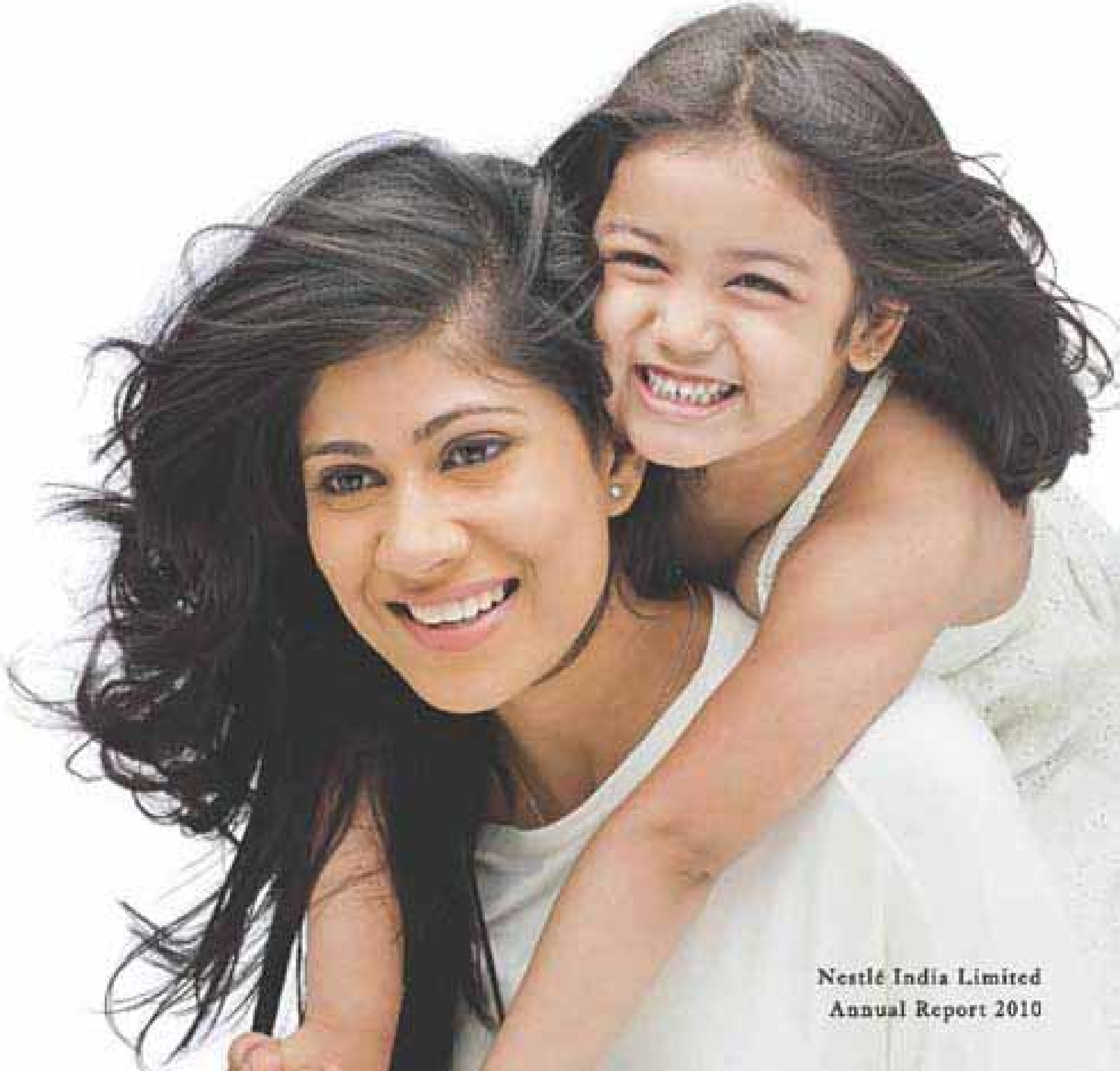
Good Food, Good Life

GROWTH.
INCLUSION.
LEADERSHIP.

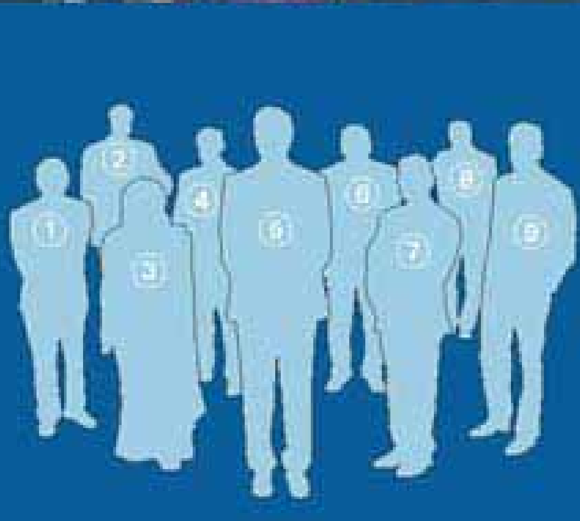


Nestlé India Limited
Annual Report 2010

The Board of Directors of Nestlé India

Nestlé

Good Food, Good Life



1. Rakesh Mohan
   Non Executive Director
2. Ravinder Narain
   Non Executive Director
3. Swati A. Piramal
   Non Executive Director
4. Christian Schmid
   Director - Technical
5. Antonio Helio Waszyk
   Chairman & Managing Director
6. Pradip Baijal
   Non Executive Director
8. Shobinder Duggal
   Director - Finance & Control
9. Michael W.O. Garrett
   Non Executive Director

Also in the picture
B. Murli, Sr. Vice President, Legal & Company Secretary at 7

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Antonio Helio Waszyk
Chairman & Managing Director

Dear Shareholders

Last year in my first message to you after coming to India, I had written that India is a dynamic, diverse and vibrant market where I would like to drive growth that is sustainable and inclusive. Some people believe that this is challenging in India. That may possibly be true. However, I personally believe that anyone who understands the diversity and the rich culture of the country can convert this challenge into an opportunity to Create Shared Value, for society as well as for our own business. I continue to be confident that we will achieve this.

Nestlé is uniquely placed.

We have grown with India and its people. We understand the needs and aspirations and have conducted our business in a way that helps improve the quality of life of all those we touch. This desire to spread happiness and wellbeing is fundamental to Nestlé and is also the core of India's culture. During the past twenty years there is a new and growing aspiration in India and even though much has changed in the country these values have not changed.

The Country needs sustainable growth, and it has to be inclusive for a larger population. While the Government is doing its own to ensure this, we believe that we are equal partners in the process. Being the global leader in Nutrition, Health and Wellness which has been achieved with the technological strength coming from the largest global R&D network in science based nutrition, Nestlé can contribute significantly in helping achieve the common aspiration of a Good Life.

The spirit of Celebration has a special meaning in India's culture. It symbolises success and happiness. We, Nestlé team, will continue to innovate and renovate to delight consumers delivering **'Good Food, Good Life'** and spreading happiness by **'Growth. Inclusion. Leadership'**.

Antonio Helio Waszyk

"We are constantly increasing our understanding of the nutritional needs of families across the income pyramid, to create solutions that bring Taste, Health and Happiness. Our strong bonds with consumers are getting even stronger everyday. We'll continue to innovate and renovate as the leader."

Shivani Hegde: General Manager - Foods

"Dairy products are great carriers of nutrition. With our expertise and heritage in dairy, we offer consumers nutrition solutions and pleasure for everyday consumption built on the inherent goodness of milk."

Kumaran Nowuram: General Manager - Dairy

"The bold taste of NESCAFÉ and its contribution to daily stimulation is the key factor for the success of our brand. As the market leader, we see it as our mission to keep providing our consumers with the joy of really good coffee that helps them to be at their best."

Nili Zur: General Manager - Beverages

"Nutrition is an essential pillar for a good quality of life. It is accepted by science that if you start your life healthy, the chances for staying healthy is better."

Gary Tickle: General Manager - Nutrition

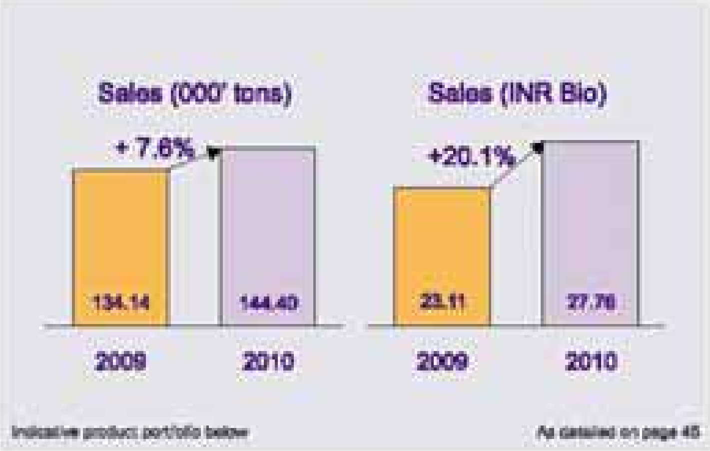
"The market is evolving. With our understanding of consumer preferences we continue to grow the market and take it beyond pure indulgence. We lead with products for lighter eating and healthy indulgence."

B. Kannan: General Manager
– Chocolate and Confectionery


NESCAFÉ

Growth

Milk Products & Nutrition



Market Position (Value)

- No.1 in Baby Foods & Infant Formula
- No.1 in Dairy Whitener

Prepared Dishes & Cooking Aids

Market Position (Value)

- No.1 in Instant Noodles & Sauces
- No.2 in Healthy Soups

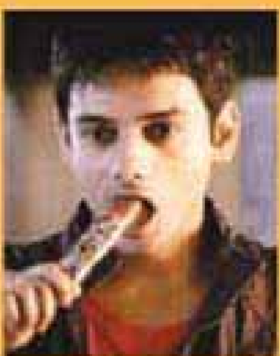
Growth

Beverages

Market Position (Value)

- No.1 in Instant Coffee
- Very strong presence in Vending Premix

Chocolate & Confectionery



Market Position (Value)

- No.1 in Wafers and Whites
- Leading player in Eclairs

Inclusion

MAGGI Masala-ae-Magic available through vegetable vendors

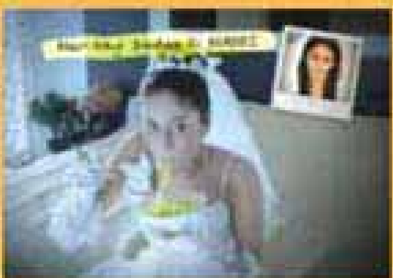
Innovating to reach the interiors

Delighting consumers at the Bottom of the Pyramid

Improving Nutrition in low income areas

KIT KAT - Have a Break, Have a KitKat

The current advertising is a fresh emotional approach that focuses on the benefit. Our lifestyles keep us stressed and we miss seeing even the obvious. But KIT KAT breaks are good for us because they help connect with ourselves and our surroundings and, we are able to look beyond the obvious to find new meanings. Have a Break, Have a KitKat...Can you hear the squirrels sing!"



MAGGI - Connecting with consumers

On the 25th anniversary of MAGGI, consumers were invited to share their 'MAGGI Moments'. Thousands of stories poured in and demonstrated the consumers' emotional bonds with MAGGI. Based on these stories new tastes were developed to capture the experience.

NESCAFÉ - Switch on the best in you

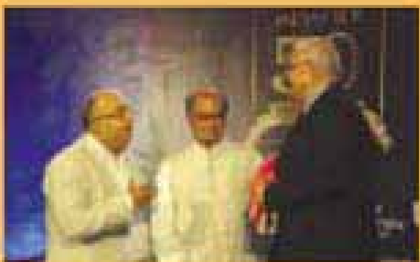
The youth want to make their own choices and choose their own destination. The advertising for NESCAFÉ reflects the thinking that we can reach this destination when we have a sense of purpose. It has a simple message "Switch on the purpose. Switch on the best in you."

Leadership

Clean Drinking Water Projects improve access to clean drinking water in village schools, and increase awareness of water conservation in the communities around our factories.

Village Women Dairy Development Programmes train them in good dairy practices as well as spread awareness about personal health, hygiene, water conservation and economic independence.

Nestlé Healthy Kids Global Programme provides basic knowledge relating to foods. It helps the students understand the role of food in our bodies, the manner in which food is digested and how we can improve the balance of nutrients in the diet.

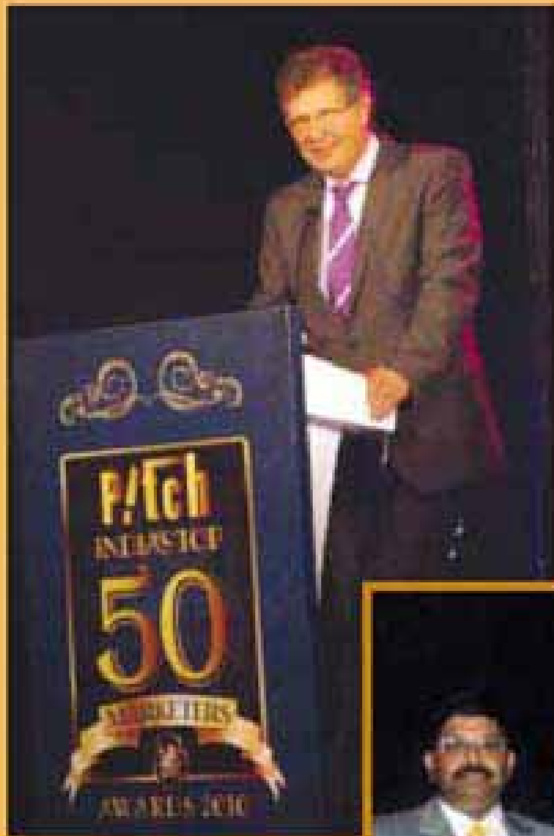


MAGGI acknowledged as 'Ageless Brand'

MAGGI recognised for innovative work at 'Bottom of the Pyramid'

KIT KAT adjudged 'Master Brand' by the World Brand Congress

NESCAFÉ and MAGGI, recognised as Power Brands 2010-2011



Receiving the Pitch India's 'Marketing Company of the Year' Award

Some other recognitions

- NESTEA Voted 'Product of the Year' (Nielsen's Consumer Survey)
- MAGGI Masala-ae-Magic recognised amongst 'The Chartbusters' of 2010 (The Economic Times)
- MAGGI rated the No.1 Food Brand in India (ICMR Consumer Study)
- Nestlé India: Best Exporter of Coffee to Russia and CIS (2009-2010)
- Nestlé India: Second Best Exporter of Instant Coffee (2009-2010)
- 'Me and Meri MAGGI' campaign recognised by Campaign India Digital Media Awards - Silver for 'Best Website' (FMCG) and Bronze for 'Best Loyalty Campaign'.
- 'Me and Meri MAGGI' advertising campaign received Silver and Bronze Awards at 2010 ABBY'S.

Accelerating Investments

"The emphasis on efficiency and quality at our factories facilitates stronger consumer trust along with growth and leadership. This together with accelerating investments in capacities will further strengthen our leadership."

