

THERE IS  
AN INDIA IN **NESTLÉ**  
AND  
A **NESTLÉ** IN INDIA

NESTLÉ INDIA LIMITED  

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ANNUAL REPORT 2005

## THE BOARD OF DIRECTORS OF NESTLÉ INDIA



From (L to R) Ravinder Narain, Tejendra Khanna, Michael W.O. Garrett, Martial G. Rolland, Rajendra S. Pawar, Shobinder Duggal, B. Murli



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Narendra Singh - Chairman Emeritus

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### **Board of Directors**

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Martial G. Rolland	Chairman & Managing Director
Shobinder Duggal	Director - Finance & Control
Michael W.O. Garrett	Non Executive Director
Ravinder Narain	Non Executive Director
Tejendra Khanna	Non Executive Director
Rajendra S. Pawar	Non Executive Director
Richard Sykes	Alternate Director to Michael W.O. Garrett

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### **Secretary**

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B. Murli - Sr. Vice President - Legal & Company Secretary

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## **TABLE OF CONTENTS**

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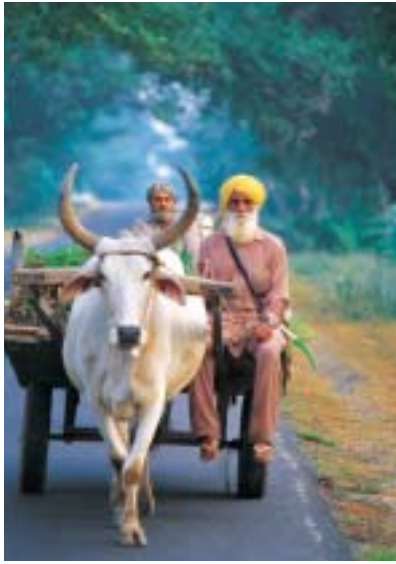
Board of Directors	Inside Front Cover	Annual Accounts	16-33
Partner in India's growth	1-4	Annexure- 1 to The Directors' Report	34-38
Corporate Information	5	Annexure- 2 to The Directors' Report	39-40
Directors' Report	6-12	Balance Sheet Abstract and Company's General Business Profile	Inside Back Cover
Auditors' Report	13-15		

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# There is an India in Nestlé.

Nestlé India is an integral part of India and continuously reaches out to its people, touching, changing lives, building confidence and earning the trust of the Community.

## Its heart has the beat of India



Nestlé and India first met far back in 1912. The real meeting of hearts and minds, however, happened in 1961 when Nestlé India set up a world-class factory in Moga, Punjab. At that time transport between villages was difficult and harvests were poor. Farmers kept a pair of oxen to plough their fields and one or two buffaloes to provide milk for their own families. The sale of surplus milk was considered taboo. This changed after Nestlé India started operations here.

During the initial pioneering years the Moga factory received milk from only 180 farmers. The Company's collection agents had to surmount great odds to ensure the efficient collection of fresh milk. Over the years with investments in cooling tanks and insulated and refrigerated milk tankers Nestlé India has changed this. In addition, transfer of technology, technical assistance to improve animal productivity, herd management and farm economics, has developed the region economically and has ensured better remuneration for the farmer. Nestlé India's investments have transformed Moga into a prosperous and vibrant milk district. Moga factory today collects over 230,000 tons of fresh milk annually, from over 85,000 mostly small-scale farmers.

Amongst the pioneers of the modern milk industry in India, Nestlé India has done this without compromising the farmer's traditions, making his dreams of a better tomorrow a reality on his own terms.



**Nestlé India's investments have transformed Moga into a prosperous and vibrant milk district**

**Moga factory today collects 230,000 tons of fresh milk from over 85,000 mostly small scale farmers**



Above all, Nestlé India has helped to fulfill the most important need of the farmer. Our continuing efforts to develop the means for sustained economic and social progress have helped him improve his standard of living and enabled him to help himself and generations to come.

The India in Nestlé constantly helps us to reach out for ways to make the community happier and more capable.

To empower village women we have started rural support programs that have already educated 10,000 women in dairy farming practices. We are also developing software to optimise quality of milk and reduce cost of production to encourage dairy farming as a sustainable cash crop.



**Nestlé India's ability to integrate itself with the communities has brought smiles to thousands of faces**

**Rural support programs have already educated 10,000 women in dairy farming practices**



Today Nestlé India is more than Moga. It has six factories across India that buy amongst others, large quantities of coffee, chicory, tea, milk, wheat, and tomato that benefits farmers.

The Company has the ability to integrate itself with the communities, promote projects that benefit the quality of their lives, and as a consequence earn their respect and trust. In short, the Company has brought smiles to thousands of faces! Providing access to clean drinking water is one such project. Water is a scarce resource in India. Around 200 million people do not have access to clean drinking water. Nestlé India is setting up clean drinking water facilities in village schools around its factories and also educating the children to conserve this scarce resource.

Nestlé bears 90% of the cost and the projects are then maintained jointly with the local community. 60 such projects, directly benefiting over 22,000 school children have already been completed.



**Nestlé India is providing access to clean drinking water and educating communities to conserve water**

**60 such projects are directly benefiting over 22,000 school children**



The Company has built a very special relationship of trust and commitment with the people of India. It is continuously focusing its efforts to assimilate the culture and traditions of India. Understanding the changing lifestyles and anticipating consumer needs helps it to further reinforce the relationship. Quietly and unobtrusively Nestlé India has become a part of the fabric of India and is a partner in its growth.

**There is a Nestlé in India.**

## CORPORATE INFORMATION

### MANAGEMENT COMMITTEE

Martial G. Rolland - Chairman & Managing Director  
Shobinder Duggal - Finance & Control  
Stewart Dryburgh - Chocolates & Confectionery  
Muhammed Hamza - Coffee & Beverages  
Shivani Hegde - Food  
Christian Van Houtteghem - Infant Nutrition  
Vineet Khanna - Supply Chain  
Virat Mehta - Communications  
B. Murlu - Legal & Company Secretary  
Suresh Narayanan - Sales  
Hari Nariani - Globe  
G.G. Pillai - Additional Channels  
Beda Rust - Technical  
Rajkamal Sharma- Exports  
H. K. Singh - Human Resources  
R. Singh - Corporate Affairs & Strategic Planning  
Mayank Trivedi - Shelf Stable & Chilled Dairy

### BANKERS

ABN Amro Bank N.V.  
BNP Paribas  
Citibank N.A.  
HDFC Bank Limited  
ICICI Bank Limited  
Punjab National Bank  
Standard Chartered Bank  
State Bank of Hyderabad

### AUDITORS

A.F. Ferguson & Co.,  
9, Scindia House,  
Kasturba Gandhi Marg,  
New Delhi - 110 001

### REGISTERED OFFICE

M-5A, Connaught Circus, New Delhi - 110 001  
Ph: 011-2341 8891, Fax: 011-2341 5130

### REGISTRAR & TRANSFER AGENTS

MCS Limited  
W-40, Okhla Industrial Area, Phase II,  
New Delhi – 110 020  
Ph : 011-41406149, Fax : 011-41709881

### HEAD OFFICE

Nestlé House  
Jacaranda Marg, 'M' Block,  
DLF City, Phase II,  
Gurgaon 122 002 (Haryana)

### BRANCH OFFICES

Spencer Plaza, 6<sup>th</sup> Floor 769, Anna Salai, Chennai - 600 002 (Tamil Nadu)  
7, Hare Street, Kolkata - 700 001 (West Bengal)  
Hiranandani Gardens, Main Street, 4<sup>th</sup> Floor,  
Colgate Research Centre Building, Powai, Mumbai - 400 076 (Maharashtra)  
M-5A, Connaught Circus, New Delhi – 110 001

### FACTORIES

Village Maulinguem (North), Bicholim Taluka - 403 504 (Goa)  
Ludhiana - Ferozpur Road, Near Kingwah Canal, Moga - 142 001 (Punjab)  
Industrial Area, Nanjangud - 571 301 Mysore District (Karnataka)  
P.O. Cherambadi - 643 205 District Nilgiris (Tamil Nadu)  
Patti Kalyana, Kiwana Road, Samalkha - 132 101 District Panipat (Haryana)  
Plot No. 294-297, Usgao Industrial Area, Ponda - 403 406 (Goa)

### LISTING OF EQUITY SHARES (Listing Fees paid)

Bombay Stock Exchange Limited,  
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001

### ANNUAL GENERAL MEETING

Tuesday, 25<sup>th</sup> April, 2006 at 10.00 AM at  
Air Force Auditorium, Subroto Park, New Delhi - 110 010

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Shareholders attending the AGM are requested to bring with them the enclosed ATTENDANCE SLIP.

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## DIRECTORS' REPORT

Dear Members,  
Your Directors have pleasure in submitting their report and the statement of accounts for the year ended 31<sup>st</sup> December, 2005.

### Financial Results and Operations

(Rs. in Millions)  
2005 2004

Gross Revenue	25,006	22,420
Earning before Interest, Tax and Depreciation excluding Other Income (EBITDA)	5,220	4,510
Interest	2	8
Depreciation	568	491
Impairment Loss on Fixed Assets (Net)	(26)	23
Provision for Contingencies (Net)	223	267
Provision for Tax	1,595	1,346
Net Profit	3,096	2,519
Profit Brought Forward	35	443
Balance Available for Appropriation	3,131	2,962
Interim Dividends Paid	2,218	1,928
Final Dividend Proposed	193	434*
Corporate Dividend Tax	338	313
Transfer to General Reserve	310	252
Surplus carried in Profit and Loss Account	72	35

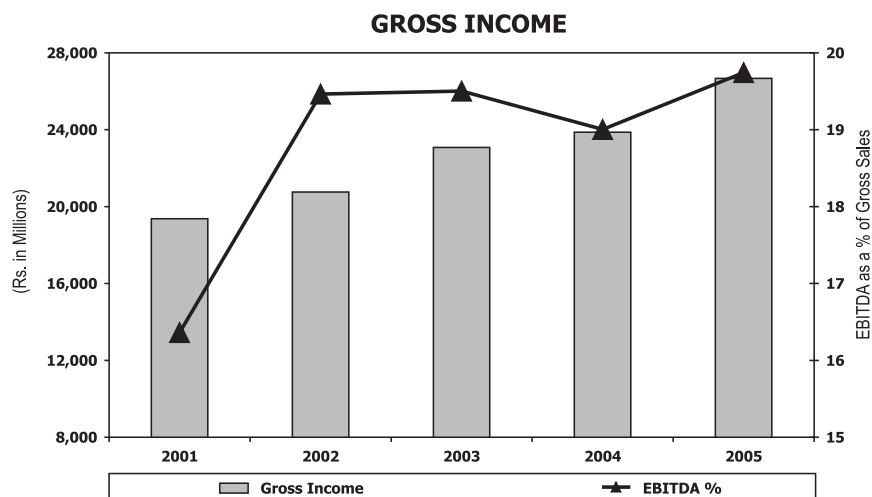
#### Key Ratios

Earnings per Share (Rs.)	32.11	26.13
Dividend per Share (Rs.)	25.00	24.50*

\* Comprises / Includes a special dividend of Rs. 4.50 per share of the face value of Rs. 10/- each, paid mainly out of undistributed profits of previous financial years.

During the year Domestic Sales grew by 11.8% and Export Sales grew by 6.4%.

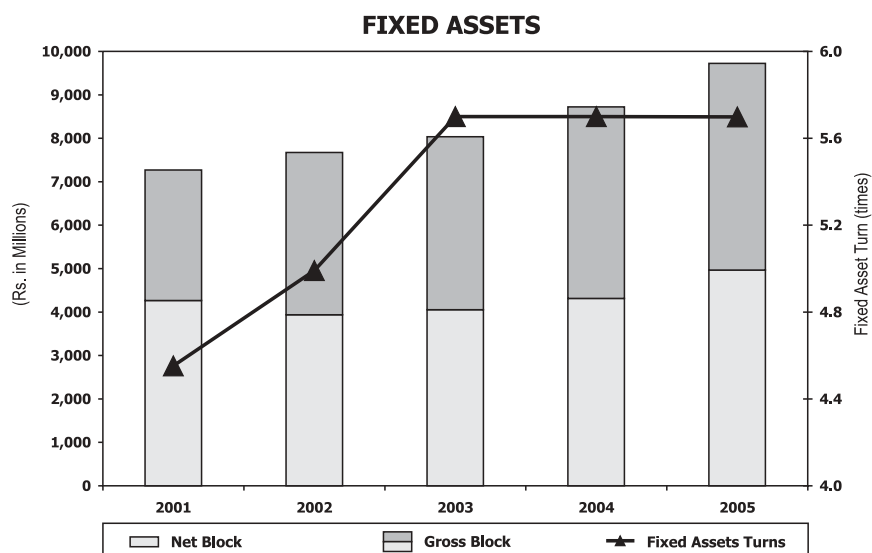
Net Profit for the year 2005 increased to 12.4% of Gross Revenue from 11.2% in 2004 and EBITDA as a percentage of Net Sales increased in 2005 to 21.1% from 20.2% in 2004. The increase in EBITDA is mainly due to the positive impact of selective price increases, higher volumes and favourable product mix, which was partly offset by an overall increase in commodity



prices and costs relating to Information Systems. Nestlé Group savings initiatives mainly Operation Excellence focussing on more efficient sourcing of raw and packing materials, energy costs and efficiencies, manufacturing processes and optimisation of line efficiencies / occupation etc., helped mitigate the adverse impact of input costs and in controlling other costs throughout the year. The increase in Net Profit is mainly on account of the overall improvement in EBITDA, increase in Other Income and reduction in corporate tax rates, which has been partially offset by the fringe benefit tax.

Other Income for the year 2005 increased mainly due to returns on the higher surplus liquidities.

Out of business prudence, in 2005 the Company supplemented the Contingency Provision with a further amount of Rs.223.2 Million (Net), to provide for contingencies resulting mainly from matters relating to litigation / dispute and other items requiring management judgement and discretion. This was after the write back of Rs.85.5 Million provision, due to the satisfactory settlement of disputes and other matters.



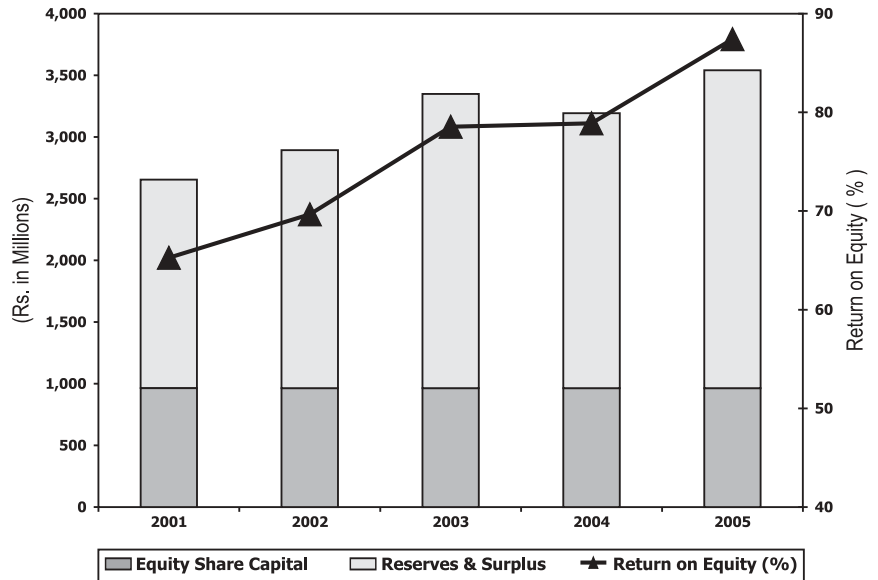
During the year 2005, the Indian economy appeared to be on the right track for GDP growth and planned reforms and was supported by healthy foreign exchange reserves, efficient utilisation of capacities by the manufacturing sector, a bullish stock market, robust increase in exports and low inflation. Despite some political difficulties, there was continuity in reforms and reiteration of the intent to improve the quality of life of the weaker sections of the society. Implementation of Value Added Tax by many States in 2005, was a historic and positive move.

