Nestle India Limited

Financial Analysts’ Meet

November 29, 2006
Agenda

Introduction & CSR                     Martial Rolland

Financials                                   Shobinder Duggal

Questions & Answers                        All
Disclaimer

This presentation may contain statements which reflect Management’s current views and estimates and could be construed as forward looking statements. The future involves certain risks and uncertainties that could cause actual results to differ materially from the current views being expressed. Potential risks and uncertainties include factors such as general economic conditions, availability and prices of commodities, competitive products and pricing pressures and regulatory developments etc.

Responses can only be given to questions, which are not price sensitive.
Introduction & CSR
An example of CSR

Nestlé Milk District Model

45 years of a progressive partnership with farmers

FINANCIAL ANALYSTS MEET

29.11.06
AN EXAMPLE OF CSR: NESTLE milk district model

1. Nestlé – An Overview
2. Evolution of the Nestlé Milk Districts
3. Nestlé in India
4. Nestlé Milk Districts & Rural Growth
5. Concerns for the Environment and the Community
6. Summary and Conclusions
Nestlé – An Overview

Nestlé – The World Food Company

Henri Nestlé. Born in 1814. Trained to be a pharmacist. Created the first milk and cereal based infant food Farine Lactée Henri Nestlé

Founded the Company in 1867

Nestlé grew from a small company producing powdered milk and cereal products for infants into a global food company feeding much of the world’s population

Nutrition and Wellness are at the core of Nestlé’s products and manufacturing.
Our Business Vision

“Respected, Trustworthy Food, Nutrition, Health and Wellness Company”

Good Food, Good Life
The India Business Vision

To rapidly build Nestlé India as the Respected and Trustworthy leading Food, Nutrition, Health and Wellness Company ensuring long term sustainable and profitable growth
Nestlé Corporate Business Principles: Agricultural raw materials, principally milk, coffee, cocoa, cereals, vegetables, fruit, herbs, sugar and spices, are vital factors affecting the quality and costs of Nestlé manufactured food products and, as a consequence, the Company’s business performance. In this context Nestlé:

1) … provides agricultural assistance to farmers
2) Procures Agricultural raw materials either through trade channels or directly from farmers
3) Supports farming practices and agricultural production systems that are sustainable; that is those practices and systems that satisfy long-term economic, ecological and social requirements;
4) Supports mechanisms that contribute to a more regular income for farmers;
5) Is not engaged itself in its own commercial farming activities;
Evolution of Nestlé Milk Districts

1866: Nestlé and the Anglo-Swiss Condensed Milk Company started the milk district development around the towns of Vevey and Cham in Switzerland.

1872: With demand outstripping production, the Anglo-Swiss Condensed Milk Company set up two milk districts in the Swiss cantons of Fribourg and St. Gallen.

1872-1881: Upon expanding its operations, more milk districts were started in England.

1905: Nestlé and the Anglo-Swiss Condensed Milk Company had merged and by then milk districts were set-up in six countries – Switzerland, United Kingdom, Germany, Norway, Spain and United States.

1906: Started manufacturing operations in Australia, its second largest export market for Nestlé products.
Evolution of Nestlé Milk Districts

**1912:** Acquired the Dutch company – Galak Condensed Milk Company of Rotterdam, Holland and also established a skimmed milk powder company entirely for export market.

**1920:** Entered *South America* by establishing a milk districts in Brazil, in *Argentina* in 1922, and in *Peru* in 1940.


*China, India and Pakistan* each collect over **10,00,000 Kg/day**.