Christian Schmid: Director Technical

Construction of new culinary plant at Nanjangud

Architect's view of Tahliwal factory

"The concept of Creating Shared Value and the focus on the long term is a win-win situation for everyone. The Nestlé Nutritional Awareness Programme in partnership with Universities creates awareness about balanced diets and living a more active life. It is in the best interest of the communities."

Sanjay Khajuria: Head of Corporate Affairs

Mr. Antonio Helio Waszyk along with farmers from Punjab, Jagdeep Singh and Sukmander Kaur unveil the publication on 'Creating Shared Value'.

Corporate Information

MANAGEMENT COMMITTEE
Antonio Helio Waszyk - Chairman & Managing Director
Ganesan Ampalavanar - Sales
Biplab Baksi- Human Resources
Shobinder Duggal - Finance & Control
Luca Fichera - Supply Chain
Shivani Hegde - Foods
B. Kannan - Chocolates and Confectionery
Sanjay Khajuria - Corporate Affairs
Virat Mehta - Communications
Chandan Mukherji - Consumer Insights
B. Murli - Legal & Company Secretary
Kumaran Nowuram - Dairy
G.G. Pillai - Nestlé Professional
Christian Schmid - Technical
Rajkamal Sharma- Exports
Gary Tickle - Nutrition
Nil Zur - Beverages

BANKERS
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., Chartered Accountants,
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 : 011-41540064

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

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', 12th Floor, DLF IT Park, 08, Major Arterial Road, Block - AF New Town, Rajarhat, Kolkata - 700 156

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 Distt. Panipat (Haryana)

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

Plot No.-1, Sector No.-1 A, Integrated Industrial Estate, SIDCUL, Pantnagar- 263145. Distt. Udham Singh Nagar, Uttarakhand

LISTING OF EQUITY SHARES (Listing Fees Paid)
The Bombay Stock Exchange Limited, Mumbai
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai - 400 001
(Scrip Code : 500790)

ANNUAL GENERAL MEETING
Tuesday, 19th April 2011 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 – 2010

Dear Members,

Your Directors are pleased to submit their report and statement of accounts for the year ended 31st December 2010.

The Government continued with its strenuous efforts to steer the economy. With continued focus on reforms and a combination of stimulus packages, rural income generation schemes and monetary policy amongst others the government was successful in keeping the GDP growth largely on track especially when many parts of the world struggled on this front.

This past year highlighted the increasing complexity and volatility of the economic environment. While the Government is taking action and new food regulation is being put in place, faster implementation could sustain the growth momentum.

Against this background, your company's success can be measured on three dimensions– Growth. Inclusion. Leadership.

Your Company has always reiterated that good food is essential for ensuring productivity and good life. With economic growth, the lifestyles in India are evolving and changing. People need to eat better and stay healthy to keep pace with their aspirations but the evolving scenario is complex. On the one hand a very large population does not have access to affordable nutrition, and on the other hand there is an increasing problem of diabetes, obesity and heart diseases. The need for better nutrition is a challenge across the income pyramid. Your Company has access to the Nestlé Group's immense nutritional expertise and food technology for developing products that provide taste and science-based nutrition. With strong consumer centric Innovation and Renovation supported by the Nestlé R&D network, your Company remained focused on developing Indian concepts and relevant products that help people manage their need for taste and nutrition and enabled the Company to grow.

Your Directors believe the Company remained sensitive to the need for efficient and sustainable utilisation of resources and following its basic approach to business to Create Shared Value, it continued to inspire happiness for its shareholders and the communities where it operates. Within its own sphere of activities your Company continued to utilise its expertise and knowledge and consciously implemented initiatives to ensure that while its core business continued to grow, the impact of its business on the communities, results in a better quality of life for them and is in their interest. Your Company continued to invest resources both in terms of talent and capital in the areas of water, nutrition and rural development because these are also the areas where shareholders interest and the interests of society strongly intersect and where your Company can create significant value for both, in an inclusive manner.

The factories invested in state-of-the-art technology and equipment to process and add value to agricultural produce, worked closely with the farmers, suppliers and communities, transferring technology and knowledge to help them upgrade the quality of their raw materials.

Your Directors are pleased to inform that during 2010 your Company delivered a strong performance. Net Sales for the year 2010 increased by 21.9% over the previous year. Domestic Sales increased by 22.9% on increased volumes and realisations. Export Sales increased by 7.6%. Overall, the businesses continued to grow the market while retaining leadership in most businesses.

The consistent performance of your Company over the years, reflects the strength of the brands, the trust in its products and the strong support coming from Nestlé Group, Switzerland. It also demonstrates the continuous engagement and performance of the people and business partners.

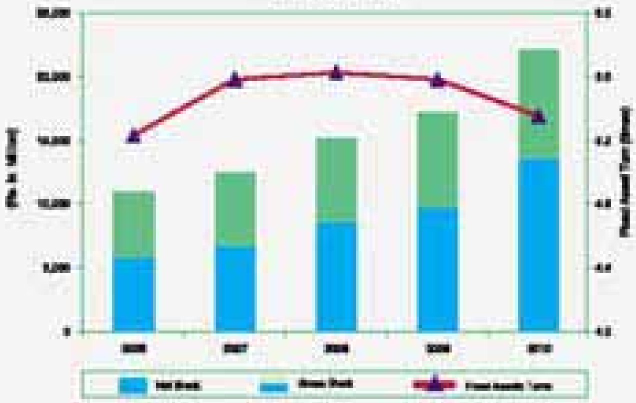
Financial Results and Operations

	(Rs. in Millions)	
	2010	2009
Gross Revenue	62,974	51,672
Profit before interest, impairment, contingencies and taxation	11,646	9,610
Interest	11	14
Impairment Loss on Fixed Assets (Net)	-	103
Provision for Contingencies (Net)	184	323
Provision for Tax	3,264	2,620
Net Profit	8,187	6,550
Profit Brought Forward	1,425	1,001
Balance Available for Appropriation	9,612	7,551
Interim Dividends	3,471	3,471
Final Dividend Proposed	1,205	1,205
Corporate Dividend Tax	772	795
Transfer to General Reserve	819	655
Surplus carried in Profit and Loss Account	3,345	1,425
Key Ratios		
Earnings per Share (Rs.)	84.91	67.94
Dividend per Share (Rs.)	48.50	48.50

TOTAL INCOME

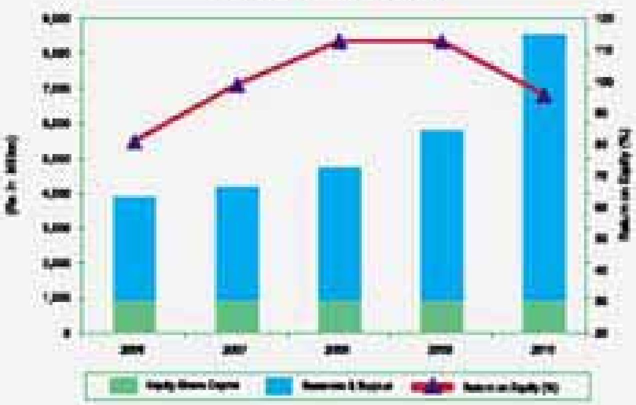
Net Profit for the Year 2010 increased by 25%. The operating margins improved due to better absorption of fixed cost and improved product / channel mix. The impact of increase in cost of materials was largely offset by the 'one-off' Cost in 2009 relating to actuarial losses on retirement benefits. The improvement in

FIXED ASSETS



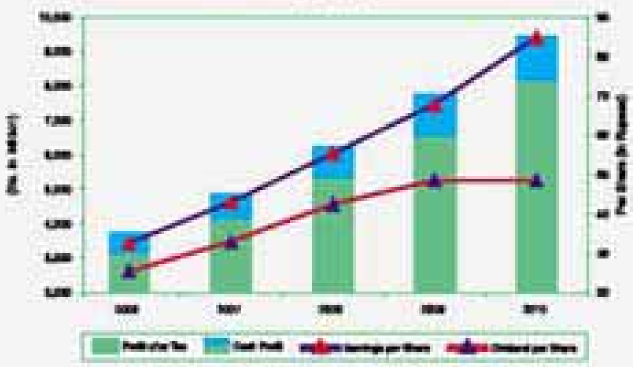
Net Profit Margin is due to the increase in operating margin as the effect of lowering of income tax rates has been offset by lower contribution of the income tax

SHAREHOLDERS' FUNDS

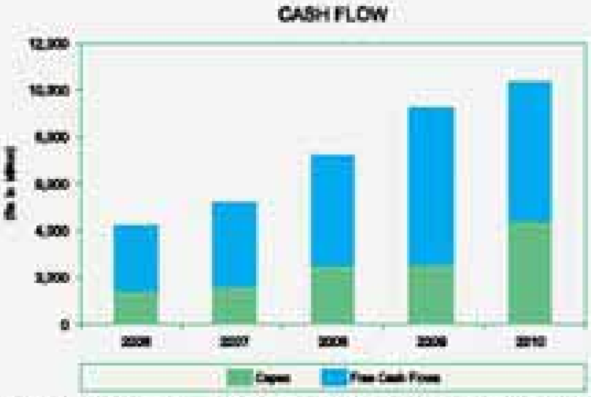


holiday at Pantnagar factory. Your Company continued to emphasise on cash generation and delivered strong operating cash flow during the year. Surplus Funds

EARNINGS



have been prudently invested after ensuring that such investments satisfy the Company's criteria of safety, liquidity and returns.



The Company supplemented the Provision for Contingencies with further amount of Rs.184 million (net) for contingencies resulting mainly from issues, which are under litigation/dispute and other uncertainties requiring management judgment. This was after the reversal/utilisation of Rs. 250 million provision, due to settlement of certain disputes for which provision was no longer required.

While the current year has also commenced as per plan, the beginning has been with a number of uncertainties, including the intensity of cost increases specially the volatile raw material prices. Your Company will focus efforts to overcome these challenges and is hopeful that the Government would continue to support the food processing sector. Your Directors are confident of the long-term business prospects of the Company.

Exports

During the year, Export Sales at Rs. 3,537 million was higher by 7.6%. At constant exchange rates the same would be 10.3%.

The increase in exports was largely on account of new exports of Coffee to South Africa and Egypt which were started during the year. There was also a significant increase in exports of Instant Tea to certain European markets and to the Far East and a broadened customer base has now been established. This was offset by the discontinuation of exports of infant nutrition products to Sri Lanka and Bangladesh due to capacity constraints, and the lower exports of culinary products.

Your Company continued its efforts to develop more products for the Indian ethnic community abroad and certain new products were shipped out during the year. Some new grades of Instant Tea have also been developed and these will add variety and value to the portfolio.

Dividends

The Board of Directors has recommended a final dividend of Rs. 12.50 per equity share of the face value of Rs. 10/- each for the year 2010, amounting to Rs. 1,205 Million. This is in addition to the two interim Dividends for 2010, aggregating to Rs. 36.00 per equity share, paid in May 2010 and November 2010 (amounting to Rs. 3,471 million). The total dividend payout for 2010 would be Rs. 4,676 million (excluding the corporate dividend tax), and maintains the total dividend payout for 2009, and is in keeping with the financing needs for capital expenditure.

Business Development

India is evolving rapidly and people are becoming more health conscious and eat better. Nutrition plays a key role in enhancing Health and Wellness in our lives and India will be challenged by the need for better nutrition across the income pyramid. Your Company intends to play a definitive role in providing consumers with 'Good Food, Good Life'. Nestlé products are trusted for their high quality and this drives your Company to innovate and renovate products to further strengthen its bonds with consumers.

The business of **'Prepared Dishes and Cooking Aids'** grew rapidly. MAGGI continued to strengthen its wide portfolio at an accelerated pace. Being one of the top Most Trusted Food Brands in the country, MAGGI has gone beyond offering products, to building emotional relationships with consumers. MAGGI products provide Taste and Health and bring Happiness to every home, delivering 'Taste Bhi Health Bhi Khushiyan Bhi'.

With the support of Nestlé global network of R&D centres applying knowledge in science based nutrition, MAGGI products were innovated and renovated in accordance with the changing needs of all members of the family. During the year, an innovative range of 'Me & Meri MAGGI' tastes were introduced in Noodles.

The 'Me & Meri MAGGI' campaign started in 2009, to celebrate 25 years of the emotional relationship of MAGGI with its consumers. The overwhelming response to the campaign brought out some very distinct experiences and emotions that consumers' associate with MAGGI, and the culinary experts worked extensively on concepts that capture these experiences in the taste of the Noodles. Three flavours launched were 'Me & Meri THRILLIN CURRY', 'Me & Meri TRICKY TOMATO' and 'Me & Meri ROMANTIC CAPSICA'. Soon after, MAGGI Vegetable Multigrainz Noodles was rolled out. MAGGI Vegetable Multigrainz Noodles is a combination of traditional ingredients, known for their goodness, such as Ragi, Corn, Jowar, and Wheat, with real vegetables, and are a source of Fibre, Calcium and Protein. MAGGI Masala-ae-Magic and MAGGI NUTRI-LICIOUS PAZZTA launched in late 2009 established themselves during the last year. MAGGI NUTRI-LICIOUS PAZZTA is already the market leader and continues to grow the market for light meals. MAGGI Masala-ae-Magic, fortified with Iron, Iodine and Vitamin A, is helping housewives in kitchens across the income pyramid, to provide tasty and nutritious food to their families everyday.

MAGGI continued to connect with consumers in innovative and impactful ways. MAGGI Sauces advertising acknowledged the increasing stress on consumers and advocated 'Hasaon, Khushi Phaelao ...India ko Healthy Banao!' It promoted happiness and spontaneous joy for a healthy living and encouraged a dialogue with the consumer. The campaign for MAGGI Vegetable Multigrainz Noodles revived another dimension in consumers' lives. It brought alive the strong emotional bonds within the family and related the multi-benefits of MAGGI Multigrainz to the multi-qualities in every mother! Marketing 'Taste Bhi Health Bhi' solutions to consumers at the bottom of the pyramid has it's own challenges. These are inherent in the lifestyle of these consumers that is driven by traditional values, lack of education and limited affordability. While the solutions have to be affordable, most people may lack the basic understanding of nutrition. Since MAGGI Masala-ae-Magic is an affordable product that even low income families can use, the challenge is to spread nutrition education. Starting out with the first programme in Dharavi in Mumbai, MAGGI has been sending out people to increase nutrition awareness. In association with a social organisation 'Drishtee' it is also organising health camps in rural areas. These camps create awareness, amongst others, about micronutrient deficiencies, while the organisation also develops retail entrepreneurs for products like MAGGI Masala-ae-Magic. With all these initiatives, MAGGI continued to be ranked as the 'No.1 Most Valuable Food Brand' and amongst the 'Top 10 Buzziest Brands' in the country.