In this overall positive environment a few factors created some uncertainty. These included the fringe benefit tax on genuine business costs such as sales promotion expenses, the piecemeal approach to implementing VAT and non-elimination of Central Sales Tax (CST).

Continuous positive development on the economic front and policy initiatives by the Government present an exciting environment for a Company like yours. Sustained inflow of global capital into the Indian economy, falling import duties, rapid changes in retail environment and an increasing demand for FMCG products, are all positive indicators for your Company. However, as a result of economic development and globalisation, the competitive landscape in which the Company operates has changed substantially over the years and this brings with it, emerging complexities. It also requires greater understanding of the consumer needs and trends as well as ability to address them in a sustained and competitive manner.

The Nestlé name stands for 'Good Food, Good Life'. Nutrition, Health and Wellness have been part of the DNA of the Nestlé Group since its inception in 1866 and your Company with its access to a strong research driven science and brands, is uniquely placed to leverage these elements within its product portfolio.

### SHAREHOLDERS' FUNDS

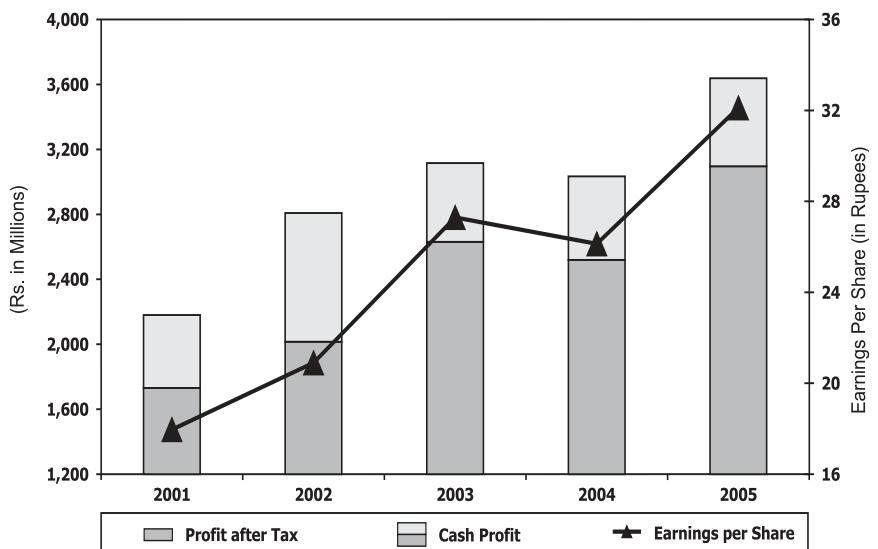


Based on stronger consumer insights, the Company over the past year, has increased its thrust on accelerating innovation and renovation. It has launched products that fulfill the consumer needs and aspirations and increased the Nutrition, Health and Wellness dimensions across the product portfolio, leveraging its access to world class technology available with the Nestlé Group. During the year the Company sustained its investments in building brands and kept its focus on making the Nestlé products more

visible and conveniently available whilst ensuring greater product freshness.

In order to better operate and compete in the market, the Company realigned some of its internal structures to make it a multi-focal Company with category specific business units. While reshaping and adapting itself, the Company has remained steadfast in following the economic model of the seven value drivers synergising sales growth, profit margins and capital efficiency.

### EARNINGS



It also continued to follow the four strategic pillars to achieve sustainable competitiveness - 'Low cost, highly efficient operations'; 'Innovation and Renovation', 'Product availability – whenever, wherever, however' and 'Consumer communication'. These have been the cornerstones for the Company's sustained performance in recent years. Your Company is stable, healthy, with strong fundamentals and is focused on long term, sustainable and profitable growth.

The current year has commenced as per plan. Your Company will continue to leverage its consumer centric approach and competencies to generate demand for its brands in the future. Access to the Nestlé Group's proprietary technology, strong brands and extensive centralised Research and Development facilities, the culture of innovation and renovation within the organisation and focus on adding value to the consumer needs will help the Company grow to its potential. The Company will continue to direct its efforts on product innovation and renovation, to control costs, improve penetration, exploit geographic opportunities and manage price-value for its brands. We remain confident of the long-term business prospects of the Company and in its ability to sustain fair return to the shareholders.

## Exports

Export Sales during 2005 at Rs. 2,591.8 Million, increased by 6.4% over the year 2004, largely due to the higher realisation from Instant Coffee exports to Russia, due to the higher Green Coffee prices and higher export of Infant Nutrition products, which were partially offset by lower volume of Instant Coffee sales and lower exports to Nepal due to the political turbulence. Although the volume of Instant Coffee exported to Russia dropped further during 2005, exports of other product categories were buoyant. Exports of Infant Nutrition products within the South Asia Region increased during the year, as new products

were added to the portfolio. Exports of Instant Tea and culinary products were satisfactory and new businesses were created through appropriate product development.

The efforts to develop new products and geographies to broaden the Company's export portfolio, helped to reduce dependence on export of Instant Coffee to Russia. Export of products excluding NESCAFÉ Instant Coffee to Russia, constituted around 45% of the Export Sales, as against 43% in 2004.

Initiatives to develop products for the Indian ethnic community abroad are continuing.

## Dividends

The Board of Directors has recommended a final dividend of Rs. 2/- per equity share of the face value of Rs.10/- each for the year 2005, amounting to Rs. 193 Million. The final dividend, if approved, will be paid to the shareholders whose names appear on the Register of Members, determined with reference to the book closure from 21<sup>st</sup> April, 2006.

This is in addition to the two interim dividends for the year 2005, first at the rate of Rs. 5/- and the second at the rate of Rs. 18/- per equity share, which were paid on 10<sup>th</sup> May, 2005 and 22<sup>nd</sup> December, 2005 respectively, aggregating to Rs. 23/- per equity share (amounting to Rs. 2,218 Million).

During the year 2004, total dividend of Rs. 24.50 per equity share was paid, which included special dividend of Rs. 4.50 per equity share, mainly out of undistributed profits of the previous financial years. The aggregate dividend for 2005 of Rs. 25/- per equity share, on comparable basis (excluding the special dividend paid for 2004), represents a healthy increase over the total dividend paid for 2004 of Rs. 20/- per equity share. The total payout for 2005 of Rs. 2,749 Million, which includes the corporate dividend tax, is the highest to date.

## Business Development

The Company is committed to providing consumers high quality, safe and nutritious food products. In order to do this, the Company continuously focuses its efforts to better understand the changing needs of the consumer, by conducting research and monitoring consumer panels to measure consumer satisfaction and anticipating future needs. Based on this the Company constantly reviews its product portfolio, innovates and renovates to cater to consumer preferences in order to ensure long term, sustainable and profitable growth. Over the years, your Company has built a strong bond with its consumers by offering them quality products that meet their daily needs.

The Company focused on strengthening its processes and initiating changes that will enable it to respond faster to consumer needs and customer expectations. A new department – the Channel & Category Sales Development (CCSD) was set up to develop new solutions for the various channels and customers and improve the implementation of commercial plans in the market place. The Company also created a new department the 'National Key Accounts Management Organisation' to focus on modern formats in retail trade that are steadily establishing their presence in the Indian market. These emerging formats are expected to be partners in accelerating growth in the coming years. Your Company's unique access to the Nestlé global expertise and competence will be key in ensuring the success of both these initiatives.

In 'Prepared Dishes and Cooking Aids' category, the MAGGI brand is the pioneer in all the areas it operates in, namely, Instant Noodles, Sauces and Ketchup, Soups and Bouillons. In order to further enhance the Taste, Health and Wellness dimension in MAGGI products, the Company leveraged the extensive Research and Development expertise of the Nestlé Group and the

proposition of 'Taste Bhi, Health Bhi' and 'Its Different' helped to drive growth during the year. Your Company launched a new innovative concept, MAGGI Vegetable Atta Noodles that was developed based on consumer needs and evolving trends towards more whole grain based products. MAGGI Vegetable Atta Noodles contain whole wheat and real vegetables that provides consumer the goodness of whole wheat while enhancing the nutrition and taste dimension. The product offering the proposition of 'Taste Bhi, Health Bhi' has been liked by the consumers for its uniqueness and relevance and has performed well since its launch. To enhance its nutritive value further, the very popular MAGGI 2-Minute Noodles were also renovated to provide 20% RDA of Calcium and Protein for the core target group. During 2005, MAGGI Noodles continued to expand and lead the market.

During the last quarter of the year, the Company also launched a range of New MAGGI Healthy Soups that are even more delicious, quick to prepare, convenient and healthy. The product has been developed to cater to the unique taste of the Indian consumers and does not contain any added MSG or added preservatives, no artificial colours, is cholesterol free and low on fats and has real vegetables. The initial response to the New Soups is encouraging. Overall the performance of Soups improved after the launch of the New MAGGI Healthy Soups and the Company anticipates the trend to continue. The reinforcement of nutritive propositions while ensuring taste and pleasure will form the cornerstone for growth of the MAGGI Healthy Soups portfolio.

The MAGGI brand is also leader in Sauces and Ketchups and during the year, the Company further widened its portfolio with two innovative products – MAGGI Tomato Pudina Sauce and MAGGI Tomato Chatpat Sauce, each with its unique Indianised taste of chutney. These products have also received satisfactory consumer response. The sales volume of MAGGI Sauces increased during the year.

The year 2005 was another satisfactory year for the '**Chocolates and Confectionery**' category, with the key Nestlé brands demonstrating healthy growth. NESTLÉ MUNCH, NESTLÉ KIT KAT, NESTLÉ MILKYBAR CHOO and NESTLÉ Eclairs continued to grow faster than the industry. In this segment NESTLÉ MUNCH is the largest distributed brand and NESTLÉ MAHA MUNCH continued to be the largest selling stock keeping unit [SKU]. In recent months the portfolio in this category has been further reinforced with the launch of products at the Rs. 5/- price point namely NESTLÉ MILKYBAR CHOO Strawberry, NESTLÉ MAHA MUNCH and NESTLÉ Coconut MUNCH. Presence in the sugar confectionery segment was strengthened with the launch of NESTLÉ Coconut Eclairs. The review of NESTLÉ Chocostick was completed and the product was discontinued during the year.

In the '**Beverages**' category, the Company has performed satisfactorily. NESCAFÉ is number one brand in the world for coffee and coffee mixes and has leveraged its understanding of the changing lifestyles of consumers to continuously add value. NESCAFÉ continues to be the largest brand of Instant Coffee in the Indian market. During the later part of the year the Company re-launched NESCAFÉ SUNRISE coffee-chicory blend after it was renovated with superior grade of plantation beans to provide better coffee taste and aroma and competitive advantage. During the year, the Company continued to innovate and renovate and in early 2006, launched New NESCAFÉ 3-in-1 with the right balance of coffee, dairy creamer and sugar and specially formulated to suit the taste profile of the youth who wish to move to the more trendier coffee habit, especially in the tea drinking areas. The performance of MILO Chocolate Energy Food Drink is yet to become satisfactory and the Company is continuing its efforts to improve its performance.

In the '**Milk Products and Nutrition**' category, the Company remained focused on introducing products that leverage the Nestlé Group's know-how and Research and Development competencies. The breakthrough in infant feeding that was achieved with the 3-stage Nestlé Nutritional Development Plan, had earlier enabled the Company to launch CERELAC 123 wheat based weaning food and NESTUM 123 rice based weaning food, to ensure the right eating experience at the right stage of development of the infant. These products along with LACTOGEN 3, PRE-LACTOGEN and other Infant Nutrition products, continued to do well and further reinforces Nestlé's standing as a Company using its extensive knowledge to provide solutions for infant needs.

During the year, the Company also launched NESTLÉ CEREMEAL Daliya, a scientifically balanced meal solution for toddlers over 2 years of age, packed with essential nutrients to help them grow strong. The initial response to the product is encouraging.

Overall the performance of dairy related products was not very satisfactory. While NESTLÉ EVERYDAY Dairy Whitener grew modestly NESTLÉ MILKMAID Sweetened Condensed Milk was under pressure. The market performance of UHT Milk continued to be below expectations. In the Chilled Dairy category, NESTLÉ Dahi showed good growth and NESTLÉ Raita was launched in select geographies to strengthen the portfolio. NESTLÉ Butter was discontinued during the year as it was not found to be a viable business.

The prices of milk solids continue to be on an upward trend and the efforts of your Company will be to improve the performance of this category with appropriate price management, in a very competitive environment.

With rapidly increasing opportunities in the 'Out of Home' segment, especially in coffees and beverages the Company has continued to increase 'NESCAFÉ Coffee Corners', 'NESTLÉ Consumption Zones' and vending machines in offices, colleges, and other locations that experience high footfalls. The Company has by far the largest number of vending machines installed in the market, selling over 700 Million cups of hot and cold beverages per annum. Your Company sees the 'Out of Home' opportunities as significant to leverage its skills and competencies in vending and using its product portfolio to address consumer needs therein.

## Technology and Quality

The Company's General Licence Agreement with the Nestlé Group, Switzerland, enables it to access the most advanced technology in the food world. The Company leverages this continuously to provide consumers in India with high quality and safe food products that add value to them and are affordable. The new project initiated during 2004 at the Samalkha factory to upgrade the production technology for Infant Nutrition products, was commissioned during the later part of 2005. This puts it amongst the ten most modern plants for Infant Nutrition products in the Nestlé Group, worldwide.

## New Factory in Uttaranchal

During the year, the Company announced setting up of seventh plant at Pantnagar in Uttaranchal, showing your Company's confidence in the future and its continued commitment to the development of India.

The new Factory in the State of Uttaranchal will mainly manufacture culinary products and with the technology and support received from the Nestlé Group, will be a state-of-the-art facility. The project will involve an investment of around Rs.1,000 Million over 2 to 3 years and it is foreseen

that the Factory will go into commercial production during the second half of 2006. The new Factory is being set up in an area benefiting from tax incentives.

## Manpower Development

The Company believes that in order to achieve its 100 % potential, it is necessary to empower talent and prepare its people with the necessary skills to exploit their own potential and the potential of the Company. To enable this, the Company continued to provide employees with appropriate access to training and international exposures, where feasible and relevant to improve their skills. During 2005, the Company increased its focus on people development, including '360 degree feedback' based Leadership Development programs.

