resulted in the completion of 56,569 eLearning sessions. In order to strengthen leadership competencies line managers were trained as 360 Feedback Coaches and Everyday Coaches. We are also proud to be the market to pilot the "People Managers Development Assessment Center" (PMDAC) that will develop line managers through differentiated action plans. Two online academies, Nestlé Leaders Academy and Nestlé People Academy were launched to further strengthen leadership traits. These programs resulted in creating strong feedback and coaching culture.

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. Career Coaching, 3-Party PDPs and Corporate & Functional Mentoring remained some of our key activities. A virtual Employee Engagement plan, including virtual cooking and fitness drives, was launched to engage our employees as we worked in a hybrid environment.

We continued to build on our global commitments to provide employment and employability opportunities to youth by engaging more than 40,000 youth around the year through our flagship Management Trainee Program, Career Drives, Webinars, and Job Fairs. We provided 303 internships, both virtual and on ground. Our initiative focusing on diversity, Karo Aitemad, continued to engage, motivate and inspire young female professionals. We inducted a pool of 37 women for a

year, equipping them with the knowledge, skills and experience required for a successful career.

Nestlé Pakistan is committed to give fair employment opportunities to differently-abled people by increasing their employability through our program 'Hai Tum Pe Yakeen'. A batch of 15 differently-abled people was hired on one-year contract, and 4 associates from the previous year were moved to permanent roles at Nestlé Pakistan. The remaining are now part of our talent pipeline, in consideration for permanent positions.

Creating Shared Value (CSV) and Community Work

At Nestlé, we believe in the philosophy of 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 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.

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 36 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 2021 include:

- Finalization of our Market Sustainability Roadmap to 2025 as part of our global commitment to become a Net Zero company by 2050. In 2021, we started a number of projects in our fresh milk value chain that helped us reduce more than 13,000 tons of carbon emissions in that area alone
- Reduction of 224 tons of plastic by eliminating plastic straws throughout our RTD range
- Collection of more than 200 tons of waste under our waste management project "Clean Gilgit and Hunza Project" to encourage waste collection and management in Gilgit and Hunza districts in alignment with our vision of a waste-free future
- Multiple awareness and capability building trainings for the hospitality sector under 'Travel Responsibly for Experiencing Eco-tourism in Khyber Pakhtunkhwa' (TREK) – a collaboration between Government of Khyber Pakhtunkhwa, World Bank Group and Nestlé Pakistan

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- 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 285,000 kids and 1,500 teachers on nutrition in 340 schools in the country
- Overall enrollment of more than 1,900 women as Nestlé BISP Rural Women Sales Agents, a program that we run in partnership with Benazir Income Support Program (BISP) as part of Ehsaas Kifalat program
- Provision of Clean and Safe Drinking Water to more than 60,000 people on a daily basis through facilities in our operational areas
- An estimated water saving of more than 380,000 m3 as a result of working with farmers and partners including Agriculture Department Punjab, 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 with integration of Mango 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 35,000 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

We foresee that the current record-high commodity prices and global supply chain disruptions will continue in 2022, which is likely to keep inflation at an elevated level. This, coupled with recently imposed taxation measures, are likely to have an adverse impact on the already deteriorating purchasing power of the consumers.

Despite all the challenges, the company remains cautiously optimistic about staying on course on its recovery journey in the coming year capitalizing on strong brand equity and a highly committed workforce supported by continuous initiatives for operational excellence.

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 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
February 17, 2022
Lahore



Syed Yawar Ali

Chairman