On an average Nestlé milk districts are growing 2% - 5% annually, and in some cases as high as 10%.
Given the ever-increasing consumer demand, it is an ongoing priority and challenge to:

- Secure a plentiful supply of fresh milk
- Find areas to produce high quality milk
- Find cost-effective ways to meet projected demand
Nestlé’s processing units in India

- Moga (Punjab) 1961
- Choladi (Tamilnadu) 1967
- Nanjangud (Karnataka) 1989
- Samalkha (Haryana) 1993
- Ponda (Goa) 1995
- Bicholim (Goa) 1997
- Pantnagar (Uttaranchal) 2006

Nestlé India
Head Office, Gurgaon
…a glimpse at Nestlé Milk Collection Areas
Nestlé’s presence in Rural India

Over Four decades of sustained growth

- Starting in 1961, Nestlé set up its first milk processing facility at Moga in the State of Punjab

- Built in 1991, today Samalkha factory in Haryana along with Moga produces over 100,000 tons of milk products annually
Starting in Moga with **511 kg of milk** on the first day of collection (15th Nov 1961), today Nestlé procures over **12,00,000 kg of milk per day** during the peak season in the states of Punjab and Haryana.

**TOTAL AREA: 50,362 SQ. KMS**

- **MOGA FACTORY**
- **SAMALKHA FACTORY**
- **DELHI**

**Punjab**

- **14,000 square kilometers area**
- **over 110,000 dairy farmers**

**Haryana**

- **2085 milk agencies**
- **695 milk cooling tanks**
Nestlé Milk Districts & Rural Growth

Nestlé adds value at each step of the milk supply chain...

The Milk District is an integral part of delivering high quality nutritional milk products to our consumers

- Dairy Farmers
  - Technical assistance to farmers
  - Farmer education - Good dairying practices, etc

- Fresh milk procurement

- Milk Processing
  - Milk Quality Policy
  - Expertise, Know how

- Marketing & distribution

- Consumers
Bringing worldwide competence of Nestlé at the doorstep of the farmers…

…to help them improve milk productivity and quality
Setting up an efficient Milk Collection system

- On-going technical assistance to farmers for improved milk productivity and quality
- Maintenance of sustainable farming practices
- Establishing milk collection points and arranging milk collection
- Installing chilling centers
- Installing farm cooling tanks
- Arranging transportation to the factory
Technical Assistance to Farmers

…to help them improve milk productivity and quality

- Training and development on good farm practices
- Regular audits of farmers to ensure that good farm practices are implemented & maintained
- Testing of milk at collection and cooling centers
- The financial well-being of producers
Nestlé Milk Districts & Rural Growth

Technical Assistance to Farmers

- Veterinary & field staff offering round the clock technical services
- Veterinary medicines are provided to farmers
- Artificial insemination centers
- Highly pedigreed bulls are provided
Technical Assistance to Farmers

- Good quality fodder seed is provided to farmers
- High quality balanced cattle feed distributed annually
- Subsidized milking machines have been provided
- Technical support is extended for:
  - Silage making techniques,
  - Bio-Gas generation & vermiculture compost from animal waste
Technical Assistance to Farmers

Silage making

Bio-Gas Generators and Vermicompost production

Farmers are becoming aware about the fact that integrated activities like Biogas and Vermi-compost production will help restore the natural resource base as well as reduce cost of inputs to some extent.
Farmers Education Programs

- Establishes herd demonstration farms
- Conducts field camps to impart education on good dairy practices
- Organizes factory visits and special educational tours for dairy farmers
- Offers prizes to farmers in the Nestlé milk competition
- Sensitize farmers to water issues like water conservation, depleting water tables and water management at farms
Nestlé recognizes the role played by women in the dairy farm and has specially developed an education program.