## GLOBE (Global Business Excellence)

During the first half of 2005, the Company successfully implemented GLOBE. The Company smoothly transited from the legacy system to SAP, using the GLOBE methodology, without any disruption in business. GLOBE will enable the Company to adopt best practices, improve operational efficiencies due to sophisticated and integrated information technology systems, much needed for a complex value chain. Amongst others, this will help in the supply chain to be even more agile and responsive to customer demand, streamline sales order processing, control the widely dispersed distribution centers more efficiently, and further improve the availability and freshness of the Nestlé products in the market. GLOBE also serves as an excellent decision support system in making appropriate business decisions with speed.

## SWOT Analysis for the Company

### Strengths :

- Access to the Nestlé Group's proprietary technology / brands, expertise and the

extensive centralised Research and Development facilities under the General Licence Agreement.

- High quality and safe food products at affordable prices, endorsed by the Nestlé Seal of Guarantee.
- Strong and well differentiated brands with leading market shares.
- Strong equity with consumers as a Company with "high quality" brands.
- Ongoing Product innovation and renovation, to convert consumer insights.
- Well diversified product portfolio.
- Efficient supply chain.
- Distribution structure that allows wide reach and coverage in the target markets.
- Capable and committed human resources.

### Weakness :

- Exports of coffee to Russia, constitutes substantial part of overall exports.
- Complex supply chain configuration.

### Threat :

- Competitive environment with diverse players.
- Rising prices of raw materials and fuels.
- Change in fiscal benefits/ laws.

### Opportunities :

- Potential for expansion in the smaller towns and other geographies.
- Potential for growth through increased penetration.
- Growing trend for 'Out of Home' consumption.
- Leverage Nestlé Technology to develop more products that provide Nutrition, Health and Wellness.

## Contributions to the Exchequer

Your Company has been a leading taxpayer of the country and over the years has been contributing significantly to various taxes. During the year 2005, the Company through its operations, contributed (directly and indirectly) towards tax collections at Central and State level, close to Rs. 7.2 Billion in the aggregate compared to around Rs. 6.2 Billion in 2004.

## Community Development

Your Company has always focused on long term, sustainable and profitable growth and helped communities around its factories to improve their quality of life in a similar manner. 'Nestlé Agricultural Services' has used the experience gained by the Nestlé Group across the world, from its Milk District Model, to set up a system of direct and efficient contacts with the farmers. Company veterinarians and agronomists supervise the milk routes and advise farmers on various issues including proper feed for the herds. Milk chilling facilities have been set up close to the farmers. Veterinary services are provided free, and medicines provided at wholesale prices. The Company assists farmers in artificial insemination programs for their cattle, provides subsidy and helps them in procuring loans. In the past few years, the Company has invested approximately Rs. 490 Million towards developing infrastructure, and Rs. 280 Million in procuring goods on behalf of the farmers. The Company also recognises the active role that village women play in adopting good dairying practices in dairy farms and regularly conducts special programs that help them.

The Company endorses the United Nation's Global Compact that encourages companies to take a long term view to promote prosperity in the society. While the operations of the Company have a multiplier effect on the development of the region, the Company also promotes projects around its factories to improve the quality of life in the communities.

Water is a scarce resource in India. An estimated 200 Million people do not have access to clean drinking water and it is a major concern for many communities. Your Company is committed to making its efforts in improving the situation, by creating awareness among the communities around its factories and educating school children to conserve this scarce resource. The Company is setting up projects where it organises bore wells to source clean drinking water, constructs storage tanks and tests the water quality. The projects are then maintained jointly with the local community. 60 such projects, directly benefiting over 22,000 school children have already been completed.

Your Company also supports local schools, helps in the maintenance of public parks and green belts, facilitates blood donation camps and health awareness programs. The key messages of conservation, hygiene, health and wellness are progressively built into the communities where the Company has its presence. All these initiatives strengthen the bond between your Company and the Community and forge our increasing commitment to the society in which we operate.

## Recognitions

As a partner in India's growth for the past over four decades your Company has helped improve the economic security of its people and the quality of their lives. It is a matter of pride that during the year 2005, this has been recognised at different fora.

Your Company was bestowed the UDYOG RATNA award by the PHD Chamber of Commerce and Industry to recognise Nestlé's significant contribution to the economic development of Punjab. The factory in Moga was also conferred the Punjab Government's award for 'Environmental Excellence' as a recognition of the efforts, amongst others, in the construction of clean drinking water facilities in village schools around the factory.

Safety at the Company's factories is given very high priority and this high safety culture was recognised by the Government of India during the year. The Company's factory at Samalkha was selected for the National Safety Award –2004. This Award is given to factories with high safety over a period of three consecutive years.

Your Company was again recognised for its outstanding performance in Exports by the Coffee Board of India in the Export Awards 2004-05 as the Best Exporter of Instant Coffee, Best Exporter to Russia & CIS Countries [coffee] and Best Exporter for Far East Countries [coffee]. Your Company has received the highest coffee exporter award from the Coffee Board of India for many years.

## Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same;
- they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profits for that period;
- they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- they have prepared the annual accounts on a going concern basis.

## Corporate Governance

In compliance with the requirements of Clause 49 of the Listing Agreement with the Stock Exchange, a separate report on Corporate Governance along with Auditors' certificate on its compliance is attached as Annexure -1 to this Report.

## Cautionary Statement

Statements in this Report, particularly those which relate to Management Discussion and Analysis as explained in the Corporate Governance Report, describing the Company's objectives, projections, estimates and expectations may constitute 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied in the statement depending on the circumstances.

## Directors

In accordance with Article 119 of the Articles of Association, Mr. Michael W. O. Garrett retires by rotation and being eligible offers himself for re-appointment.

## Auditors

The Statutory Auditors of the Company, M/s. A. F. Ferguson & Co., Chartered Accountants, New Delhi, retire in accordance with the provisions of the Companies Act, 1956 and are eligible for re-appointment. M/s. A. F. Ferguson & Co., Chartered Accountants, New Delhi have sought the re-appointment and have confirmed that their re-appointment if made, shall be within the limits of Section 224(1)(B) of the Companies Act, 1956.

The Audit Committee and the Board of Directors recommends the re-appointment of M/s. A. F. Ferguson & Co., Chartered Accountants, as the Auditors of the Company.

Complying with the provisions of Section 233-B of the Companies Act, 1956, the Board of Directors have appointed, subject to the approval of the Central Government, M/s. Ramanath Iyer and Co., Cost Accountants, New Delhi to carry out an audit of cost accounts of the Company in respect of milk foods for the year 2006.

## Information regarding Conservation of Energy etc. and Employees

Information required under Section 217(1)(e) of the Companies Act, 1956 (hereinafter referred to as 'the Act') read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure - 2 forming part of this Report. Information as per Section 217(2A) of the Act, read with the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, forms part of this Report. However, as per the provisions of Section 219 (1) (b) (iv) of the Act, the Report and Accounts are being sent to all the members excluding the statement containing the particulars of employees to be provided under Section 217(2A) of the Act. Any member interested in obtaining such particulars may inspect the same at the Registered Office of the Company or write to the Company Secretary for a copy.

## Trade Relations

The Company maintained healthy, cordial and harmonious industrial relations at all levels. Despite severe competition, the enthusiasm and unstinting efforts of the employees have enabled the Company to remain at the forefront of the Industry.

Your Company continued to receive co-operation and unstinted support from the distributors, retailers, stockists, suppliers and others associated with the Company as its trading partners.

The Directors wish to place on record their appreciation for the same and your Company will continue in its endeavour to build and nurture strong links with trade based on mutuality, respect and co-operation with each other and consistent with consumer interest.

## Appreciation

Your Company has been able to operate efficiently because of the culture of professionalism, creativity, integrity and continuous improvement in all functions and areas to ensure efficient utilisation of the Company's resources for sustainable and profitable growth. The Directors wish to thank each and every employee for their contribution to the good performance of the Company.

On behalf of the Board of Directors

6<sup>th</sup> March, 2006  
Gurgaon

MARTIAL G. ROLLAND  
CHAIRMAN

## AUDITORS' REPORT TO THE MEMBERS OF NESTLÉ INDIA LIMITED

1. We have audited the attached balance sheet of Nestlé India Limited as at December 31, 2005, the profit and loss account and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the annexure referred to in paragraph 3 above, we report that:
  - a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books;
    - c) the balance sheet, the profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
    - d) in our opinion, the balance sheet, profit and loss account and the cash flow statement dealt with by this report comply with the mandatory accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
    - e) on the basis of written representations received from the directors and taken on record by the Board of Directors, we report that none of the directors of the Company is disqualified as on December 31, 2005 from being appointed as director of the Company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
    - f) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
      - (i) in the case of the balance sheet, of the state of affairs of the Company as at December 31, 2005;
      - (ii) in the case of the profit and loss account, of the profit of the Company for the year ended on that date; and
      - (iii) in the case of cash flow statement, of the cash flows for the year ended on that date.

For A.F. FERGUSON & CO.  
Chartered Accountants

(MANJULA BANERJI)  
Partner

6<sup>th</sup> March, 2006  
New Delhi

(Membership No. 86423)

**ANNEXURE REFERRED TO IN PARAGRAPH '3' OF THE AUDITORS' REPORT TO THE MEMBERS OF NESTLÉ INDIA LIMITED ON THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2005.**

- (i) (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) In our opinion, the management has physically verified most of the fixed assets of the Company during the year at reasonable intervals, having regard to the size of the Company and nature of its assets. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of account.
- (c) In our opinion and according to the information and explanations given to us, the Company has not disposed off a substantial part of its fixed assets during the year.
- (ii) (a) During the year, the inventories have been physically verified by the management. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the records of inventories, we are of the opinion that the Company is maintaining proper records of inventories. The discrepancies noticed on physical verification of inventories as compared to book records were not material and have been properly dealt with in the books of account.
- (iii) (a) According to the information and explanations given to us, the Company has, during the year, not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (a), (b), (c) and (d) of the Companies (Auditor's Report) Order, 2003 (hereinafter referred to as the Order) are not applicable.
- (b) According to the information and explanations given to us, the Company has, during the year, not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (e), (f) and (g) of the Order, are not applicable.
- (iv) In our opinion and according to information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to the purchase of inventories, fixed assets and with regard to sale of goods. There is no sale of services. Further, on the basis of our examination and according to the information and explanations given to us, no major weaknesses in the aforesaid internal control system, has been noticed.
- (v) (a) In our opinion and according to the information and explanations given to us, there are no transactions that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956.
- (b) In our opinion and according to the information and explanations given to us, as there are no transactions that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956, paragraph 4 (v) (b) of the Order is not applicable.
- (vi) As, the Company has not accepted any deposits from the public, paragraph 4 (vi) of the Order is not applicable.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
- (viii) We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the rules made by the Central Government, the maintenance of cost records have been prescribed under 209 (1) (d) of the Companies Act, 1956 and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of records with a view to determining whether they are accurate or complete.
- (ix) (a) According to the information and explanations given to us and the records of the Company examined by us, the Company has generally been regular in depositing undisputed statutory dues including provident fund, employees' state insurance dues, income-tax, Investor Education and Protection Fund, sales tax / value added tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it with the appropriate authorities. We are informed that there are no undisputed statutory dues as at the year end, outstanding for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no disputed dues of service tax, customs duty, wealth tax and cess, which have not been deposited. The details of disputed dues as at December 31, 2005 in respect of excise duty, sales tax and income-tax that have not been deposited by the Company, are as follows :-

Name of the Statute	Nature of the Dues	Amount * (Rs. in thousands)	Period to which the amount relates (various years covering the period)	Forum where dispute is pending
Central Excise Laws	Excise Duty	40,760 2,679 4,538	1996 – 2003 2000 – 2004 1997 – 2003	Supreme Court Customs, Excise and Service Tax Appellate Tribunal Appellate authority upto Commissioners' level
Sales Tax Laws	Sales Tax	3,698 35,982	1996 – 2004 1992 – 2004	High Court Appellate authority upto Commissioners' level
Income Tax Act, 1961	Income tax	119,473 70,666	1992 – 1994 2001 – 2002	High Court Commissioner of Income-tax (Appeals)

\* Amount as per demand orders including interest and penalty wherever indicated in the Order.

The following matters, which have been excluded from the table above, have been decided in favour of the Company but the department has preferred appeals at higher levels. The details are given below :-

Name of the Statute	Nature of the Dues	Amount (Rs. in thousands)	Period to which the amount relates (various years covering the period)	Forum where department has preferred appeals
Central Excise Laws	Excise Duty	36,982	1994 - 2000	High Court
Sales Tax Laws	Sales Tax	4,300	1997 - 1998	High Court
Income Tax Act, 1961	Income tax	113,960 211,343	1983 – 1992 1993 – 2000	High Court Income-tax Appellate Tribunal

- |                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (x) The Company does not have accumulated losses at the end of the financial year December 31, 2005. Further, the Company has not incurred cash losses during the financial year ended December 31, 2005 and in the immediately preceding financial year ended December 31, 2004.                                     | to chit fund are applicable, accordingly paragraph 4 (xiii) of the Order, is not applicable.                                                                                                                                                                                                                                             | (xviii) The Company has not made any preferential allotment of shares during the year.                                                                                                                                       |
| (xi) According to the records of the Company examined by us and on the basis of information and explanations given to us, the Company has not defaulted in repayment of dues to banks during the year. The Company has not taken any loans from financial institutions and has not issued debentures during the year. | (xiv) As the Company is not dealing or trading in shares, securities, debentures and other investments, paragraph 4 (xiv) of the Order is not applicable.                                                                                                                                                                                | (xix) The Company has not issued any debentures during the year.<br>(xx) The Company has not raised any money by way of public issue during the year.                                                                        |
| (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities, accordingly paragraph 4 (xii) of the Order is not applicable.                                                                                                          | (xv) According to the information and explanations given to us, the Company has not given any guarantee during the year for loans taken by others from banks or financial institutions.<br>(xvi) In our opinion and according to the information and explanations given to us, the Company has not taken any term loans during the year. | (xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the year ended December 31, 2005. |
| (xiii) The Company is not a chit fund / nidhi / mutual benefit fund / society to which the provisions of special statute relating                                                                                                                                                                                     | (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that, during the year, short term funds have not been used to finance long term investments.                                                                                               | For A. F. Ferguson & Co.<br>Chartered Accountants<br><br>(MANJULA BANERJI)<br>Partner<br>(Membership No. 86423)                                                                                                              |
|                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                          | 6 <sup>th</sup> March, 2006<br>New Delhi                                                                                                                                                                                     |

