Creating Shared Value and Inclusive Growth

CELEBRATING QUALITY

STRENGTHENING TRUST

BUILDING RELATIONSHIPS

LEVERAGING SCIENCE

Nestlé India Limited | Annual Report - 2007

The Board of Directors of Nestlé India

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

Nestlé

Narendra Singh - Chairman Emeritus

Board of Directors

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

Company Secretary

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

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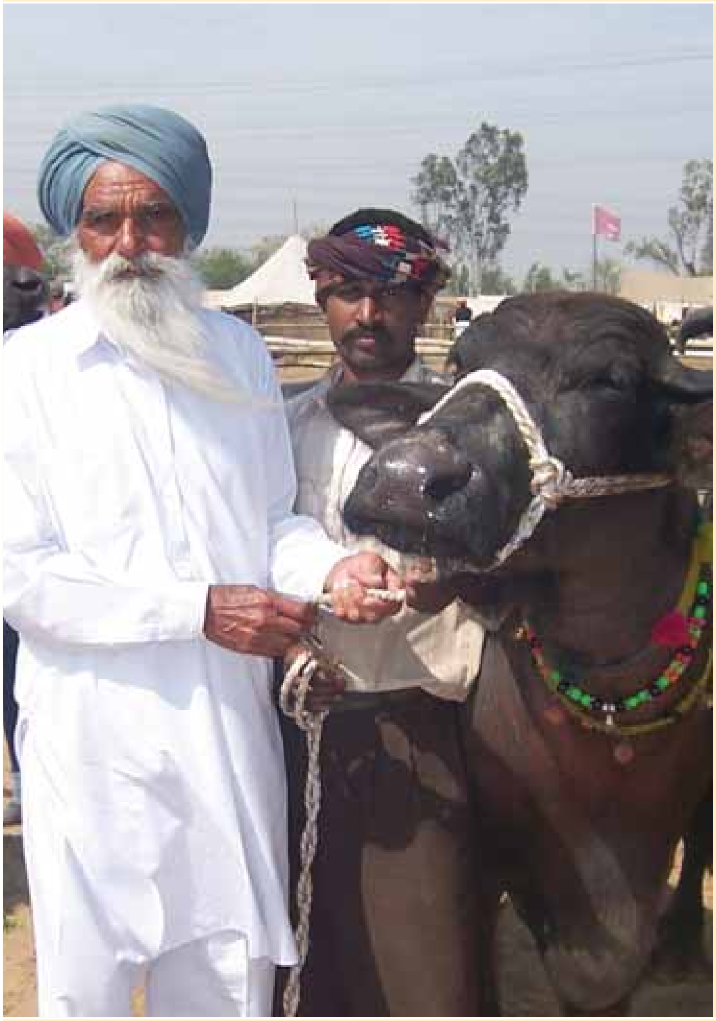
Creating Shared Value

"Nestlé's business is part of the social fabric of the community in which it operates. Our business objective is to create value that can be sustained over the long term for the company and society, and create opportunities and prosperity as partners in growth."

Since Nestlé started trading activity with India in 1912, its relationship with the country and its people has grown into a rewarding partnership that actively benefits thousands of farmers and their families.

The most obvious benefit that Nestlé India brings to the place that it operates in, is the creation of both direct and indirect employment that leads to the upliftment of the whole community, as well as inclusive growth.

Strengthening Trust



Developing Dairy Farmers

We firmly believe that our investments must result in long term sustainable growth as well as economic and social progress for the community. Our relationships are based on shared values, business ethics and long term commitment.

When Nestlé India set up the first plant in Moga in 1961, the milk economy was virtually non-existent. On the first day we collected only 511 kgs. of milk from 180 farmers. Agricultural productivity was low and people subsisted on inadequate traditional cropping.

Over the years, Nestlé veterinarians and agronomists worked with the community providing knowledge, setting up a supply chain for milk collection, understanding their needs and helping them find solutions. We have been collecting upto 1.2 million litres of high quality milk everyday, benefiting 100,000 farmers directly. This pioneering work with the communities of Moga has helped to increase all round prosperity, creating economic opportunities for different generations.

Strengthening Trust

The Moga Milk district model has been highly appreciated and Harvard Business Review has developed this as a special case study. The Punjab Government has conferred the 'Environmental Excellence' award to the Moga factory and the PHD Chamber of Commerce and Industry has bestowed the 'Udyog Ratna' award on Nestlé India, for the significant work with farmers in Moga.

Milk collection agencies : 2400
Farm coolers and chillers installed : 730
Milk collection : 1.2 million litres per day
Milk collection per sq.km. area, developed by Nestlé, is almost double that of other milk producing areas in Punjab
Shared Value : Nestlé India receives high quality milk, while 100,000 farmers prosper

Empowering Village Women

Our activities also help in the transfer of technology to the people who need it most and help them live healthier lives. While in the early years we have focused on developing the capabilities of the farmers, in recent years we have also allocated resources to train and empower village women. We help them understand dairy farming, and spread awareness about personal health, hygiene, water conservation

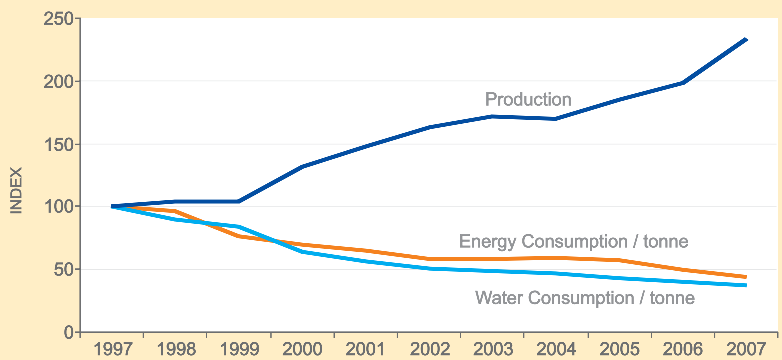
Villages covered	:	550
Women covered	:	30,000
Men participants	:	14,000

Strengthening Trust

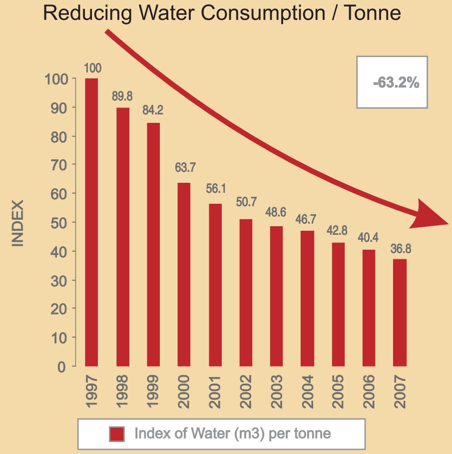
Sustaining the Environment

Our factories not only create world class products to deliver Nutrition, Health and Wellness but they also add value to the farmers by processing agricultural products in a sustainable manner.

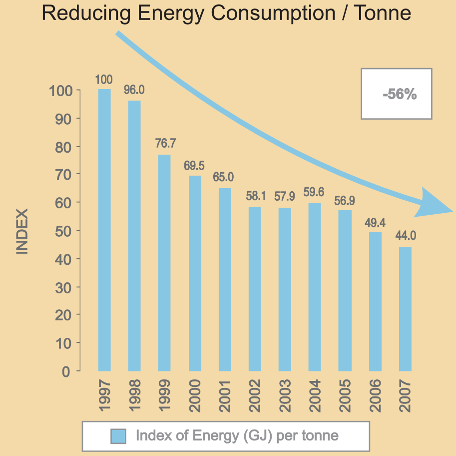
Within our factories, there is a continuous effort to maximize production, while minimizing consumption of natural resources and reducing waste and emissions.



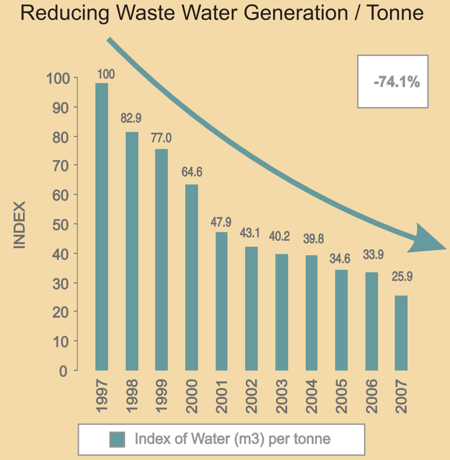
Reducing Water Consumption / Tonne



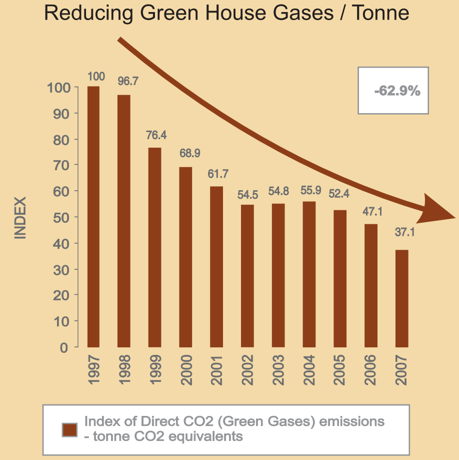
Reducing Energy Consumption / Tonne



Reducing Waste Water Generation / Tonne



Reducing Green House Gases / Tonne



Building Relationships

Clean Drinking Water Programme

The work at Moga was just the beginning. Today we have seven factories across the country. Each one demonstrates that our investments result in long-term sustainabale growth and economic and social progress for the community as well.

As a result of this belief in fairness, honesty, respect for people and the environment, there is a strong bond of mutual trust with the community. This trust is a key factor that helps us to get the communities more involved in projects such as clean drinking water and water conservation. The clean drinking water projects that Nestlé India has been setting up in village schools have two benefits - while the key message of conservation, hygiene, health and wellness is progressively built into the community and farmers who are our suppliers, we also create water ambassadors, who we hope will continue to spread the message like the ripples of a wave.

Already benefits over 33,000 students in village schools.

Leveraging Science

Creating sustainable value not only requires understanding of communities and consumers, it also needs scientific rigour. Nestlé is focused on providing consumers with science based products that enhance Nutrition, Health and Wellness. In 2007 the Nestlé Group spent 1.9 Billion Swiss Francs (Rs. 6,500 Crores) on R&D worldwide, to ensure that we have advanced scientific knowledge and the latest food technology in the world. The company has continuously leveraged science to innovate and renovate and develop products that add value to the consumers.

Nutritionists recommend a healthy breakfast to start the day. Using its scientific knowledge and expertise, the company recently launched Nestlé CEREVITA Multigrain Cereal as a nutritious breakfast for the whole family. With the goodness of wheat, corn and real fruits, Nestlé CEREVITA is a convenient and delicious product that offers the 7 signs of ALL ROUND NUTRITION.

Leveraging Science

Pioneering the Science of Probiotics in Dahi

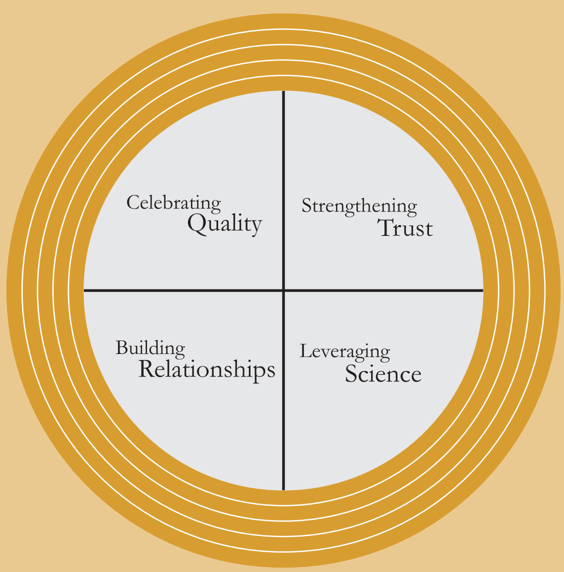
Probiotics are friendly bacteria that can provide many health benefits. They have also been scientifically proven to aid digestion. They act as defence barriers, maintaining the balance against bad bacteria that weaken the digestion. Using its superior technology and scientific research, Nestlé has developed a healthy low-fat dahi with probiotics. Nestlé NESVITA Dahi with Probiotics will significantly strengthen the

Pioneering Taste Bhi, Health Bhi

MAGGI which is a household name in the country, has used the R&D strength of the Nestlé Group to pioneer the concept of 'Taste Bhi, Health Bhi'. Last year the company leveraged technology and its knowledge of science effectively, and launched MAGGI Healthy Soup Sanjeevni and MAGGI Rice Noodles.

Celebrating Quality

"Good Food, Good Life" is the ultimate expression of what we believe in and what we strive to bring to the world. "Good Food, Good Life" clearly expresses our role as the leading Nutrition, Health and Wellness Company. NESTLÉ, NESCAFÉ, NESVITA, NESTEA, MAGGI, MILO, KITKAT, MUNCH, EVERYDAY, MILKMAID are all household names and trusted for the high quality. They are found everywhere - on dining tables, kitchen shelves, in the hearts and minds of the old and young. This has been possible since the safety of our products and the integrity of the ingredients from which they are made, are paramount for Nestlé.



NESTLÉ INDIA

CREATING SHARED VALUE AND INCLUSIVE GROWTH

CORPORATE INFORMATION

MANAGEMENT COMMITTEE

Martial G. Rolland - Chairman & Managing Director
Ganesan Ampalavanar - Sales
Stewart Dryburgh - Chocolate & Confectionery
Shobinder Duggal - Finance & Control
Pascal Fournier - Human Resources
Muhammed Hamza - Coffee & Beverages
Shivani Hegde - Foods
Christian Van Houtteghem - Infant Nutrition
Roel Keus - Technical
Vineet Khanna - Supply Chain
Virat Mehta - Communications
B. Murli - Legal & Company Secretary
Hari Nariani - Globe
G.G. Pillai - Additional Channels
Rajkamal Sharma- Exports
R. Singh - Corporate Affairs and Strategic Planning
Mayank Trivedi - Shelf Stable & Chilled Dairy

BANKERS

ABN Amro Bank N.V.
Citibank N.A.
Deutsche Bank
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

WEBSITE

www.nestle.in

INVESTOR EMAIL ID

investor@in.nestle.com

REGISTRAR & TRANSFER AGENTS

M/s Alankit Assignments Limited
2E/21, Jhandewalan Extension, New Delhi - 110 055
Tel. No. : 011-42541234, 23541234
Fax No. : 011-42541967

LISTING OF EQUITY SHARES (Listing Fees paid)

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

REGISTERED OFFICE

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

HEAD OFFICE

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

BRANCH OFFICES

Spencer Plaza, 6th Floor, 769, Anna Salai, Chennai - 600 002 (Tamil Nadu)

Tower "C", 12 Floor, DLF IT Park, 08, Major Arterial Road, Block - AF
New Town, Rajarhat, Kolkata - 700 156 (West Bengal)

1st Floor, ICC Chambers, Near Saki Vihar Telephone Exchange,
Saki Vihar Road, Powai, Mumbai - 400 072 (Maharashtra)

M-5A, Connaught Circus, New Delhi - 110 001

FACTORIES

Village Maulinguem (North), Bicholim Taluka - 403 504 (Goa)

Ludhiana-Ferozepur Road, Near Kingwah Canal, Moga - 142 001
(Punjab)

Industrial Area, Nanjangud - 571 301 Mysore District (Karnataka)

P.O. Cherambadi - 643 205 Dist. Nilgiris (Tamil Nadu)

Patti Kalyana, Kiwana Road, Samalkha - 132 101 Dist. Panipat (Haryana)

Plot No. 294-297, Usgao Industrial Area, Ponda - 403 406 (Goa)

Plot No. 1, Sector No. 1A, Integrated Industrial Estate, SIDCUL,
Pantnagar- 263145, Dist. Udhamsingh Nagar (Uttarakhand)

ANNUAL GENERAL MEETING

Friday, 2nd May, 2008 at 10.00 A.M. at
Air Force Auditorium, Subroto Park, New Delhi - 110 010

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

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in submitting their report and the statement of accounts for the year ended 31st December, 2007.