Through posters, demos and talks, village women are taught good dairying practices. Over 12,000 women have been covered by this program in 155 villages.
Nestlé Milk Districts & Rural Growth

Number of Village Milk Collection Centres

Number of milk farmers

<table>
<thead>
<tr>
<th>Year</th>
<th>Milk Collection Centres</th>
<th>Milk Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>4</td>
<td>180</td>
</tr>
<tr>
<td>1970</td>
<td>147</td>
<td>7934</td>
</tr>
<tr>
<td>1980</td>
<td>386</td>
<td>32426</td>
</tr>
<tr>
<td>1990</td>
<td>706</td>
<td>57948</td>
</tr>
<tr>
<td>2000</td>
<td>1000</td>
<td>79000</td>
</tr>
<tr>
<td>2005</td>
<td>1700</td>
<td>95000</td>
</tr>
</tbody>
</table>
Helping Farmer improve Milk Productivity

...to help farmers achieve higher milk yields over longer lactation periods, in 1982 Nestlé introduced the milk cows to the benefit of its farmers

...from a mere 0.5% cow milk in 1982, today 50% of the milk procured is cow milk
Nestlé – The Milk Maximizer

Milk density
In Moga Milk Collection area, milk available for processing to Milk Plants, has risen to twice that of rest of Punjab.
What is the SAI Platform?

Overall objective

Promote Sustainable Agriculture to meet the needs of today and future generations

Our definition

“Sustainable agriculture (SA) is a productive, competitive and efficient way to produce agricultural products, while at the same time protective and improving the natural environment as well as the socio-economic conditions of local communities”
Solar heaters at Nestlé milk collection Centres save energy
And help create awareness amongst communities

Silencers on generator exhausts at Nestlé milk collection Centres

Rain Water Harvesting help in better water management at Dairy farms
Many of our factories are ZERO WASTE DISCHARGE – treated waste water is recovered for in-house irrigation.

In Moga factory part of the Waste Water is treated and supplied to farmers for crop irrigation.
Community Projects

Providing access to Clean Drinking Water in Village schools

- Creating awareness in the communities around its factories
- Children in local village schools are the key beneficiaries
Community Projects

Water Education Program

Posters, Demonstrations are used as a medium to teach students water basics like the water cycle, ground water table, uses of water, water resources, ground water depletion etc.
Summary and Conclusions

A Win-Win situation for all…

...benefits the Farmer

- Results in **steady incremental income** for the farmers
- **Generates Employment** for rural residents
- **Significant improvements in the standards of living** of rural communities
- Affords a profitable alternative to traditional farming practices
Summary and Conclusions

A Win-Win situation for all...

...benefits the milk processor

- Nestlé does not own any agricultural land or farms, but is committed to develop long-term credible relationships with dairy farmers based on mutual trust.
- This makes mutual economic sense and ensures long-term sustainability.
- Stimulating production of good quality fresh milk.
- Collecting fresh milk in the best possible conditions.
- Processing to ensure high quality products for its consumers.
Over to SHD
Financials
140% over the last 19 quarters. (Bloomberg)

Market Capitalization has doubled over this period from INR 49 Bio. to INR 101 Bio.

Some Rankings:

- **Return on Capital Employed: No 1** (Source: Latest Business India)
- **Return on Equity: No 2 in BSE FMCG Index & BSE SENSEX companies** (Source: Reuters)
Outperformed the BSE FMCG Index
Returning cash to Shareholders

Dividend (INR Bio)

<table>
<thead>
<tr>
<th>Year</th>
<th>INR / Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>18 21</td>
</tr>
<tr>
<td>2003</td>
<td>20 27</td>
</tr>
<tr>
<td>2004</td>
<td>20 26</td>
</tr>
<tr>
<td>2005</td>
<td>25 32</td>
</tr>
<tr>
<td>Jan-Sep 05</td>
<td>5 24</td>
</tr>
<tr>
<td>Jan-Sep 06</td>
<td>6 26</td>
</tr>
</tbody>
</table>

DPS
EPS
%

2004 - Excludes special dividend of INR 4.5 / Share
Creation of Economic Value

Asset Turns

Return on Sales (%)

Bubble size represents Economic Profit (INR Bio)

Basis International Accounting Standards
Driving Total Shareholders Return

The Value Drivers

1. Sales Growth
2. Profit Margin
3. Working Capital Intensity
4. Fixed Capital Intensity
5. Income Tax Rate
6. Cost Of Capital
7. Value Growth Duration
SALES GROWTH (1)
Aff. Exports

