# 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, 2017.

## FINANCIAL PERFORMANCE

During the year 2017, Pakistan's economy continued showing positive signs of improvement on the back of stable currency, better law & order situation and an ease energy crisis. However, the political situation remained fragile throughout the year which resulted in regular disruption of business operations.

Despite the above challenges, the Company reported a top line growth of 8.7% through effective innovation and renovation of our product mix, numeric distribution expansion and investment behind our brands. Furthermore, the optimization of our value chain through Nestlé Continuous Excellence (NCE) initiative and processes helped.

Nestlé Pakistan continues to be committed to enhancing its product base through innovation and renovation which remains an integral part of the Company's vision to positively enhance the quality of life of our consumers. The major new product launches during 2017 included: NESTLÉ MILO Concentrate, NESTLÉ DOCELLO Crème Brulee, NESTLÉ DOCELLO Panna Cotta, NESTLÉ NESVITA MOVE+, NESTLÉ BUNYAD CHOCO, NESTLÉ FRUITA VITALS Exotic Mixes, NESTLÉ PURE LIFE 330ml, NESCAFÉ Classic Sachet, NESTLÉ CERELAC (more nutrition in every spoonful), NESTLÉ LACTOGEN & NESTLÉ LACTOGROW 3 (with DHA), NESTLÉ NAN AR, NESTLÉ NESVITA YOGURT, NESCAFÉ GOLD LATTE and NESTLÉ SJORA.

## SUMMARY OF FINANCIAL PERFORMANCE

| PKR Million | 2017 | 2016 | Change |
|---|---|---|---|
| Sales | 122,215 | 112,393 | +8.7% |
| Gross Profit margin | 36.6% | 35.4% | +1.2% |
| Operating Profit margin | 19.3% | 17.0% | +2.3% |
| Net Profit after tax (%) | 12.0% | 10.5% | +1.5% |
| Net Profit after tax | 14,642 | 11,847 | +23.6% |
| Earnings per share | 322.86 | 261.23 | +23.6% |

## KEY FINANCIAL INDICATORS

We are pleased with our value creation progress of 2017. This includes solid operational improvements as well as portfolio management choices.

- Sales grew by PKR 9.8 billion, a growth of 8.7% largely driven by volume.
- We delivered a Gross Margin of 36.6% (+122 bps) on the back of improvement in our product mix and optimization of the value chain through Nestlé Continuous Excellence (NCE).
- Net Profit margin increased by 144 bps on the base of lower operational costs and improved Gross Profit Margin.

## DIVIDENDS

Keeping in view the good financial performance of the Company, the Board of Directors has recommended to pay a final cash dividend of Rs. 80 per share, in addition to the interim cash dividend of Rs.240 per share, which brings the total dividend for the year to Rs. 320 per share for 2017 compared to 425 per share in 2016.

## INVESTMENT PROJECTS

With a market driven approach and commitment to satisfy the needs of our consumers, in 2017 Nestlé Pakistan has made investments of PKR 5.4 billion including expansion & development projects. Highlights are as under:

| Project Description | PKR Million |
|---|---|
| Sheikhupura - Extension and Operational reliability | 3,398 |
| Kabirwala - Extension and Operational reliability | 864 |
| Water Factories - Extension and Operational reliability | 394 |
| Extension of Distribution and Sales facilities | 385 |
| Milk collection infrastructure development | 64 |
| Others | 353 |

Investments, of approximately PKR 4.7 billion, are planned in 2018, primarily in respect of operational reliability and capacity increase in order to meet consumer demands.

# CORPORATE GOVERNANCE

Nestlé Pakistan is committed to maintaining high standards of good 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 & Exchange Commission of Pakistan (SECP) and formed as part of stock exchange listing regulations. The Statement of Compliance with Code of Corporate Governance is as under.

# STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The Directors confirm that:

a) The financial statements prepared by the management of the Company present fairly its state of affairs, the results of its operations, cash flows and changes in equity.

b) Proper books of accounts of the Company have been maintained.

c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed and explained.

e) The system of internal control is sound in design and has been effectively implemented and monitored.

f) There are no significant doubts upon the Company's ability to continue as a going concern.

g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

h) The value of investments of employees funds are as follows (PKR millions):

| | Audited 2017 | Audited 2016 |
|---|---|---|
| Provident Fund | 3,542 | 3,267 |
| Gratuity Fund | 1,709 | 1,606 |
| Pension Fund | 2,729 | 2,524 |

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

(i) Key financial data for the last six years

(ii) Pattern of shareholdings

(iii) Trading in shares of the Company by its Directors, CEO, CFO and Company Secretary

(iv) Number of Board meetings held during the year and attendance by each director

# EXTERNAL AUDITORS

Messrs. KPMG Taseer Hadi & Company, Chartered Accountants have completed their assignment for the year 2017 and retire at the conclusion of the 40th Annual General Meeting. Being eligible, they have offered themselves for re-appointment.

# HOLDING COMPANY

Nestlé S.A., a Company incorporated in Switzerland (the holding company), holds 26,778,229 ordinary shares representing 59% equity interest in the Company.