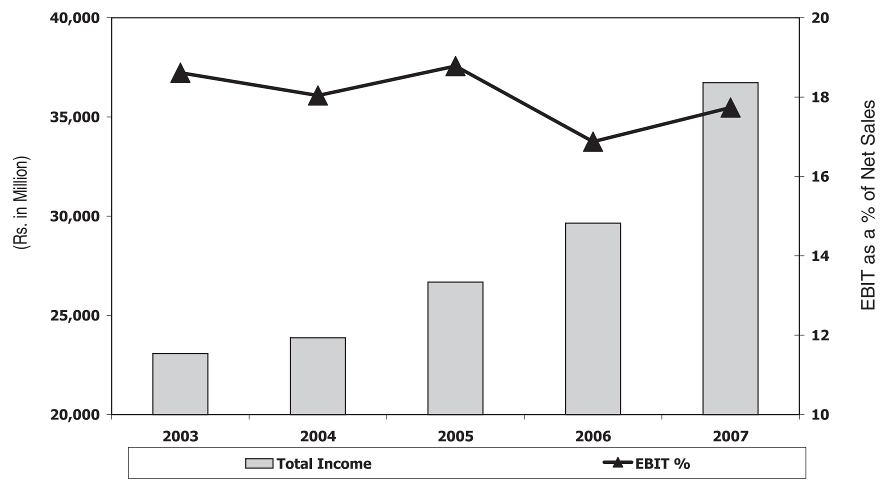
Financial Results and Operations

	2007	2006
	(Rs. in Million)	
Gross Revenue	35,298	28,367
Earning before Interest and Tax excluding Other Income (EBIT)	6,215	4,752
Interest	8	4
Impairment Loss on Fixed Assets (Net)	12	4
Additional Employee Cost	753	-
Provision for Contingencies (Net)	(590)	145
Provision for Tax	2,148	1,654
Net Profit	4,138	3,151
Profit Brought Forward	105	72
Balance Available for Appropriation	4,243	3,223
Interim Dividends	2,941	2,458
Final Dividend Proposed	241	-
Corporate Dividend Tax	522	345
Transfer to General Reserve	414	315
Surplus carried in Profit and Loss Account	125	105
Earnings per Share (Rs.)	42.92	32.68
Dividend per Share (Rs.)	33.00	25.50

Net Sales for the year 2007 increased by 24.4% over the previous year. Net Domestic Sales and Export Sales grew by 25.2% and 17.9% respectively, due to increase in volumes as well as realisations. Export realisations were adversely impacted by the appreciation of the Indian Rupee.

The EBIT for the year 2007 excluding Other Income increased by 30.8% resulting in an EBIT margin of 17.7%, a 80 basis points increase over the year 2006. Scale efficiencies, cost reduction initiatives as well as the ongoing strategic transformation process allowed the business to more than offset higher raw materials costs.

TOTAL INCOME

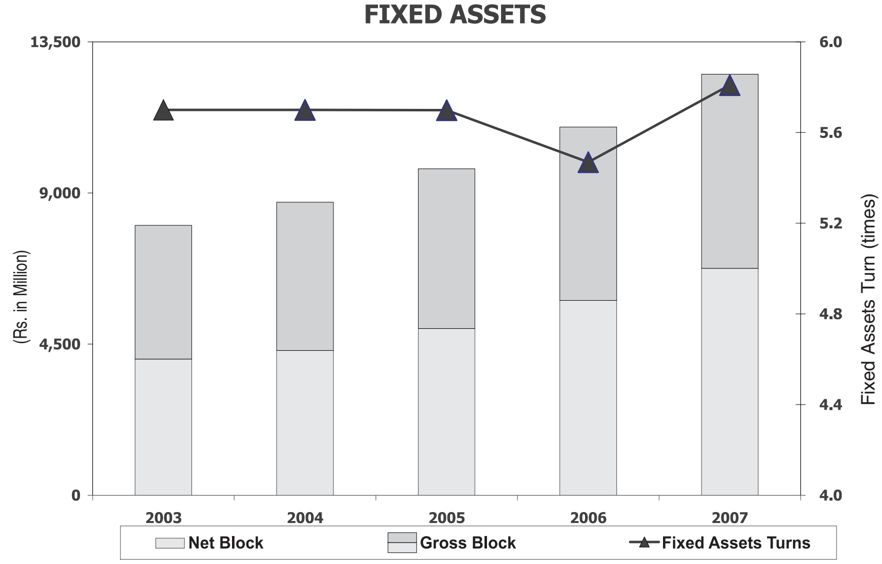


Pursuant to the adoption of Accounting Standard (AS) 15 on "Employee Benefits" effective 1st January, 2007, there has been an impact on the employees cost for the year; provision has been made for additional employee cost of Rs.753.7 Million representing certain employee benefits upto the year 2006 and an additional obligation of Rs. 138.9 Million (net of tax), on account of certain employee benefits up to the year 2006, has been adjusted from the General Reserve as at 1st January, 2007.

The credit in the Provision for Contingencies of Rs.590.4 Million has resulted mainly from a provision made in the past relating to an item requiring management judgement and discretion, which is no longer required. This has been partly offset by fresh provision of Rs.163.3 Million, to provide for contingencies resulting mainly from issues, which are under litigation/dispute.

In the year 2007, the Indian economy again clocked a good growth rate and the year was also marked by the strong appreciation of the Indian Rupee. Whilst the high foreign exchange inflows that were recorded reflect the continuing enthusiasm amongst entrepreneurs to invest in India, the consumer confidence and rising income levels helped accelerate momentum in the

FIXED ASSETS

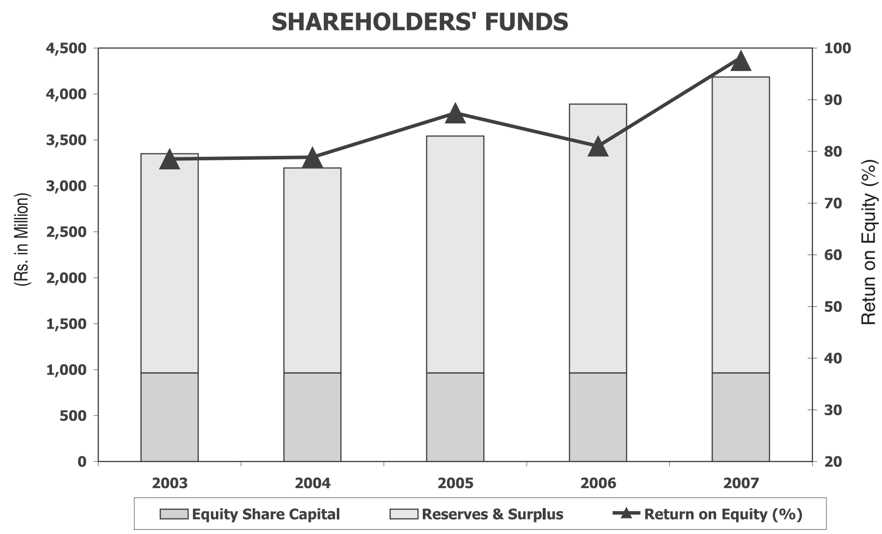


FMCG industry. During the year, there were some areas of concern as well. The low rate of agricultural growth, a marginal slowing down in the manufacturing sector, the continuing price spiral for agro-based and other primary commodities, as well as the concern with inflation were all challenging areas. However, despite the complexities, the Indian economy is projected to continue growing at a good pace in the future.

During the year, the Government's thrust on inclusive growth created a supportive environment, and the economic environment continued to be stable and in the right direction. With the young and growing population, the increase in the middle class, and the level of confidence that the Indian consumers have in the future, the consumers continued to evolve rapidly. There is a growing awareness that healthy eating is important and consumers are looking for options that are tasty, nutritionally balanced and healthy. Since Nutrition, Health and Wellness is in its DNA, your Company understood this transformation in the consumer much ahead of the others and has been using its immense nutritional knowledge, latest food technology and strong research and development expertise to develop relevant science based products.

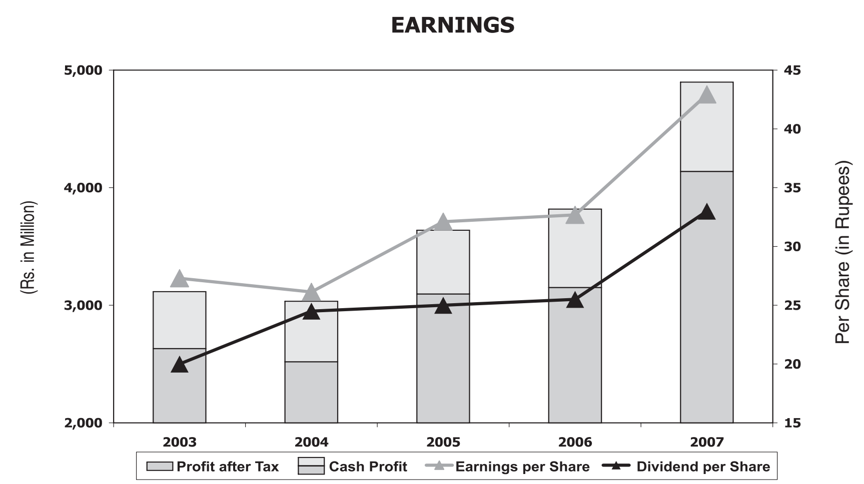
Your Company recognises its role as the leading Nutrition, Health and Wellness Company and continued to sharpen its consumer insights and innovate and renovate its product portfolio. During the year, the Company increased support to its brands. During 2007, your Company took its concept of "NESTLÉ NUTRITIONAL COMPASS" beyond packaging and through special NUTRIWORLD activities extending to Shopping Malls and other large footfall areas, where the consumers are counselled about balanced and healthy diets, the benefits of an active lifestyle and how they can use the NESTLÉ NUTRITIONAL COMPASS to make informed choices.

Your Company has been focused on profitable, sustainable and long-term growth.



While the Nestlé India business model with its Seven Value Drivers enabled the Company to build brands and invest in upgrading the manufacturing facilities, there was a significant focus on strengthening the culture of innovation and renovation to all areas of operation. During the year, your Company was presented with the 'India Innovator of The Year' award by CNBC Asia.

Your Company is stable, healthy and with strong fundamentals. The brands of your Company continue to further strengthen their bond with the consumers. While Innovation and Renovation has accelerated and added science based products to the product portfolio, the Supply Chain and Sales Departments maintained focus on increasing the freshness and reach of products to more consumers and in newer geographies. At the same time, the factories continue to implement best practices to further improve productivity and implementing the planned capacity expansions. Your Company remains steadfast in following the four strategic pillars for sustainable growth – 'Low cost, highly efficient operations'; 'Innovation and Renovation'; 'Product availability'; and 'Consumer communication'.



Year 2004 includes Special Dividend @ Rs. 4.50 per share.

In the recent past, your Company was restructured to a multi-focal business structure and, apart from other initiatives, the thrust on consumer insights and focus on Nutrition, Health and Wellness has been strengthened. Your Company is now witnessing the result of restructuring and efforts of stronger understanding of the consumer. While the Company closed 2007 with good growth and profitability, the current year has also commenced on a good note.

Moving ahead, the big challenge is the continuing increase in the costs of various inputs. Raw material prices and energy cost continue to remain at record levels and your Company will maintain strong focus on measures to deal with it. We are positive with regard to the future and remain confident of the long-term business prospects of the Company and its ability to sustain fair returns to the shareholders.

Exports

Export Sales during 2007 at Rs.3,298 Million, increased by 17.9% over the year 2006. This was largely influenced by increased volume of export and the increase in per unit realisation in export of Instant Coffee due to higher green coffee prices. Exports of Milk Powder were adversely impacted for most part of the year due to the restriction on their export. Instant Coffee exports increased both to the traditional market of Russia as well as to some new destinations. Exports of most other product categories also increased, particularly culinary products, which were exported to Australia and South Africa for the first time.

The efforts to develop new geographies helped to reduce dependence on exports to Russia. Direction and composition of exports is being diversified. Initiatives to develop products for the Indian ethnic community abroad are continuing.

Dividends

The Board of Directors has recommended a final dividend of Rs. 2.50 per equity share of the face value of Rs.10/- each for the year 2007, amounting to Rs. 241 Million.

This is in addition to the two Interim Dividends for the year 2007, first at the rate of Rs. 6.50 and the second at the rate of Rs. 24.00 per equity share, which were paid on and from 29th March, 2007 and 24th December, 2007 respectively, aggregating to Rs. 30.50 per equity share (amounting to Rs.2, 941 Million).

The total payout of Rs.3,702 Million (including the corporate dividend tax) for 2007 is once again the highest to date.

Scheme of Arrangement

On 15th January, 2007, the Board of Directors had approved a Scheme of Arrangement (hereinafter referred to as “Scheme”) between the Company and its Shareholders and Creditors, proposing utilization of the balance in the Share Premium Account (Rs.432.4 Million) and a part of the balance in the General Reserve Account formed by excess transfer of surplus profit in earlier years (Rs.430.8 Million), for payment to shareholders, subject to applicable taxes. The equity shareholders approved the Scheme at the meeting held on 3rd May, 2007, as per the directions of the Hon’ble High Court of Delhi and subsequently the Company has filed a confirmation petition to the Hon’ble High Court seeking sanction of the Scheme. The Scheme would be effective upon approval by the Hon’ble High Court and the certified copy of the Order being filed by the Company with the Registrar of Companies.

Business Development

Understanding the food and nutrition needs of the consumer is amongst the strengths of your Company and the vision is to be the respected and trustworthy leading Food, Nutrition, Health and Wellness Company. During 2007, the Company accelerated the pace of innovation and renovation to focus on science based products that increase Nutrition, Health and Wellness and to provide high quality food products that deliver taste and pleasure.