1.7
1.8
1.5
1.7
1.3
1.2

INR Bio

Basis International Accounting Standards
Analysis of 9 months Sales Growth

Jan-Sep 2006

+11.7%

Selling prices = 2.2%

RIG = 9.5 %

Third Party Sales

Basis International Accounting Standards
Channel-wise Sales

<table>
<thead>
<tr>
<th></th>
<th>Volume (000’ Tons) - Jan-Sep</th>
<th>Value® (INR Bio) - Jan-Sep</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>Domestic</td>
<td>162.3</td>
<td>149.1</td>
</tr>
<tr>
<td>Exports</td>
<td>12.3</td>
<td>13.8</td>
</tr>
<tr>
<td>Total</td>
<td>174.6</td>
<td>162.9</td>
</tr>
</tbody>
</table>

@ Gross Sales including excise duty

Mix of Domestic to Exports remains stable at around 90:10

# Net Domestic Sales up 13.7%

All calculations are based on non-rounded figures
A Balanced Portfolio

<table>
<thead>
<tr>
<th>Category</th>
<th>Contr. (%) Jan-Sep 06</th>
<th>Contr. (%) Jan-Sep 05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk Products and Nutrition</td>
<td>44.8</td>
<td>45.4</td>
</tr>
<tr>
<td>Prep. Dishes &amp; Cooking Aids</td>
<td>20.0</td>
<td>18.7</td>
</tr>
<tr>
<td>Beverages</td>
<td>19.7</td>
<td>21.3</td>
</tr>
<tr>
<td>Chocolate and Confectionary</td>
<td>15.5</td>
<td>14.6</td>
</tr>
</tbody>
</table>

Gross Sales including excise duty
Product Categories: Jan - Sep 2006

Organic Growth (%)

Volume Growth (%)

Bubble size represents Gross Sales (INR Bio)

- Beverages
  - 4.3
- Milk Products & Nutrition
  - 9.7
- Total
  - 21.8
- Prepared Dishes & Cooking Aids
  - 4.4
- Chocolate & Confectionery
  - 3.4

Product Categories: Jan - Sep 2006
Milk Products & Nutrition

- Market Leader in Baby Foods, Infant Formula, Sweetened Condensed Milk
- Strong No 2 in Dairy Whitener
- Growing presence in Fresh Dairy

Sales Volume (000’ tons)

<table>
<thead>
<tr>
<th></th>
<th>Jan-Sep 05</th>
<th>Jan-Sep 06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Volume</td>
<td>76.0</td>
<td>78.2</td>
</tr>
<tr>
<td>Change</td>
<td>△ 2.8%</td>
<td></td>
</tr>
</tbody>
</table>

Sales (INR Bio)

<table>
<thead>
<tr>
<th></th>
<th>Jan-Sep 05</th>
<th>Jan-Sep 06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>9.0</td>
<td>9.7</td>
</tr>
<tr>
<td>Change</td>
<td>△ 8.7%</td>
<td></td>
</tr>
</tbody>
</table>

Contribution to Total Sales

- Baby Foods: 15.5%
- Infant Formula: 20.0%
- Sweetened Condensed Milk: 44.8%
- Dairy Whitener: 19.7%

Jan-Sep 2006
Beverages

Market Leader in Instant Coffee

Sales Volume (000’ tons)

Jan-Sep 05: 18.7
Jan-Sep 06: 16.5
\( \Delta (12.1\%) \)

Sales (INR Bio)

Jan-Sep 05: 4.2
Jan-Sep 06: 4.3
\( \Delta 1.8\% \)

Contribution to Total Sales

Jan-Sep 2006:
- Nescafé: 15.5
- Milo: 44.8
- Nestea: 19.7
- Other: 20.0

Sales Volume (000’ tons)