## BALANCE SHEET AS AT DECEMBER 31, 2005

SOURCES OF FUNDS	SCHEDULE	2005 (Rs. in thousands)		2004 (Rs. in thousands)	
<b>SHAREHOLDERS' FUNDS</b>					
Capital	A	964,157		964,157	
Reserves and surplus	B	<u>2,577,176</u>	<u>3,541,333</u>	<u>2,229,913</u>	3,194,070
<b>LOAN FUNDS</b>					
Secured	C		<u>143,045</u>		79,051
			<u>3,684,378</u>		<u>3,273,121</u>
<b>APPLICATION OF FUNDS</b>					
<b>FIXED ASSETS</b>					
Gross block	D	9,494,439		8,381,605	
Less: Depreciation		<u>4,756,737</u>		<u>4,409,447</u>	
Net block		<u>4,737,702</u>		<u>3,972,158</u>	
Capital work-in-progress		<u>228,251</u>	<u>4,965,953</u>	<u>340,885</u>	4,313,043
<b>INVESTMENTS</b>					
	E		<u>1,044,276</u>		1,548,637
<b>DEFERRED TAX ASSETS/ (LIABILITIES) (NET)</b>					
	F		<u>(99,521)</u>		12,038
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>					
Inventories	G	2,530,993		2,166,728	
Sundry debtors		305,247		261,683	
Cash and bank balances		366,453		94,485	
Loans and advances		<u>1,424,272</u>		<u>1,058,856</u>	
		<u>4,626,965</u>		<u>3,581,752</u>	
Less: <b>CURRENT LIABILITIES AND PROVISIONS</b>	H				
Liabilities		3,198,326		2,693,640	
Provisions		<u>3,654,969</u>		<u>3,488,709</u>	
		<u>6,853,295</u>		<u>6,182,349</u>	
<b>NET CURRENT ASSETS</b>			<u>(2,226,330)</u>		<u>(2,600,597)</u>
<b>NOTES TO THE ACCOUNTS</b>	O		<u>3,684,378</u>		<u>3,273,121</u>

March 6, 2006  
Gurgaon

MARTIAL G. ROLLAND  
Chairman & Managing Director

SHOBINDER DUGGAL  
Director - Finance & Control

B. MURLI  
Sr. VP - Legal & Company Secretary

As per our report attached  
For A.F. FERGUSON & CO.,  
Chartered Accountants

March 6, 2006  
New Delhi

(MANJULA BANERJI)  
Partner  
Membership No. 86423



**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	SCHEDULE	2005 (Rs. in thousands)	2004 (Rs. in thousands)
<b>INCOME</b>			
Sales			
Domestic		23,847,096	21,292,753
Export		2,591,776	2,435,407
Gross		26,438,872	23,728,160
Less: Excise Duty		1,669,862	1,452,421
Net Sales		24,769,010	22,275,739
Other Income	I	237,433	144,541
		<u>25,006,443</u>	<u>22,420,280</u>
<b>EXPENDITURE</b>			
Materials consumed and purchase of goods	J	11,280,564	10,407,866
Manufacturing and other expenses	K	8,390,049	7,438,477
Interest	L	2,122	7,822
Depreciation	D	568,377	491,369
Adjustment due to decrease / (increase) in stock of finished goods and work-in-progress	M	(122,093)	(80,436)
		<u>20,119,019</u>	<u>18,265,098</u>
<b>PROFIT BEFORE IMPAIRMENT, CONTINGENCIES AND TAXATION</b>			
		4,887,424	4,155,182
Impairment loss on fixed assets (Refer Note 1 - Schedule O)	D	(26,369)	23,306
Provision for contingencies (Refer Note 2 - Schedule O)	N	223,219	266,945
		<u>4,690,574</u>	<u>3,864,931</u>
<b>PROFIT BEFORE TAXATION</b>			
Income tax expense			
Current tax		1,447,900	1,463,049
Deferred tax		111,559	(117,276)
Fringe benefit tax		35,400	–
		<u>1,594,859</u>	<u>1,345,773</u>
<b>PROFIT AFTER TAXATION</b>			
		3,095,715	2,519,158
Balance brought forward		34,548	442,348
<b>BALANCE AVAILABLE FOR APPROPRIATION</b>			
		<u>3,130,263</u>	<u>2,961,506</u>
Appropriations:			
Dividends:			
Interim dividend		2,217,562	1,928,314
Final proposed (Special Dividend in 2004)		192,831	433,871
Corporate dividend tax		338,059	312,857
General reserve		309,572	251,916
		<u>72,239</u>	<u>34,548</u>
<b>SURPLUS CARRIED TO THE BALANCE SHEET</b>			
		32.11	26.13
<b>BASIC AND DILUTED EARNINGS PER SHARE (IN RUPEES)</b>			
<b>NOTES TO THE ACCOUNTS</b>			

March 6, 2006  
Gurgaon

MARTIAL G. ROLLAND  
Chairman & Managing Director

SHOBINDER DUGGAL  
Director - Finance & Control

B. MURLI  
Sr. VP - Legal & Company Secretary

As per our report attached to the balance sheet  
For A.F. FERGUSON & CO.,  
Chartered Accountants

March 6, 2006  
New Delhi

(MANJULA BANERJI)  
Partner  
Membership No. 86423

## CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 (Rs. in thousands)	2004 (Rs. in thousands)
<b>A CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net profit before tax	4,690,574	3,864,931
<b>Adjustments for :</b>		
Depreciation	568,377	491,369
Unrealised exchange differences	207	(5,334)
Deficit/(surplus) on fixed assets sold/scrapped/written off/written back	(3,441)	35,601
Interest expense	2,122	7,822
Impairment loss/(reversal) on fixed assets	(26,369)	23,306
Provision for wealth tax	1,000	603
Interest on inter corporate deposits	(6,782)	(8,596)
<b>Operating profit before working capital changes</b>	<b>5,225,688</b>	<b>4,409,702</b>
<b>Adjustments for :</b>		
Decrease/(increase) in trade and other receivables	(282,897)	(55,735)
Decrease/(increase) in inventories	(364,265)	27,434
Increase/(decrease) in trade payables	526,811	270,816
Increase/(decrease) in provision for contingencies	223,219	266,945
Increase/(decrease) in provision for pension and gratuity	217,886	193,414
<b>Cash generated from operations</b>	<b>5,546,442</b>	<b>5,112,576</b>
Direct taxes paid	(1,515,817)	(1,460,812)
<b>Net cash from operating activities</b>	<b>4,030,626</b>	<b>3,651,764</b>
<b>B CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets (adjusted for suppliers payables and capital work in progress)	(1,300,477)	(784,752)
Sale of fixed assets	85,854	5,457
Interest received on inter corporate deposits	5,997	8,853
Inter corporate deposits refunded	—	120,000
Inter corporate deposits granted	(95,000)	—
<b>Net cash used in investing activities</b>	<b>(1,303,626)</b>	<b>(650,442)</b>
<b>C CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds/(Repayments) of borrowings	63,994	28,052
Interest paid	(2,122)	(7,822)
Dividends paid	(2,649,401)	(1,925,756)
Corporate dividend tax	(371,864)	(252,007)
<b>Net cash outflow from financing activities</b>	<b>(2,959,393)</b>	<b>(2,157,533)</b>
<b>Net increase / (decrease) in cash and cash equivalents (A+B+C)</b>	<b>(232,393)</b>	<b>843,789</b>
<b>Cash and cash equivalents as at opening</b>		
Cash and bank balances	94,485	62,894
Current investments	1,548,627	736,429
<b>Cash and cash equivalents as at opening</b>	<b>1,643,112</b>	<b>799,323</b>
<b>Cash and cash equivalents as at closing</b>		
Cash and bank balances	366,453	94,485
Current investments	1,044,266	1,548,627
<b>Cash and cash equivalents as at closing</b>	<b>1,410,719</b>	<b>1,643,112</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(232,393)</b>	<b>843,789</b>

March 6, 2006  
Gurgaon

MARTIAL G. ROLLAND  
Chairman & Managing Director

SHOBINDER DUGGAL  
Director - Finance & Control

B. MURLI  
Sr. VP - Legal & Company Secretary

As per our report attached to the balance sheet  
For A.F. FERGUSON & CO.,  
Chartered Accountants

March 6, 2006  
New Delhi

(MANJULA BANERJI)  
Partner  
Membership No. 86423

**SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT DECEMBER 31, 2005**

	2005 (Rs. in thousands)	2004 (Rs. in thousands)
<b>SCHEDULE A</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised</b>		
100,000,000	Equity shares of Rs.10 each (Previous year 100,000,000)	1,000,000
<b>Issued, subscribed and paid-up</b>		
96,415,716	Equity shares of Rs.10 each (Previous year 96,415,716)	964,157
<b>Of the above:</b>		
73,413,626	Shares of Rs.10 each (Previous year 73,413,626) were allotted as fully paid-up bonus shares by capitalisation of general reserves Rs. 73,897 thousands (Previous year Rs. 73,897 thousands) and share premium Rs. 660,239 thousands (Previous year Rs. 660,239 thousands).	
736,331	Shares of Rs.10 each (Previous year 736,331 ) were allotted as fully paid up pursuant to a contract without payment being received in cash.	
<b>Of the above:</b>		
32,166,274	Shares of Rs. 10 each (Previous year 32,166,274) are held by Nestlé S.A.	
27,463,680	Shares of Rs. 10 each (Previous year NIL) are held by Maggi Enterprises Limited, a subsidiary of Nestlé S.A.	
–	Shares of Rs. 10 each (Previous year 27,463,680 ) are held by Nestlé's Holdings Limited, a subsidiary of Nestlé S.A.	
<b>SCHEDULE B</b>		
<b>RESERVES AND SURPLUS</b>		
<b>Share premium</b>		
	As per last balance sheet	432,363
<b>Capital subsidy</b>		
	As per last balance sheet	2,500
<b>General reserve</b>		
	As per last balance sheet	1,760,502
	Add : Transferred from profit and loss account	309,572
		<u>2,070,074</u>
<b>Surplus, being balance in profit and loss account (undistributed profits)</b>		
		<u>72,239</u>
		<u>2,577,176</u>
<b>SCHEDULE C</b>		
<b>SECURED LOANS</b>		
<b>From Banks</b>		
	Secured by a first <i>pari passu</i> charge on all movable assets (excluding plant and machinery), finished goods, work-in-progress, raw materials and book debts.	143,045
		<u>79,051</u>
		<u>143,045</u>
		<u>79,051</u>

**SCHEDULE D**  
**FIXED ASSETS**

(Rs. in thousands)

	GROSS BLOCK				DEPRECIATION					NET BLOCK		
	Cost as at December 31, 2004	Additions #	Deletions / adjustments	Cost as at December 31, 2005	As at December 31, 2004	For the year	Impairment loss ##		On deletions / adjustments	As at December 31, 2005	As at December 31, 2005	As at December 31, 2004
							charged	reversed				
<b>Tangible Assets (A)</b>												
Freehold land	56,026	—	—	56,026	—	—	—	—	—	—	56,026	56,026
Leasehold land	—	63,131	—	63,131	—	58	—	—	—	58	63,073	—
Buildings	1,171,136	67,980	4,862	1,234,254	374,211	34,795	990	—	542	409,454	824,800	796,925
Railway siding	11,738	—	5	11,733	8,013	557	—	—	—	8,570	3,163	3,725
Plant and machinery	6,297,638	637,906	218,304	6,717,240	3,400,425	345,274	11,658	39,017	142,404	3,575,936	3,141,304	2,897,213
Furniture and fixtures	359,067	42,316	11,591	389,792	228,435	69,478	—	—	10,892	287,021	102,771	130,632
Information technology equipment	415,459	30,932	27,039	419,352	359,482	34,122	—	—	27,039	366,565	52,787	55,977
Vehicles	70,541	19,354	15,331	74,564	38,881	13,646	—	—	13,841	38,686	35,878	31,660
<b>Sub Total</b>	8,381,605	861,619	277,132	8,966,092	4,409,447	497,930	12,648	39,017	194,718	4,686,290	4,279,802	3,972,158
<b>Intangible Assets (B)</b>												
Management information systems	—	528,347	—	528,347	—	70,447	—	—	—	70,447	457,900	—
<b>Total (A+B)</b>	8,381,605	1,389,966	277,132	9,494,439	4,409,447	568,377	12,648	39,017	194,718	4,756,737	4,737,702	
Previous year	7,894,480	614,197	127,072	8,381,605	3,980,786	491,369	104,642	81,336	86,014	4,409,447		3,972,158
Capital work-in-progress including capital advances and machinery-in-transit											228,251	340,885
											4,965,953	4,313,043

Notes:

- (a) Buildings include Rs. 500 being the cost of share in a Co-operative Housing Society.  
(b) Buildings and plant and machinery include Rs. 53,998 thousands (Previous year Rs. 53,998 thousands) being the cost of leasehold improvements.  
# Additions for the year include fluctuations in the rate of foreign exchange of Rs. 10,929 thousands (previous year Rs. 12 thousands).  
## Refer Note 1 - Schedule O

**SCHEDULE E**  
**INVESTMENTS**

(NON TRADE, UNQUOTED)

LONG TERM

Coffee Futures Exchange India Limited 1 Equity share of the face value of Rs. 10,000 each 10 10

CURRENT  
GOVERNMENT SECURITIES

Treasury bills Face value of Rs. 1,101,500 thousands (previous year Rs. 1,435,000) purchased and Rs. 1,271,500 thousands (previous year Rs. 1,065,000) sold during the year 197,363 366,129

MUTUAL FUNDS — DEBT

[Units of face value Rs. 10 each, unless otherwise stated]

JM Mutual Fund 4,995,608 Units (previous year 9,986,275) of JM High Liquidity Fund Super Institutional Plan - Daily Dividend Option. (111,078,616 units purchased and 116,069,283 units sold during the year) 50,038 100,027

— JM Mutual Fund Short Term Plan - Dividend Option. (19,967,806 units purchased and sold during the year) — —

Standard Chartered Mutual Fund 3,501,301 Units (previous year 5,000,675) of GCCD Grindlays Cash Fund Super Institutional Plan C - Daily Dividend Option. (96,872,179 units purchased and 98,371,553 units sold during the year) 35,013 50,007

Alliance Capital Mutual Fund — Units (previous year Nil) of Alliance Cash Manager IP - Daily Dividend. (30,169,567 units purchased and sold during the year) — —

2005  
(Rs. in  
thousands)

2004  
(Rs. in  
thousands)