The **‘Milk Products and Nutrition’** business innovated and renovated extensively to strengthen its product portfolio and performed very satisfactorily. The ambient dairy business saw good growth on the key brands NESTLÉ EVERYDAY Dairy Whitener and NESTLÉ MILKMAID Sweetened Condensed Milk. In addition, new opportunities were targeted with the launch of three Health and Wellness based propositions which are (a) NESTLÉ NIDO, a nutritious milk powder for growing children above the age of 2 years; (b) extension of the trusted NESTLÉ MILKMAID brand into the healthy refreshment opportunity with NESTLÉ MILKMAID Funshakes; and (c) NESTLÉ CEREVITA Multigrain Cereal, developed to address the growing consumer needs and expanding market for a nutritious breakfast.

The Fresh Dairy category had a good growth and further strengthened the image of your Company as an innovator based on the launches of (a) NESTLÉ FRESH ‘N’ NATURAL Slim Dahi, a 98% fat free formulation; (b) NESTLÉ MILKMAID Fruit Yoghurt which is 98% fat free and has real fruit; and (c) NESTLÉ NESVITA, a 98% fat free, probiotic dahi, in plain and fruit varieties, which was developed based on Nestlé Group’s extensive experience with probiotics. Proboitic Dahi helps consumers maintain a healthy digestion and, in turn, helps them manage their lifestyles better.

The Infant Nutrition business continued to leverage its science based innovation and renovation efforts for high quality products to address relevant consumer needs. During the year, NESTLÉ CERELAC Stage 4 was introduced to provide infants from 12 months of age with Multi Grain 5 Fruits and Multi Grain Dal Vegetable formulations. Your Company supports the fact that mother’s milk is best for the child and is also aware that there are situations where mother’s milk is not available to the child.

Therefore, the Company is constantly using latest scientific knowledge to bring its products closer to mother's milk. During the year, NESTLÉ NAN was renovated with DHA, which is a fatty acid naturally found in breast milk and believed to have a beneficial impact on the development of the immune system and eyesight of infants.

The business for **'Prepared Dishes and Cooking Aids'** demonstrated rapid growth. The pioneering concept of 'Taste Bhi, Health Bhi' was further strengthened as the business launched more products that offer health and wellness. After the very successful launch of MAGGI Vegetable Atta Noodles in the previous year, the business leveraged its deep consumer insights, research and development strengths and knowledge of Nutrition, Health and Wellness to roll out MAGGI Rice Noodles, with the goodness of rice, and designed to provide 'Balanced Energy' as recommended by nutritionists. These were launched in three unique flavours, suited to regional preferences.

The 'Taste Bhi, Health Bhi' proposition is also relevant for MAGGI Soups. MAGGI Healthy Soups have the goodness of vegetables, are low in fat and cholesterol, have no added MSG or synthetic colors. During the year this range was strengthened with new variants like MAGGI Sweet Corn Vegetable, MAGGI Sweet & Sour Noodle and MAGGI Hot & Sour Chicken Soups. A new range of Instant Soups was launched during the year under the brand MAGGI Healthy Soups – SANJEEVNI that met with very good consumer response. This new range of Instant Soups brings together the Nestlé know-how in developing Soups with sharper consumer insight into the relevance of traditional ingredients like 'Amla' and 'Badam' that are 'good for you' and known to ensure health and well being.

Relevant products and focused advertising and consumer communication helped the business sustain its momentum across the key categories of Noodles, Sauces and Soups. The 'Its different' campaign for MAGGI Sauces that was revived recently, led to good growth in the category. MAGGI continued to be the leader and this was brought out in a survey by Brand Equity where MAGGI was rated as the 5th Most Trusted Food Brand.

In recent years the **'Chocolate and Confectionery'** business has anticipated the needs of the emerging consumer and developed appropriate brands. The Company is a leader in the lighter-wafer-confectionery segment with NESTLÉ MUNCH and NESTLÉ KIT KAT and in the white chocolayer segment with NESTLÉ MILKYBAR. The Company is also a leader in Eclairs and Fruit/Mint roll categories. Well targeted consumer advertising made our brands more vibrant. During the year, the focus on consumer insights, innovation and renovation as well as well as improved distribution contributed to a good performance on the key brands. The efforts made on distribution in the Chocolate and Confectionary category are reflected in the Company now being the leader in distribution and availability of this category.

During the year, NESTLÉ MUNCH Pop Chocs was successfully launched to grow the nibbling segment and has created a new consumption occasion with the popular "Nikalo, Uchalo, Khalo" campaign. The Company test marketed KIT KAT Mini at Rs.2/- price point to further drive accessibility and TANGEEZ, a soft functional candy with the unique ingredients of Ajwain and Kala Namak. To tap consumers seeking flavour options in confectionery category, a limited edition POLO Cinnamon flavour and Butter Scotch Eclairs were introduced, both of which received good response from consumers.

The **'Beverages'** business launched a new instant coffee NESCAFÉ MILD during the year. NESCAFÉ MILD uses the finest selection of carefully selected Arabica and Robusta beans, which are lightly roasted to provide an aroma and flavour for a Mild, Rich and Smooth tasting coffee. NESCAFÉ MILD has also been launched in sachet at Re.1/- price point, to provide to the consumer good value, affordability and convenience. The sachet is also expected to generate more trials for the product and improve consumption. NESCAFÉ continued to be the largest brand of Instant Coffee in the Indian market and had satisfactory growth during the year.

The business continued to renovate the MILO brand and has developed an affordable and nutritionally fortified product which is currently being test marketed.

Your Company continued to strengthen its presence in the 'Out-Of-Home' segment through 'NESTLÉ Consumption Zones', Café NESCAFÉ outlets and vending machines in offices, colleges and other locations that experience high footfalls. Your Company continued to lead the market with the largest number of vending machines installed in the market and several hundred NESTLÉ Consumption Zones. Your Company sees increasing opportunities in the 'Out-Of-Home' segment, and is well placed to address consumer needs.

Technology and Quality

Your Company is trusted for the high quality and safety of its products, and recognized for the taste and nutrition that they provide in a convenient and affordable manner. To ensure this, all seven factories of your Company are state-of-the-art and are functioning efficiently. Also, the Company has a General Licence Agreement with the Nestlé Group, Switzerland that enables it to access their continuing investment in Research and Development and the most advanced technology for foods and beverages.

Your Company continuously upgrades and implements best practices at its factories, while following strict norms. During the year, the Company continued to upgrade its production capability. New production lines/ technology were put up at the plants in Pantnagar, Moga, Ponda and Nanjangud; initiatives were taken to strengthen the capabilities for efficient execution of capital projects to support the strong business growth and focus was maintained on measures to ensure availability of the required human resources.

Consumer trust is very important and your Company has always attached tremendous importance to the process of quality assurance required to ensure this. As the leader, your Company continues to further strengthen the processes in this key area. During the year, the Company commenced the implementation of the new Nestlé Quality Management System that has a stronger business focus and encompasses all functions across the value chain. The new system is an improvement over the earlier system and focuses on measures that lead to sustained consumer trust and preference.

Safety and environmental performance have been integral to the business performance of your Company. Continued focus ensured that high standards of safety and environmental performance were maintained in all the factories. During the year, four factories were awarded the internationally recognised external certification ISO 14001 for adherence to environmental processes and OSHAS 18001 for Health and Safety. Certifications for the remaining three factories would be sought during the current year.

Human Resources

The performance expected from your Company requires a disciplined, focused work culture and demands an ongoing effort to sustain an engaged workforce. During the year, significant resources and efforts were devoted to people engagement initiatives to support a performance driven culture and to enhance a Passion to Win mindset for a higher level of productivity. Key areas of focus were talent management, performance management, reward and recognition, business processes, training, and work-life balance. The performance culture was made more robust by focusing on employee development, encouraging greater leadership skills and improved motivation. A greater understanding of employee engagement enabled the Company to improve employee performance.

One of the cornerstones of the Company culture is teamwork and continuous learning. To promote this, the Company focused on supporting people to unlock their own potentials and to enable them to work with a superior team spirit. A key initiative was the implementation of the Mini Business Unit (MBU) programme across all the factories. The MBU concept has improved productivity levels as it also empowers employees to better align their goals with the overall organisational objective, and motivates them to continuously improve their skills.

To empower talent and prepare its people with necessary skills, the Company continued to provide employees with appropriate access to training and corresponding development plans including international exposures, where feasible.

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.
- Ongoing product innovation and renovation, to convert consumer insights.
- Well diversified product portfolio.
- Efficient supply chain.
- Multi focal business structure.
- Distribution structure that allows wide reach and coverage in the target markets.
- Capable and committed human resources.
- Integrated and advanced information systems - GLOBE

Weakness:

- Complex supply chain configuration.
- Export of coffee to Russia, still constitutes significant part of overall exports.
- Ability to pass through cost increases in price point Stock Keeping Units.

Threat:

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

Opportunities:

- Potential for expansion in the smaller towns and other geographies.
- Development of modern retail formats.
- 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.
- Growing per capita income.

Environment

While your Company has been delivering sustained and profitable growth over the years, it has maintained strong focus on greater efficiency in the use of natural resources and on reducing waste and emissions. The usage of water and energy and emission of Green House gas and waste water, per tonne of production, has been drastically reduced over the last decade. These efforts reinforce the trust that people have in your Company. The results of these measures, are contained in the write up on “Creating Shared Value”.

Community Development

Your Company has always recognized that its business is part of social fabric of the community where it operates. The Company believes that its investments must result in long-term sustainable growth as well as economic and social progress for the community. The relationships with the community as ‘Partners in Progress’ are based on business ethics and long-term commitment to creating Shared Value.

The most obvious benefit that your Company brings to the place that it operates in, is the creation of both direct and indirect employment that leads to the development of the whole community, as well as inclusive growth. Economic prosperity is only one aspect of your Company’s relationship with the communities. The activities of your Company help in the transfer of technology and knowledge that takes India’s success story to the people who need it most.

Your Company has done extensive work at Moga to develop dairy farmers. Dedicated agronomists and veterinarians continuously educate farmers with good dairy practices and improved the supply chain infrastructure for milk collection through installation of farm cooler and chillers.

While all this directly benefits close to 100,000 farmers, your Company is aware that women can play a much more productive role in the villages. For the past few years your Company has been conducting dairy development programs amongst village women to train them in good dairy practices as well as spread awareness about personal health, hygiene, water conservation and economic independence. Already 30,000 women from over 500 villages benefit from this initiative.

Your Company endorses the United Nations Global Compact and the Millenium Development Goals to promote prosperity in society. Access to clean drinking water is necessary and your Company believes that it is important to create awareness towards this in society. Over the past few years, your Company has been working on this programme and setting up clean drinking water facilities in village schools around its factories. Clean and hygienic drinking water has been found to reduce illnesses amongst the children and the community is able to better appreciate the water education that your Company provides to the children. The unique clean drinking water facilities are already directly benefiting 33,000 school children every year, who also become more aware of the role they can play in protecting these resources and become ambassadors for water conservation.

Awards & Recognitions

Over the years your Company has earned the trust of every strata of society that it comes in contact with. These have grown into rewarding and enduring partnerships that are based on shared values, business ethics and long-term commitments that actively benefit thousands of farmers and their families and strengthen the bonds with consumers across the country. This is evident in the recognitions awarded to your Company.

During the year, CRISIL assigned Nestlé India a credit rating ‘AAA’ with stable outlook, indicating highest safety for long-term borrowing programme of Rs.500 Million and also reaffirmed P1+ rating indicating very strong safety for short term debt plan of Rs.350 Million. Though your Company did not borrow during the year, this evaluation reiterates the strong business and financial strength of your Company.

During the year, A.C. Nielsen surveyed consumers for the CNBC Awaaz Consumer Awards and it is an honour that NESCAFE was voted as the most preferred coffee for the second successive year.

The success of the business model adopted by your Company is evident to the shareholders through the performance. This was also acknowledged for the second successive year when Business India rated your Company as No.1 on Return On Capital Employed amongst what they consider the Super 100 companies.

For the past several years the Coffee Board of India has recognized your Company for the outstanding performance in exports of Instant Coffee. For the year 2006-2007, your Company received the awards for ‘Best Exporter of Instant Coffee’, ‘Highest Exporter to Russia and CIS” and ‘Highest Exporter to Far East Countries’.

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 judgments 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

Mr. Tejendra Khanna resigned as a Director of the Company with effect from 5th April, 2007. The Directors wish to place on record their appreciation for the contributions made by Mr. Khanna during his tenure.

Mr. Pradip Baijal, appointed in the casual vacancy, is a retired IAS officer with a distinguished career spanning four decades. He has held diverse portfolios in both the Central and State Governments, and from 2003 to 2006 was the Chairman of the Telecom Regulatory Authority of India. His experience would be of immense benefit to your Company and adds a valuable perspective in the Board of Directors. Mr. Baijal holds office till the Annual General Meeting and is eligible for reappointment. Notice has been received from a member signifying his intention to propose Mr. Baijal as a Director.

In accordance with Article 119 of the Articles of Association, Mr. Rajendra S. Pawar 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 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 2008.

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

4th March, 2008 — MARTIAL G. ROLLAND
Gurgaon — 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, 2007, 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, 2007 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, 2007;
      (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
(Membership No. 86423)

4th March, 2008
New Delhi

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, 2007.

(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) According to the information and explanations given to us, we are of the opinion that during the year, the particulars of the contracts / arrangements referred to in Section 301 of the Companies Act, 1956, have been entered in the register required to be maintained under that Section.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rupees five lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant times.

(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 been regular in depositing undisputed statutory dues including provident fund, employees' state insurance dues, income-tax, Investor Education and Protection Fund, wealth tax, customs duty, excise duty, cess and other material statutory dues applicable to it and has generally been regular in depositing undisputed statutory dues including sales tax, service tax and entry tax 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 customs duty, wealth tax and cess, which have not been deposited. The details of disputed dues as at December 31, 2007 in respect of excise duty, sales tax, service 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.) ('000s)	Period to which the amount relates (various years covering the period)	Forum where dispute is pending
Central Excise Laws	Excise Duty	44,170	1996 – 2003	Supreme Court
		3,132	2000 – 2006	Customs, Excise and Service Tax Appellate Tribunal
		26,736	2005 – 2007	Appellate authority upto Commissioners' level
	Service Tax	178,554	2002 – 2005	Customs, Excise and Service Tax Appellate Tribunal
		864	2000 – 2003	Appellate authority upto Commissioners' level
Sales Tax Laws	Sales Tax	4,776	1996 – 2004	High Court
		330	1999 – 2004	Appellate Tribunal
		58,381	1992 – 2006	Appellate authority upto Commissioners' level
Income Tax Act, 1961	Income tax	118,558	1992 – 1994	High Court
		330	2000 – 2001	Income-tax Appellate Tribunal
		1,431	2004 – 2005	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.) ('000s)	Period to which the amount relates (various years covering the period)	Forum where department has preferred appeals
Central Excise Laws	Excise Duty	36,982	1996 – 2004	High Court
		502	2005	Customs, Excise and Service Tax Appellate Tribunal
Sales Tax Laws	Sales Tax	35,401	1997 – 2003	High Court
Income Tax Act, 1961	Income tax	261,818	1983 – 2000	High Court
		325,546	1996 – 2004	Income-tax Appellate Tribunal

(x) The Company does not have accumulated losses at the end of the financial year December 31, 2007. Further, the Company has not incurred cash losses during the financial year ended December 31, 2007 and in the immediately preceding financial year ended December 31, 2006.