The **'Chocolate and Confectionery'** business continued to drive growth in the newer segments that are more relevant to emerging consumer needs and wellness preferences. Driven primarily by better understanding of consumers and extending the portfolio innovatively your Company's chocolate and confectionery business has grown faster than industry. While the overall penetration for the chocolate category is still in single digits and has a long way to go, the consumption is impulse led and driven largely by convenient price points. As economic growth creates more disposable income with more people the consumption is expected to increase. The challenge is to manage the correct coinage for these products in an inflationary environment. Your Company has grown this business steadily and it is now the leader in the chocolaty wafer segment for 'lighter eating' with NESTLÉ KIT KAT and NESTLÉ MUNCH and 'Whites' (goodness of milk) with NESTLÉ MILKYBAR. During the year this business continued to innovate and renovate brands to increase relevance to the consumers. Some of the more recent and successful launches were NESTLÉ MILKYBAR Choo – Choko at Rs.5/-, NESTLÉ MILKYBAR Crispy at Rs.5/-, NESTLÉ MUNCH Guru pack at Rs.10/- and NESTLÉ KIT KAT single finger at Rs.5/-.

During the year your Company re-launched NESTLÉ BARONE. Rigorous work with the R&D Centres has enabled us to develop taste superiority in NESTLÉ BARONE, which is supported by consumer research. It was re-launched as the companion for the confident young Indian and the re-launch campaign goes beyond the product benefit to strengthen the emotional experience of the consumer. NESTLÉ BARONE is available at price points of Rs. 5/- and Rs. 10/-, and this new thrust is further strengthened by revamped packaging which is fresh, youthful and premium.

Your Company continues to believe that sweet snacking is an intrinsic part of people's lives and within this category the commitment is to offer taste as well as balance to consumers. The NESTLÉ KIT KAT squirrels communication is an illustration of this where it innovatively brings alive the importance of breaks in routine.

In the sugar sub-segment your company continued to focus on the two need states of indulgence and refreshment with success. While it grew the overall Eclairs portfolio to make your Company the largest player, volume gains by NESTLÉ POLO has now made your Company the biggest NESTLÉ POLO market in the world.

Your Company is the value leader in Instant Coffee with NESCAFÉ. During the year, the **'Coffee and Beverages'** business not only strengthened its market position but also strengthened its bonding with consumers. The business continued to focus its efforts on the value chain and leveraged Nestlé's world class proprietary aroma recovery technology to further improve the aroma and taste of NESCAFÉ CLASSIC.

NESCAFÉ is a brand with a progressive world view and reflects the thinking that we can reach our destination when we have a sense of purpose. It talks to the youth of today's progressive India and sees the world as they see it. During the year it engaged with consumers with the simple message "Switch on your purpose. Switch on the best in you". The business associated with the successful and vibrant Deepika Padukone as the brand ambassador and to further engage with the youth, a digital page "Know your neighbours" was created. This page is today the biggest fan page for NESCAFÉ in the world with more than three and a half lakh fans, and is continuing to grow. These initiatives along with the ones already planned are expected to move NESCAFÉ to a new growth trajectory.

During the year **'Milk Products and Nutrition'** business performed well and continued to consolidate and grow. Science based nutrition, stringent quality standards and innovation and renovations are strong pillars for the business which is focused on enhancing the quality of life. During the year your Company launched the NESTLÉ START HEALTHY STAY HEALTHY educational initiative in partnership with doctors, with the aim of making good nutrition a way of life. It emphasises the fact that the nutrition that children get in the early years of life can affect their health forever. And it all starts with mother's milk. As we progress through different stages of life, we have different nutritional needs and we need to understand and balance our nutritional requirements to stay healthy. While your Company actively supports and promotes breastfeeding as being the best possible source of nutrition for the developing infant it recognises that there are circumstances where the mother is unable to feed. Your Company continued to build on the heritage that Nestlé has of quality, trust and science based nutrition to meet the needs of infants, as they grow up, and in later life. NESLAC Nutritious Milk Drink for children was launched towards the end of the year in select geographies.

Your Company has a portfolio of high quality UHT milks that pass stringent quality checks and are preferred by discerning consumers who demand the confidence of good taste and purity. The range comprises NESTLÉ MILK (Rich and Creamy), NESTLÉ MILK (Half Fat) and NESTLÉ SLIM [Skimmed Milk], and NESTLÉ PRO-HEART MILK with Omega 3. Your Company continued to strengthen the business and also extended the range of NESTLÉ DAHI to include dahi in pouches. In the dairy whitener category NESTLÉ EVERYDAY continued to lead volume and value growth and introduced affordable price formats to improve accessibility for lower income users. The brand was renovated and research shows that 8 out of every 10 consumers prefer NESTLÉ EVERYDAY, making it India's most preferred Dairy Whitener. During the year there was greater emphasis on activations and sampling to bring the brand experience closer to consumers. MILKMAID sweetened condensed milk has in the past successfully introduced a new generation of home cooks to easy 3 step recipes. Your Company continued to strengthen this activity and scale-up business.

The Healthcare Nutrition Business that was acquired from Speciality Foods India Private Limited, with products for consumers with special nutritional requirements performed satisfactorily. Work is underway to develop it further. The products in this portfolio are marketed under brands like

RESOURCE, OPTIFAST and SPERT. 'RESOURCE' is specially formulated for the management of malnutrition and other medical conditions associated with increased nutritional needs. It has a range of formulations including, amongst others, RESOURCE Diabetic, a ready to use, fibre rich diet for better nutritional management of diabetics and RESOURCE High Protein that provides easily digestible whey protein. 'OPTIFAST' is a Nutrition supplement in overweight condition and 'SPERT' is a Protein supplement to address the increased protein needs of the family.

With more women entering the workforce and increasing disposable incomes, there is growing opportunity in the Out of Home segment. Your Company is well poised to tap this. During the year as the economic environment improved and hiring by corporates increased the business was positively benefited. Your Company successfully launched vending machines taking into account the specific needs of the customers in the large as well as small establishments.

Sales

Your Company is aware that the emerging and the increasing competitive intensity, requires us to be even more efficient, as we go forward. The process of back-end sales automation that was initiated earlier is now, fully implemented and provides a robust and integrated distributor management solution that supports our efficiency in primary and secondary sales. This also facilitates a more transparent record of the transactions from distributors, to retailers.

We strive to improve the availability of our products with a clear focus on building distribution by going deep & wide across urban and rural geographies. This has resulted in improving our reach to more than 400,000 outlets in the last year alone. Your Company is committed to continuous excellence in the operations. During the year the focus was on building capacity through the willing and able distributors who are long term partners of your Company, and provided the front line field force, the support and know-how to improve their capability.

Technology and Quality

Your Company's products touch the lives of millions every day and Nestlé is amongst the most trusted companies in India. The commitment to high integrity in Nestlé products is supported by stringent quality assurance norms, state-of-the-art technology and high degree of automation. The access to Nestlé's global R&D and emphasis on science based innovation and renovation to develop high quality products are significant competitive advantages. Your Company is also working on a robust and comprehensive improvement programme - Nestlé Continuous Excellence (NCE) that is based on LEAN mindset for war on waste and Total Performance Management concepts. The initial results from pilot areas indicated that better efficiencies have been achieved from the same assets while also reducing costs.

Nestlé R&D Centre in India

Your Directors are extremely pleased to inform that at the request of your Company, Nestlé S.A., Switzerland has agreed to the setting up of a R&D Centre in India as a part of its global network of R&D Centres. Nestlé R&D Centre India Pvt. Ltd, is a wholly owned subsidiary of Nestlé S.A and at the request of your Company, the R&D facility has been located in the proximity of your Company's Head Office. The foundation stone for the R&D Centre was laid by the Hon'ble Minister for Food Processing Industries in September, 2010 and it is expected to be operational in 2012.

Nestlé's decision to establish an R&D centre in India will be an additional competitive advantage in the future and will further strengthen the benefits of technology and know-how received by your Company from Nestlé Group. The research at this Centre will provide exciting opportunities for innovation and will focus on Popularly Positioned Products (PPPs), especially for India but also worldwide. PPPs meet the specific needs of consumers with lower income levels by offering them high-quality, nutritionally enhanced products at affordable prices.

It should help to accelerate your Company's growth and contribute towards reducing nutritional deficiencies in India.

Environment

Your Company is sensitive to the fragility of non-renewable resources and continues to work towards creating and increasing awareness for environmental sustainability. Emphasis on conservation of resources is a priority within the factories and in the manageable areas there is a continuous effort to minimise consumption of natural resources and reduce waste and emission, while maximising production. All processes follow the Nestlé Environment Management System and business practices comply with government policies, environmental laws and regulations using state-of-the-art technology and equipment. You will be proud to know that as production volume has been increasing, during the past ten years, there has been a significant reduction in usage of energy and water and reduction in emission of green house gases per tonne of production. Water consumption per tonne of production has reduced substantially and water use efficiency has improved by almost 60% by employing efficient methods and technologies. Energy consumption per tonne of produce has reduced by almost 51% through investments in energy efficient systems and processes and cutting down on energy losses. At the same time waste water discharge per tonne of produce reduced by almost 70% as a result of the reusing of water and more efficient processes that reduce water need. The carbon footprint has been significantly reducing through focus on technologies that improve combustion and emphasis on utilising renewable fuels such as coconut shells and process waste to replace non-renewable fuels.

Capacity and Funding

Your Company has been growing at a healthy rate in recent years with continuing leadership across its businesses. This market leadership position and India's positive economic environment coupled with a progressive population provides opportunities for growth. Your Company is therefore, accelerating investment in capacities to provide consumers a wide product range, from Popularly Positioned Products for low income consumers to premium offerings. In the recent past some significant investments have already been initiated. Your Directors are hopeful that the Government continues to support the Food Processing Sector so that your Company can continue to expand manufacturing and employment to provide consumers with affordable products.

Over the last three years, Nestlé India has spent over Rs. 650 crores in capital investments, but the investments during 2010 alone were in excess of Rs. 480 crores and additional commitments of around Rs. 680 crores already existed at the year end. Current plans foresee a further acceleration in 2011 and beyond. This capital expenditure will go into expanding facilities at Bicholim, Moga, Nanjangud, Ponda, Samalkha and in new Greenfield facilities. While a new plant for MAGGI products is getting ready for commissioning at the Nanjangud Factory, work has been initiated for a green field project at Tahliwal in Himachal Pradesh.

In order to finance this accelerated capital expenditure trajectory your Company would have a judicious mix of 'Internal Accruals' and 'Debt'. The 'Borrowings Free' balance sheet of your Company and the strong credit ratings of Nestlé should facilitate this strategy. Your Directors are pleased that the Reserve Bank of India has approved availment of External Commercial Borrowing from the foreign equity holders of upto US$ 450 million for the sourcing of capital goods, expansion/modernisation of facilities and new projects. The drawdown of the loan would be based on the funding requirements from time to time.

Supply Chain

The current volatile and complex economic environment requires efficient and cost effective processes. During 2010 your Company has ensured timely and efficient supply of materials to run the factories, accelerating the development of local suppliers. The distribution of finished goods to consumers across the country continues to be cost effective and more environmental friendly with increasing share of rail deliveries.

During the year, your Company also delivered sustainable cost optimisation initiatives as part of

Nestlé Continuous Excellence (NCE) to eliminate waste and manage input costs. This year the NCE programme will be expanded further to cover all supply chain processes and select distribution centres.

In line with the philosophy of Creating Shared Value, Nestlé India rolled out its Responsible Sourcing programme in 2010. All the key vendors were engaged on this initiative through procurement led vendor meets at the Company's Head office and factories. Vendors were supported through a pre-assessment process, consultant visits, dedicated help desk and continuous engagement and education. All vendors were registered on the SEDEX platform and independent Audits by internationally approved agencies were conducted on the key vendors shortlisted. All these vendors were found compliant with minor gaps for which road maps have been agreed mutually.

Human Resources and Trade Relations

Your Company strongly believes that people are it's assets and they are key to drive competitive advantage. With the vision given to employees to 'Seek the Peak' in all endeavours, the emphasis has been on alignment of company goals with individual objectives and then empowering employees to give their best with the mindset of 'Dream.Dare.Deliver'.

Recognising the importance of Human Resources, all efforts have been put by your Company to ensure that best talent is recruited, continuously developed and retained. During the year, your Company has put heavy emphasis on performance driven culture and appropriate HR tools and processes have been deployed to ensure clear linkage with rewards. Strong recognition platforms have been created to encourage people to deliver stretched goals. There has been a lot of emphasis on training and development including self learning, manager inspired learning through coaching and career development opportunities.

All these efforts have ensured that your Company retains it's position as a preferred employer and an employer of choice. Your Company believes in fostering trust and mutual respect in employee relations. Your Company engaged employees with trust and respect by continuously transparently sharing information through various forums, dialogues and other communication means. These efforts have received excellent reciprocation from employees and in its Industrial Relations.

SWOT Analysis for the Company

Strengths:

- Being NESTLÉ.
- General Licence Agreement which gives access to the Nestlé Group's proprietary technology/ brands, expertise and the extensive centralised Research and Development facilities.
- High quality and safe food products at affordable prices, and trust in Nestlé.
- Understanding of Nutrition, Health and Wellness.
- Strong and well differentiated brands with market share leadership.
- Product innovation and renovation, based on consumer insights.
- Well diversified product portfolio across categories and income strata.
- Efficient supply chain.
- Responsive Organisation Structure and strong Management Team.
- Distribution structure that allows wide reach and coverage in the target markets.
- Capable and engaged human resources.
- Participation in Global Business Excellence (GLOBE).
- Strong financial position.

Weakness:

- Complex supply chain configuration.
- Cascading indirect taxes.
- Price point portfolio.

Threat:

- Price volatility of key raw, packaging materials and fuels.
- Availability of agro based commodities.
- Food inflation.
- White-collar talent.

Opportunities:

- Potential for further expansion in smaller towns and other geographies.
- Growing demand for premium products.
- Introduction of GST to simplify the taxation and distribution.
- Recovery of 'Out of Home' segment.
- Leverage Nestlé Technology to develop more products that provide Nutrition, Health and Wellness at affordable prices.

Working with Communities

Even as growth and social change accelerate the desire to move up the income pyramid, the issues of rural development, conservation of water and environmental resources, access to nutrition and food security are potential challenges. Your Company believes that our response to these common issues will not only have a bearing on our own progress but also the ability to create sustainable inclusive growth.

Nestlé's approach to business is Creating Shared Value or 'Saanjhapan' as we call it in Nestlé India and it is about the impact of our business and engagement through it. In colloquial thinking Saanjhapan reflects joint benefit. Your company is focused on the three areas of Nutrition, Water and Rural Development where it has the greatest potential for joint value with the communities.

Understanding of nutrition, knowledge of balanced diets and access to good nutrition is essential for a good life. In a survey conducted by your Company around its factories in 2009 lack of knowledge and even awareness about balanced nutrition had emerged as a major concern. Your Company has expertise and understanding of nutrition and intends to use this to help people improve the quality of their lives. It has developed a simple but engaging programme in partnership with Universities that have knowledge of food habits and availability in their areas. The programme modules are structured in a way that students absorb the basic knowledge relating to foods in a practical manner. It helps them understand the role of food in our bodies, the manner in which food is digested and how we can improve the balance of nutrients in diet. The module specifically devotes time to explaining how cooking practices can improve nutrition, as well as the need for food hygiene, sanitation, and physical exercise to improve health and wellness.

This programme was rolled out nationally from April and during the year around 5000 students in village schools have already participated. The Universities also help to ensure that the programme is being implemented in the best interest of the community.