<b>SCHEDULE E (Contd...)</b>			<b>2005 (Rs. in thousands)</b>	<b>2004 (Rs. in thousands)</b>
Principal Mutual Fund	7,500,155	Units (previous year 22,078,751) of Principal Cash Management Fund Liquid Option Institutional Premium Plan - Daily Dividend Option. (94,437,542 units purchased and 109,016,138 units sold during the year)	75,007	220,801
Prudential ICICI Mutual Fund	10,000,000	Units (previous year NIL) of Prudential ICICI Fixed Maturity Plan-Dividend Plan. (purchased during the year)	100,000	—
		— Units (previous year 18,406,305) of Prudential ICICI Liquid Plan Institutional Plus - Daily Dividend Option. (84,131,571 units purchased and 102,537,876 units sold during the year)	—	218,142
		— Prudential ICICI Floating Rate Plan - Daily Dividend Plan. (34,154,952 units purchased and sold during the year)	—	—
Kotak Mahindra Mutual Fund	7,091,430	Units (previous year 18,135,494) of Kotak Liquid Institutional Premium Plan - Daily Dividend Option. (47,804,175 units purchased and 58,848,239 sold during the year)	86,715	221,763
Birla Sun Life Mutual Fund	9,989,778	Units (previous year 16,978,998) of Birla Cash Plus Institutional Premium Plan - Daily Dividend Option. (56,577,830 units purchased and 63,567,050 units sold during the year)	100,092	170,123
DSP Merrill Lynch Mutual Fund	15,000,000	DSP Merrill Lynch Fixed Term Plan - Dividend Plan. (units purchased during the year)	150,000	—
		— DSP Merrill Lynch Floating Rate Regular Plan - Daily Dividend Option. (21,080,349 units purchased and sold during the year)	—	—
ABN Amro Mutual Fund		— ABN Amro Cash Fund - Institutional Plus - Daily Dividend Option. (56,520,984 units purchased and sold during the year)	—	—
		— ABN Amro Floating Rate Fund - Institutional - Daily Dividend Option. (19,558,024 units purchased and sold during the year)	—	—
ING Vysya Mutual Fund		— ING Vysya Liquid Fund Super Institutional - Daily Dividend Option. (49,246,525 units purchased and sold during the year)	—	—
Tata Mutual Fund	44,897	Units (previous year NIL) of Tata Liquid Super High Investment Fund - Daily Dividend Option. (288,346 units purchased and 243,449 units sold during the year)	50,038	—
HSBC Mutual Fund		— Units (previous year 20,152,193) HSBC Cash Fund Institutional Plus - Daily Dividend Option. (98,688,958 units purchased and 118,841,151 units sold during the year)	—	201,635
HDFC Mutual Fund		— HDFC Cash Management Fund Saving Plan - Daily Dividend Plan. (46,275,708 units purchased and sold during the year)	—	—
Repurchase price as at December 31, 2005		Rs. 847,790 thousands (previous year Rs. 1,550,962 thousands)		
<b>COMMERCIAL PAPERS</b>				
Rabo India Finance (P) Ltd.	200	Units of face value Rs. 1,000,000 each (previous year Nil) Non-convertible debentures (450 units purchased and 250 units sold during the year).	200,000	—
HDFC Ltd.		— Units of face value Rs.100,000 each Non-convertible debentures (1500 units purchased and sold during the year)	—	—
			<b>1,044,276</b>	<b>1,548,637</b>
<b>SCHEDULE F</b>				
<b>DEFERRED TAX ASSETS AND LIABILITIES</b>				
<b>Deferred tax assets</b>				
Provision for contingencies			428,895	435,394
Provision for pension and gratuity			11,835	8,112
Other Items deductible on payment or deposit of withholding taxes			55,867	162,387
Other temporary differences			22,382	24,335
			<b>518,979</b>	<b>630,228</b>
<b>Deferred tax liabilities</b>				
Difference between book and tax depreciation			618,500	618,190
<b>Deferred tax assets/(liabilities) (net)</b>			<b>(99,521)</b>	<b>12,038</b>





	2005 (Rs. in thousands)	2004 (Rs. in thousands)
<b>SCHEDULE H</b>		
<b>CURRENT LIABILITIES AND PROVISIONS</b>		
<b>Current liabilities</b>		
Sundry Creditors -		
Small scale industrial undertakings *	39,772	44,062
Others	3,125,025	2,618,080
Investor Education and Protection Fund shall be credited by the following:		
Unpaid dividends #	33,529	31,498
	<u>3,198,326</u>	<u>2,693,640</u>
<b>Provisions</b>		
Pension and gratuity	1,363,352	1,145,466
Proposed final dividend	192,831	433,871
Corporate dividend tax	27,045	60,850
Contingencies (Refer Schedule N)	2,071,741	1,848,522
	<u>3,654,969</u>	<u>3,488,709</u>
	<u>6,853,295</u>	<u>6,182,349</u>
* Refer to Note 18 Schedule O		
# There is no amount due and outstanding to be credited to Investor Education and Protection Fund		
<b>SCHEDULE I</b>		
<b>OTHER INCOME</b>		
Dividend on current non trade investments	67,575	15,118
Interest on income tax refund in relation to earlier years	5,253	-
Interest received on loans and deposits (gross) (Tax deducted at source Rs. 11,316 thousands previous year Rs. 1,976 thousands)	71,780	34,089
Export incentives	696	3,541
Miscellaneous income	88,500	61,715
Surplus on fixed assets sold/scrapped/written back	3,441	-
Profit on sale of current non trade investments	188	30,078
	<u>237,433</u>	<u>144,541</u>
<b>SCHEDULE J</b>		
<b>MATERIALS CONSUMED AND PURCHASE OF GOODS</b>		
Raw materials consumed	8,819,249	8,122,752
Packing materials consumed	2,178,344	1,960,875
Purchase of goods - outside manufacture	281,667	322,369
- others	1,304	1,870
	<u>11,280,564</u>	<u>10,407,866</u>

	2005 (Rs. in thousands)	2004 (Rs. in thousands)
<b>SCHEDULE K</b>		
<b>MANUFACTURING AND OTHER EXPENSES</b>		
Employees' cost		
Salaries, wages, bonus, pension, gratuity etc.	1,660,714	1,499,467
Contribution to provident and other funds	60,618	52,049
Staff welfare expenses	<u>111,612</u>	<u>90,964</u>
Advertising and sales promotion	1,359,432	1,212,585
Freight, transport and distribution	1,177,179	1,096,792
General licence fees (net of taxes)	821,927	740,673
Taxes on general licence fees	127,385	114,805
Power and fuel	1,039,103	850,667
Maintenance and repairs		
Plant and machinery	199,812	182,192
Buildings	26,847	37,402
General	<u>35,870</u>	<u>40,192</u>
Travelling	310,715	259,101
Contract manufacturing charges	290,771	228,645
Rates and taxes	196,949	176,406
Rent	153,126	149,131
Information technology and management information systems	242,765	140,132
Milk collection and district development expenses	100,979	81,923
Consumption of stores and spare parts (excluding Rs. 161,742 thousands charged to other revenue accounts, previous year Rs. 150,902 thousands)	77,478	72,083
Training expenses	59,422	68,919
Market research	50,065	37,663
Deficit on fixed assets sold/scrapped/written off	-	35,601
Laboratory (quality testing) expenses	52,738	33,975
Insurance	16,860	14,779
Miscellaneous expenses	<u>217,682</u>	<u>222,331</u>
	<b><u>8,390,049</u></b>	<b><u>7,438,477</u></b>



	<b>2005</b> <i>(Rs. in thousands)</i>	<b>2004</b> <i>(Rs. in thousands)</i>
<b>SCHEDULE L</b>		
<b>INTEREST</b>		
Interest on fixed loans	276	1,868
Others	<u>1,846</u>	<u>5,954</u>
	<u>2,122</u>	<u>7,822</u>
<b>SCHEDULE M</b>		
<b>ADJUSTMENT DUE TO (INCREASE)/DECREASE IN STOCK OF FINISHED GOODS AND WORK-IN-PROGRESS</b>		
Opening stock		
Work-in-progress	342,419	286,474
Finished goods	<u>1,073,759</u>	<u>1,064,179</u>
	<u>1,416,178</u>	<u>1,350,653</u>
Less : Excise duty	<u>104,333</u>	<u>119,244</u>
Net opening stock (A)	<u>1,311,845</u>	<u>1,231,409</u>
Less : Closing stock		
Work-in-progress	271,418	342,419
Finished goods	<u>1,285,707</u>	<u>1,073,759</u>
	<u>1,557,125</u>	<u>1,416,178</u>
Less : Excise duty	<u>123,187</u>	<u>104,333</u>
Net closing stock (B)	<u>1,433,938</u>	<u>1,311,845</u>
Movement in opening and closing stock (A-B)	<u>(122,093)</u>	<u>(80,436)</u>
<b>SCHEDULE N</b>		
<b>PROVISION FOR CONTINGENCIES</b>		
<b>Balance as at December 31, 2004/2003</b>	<b>1,848,522</b>	<b>1,581,577</b>
Add : Created during the year	308,719	380,945
Less : Reversed/utlised during the year	<u>(85,500)</u>	<u>(114,000)</u>
Net provision taken to the Profit and Loss Account	<u>223,219</u>	<u>266,945</u>
<b>Balance as at December 31, 2005/2004</b> (Refer Note 2- Schedule O)	<u>2,071,741</u>	<u>1,848,522</u>

## SCHEDULE O

### NOTES TO THE ACCOUNTS

1. During the year ended December 31, 2005, the Company has reversed certain impairment losses recognised in earlier years and the resultant gain (Gross - Rs. 39,017 thousands, net of deferred taxes - Rs. 25,884 thousands) consequent to the disposal of most items of the plant and machinery relating to the erstwhile Water business (discontinued in 2003) has been credited to the profit and loss account.

Impairment loss of fixed assets (Gross - Rs. 12,648 thousands, net of deferred taxes - Rs. 8,391 thousands) relates to various items of building and plant and machinery that have been brought down to their recoverable values upon evaluation of future economic benefits from their use.

2. The Company has created a contingency provision of Rs. 308,719 thousands (Previous year Rs. 380,945 thousands) for various contingencies resulting mainly from issues, which are under litigation / dispute and other items requiring management judgment and discretion. The Company has also reversed / utilised contingency provision of Rs. 85,500 thousands (Previous year Rs. 114,000 thousands) due to the satisfactory settlement of certain disputes and other matters for which provision was no longer required. The details of class-wise provisions are given below :

(Rs. in thousands)

Description	Class of Provisions			Total
	Litigations and related disputes	Disputes	Others	
Opening Balance	1,174,832	71,000	602,690	1,848,522
New Provisions	140,339	65,000	103,380	308,719
Utilization / Settlement	-	(20,000)	-	(20,000)
Reversal	-	(51,000)	(14,500)	(65,500)
Closing Balance	1,315,171	65,000	691,570	2,071,741

#### Notes:

**(a) Litigations and related disputes-** represents estimates made mainly for probable claims arising out of litigations / disputes pending with revenue authorities under various statutes (i.e. Income Tax, Excise Duty, Service Tax, Sales and Purchase Tax etc.). The timing and the probability of the outflow with regard to these matters depends on the ultimate settlement / conclusion with the relevant authorities.

**(b) Disputes** - represents estimates made for probable claims arising out of disputes in commercial dealings with third parties. The settlement period will depend on the course of action taken by the parties in dispute.

**(c) Others** - include estimates made for products sold by the Company which are covered under free replacement warranty on becoming unfit for consumption during the prescribed shelf life, investments held by the employee benefit trusts and items requiring management judgment and discretion in relation to certain employees related matters. The timing and probability of outflow with regard to these matters will depend on the external environment and the consequent decision / conclusion by the Management.

3. Capital commitments remaining to be executed and not provided for

2005  
(Rs. in  
thousands)

2004  
(Rs. in  
thousands)

500,435

103,859



	2005 (Rs. in thousands)	2004 (Rs. in thousands)
4. Auditors' remuneration including service tax and expenses in respect of		
a) Statutory audit	2,204	1,725
b) Audit of accounts for fiscal year and tax audit	937	793
c) Limited review of quarterly / half yearly un-audited results	576	496
d) Certification for royalty remittances and corporate governance	238	186
e) Audit of employee trust accounts	22	55
f) Due diligence review	276	-
g) Certification of tax holiday benefits	109	116
h) Reimbursement of out of pocket expenses for statutory audit and other matters	425	441
5. Managerial remuneration @		
Salaries and allowances	14,664	15,472
Company's contribution to provident fund	356	185
Commission to managing/whole-time director	22,331	19,954
Commission to non whole-time directors	1,200	900
Director sitting fees	230	230
Other perquisites	4,817	5,681
	<u>43,598</u>	<u>42,422</u>
@ Does not include provision for incremental pension liability of Director - Finance & Control, since the actuarial certificate is for the Company as a whole. There is no incremental gratuity liability since he had already earned gratuity, prior to his appointment as Director - Finance & Control.		
Computation of net profit in accordance with Section 198 of the Companies Act, 1956		
Net Profit after taxation	3,095,715	2,519,158
Add:		
Managerial remuneration	43,598	42,422
Net gain / (deficit) on fixed assets sold/scrapped as per Section 350 of the Companies Act, 1956	3,298	(35,688)
Net (gain) / deficit on fixed assets sold / scrapped as per accounts	(3,441)	35,601
Provision for income-tax	1,594,859	1,345,773
Net Profit	<u>4,734,029</u>	<u>3,907,266</u>
Commission:		
- Amount	23,532	20,854
- Percentage of net profit	0.50%	0.53%
6. Exchange difference (net) amounting to Rs. 3,075 thousands credited (Previous year Rs. 12,777 thousands debited) to respective revenue heads in the profit and loss account.		
	2005	2004
	(Rs. in thousands)	(Rs. in thousands)
7. Stores and spare parts consumed		
Imported	35,375	24,311
Indigenous	203,845	198,674
	<u>239,220</u>	<u>222,985</u>
	14.8	10.9
	85.2	89.1
	<u>100.0</u>	<u>100.0</u>

	2005 (Rs. in thousands)		2004 (Rs. in thousands)	
8. Earnings from exports :				
Export of goods in:				
- Foreign Currency at F.O.B value (including sales to Russia invoiced in rupees)		2,063,900		1,840,570
- Rupees (all inclusive sales to Nepal & Bhutan)		445,135		490,342
Proceeds from sale of fixed assets in foreign currency at F.O.B value		66,559		-
9. C. I. F. value of imports :				
Raw materials		1,208,556		529,799
Capital goods		188,887		124,497
Goods – Outside manufacture		40,250		27,270
Components and spare parts		44,188		28,072
	Qty	(Rs. in	Qty	(Rs. in
	(MT)	thousands)	(MT)	thousands)
10. Raw materials consumed :				
Milk and milk concentrate	312,580	3,529,934	291,402	3,541,537
Green coffee	28,691	1,278,942	30,663	1,002,050
Sugar	37,455	695,035	34,785	535,451
Vegetable oils	14,095	644,371	11,997	593,957
Skimmed milk powder	6,550	555,753	5,388	514,192
Wheat flour	53,673	547,601	47,911	478,957
Cocoa based raw materials	1,020	138,727	1,041	170,118
Tomato Paste	3,535	124,293	3,000	106,873
Whey powder	1,283	113,990	1,069	86,382
Black tea / green leaf	7,200	70,106	8,398	131,963
Chicory	3,630	66,247	3,494	68,677
Tapioca starch	3,926	61,395	3,368	56,386
Apple concentrate	800	39,139	712	34,502
Others (net of sale proceeds of by-products / surplus materials)		953,716		801,707
		<b>8,819,249</b>		<b>8,122,752</b>
	(Rs. in	%	(Rs. in	%
	thousands)		thousands)	
Of the above :				
Imported	1,284,025	14.6	548,520	6.8
Indigenous	7,535,224	85.4	7,574,232	93.2
	<b>8,819,249</b>	<b>100.0</b>	<b>8,122,752</b>	<b>100.0</b>