(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.

(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.

(xiii) The Company is not a chit fund / nidhi / mutual benefit fund / society to which the provisions of special statute relating to chit fund are applicable, accordingly paragraph 4 (xiii) of the Order, is not applicable.

(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.

(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.

(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.

(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.

(xviii) The Company has not made any preferential allotment of shares during the year.

(xix) The Company has not issued any debentures during the year.

(xx) The Company has not raised any money by way of public issue 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, 2007.

For A.F. FERGUSON & CO.,
Chartered Accountants

(MANJULA BANERJI)
Partner
(Membership No. 86423)

4th March, 2008
New Delhi

BALANCE SHEET OF NESTLÉ INDIA LIMITED AS AT DECEMBER 31, 2007

SOURCES OF FUNDS	SCHEDULE		2007 (Rs. in thousands)		2006 (Rs. in thousands)
SHAREHOLDERS' FUNDS					
Share Capital	A	964,157		964,157	
Reserves and surplus	B	3,220,084	4,184,241	2,924,722	3,888,879
LOAN FUNDS					
Secured Loans	C		28,711		162,676
DEFERRED TAX LIABILITIES/(ASSETS) (NET)	D		286,974		191,559
			4,499,926		4,243,114
APPLICATION OF FUNDS					
FIXED ASSETS	E				
Gross block		11,797,711		10,582,749	
Less:Depreciation		5,779,626		5,164,780	
Net block		6,018,085		5,417,969	
Capital work-in-progress		736,979	6,755,064	382,400	5,800,369
INVESTMENTS	F		944,014		777,732
CURRENT ASSETS, LOANS AND ADVANCES	G				
Inventories		4,012,153		2,762,185	
Sundry debtors		534,901		557,569	
Cash and bank balances		377,604		763,560	
Loans and advances		1,453,883		1,270,424	
		6,378,541		5,353,738	
Less: **CURRENT LIABILITIES AND PROVISIONS**	H				
Liabilities		4,599,744		3,705,604	
Provisions		4,977,949		3,983,121	
		9,577,693		7,688,725	
NET CURRENT ASSETS/(LIABILITIES)			(3,199,152)		(2,334,987)
			4,499,926		4,243,114
NOTES TO THE ACCOUNTS	O				

March 4, 2008
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

(MANJULA BANERJI)
Partner
Membership No. 86423

March 4, 2008
New Delhi

PROFIT AND LOSS ACCOUNT OF NESTLÉ INDIA LIMITED FOR THE YEAR ENDED DECEMBER 31, 2007

	SCHEDULE		2007 (Rs. in thousands)		2006 (Rs. in thousands)
INCOME					
Sales					
Domestic		33,174,093		26,646,111	
Export		3,297,739		2,795,852	
Gross		36,471,832		29,441,963	
Less: Excise Duty		1,428,300		1,281,317	
Net Sales			35,043,532		28,160,646
Other Income	I		254,405		206,100
			35,297,937		28,366,746
EXPENDITURE					
Materials consumed and purchase of goods	J		17,522,681		13,366,621
Manufacturing and other expenses	K		11,231,159		9,543,925
Interest	L		8,545		4,408
Depreciation	E		747,432		662,846
Adjustment due to decrease / (increase) in stock of finished goods and work-in-progress	M		(673,059)		(165,123)
			28,836,758		23,412,677
PROFIT BEFORE ADDITIONAL EMPLOYEE COST, IMPAIRMENT, CONTINGENCIES AND TAXATION			6,461,179		4,954,069
Additional Employee cost (Refer Note 20 - Schedule O)			753,650		-
Impairment loss/(gain) on fixed assets (Refer Note 1 - Schedule O)	E		11,758		3,871
Provision for contingencies (Refer Note 2 - Schedule O)	N		(590,367)		144,959
PROFIT BEFORE TAXATION			6,286,138		4,805,239
Income tax expense					
Current tax		1,939,000		1,521,876	
Deferred tax		166,948		92,038	
Fringe benefit tax		42,068	2,148,016	40,360	1,654,274
PROFIT AFTER TAXATION			4,138,122		3,150,965
Balance brought forward			104,689		72,239
BALANCE AVAILABLE FOR APPROPRIATION			4,242,811		3,223,204
Appropriations:					
Dividends:					
Interim dividend			2,940,680		2,458,601
Final proposed			241,040		-
Corporate dividend tax			522,120		344,818
General reserve			413,812		315,096
SURPLUS CARRIED TO THE BALANCE SHEET			125,159		104,689
BASIC AND DILUTED EARNINGS PER SHARE (IN RUPEES)	O		42.92		32.68
NOTES TO THE ACCOUNTS	O				

March 4, 2008 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

(MANJULA BANERJI)
Partner
Membership No. 86423

March 4, 2008
New Delhi

CASH FLOW STATEMENT OF NESTLÉ INDIA LIMITED FOR THE YEAR ENDED DECEMBER 31, 2007

		2007 (Rs. in thousands)	2006 (Rs. in thousands)
A	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net profit before tax	**6,286,138**	4,805,239
	Adjustments for :		
	Depreciation	**747,432**	662,846
	Unrealised exchange differences	**6,895**	5,508
	Deficit/(surplus) on fixed assets sold/scrapped/written off/written back	**27,114**	38,948
	Interest expense	**8,545**	4,408
	Impairment loss/(reversal) on fixed assets	**11,758**	3,871
	Interest on inter corporate deposits	**(796)**	(12,073)
	Operating profit before working capital changes	**7,087,086**	5,508,747
	Adjustments for :		
	Decrease/(increase) in trade and other receivables	**(160,009)**	(272,511)
	Decrease/(increase) in inventories	**(1,249,968)**	(231,192)
	Increase/(decrease) in trade payables	**901,558**	314,875
	Increase/(decrease) in provision for contingencies	**(549,822)**	144,959
	Increase/(decrease) in provision for Employee Benefits	**1,217,100**	238,162
	Cash generated from operations	**7,245,945**	5,703,040
	Direct taxes paid	**(2,054,013)**	(1,517,575)
	Net cash from operating activities	**5,191,932**	4,185,466
B	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Purchase of fixed assets (adjusted for suppliers payables and capital work in progress)	**(1,696,394)**	(1,425,945)
	Sale of fixed assets	**8,466**	23,075
	Interest received on inter corporate deposits	**796**	13,040
	Inter corporate deposits refunded	**-**	172,500
	Sale of Long Term Investments	**-**	10
	Net cash used in investing activities	**(1,687,132)**	(1,217,320)
C	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Proceeds/(Repayments) of borrowings	**(133,965)**	19,631
	Interest paid	**(8,545)**	(4,408)
	Dividends paid	**(3,080,525)**	(2,501,216)
	Corporate dividend tax	**(501,439)**	(351,580)
	Net cash outflow from financing activities	**(3,724,474)**	(2,837,573)
	Net increase / (decrease) in cash and cash equivalents (A+B+C)	**(219,674)**	130,573
	Cash and bank balances	**763,560**	366,453
	Current investments	**777,732**	1,044,266
	Cash and cash equivalents as at opening	**1,541,292**	1,410,719
	Cash and bank balances	**377,604**	763,560
	Current investments	**944,014**	777,732
	Cash and cash equivalents as at closing	**1,321,618**	1,541,292
	NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**(219,674)**	130,573

March 4, 2008 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

(MANJULA BANERJI)
Partner
Membership No. 86423

March 4, 2008
New Delhi

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT DECEMBER 31, 2007

		2007 (Rs. in thousands)	2006 (Rs. in thousands)
SCHEDULE A			
SHARE CAPITAL			
Authorised			
100,000,000	Equity shares of Rs.10 each (Previous year 100,000,000)	**1,000,000**	1,000,000
Issued, subscribed and paid-up			
96,415,716	Equity shares of Rs.10 each fully paid up (Previous year 96,415,716)	**964,157**	964,157
Of the above:			
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.		
Of the above:			
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 27,463,680) are held by Maggi Enterprises Limited, the ultimate holding company being Nestlé S.A.		

	2007	2006
SCHEDULE B		
RESERVES AND SURPLUS		
Share premium account		
As per last balance sheet	**432,363**	432,363
Capital subsidy		
As per last balance sheet	**2,500**	2,500
General reserve		
As per last balance sheet	**2,385,170**	2,070,074
Less : Liability for Employee cost upto December 31, 2006 (Refer Note 19 - Schedule O)	**138,920**	–
Add : Transferred from profit and loss account	**413,812**	315,096
	2,660,062	2,385,170
Surplus, being balance in profit and loss account (undistributed profits)	**125,159**	104,689
	3,220,084	2,924,722
SCHEDULE C		
SECURED LOANS		
Loans from Banks		
Secured by a first *pari passu* charge on all movable assets (excluding plant and machinery), finished goods, work-in-progress, raw materials and book debts.	**28,711**	162,676
	28,711	162,676

	2007 (Rs. in thousands)	2006 (Rs. in thousands)
SCHEDULE D		
DEFERRED TAX LIABILITIES AND ASSETS		
Deferred tax liabilities		
Difference between book and tax depreciation	**695,371**	672,321
Deferred tax assets		
Provision for contingencies	**211,528**	396,581
Provision for employee costs	**128,969**	9,600
Other Items deductible on payment or deposit of withholding taxes	**44,481**	52,456
Other temporary differences	**23,419**	22,125
	408,397	480,762
Deferred tax liabilities/(assets) (net)	**286,974**	191,559

SCHEDULE E

FIXED ASSETS

(Rs. in thousands)

	GROSS BLOCK				DEPRECIATION						NET BLOCK	
	Cost as at December 31, 2006	Additions#	Deletions/ adjust-ments	**Cost as at December 31, 2007**	As at December 31, 2006	For the year	Impairement loss## charged	Impairement loss## reversed	On Deletions/ adjustments	**As at December 31, 2007**	**As at December 31, 2007**	As at December 31, 2006
Tangible Assets (A)												
Freehold land	56,026	–	–	**56,026**	–	–	–	–	–	–	**56,026**	56,026
Leasehold land	91,193	3,464	–	**94,657**	890	1,015	–	–	–	**1,905**	**92,752**	90,303
Buildings	1,464,134	213,176	15,623	**1,661,687**	451,053	47,487	–	–	1,898	**496,642**	**1,165,045**	1,013,081
Railway siding	11,733	–	–	**11,733**	9,123	557	–	–	–	**9,680**	**2,053**	2,610
Plant and machinery	7,519,628	1,019,301	115,827	**8,423,102**	3,807,881	505,691	11,758	–	94,312	**4,231,018**	**4,192,084**	3,711,747
Furniture and fixtures	438,052	116,330	8,808	**545,574**	323,577	42,878	–	–	8,682	**357,773**	**187,801**	114,475
Information technology equipment	413,005	42,615	35,195	**420,425**	365,137	33,748	–	–	35,195	**363,690**	**56,735**	47,868
Vehicles	52,719	–	4,471	**48,248**	28,367	8,804	–	–	4,257	**32,914**	**15,334**	24,352
Sub Total	10,046,490	1,394,886	179,924	**11,261,452**	4,986,028	640,180	11,758	–	144,344	**5,493,622**	**5,767,830**	5,060,462
Intangible Assets (B)												
Management information systems	536,259	–	–	**536,259**	178,752	107,252	–	–	–	**286,004**	**250,255**	357,507
Total (A+B)	10,582,749	1,394,886	179,924	**11,797,711**	5,164,780	747,432	11,758	–	144,344	**5,779,626**	**6,018,085**	
Previous year	9,494,439	1,409,007	320,697	10,582,749	4,756,737	662,846	5,875	2,004	258,674	5,164,780		5,417,969
Capital work–in-progress including capital advances and machinery-in-transit											**736,979**	**382,400**
											6,755,064	**5,800,369**

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. Nil [previous year Rs. 7,873 thousands].

Refer Note 1– Schedule O

SCHEDULE F

INVESTMENTS

(NON TRADE, UNQUOTED)

CURRENT

(at cost or fair value, whichever is lower)