The well being of the communities from where we draw our agricultural raw materials are important for us. Consequently your Company continues to do extensive work with farmers and other suppliers, transferring technology and knowledge to the communities and helping them build their capabilities so that they can participate more effectively in business and build on progress through economic prosperity.

During the year your Company continued to extend its Clean Drinking Water Projects that improve access to clean drinking water in village schools and increase awareness for water conservation in the communities around our factories. During the year, 17 Clean Drinking Water Projects were constructed to benefit 6300 more students. As a result the number of these projects around our factories has increased to 156 and 66,000 students in village schools are directly benefitting every year.

Your Company has been working extensively to develop dairy farming and to make it a sustainable income source even for small and marginal farmers. This effort continued in the Moga region with your company's veterinarians and agronomists providing support, expertise and knowledge that benefits over 110,000 farmers directly. Your Company also continued with the Village Women Dairy Development Programmes that train them in good dairy practices as well as spread awareness about personal health, hygiene, water conservation and economic independence. 160 more programmes helped to reach out to 5300 additional women during the year, cumulatively benefitting over 45,000 village women.

During recent years your Company has also been working with chicory farmers. Transfer of technology, education and better knowledge of roasting and processing has increased yields and quality. During the past 10 years the number of chicory farmers benefitting from this has increased from 1000 to 7500.

Contribution to Exchequer

Your Company has been a leading taxpayer of the country and over the years has been enabling significant contribution to various taxes. During the year 2010, the Company through its business, enabled tax collections at Central and State Level of close to Rs.13.98 billion in the aggregate.

Awards and Recognitions

While your Company's products continued to be trusted for their high quality, your Company has increasingly emphasised better consumer engagement. The success is reflecting in the awards and recognitions that your brands received during the year. They are also a strong indication of the hard work and sustainable initiatives being implemented to delight consumers. Some of the key awards and recognitions :

- Conferred 'Marketing Company of the Year' award at PITCH India's Top 50 Marketers Awards 2010 to recognise excellence in Marketing.
- Pitch Magazine recognised MAGGI amongst the top 3 'Ageless Brands' and adjudged MAGGI Masala-ae-Magic amongst the top 3 for innovative work at the 'Bottom of the Pyramid'.
- NESTEA Voted 'Product of the Year' in the powdered beverages category by Nielsen's Consumer Survey of product innovation 2010.
- KIT KAT adjudged 'Master Brand' by the World Brand Congress.
- MAGGI Masala-ae-Magic recognised amongst 'The Chartbusters' of 2010 by The Economic Times.
- 'NESCAFÉ Know Your Neighbours' campaign amongst Top 5 'Most Liked' Digital Campaigns of 2010 listing by AFAQS.
- MAGGI again rated the No.1 Food Brand in India by an ICMR consumer study.
- 'Me and Meri MAGGI' campaign recognised by Campaign India Digital Media Awards - Silver for 'Best Website' (FMCG) and Bronze for 'Best Loyalty Campaign'.
- MAGGI rated amongst India's Top 10 Buzziest Brands by AFAQS Survey 2010.
- 'Me and Meri MAGGI' advertising campaign received Silver and Bronze Awards at 2010 ABBY'S.
- Coffee Board Awards for Best Exporter of Coffee to Russia and CIS, and Second Best Exporter of Instant Coffee. (2009-2010)
- In a survey by Business Today and Indicus Analytics to understand external perceptions Nestlé India amongst the section toppers for FMCG on 'Best Companies to Work for 2010'.

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. Rajendra S. Pawar resigned as a Director of the Company with effect from 22nd April 2010. The Directors wish to place on record their appreciation for the contributions made by Mr. Pawar during his tenure.

Dr. Rakesh Mohan, appointed in the casual vacancy, is currently Professor in the Practice of International Economics and Finance at the School of Management and Senior Fellow in the Jackson Institute for Global Affairs at Yale University. He is also Non Resident Senior Research Fellow of Stanford Centre for International Development, Stanford University. He has been Deputy Governor of the Reserve Bank of India for many years (2005-2009 and 2002-2004) and held senior positions in the Government of India including Secretary, Department of Economic Affairs (2004-2005) as well as Chief Economic Advisor to the Government of India (2001-2002), Director General of National Council for Applied Economic Research, and Chief Executive of Indian Council for Research and International Economic Relations. Dr. Mohan is well known and respected internationally for his extensive work in the areas of economic reforms and liberalisation, industrial economics, urban economics, infrastructure studies, economic regulation, monetary policy and the financial sector.

His experience would be of immense benefit to your Company and adds a valuable perspective in the Board of Directors. Dr. Rakesh Mohan holds office till the Annual General Meeting and is eligible for re-appointment.

In terms of the Articles of Association of the Company, your Directors appointed Dr. (Mrs.) Swati A Piramal and Mr. Christian Schmid as additional directors of the Company effective from 2nd August 2010. Further, Mr. Christian Schmid was also appointed as the Whole-time Director of the Company designated as 'Director-Technical', for a period of five years with effect from 2nd August, 2010.

Dr. Swati A. Piramal is Vice Chairperson of Piramal Life Sciences Limited. She is the past President of ASSOCHAM. She has completed her MBBS Medical Degree from University of Bombay, Industrial Medicine from DIM College of Physicians & Surgeons, Bombay and Master of Public Health from Harvard, USA. Her contribution to the industry, achievements, membership of prestigious organisations and her directorship in other companies are mentioned in detail in the Explanatory Statement under Section 173(2) of the Companies Act, 1956 covered under item no. 5 of the Notice of the 52nd Annual General Meeting. Your Company will be immensely benefitted with her appointment on the Board. Dr. Piramal holds office till the Annual General Meeting and is eligible for re-appointment.

Mr. Schmid took over as Executive Vice President –Technical in August 2009 and comes with immense expertise in technology and process efficiencies. He is responsible for, amongst others, the manufacturing operations, cost optimisations, quality and safety standards, all of which have a critical role in ensuring a competitive advantage for the Company. Mr. Schmid is a process engineer from the Swiss Federal Institute of Technology and joined Nestlé in 1991 as a Productivity Specialist and has had a distinguished career with varied international experience and his last assignment was Group Technical Director at Nestlé United Kingdom. Details of his proposal are mentioned in the Explanatory Statement under Section 173(2) of the Companies Act, 1956 covered under item no. 6&7 of the Notice of the 52nd Annual General Meeting. Mr. Schmid holds office till the Annual General Meeting & is eligible for re-appointment.

In accordance with Article 119 of the Articles of Association, Mr. Pradip Baijal retires by rotation and due to personal commitments has not sought re-appointment. The Directors wish to place on record their appreciation for the contributions made by Mr. Baijal during his tenure.

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 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 2011. This appointment has also been subsequently approved by the Central Government.

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 as well as the efficient utilisation of the Company's resources for sustainable and profitable growth.

The Directors wish hereby to place on record their appreciation of the efficient and loyal services rendered by each and every employee, without whose whole-hearted efforts, the overall very satisfactory performance would not have been possible.

Your Directors look forward to the future with confidence.

On behalf of the Board of Directors

Date: 18th February 2011
Place: Gurgaon

Antonio Helio Waszyk
Chairman

AUDITORS' REPORT TO THE MEMBERS OF NESTLÉ INDIA LIMITED

1. We have audited the attached balance sheet of **NESTLÉ INDIA LIMITED** ("the Company") as at December 31, 2010, the profit and loss account and the cash flow statement of the Company for the year ended on that date, both 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 the 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 the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the 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 (CARO) issued by the Central Government in terms of section 227(4A) 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 as follows:
   (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 it appears from our examination of those books;
   (c) the balance sheet, the profit and loss account and the cash flow statement dealt with by this report are in agreement with the books of account;
   (d) in our opinion, the balance sheet, the profit and loss account and the cash flow statement dealt with by this report are in compliance with the accounting standards referred to in Section 211(3C) of the Companies Act, 1956;
   (e) in our opinion and to the best of our information and according to the explanations given to us, the said 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, 2010;
      (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 the cash flow statement, of the cash flows of the Company for the year ended on that date.
5. On the basis of the written representations received from the directors as on December 31, 2010 taken on record by the Board of Directors, none of the directors is disqualified as on December 31, 2010 from being appointed as a director in terms of Section 274(1)(g) of the Companies Act, 1956.

For A.F. FERGUSON & CO.
Chartered Accountants
(Registration No. 112066W)

(Manjula Banerji)
Partner
(Membership No. 86423)

DELHI, February 18, 2011

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, 2010.

(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, the particulars of the contracts / arrangements referred to in Section 301 of the Companies Act, 1956, were 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 were made at prices which were 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 investor education and protection fund, employees' state insurance, income-tax, wealth tax, custom duty, excise duty, provident fund, sales-tax, service tax, cess, professional tax and other material statutory dues applicable to it with the appropriate authorities. We are informed that there are no undisputed statutory dues as at the year end, outstanding for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us and the records of the Company examined by us, there are no disputed dues of customs duty and wealth tax, which have not been deposited. The details of disputed dues as at December 31, 2010 in respect of excise duty, sales tax, service tax, cess 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	73,436	1996 – 2008	Customs, Excise and Service Tax Appellate Tribunal
		29,347	2000 – 2010	Appellate authority upto Commissioners' level
	Service Tax	239,777	2005 – 2007	Customs, Excise and Service Tax Appellate Tribunal
		57,024	2008	Appellate authority upto Commissioners' level
Sales Tax Laws	Sales Tax	7,752	2000 – 2006	High Court
		26,455	2000 – 2006	Appellate Tribunal
		165,409	1992 – 2008	Appellate authority upto Commissioners' level
Local State Act	Cess	4,242	2001 – 2008	Appellate authority upto Commissioners' level
Income Tax Act, 1961	Income tax	118,558	1992 – 1994	High Court
		135,684	2006 – 2007	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	16,052	2000 – 2006	Supreme Court
		883	1994	High Court
		7,065	2005 – 2006	Customs, Excise and Service Tax Appellate Tribunal
	Service Tax	148	2005	High Court
		2,420	2003 – 2007	Customs, Excise and Service Tax Appellate Tribunal
Sales Tax Laws	Sales Tax	45,963	1997 – 2003	High Court
Income Tax Act, 1961	Income tax	807,355	1996 – 2005	High Court

(x) The Company does not have accumulated losses at the end of the financial year December 31, 2010. Further, the Company has not incurred cash losses during the financial year ended December 31, 2010 and in the immediately preceding financial year ended December 31, 2009.

(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 material fraud on or by the Company has been noticed or reported during the year ended December 31, 2010.

For A.F. FERGUSON & CO.
Chartered Accountants
(Registration No. 112066W)

(Manjula Banerji)
Partner
(Membership No. 86423)

DELHI, February 18, 2011

BALANCE SHEET OF NESTLÉ INDIA LIMITED AS AT DECEMBER 31, 2010

SOURCES OF FUNDS	SCHEDULE		2010 (Rs. in thousands)		2009 (Rs. in thousands)
SHAREHOLDERS' FUNDS					
Share capital	A	**964,157**		964,157	
Reserves and surplus	B	**7,589,982**	**8,554,139**	4,848,493	5,812,650
DEFERRED TAX LIABILITIES/(ASSETS) (NET)	C		**332,724**		319,972
			8,886,863		6,132,622
APPLICATION OF FUNDS					
FIXED ASSETS	D				
Gross block		**18,546,967**		16,407,942	
Less: Depreciation		**8,419,594**		7,445,894	
Net block		**10,127,373**		8,962,048	
Capital work-in-progress		**3,489,080**	**13,616,453**	796,273	9,758,321
INVESTMENTS	E		**1,506,788**		2,032,555
CURRENT ASSETS, LOANS AND ADVANCES	F				
Inventories		**5,759,516**		4,987,379	
Sundry debtors		**632,854**		641,863	
Cash and bank balances		**2,552,915**		1,555,863	
Loans and advances		**1,514,412**		1,380,487	
		10,459,697		8,565,592	
Less: **CURRENT LIABILITIES AND PROVISIONS**	G				
Liabilities		**7,616,702**		5,875,906	
Provisions		**9,079,373**		8,347,940	
		16,696,075		14,223,846	
NET CURRENT ASSETS/(LIABILITIES)			**(6,236,378)**		(5,658,254)
			8,886,863		6,132,622
NOTES TO THE ACCOUNTS	N				

ANTONIO HELIO WASZYK
Chairman & Managing Director

SHOBINDER DUGGAL
Director - Finance & Control

B. MURLI
Sr. VP - Legal & Company Secretary

February 18, 2011
Gurgaon

Per our report attached
For A.F. FERGUSON & CO.
Chartered Accountants

(MANJULA BANERJI)
Partner
Membership No. 86423

February 18, 2011
New Delhi

PROFIT AND LOSS ACCOUNT OF NESTLÉ INDIA LIMITED
FOR THE YEAR ENDED DECEMBER 31, 2010

	SCHEDULE		2010 (Rs. in thousands)		2009 (Rs. in thousands)
INCOME					
Sales					
Domestic		**60,228,562**		48,938,164	
Export		**3,537,259**		3,286,050	
Gross		**63,765,821**		52,224,214	
Less: Excise duty		**1,218,396**		930,447	
Net sales			**62,547,425**		51,293,767
Other income	H		**426,541**		377,976
			62,973,966		51,671,743
EXPENDITURE					
Materials consumed and purchase of goods	I		**31,385,105**		24,570,317
Manufacturing and other expenses	J		**19,495,229**		16,465,167
Interest	K		**10,745**		13,985
Depreciation	D		**1,277,533**		1,112,692
Adjustment due to decrease / (increase) in stock of finished goods and work-in-progress	L		**(829,427)**		(86,545)
			51,339,185		42,075,616
PROFIT BEFORE IMPAIRMENT, CONTINGENCIES AND TAXATION			**11,634,781**		9,596,127
Impairment loss/(gain) on fixed assets (Refer Note 1 - Schedule N)	D		**-**		103,168
Provision for contingencies (Refer Note 2 - Schedule N)	M		**183,679**		323,201
PROFIT BEFORE TAXATION			**11,451,102**		9,169,758
Income tax expense					
Current tax		**3,251,702**		2,653,355	
Deferred tax		**12,752**		(48,838)	
Fringe benefit tax		**-**	**3,264,454**	15,213	2,619,730
PROFIT AFTER TAXATION			**8,186,648**		6,550,028
Balance brought forward			**1,425,203**		1,001,053
BALANCE AVAILABLE FOR APPROPRIATION			**9,611,851**		7,551,081
Appropriations:					
Dividends:					
Interim			**3,470,966**		3,470,966
Final proposed			**1,205,196**		1,205,196
Corporate dividend tax			**771,997**		794,713
General reserve			**818,665**		655,003
SURPLUS CARRIED TO THE BALANCE SHEET			**3,345,027**		1,425,203
BASIC AND DILUTED EARNINGS PER SHARE (IN RUPEES)	N		**84.91**		67.94
NOTES TO THE ACCOUNTS	N				