		2005 (Rs. in thousands)		2004 (Rs. in thousands)				
11. Expenditure in foreign currency (accrual basis) :								
General licence fees (net of tax)		821,927		740,673				
Information technology and management information systems		482,065		91,050				
Travelling and training		37,012		22,411				
Ocean freight		32,584		31,763				
Other matters		33,506		38,200				
12. Amount remitted in foreign currencies towards dividends during the year								
	Number of Non-resident Shareholders	2005 Number of Equity Shares held	Dividend remitted (Rs. in thousands)	2004 Number of Non-resident Shareholders	2004 Number of Equity Shares held	Dividend remitted (Rs. in thousands)		
Final (Special for 2004)	2	59,629,954	268,335	-	-	-		
Interim	2	59,629,954	1,371,489	2	59,629,954	1,192,600		
13. Earnings per share								
Profit after taxation as per profit and loss account (Rs. in thousands)		3,095,715		2,519,158				
Weighted average number of equity shares outstanding		96,415,716		96,415,716				
Basic and diluted earnings per share in rupees (face value – Rs. 10 per share)		32.11		26.13				
14. Capacities, Production/Purchases, Stocks and Sales of Finished Goods								
Class of goods	Licensed Capacity (Annual) Quantity (MT)	Opening stock		Actual# Production & Purchases (MT)	Closing stock		Gross Sales	
		Quantity (MT)	Value (Rs. in thousands)		Quantity (MT)	Value (Rs. in thousands)	Quantity* (MT)	Value (Rs. in thousands)
Milk Products and Nutrition								
- Licensed	72,502.50 (a) (72,502.50)	5,247 (4,864)	414,358 (386,890)	59,776 (55,366)	5,659 (5,247)	517,849 (414,358)	58,827 (54,511)	7,611,364 (6,946,666)
- Others	Not Applicable	2,221 (1,977)	176,484 (160,378)	41,158 (42,998)	2,344 (2,221)	193,107 (176,484)	40,544 (42,239)	4,140,772 (3,834,764)
Beverages	Not Applicable	1,611 (1,535)	189,165 (171,418)	24,741 (25,222)	1,516 (1,611)	235,752 (189,165)	24,606 (24,994)	5,821,500 (5,273,671)
Prepared dishes and cooking aids	Not Applicable	3,440 (4,514)	150,047 (172,990)	66,485 (59,785)	3,744 (3,440)	163,809 (150,047)	65,603 (60,463)	5,017,250 (4,206,099)
Chocolate and confectionery	Not Applicable	1,592 (1,723)	143,704 (172,503)	26,927 (23,616)	2,153 (1,592)	175,190 (143,704)	26,246 (23,575)	3,845,473 (3,465,118)
			1,073,759 (1,064,179)			1,285,707 (1,073,759)		26,436,359 (23,726,318)

# Includes product manufactured by contract manufacturers on conversion basis

\* Sales quantity includes goods withdrawn for sales promotion.

- (a) Includes 50,000 MT (50,000 MT) covered by Industrial Entrepreneurs Memorandums in terms of Notification No. 477(E) dated 25<sup>th</sup> July, 1991 of the Department of Industrial Development, Ministry of Industry, Government of India. Milk products comprise sweetened condensed milk, baby milk foods, milk powders, acidified infant food and other milk products, which are covered by one class of goods.
- (b) The products are manufactured in integrated plants as certified by the Management on which the Auditors have relied. Hence, in respect of all the above class of goods, individual installed capacities cannot be given, as they are mainly dependent on product mix.
- (c) Actual production and purchase include purchase of 9,761 MT (13,246 MT) in Milk Products and Nutrition – Others, 85 MT (199 MT) in Beverages, 30 MT (22 MT) in Chocolate and Confectionery. The total value of these purchases is Rs. 281,667 thousands (Rs. 322,369 thousands).
- (d) Previous year's figures are indicated in brackets.

15. Quantitative information in respect of other goods

Class of goods	Opening stock		Purchases		Closing stock		Sales	
	Qty (MT)	Value (Rs. in thousands)	Qty (MT)	Value (Rs. in thousands)	Qty (MT)	Value (Rs. in thousands)	Qty (MT)	Value (Rs. in thousands)
Others	- (-)	- (-)	<b>34</b> (-)	<b>1,413</b> (1,870)	- (-)	- (-)	<b>34</b> (-)	<b>2,513</b> (1,842)

Previous year's figures are indicated in brackets.

16. Segment reporting

Based on the guiding principles given in Accounting Standard on 'Segment Reporting' [(AS-17) issued by the Institute of Chartered Accountants of India] the Company's primary business segment is Food. The food business incorporates product groups viz. Milk Products and Nutrition, Beverages, Prepared dishes and cooking aids, Chocolates and Confectionery, which mainly have similar risks and returns. As the Company's business activity falls within a single primary business segment the disclosure requirements of AS -17 in this regard are not applicable.

17. Related party disclosures under Accounting Standard 18

**Holding companies:** Nestlé S.A., Maggi Enterprises Ltd. (w.e.f. September 26, 2005), Nestlé's Holdings Ltd. (upto September 25, 2005).

**Fellow subsidiaries are disclosed to comply with para 3 (a) of Accounting Standard -18 on 'Related party Disclosures' albeit these do not control or exercise significant influence on Nestlé India Ltd.:**

Alcon India Pvt. Ltd., Eastern Food Specialities Pvt. Ltd., Nestec SA, Nestlé (South Africa) Pty Ltd., Nestlé Australia Ltd., Nestlé Bangladesh Ltd., Nestlé China Ltd., Nestlé Deutschland AG, Nestlé Egypt SAE, Nestlé Food LLC, Nestlé Foods (Malaysia) Sdn Bhd, Nestlé France SAS, Nestlé Hungaria KFT, Nestlé Foods Kenya Ltd., Nestlé Korea Ltd., Nestlé Lanka Ltd., Nestlé Middle East FZE, Nestlé Nederland BV, Nestlé Philippines Inc, Nestlé Polska S.A., Nestlé R & D Centre (Pte) Ltd., Nestlé Suisse S.A., Nestlé Taiwan Ltd., Nestlé Tianjin Ltd., Nestlé Trading (Thailand) Ltd., Nestlé Foods (Thailand) Ltd., Nestlé Turkiye Gıda Sanayi A.S., Nestlé UK Ltd, Nestlé USA Inc, Nestlé Vietnam Ltd., P.T Nestlé Indonesia, Societe Des Produits Nestlé S.A., Purina PetCare India Pvt. Ltd., Nestlé (Thai) Ltd., Nestlé Canada Inc, Nestlé Japan Administration Ltd., Nestlé Manufacturing (Malaysia) Sdn Bhd, Nestlé Pakistan Ltd., Nestrad – Nestlé World Trade Corporation, Nestlé Japan Holding Ltd., Nestlé Romania SRL, OJSC 'Khladoproduct', Nestlé South East Africa Trading Ltd., Nestlé Kuban LLC, OSEM U.K. Ltd., Pulmuone Waters Co. Ltd., Nestlé Waters Philippines Inc.

**Whole time directors':** Martial G. Rolland, Chairman & Managing Director; Shobinder Duggal, Director – Finance & Control.

**Nature of transactions**

	2005 (Rs. in thousands)	2004 (Rs. in thousands)
<b>Holding companies: Dividends</b>	<b>1,490,749</b>	<b>1,460,935</b>
<b>Fellow subsidiaries:</b>		
(a) Sale of finished and other goods		
- OJSC 'Khladoproduct'	654,995	—
- Nestlé Bangladesh Ltd.	302,262	130,024
- Nestlé Foods LLC	275,189	1,076,118
- Nestlé Kuban LLC	199,524	—
- Nestlé Hungaria KFT	160,433	133,814
- Others	143,358	120,535
(b) Sale of Fixed assets		
- Pulmuone Waters Co. Ltd.	68,240	—
- Others	3,695	—
(c) Purchase of fixed assets		
- Nestlé Australia Ltd.	313,509	—
- Nestlé Bangladesh Ltd.	4,406	—
(d) Purchase of raw and packing materials and spare parts		
- Nestlé Nederland B V	19,645	4,919
- Others	403	350
(e) Purchase of finished goods		
- Eastern Food Specialties Pvt. Ltd.	16,553	12,886
- Nestlé Suisse S.A.	12,791	10,786
- Nestlé U.K. Ltd.	10,343	—
- Others	9	3,597
(f) General licence fees (Net of taxes)		
- Société des Produits Nestlé S.A.	821,927	740,673
(g) Interest on inter corporate deposits		
- Alcon India Pvt. Ltd.	4,726	5,197
(h) Services rendered		
- Purina PetCare India Pvt. Ltd.	4,237	632
- Nestec S.A.	2,352	1,035
- Nestlé Lanka Ltd.	986	1,812
- Nestlé Bangladesh Ltd.	365	1,321
- P.T. Nestlé Indonesia	—	865
- Nestlé Hungaria KFT	—	750
- Others	463	1,396
(i) Services received		
- Nestlé R & D Center (Pte) Ltd.	4,323	4,679
- Nestlé Deutschland AG	2,393	4,263
- Nestlé Tainjin Ltd.	1,675	2,169
- Nestlé Manufacturing (Malaysia) Sdn Bhd	1,454	—
- Others	3,596	3,983
(j) Information technology and management information systems		
- Nestlé Australia Ltd.	168,323	84,687

	2005 (Rs. in thousands)	2004 (Rs. in thousands)
(k) Inter corporate deposits refunded		
- Alcon India Pvt. Ltd.	-	30,000
(l) Balance outstanding as at the year end		
- Inter corporate deposits granted	77,500	77,500
- Receivables (Others)	110,648	83,828
- Payables	192,038	372,872

**Notes:**

- i. Inter corporate deposits were granted at the then prevailing bank rate or one month commercial paper benchmark plus a spread thereon, whichever is higher.
  - ii. Details of remuneration to whole time directors' are given in the note 5 of the notes to the accounts. Balance payable to whole time directors as on December 31, 2005 is Rs. 7,051 thousands (Previous year Rs. 5,790 thousands)
18. The names of Small Scale Industrial Undertakings to whom the Company owe a sum, which is outstanding for more than 30 days as on December 31, 2005 are Anand Packaging, Balaji Chemicals, Canton Laboratories, Duotech Printers, Ganpati Hosiery Mills, Herald Publications Pvt. Ltd., Hindustan Adhesives Ltd., Jagat Machine Tools, Jain Scientific Glass Works, Jeet Engineering Works, Jewel Paper Private Ltd., JO Bland Enterprises, Jugraj Mechanical Works, K S Electric Works, Kamet Plastics Pvt. Ltd., Khemka Containers Ltd., Kwalita Offset Printers, Laxmi Plastic Industries, Maniesh Offset Pvt. Ltd., Manipal Packaging Industries, Manushree Extrusions Ltd., National Motors, Perfect polymers, Perfect Pac Ltd., Polytech Industries, Precision Moulds and Dies Pvt. Ltd., Rajpura Crowns Pvt. Ltd., S Ramu and Company, S S Bedi and Sons, Safeway Security Systems, Shakunt Rubbers, Snap Natural & Alginate Products, Sukhjit Starch and Chemicals Ltd., Suraksha Packers Pvt. Ltd. and Unique Plastic Industries. These amounts are not due for payment as per the terms and conditions of the purchase order / contract.
19. The Company implemented Nestlé Groups' worldwide initiative GLOBE (Global Business Excellence) including Nestlé Groups' version of SAP with effect from May 1, 2005, which necessitated a change in the method of raw and packing materials valuation from weighted average to first-in-first out (FIFO) resulting in lower consumption value and higher profit for the year [Rs 15,099 thousands, net of tax – Rs.10,016 thousands].
20. Previous year figures have been regrouped/reclassified wherever necessary, to make them comparable.

**21. SIGNIFICANT ACCOUNTING POLICIES**

**ACCOUNTING CONVENTION**

The financial statements are prepared under the historical cost convention, in accordance with applicable mandatory accounting standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

**SALES**

Sale of goods is recognised at the point of despatch to the customer. Sales include excise duty but exclude value added tax / sales tax. In order to comply with the Accounting Standards Interpretation (ASI-14) issued by the Institute of Chartered Accountants of India, gross sales (including excise duty) and net sales (excluding excise duty) is disclosed in the profit and loss account.

**INVENTORIES**

Stores and spare parts are stated at cost. Stock-in-trade is valued at cost or net realisable value, whichever is lower, as certified by the management. The basis of determining cost for various categories of inventories are as follows:

Raw and packing materials	:	First-in -first out (weighted average upto April 30, 2005)
Stores and spare parts	:	Weighted average
Work-in-progress and finished goods	:	Material cost plus appropriate share of production overheads and excise duty, wherever applicable

**RETIREMENT BENEFITS**

Contributions to the provident fund and provision for pension and gratuity are charged to revenue every year. Provision for pension is made on the basis of an actuarial valuation carried out by an independent actuary as at the year-end. Provision for gratuity is made on the basis of actuarial valuation after taking into account the net result of gratuity trust.

## DEPRECIATION / AMORTISATION

Depreciation is provided as per the straight-line method at rates provided in Schedule XIV to the Companies Act, 1956, except for the following classes of fixed assets, where the useful life has been estimated as under: -

Information technology equipments	:	3 years
Furniture and fixtures and Vehicles	:	5 years
Leasehold land and improvements	:	Lease period
Management information systems (Intangible fixed asset)	:	5 years

## IMPAIRMENT OF FIXED ASSETS

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amount of the Company's fixed assets. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on an appropriate discount factor.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. However, the increase in carrying amount of an asset due to reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

## TAXATION

The provision for taxation for the period comprises the residual tax liability for the assessment year 2005-2006 relevant to the period April 1, 2004 to March 31, 2005 and the liability, which has accrued on the profit for the period April 1, 2005 to December 31, 2005.

Deferred tax is recognised, subject to the consideration of prudence, on timing difference, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

## CONTINGENT LIABILITIES AND PROVISIONS

Contingent liabilities are disclosed after a careful evaluation of the facts and legal aspects of the matter involved. Provisions are recognized when the Company has a legal/constructive obligation and on management discretion as a result of a past event, for which it is probable that a cash outflow may be required and a reliable estimate can be made of the amount of the obligation.

## FIXED ASSETS

Fixed assets are stated at cost (net of CENVAT, wherever applicable) less accumulated depreciation. Cost is inclusive of freight, duties, levies and any directly attributable cost of bringing the assets to their working condition for intended use.

An intangible asset is measured at cost and amortised so as to reflect the pattern in which the asset's economic benefits are consumed.

## INVESTMENTS

Investments are classified into current and long-term investments. Current investments are stated at the lower of cost and fair value. Long-term investments are stated at cost.

## FOREIGN EXCHANGE TRANSACTIONS

Transactions in foreign currency are recorded on initial recognition at the exchange rate prevailing at the time of the transaction.

Monetary items (i.e. receivables, payables, loans etc.) denominated in foreign currency are reported using the closing exchange rate on each balance sheet date.

The exchange difference arising on the settlement of monetary items or on reporting these items at rates different from rates at which these were initially recorded / reported in previous financial statements are recognised as income / expense in the period in which they arise except where the foreign currency liabilities have been incurred in connection with fixed assets acquired up to March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where exchange difference are adjusted in the carrying amount of fixed assets.