			2007 (Rs. in thousands)	2006 (Rs. in thousands)
GOVERNMENT SECURITIES				
Treasury bills	–	Face value of Rs.1,600,000 thousands (previous year Rs. 350,000 thousand) purchased and Rs. 1,600,000 thousands (previous year Rs. 550,000 thousand) sold during the year.	–	–
MUTUAL FUNDS - DEBT				
[Units of face value Rs. 10 each, unless otherwise stated]				
Standard Chartered Mutual Fund	–	Units(previous year 12,711,349) of Standard Chartered Liquidity Manager - Daily Dividend Option (3,017,016 units purchased and 15,728,365 units sold during the year)	–	127,126
	52,197	Units(previous year Nil) of Standard Chartered Liquidity Manager plus- Daily Dividend Option (887,631 units of face value of Rs. 1000 each purchased and 835,434 units sold during the year)	**52,208**	–
	–	Units (previous year 5,000,000) of Standard Chartered Fixed Maturity Quarterly Series 2 sold during the year	–	50,000
Principal Mutual Fund	13,873,012	Units (previous year Nil) of Principal Cash Management Fund Liquid Option Institutional Premium Plan - Daily Dividend. (173,023,628 units purchased and 159,150,616 units sold during the year)	**138,740**	–
	–	Units (previous year 4,294,058) of Principal Floating rate fund Short Maturity Plan Institutional - Option Daily Dividend Reinvestment Plan (111,502,316 units purchased and 115,796,374 units sold during the year)	–	42,943
	–	Principal Floating rate fund Fixed Maturity Plan Institutional Option-Daily Dividend Reinvestment Plan(4,541,046 units purchased and sold during the year)	–	–
Prudential ICICI Mutual Fund	–	Prudential ICICI Fixed term Plan Series 32 - 3 month Plan B. (10,000,000 units purchased and sold during the year)	–	–
	–	Units (previous year 5,003,680) of Prudential ICICI Liquid Plan- Super Institutional - Daily Dividend Option. (185,992,665 units purchased and 190,996,345 units sold during the year)	–	50,037
	–	Units (previous year 5,004,021) of Prudential ICICI Floating Rate Plan D - Daily Dividend Plan. (57,719,171 units purchased and 62,723,192 sold during the year)	–	50,040
Kotak Mahindra Mutual Fund	2,760,241	Units (previous year 15,544,780) of Kotak Liquid Institutional Premium Plan - Daily Dividend Option. (144,149,329 units purchased and 156,933,868 units sold during the year)	**33,753**	190,083
	–	Kotak Fixed Maturity Plan - 3 month - Series 10 - Dividend.(5,000,000 units purchased and sold during the year.)	–	–
	–	Kotak Flexi Debt Scheme - Daily Dividend Option.(29,096,624 purchased and sold during the year.)	–	–
Birla Sun Life Mutual Fund	11,344,009	Units (previous year Nil) of Birla Cash Plus Institutional Premium Plan - Daily Dividend Option. (194,765,101 units purchased and 183,421,092 units sold during the year)	**113,661**	–
	–	Birla Fixed Term Plan - Quarterly Series 7 - Dividend (5,000,000 units purchased and sold during the year)	–	–
	–	Birla Sun Life Liquid Plus - Institutional Premium - Daily Dividend Plan Reinvestment (18,201,823 units purchased and sold during the year)	–	–
DSP Merrill Lynch Mutual Fund	–	DSP ML Liquidity fund Instutional Plan-Daily Dividend(200,266 units of face value Rs.1000 each purchased and sold during the year)	–	–
ING Vysya Mutual Fund	19,128,755	Units(Previous Year 14,424,656) of ING Vysya Liquid Fund Super Institutional - Daily Dividend Option. (168,931,118 units purchased and 164,227,019 units sold during the year)	**191,379**	144,281
TATA Mutual fund	142,431	Units(previous year 18,410) of Tata Liquid Super High Investment Fund - Daily Dividend Option. (12,52,594 units of face value of Rs.1000 each purchased and 11,28,573 units sold during the year)	**158,742**	20,518
	–	Units(previous year 10,264,612) of Tata Floating Rate Short Term Institutional Plan - Daily Dividend (89,199,811 units purchased and 99,464,423 units sold during the year)	–	102,704
	–	Tata FMP Fixed Horizon Fund Series 8 Scheme C dividend Institutional plan (5,000,000 units purchased and sold during the year)	–	–

SCHEDULE F (Contd...)			**2007 (Rs. in thousands)**	2006 (Rs. in thousands)
HSBC Mutual fund	–	HSBC Cash Fund Institutional Plus - Daily Dividend Option. (25,550,824 units purchased and sold during the year)	**–**	–
	–	HSBC Liquid plus - Institutional Plus Daily Dividend (69,426,186 units purchased and sold during the year)	**–**	–
Sundaram BNP Paribas	14,145,446	Units (previous year Nil) of Sundaram BNP Paribas Money Fund Super Institutional Plan Daily Dividend (53,767,844 units each purchased and 39,622,398 units sold during the year)	**142,803**	–
	11,246,017	Units (previous year Nil) of Sundaram BNP Paribas Liquid Plus Super Institutional plan Dividednd Reinvestment Daily(73,927,089 units purchased & 62,681,072 units sold during the year)	**112,728**	–
Franklin Templeton Mutual Fund	–	Templeton India Treasury Management Account Institutional Plan - Daily Dividend reinvestment (931,300 units of face value of Rs.1000 purchased and sold during the year)	**–**	–
	–	Templeton Floating Rate Income Fund Small Cap Short Term Plan Institutional Option - Dividend Reinvestment (23,528,140 units purchased and sold during the year)	**–**	–
	–	Templeton Fixed Horizon Fund - 3 Months Plan - Institutional - Dividend (5,000,000 units purchased and sold during the year)	**–**	–
Reliance Liquid Mutual Fund	–	Units (previous Year Nil) of Reliance Liquid Fund - Treasury Plan Instituitional Option Daily Dividend Option (17,707,302 units Purchased and sold during the year)	**–**	–
Repurchase price as at December 31, 2007		Rs.944,014 thousands (previous year Rs.777,732 thousands)		
			944,014	777,732

		2007 (Rs. in thousands)		2006 (Rs. in thousands)
SCHEDULE G				
CURRENT ASSETS, LOANS AND ADVANCES				
Inventories				
Stores and spare parts *		**210,460**		186,466
Stock-in-trade ** :				
Finished goods		**1,977,141**		1,406,559
Work-in-progress		**424,279**		284,758
Raw materials		**1,240,513**		760,746
Packing materials		**159,760**		123,656
		4,012,153		2,762,185
* At cost				
** At cost or net realisable value, whichever is lower				
Sundry debtors (Unsecured)				
Considered good				
Over six months	**968**		1,520	
Others	**533,933**	**534,901**	556,049	557,569
Considered doubtful				
Over six months	**9,469**		9,731	
Others	**18,430**	**27,899**	15,000	24,731
		562,800		582,300
Less: Provision for doubtful debts		**27,899**		24,731
		534,901		557,569
Cash and bank balances				
Cash in hand		**84**		213
Cheques in hand		**119,313**		52,391
With scheduled banks– on current accounts		**38,076**		12,744
– on deposit accounts		**220,131**		698,212
		377,604		763,560
Loans and advances				
(Unsecured, considered good - unless otherwise stated)				
Advances recoverable in cash or in kind or for value to be received*				
Considered good				
Secured	**36,205**		33,512	
Unsecured	**1,125,678**	**1,161,883**	1,017,857	1,051,369
Considered doubtful		**5,184**		3,767
		1,167,067		1,055,136
Less: Provision for doubtful advances		**5,184**		3,767
		1,161,883		1,051,369
Inter corporate deposits		**–**		–
Taxation (payments less provisions)		**292,000**		219,055
		1,453,883		1,270,424
		6,378,541		5,353,738

* Advances recoverable, disbursed under the Company's housing loans scheme for its employees, includes Rs. 5,380 thousands (Previous year Rs. 9,500 thousands) due from a Director of the Company - maximum amount due during the year Rs. 9,500 thousands (Previous year Rs. 10,000 thousands)

SCHEDULE H

CURRENT LIABILITIES AND PROVISIONS

	2007 (Rs. in thousands)	2006 (Rs. in thousands)
Current liabilities		
Sundry Creditors -		
Micro & Small Enterprises (Refer to Note 17 - Schedule O)	**10,495**	–
Small Scale Industrial Undertakings @	**–**	31,633
Others	**4,545,350**	3,634,850
Investor Education and Protection Fund shall be credited by the following:		
Unpaid dividends #	**43,899**	39,121
	4,599,744	3,705,604
Provisions		
Pension and Gratuity	**2,680,488**	1,601,514
Contingencies (Refer Schedule N)	**1,666,878**	2,216,700
Employee Benefits, Incentives and Welfare *	**348,579**	–
Interim dividend payable	**–**	144,624
Proposed final dividend	**241,039**	–
Corporate dividend tax	**40,965**	20,283
	4,977,949	3,983,121
	9,577,693	7,688,725

@ Pursuant to amendments to Schedule VI to the Companies Act, 1956 vide Notification No. GSR 719 (E) dtd. Nov. 16, 2007, the amounts due to Micro and Small Enterprises only have been disclosed as against the earlier disclosure requirement of amounts due to Small Scale Industrial Undertakings.

There is no amount due and outstanding to be credited to Investor Education and Protection Fund.

* Includes compensated absences, restricted stock unit plans, long service awards and ceremonial gifts.

SCHEDULE I

OTHER INCOME

	2007 (Rs. in thousands)	2006 (Rs. in thousands)
Dividend on current non- trade investments	**92,808**	68,482
Interest on income tax refund in relation to earlier years	**21,352**	–
Interest received on loans and deposits (gross)	**52,975**	51,702
(Tax deducted at source Rs. 4,439 thousands previous year Rs. 6,188 thousands)		
Export incentives	**3,095**	–
Miscellaneous income	**84,175**	85,916
	254,405	206,100

SCHEDULE J		2007 (Rs. in thousands)		2006 (Rs. in thousands)
MATERIALS CONSUMED AND PURCHASE OF GOODS				
Raw materials consumed		**14,391,229**		10,709,993
Packing materials consumed		**2,784,775**		2,388,722
Purchase of goods — outside manufacture		**346,677**		267,906
		17,522,681		13,366,621

SCHEDULE K

MANUFACTURING AND OTHER EXPENSES

		2007		2006
Employees' cost				
Salaries, wages, bonus, pension, gratuity, performance incentives etc.	**2,454,121**		1,955,180	
Contribution to provident and other funds	**86,660**		74,371	
Staff welfare expenses	**153,645**	**2,694,426**	132,070	2,161,621
Advertising and sales promotion				
Gross expenditure	**1,722,059**		1,490,878	
Less : amount written-back	**–**	**1,722,059**	102,500	1,388,378
Freight, transport and distribution		**1,608,368**		1,337,181
General licence fees (net of taxes)		**1,168,459**		943,343
Taxes on general licence fees		**181,125**		146,218
Power and fuel		**1,239,442**		1,155,566
Maintenance and repairs				
Plant and machinery	**249,264**		198,508	
Buildings	**30,507**		28,492	
General	**42,338**	**322,109**	49,222	276,222
Travelling		**355,978**		353,184
Contract manufacturing charges		**372,172**		327,983
Rates and taxes		**173,762**		201,191
Rent		**181,615**		158,922
Information technology and management information systems		**308,714**		292,372
Milk collection and district development expenses		**116,623**		120,884
Consumption of stores and spare parts (excluding Rs.136,678 thousands charged to other revenue accounts, previous year Rs.118,063 thousands)		**112,682**		115,509
Training expenses		**121,080**		76,996
Market research		**71,590**		57,784
Deficit on fixed assets sold/scrapped/written off		**27,114**		38,948
Laboratory (quality testing) expenses		**99,501**		89,331
Insurance		**22,344**		21,711
Miscellaneous expenses		**331,996**		280,581
		11,231,159		9,543,925

		2007 (Rs. in thousands)		2006 (Rs. in thousands)
SCHEDULE L				
INTEREST				
Interest on fixed loans		**5,449**		2,062
Others		**3,096**		2,346
		8,545		4,408
SCHEDULE M				
ADJUSTMENT DUE TO (INCREASE)/DECREASE IN STOCK OF FINISHED GOODS AND WORK-IN-PROGRESS				
Opening stock				
Work-in-progress	**284,758**		271,418	
Finished goods	**1,406,559**		1,285,707	
	1,691,317		1,557,125	
Less: Excise duty	**92,256**		123,187	
Net opening stock (A)		**1,599,061**		1,433,938
Less: Closing stock				
Work-in-progress	**424,279**		284,758	
Finished goods	**1,977,141**		1,406,559	
	2,401,420		1,691,317	
Less: Excise duty	**129,300**		92,256	
Net closing stock (B)		**2,272,120**		1,599,061
Movement in opening and closing stock (A - B)		**(673,059)**		(165,123)
SCHEDULE N				
PROVISION FOR CONTINGENCIES				
Balance as at December 31, 2006		**2,216,700**		2,071,741
Add: Created during the year	**163,283**		408,679	
Less: Reversed/utilised during the year	**(753,650)**		(263,720)	
Net provision taken to the Profit and Loss Account		**(590,367)**		144,959
Add: Reclassified during the year		**40,545**		–
Balance as at December 31, 2007		**1,666,878**		2,216,700
(Refer Note 2 - Schedule O)				

SCHEDULE O

NOTES TO THE ACCOUNTS

	2007 *(Rs. in thousands)*	2006 *(Rs. in thousands)*

1. During the year ended December 31, 2007, Impairment loss on fixed assets (Gross -Rs 11,758 thousands, net of deferred taxes - Rs. 7,761 thousands) relates to various items of 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. 163,283 thousands (Previous year Rs. 408,679 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/utilized contingency provision of Rs. 753,650 thousands (Previous year Rs. 263,720 thousands) due to the satisfactory settlement of certain disputes and other matters for which provision was no longer required. An amount of Rs. 40,545 thousands (Previous year Rs. Nil), pertaining to provisions created in earlier years and shown earlier under current liabilities, has been reclassified to Contingencies during the year. The details of class-wise provisions are given below :

(Rs. in thousands)

Description	Class of Provisions			
	Litigations and related disputes	Disputes	Others	Total
Opening Balance	**1,409,250**	**–**	**807,450**	**2,216,700**
	(1,315,171)	(65,000)	(691,570)	(2,071,741)
New Provisions	**163,283**	**–**	**–**	**163,283**
	(292,799)	–	(115,880)	(408,679)
Utilization/Settlement	**–**	**–**	**–**	**–**
	–	(32,000)	–	(32,000)
Reversals	**–**	**–**	**753,650**	**(753,650)**
	(198,720)	(33,000)	–	(231,720)
Total cost for the year in Profit and Loss account	**163,283**	**–**	**(753,650)**	**(590,367)**
	(94,079)	65,000	(115,880)	(144,959)
Reclassified during the year	**40,545**	**–**	**–**	**40,545**
	–	–	–	–
Closing Balance	**1,613,078**	**–**	**53,800**	**1,666,878**
	(1,409,250)	–	(807,450)	(2,216,700)

Notes:

(a) **Litigations and related disputes** - represents estimates made mainly for probable claims arising out of litigations / disputes pending with authorities under various statutes (i.e. Income Tax, Excise Duty, Service Tax, Sales and Purchase Tax etc.). The probability and the timing 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 employee 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.

		2007 *(Rs. in thousands)*	2006 *(Rs. in thousands)*
3.	Capital commitments remaining to be executed and not provided for	**632,711**	359,279
4.	Auditors' remuneration including service tax and expenses in respect of		
	a) Statutory audit	**3,236**	2,448
	b) Audit of accounts for fiscal year and tax audit	**1,309**	954
	c) Limited review of quarterly un-audited results	**742**	590
	d) Certification for general license fee remittances, corporate governance and others	**229**	463
	e) Audit of employee trust accounts and other certificates	**324**	22
	f) Certification of tax holiday benefits	**81**	99
	g) Reimbursement of out of pocket expenses for statutory audit and other matters	**287**	428
5.	Managerial remuneration @		
	Salaries	**21,984**	18,373
	Company's contribution to provident fund	**630**	485
	Leave Travel	**891**	617
	Commission to managing/whole-time director	**31,961**	25,402
	Commission to non- whole time directors	**1,105**	1,200
	Director sitting fees	**365**	310
	Other perquisites	**8,900**	6,704
		65,836	53,091

@ 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. Provision for incremental compensated absences liability has also been excluded since the computation for the same has been done for the company as a whole.