ANTONIO HELIO WASZYK
Chairman & Managing Director

SHOBINDER DUGGAL
Director - Finance & Control

B. MURLI
Sr. VP - Legal & Company Secretary

February 18, 2011
Gurgaon

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

(MANJULA BANERJI)
Partner
Membership No. 86423

February 18, 2011
New Delhi

CASH FLOW STATEMENT OF NESTLÉ INDIA LIMITED FOR THE YEAR ENDED DECEMBER 31, 2010

		2010 (Rs. in thousands)	2009 (Rs. in thousands)
A	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net profit before tax	**11,451,102**	9,169,758
	Adjustments for :		
	Depreciation	**1,277,533**	1,112,692
	Unrealised exchange differences	**(243)**	(2,560)
	Deficit/(surplus) on fixed assets sold/scrapped/written off	**79,346**	30,548
	Interest expense	**10,745**	13,985
	Impairment loss/(reversal) on fixed assets	**-**	103,168
	Operating profit before working capital changes	**12,818,483**	10,427,591
	Adjustments for :		
	Decrease/(increase) in trade and other receivables	**(160,561)**	(304,895)
	Decrease/(increase) in inventories	**(772,137)**	(638,262)
	Increase/(decrease) in trade payables	**964,330**	968,920
	Increase/(decrease) in provision for contingencies	**183,679**	323,201
	Increase/(decrease) in provision for employee benefits	**540,936**	1,195,182
	Cash generated from operations	**13,574,730**	11,971,737
	Direct taxes paid	**(3,206,530)**	(2,692,661)
	Net cash from operating activities	**10,368,200**	9,279,076
B	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Purchase of fixed assets (Net of movement in the balance of suppliers and capital work in progress)	**(4,475,132)**	(2,564,570)
	Sale of fixed assets	**16,280**	12,411
	Net cash used in investing activities	**(4,458,852)**	(2,552,159)
C	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Interest paid	**(10,745)**	(13,985)
	Dividends paid	**(4,653,666)**	(4,623,878)
	Corporate dividend tax	**(776,652)**	(786,521)
	Capital subsidy received	**3,000**	-
	Net cash outflow from financing activities	**(5,438,063)**	(5,424,384)
	Net increase / (decrease) in cash and cash equivalents (A+B+C)	**471,285**	1,302,533
	Cash and bank balances	**1,555,863**	1,936,893
	Current investments	**2,032,555**	348,992
	Cash and cash equivalents as at opening	**3,588,418**	2,285,885
	Cash and bank balances	**2,552,915**	1,555,863
	Current investments	**1,506,788**	2,032,555
	Cash and cash equivalents as at closing	**4,059,703**	3,588,418
	NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**471,285**	1,302,533

ANTONIO HELIO WASZYK Chairman & Managing Director	SHOBINDER DUGGAL Director - Finance & Control	B. MURLI Sr. VP - Legal & Company Secretary

February 18, 2011
Gurgaon

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

(MANJULA BANERJI)
Partner
Membership No. 86423

February 18, 2011
New Delhi

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT DECEMBER 31, 2010

		2010 (Rs. in thousands)	2009 (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:			
33,051,399	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.		
SCHEDULE B			
RESERVES AND SURPLUS			
Capital subsidy			
As per last balance sheet		**5,000**	5,000
Add : Received during the year		**3,000**	-
		8,000	5,000
General reserve			
As per last balance sheet		**3,418,290**	2,763,287
Add : Transferred from profit and loss account		**818,665**	655,003
		4,236,955	3,418,290
Surplus, being balance in profit and loss account (undistributed profits)		**3,345,027**	1,425,203
		7,589,982	4,848,493

SCHEDULE C

DEFERRED TAX LIABILITIES AND ASSETS

	2010 (Rs. in thousands)	2009 (Rs. in thousands)
Deferred tax liabilities		
Difference between book and tax depreciation	**786,288**	762,540
Other temporary differences	**33,773**	25,441
	820,061	787,981
Deferred tax assets		
Provision for contingencies	**348,137**	359,019
Provision for certain employee costs	**98,784**	55,700
Other items deductible on payment	**28,314**	27,647
Other temporary differences	**12,102**	25,643
	487,337	468,009
Deferred tax liabilities/(assets) net	**332,724**	319,972

SCHEDULE D

FIXED ASSETS

(Rs. in thousands)

	GROSS BLOCK				DEPRECIATION					NET BLOCK	
	Cost as at December 31, 2009	Additions	Deletions/ adjustments	**Cost as at December 31, 2010**	As at December 31, 2009	For the year	Impairement loss#	On Deletions/ adjustments	**As at December 31, 2010**	**As at December 31, 2010**	As at December 31, 2009
Tangible Assets (A)											
Freehold land	56,026	-	-	**56,026**	-	-	-	-	-	**56,026**	56,026
Leasehold land	94,995	28,863	-	**123,858**	4,017	1,056	-	-	**5,073**	**118,785**	90,978
Buildings	2,442,266	340,850	69,325	**2,713,791**	624,100	79,407	-	18,860	**684,647**	**2,029,144**	1,818,166
Railway siding	11,733	-	-	**11,733**	10,794	298	-	-	**11,092**	**641**	939
Plant and machinery	11,973,122	1,831,361	206,994	**13,597,489**	5,517,082	965,502	-	164,517	**6,318,067**	**7,279,422**	6,456,040
Furniture and fixtures	833,330	229,156	31,225	**1,031,261**	426,189	85,439	-	28,825	**482,803**	**548,458**	407,141
Information technology equipment	428,699	53,228	84,079	**397,848**	340,167	54,503	-	84,031	**310,639**	**87,209**	88,532
Vehicles	31,512	2,486	7,836	**26,162**	23,037	3,037	-	7,600	**18,474**	**7,688**	8,475
Sub Total	15,871,683	2,485,944	399,459	**17,958,168**	6,945,386	1,189,242	-	303,833	**7,830,795**	**10,127,373**	8,926,297
Intangible Assets (B)											
Management information systems	536,259	-	-	**536,259**	500,508	35,751	-	-	**536,259**	**-**	35,751
Knowhow and commercial rights	-	52,540	-	**52,540**	-	52,540	-	-	**52,540**	**-**	-
Total (A+B)	16,407,942	2,538,484	399,459	**18,546,967**	7,445,894	1,277,533	-	303,833	**8,419,594**	**10,127,373**	
Previous year	14,048,460	2,690,945	331,463	16,407,942	6,518,538	1,112,692	103,168	288,504	7,445,894		8,962,048
Capital work-in-progress including capital advances and machinery-in-transit										**3,489,080**	**796,273**
										13,616,453	**9,758,321**

Notes:

(a) Buildings include Rs.500 (Previous year 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.

(c) Capital expenditure commitments remaining to be executed and not provided for : Rs. 6,880,285 thousands (Previous year Rs.630,676 thousands). These are net of capital advances : Rs.817,557 thousands (Previous year Rs.114,679 thousands) included in capital work-in-progress.

\# Refer Note 1 - Schedule N

SCHEDULE E

INVESTMENTS

(NON TRADE, UNQUOTED)

CURRENT

(at cost or fair value, whichever is lower)

			2010 (Rs. in thousands)	2009 (Rs. in thousands)
GOVERNMENT SECURITIES				
Treasury Bills [Units of the face value Rs. 100 each]	3,869,000	Units (Previous year 9,000,000) face value of Rs. 1,963,875 thousands (Previous year Rs. 2,380,625 thousands) purchased and face value of Rs. 2,476,975 thousands (Previous year Rs. 1,580,625 thousands) sold during the year.	**380,417**	893,477
MUTUAL FUNDS - DEBT [Units of face value Rs. 10 each, unless otherwise stated]				
TATA Mutual Fund	310,972	Units (Previous year 155,716) of Tata Liquid Super High Investment Fund - Daily Dividend Reinvestment Plan (3,842,004 units of face value of Rs.1,000 each purchased and 3,686,748 units sold during the year)	**346,585**	173,550
Birla Sun Life Mutual Fund	13,619,141	Units (Previous year 17,923,000) of Birla Sun Life Cash Plus-Institutional Premium - Daily Dividend Reinvestment Plan (417,330,844 units purchased and 421,634,703 units sold during the year)	**136,457**	179,579
	13,720,816	Units (Previous year Nil) of Birla Sun Life Savings Fund Institutional-Daily Dividend Reinvestment Option (48,696,368 units purchased and 34,975,552 units sold during the year)	**137,301**	-
Prudential ICICI Mutual Fund	-	Units (Previous year 2,336,702) of Prudential ICICI Floating Rate Plan Daily Dividend Reinvestment Plan (7,415,837 units of face value of Rs. 100 each purchased and 9,752,539 units sold during the year)	**-**	233,720
	1,653,086	Units (Previous year Nil) of ICICI Prudential Institutional Liquid Plan-Super Institutional Daily Dividend Reinvestment Plan (29,348,542 units of face value of Rs. 100 each purchased and 27,695,456 units sold during the year)	**165,346**	-
Reliance Mutual Fund	-	Units (Previous year 17,874,264) of Reliance Medium Term Fund-Daily Dividend Reinvestment Option (60,134,263 units purchased and 78,008,527 units sold during the year)	**-**	305,569
	10,921,825	Units (Previous year Nil) of Reliance Liquid Fund Treasury Plan Institutional - Daily Dividend Reinvestment Option (289,595,900 units purchased and 278,674,075 units sold during the year)	**166,966**	-
JP Morgan Mutual Fund	11,831,657	Units (Previous year 5,003,176) of JP Morgan India Treasury Fund Super Institutional - Daily Dividend Reinvestment Option (96,978,221 units purchased and 90,149,740 units sold during the year)	**118,422**	50,076
	5,525,067	Units (Previous year Nil) of JP Morgan India Liquid Fund Super Institutional Daily Dividend Reinvestment Option (184,653,862 units purchased and 179,128,795 units sold during the year)	**55,294**	-
Repurchase price as at December 31, 2010		Rs. 1,508,889 thousands (Previous year Rs. 1,838,764 thousands)		
COMMERCIAL PAPERS (UNQUOTED) [Units of the face value of Rs. 500,000 each]				
Export Import Bank of India	-	Units (Previous year 200) 1,000 units purchased and 1,200 units sold during the year.	**-**	98,286
National Bank for Agriculture and Rural Development	-	Units (Previous year 200) 200 units sold during the year.	**-**	98,298
			1,506,788	2,032,555

During the year the following current investments were purchased and sold :

MUTUAL FUNDS - DEBT (UNQUOTED) (Units of face value of Rs.10 each) unless otherwise stated

1) Tata Floater Fund Daily Dividend Reinvestment Option - 49,149,287 units

COMMERCIAL PAPERS (UNQUOTED) (Units of face value of Rs.500,000 each)

1) Rural Electrification Corporation - 1,400 units
2) National Housing Bank - 200 units

SCHEDULE F		2010 (Rs. in thousands)		2009 (Rs. in thousands)
CURRENT ASSETS, LOANS AND ADVANCES				
(A) CURRENT ASSETS				
Inventories				
Stores and spare parts *		**314,905**		293,335
Stock-in-trade ** :				
Finished goods		**2,870,610**		2,312,885
Work-in-progress		**741,655**		462,666
Raw materials		**1,562,988**		1,731,668
Packing materials		**269,358**		186,825
		5,759,516		4,987,379
* At cost				
** At cost or net realisable value, whichever is lower				
Sundry debtors (Unsecured)				
Considered good				
Over six months	**19,135**		3,048	
Others	**613,719**	**632,854**	638,815	641,863
Considered doubtful				
Over six months	**12,106**		11,311	
Others	**23,000**	**35,106**	20,000	31,311
		667,960		673,174
Less: Provision for doubtful debts		**35,106**		31,311
		632,854		641,863
Cash and bank balances				
Cheques in hand including remittances in transit		**81,360**		81,627
Bank balance with scheduled banks - on current accounts		**113,179**		185,663
- on deposit accounts		**2,358,376**		1,288,573
		2,552,915		1,555,863
(B) 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	**66,687**		57,349	
Unsecured	**1,447,725**	**1,514,412**	1,289,439	1,346,788
Considered doubtful		**16,151**		13,541
		1,530,563		1,360,329
Less: Provision for doubtful advances		**16,151**		13,541
		1,514,412		1,346,788
Taxation (payments less provisions)		**-**		33,699
		1,514,412		1,380,487
		10,459,697		8,565,592

* Advances recoverable, disbursed under the Company's employee loan schemes includes loans to a Director prior to his appointment Rs. 919 thousands (Previous year Rs. Nil) maximum amount due during the year Rs. 1,075 thousands (Previous year Rs. Nil)

SCHEDULE G	**2010 (Rs. in thousands)**	2009 (Rs. in thousands)
CURRENT LIABILITIES AND PROVISIONS		
Current liabilities		
Sundry creditors -		
Micro and small enterprises (Refer to Note 16 - Schedule N)	**52,451**	16,396
Others	**7,401,925**	5,800,896
Book overdrafts	**87,157**	5,941
Investor Education and Protection Fund shall be credited by the following:		
Unpaid dividends #	**75,169**	52,673
	7,616,702	5,875,906
Provisions		
Pension and gratuity	**4,714,760**	4,208,379
Contingencies (Refer Schedule M)	**2,478,674**	2,294,995
Employee benefits, incentives and welfare schemes*	**469,102**	434,547
Taxation less payments	**11,473**	-
Proposed final dividend	**1,205,196**	1,205,196
Corporate dividend tax	**200,168**	204,823
	9,079,373	8,347,940
	16,696,075	14,223,846

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.