Jan-Sep 05: 18.7
Jan-Sep 06: 16.5
\( \Delta (12.1\%) \)

Sales (INR Bio)

Jan-Sep 05: 4.2
Jan-Sep 06: 4.3
\( \Delta 1.8\% \)

Contribution to Total Sales

Jan-Sep 2006:
- Nescafé: 15.5
- Milo: 44.8
- Nestea: 19.7
- Other: 20.0

Sales Volume (000’ tons)

Jan-Sep 05: 18.7
Jan-Sep 06: 16.5
\( \Delta (12.1\%) \)

Sales (INR Bio)

Jan-Sep 05: 4.2
Jan-Sep 06: 4.3
\( \Delta 1.8\% \)

Contribution to Total Sales

Jan-Sep 2006:
- Nescafé: 15.5
- Milo: 44.8
- Nestea: 19.7
- Other: 20.0
Prepared Dishes & Cooking Aids

- Market Leader in instant Noodles & Ketchups
- Strong No 2 in Healthy Soups

**Sales Volume (000’ tons)**
- Jan-Sep 05: 48.3
- Jan-Sep 06: 57.0

**Sales (INR Bio)**
- Jan-Sep 05: 3.7
- Jan-Sep 06: 4.4

**Contribution to Total Sales**
- Jan-Sep 2006:
  - Maggi (15.5)
  - Vegetable Atta Noodles (19.7)
  - Dal Atta Noodles (20.0)
  - Healthy Soups (44.8)
  - Ketchups (20.0)
Chocolate & Confectionery

- Market Leader in Wafers and white chocolates
- Strong No 2 in Chocolates
- Market Leader in Eclairs

Sales Volumes (000’ tons)

- Jan-Sep 05: 19.8
- Jan-Sep 06: 22.9
  - Increase: 15.7%

Sales (INR Bio)

- Jan-Sep 05: 2.9
- Jan-Sep 06: 3.4
  - Increase: 16.3%

Contribution to Total Sales

- Jan-Sep 2006:
  - 15.5
  - 20.0
  - 44.8
  - 19.7

Sales Growth:

- 15.7%
- 16.3%
PROFIT MARGINS (2)
## Total Expenditure

<table>
<thead>
<tr>
<th>Description</th>
<th>Jan-Sep 06</th>
<th>% Net Sales</th>
<th>Jan-Sep 05</th>
<th>% Net Sales</th>
<th>Var. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tot. Expenses -of which</td>
<td>16,615</td>
<td>79.9</td>
<td>14,496</td>
<td>78.0</td>
<td>14.6</td>
</tr>
<tr>
<td>Materials</td>
<td>9,782</td>
<td>47.0</td>
<td>8,435</td>
<td>46.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Staff Cost</td>
<td>1,592</td>
<td>7.7</td>
<td>1,392</td>
<td>7.5</td>
<td>14.4</td>
</tr>
<tr>
<td>Advt + sales Promotion</td>
<td>1,002</td>
<td>4.6</td>
<td>911</td>
<td>4.9</td>
<td>10.0</td>
</tr>
<tr>
<td>Distribution</td>
<td>961</td>
<td>4.6</td>
<td>863</td>
<td>4.7</td>
<td>11.3</td>
</tr>
<tr>
<td>Power &amp; Fuel</td>
<td>853</td>
<td>4.1</td>
<td>750</td>
<td>4.0</td>
<td>13.8</td>
</tr>
</tbody>
</table>
Evolution - Milk Solid Prices