# HUMAN RESOURCES MANAGEMENT & EMPLOYEE RELATIONS

In 2017, we continued to spread positive energy across the organization by strengthening our people processes to sustain an edge over competition. Key focus areas included leadership development, capability building, utilization of E-learning platforms and employee relations management 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 other highlights are:

- 20 universities were targeted for Campus Drives and Job Fairs
- 600 internships were offered
- 21 apprentices were taken on-board
- 27 apprentices were inducted under our program Kero Aitemaad - Women Empowerment Platform
- 97 Female resources were hired
- 9 Management Trainees were inducted
- CV clinics were conducted nationwide for one-on-one career counseling sessions.

Based on the above achievements Nestlé Pakistan has won the award for "Most Preferred Graduates Employer" at the Best Place to Work Award Gala held by Pakistan Society for Human Resources Management (PSHRM).

We focused 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, and an Employee Recognition Program. These cross functional and cross sites interaction of employees led to a highly motivated, energized and committed workforce. Moreover, to support the journey of diversity, special drives are underway for differently-abled people where we have on-boarded 10 differently-abled people. Three career fairs were held, and in line with this our sites have been evaluated to modify our facilities to encompass the differently-abled workforce.

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

- 320 three party People Development and Performance (PDP) sessions were conducted across the organization
- 55 line managers were also trained as career coaches across the market
- 5 Career Clinics were arranged across sites where 100 employees were coached on career growth
- 15 Human Resource Business Partners (HRBPs) were trained on Everyday Coaching utilizing Nestlé Global Coaching Guidelines

These coaches will now conduct their sessions across the company to strengthen coaching culture at Nestlé Pakistan.
The key highlights were:

- Business Acumen Development sessions were launched under the Organization Development program.
- People Manager Toolkit & Nestlé Leadership Development Experience were continued during 2017 as major learning initiatives for leadership development. These programs are designed for capability building of first line managers by deploying tools and concepts in various situations enabling a positive impact on business leading up to total Management Training hours of 50,341.
- LEAN IN Lahore Chapter platform 5 Circle Meetings were conducted where females from across the industry gathered to share stories, experiences, thoughts and ideas on common challenges and ways to manage them.
- 50 Management Connect sessions and 19 Coffee Corners were organized across the organization in order to engage and energize our employees.
- New Performance Management system PDP, was launched with focus on simplicity, coaching & conversations. PDP mobile app was also launched to enable employees to have Check-In conversations on the go. All the learnings from this year will be utilized to further strengthen the performance management system for 2018.

Nestlé Pakistan ensured 100% payroll accuracy and timely disbursement of employees' salaries monthly. To strengthen it further, Nestlé Pakistan implemented swift bank online payment for the first time in Pakistan.

## CREATING SHARED VALUE (CSV) AND COMMUNITY WORK

Nestlé Pakistan, as part of its global and local obligations, 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; 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 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 into the entire value chain.

In 2017, 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 2017 are:

- Nutrition awareness extended to another 40,000 school children in the rural, suburban and urban areas under Nestlé Healthy Kids Program extending the overall outreach to more than 140,000 kids across the country

- Nestlé Healthy Women, a nutrition awareness programme to motivate young women of age 19-24 years to adopt a healthy lifestyle by educating them about their nutritional needs and its future impact
- Continued product support through Nutrition Support Program for the underprivileged institutions and to the areas affected by natural calamities
- Clean Drinking Water facilities in our operational areas providing clean drinking water to more than 60,000 people on a daily basis
- Alliance for Water Stewardship Certification of Sheikhupura Factory in collaboration with WWF
- Pilot of Water Resource Management Project in partnership with Agriculture Department Punjab
- Endeavoring to achieve the least possible environmental impact throughout its operational stages by complying with environmental laws and regulations
- Continued support, training and advisory services to dairy farmers under our Farmer Support Program
- Continued support for programs involving dairy farmers and rural women for skill enhancement related to dairy and livestock sector
- Entrepreneurship Development Program at Lahore University of Management Sciences (LUMS) and Institute of Business Administration, Karachi (IBA), with a focus on Agri Business Management.
- Continuation of Chaunsa Project in partnership with Agriculture Department Punjab for implementation of best farm practices in the Chaunsa mango sector
- Development of Driver Training Facility at the National Highways & Motorway Police Training Institute, Karachi

## FUTURE OUTLOOK

We will continue to have a positive outlook on growth and earnings, however we do foresee certain external development namely currency risk, volatile political environment, global commodities' cost increases and fiscal pressure which could impact future results. We believe materializing of the China-Pakistan Economic Corridor (CPEC) will open a new and favorable outlook for the Pakistan Economy. Furthermore Nestlé is committed to positively enhance the quality of life of Pakistani people by bringing Nutrition, Health & Wellness products and will continue to drive sustainable, profitable growth on the back of our strong brands, I&R capabilities and operational excellence with the NCE mindset.

Nestlé has a strong foundation, a clear path forward and a bright future! Our journey will be demanding but worthwhile.

## ACKNOWLEDGMENTS

We take this opportunity to thank our valued customers and consumers who have trust in our products and continued to provide sustained support in ensuring the progress of the Company. Nestlé is a fantastic company with a very strong culture. Our people are our greatest strength. 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**

**BRUNO OLIERHOEK**
Chief Executive Officer
Lahore: February 21, 2018