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2010

SCHEDULE H	**2010 (Rs. in thousands)**	2009 (Rs. in thousands)
OTHER INCOME		
Dividend on current, non-trade investments	**45,906**	26,853
Interest received on bank deposits, investments and employee loans (gross) (Tax deducted at source Rs. 7,131 thousands previous year Rs. 13,984 thousands)	**191,755**	145,032
Export incentives	**61,988**	101,702
Miscellaneous income	**126,892**	104,389
	426,541	377,976

SCHEDULE I		**2010 *(Rs. in thousands)***		2009 *(Rs. in thousands)*
MATERIALS CONSUMED AND PURCHASE OF GOODS				
Raw materials consumed		**25,600,939**		20,142,867
Packing materials consumed		**4,827,128**		3,837,808
Purchase of goods - outside manufacture		**957,038**		589,642
		31,385,105		24,570,317

SCHEDULE J

MANUFACTURING AND OTHER EXPENSES

Employee cost				
Salaries, wages, bonus, pension, gratuity, performance incentives etc.	**3,925,181**		3,982,657	
Contribution to provident and other funds	**156,180**		126,811	
Staff welfare expenses	**253,020**	**4,334,381**	214,360	4,323,828
Advertising and sales promotion		**3,026,175**		2,675,119
Freight, transport and distribution		**3,108,426**		2,403,721
General licence fees (net of taxes)		**2,157,351**		1,759,874
Taxes on general licence fees		**333,985**		272,998
Power and fuel		**2,191,976**		1,588,703
Maintenance and repairs				
Plant and machinery	**370,633**		327,536	
Buildings	**84,553**		36,333	
Others	**83,338**	**538,524**	71,109	434,978
Travelling		**539,884**		460,582
Contract manufacturing charges		**559,149**		461,752
Rates and taxes		**338,814**		205,946
Rent		**241,666**		209,875
Information technology and management information systems		**520,092**		436,538
Milk collection and district development expenses		**179,308**		143,122
Consumption of stores and spare parts (excluding Rs.203,696 thousands charged to other revenue accounts, previous year Rs.201,753 thousands)		**296,707**		219,104
Training expenses		**250,283**		165,154
Market research		**96,761**		86,636
Deficit on fixed assets sold/scrapped/written off		**79,346**		30,548
Laboratory (quality testing) expenses		**131,561**		151,169
Insurance		**14,338**		13,281
Miscellaneous expenses		**556,502**		422,239
		19,495,229		16,465,167

		2010 *(Rs. in thousands)*		2009 *(Rs. in thousands)*
SCHEDULE K				
INTEREST				
Interest on fixed loans		**6,863**		6,576
Others		**3,882**		7,409
		10,745		13,985
SCHEDULE L				
ADJUSTMENT DUE TO (INCREASE)/DECREASE IN STOCK OF FINISHED GOODS AND WORK-IN-PROGRESS				
Opening stock				
Work-in-progress	**462,666**		385,378	
Finished goods	**2,312,885**		2,327,186	
	2,775,551		2,712,564	
Less: Excise duty	**71,438**		94,996	
Net opening stock (A)		**2,704,113**		2,617,568
Less: Closing stock				
Work-in-progress	**741,655**		462,666	
Finished goods	**2,870,610**		2,312,885	
	3,612,265		2,775,551	
Less: Excise duty	**78,725**		71,438	
Net closing stock (B)		**3,533,540**		2,704,113
Movement in opening and closing stock (A-B)		**(829,427)**		(86,545)
SCHEDULE M				
PROVISION FOR CONTINGENCIES				
Balance as at December 31, 2009		**2,294,995**		1,971,794
Add: Created during the year	**433,375**		457,181	
Less: Reversed/utilised during the year	**(249,696)**		(133,980)	
Net provision taken to the profit and loss account		**183,679**		323,201
Balance as at December 31, 2010		**2,478,674**		2,294,995
(Refer Note 2- Schedule N)				

SCHEDULE N

NOTES TO THE ACCOUNTS

1. There is no impairment loss on fixed assets during the year ended December 31, 2010. For the previous year impairment loss on fixed assets (gross -Rs 103,168 thousands, net of deferred taxes - Rs. 68,101 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. 433,375 thousands (previous year Rs. 457,181 thousands) for various contingencies resulting mainly from matters, which are under litigation/dispute and other uncertainties requiring management judgment. The Company has also reversed/utilized contingency provision of Rs. 249,696 thousands (previous year Rs. 133,980 thousands) due to the satisfactory settlement of certain disputes for which provision was no longer required. The details of class-wise provisions are given below :

	2010 (Rs. in thousands)			2009 (Rs. in thousands)		
Description	**Provisions for**			Provisions for		
	Litigations and related disputes	**Others**	**Total**	Litigations and related disputes	Others	Total
Opening balance	**2,191,032**	**103,963**	**2,294,995**	1,917,994	53,800	1,971,794
New provisions	**395,415**	**37,960**	**433,375**	407,018	50,163	457,181
Utilisation/Settlement in the year	**(94,645)**	**–**	**(94,645)**	(106,404)	–	(106,404)
Reversals	**(148,751)**	**(6,300)**	**(155,051)**	(27,576)	–	(27,576)
Total cost for the year in Profit and loss account	**152,019**	**31,660**	**183,679**	273,038	50,163	323,201
Closing balance	**2,343,051**	**135,623**	**2,478,674**	2,191,032	103,963	2,294,995

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) Others - include estimates made for products sold by the Company which are covered under free replacement warranty on becoming unfit for human consumption during the prescribed shelf life, investments held by the employee benefit trusts (in previous year) and other uncertainties requiring management judgment. 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.

	2010 (Rs. in thousands)	2009 (Rs. in thousands)
3. (1) Auditors' remuneration including service tax and expenses in respect of :		
a) Statutory audit	**3,905**	3,905
b) Audit of accounts for fiscal year and tax audit	**1,489**	1,489
c) Limited review of quarterly un-audited results	**827**	827
d) Certification for general license fee remittances, corporate governance and others	**265**	265
e) Audit of employee trust accounts and other certificates	**315**	233
f) Certification of tax holiday benefits	**77**	77
g) Reimbursement of out of pocket expenses for statutory audit and other matters	**425**	425
(2) Cost and other auditors' remuneration	**286**	200

	2010 (Rs. in thousands)	2009 (Rs. in thousands)
4. Managerial remuneration @		
Salaries and allowances	**40,986**	31,810
Company's contribution to provident and other funds	**2,393**	3,086
Leave travel	**1,053**	711
Commission to managing/whole-time directors	**29,574**	32,018
Commission to non whole-time directors	**1,766**	1,400
Directors sitting fees	**600**	800
Other perquisites	**29,796**	10,435
	106,168	80,260
@ Does not include provision for incremental liability on account of pension, gratuity, compensated absences and long service awards since the actuarial valuation is done for the Company as a whole.		
Computation of net profit in accordance with Section 198 of the Companies Act, 1956		
Net Profit after taxation	**8,186,648**	6,550,028
Add:		
Managerial remuneration	**106,168**	80,260
Net gain/(deficit) on fixed assets sold/scrapped as per Section 350 of the Companies Act, 1956	**(79,930)**	(30,564)
Net (gain)/deficit on fixed assets sold/scrapped as per accounts	**79,346**	30,548
Provision for income-tax	**3,264,454**	2,604,517
Net Profit	**11,556,686**	9,234,789
Commission: - Amount	**31,340**	33,418
- Percentage of net profit	**0.27%**	0.36%
5. Exchange difference net debited/(credited) to the profit and loss account	**12,705**	(3,497)

	2010		2009	
	(Rs. in thousands)	%	(Rs. in thousands)	%
6. Stores and spare parts consumed:				
Imported	**30,595**	**6.1**	27,638	6.6
Indigenous	**469,808**	**93.9**	393,219	93.4
	500,403	**100.0**	420,857	100.0

		2010 (Rs. in thousands)	2009 (Rs. in thousands)
7.	Earnings from exports:		
	Export of goods in:		
	- Foreign Currency at F.O.B value {including sales to Russia invoiced in Rupees of Rs. 969,874 thousands (previous year Rs. 930,703 thousands)}	**2,472,967**	2,453,405
	- Rupees (all inclusive sales to Nepal & Bhutan)	**1,030,455**	807,696
	- Proceeds from sale of fixed assets in foreign currency at F.O.B value	**1,587**	474
8.	C. I. F. value of imports:		
	Raw/Packing materials	**2,434,819**	1,925,727
	Capital goods	**1,189,272**	533,150
	Goods – outside manufacture	**162,685**	62,238
	Components and spare parts	**56,638**	65,663

		2010		2009	
		Quantity (MT)	***(Rs. in thousands)***	*Quantity (MT)*	*(Rs. in thousands)*
9.	Raw materials consumed:				
	Fresh milk	**406,500**	**8,555,840**	377,892	7,005,325
	Wheat flour	**157,048**	**2,613,438**	126,084	1,933,556
	Green coffee	**28,773**	**2,277,221**	24,363	2,151,934
	Sugar	**59,873**	**2,062,390**	52,975	1,427,785
	Vegetable oils	**40,006**	**2,003,326**	31,956	1,661,832
	Skimmed milk powder	**14,026**	**1,960,433**	13,412	1,669,554
	Cocoa based raw materials	**1,266**	**315,254**	1,054	168,042
	Tomato paste	**5,538**	**307,407**	5,125	312,420
	Liquid glucose	**12,984**	**287,369**	10,452	170,737
	Maltodextrine powder	**6,535**	**282,749**	6,680	290,748
	Whey powder	**1,321**	**268,513**	1,184	213,452
	Onion flakes/powder	**1,810**	**230,660**	1,327	136,810
	Rice flour	**3,972**	**137,819**	3,450	127,655
	Wheat gluten	**1,343**	**133,715**	1,079	100,976
	Black tea/green leaf	**9,298**	**108,312**	5,161	81,750
	Chicory	**4,614**	**108,065**	4,582	99,582
	Strawberry crunchies	**164**	**104,609**	136	95,206
	Lactose	**1,240**	**82,605**	1,157	70,282
	Apple concentrate	**1,172**	**79,195**	995	81,602
	Others (net of sale proceeds of by-products/surplus materials)		**3,682,019**		2,343,619
			25,600,939		20,142,867

	2010		2009	
	(Rs. in thousands)	**%**	*(Rs. in thousands)*	%
Of the above:				
Imported	**2,628,751**	**10.3**	1,882,183	9.3
Indigenous	**22,972,188**	**89.7**	18,260,684	90.7
	25,600,939	**100.0**	20,142,867	100.0

	2010 (Rs. in thousands)	2009 (Rs. in thousands)
10(a). Expenditure in foreign currency (accrual basis):		
General license fees (net of tax)	**2,157,351**	1,759,874
Information technology and management information systems	**438,950**	385,422
Other matters	**314,293**	249,977
10(b). Expenditure recovered/received in foreign currency (accrual basis)	**48,036**	41,395

11. Amount remitted in foreign currencies towards dividends during the year:

	2010			2009		
	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 - 2009	**2**	**59,629,954**	**745,374**	2	59,629,954	715,559
First interim	**2**	**59,629,954**	**536,670**	2	59,629,954	536,670
Second interim	**2**	**60,515,079**	**1,633,907**	2	59,629,954	1,610,008

12. Earnings per share

	2010	2009
Profit after taxation as per profit and loss account (Rs. in thousands)	**8,186,648**	6,550,028
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)	**84.91**	67.94

13. Capacities, Production/Purchases, Stocks and Sales of Finished Goods:

Class of goods	Licensed/ IEM Capacity (Annual) Quantity (MT)	Installed Capacity (Annual) Quantity (MT)	Opening stock Quantity (MT)	Opening stock Value *(Rs. in thousands)*	#Actual Production and Purchases (MT)	Closing stock Quantity (MT)	Closing stock Value *(Rs. in thousands)*	Gross Sales Quantity* (MT)	Gross Sales Value *(Rs. in thousands)*
Milk Products and Nutrition	**186,702** (181,702)	**147,546** (143,563)	**10,656** (11,100)	**1,282,688** (1,278,108)	**147,425** (135,391)	**12,271** (10,656)	**1,691,901** (1,282,688)	**144,397** (134,142)	**27,762,679** (23,112,665)
Beverages	**47,750** (47,750)	**47,794** (47,794)	**1,785** (1,971)	**331,989** (387,974)	**26,709** (23,353)	**1,815** (1,785)	**357,531** (331,989)	**26,458** (23,369)	**8,993,520** (8,041,909)
Prepared dishes and cooking aids	**317,955** (296,240)	**205,017** (190,989)	**6,639** (6,565)	**326,949** (323,711)	**194,583** (156,601)	**6,668** (6,639)	**396,086** (326,949)	**193,494** (155,555)	**17,250,424** (13,350,493)
Chocolate and confectionery	**48,500** (48,500)	**32,769** (32,769)	**3,590** (3,381)	**371,259** (337,394)	**54,503** (44,593)	**4,488** (3,590)	**425,092** (371,259)	**53,483** (44,116)	**9,759,198** (7,719,147)
				2,312,885 (2,327,186)			**2,870,610** (2,312,885)		**63,765,821** (52,224,214)

Includes product manufactured by contract manufacturers on conversion basis
* Sales quantity includes goods withdrawn for sales promotion.

(a) Licensed/IEM Capacity include registered capacities of industrial activities existing prior to the Industries (Development and Regulation) Act, 1951 and capacities as shown in the Industrial Entrepreneurs Memorandum(IEM) filed with the Government pursuant to Notification no. 477(E) dtd. 27-07-1991 under the said Act.

(b) The installed capacities are as certified by the Management on which the auditors have relied. These are based on maximum utilization of the plant and machinery taking into account production efficiencies, maintenance of plant and machinery, shifts, seasonality etc.

(c) 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 registered/installed capacities given can vary depending on the product mix.

(d) Actual production and purchases include purchase of 22,399 MT (17,725 MT) in Milk Products and Nutrition, 231 MT (322 MT) in Beverages, Nil MT (Nil MT) in Prepared dishes and cooking aids, 218 MT (155 MT) in Chocolate and Confectionery. The total value of these purchases is Rs. 957,038 thousands (Rs. 589,642 thousands).

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

14. Segment reporting

Based on the guiding principles given in Accounting Standard on 'Segment Reporting' (AS-17), 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.

15. Related party disclosures under Accounting Standard 18

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

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 Limited:

Belte Schweiz AG, Nestec S.A., Nestec York Limited, Nestlé (China) Limited, Nestlé (PNG) Limited, Nestlé (South Africa) (Pty) Limited, Nestlé (Thai) Limited, Nestlé Australia Limited, Nestlé Bangladesh Limited, Nestlé Central And West Africa Ltd., Nestlé Deutschland AG, Nestlé Egypt S.A.E., Nestlé Hong Kong Limited, Nestlé Foods Kenya Ltd., Nestlé France S.A.S., Nestlé Ghana Ltd., 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 B.V., Nestlé Pakistan Ltd., Nestlé Philippines, Inc., Nestlé Product Technology Centre Lebensmittelforschung GMBH, Nestlé Products Sdn. Bhd., Nestlé R&D Centre (Pte) Limited, Nestlé Romania S.R.L., Nestlé Shanghai Limited, Nestlé Singapore (PTE) Limited, Nestlé Suisse S.A., Nestlé Taiwan Limited, Nestlé Tianjin Limited, Nestlé Turkiye Gida Sanayi A.S., Nestlé UK Ltd., Nestlé USA Inc, Nestlé Vietnam Limited, Nestrade-Nestlé World Trade Corporation, Osem Food Industries Limited, Osem Uk Limited, PT Nestlé Indonesia, Servcom SA, Société des Produits Nestlé S.A., Nestlé R&D Centre India Private Limited, Nestlé Canada Inc., Nestlé Waters France S.A.S, Nestlé R&D Center Shanghai Limited, Nestlé Italiana S.p.A, Nestlé Maroc S.A, Nestlé New Zealand Limited, Nestlé Shuangcheng Limited, Nestlé Mexico S.A.de C.V, Nestlé Business Services S.A., Nestlé Equatorial Africa Region (EPZ) Limited, Nestlé Cesko s.r.o., Nestlé Product Technology Centre, Nestlé Asean (Malaysia) Sdn. Bhd., Societe Pour L'Exportation Des Produits Nestlé S.A., Al Manhal Water Factory Co. Ltd., Nestlé Manufacturing Ltd., Nestlé Waters Product Technology Centre, Nestlé Polska S.A., Nestlé Chile S.A., Nestlé Brasil Ltda., Nestlé Zimbabwe (Pvt) Ltd., Nestlé Dubai Manufacturing LLC, Quality Coffee Products Ltd., Nestlé Belgilux S.A., Nestlé Cote d'Ivoire, Nestlé Syria Ltd., Nestlé Dongguan Limited, Nestlé Capital Advisers S.A., Osem Investments Ltd., Nestlé Nigeria PLC, Nestlé Purina PetCare France S.A.S, Saudi Food Industries Co. Ltd., Nestlé R&D Centre Beijing Ltd., Sanpellegrino S.p.A., Nestlé (Ireland) Ltd., Nestlé Purina Petcare Company, Nestlé Nespresso S.A., Nestlé Espana S.A.