In case of forward exchange contracts, the premium or discount arising at the inception of such contracts, is amortised as income or expense over the life of contract as well as exchange difference on such contracts i.e. difference between the exchange rate at the reporting / settlement date and the exchange rate on the date of inception / the last reporting date, is recognised as income / expense for the period except where the foreign currency liabilities have been incurred in connection with fixed assets acquired up to March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of the fixed assets.

## ANNEXURE - 1 TO THE DIRECTORS' REPORT

### Report on Corporate Governance for the year ended December 31, 2005

#### NESTLÉ'S PHILOSOPHY ON CODE OF GOVERNANCE

Nestlé India Limited, as a part of Nestlé Group, Switzerland has over the years followed best practice of Corporate Governance by adhering to practices laid down by Nestlé Group. The two most significant documents from Nestlé Group, which define the standard of behaviour of Nestlé India, are 'Nestlé Corporate Business Principles' and 'The Nestlé Management and Leadership Principles'.

Nestlé India's business objective and that of its management and employees is to manufacture and market the Company's products in such a way as to create value that can be sustained over the long term for consumers, shareholders, employees, business partners and the national economy. Nestlé India is conscious of the fact that the success of a corporation is a reflection of the professionalism, conduct and ethical values of its management and employees. In addition to compliance with regulatory requirements, Nestlé India endeavours to ensure that highest standards of ethical and responsible conduct are met throughout the organisation.

#### BOARD OF DIRECTORS

##### Composition, Attendance at the Board Meetings and the last Annual General Meeting, Outside Directorships and other Board Committees

Above information as on 31<sup>st</sup> December, 2005 or for the year 2005, as applicable, is tabulated hereunder:

Director	No. of Board Meetings attended	Attendance at previous AGM on 29.04.2005	No. of outside Directorship held <sup>B</sup>	No. of Membership/ Chairmanship in other Board Committees <sup>C</sup>	Executive/ Non-Executive/ Independent
Mr. Martial G. Rolland	5	Present	Nil	Nil	Executive
Mr. Shobinder Duggal	5	Present	Nil	Nil	Executive
Mr. Ravinder Narain	5	Present	2	Nil	Non-Executive & Independent
Mr. Tejendra Khanna	5	Present	3	4	Non-Executive & Independent
Mr. M. W. O. Garrett	1	Present	Nil	Nil	Non-Executive
Mr. Rajendra S. Pawar	4	Present	11	1	Non-Executive & Independent
Mr. Richard Sykes <sup>A</sup>	Nil	Not Present	Nil	Nil	Non-Executive

<sup>A</sup> Alternate Director to Mr. M. W. O. Garrett.

<sup>B</sup> Directorship in companies registered under the Companies Act, 1956, excluding directorships in private companies, alternate directorship and companies under Section 25 of the Companies Act, 1956.

<sup>C</sup> Only covers membership / chairmanship of Audit Committee, Remuneration Committee and Shareholder / Investor Grievance Committee.

As at 31<sup>st</sup> December, 2005, in compliance with the corporate governance norms, the Company's Board of Directors headed by its executive Chairman, Mr. Martial G. Rolland, comprised of five other directors, out of which three are independent directors. None of the Directors was a member of more than ten Board-level committees, nor a Chairman of more than five such committees, across all companies in which he was a Director.

#### Board Meetings held during the year 2005

During the year 2005, five Board Meetings were held on 14<sup>th</sup> March, 2005, 29<sup>th</sup> April, 2005, 29<sup>th</sup> July, 2005, 28<sup>th</sup> October, 2005 and 6<sup>th</sup> December, 2005. The maximum gap between any two meetings was less than four months.

## BOARD COMMITTEES

### Audit Committee

The role and terms of reference of the Audit Committee covers the areas mentioned under Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956 besides other terms as may be referred by the Board of Directors. These include oversight of Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible; reviewing annual and quarterly financial statements with management before submission to the Board; reviewing the adequacy of internal control systems with management, external and internal auditors and reviewing the Company's financial risk and management policies.

The Audit Committee comprises of Mr. Tejendra Khanna (Chairman), Mr. Ravinder Narain and Mr. Rajendra S. Pawar, all being Non-Executive and Independent Directors. All members of the Audit Committee are financially literate and both Mr. Tejendra Khanna and Mr. Rajendra S. Pawar, have related financial management expertise by virtue of their comparable experience and background. Mr. B. Murli, Company Secretary, acts as the Secretary to the Committee.

The Audit Committee met five times during the year 2005 on 14<sup>th</sup> March, 2005, 29<sup>th</sup> April, 2005, 29<sup>th</sup> July, 2005, 16<sup>th</sup> September, 2005 and 28<sup>th</sup> October, 2005. All members of the Committee attended the aforesaid meetings except for the Audit Committee Meeting held on 16<sup>th</sup> September, 2005, in which Mr. Rajendra S. Pawar was granted leave of absence.

### Shareholders Committee

Mr. Ravinder Narain, a Non-Executive and Independent Director, is the Chairman of the Shareholder/ Investor Grievance Committee. The other member is the Managing Director, Mr. Martial G. Rolland. Mr. B. Murli, Company Secretary is the Compliance Officer. The Committee met four times during the year on 1<sup>st</sup> March, 2005, 11<sup>th</sup> April 2005, 25<sup>th</sup> July, 2005 and 26<sup>th</sup> September, 2005. All members of the Committee attended the aforesaid meetings.

The Committee oversees redressal of shareholder and investor grievances, transfers of shares, non-receipt of balance sheet, non-receipt of declared dividends and related matters.

During the year 2005, 29 complaints were received from shareholders and investors. All the complaints have generally been solved to the satisfaction of the complainants and no investor complaint was pending at the beginning or at the end of the year. The Company has acted upon all valid requests for share transfer received during 2005 and no such transfer is pending.

### Remuneration Committee

Matters of remuneration of Executive Directors are considered by the Board of Directors of the Company, with the interested Executive Director(s), not participating or voting. The terms of remuneration of Executive Directors are approved by the shareholders at the Annual General Meeting. Therefore, no separate Remuneration Committee has been constituted.

The remuneration of Non-Executive Directors is decided by the Board of Directors as per the terms approved by the shareholders at the Annual General Meeting.

The remuneration policy of the Company is to remain competitive in the industry to attract and retain talent and appropriately reward employees on their contributions.

## REMUNERATION OF DIRECTORS FOR 2005

*(Rupees in thousands)*

Name of the Director	Sitting Fee	Salaries	Perquisites	Commission	Total
Mr. Martial G. Rolland <sup>1</sup>	N.A.	11,700	4,180	19,890	35,770
Mr. Shobinder Duggal <sup>1</sup>	N.A.	2,964	993	2,441	6,398
Mr. Tejendra Khanna	75	N.A.	N.A.	300 <sup>@</sup>	375
Mr. Ravinder Narain	95	N.A.	N.A.	300 <sup>@</sup>	395
Mr. Rajendra S. Pawar	60	N.A.	N.A.	300 <sup>@</sup>	360
Mr. M.W.O.Garrett	—	N.A.	N.A.	300 <sup>@</sup>	300

<sup>1</sup> The Company has service contract with all Executive Directors for a period of 5 years. The notice period is of three months and the severance fee is the sum equivalent to remuneration for the notice period or part thereof in case of a shorter notice.

<sup>@</sup> The Commission for the year ended 31<sup>st</sup> December, 2005 will be paid, subject to deduction of tax after adoption of the accounts by the shareholders at the Annual General Meeting to be held on 25<sup>th</sup> April, 2006.

Sitting fee also includes payment for Board-level committee meetings.

Remuneration of Mr. Shobinder Duggal excludes provisions for incremental liability for pension, since certification of actuary is for the Company as a whole. There is no incremental liability for gratuity, since Mr. Duggal had earned gratuity, before being appointed as a Director. Perquisites of Mr. Duggal include contribution of Rs. 3,55,650/- to provident fund. These are not applicable to the other Executive Director.

Commission is subject to adequate profits being earned. Performance criteria for the Executive Directors takes into account the business plans and market conditions. The criteria for payment of Commission to Non-Executive Directors takes into account their contribution and current trends.

None of the Non-Executive Directors holds any equity shares or convertible instruments in the Company. The Company does not have any stock option scheme.

## GENERAL BODY MEETINGS

Location and time of last three Annual General Meetings (AGMs) are as under:

Year	Venue	Date	Time	Special Resolutions passed by the shareholders in the AGMs
2005	Air Force Auditorium, Subroto Park, New Delhi - 110 010	29 <sup>th</sup> April, 2005	10.00 A.M.	1. Authorising the payment of commission and sitting fee to the Non-Executive Directors of the Company. 2. Authorising the delisting of the equity shares of the Company from the Delhi Stock Exchange Association Limited, New Delhi.
2004	- do -	30 <sup>th</sup> April, 2004	10.00 A.M.	None
2003	- do -	30 <sup>th</sup> April, 2003	10.00 A.M.	None

There was no other General Body Meeting in the last three years and no resolution was put through postal ballot. There is no special resolution proposed to be passed through postal ballot.

## DISCLOSURES

During the year 2005, the Company had no materially significant related party transaction, which is considered to have potential conflict with the interests of the Company at large. Transactions with related parties are disclosed in Note No.17 of Schedule O to the Annual Accounts.

The Company has complied with the requirements of regulatory authorities on capital markets and no penalties or strictures has been imposed on the Company by the Stock Exchange, SEBI or any other statutory authority, on any matter relating to the capital markets, during the last three years.

## MEANS OF COMMUNICATION

The Quarterly, Half Yearly and Annual Results are generally published by the Company in all editions of the Financial Express and in Jansatta, Delhi.

As per the requirement of Clause 51 of the Listing Agreement, all the data related to financial results, shareholding pattern etc. are posted on the SEBI's EDIFAR System and the same can be viewed on the SEBI's website [www.sebidifar.nic.in](http://www.sebidifar.nic.in).

The domain name of the Company's website is [www.nestle.in](http://www.nestle.in) and up-to-date financial results, official press releases, presentations to analysts and institutional investors and other general information about the Company, is available on this website.

The presentations made to the institutional investors or analysts, if any, are not communicated to the individual shareholders of the Company, however, the presentations, if any, are sent to the Stock Exchange for dissemination.

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

(within the limits set by the Company's competitive position)

Industry structure and developments, opportunities and threats, segment-wise or product-wise performance, outlook, risks and concerns of the Company and discussion on financial performance with respect to the operational performance, has been covered in the Directors' Report – more specifically under the sections on Financial Results and Operations, Exports, Business Development and SWOT Analysis of the Company.

The Company has an adequate system of internal controls to ensure that transactions are properly recorded, authorised and reported apart from safeguarding its assets. The internal control system is supplemented by well-documented policies, guidelines and procedures and review carried out by the Company's internal audit function, which submits reports periodically to the Management and the Audit Committee of the Board.

There has been no material development in Human Resources / Industrial relations during the period covered by this Annual Report. Your Company has a favourable work environment that motivates performance, customer focus and innovation while adhering to the highest degree of quality and integrity. As part of manpower development and training and with an aim to enhance operational efficiency, employees of the Company have been sent on postings and assignments to the other Nestlé Group Companies.

Manpower figure of the Company as on 31<sup>st</sup> December, 2005 was 3,205.

## GENERAL SHAREHOLDER INFORMATION

### Annual General Meeting

Date and Time : 25<sup>th</sup> April, 2006 at 10.00 a.m.  
 Venue : Air Force Auditorium, Subroto Park, New Delhi – 110 010.

### Financial Calendar, 2006

First Quarter Results : Last week April, 2006      Third Quarter Results : Last week October, 2006  
 Second Quarter and Half Yearly Results : Last week July, 2006      Annual Results : March, 2007

**Financial Year** : 1<sup>st</sup> January to 31<sup>st</sup> December

**Date of Book Closure** : 21<sup>st</sup> April, 2006 to 25<sup>th</sup> April, 2006, both days inclusive.

**Dividend payment date:** Two interim dividends for the year 2005, first at the rate of Rs.5/- and the second at the rate of Rs. 18/- per equity share, were paid on 10<sup>th</sup> May, 2005 and 22<sup>nd</sup> December, 2005, respectively. A final dividend of Rs. 2/- per equity share has been recommended by the Board of Directors and subject to the approval of the shareholders at the ensuing Annual General Meeting, is proposed to be paid on and from 9<sup>th</sup> May, 2006.

**Outstanding ADRs / GDRs / Warrants or any convertible instruments, conversion date and likely impact on equity :** Not applicable.

### Listing on Stock Exchanges and Stock Code

Shares of the Company are listed at the Bombay Stock Exchange Limited, Mumbai. The Company's Stock Code is 500790.

Pursuant to the shareholders' approval at the 46<sup>th</sup> Annual General Meeting of the Company held on 29<sup>th</sup> April, 2005 under the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003, the equity shares of the Company were voluntarily delisted from the Delhi Stock Exchange Association Limited, New Delhi (Stock Code 0035) with effect from 15<sup>th</sup> July, 2005.

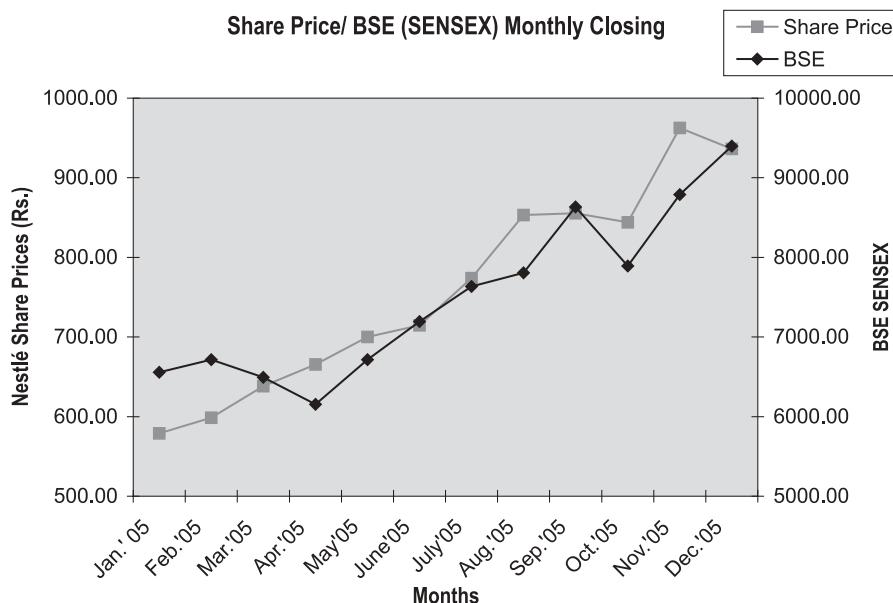
The ISIN Number of Nestlé India Limited on both the NSDL and CDSL is INE239A01016.