Indexed price Per Kg

Indexed with base Q1-04

Current

Period
Q1 Q2 Q3 Q4

Indexed price

Q 1 2004
91
88
95

Q 2 2005
97
94
103

Q 3 2006
97
106
103

Q 4
97
111
100

100% UNLEASHING
POTENTIAL

Indexed with base Q1-04
Evolution - Milk Fat Prices

Indexed Price per kg

Indexed with base Q1-04

Indexed Price per kg

2004
Q1: 100
Q2: 95
Q3: 91
Q4: 88

2005
Q1: 94
Q2: 97
Q3: 97
Q4: 94

2006
Q1: 95
Q2: 97
Q3: 106
Q4: 97

Indexed with base Q1-04
Evolution - Green Coffee Prices

Indexed price per KG

Indexed with base Q1-04
Evolution - HVF Prices

Indexed price per KG

Indexed with base Q1-04

Q 1  Q2  Q3  Q4  Period

106 Current
2006
98
2004
90
88
80
93
Q 1  Q2  Q3  Q4  Period

102
87
2005
90
88
101
96
94
100
106
100
93

Evolution - Sugar Prices

Indexed price per KG

Indexed with base Q1-04

Current

140 2006

134 2005

116 2004

Q 1 Q2 Q3 Q4

Period

141 146 145

130 128 132

111 113

100
Evolution of Net Profit Margins

INR Bio.

2002 2003 2004 2005 Jan-Sep 05 Jan-Sep 06

2.0 2.6 2.5 3.1 2.4 2.5

9.7 11.4 10.6 11.7 11.9 11.6

1.5 2 2.5 3 3.5

Amount % of Gross Sales

UNLEASHING 100% POTENTIAL

Nestle
WORKING CAPITAL INTENSITY (3)
## Trade Net Working Capital

<table>
<thead>
<tr>
<th></th>
<th>30-Sep 2006</th>
<th>30-Sep 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>514</td>
<td>419</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,288</td>
<td>2,142</td>
</tr>
<tr>
<td>Less: Trade Payables</td>
<td>1,711</td>
<td>1,575 #</td>
</tr>
<tr>
<td>Net capital tied up</td>
<td>1,091</td>
<td>986</td>
</tr>
<tr>
<td>As % of Gross Sales</td>
<td>4.9%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

# Excludes exceptional items and impact of reclassification

Basis International Accounting Standards
Rotation of Average Operating Working Capital

Times

2002 2003 2004 2005 Jan-Sep 05 Jan-Sep 06

21.8 25.2 27.7 28.0 31.4 30.8

Adjusted

Basis International Accounting Standards
FIXED CAPITAL INTENSITY (4)
Investment in Fixed Assets

INR mio.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>% of Net sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>596</td>
<td>2.9</td>
</tr>
<tr>
<td>2003</td>
<td>681</td>
<td>3.0</td>
</tr>
<tr>
<td>2004</td>
<td>742</td>
<td>3.3</td>
</tr>
<tr>
<td>2005</td>
<td>781</td>
<td>3.0</td>
</tr>
<tr>
<td>Jan-Sep 05</td>
<td>458</td>
<td>2.3</td>
</tr>
<tr>
<td>Jan-Sep 06</td>
<td>1,054</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Dep. | 494 | 463 | 491 | 498 | 385 | 404 |
Rotation of Average Tangible Fixed Assets

Times

2002 2003 2004 2005 Jan-Sep 05 Jan-Sep 06

5.4 6.2 6.3 6.5 6.8 6.7

Basis International Accounting Standards
INCOME TAX RATE (5)
Evolution of Tax

(rates are a % of pre-tax profit excluding FBT)
COST OF CAPITAL (6)
Evolution - Cost of Capital

WACC | Risk Free Bond Rate
--- | ---
2002: 14.2 | 9.0
2003: 10.5 | 7.2
2004: 9.4 | 5.3
2005: 9.7 | 6.6
Jan-Sep 05: 9.7 | 6.6
Jan-Sep 06: 10.8 | 7.2

Basis International Accounting Standards
VALUE GROWTH DURATION (7)
Value Growth Duration

Nutrition, Health & Wellness
for all ages

Innovation and Renovation
Availability
Effective & Efficient Operations
Consumer Communications

People
Structure
GLOBE
QUESTIONS

Thank You