Computation of net profit in accordance with Section 198 of the Companies Act, 1956

	2007	2006
Net Profit after taxation	**4,138,122**	3,150,965
Add:		
Managerial remuneration	**65,836**	53,091
Net gain/(deficit) on fixed assets sold/scrapped as per Section 350 of the Companies Act, 1956	**(27,121)**	(38,982)
Net (gain)/deficit on fixed assets sold/scrapped as per accounts	**27,114**	38,948
Provision for income-tax	**2,105,948**	1,613,914
Net Profit	**6,309,899**	4,817,937
Commission: - Amount	**33,066**	26, 602
- Percentage of net profit	**0.52%**	0.55%

	2007		2006	
	(Rs. in thousands)	**%**	(Rs. in thousands)	%
6. Exchange difference (net) amounting to Rs. 13,687 thousands debited (Previous year Rs. 9,953 thousands) debited to respective revenue heads in the profit and loss account.				
7. Stores and spare parts consumed				
Imported	**31,041**	**12.4**	28,292	12.1
Indigenous	**218,319**	**87.6**	205,280	87.9
	249,360	**100.0**	233,572	100.0
8. Earnings from exports:				
Export of goods in:				
- Foreign Currency at F.O.B value {including sales to Russia invoiced in Rupees of Rs. 1,076,367 thousands (previous year Rs. 865,337 thousands)}	**2,782,554**		2,217,544	
- Rupees (all inclusive sales to Nepal & Bhutan)	**476,934**		538,898	
Proceeds from sale of fixed assets in foreign currency at F.O.B value	**7,432**		2,226	
9. C. I. F. value of imports:				
Raw materials	**725,956**		685,084	
Capital goods	**480,361**		423,706	
Goods – outside manufacture	**13,722**		38,384	
Components and spare parts	**53,826**		43,240	
	Quantity (MT)	**(Rs. in thousands)**	Quantity (MT)	(Rs. in thousands)
10. Raw materials consumed:				
Fresh milk and milk concentrate	**394,919**	**5,540,582**	334,256	4,075,542
Green coffee	**26,222**	**1,970,792**	23,790	1,351,333
Vegetable oils	**22,201**	**1,268,463**	17,507	894,684
Skimmed milk powder	**9,725**	**1,208,072**	9,806	950,951
Wheat flour	**79,759**	**1,115,672**	65,798	850,818
Sugar	**45,057**	**695,581**	41,191	826,675
Tomato Paste	**4,090**	**154,784**	3,657	128,451
Whey powder	**1,160**	**142,542**	1,397	139,889
Cocoa based raw materials	**1,063**	**106,506**	954	98,759
Apple concentrate	**892**	**78,574**	841	45,373
Chicory	**3,757**	**70,661**	3,511	62,382
Black tea/green leaf	**6,891**	**67,590**	9,718	106,217
Tapioca starch	**681**	**35,061**	386	14,964
Others (net of sale proceeds of by-products/surplus materials)		**1,936,349**		1,163,955
		14,391,229		10,709,993
	(Rs. in thousands)	**%**	(Rs. in thousands)	%
Of the above:				
Imported	**966,068**	**6.7**	1,204,719	11.2
Indigenous	**13,425,161**	**93.3**	9,505,274	88.8
	14,391,229	**100.0**	10,709,993	100.0

	2007 (Rs. in thousands)	2006 (Rs. in thousands)
11. Expenditure in foreign currency (accrual basis)		
General license fees (net of tax)	**1,168,459**	943,343
Information technology and management information systems	**292,613**	268,045
Travelling and training	**38,815**	43,687
Other matters	**64,027**	56,379
Ocean freight	**–**	43,159

12. Amount remitted in foreign currencies towards dividends during the year

	2007			2006		
	Number of Non-resident Shareholders	**Number of Equity Shares held**	**Dividend remitted *(Rs. in thousands)***	Number of Non-resident Shareholders	Number of Equity Shares held	Dividend remitted *(Rs. in thousands)*
Final				2	59,629,954	119,260
Interim	**2**	**59,629,954**	**1,908,159**	2	59,629,954	1,431,119

13. Earnings per share

	2007	2006
Profit after taxation as per profit and loss account (Rs. in thousands)	**4,138,122**	3,150,965
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)	**42.92**	32.68

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)**	**5,983**	**588,820**	**67,635**	**7,829**	**858,874**	**65,305**	**10,427,702**
	(72,502.50)	(5,659)	(517,849)	(64,090)	(5,983)	(588,820)	(63,015)	(8,550,047)
- Others	**Not Applicable**	**2,671**	**236,513**	**43,415**	**3,067**	**303,179**	**42,431**	**5,328,340**
		(2,344)	(193,107)	(40,121)	(2,671)	(236,513)	(39,228)	(4,306,549)
Beverages	**Not Applicable**	**1,522**	**247,051**	**24,951**	**2,171**	**381,197**	**24,107**	**7,218,583**
		(1,516)	(235,752)	(22,617)	(1,522)	(247,051)	(22,342)	(6,048,246)
Prepared dishes and cooking aids	**Not Applicable**	**3,810**	**163,838**	**100,064**	**4,870**	**217,057**	**98,259**	**7,811,377**
		(3,744)	(163,809)	(79,409)	(3,810)	(163,838)	(78,706)	(5,980,120)
Chocolate and Confectionery	**Not Applicable**	**1,989**	**170,337**	**36,211**	**2,254**	**216,834**	**35,752**	**5,685,830**
		(2,153)	(175,190)	(30,314)	(1,989)	(170,337)	(30,402)	(4,557,000)
			1,406,559			**1,977,141**		**36,471,832**
			(1,285,707)			(1,406,559)		(29,441,963)

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 25th 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 purchases of 11,732 MT (8,792 MT) in Milk Products and Nutrition - Others, 187 MT (145 MT) in Beverages, 12 MT (- 12 MT) in Chocolate and Confectionery. The total value of these purchases is Rs. 346,677 thousands (Rs. 267,906 thousands).

(d) Previous year's figures are indicated in brackets.

15. 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.

16. Related party disclosures under Accounting Standard 18

Holding companies: Nestlé S.A. and Maggi Enterprises Ltd.

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 Laboratories (India) Pvt. Ltd., Belte Schweiz AG, Galderama India Pvt. Ltd., Nestec S.A. Nestec York Ltd., Nestlé (Fiji) Ltd., Nestlé (China) Ltd., Nestlé (Png) Limited, Nestlé (South Africa) Pty Ltd., Nestlé (Thai) Ltd., Nestlé Australia Ltd., Nestlé Bangladesh Ltd., Nestlé Brazil Ltd., Nestlé Central And West Africa Limited, Nestlé Deutschland AG, Nestlé Egypt S.A.E., Nestlé Foods Kenya Ltd., Nestlé France S.A.S., Nestlé Ghana Limited, Nestlé Hong Kong Limited, Nestlé Hungaria Kft., Nestlé Iran (Private Joint Stock Company), Nestlé Japan Ltd., Nestlé Korea Ltd., Nestlé Kuban LLC, Nestlé Lanka PLC, Nestlé Manufacturing (Malaysia) SDN. BHD, Nestlé Middle East FZE, Nestlé Nederland BV, Nestlé Nigeria PLC, Nestlé Pakistan Ltd., Nestlé Philippines, Inc., Nestlé Polska S.A., Nestlé Product Technology Centre Lebensmittelforschung GMBH, Nestlé Products Sdn Bhd, Nestlé R&D Centre (Pte) Ltd., Nestlé Romania S.R.L., Nestlé Sea Trading Ltd., Nestlé Shanghai Ltd., Nestlé Singapore (Pte) Ltd., Nestlé Suisse S.A., Nestlé Taiwan Ltd., Nestlé Tianjin Ltd., Nestlé Trading (Fiji) Ltd., Nestlé Trading (Thailand) Ltd., Nestlé Turkiye Gida Sanayi A.S., Nestlé UK LTD., Nestlé USA Inc, Nestlé Vietnam Ltd., Nestlé Waters Supply Est, Nestrade Nestlé World Trade Corporation, Osem Food Industries Ltd., Osem Uk Ltd., PT Nestlé Indonesia, Servcom SA, Société des Produits Nestlé S.A., Speciality Foods India Pvt. Ltd.

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

Name of transactions	2007 (Rs. in thousands)	2006 (Rs. in thousands)
Holding companies: Dividends	**1,967,788**	1,520,564
Fellow subsidiaries:		
(a) Sale of finished and other goods		
- Nestlé Kuban LLC	**1,105,485**	895,488
- Nestlé Bangladesh Ltd.	**439,982**	376,322
- Nestlé Hungaria KFT	**225,568**	195,328
- Others	**464,491**	86,759
(b) Sale of fixed assets		
- Nestlé (South Africa) Pty Ltd.	**–**	2,226
- Nestlé Lanka PLC	**7,432**	–
(c) Sale of spares		
- Nestlé (South Africa) Pty Ltd.	**–**	795
- Nestlé Bangladesh Ltd.	**61**	–
(d) Purchase of fixed assets		
- Nestlé Australia Ltd.	**1,563**	35,808
- Nestlé Bangladesh Ltd.	**948**	–
- Nestlé Korea Ltd.	**2,212**	–
- Nestlé Lanka PLC	**804**	–
(e) Purchase of raw and packing materials and spare parts		
- Nestlé Philippines Inc.	**–**	343
- Nestlé Bangladesh Ltd.	**–**	149
- Nestlé Nederland B V	**98**	–
- Others	**–**	16
(f) Purchase of finished goods		
- Nestlé Suisse S.A.	**–**	19,962
- Nestlé Lanka PLC	**13,725**	15,637
- P.T. Nestlé Indonesia	**2,593**	–
- Others	**–**	5,581
(g) General licence fees (Net of taxes)		
- Société des Produits Nestlé S.A.	**1,168,459**	943,343
(h) Interest on inter corporate deposits		
- Galderama India Pvt. Ltd.	**796**	6,623
- Alcon Laboratories (India) Pvt. Ltd.	**–**	5,450
(i) Expenses recovered/received		
- Speciality Foods India Pvt. Ltd.	**9,576**	8,345
- Nestlé Lanka PLC	**7,343**	2,067
- Nestec S.A.	**5,609**	3,035
- Nestlé (South Africa.) Pty Ltd.	**4,639**	1,172
- Others	**16,019**	13,341

	2007 (Rs. in thousands)	2006 (Rs. in thousands)
(j) Expenses reimbursed/incurred		
- Nestlé R & D Center (Pte) Ltd.	**19,313**	16,689
- Nestec S.A.	**17,954**	11,922
- Nestlé Deutschland AG	**8,405**	5,498
- Nestlé Tianjin Ltd.	**5,222**	7,703
- Others	**13,675**	16,798
(k) Information technology and management information systems		
- Nestlé Australia Ltd.	**276,561**	270,619
(l) Inter corporate deposits granted		
- Galderama India Pvt Ltd.	**80,000**	–
(m) Inter corporate deposits refunded		
- Galderama India Pvt. Ltd.	**80,000**	95,000
- Alcon Laboratories (India) Pvt Ltd.	**–**	77,500
(n) Balance outstanding as at the year end		
- Proposed final dividend for 2007 payable to holding companies	**149,075**	89,445
- Receivables	**270,426**	243,451
- Payables	**331,801**	292,819

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, 2007 is Rs. 14,540 thousands (Previous year Rs. 10,090 thousands)

iii. Other transactions with Key Managerial Personnel during the year:
Balance Outstanding against Loans disbursed under Company's Housing Loan Scheme for its employees includes Rs. 5,380 thousands (Previous Year Rs. 9,500 thousands). Transactions during the year in this housing loan account : Fresh disbursment Rs. Nil (previous year Rs. 10,000 thousands); Interest debited Rs. 480 thousands (previous year Rs. 100 thousands); repayments Rs. 4,600 thousands (previous year Rs. 600 thousands).
Lease rentals paid (at market rates) during the year : Rs. 780 thousands (previous year Rs. Nil thousands).

17. The company has initiated the process of obtaining confirmation from suppliers who have registered themselves under the Micro Small Medium Enterprise Development Act, 2006 (MSMED Act, 2006). Based on the information available with the company, the balance due to Micro & Small Enterprises as defined under the MSMED Act, 2006 is Rs.10,495 thousands. Further, no interest during the year has been paid or payable under the terms of the MSMED Act, 2006.

18. Employee Plans

a) The company makes contribution towards employees' provident fund and employees' state insurance plan scheme. Under the rules of these schemes, the Company is required to contribute a specified percentage of payroll costs. The Company during the year recognised Rs. 86,660 thousands (previous year Rs. 74,371 thousands) as expense towards contributions to these plans.

Out of the total contribution, made for employees' provident fund, Rs. 42,691 thousands (previous year Rs. 35,029 thousands) is made to the Nestlé India Limited Employees Provident Fund Trust while the remainder contribution is made to provident fund plan operated by the Regional Provident Fund Commissioner.

The total plan liabilities under the Nestlé India Limited Employees Provident Fund Trust as at December 31, 2007 is Rs. 780,797 thousands (previous year Rs. 738,140 thousands) as against total plan assets of Rs. 785,831 thousands (previous year Rs. 747,533 thousands). The funds of the Trust have been invested under various securities as prescribed under the rules of the Trust.

b) Gratuity scheme - This is a funded defined benefit plan for qualifying employees. The company makes contributions to the Nestlé India Limited Employees' Gratuity Trust Fund. The scheme provides for a lumpsum payment to vested employees at retirement, death while in employment or on termination of employment. Vesting occurs upon completion of five years of service.

c) Pension scheme - The company operates a non funded pension defined benefit scheme for its employees that qualify under the scheme. The scheme is discretionary in nature.

The following table sets out the status of the gratuity scheme and pension scheme plans as at December 31, 2007

	As at December 31, 2007 *(Rs. in thousands)*	
	Gratuity Scheme Funded Plan	**Pension Scheme Non Funded Plan**
Change in benefit obligation:		
1 Present Value of obligation, as at the begining of the year	**303,160**	**1,585,954**
2 Service cost #	**24,050**	**980,264**
3 Interest cost	**23,190**	**118,150**
4 Actuarial (gain)/loss *(net of actual benefits paid, as shown under cost for the period below)**	**(28,210)**	**(21,770)**
5 Present Value of obligation, as at the end of the year	**322,190**	**2,662,598**
Change in plan Assets:		
1 Plan assets at the beginning of the year	**287,600**	**–**
2 Expected return on plan assets	**22,120**	**–**
3 Contribution by the Company	**14,000**	**–**
4 Actual benefits paid	**(19,420)**	**–**
5 Actuarial gain / (loss)	**–**	**–**
6 Plan assets at the end of year	**304,300**	**–**
Liability recognised in the balance sheet as at December 31, 2007	**17,890**	**2,662,598**
Cost for the period:		
1 Service cost	**24,050**	**980,264**
2 Interest cost	**23,190**	**118,150**
3 Return on Plan Asset	**(22,120)**	**–**
4 Actuarial (Gain)/Loss	**(28,210)**	**(21,770)**
5 Actuarial benefits paid *	**19,420**	**82,040**
Net cost	**16,330**	**1,158,684**
Constitution of plan assets:		
1 Bonds	**190,435**	**–**
2 Government of India securities	**45,208**	**–**
3 State Government/State Government guaranteed securities	**65,527**	**–**
4 Cash at bank and receivables	**3,130**	**–**
Total Plan Assets	**304,300**	**–**
Main Actuarial Assumptions:		
1 Discount Rate (%)	**7.65**	**7.65**
2 Expected rate of return on plan assets (%)	**7.65**	**–**

The service cost includes the impact of implementation of Accounting Standard AS-15 (Revised) on “Employee Benefits” effective January 01, 2007

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as demand and supply in the employment market.