Whole time directors: Antonio Helio Waszyk, Chairman & Managing Director, Martial G Rolland, Chairman & Managing Director (upto September 30, 2009), Shobinder Duggal, Director - Finance & Control, Christian Schmid, Director - Technical (From August 02, 2010).

Nature of transactions		2010 (Rs. in thousands)	2009 (Rs. in thousands)
Holding companies:			
Dividends:	Interim	**2,170,577**	2,146,678
	Final	**756,438**	745,374
Expenses Reimbursed/incurred			
- Nestlé S.A.		**90,270**	80,983
Fellow subsidiaries:			
(a)	Sale of finished and other goods		
	- Nestlé Kuban LLC	**985,929**	947,558
	- Nestlé (South Africa) (Pty) Ltd.	**311,290**	5,431
	- Nestlé Egypt S.A.E.	**250,402**	6,209
	- Nestlé Bangladesh Ltd.	**12,064**	313,025
	- Nestlé Hungaria Kft	**97,771**	300,433
	- Others	**246,534**	320,890
(b)	Sale of fixed assets		
	- Nestlé Zimbabwe (Pvt) Ltd.	**3,068**	-
	- Nestlé Lanka PLC	**-**	429
	- Nestlé Manufacturing (Malaysia) Sdn Bhd	**-**	192
(c)	Business Purchase from Speciality Foods India Private Limited (now known as Nestlé R&D Centre India Private Limited)		
	- Fixed assets	**54,209**	-
	- Net other assets (including finished goods Rs. 20,016 thousands)	**12,401**	-
(d)	Purchase of fixed assets		
	- Nestlé Ptc Marysville	**-**	962
(e)	Purchase of raw and packing materials and spare parts		
	- Nestlé Lanka PLC	**174**	341
	- Nestlé Asean (Malaysia) Sdn Bhd	**-**	13
(f)	Purchase of finished goods		
	- Nestlé Bangladesh Ltd.	**75,217**	-
	- Nestlé Lanka PLC	**39,187**	25,312
	- P.T. Nestlé Indonesia	**19,714**	16,079
	- Nestlé Deutschland AG	**9,237**	14,853
	- Others	**19,330**	5,994
(g)	General licence fees (Net of taxes)		
	- Société des Produits Nestlé S.A.	**2,157,351**	1,759,874
(h)	Expenses Recovered/received		
	- Nestec S.A	**12,174**	6,976
	- Nestlé Bangladesh Ltd.	**11,602**	6,045
	- Nestlé Lanka PLC	**6,746**	5,473
	- Nestlé R&D Centre India Private Limited	**6,134**	4,763
	- Others	**17,514**	22,901
(i)	Expenses Reimbursed/incurred		
	- Nestec S.A	**26,017**	23,955
	- Nestlé Deutschland AG	**15,734**	14,273
	- Nestlé R & D Center (Pte) Limited	**10,728**	50,319
	- Others	**40,267**	18,652
(j)	Information technology and management information systems		
	- Nestlé Australia Ltd.	**437,948**	382,565
	- Servcom SA	**1,321**	558

	2010 (Rs. in thousands)	2009 (Rs. in thousands)
Balance outstanding as at the year end		
• Proposed final dividend for 2010 payable to holding companies	**756,438**	745,374
• Receivables	**166,475**	246,402
• Advance towards business purchase	**-**	27,170
• Payables	**351,631**	325,167

Notes:

i. Details of remuneration to whole time directors' are given in the note 4 of the notes to the accounts. Balance payable to whole time directors as on December 31, 2010 is Rs. 19,808 thousands (previous year Rs. 11,963 thousands)

ii. Other transactions with Key Managerial Personnel during the year:
Lease rentals paid (at market rates) during the year: Rs. 1,800 thousands (previous year Rs. 1,560 thousands).
Balance outstanding against loans disbursed under Company's employee loan schemes for its employees includes Rs. 919 thousands (previous year Rs. Nil). Transactions during the year in this employee loan account: Interest debited Rs. Nil thousands (previous year Rs. Nil), repayments Rs. 156 thousands (previous year Rs. Nil)

16. On the basis of confirmation obtained from suppliers who have registered themselves under the Micro Small Medium Enterprise Development Act, 2006 (MSMED Act, 2006) and based on the information available with the company, the balance due to Micro & Small Enterprises as defined under the MSMED Act, 2006 is Rs. 52,451 thousands (previous year Rs. 16,396 thousands). Further, no interest during the year has been paid or payable under the terms of the MSMED Act, 2006.

17. **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. 156,180 thousands (previous year Rs. 126,811 thousands) as expense towards contributions to these plans.

Out of the total contribution, made for employees' provident fund, Rs. 77,540 thousands (previous year Rs. 67,262 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 outstanding balance payable as at December 31, 2010 to the Trust is Rs. 14,078 thousands (previous year Rs. 11,986 thousands) on account of company's and employees contribution for the month of December 2010. The same has since been paid on 05.01.2011.

The total plan liabilities under the Nestlé India Limited Employees Provident Fund Trust as at December 31, 2010 as per the unaudited financial statements for the year then ended is Rs. 1,202,164 thousands (previous year Rs. 1,007,533 thousands) as against total plan assets of Rs. 1,198,580 thousands (previous year Rs. 1,004,449 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, 2010:-

	As at December 31, 2010 *(Rs. in thousands)*		As at December 31, 2009 *(Rs. in thousands)*	
	Gratuity Scheme Funded Plan	**Pension Scheme Non Funded Plan**	Gratuity Scheme Funded Plan	Pension Scheme Non Funded Plan
Change in benefit obligation:				
1 Present Value of obligation, as at the beginning of the year	**300,530**	**4,208,379**	355,980	3,076,320
2 Current service cost	**15,170**	**209,540**	17,010	344,060
3 Interest cost	**23,130**	**332,690**	24,380	209,110
4 Past service cost	**167,960**	**(162,860)**	-	-
5 Actuarial (gain)/loss *(net of actual benefits paid, as shown under cost for the period below) **	**(962)**	**89,171**	(96,840)	578,889
6 Present Value of obligation, as at the end of the year	**505,828**	**4,676,920**	300,530	4,208,379
Change in plan Assets:				
1 Plan assets at the beginning of the year	**377,317**	**-**	355,318	-
2 Expected return on plan assets	**32,480**	**-**	24,610	-
3 Contribution by the Company	**80,000**	**-**	8,000	-
4 Actual benefits paid	**(22,703)**	**-**	(15,504)	-
5 Actuarial gain / (loss)	**894**	**-**	4,893	-
6 Plan assets at the end of the year	**467,988**	**-**	377,317	-
Liability/(Asset) recognised in the balance sheet as at December 31, 2010	**37,840**	**4,676,920**	(76,787)	4,208,379
Cost for the period:				
1 Current service cost	**15,170**	**209,540**	17,010	344,060
2 Interest cost	**23,130**	**332,690**	24,380	209,110
3 Return on Plan Asset	**(33,374)**	**-**	(29,503)	-
4 Past service cost	**167,960**	**(162,860)**	-	-
5 Actuarial (Gain) / Loss on obligation	**(962)**	**89,171**	(96,840)	578,889
6 Actual benefits paid*	**22,703**	**99,586**	15,504	178,184
Net cost	**194,627**	**568,127**	(69,449)	1,310,243
Constitution of plan assets:				
1 Bonds	**219,488**	**-**	205,807	-
2 Government of India securities	**90,196**	**-**	67,111	-
3 State Government/State Government guaranteed securities	**78,713**	**-**	87,171	-
4 Cash at bank and receivables	**25,851**	**-**	17,228	-
5 Funding with ICICI Prudential Life Insurance Company Limited invested as under:				
- Corporate securities	**22,796**	**-**	-	-
- Fixed deposit with banks	**11,038**	**-**	-	-
- Equity	**9,564**	**-**	-	-
- Government securities and treasury bills	**7,344**	**-**	-	-
- Others	**2,998**	**-**	-	-
Total plan assets	**467,988**	**-**	377,317	-
Main Actuarial Assumptions:				
1 Discount Rate (%)	**8.00**	**8.00**	8.00	8.00
2 Expected rate of return on plan assets (%)	**8.00**	**-**	8.00	-

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.

18. The Company participates in the Nestlé Restricted Stock Unit (RSU) Plan of Nestlé S.A., whereby select employees are granted non-tradable Restricted Stock Units with the right to obtain Nestlé S.A. shares or cash equivalent. Restricted Stock Units granted to employees vest, subject to certain conditions, after completion of three years. Upon vesting Nestlé S.A. determines, whether shares, free of charge or cash equivalent to the value of shares, is to be transferred to the employee. The Company has to pay Nestlé S.A. an amount equivalent to the value of Nestlé S.A. shares on the date of vesting, delivered to the employee. Provisions are made based on estimates including Nestlé S.A. share price over the vesting period.

	2010		**2009**	
The details are as under : -	**No. of Grants**	**(Rs. in thousands)**	No. of Grants	*(Rs. in thousands)*
Outstanding, non vested RSU grants as at 31.12.2010	**97,310**	**150,696**	86,460	117,581
RSU Grants vested during the year	**25,850**	**57,426**	39,785	68,959

19. The Company's significant leasing arrangements are primarily in respect of operating leases for premises (office, residential, warehouses etc.) and vehicles. These leasing arrangements which are not non-cancellable are usually renewable on mutually agreeable terms. The aggregate lease rentals charged to the profit and loss account are Rs 395,851 thousands (previous year Rs. 332,706 thousands).

20. The Company's borrowing facilities, comprising fund based and non fund based limits from various bankers, are secured by way of a first *pari passu* charge on all movable assets (excluding plant and machinery), finished goods, work in progress, raw materials and book debts.

21. The foreign currency exposure of the Company as on December 31, 2010 is as under :

a) Category wise quantitative data *

		As at December 31, 2010			As at December 31, 2009		
	Currency	**Nos.**	**Amount in FC ('000)**	**Amount in INR ('000)**	Nos.	Amount in FC ('000)	Amount in INR ('000)
Forward contracts against exports	**USD**	**14**	**4,750**	**216,933**	15	4,000	187,680
	CHF	**1**	**67**	**3,218**	-	-	-
	GBP	**-**	**-**	**-**	1	42	3,135
Forward contracts against imports	**USD**	**20**	**6,291**	**283,810**	4	498	23,261
	AUD	**4**	**627**	**28,660**	15	2,349	98,463
	CAD	**2**	**585**	**26,373**	-	-	-
	CHF	**4**	**500**	**23,220**	-	-	-
	EUR	**31**	**6,433**	**387,327**	8	1,375	92,764
	GBP	**2**	**500**	**34,949**	-	-	-
	JPY	**-**	**-**	**-**	3	75,000	38,145

*At Contract price

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

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

	Currency	As at December 31, 2010 Amount in FC ('000)	As at December 31, 2010 Amount in INR ('000)	As at December 31, 2009 Amount in FC ('000)	As at December 31, 2009 Amount in INR ('000)
Against exports	USD	821	36,823	-	-
	GBP	84	5,845	41	3,105
	EUR	284	16,988	44	2,941
	AUD	17	778	-	-
Against imports	JPY	7,383	4,069	-	-
	SGD	64	2,237	339	11,281
	AUD	2,167	98,919	349	14,646
	MYR	214	3,108	13	177
	CHF	29	1,374	326	14,747
	USD	248	11,118	-	-
	ZAR	-	-	203	1,285
	GBP	-	-	6	451

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

23. **SIGNIFICANT ACCOUNTING POLICIES**

ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, in accordance with applicable mandatory accounting standards prescribed under the Companies (Accounting Standards) Rules, 2006 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 Accounting Standards on Revenue Recognition (AS- 9), 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 and compensated absences, 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, including performance incentives, is recognized on an undiscounted, accrual basis during the period when the employee renders service / vesting period of the benefit.

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
Intangible fixed assets	:	Over their estimated economic life, in accordance with Accounting Standard on 'Intangible Assets' (AS-26)

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 2010-2011 relevant to the period April 1, 2009 to March 31, 2010 and the liability, which has accrued on the profit for the period April 1, 2010 to December 31, 2010 under the provisions of the Indian Income tax Act, 1961.

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 judgement 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, 2010

NESTLÉ'S PHILOSOPHY ON CODE OF GOVERNANCE

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

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, 2010 or for the year 2010, as applicable, is tabulated hereunder:

Director	No. of Board Meetings attended	Attendance at previous AGM on 21-04-2010	No. of outside Directorship held [A]	No. of Membership/ Chairmanship in other Board Committees [B]	Executive/ Non-Executive/ Independent
Mr. Antonio Helio Waszyk	5	Present	Nil	Nil	Executive
Mr. Shobinder Duggal	5	Present	Nil	Nil	Executive
Mr. Christian Schmid[1]	1	Not Applicable	Nil	Nil	Executive
Mr. Pradip Baijal	5	Present	2	1	Non-Executive & Independent
Dr. Rakesh Mohan[2]	1	Not Applicable	3	Nil	Non-Executive & Independent
Mr. Ravinder Narain	5	Present	4	2	Non-Executive & Independent
Mr. M.W.O. Garrett	3[C]	Present	Nil	Nil	Non-Executive
Mr. Rajendra S. Pawar[3]	2	Present	12	4	Non-Executive & Independent
Dr. Swati A. Piramal[4]	1	Not Applicable	9	3	Non-Executive & Independent
Mr. Richard Sykes[5]	Nil	Not Present	Nil	Nil	Non-Executive

1 Appointed as an Additional Director and Whole-Time Director with effect from 02-08-2010.
2 Appointed as a Director in the casual vacancy caused due to resignation of Mr. Rajendra S. Pawar with effect from 22-04-2010.
3 Ceased to be a Director with effect from 22-04-2010.
4 Appointed as an Additional Director with effect from 02-08-2010.
5 Alternate Director to Mr. M.W.O. Garrett.
A 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.
B Only covers membership / chairmanship of Audit Committee and Shareholder / Investor Grievance Committee.
C In addition to the Board Meetings personally attended, Mr. M.W.O.Garrett also participated over phone on 21-04-2010 and 22-04-2010.

As at 31st December, 2010, in compliance with the corporate governance norms, the Company's Board of Directors headed by its executive Chairman, Mr. Antonio Helio Waszyk comprised seven other directors, out of which four are independent directors. None of the Directors was a member of more than ten Board-level committees, nor a Chairman of more than five such committees, across all companies in which he/she was a Director.

Board Meetings held during the year 2010

During the year, five Board Meetings were held on 19th February, 2010, 21st April, 2010, 22nd April, 2010, 02nd August, 2010 and 29th October, 2010. 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 "Nestlé India Code of Business Conduct". The Code is available on the official website of the Company www.Nestlé.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 2010.