### Market Price Data: High / Low in each month of Calendar Year, 2005 on the Bombay Stock Exchange Limited, Mumbai (BSE)

Month	High (Rs.)	Low (Rs.)	Month	High (Rs.)	Low (Rs.)
January	590.00	525.25	July	781.00	699.50
February	640.00	570.00	August	920.00	769.90
March	686.00	585.00	September	900.00	835.00
April	670.00	600.00	October	910.00	800.00
May	739.00	652.15	November	970.00	820.00
June	726.00	696.00	December	1,008.00	902.10

[Source: www.bseindia.com]

### Performance in comparison to BSE SENSEX



[Source: www.bseindia.com]

**Registrar and Transfer Agents:** M/s. MCS Limited, W-40, Okhla Industrial Area, Phase II, New Delhi – 110 020.

### Share Transfer System

Share transfers are registered and returned in the normal course within an average period of 21 days from the date of receipt, if the documents are clear in all respects. Requests for dematerialisation of shares are processed and confirmation is given to the respective depositories i.e. National Securities Depository Limited (NSDL) and Central Depository Services India Limited (CDSL) within 15 days.

### Categories of Shareholding as on 31<sup>st</sup> December, 2005

Category	Number of Shares	Percent of total shares
Promoters and Associates	59,629,954	61.85
Foreign Institutional Investors	7,428,281	7.70
Public Financial Institutions (including Banks)	5,865,064	6.08
Mutual Funds and UTI	4,385,321	4.55
Private Corporate Bodies (including Clearing Members)	1,776,435	1.84
NRI's and OCB's	65,992	0.07
Indian Public	17,264,669	17.91
<b>Total</b>	<b>96,415,716</b>	<b>100.00</b>

### Distribution of shareholding as on 31<sup>st</sup> December, 2005

No. of shares	Number of shareholders	Number of Shares	Percent of total shares
1 to 500	39,164	4,180,812	4.34
501 to 1,000	3,199	2,322,438	2.41
1,001 to 2,000	1,213	1,721,910	1.79
2,001 to 3,000	350	875,467	0.91
3,001 to 4,000	176	612,637	0.64
4,001 to 5,000	112	504,253	0.52
5,001 to 10,000	241	1,663,317	1.73
10,001 and above	252	84,534,882	87.66
<b>Total</b>	<b>44,707</b>	<b>96,415,716</b>	<b>100.00</b>

**Dematerialisation of shares:** 43.56 % equity shares of the Company have been dematerialised as on 31<sup>st</sup> December, 2005.

**Plant Locations:** The Company's plants are located at Moga, Samalkha, Nanjangud, Choladi, Ponda and Bicholim. A new plant is also coming up at Pantnagar, Uttaranchal.

**Address for correspondence:** Shareholder Services, M – 5 A, Connaught Circus, New Delhi – 110 001.

**E-mail for Investors:** Investor@IN.Nestle.com

On behalf of the Board of Directors

Date : 6<sup>th</sup> March, 2006

Place : Gurgaon

MARTIAL G. ROLLAND  
CHAIRMAN

## CERTIFICATE

### TO THE MEMBERS OF NESTLÉ INDIA LIMITED

We have examined the compliance of conditions of Corporate Governance by Nestlé India Limited for the year ended December 31, 2005, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended December 31, 2005, no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For A. F. FERGUSON & CO.,  
Chartered Accountants  
(MANJULA BANERJI)  
Partner  
Membership No. 86423

6<sup>th</sup> March, 2006  
New Delhi

## ANNEXURE - 2 TO THE DIRECTORS' REPORT

Information as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 forming part of Directors' Report for the year ended 31<sup>st</sup> December, 2005.

### A. CONSERVATION OF ENERGY

#### (a) Energy Conservation Measures Taken

During the year, the Company continued its endeavour at optimising the consumption of various sources of energy not only to optimise costs but also to conserve scarce energy sources available in the country. For optimising the consumption of energy, all the areas of operations were focused, including those for energy generation and effective usage of sources / equipment used for generation. The significant measures taken during 2005, which have contributed to energy conservation were:

- Replacement of the electric heating by steam heating, wherever possible.
- Maximising the steam generation ex-waste heat recovery boiler.
- Reduction of energy usage per unit by better utilisation of purchased power, better D.G. yield and optimum steam consumption.
- Awareness, monitoring and controls for further reduction in water usage.
- Reduction in power consumption of Waste Water Treatment Plant by installation of variable frequency drives.
- Reduction in power consumption of cooling towers by provision of temperature cut-off switches in cooling tower fans.
- Installation of variable frequency drives on high capacity air fans.
- Increase in D.G. yield by improved monitoring through installation of energy meters and installation of low temperature after coolers.
- Reduction in energy consumption by increase in boiler yield through steam condensate recovery and boiler blow down reduction.
- Heat recovery from heat of compression in inert gas plant.
- Replacement of old air compressors with efficient air compressors.
- Use of energy efficient lighting in manufacturing areas.

#### (b) Additional Investment

Following proposals are at various stages of implementation:

- Installation of Reverse Osmosis Plant to reduce boiler blow down.
- Installation of Centrifuge Filters for Heavy Petroleum Stock and Furnace Oil for better fuel consumption.
- Installation of EGRON-4 (Spray Driers) for pre-heating of primary air with steam, thereby reducing the usage of Heavy Petroleum Stock for hot air generation.
- Installation of Wiped Film Evaporator for energy saving.
- Installation of Desuper Heating System in Chilled Water Plant for heat recovery.

#### (c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods.

The measures taken during 2005, including measures initiated in the past in the above direction have facilitated efforts for conservation of energy and helped contain the energy costs.

#### (d) Energy Consumption

Total energy consumption and energy consumption per unit of production, as per prescribed Form A together with the comparative figures for 2004, are given at the end of this part. The Company manufactures varieties of products each of them using a combination of various sources of energy in different proportions. Therefore, the comparison as mentioned in Form A, does not truly reflect the efforts of the Company at reducing consumption in terms of units of consumption.

### B. TECHNOLOGY ABSORPTION

Efforts made in technology absorption as per Form B are furnished below.

#### Research & Development (R & D)

##### 1. Specific areas in which R&D carried out by the Company.

Your Company as a part of the Nestlé Group and under the General Licence Agreement has access to and advantage of drawing from the extensive central Research and Development efforts and activities of the Nestlé Group. Nestlé Group spends enormous amounts and efforts in Research and Development and in gaining industrial experiences. It has therefore been possible for your Company to focus its efforts on testing and modification of products for local conditions. Improving and maintaining the quality of certain key raw materials also continued to receive close attention.

##### 2. Benefits derived as a result of the above R&D

The ability to leverage the Research and Development (R&D) expertise and knowledge of the Nestlé Group, has helped your Company to innovate and renovate, manufacture high quality and safe products, improve yields, input substitution and achieve more efficient operations. Consequently the consumers perceive the products of your Company as a high value for their money.

##### 3. Future plan of action

Steps are continuously being taken for innovation and renovation of products including new product development, improvement of packaging and enhancement of product quality / profile, to offer better products at relatively affordable prices to the consumers.

##### 4. Expenditure on R&D

Your Company benefits from the extensive centralised Research & Development (R&D) activity and expenditure of the Nestlé Group, at an annual outlay of around 1.5 Billion Swiss Francs. As such Company does not spend on Research and Development. Expenditure of the

Company broadly in the nature of Research and Development (R&D) are those incurred, primarily relating to testing of products and are as under:

(Rs. in thousands)

a) Capital	18,235
b) Recurring	52,738
c) Total	70,973
d) Total R&D as a percentage of total turnover.	0.3%

### Technology absorption, adaptation and innovation

#### 1. Efforts, in brief, made towards technology absorption, adaptation and innovation

As a result of the Company's ongoing access to the international technology from the Nestlé Group, Switzerland, the Company absorbs and adapts the technologies on a continuous basis to meet its specific needs from time to time.

#### 2. Benefits derived as a result of the above efforts

Product innovation and renovation, improvement in yield, product quality, input substitution, cost effectiveness and energy conservation are the major benefits.

#### 3. Imported Technology

All the food products manufactured and / or sold by the Company are by virtue of the imported technology received on an ongoing basis from the Collaborators. Technology transfer has to be an ongoing process and not a one-time exercise, for the Company to remain competitive and offer high quality and value for money products to the consumers. This has been secured by the Company under the General Licence Agreement with the Collaborators and provides access for licence to use the technology and improvements thereof, for the product categories, manufactured/ sold by the Company, on a continuous basis.

### C. FOREIGN EXCHANGE EARNINGS AND OUTGO

#### (a) Activities relating to exports; initiatives taken to improve the exports; development of new export market for products and export plans:

Members are requested to refer to the Directors' Report under the paragraph of 'Exports', for this information.

#### (b) Total foreign exchange used and earned:

During the year under review, your Company had earnings from exports of Rs. 2,576 Million comprising foreign exchange earnings of Rs. 2,131 Million (including sales to Russia invoiced in Rupees) and export to neighbouring countries in Rupees amounting to Rs. 445 Million and foreign exchange outgo of Rs. 4,529 Million. Details of earnings from exports and foreign exchange outgo on account of imports, expenditure on travelling, general licence fees, etc. and remittances made to non-resident shareholders on account of dividend are shown in Notes 8, 9, 11 and 12 respectively of Notes to the Accounts. Members are requested to refer to these Notes.

**FORM A**

**CONSERVATION OF ENERGY (CONSOLIDATED)**

		2005	2004
<b>(A)</b>	<b>Power and Fuel Consumption</b>		
1.	Electricity		
(a)	Purchased		
	Units (000' KWH)	52,061	51,011
	Total Cost (Rs. in thousands)	212,717	202,572
	Cost/KWH	4.09	3.97
(b)	Own Generation		
	Through Diesel Generator		
	Units (000' KWH)	36,345	34,288
	Units per litre of oil (KWH)	3.66	3.65
	Cost/KWH (Rs.)	7.39	5.97
2.	Coal (Various grades)		
	Quantity (Tonne)	31,699	30,216
	Total Cost (Rs. in thousands)	136,526	112,812
	Cost/Tonne (Rs.)	4,307	3,733
3.	Furnace Oil		
	Quantity (KL)	17,824	18,872
	Total Cost (Rs. in thousands)	281,056	241,534
	Cost/KL (Rs.)	15,768	12,799
4.	Other Consumption of Fuel		
(a)	High Speed Diesel Oil (HSD) and Superior Kerosene Oil (SKO)		
	Quantity (KL)	1,685	1,716
	Total Cost (Rs. in thousands)	40,109	35,771
	Cost/KL (Rs.)	23,809	20,841
(b)	Heavy Petroleum Stock (HPS)		
	Quantity (KL)	2,093	–
	Total Cost (Rs. in thousands)	35,106	–
	Cost/KL (Rs.)	16,773	–
(c)	Non-Conventional Fuels- Coconut Shell & Coffee Husk		
	Quantity (Tonne)	19,131	11,469
	Total Cost (Rs. in thousands)	64,763	34,773
	Cost/Tonne (Rs.)	3,385	3,032
(d)	Liquid Petroleum Gas (LPG)		
	Quantity (Tonne)	691	574
	Total Cost (Rs. in thousands)	22,222	15,757
	Cost/Tonne (Rs.)	32,137	27,444

**(B) Consumption per unit of Production**

	Beverages		Milk Products and Nutrition		Chocolates and Confectionery		Prepared Dishes and Cooking Aids	
	Current Year 2005	Previous Year 2004	Current Year 2005	Previous Year 2004	Current Year 2005	Previous Year 2004	Current Year 2005	Previous Year 2004
Electricity (KWH/T)	1,206.44	1,330.07	431.30	392.88	793.65	774.65	122.88	178.99
Furnace Oil (Ltrs./T)	184.56	220.93	98.91	111.18	60.09	62.20	54.20	59.63
Coal (Kgs./T)	162.29	188.46	312.13	307.90	–	–	162.30	183.82
Others:								
HSD, HPS (Ltrs./T)	68.39	91.77	26.39	0.26	–	–	2.10	–
LPG (Kgs./T)	–	–	1.21	1.15	45.87	39.64	–	–

Note : There are no specific standards available for each category since the product range under each head shown above consists of various products with different consumption.

# NESTLÉ INDIA LIMITED

## Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No.

0 0 3 7 8 6

State Code

5 5

Balance Sheet Date

3 1

1 2

2 0 0 5

II. Capital Raised during the Year (Amount in Rs. Thousands)

Public Issue

N I L

Rights Issue

N I L

Bonus Issue

N I L

Private Placement

N I L

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities

3 6 8 4 3 7 8

Total Assets

3 6 8 4 3 7 8

Sources of Funds

Paid-Up Capital

9 6 4 1 5 7

Reserves & Surplus

2 5 7 7 1 7 6

Secured Loans

1 4 3 0 4 5

Unsecured Loans

N I L

Application of Funds

Net Fixed Assets

4 9 6 5 9 5 3

Investments

1 0 4 4 2 7 6

Net Current Assets

2 2 2 6 3 3 0

Miscellaneous Expenditure

N I L

+ -  
+ -

Accumulated Losses

N I L

IV. Performance of the Company (Amount in Rs. Thousands)

Turnover (Gross Revenue)

2 5 0 0 6 4 4 3

Total Expenditure

2 0 1 1 9 0 1 9

+ -  
+ -

Profit/Loss Before Tax

4 6 9 0 5 7 4

+ -  
+ -

Profit/Loss After Tax

3 0 9 5 7 1 5

Earnings per share in Rs.

3 2 . 1 1

Dividend Rate %

2 5 0

V. Generic Name of Three Principal Products / Services of the Company (as per monetary terms)

Item Code No. (ITC Code)

1 9 . 0 1 . 0 0 0 0

Product Description

P R E P A R A T I O N O F

M I L K C R E A M A N D C E R E A L S

Item Code No. (ITC Code)

2 1 . 0 1 . 0 0 0 0

Product Description

S O L U B L E C O F F E E S

C O F F E E B L E N D S A N D T E A

Item Code No. (ITC Code)

2 1 . 0 1 . 0 0 0 0

Product Description

N O O D L E S



Nestlé  
**KitKat**

Nestlé  
Set Dahi

NEW  
Nestlé  
**Milkybar**  
CALCIUM RICH

Nestlé  
**MILO**



**NESCAFÉ**

Maggi  
**VEGETABLE  
ATTA NOODLES**  
Taste Sri. Warna Sri

Apple  
Nestlé  
**NESTEA**  
PEACH & STRAWBERRY

Nestlé  
**Milkmaid**

Bar One

Nestlé  
**ACTI-**  
HONEY LEMON  
THROAT SOOTHIE

**NESCAFÉ  
Sunrise**  
Premium

TRADITIONAL  
Nestlé  
**CEREMEAL**  
Multi-Grain Cereal

Maggi  
**Tomato**  
Taste Sri. Warna Sri



Nestlé  
**Slim Milk**  
Purity is a guarantee for health!

Nestlé  
**Fruit 'n Dahi**  
Set of dahi & fruit

Milkybar  
**elvo**  
Strawberry

Maggi  
**Hot Crisp**  
Taste Sri. Warna Sri

Maggi  
**2-minute noodles**  
Masala

**NESCAFÉ  
CLASSIC**

Maggi  
**Hot & Sweet**  
Taste Sri. Warna Sri

Nestlé  
**EveryDay**  
Dairy Whitener

New Maha  
**Munch** Rs. 5

Nestlé  
**Milkmaid**

Nestlé  
**Nesquik**



**Good Food, Good Life**