The expected return on plan assets is determined considering several applicable factors mainly the composition of the plan assets held, assessed risks of assets management, historical results of return on plan assets and the policy for plan assets management.

19. With effect from January 01, 2007 the Company has adopted Accounting Standard (AS) 15 [revised 2005] "Employee Benefits". Pursuant to the adoption of this Standard the additional obligations of the Company with respect to certain employee benefits upto December 31, 2006, amounting to Rs. 138,920 thousands (net of deferred taxes of Rs. 71,533 thousands), has been adjusted from the opening balance in General Reserve as at January 01, 2007 and Rs. 17,168 thousands charged under "Employee Cost" during the year. Accordingly, profit after tax for the year ended December 31, 2007 is lower by Rs. 11,333 thousands.

20. Pursuant to the adoption of Accounting Standard (AS) 15 on "Employee Benefits" effective January 01, 2007, a provision for additional employees cost of Rs. 753,650 thousands, representing certain employee benefits up to December 31, 2006 has been made. This liability is now included in provisions for pension and gratuity.

21. The foreign currency exposure of the Company as on December 31, 2007 is as under:

a) Category- wise quantitative data

	As at December 31, 2007			As at December 31, 2006		
	Nos.	**Currency**	**Amount**	Nos.	Currency	Amount
Forward contracts against exports	**21**	**USD**	**9,954,021**	4	USD	4,546,400
	12	**EUR**	**3,000,000**	6	EUR	1,474,484
	–	**GBP**	**Nil**	1	GBP	83,098
Forward contracts against imports	**10**	**USD**	**6,120,860**	8	USD	6,867,335
	7	**EUR**	**1,445,892**	6	EUR	1,584,019
	1	**CHF**	**227,671**		–	Nil
	1	**GBP**	**55,049**		–	Nil

b) All the derivative instruments are for hedging foreign exchange exposures against firm commitments and/or forecasted transactions.

c) Foreign currency exposures remaining unhedged at the year end:

	As at December 31, 2007		As at December 31, 2006	
	Currency	**Amount**	Currency	Amount
Against exports	**USD**	**Nil**	USD	234,066
	CHF	**Nil**	CHF	35,999
	GBP	**13,284**	GBP	Nil
Against imports	**AUD**	**4,808,649**	AUD	4,185,120
	CHF	**Nil**	CHF	230,936
	GBP	**86,972**	GBP	126,293
	JPY	**4,153,940**	JPY	299,580
	SGD	**174,342**	SGD	185,033
	ZAR	**13,684**	ZAR	13,684

23. During the year 2007, the Company has sought approval of the Hon'ble Delhi High Court under Sections 391 to 394 of the Companies Act, 1956 for a Scheme of Arrangement ("Scheme") between the Company and its shareholders and creditors. The Scheme envisages utilisation of following amounts for payment to the shareholders, subject to applicable taxes :

i) Amount of Rs.432,363,000/- as lying in the Share Premium Account of the Company.

ii) Amount of Rs.430,857,000/- from the General Reserve Account of the Company, which was voluntarily transferred by the Company in excess of the prescribed 10% of the profits of the Company in accordance with the provisions of the Companies (Transfer of Profits to Reserves) Rules, 1975 during the financial years 1981 to 1996.

The equity shareholders supported the Scheme at a meeting held on 3rd May, 2007 as per directions of the Hon'ble High Court and subsequently the Company has applied to the Hon'ble High Court seeking sanction of the Scheme. The Scheme would be effective upon approval by the Hon'ble High Court and certified copy of the Order being filed with the Registrar of Companies.

24. Previous year figures have been regrouped/reclassified wherever necessary, to make them comparable.

25. **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 bases of determining cost for various categories of inventories are as follows:

Raw and packing materials	:	First-in-first out
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.

EMPLOYEE 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 fund. Recognition of other long term employee benefits, comprising largely of long service awards, is done on a discounted, accrual basis over the expected service period until the benefits become vested. Actuarial gains and losses are recognized immediately in the Profit and Loss account.

Liability on account of short term employee benefits, comprising largely of compensated absences and performance incentives, is recognized on an undiscounted, accrual basis during the period when the employee renders service/vesting period of the benefit.

The Company participates in the Nestlé Restricted Stock Unit Plan of Nestlé S.A., whereby select employees are granted non-tradeable Restricted Stock Units with the right to obtain Nestlé S.A. shares or cash equivalent. Restricted Stock Units granted to employees will vest, subject to certain conditions, after completion of three years. Upon vesting Nestlé S.A. shall determine, whether shares free of charge or cash equivalent, shall be transferred to the employee. The Company has to pay Nestlé S.A. an amount equivalent to the value of Nestlé S.A. shares, delivered to the employees on vesting. Provisions are made based on estimates including Nestlé S.A. share price over the vesting period. No Restricted Stock Units have vested on employees upto December 31, 2007.

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 equipment	:	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

Regular review is done 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 recognized 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 2007-2008 relevant to the period April 1, 2006 to March 31, 2007 and the liability, which has accrued on the profit for the period April 1, 2007 to December 31, 2007.

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, in line with the provisions of Accounting Standard (AS) 29. Provisions are recognised 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 or 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.

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.

ANNEXURE - 1 TO THE DIRECTORS' REPORT

Report on Corporate Governance for the year ended December 31, 2007

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 of the Directors at the Board Meetings and the last Annual General Meeting, Outside Directorships and other Board Committees

Above information as on 31st December, 2007 or for the year 2007, as applicable, is tabulated hereunder:

Director	No. of Board Meetings attended [A]	Attendance at previous AGM on 03.05.2007	No. of outside Directorship held [B]	No. of Membership/ Chairmanship in other Board Committees [C]	Executive/ Non-Executive/ Independent
Mr. Martial G. Rolland	6	Present	Nil	Nil	Executive
Mr. Shobinder Duggal	7	Present	Nil	Nil	Executive
Mr. Ravinder Narain	6	Present	5	1	Non-Executive & Independent
Mr. Tejendra Khanna[1]	3	Present	3	3	Non-Executive & Independent
Mr. Pradip Baijal [2]	3	Not Applicable	2	Nil	Non-Executive & Independent
Mr. M. W. O. Garrett	2	Present	Nil	Nil	Non-Executive
Mr. Rajendra S. Pawar	4	Present	12	4	Non-Executive & Independent
Mr. Richard Sykes [3]	Nil	Not Present	Nil	Nil	Non-Executive

[1] Ceased to be a Director with effect from 5th April 2007.

[2] Appointed as a Director of the Company with effect from 31st July, 2007, in the casual vacancy caused by resignation of Mr. Tejendra Khanna.

[3] Alternate Director to Mr. M. W. O. Garrett.

[A] Participation over phone by Mr. M.W.O.Garrett in the Board Meetings held on 15th March, 2007 and 31st July, 2007, and by Mr. Rajendra S.Pawar and Mr. Ravinder Narain in the Board Meeting held on 15th March, 2007, has not been included.

[B] Directorship in companies registered under the Companies Act, 1956, excluding directorships in private companies, foreign companies, companies under Section 25 of the Companies Act, 1956 and alternate directorship.

[C] Only covers membership / chairmanship of Audit Committee and Shareholder / Investor Grievance Committee.

As at 31st December, 2007, in compliance with the corporate governance norms, the Company's Board of Directors headed by its executive Chairman, Mr. Martial G. Rolland comprised 5 other directors, out of which three are independent directors. None of the Directors was a member of more than 10 Board-level committees, nor a Chairman of more than 5 such committees, across all companies in which he was a Director.

Board Meetings held during the year 2007

During the year 2007, seven Board Meetings were held on 15th January, 2007, 15th March, 2007, 20th March, 2007, 30th April, 2007, 31st July, 2007, 30th October, 2007 and 8th December, 2007. The maximum gap between any two meetings was less than four months. All material information is circulated to the directors before the meeting or placed at the meeting, including minimum information made available to the Board as mentioned under Clause 49 of the Listing Agreement.

The Company has established procedures to enable the Board to periodically review compliance reports of laws applicable to the Company, prepared by the Company as well as steps taken by the Company to rectify instances of non-compliances. The Board reviewed the reports prepared by the Company on half-yearly periodicity.

Compliance with the Code of Conduct

The Company has adopted a “Code of Conduct for the Directors and Senior Management”. The Code is available on the official website of the Company www.nestle.in.

It is hereby affirmed that the Directors and Senior Management have given an annual affirmation of compliance with the code of conduct during the year 2007.

AUDIT COMMITTEE

The powers, role and terms of reference of the Audit Committee covers the areas as contemplated 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. The powers include investigating any activity within terms of reference; seeking information from any employee; obtaining outside legal and other professional advice; and securing attendance of outsiders with relevant expertise, if considered necessary. The role includes oversight of Company’s financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible; recommending the appointment and removal of external auditor; fixation of audit fee and approval of payment for other services; discussing with internal auditors any significant findings and follow up there on; 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.

During the year 2007, the Audit Committee was re-constituted, and Mr. Pradip Baijal, a Non-Executive Independent Director, was appointed as a member and Chairman of the Audit Committee. Mr. Pradip Baijal was appointed as a Director in place of Mr. Tejendra Khanna, who resigned as a Director of the Company with effect from 5th April, 2007. Mr. Ravinder Narain and Mr. Rajendra S. Pawar, both Non-Executive and Independent Directors, are other members of Audit Committee. All members of the Audit Committee are financially literate and Mr. Pradip Baijal 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 six times during the year 2007 on 15th January, 2007, 20th March, 2007, 30th April, 2007, 31st July, 2007 and 30th October, 2007, 17th November, 2007. Mr. Ravinder Narain and Mr. Rajendra S.Pawar attended all the aforesaid meetings except on 15th January, 2007, in which Mr. Rajendra S.Pawar was granted leave of absence. Mr. Tejendra Khanna attended all the Audit Committee Meetings upto 5th April, 2007. Mr. Pradip Baijal attended all the Audit Committee Meetings from 31st July, 2007. The maximum gap between any two meetings was less than four months.

SHAREHOLDER/INVESTOR GRIEVANCE COMMITTEE

The Shareholder / Investor Grievance Committee oversees redressal of shareholder and investor grievances, transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends and related matters.

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 acts as the Compliance Officer. The Committee met five times during the year on 15th January, 2007, 20th March, 2007, 28th April 2007, 31st July, 2007 and 30th October, 2007. All members of the Committee attended the aforesaid meetings.

During the year 2007, 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 2007 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 for their individual performances and contribution to the business.

REMUNERATION OF DIRECTORS FOR 2007

(Rupees in thousands)

Name of the Director	Sitting Fee	Salaries	Perquisites	Commission	Total
Mr. Martial G. Rolland[1]	N.A.	16,731	8,175	28,201	53,107
Mr. Shobinder Duggal[1]	N.A.	5,253	2246	3760	11,259
Mr. Tejendra Khanna	50	N.A.	N.A.	79[@]	129
Mr. Pradip Baijal	60	N.A.	N.A.	126[@]	186
Mr. Ravinder Narain	145	N.A.	N.A.	300[@]	445
Mr. Rajendra S. Pawar	90	N.A.	N.A.	300[@]	390
Mr. M.W.O.Garrett	20	N.A.	N.A.	300[@]	320

[1] 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 shorter notice.

[@] The Commission for the year ended 31st December, 2007 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 2nd May, 2008.

Sitting fee indicated above 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 of the Company.

Perquisites of the whole-time/ managing director include Leave Travel. Perquisites of Mr. Duggal also include contribution of Rs. 6,30,302/- to provident fund. This is 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. The Company participates in the Nestlé Restricted Stock Unit Plan ('Plan') of Nestlé S.A., whereby select employees are granted non-tradeable Restricted Stock Units of Nestlé S.A. under the Plan.

As required, a brief profile and other particulars of the Directors seeking appointment and re-appointment are given in the Notice of the 49th Annual General Meeting and forms part of the corporate governance report.

CEO/CFO CERTIFICATION

The Managing Director and Director- Finance and Control have certified to the Board of Directors, inter alia, the accuracy of financial statements and adequacy of Internal Controls for the financial reporting purpose as required under Clause 49 (V) of the Listing Agreement, for the year ended 31st December, 2007.

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
2007	Air Force Auditorium, Subroto Park, New Delhi - 110 010	03.05.2007	9.30 A.M.	None
2006	- do -	25.04.2006	10.00 A.M.	None
2005	- do -	29.04.2005	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.

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 at the ensuing Annual General Meeting on 2nd May, 2008. As per the directions of the Hon'ble High Court of Delhi, meeting of equity shareholders was held on 3rd May, 2007 to consider the Scheme of Arrangement between the Company and its shareholders and creditors.

DISCLOSURES

During the year 2007, 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.16 of Schedule 0 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 Stock Exchange, SEBI or any other statutory authority, on any matter relating to the capital markets, during the last three years.

The Company has complied with all the mandatory requirements of Clause 49 of the Listing Agreement entered into with the Bombay Stock Exchange Limited, Mumbai.

Particulars	Clause of Listing Agreement	Compliance status
I. Board of Directors	49 I	
(A) Composition of Board	49(IA)	Complied
(B) Non-executive Directors' compensation & disclosures	49(IB)	Complied
(C) Other provisions as to Board and Committees	49(IC)	Complied
(D) Code of Conduct	49(ID)	Complied
II. Audit Committee	49(II)	
(A) Qualified & Independent Audit Committee	49(IIA)	Complied
(B) Meeting of Audit Committee	49(IIB)	Complied
(C) Powers of Audit Committee	49(IIC)	Complied
(D) Role of Audit Committee	49(II D)	Complied
(E) Review of Information by Audit Committee	49(IIE)	Complied
III. Subsidiary Companies	49(III)	Not Applicable
IV. Disclosures	49(IV)	
(A) Basis of related party transactions	49(IV A)	Complied
(B) Disclosure of Accounting Treatment	49(IV B)	Complied
(C) Board Disclosures	49(IV C)	Complied
(D) Proceeds from public issues, rights issues, preferential issues, etc.	49(IV D)	Not Applicable
(E) Remuneration of Directors	49(IV E)	Complied
(F) Management	49(IV F)	Complied
(G) Shareholders	49(IV G)	Complied
V. CEO/CFO Certification	49(V)	Complied
VI. Report on Corporate Governance	49(VI)	Complied
VII. Compliance	49(VII)	Complied

The status of adoption of the non-mandatory requirements of Clause 49 of the Listing Agreement is as under:

(a) Maintaining non-executive Chairman's Office: Presently not applicable as the Chairman of the Company is an Executive Director; **(b) Tenure of Independent Director:** No specific tenure has been prescribed for Independent Directors; **(c) Remuneration Committee:** No separate Remuneration Committee has been constituted. Please refer to para above on "REMUNERATION COMMITTEE"; **(d) Shareholder Rights:** Half Yearly and other Quarterly financial statements are published in newspaper and uploaded on Company website (www.nestle.in) and SEBI website (www.sebiedifar.nic.in). Presently, half-yearly financial performance of the Company is not being sent to each household of shareholders; **(e) Audit Qualifications:** The Company already has a regime of unqualified financial statements. Auditors have raised no qualification on the financial statements; **(f) Training of Board Members :** In the course of Board/ Audit Committee Meetings the Directors are where relevant provided information on the business model, the risk profile of the business parameters, their responsibilities as Directors, and best ways to discharge them**; (g) Mechanism for evaluating non-executive Board Members :** Their contributions. **(h) Whistle Blower Policy:** The standard of behaviour of Nestlé India is governed by two most significant documents from Nestlé Group, the "Nestlé Corporate Business Principles" and "The Nestlé Management and Leadership Principles". The Company has appointed Ombudsman for Infant Code, under which employees can report suspected Code violations directly to the Ombudsman, with adequate safeguard to protect the employee reporting.

MEANS OF COMMUNICATION

The Quarterly, Half Yearly and Annual Results are generally published by the Company in all editions of the Financial Express/ Business Standard 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.sebiedifar.nic.in.

The domain name of the Company's website is 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 individual shareholders of the Company. However, in addition to uploading on the official website of the Company, the presentations 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.

In order to foster an improved controls culture in the Company, wherein every employee is fully aware of all the major risk/controls faced in his /her work sphere and assumes responsibility for the controls performed therein, the Company has implemented a tool called "Controls Manager" which works on the basic concept of Control Self Assessment. The self assessments by process / control owner is also used as the basis of CEO/CFO certification as required under Clause 49 of the Listing Agreement with the Bombay Stock Exchange.

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 31st December, 2007 was 3,894.

GENERAL SHAREHOLDER INFORMATION
Annual General Meeting

Date and Time:	:	2nd May, 2008 at 10.00 a.m.
Venue	:	Air Force Auditorium, Subroto Park, New Delhi – 110 010.

Financial Calender, 2008

First Quarter Results	:	Last week of April, 2008
Second Quarter and Half Yearly Results	:	Last week of July, 2008
Third Quarter Results	:	Last week of October, 2008
Annual Results	:	March, 2009

Financial Year : 1st January to 31st December

Date of Book Closure : 25th April, 2008 to 2nd May, 2008, both days inclusive.

Dividend payment date: Two Interim Dividends for the year 2007, first at the rate of Rs. 6.50 per share and the second at the rate of Rs. 24.00 per share, were paid on and from 29th March, 2007 and 24th December, 2007, respectively. A final dividend of Rs. 2.50 per 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 16th May, 2008.

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.

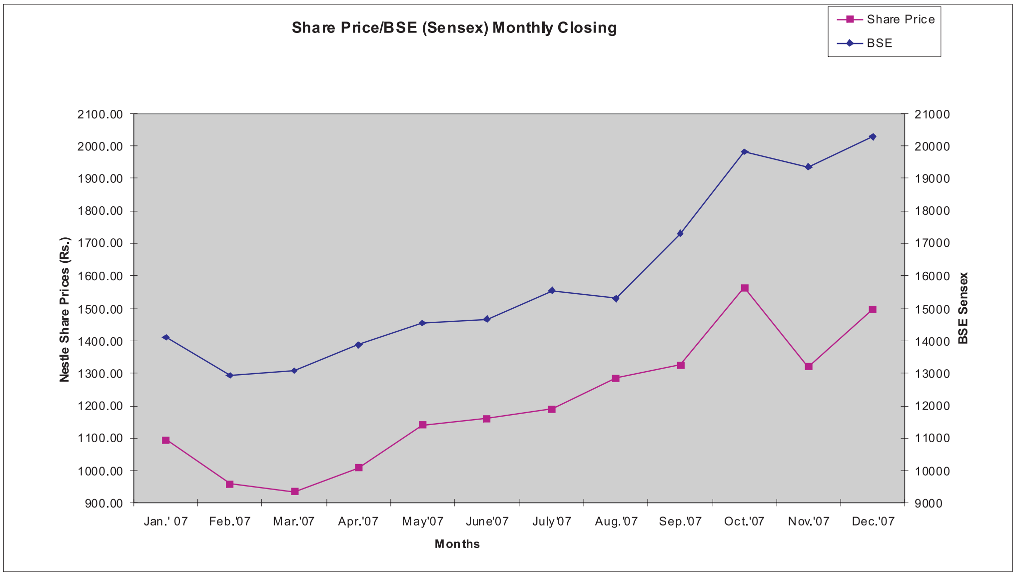
The ISIN Number of Nestlé India Limited on both the NSDL and CDSL is INE239A01016.

Market Price Data: High/Low in each month of Calendar Year, 2007 on the Bombay Stock Exchange Ltd., Mumbai (BSE)

Month	High (Rs.)	Low (Rs.)	Month	High (Rs.)	Low (Rs.)
January	1,387.00	1,075.00	July	1,220.00	1,130.00
February	1,140.00	901.00	August	1,318.00	1,140.00
March	981.00	876.00	September	1,350.00	1,180.00
April	1,089.00	900.05	October	1,590.00	1,215.00
May	1,160.00	1,002.20	November	1,662.75	1,302.00
June	1,224.40	1,060.00	December	1,550.00	1,294.00

[Source: www.bseindia.com]

Performance in comparison to BSE Sensex



[Source: www.bseindia.com]

Registrar and Transfer Agents

M/s Alankit Assignments Limited, 2E/21, Jhandewalan Extension, New Delhi-110 055.

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 31st December, 2007

Category of Shareholder	Number of Shares	Percent of Total Shares
Promoter and Promoter Group (A)	59,629,954	61.85
Public Shareholding		
Foreign Institutional Investors	7,636,101	7.92
Insurance Companies	5,789,323	6.00
Mutual Funds/ UTI	5,300,951	5.50
Financial Institutions/ Banks	34,459	0.03
Bodies Corporate	1,437,754	1.50
Individuals	16,233,069	16.83
NRIs and OCBs	354,105	0.37
Total Public Shareholding (B)	36,785,762	38.15
Total Shareholding (A + B)	**96,415,716**	**100.00**

Distribution of shareholding as on 31st December, 2007

No. of shares	Number of shareholders	Number of Shares	Percent of total shares
1 to 100	28,340	1,096,709	1.14
101 to 500	11,549	2,815,447	2.92
501 to 1,000	2,955	2,150,792	2.23
1,001 to 5,000	1,753	3,499,338	3.63
5,001 to 10,000	232	1,598,087	1.66
10,001 to 50,000	166	3,733,732	3.87
50,001 to 1,00,000	41	3,036,372	3.15
1,00,001 and above	55	78,485,239	81.40
Total	**45,091**	**96,415,716**	**100.00**

Dematerialisation of shares: 45.38 % equity shares of the Company have been dematerialised as on 31st December, 2007.

Plant Locations: The Company's plants are located at Moga, Samalkha, Nanjangud, Choladi, Ponda, Bicholim and Pantnagar.

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 : 4th March, 2008
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, 2007, 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 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)

Date : 4th March, 2008
Place : 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 31st December, 2007.

A. CONSERVATION OF ENERGY

(a) Energy Conservation Measures Taken

As in the past, the Company continued to stress upon the measures for the conservation and optimal utilisation of energy in all the areas of operations, including those for energy generation and effective usage of sources/ equipment used for generation. The significant measures taken/ continued during 2007, which have contributed to energy conservation were:

i) Improvements in Energy Generation:

- Improving steam generation ratio (Steam / Fuel ratio) by improving steam condensate recovery; stack losses and lower blow down losses.
- Replacement of economizer coils for higher heat transfer.
- Improvements in operations of captive power generation resulting in less consumption of fuel per unit generation.

ii) Energy Cost Optimization:

A) By fuel substitution:

- Continued usage of non-conventional fuels comprising coconut shells, spent coffee/ tea waste to substitute coal usage.
- Modified power distribution system for higher grid power utilisation over captive power usage.

B) With continuous improvements in operations:

- Optimizing hot air generation cost by substituting with low priced heat source. This initiative started during last year and was extended to other hot air generators.
- Energy audit of factories to optimize energy cost (generation, utilisation and recovery).
- Tracking and trending of all energy usage for continuous improvements and setting up aggressive objectives and targets for continuous improvement.
- Recycling of treated effluents for plantations in non- process area etc.
- Avoiding idle operation of equipment by Programmable Logic Control (PLC) for energy cost optimizing.
- Installation of energy efficient equipment (Lights, Pumps, Motors and improving power factor).

(b) Additional Investment

Following proposals are at various stages of implementation:

- Installation of centrifuge filters for Heavy Petroleum Stock and Furnace Oil for better fuel consumption.
- Installation of Reverse Osmosis Plant for recycling of waste water for water conservation.
- Installation of condensate recovery system for reduction of energy consumption per tonne of the product.
- Installation of De-superheater in refrigeration plant for heat recovery.
- Installation of Steam Coil in Egron-2 for reduction of Heavy Petroleum Stock for generation of hot hair.
- Installation of diffused aeration system in waste water treatment plant for optimization of power usage in waste water plant.
- Installation of incinerator with Venturi Wet Scrubber.

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

The measures taken during 2007, including measures initiated in the past in the above direction have facilitated efforts for conservation of energy and helped contain the energy costs. Over the last decade, your Company has made concerted efforts to minimise consumption of natural resources and reduction of waste and emissions. This has contributed to reduction of over 55% in energy and water consumption per tonne.

(d) Energy Consumption

Total energy consumption and energy consumption per unit of production, as per prescribed Form A together with the comparative figures for 2006, 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 and Development (R & D)

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

Your Company as a part of 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 Nestlé Group is the foundation for launch of products in the Health, Nutrition and Wellness space and 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 1.9 billion Swiss Francs. Expenditure of the Company in the nature of Research and Development are those incurred locally, primarily relating to testing and modifying of products for local conditions and are as under:

(Rs. in thousands)

a)	Capital	34,380
b)	Recurring	99,501
c)	Total	133,881
d)	Total R&D as a percentage of total turnover	0.38%

Technology absorption, adaptation and innovation

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

As a result of the Companies ongoing access to the international technology from 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. 3,267 Million comprising foreign exchange earnings of Rs. 2,782 Million (including sales to Russia invoiced in Rupees) and export to neighbouring countries in Rupees amounting to Rs. 477 Million and foreign exchange outgo of Rs. 4,746 Million. Details of earnings from exports and foreign exchange outgo on account of imports, expenditure on traveling, 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)

(A) Power and Fuel Consumption	**2007**	2006
1. Electricity		
(a) Purchased		
Units (000' KWH)	**63,116**	54,203
Total Cost (Rs. in thousands)	**255,299**	223,892
Cost/KWH	**4.04**	4.13
(b) Own Generation		
Through Diesel Generator		
Units (000' KWH)	**34,288**	36,285
Units per litre of oil (KWH)	**3.62**	3.57
Cost/KWH (Rs.)	**8.33**	8.55
2. Coal (Various grades)		
Quantity (Tonne)	**29,366**	28,526
Total Cost (Rs. in thousands)	**131,560**	131,754
Cost/Tonne (Rs.)	**4,480**	4,619
3. Furnace Oil		
Quantity (KL)	**21,381**	17,758
Total Cost (Rs. in thousands)	**438,739**	349,306
Cost/KL (Rs.)	**20,520**	19,670
4. Other Consumption of Fuel		
(a) High Speed Diesel Oil and Superior Kerosene Oil		
Quantity (KL)	**1,324**	1,349
Total Cost (Rs. in thousands)	**37,206**	39,201
Cost/KL (Rs.)	**28,095**	29,053
(b) Heavy Petroleum Stock		
Quantity (KL)	**959**	1,818
Total Cost (Rs. in thousands)	**18,141**	37,029
Cost/KL (Rs.)	**18,914**	20,364
(c) Non-Conventional Fuels- Coconut Shell & Coffee Husk		
Quantity (Tonne)	**18,614**	15,566
Total Cost (Rs. in thousands)	**45,872**	40,974
Cost/Tonne (Rs.)	**2,464**	2,632
(d) Liquid Petroleum Gas		
Quantity (Tonne)	**1,029**	812
Total Cost (Rs. in thousands)	**37,086**	29,939
Cost/Tonne (Rs.)	**36,029**	36,849

(B) Consumption per unit of production

	Beverages		Milk Products and Nutrition		Chocolate & Confectionery		Prepared Dishes & Cooking Aids	
	Current Year 2007	Previous Year 2006	Current Year 2007	Previous Year 2006	Current Year 2007	Previous Year 2006	Current Year 2007	Previous Year 2006
Electricity (KWH/T)	1,063.37	1,214.26	425.43	412.38	710.62	745.17	145.19	153.39
Furnace Oil (Ltrs./T)	150.61	186.73	106.39	86.65	41.94	51.16	66.32	61.01
Coal (Kgs./T)	101.13	129.23	324.57	287.88	—	—	149.95	164.40
Others:								
HSD, HPS (Ltrs. /T)	84.79	91.84	13.21	24.29	—	—	0.92	1.25
LPG (Kgs./T)	—	—	1.44	1.22	51.39	48.69	—	—

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. 003786 State Code 55

Balance Sheet Date 31 12 2007

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

Public Issue	Rights Issue
NIL	NIL
Bonus Issue	**Private Placement**
NIL	NIL

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

	Total Liabilities	Total Assets
	4499926	4499926
Sources of Funds	Paid-Up Capital	Reserves & Surplus
	964157	3220084
	Secured Loans	Unsecured Loans
	28711	NIL
Application of Funds	Net Fixed Assets	Investments
	6755064	944014
+ –	Net Current (Liabilities)/Assets	Miscellaneous Expenditure
–	3199152	NIL
	Accumulated Losses	
	NIL	

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

	Turnover (Gross Revenue)		Total Expenditure
	35297937		28836758
	Profit Before Tax		Profit After Tax
+	6286138	+	4138122
	Earnings Per Share in Rs.		Dividend Rate %
	42.92		330

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

Item Code No. (ITC Code) 19.01.0000

Product Description PREPARATION OF MILK CREAM AND CEREALS

Item Code No. (ITC Code) 19.02.0000

Product Description NOODLES

Item Code No. (ITC Code) 21.01.0000

Product Description SOLUBLE COFFEES COFFEE BLENDS AND TEA

Nestlé

Good Food, Good Life