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 thereon; 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 2010, the Audit Committee was re-constituted and Mr. Michael W.O.Garrett, a non-executive director, was appointed as a member of the Audit Committee in place of Mr. Rajendra S. Pawar, who resigned as a Director of the Company with effect from 22nd April, 2010. Mr. Pradip Baijal (Chairman) and Mr. Ravinder Narain, 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. Michael W.O.Garrett, 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 Director – Finance & Control and Head of Corporate Control are permanent invitees to the Meetings of the Audit Committee. The Head of Internal Audit, the concerned partners/ authorised representatives of the Statutory Auditors and the Cost Auditors are also invited to the Meetings of the Audit Committee.

During the year, the Audit Committee met four times on 19th February, 2010, 22nd April, 2010, 02nd August, 2010 and 29th October, 2010 and all members of the Committee attended the aforesaid meetings. 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. Antonio Helio Waszyk. Mr. B. Murli, Company Secretary acts as the Compliance Officer.

The Committee met four times during the year on 19th February, 2010, 22nd April, 2010, 02nd August, 2010 and 29th October, 2010. All members of the Committee attended the aforesaid meetings.

During the year, 23 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 2010 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 performance and contribution to the business.

REMUNERATION OF DIRECTORS FOR 2010

(Rupees in thousands)

Name of the Director	Sitting Fee	Salaries and Allowances	Perquisites	Company's Contribution to PF	Commission	Total
Mr. Antonio Helio Waszyk[1]	N.A.	26,544	21,664	1,254	20,233	69,695
Mr. Shobinder Duggal[1]	N.A.	8,060	7,619	890	4,864	21,433
Mr. Christian Schmid[1]	N.A.	6,382	1,567	249	4,244	12,442#
Mr. Pradip Baijal	180	N.A.	N.A.	N.A.	400@	580
Mr. M.W.O.Garrett	100	N.A.	N.A.	N.A.	400@	500
Dr. Rakesh Mohan	20	N.A.	N.A.	N.A.	276@	296
Mr. Ravinder Narain	200	N.A.	N.A.	N.A.	400@	600
Mr. Rajendra S. Pawar	80	N.A.	N.A.	N.A.	124@	204
Dr. Swati A. Piramal	20	N.A.	N.A.	N.A.	166@	186

[1] The Company enters into service contracts 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 remuneration is subject to the approval of the shareholders at the Annual General Meeting of the Company.

@ The Commission for the year ended 31st December, 2010 is subject to the approval of the shareholders at the Annual General Meeting and 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 19th April, 2011.

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

The above remuneration of Executive Directors does not include provision for incremental liability on account of pension, gratuity, compensated absences and long service awards since actuarial valuation is done for the Company as a whole.

Commission is subject to adequate profits being earned. Performance criteria for the Executive Directors take into account achievement of performance parameters. The Non-Executive Directors are paid remuneration based on 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. Perquisites of the whole-time/ managing director include, interalia, Leave Travel and payments for the Restricted Stock Units vested during the year equal to the market value of the underlying shares on the date of vesting.

As required, a brief profile and other particulars of the Directors seeking appointment are given in the Notice of the 52nd Annual General Meeting and forms part of the Corporate Governance Report.

CEO/CFO CERTIFICATION

The Managing Director and Director- Finance & 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, 2010.

GENERAL BODY MEETINGS

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

Year & Date	Time	Venue
21.04.2010	10.00 A.M.	Air Force Auditorium, Subroto Park, New Delhi - 110 010
05.05.2009	10.00 A.M.	-do -
02.05.2008	10.00 A.M.	-do -

None of the resolutions were passed as special resolution or put through postal ballot, in the three previous Annual General Meetings. There was no other General Body Meeting in the last three years.

There is no special resolution proposed to be passed through postal ballot at the ensuing Annual General Meeting on 19th April, 2011.

DISCLOSURES

During the year 2010, 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. 15 of Schedule N to the Annual Accounts.

The Company has complied with the requirements of regulatory authorities on capital markets and no penalties or strictures have 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.

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). 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 un-qualified 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:** The Company has not adopted any mechanism for evaluation of individual performance of Non-Executive Directors; **(h) Whistle Blower Policy:** The standard of behaviour of Nestlé India is governed by significant documents from "Nestlé Corporate Business Principles", "The Nestlé Management and Leadership Principles" and "Nestlé Code of Business Conduct". Employees can report to the Company Secretary on a confidential basis any practices or actions believed to be inappropriate under the Nestlé India Code of Business Conduct or believed to be illegal. Further, 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 widely published by the Company in one or more of the leading newspapers such as Business Standard, Financial Express, The Economic Times, The Pioneer, Rashtriya Sahara, Mint, Jansatta, The Hindu Business Line.

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 in the opening and 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 are 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, 2010 was 5,573.

GENERAL SHAREHOLDER INFORMATION

Annual General Meeting		
Day, Date and Time	:	Tuesday, 19th April, 2011 at 10.00 a.m.
Venue	:	Air Force Auditorium, Subroto Park, New Delhi – 110 010.
Financial Calendar, 2011 (tentative)	:	
First Quarter Results	:	Third week of April, 2011
Second Quarter and Half Yearly Results	:	Last week of July, 2011
Third Quarter Results	:	Last week of October, 2011
Annual Results	:	February / March, 2012
Financial Year	:	1st January to 31st December
Annual Book Closure date	:	26th April, 2011 to 27th April, 2011

Dividend payment date : Final dividend of Rs.12.50 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 around 6th May, 2011.

Two interim dividends for the year 2010, first at the rate of Rs. 9.00 per share and the second at the rate of Rs. 27.00 per share, were paid on 7th May, 2010 and 16th November, 2010, respectively.

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.

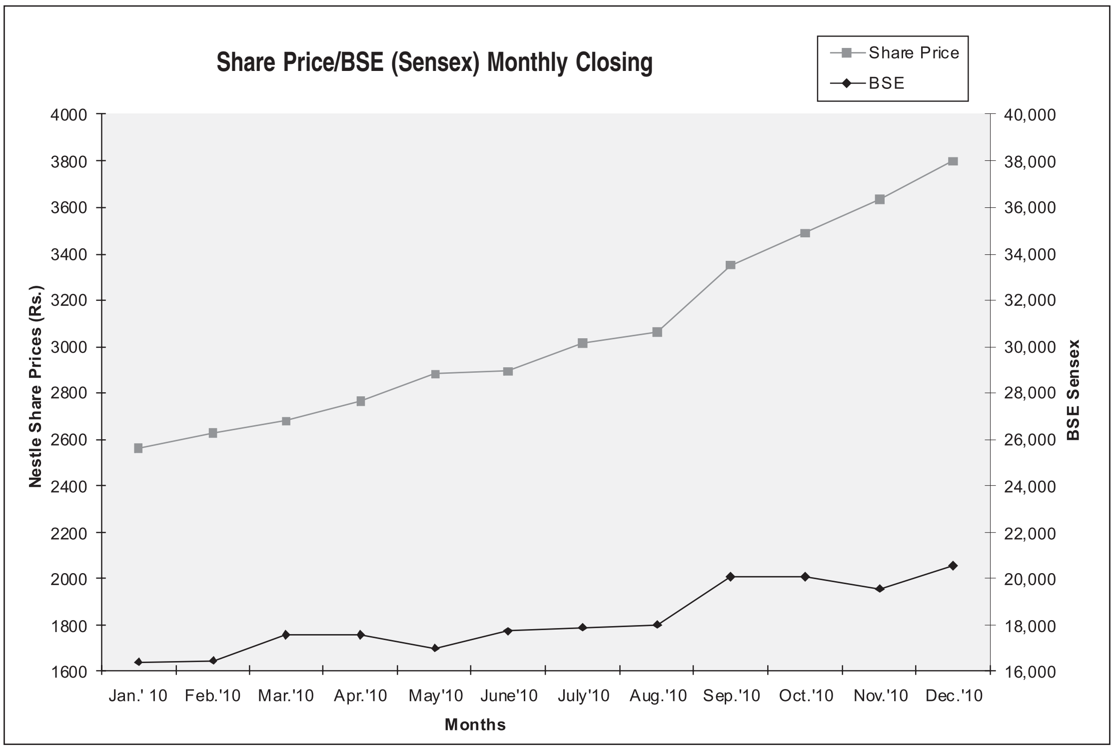
The ISIN Number of Nestlé India Limited on both the NSDL and CDSL is INE239A01016.

Market Price Data: High/Low in each month of Calendar Year, 2010 on the Bombay Stock Exchange Ltd., Mumbai

Month	High (Rs.)	Low (Rs.)	Month	High (Rs.)	Low (Rs.)
January	2,602.00	2,455.50	July	3,300.00	2,914.95
February	3,025.00	2,530.00	August	3,119.00	2,720.00
March	2,799.00	2,580.00	September	3,360.00	3,045.00
April	2,994.00	2,570.00	October	3,520.00	3,120.00
May	2,950.00	2,710.30	November	4,199.40	3,452.10
June	3,065.00	2,780.00	December	3,914.90	3,550.00

[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, 2010

Category of Shareholder	Number of Shares	Percent of Total Shares
Promoter and Promoter Group (A)	**60,515,079**	**62.76**
Public Shareholding		
Foreign Institutional Investors	10,299,180	10.68
Insurance Companies	5,099,693	5.29
Mutual Funds/ UTI	2,078,858	2.16
Financial Institutions/ Banks	869,729	0.90
Bodies Corporate	1,715,646	1.78
Individuals	15,473,794	16.05
NRIs	363,737	0.38
Total Public Shareholding (B)	**35,900,637**	**37.24**
Total Shareholding (A + B)	**96,415,716**	**100.00**

Distribution of shareholding as on 31st December, 2010

No. of shares	Number of shareholders	Number of Shares	Percent of total shares
1 to 100	42877	1286041	1.33
101 to 500	11311	2709853	2.81
501 to 1,000	2759	2005748	2.08
1,001 to 5,000	1699	3443489	3.57
5,001 to 10,000	214	1522421	1.58
10,001 to 50,000	181	4073770	4.23
50,001 to 1,00,000	51	3693802	3.83
1,00,001 and above	53	77680592	80.57
Total	**59,145**	**96,415,716**	**100.00**

Dematerialisation of shares:

46.26 % equity shares of the Company have been dematerialised as on 31st December, 2010.

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. Phone: 011-23418891

E-mail for Investors: investor@in.nestlé.com

On behalf of the Board of Directors

Date : 18th February, 2011
Place : Gurgaon

ANTONIO HELIO WASZYK
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, 2010, as stipulated in Clause 49 of the Listing Agreement of the said company with stock exchange.

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
(ICAI Registration No. : 112066 W)

Partner
Manjula Banerji - 86423

DELHI, 18th February, 2011

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, 2010.

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 2010, which have contributed to energy conservation, were:

- Improvement in steam generation ratio (steam / fuel ratio) by improving steam condensate recovery; stack losses & lower blow down losses.
- Replacement of conventional dome lights with low wattage and better illumination Metal Halide fittings.
- Grid power utilisation maximized over captive power usage.
- Regular energy audit of factories and awareness programs to optimize energy cost (generation, utilisation & recovery).
- Achieving High Oil to Steam ratio at boiler through various improvements in the boiler operation.
- Installation of new high efficiency boilers with Air pre-heaters.
- Reduction in the Steam requirement by recovering Waste Heat Energy.
- Reducing water consumption by reusing RO Reject water at cooling tower.
- Improving the energy by recovery of un-burnt carbon by commissioning of fly ash combustor at coal fired boiler.
- Continued usage of non-conventional fuels like coffee husk, wood waste and cashew shells as an alternative fuel in addition to coconut shells, spent coffee/ tea waste for steam generation.
- Installation of variable speed drivers on water transfer pumps.
- Adoption of Programmable Logic Control (PLC) for energy cost optimisation and reduced idle operation of installations.
- Using ETP water for Incinerator operation and Water Sprinker System for gardening etc.
- Recycling of treated effluents for plantations & in non- process area etc.
- Commissioned sludge dewatering system for Incinerator waste water.
- Commissioned VAM on hot water circuit for improving overall efficiency of captive power.

(b) Additional Investment

Following proposals were initiated for implementation during 2010:

- Water treatment system for usage of Milk's water to reduce water withdrawal.
- Exploring advance technology for usage of treated effluent in non process area.

(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 2010, including measures initiated in the past in the above direction have facilitated efforts for conservation of energy and helped contain the energy costs. As a result, during the past decade, for every tonne of production your Company has reduced the usage of energy by almost 51%, reduced the generation of greenhouse gases by around 60% and generation of waste water by around 70%.

(d) Energy Consumption

Total energy consumption and energy consumption per unit of production, as per prescribed Form A together with the comparative figures for 2009, 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 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, 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 over two billion Swiss Francs. Expenditure of the Company in the nature of Research and Development are those incurred locally, primarily relating to testing of products and inputs and are as under:

		(Rs. in thousands)
a)	Capital	57,038
b)	Recurring	131,560
c)	**Total**	**188,598**
d)	Total R&D expenditure as a percentage of total turnover	0.30%

Technology absorption, adaptation and innovation

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

As a result of the Company's 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 of products input and are as each General Licence Agreements 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. 3,505 Million, mainly comprising foreign exchange earnings of Rs. 2,473 million (including sales to Russia invoiced in Rupees) and export to neighbouring countries in Rupees amounting to Rs. 1,030 million.

The foreign exchange outgo was Rs. 8546 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 7, 8, 10(a) and 11 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	**2010**	2009
1. Electricity		
(a) Purchased		
Units (000' KWH)	**88,143**	80,984
Total Cost (Rs. in thousands)	**419,023**	363,131
Cost/KWH	**4.75**	4.48
(b) Own Generation		
(I) Through Diesel Generator		
Units (000' KWH)	**29,819**	31,213
Units per litre of oil(KWH)	**3.40**	3.50
Cost/KWH (Rs.)	**10.07**	8.77
(II) Through FO Generator		
Units (000' KWH)	**8,022**	-
Units per litre of oil(KWH)	**4.09**	-
Cost/KWH (Rs.)	**6.89**	-
2. Coal (Various grades)		
Quantity (Tonne)	**34,635**	34,943
Total Cost (Rs. in thousands)	**215,556**	188,335
Cost/Tonne (Rs.)	**6,223.74**	5,389.83
3. Furnace Oil		
Quantity (KL)	**35,563**	28,576
Total Cost (Rs. in thousands)	**1,016,441**	634,416
Cost/KL (Rs.)	**28,581.66**	22,200.97
4. Other Consumption of Fuel		
(a) High Speed Diesel Oil and Superior Kerosene Oil		
Quantity (KL)	**1,691**	1,387
Total Cost (Rs. in thousands)	**53,253**	39,252
Cost/KL (Rs.)	**31,495.39**	28,291.34
(b) Non-Conventional Fuels-Coconut Shell & Coffee Husk		
Quantity (Tonne)	**26,453**	21,736
Total Cost (Rs. in thousands)	**99,225**	73,404
Cost/Tonne (Rs.)	**3,751.00**	3,377.03
(c) Liquid Petroleum Gas		
Quantity (Tonne)	**1,428**	1,154
Total Cost (Rs. in thousands)	**66,919**	39,684
Cost/Tonne (Rs.)	**46,858.84**	34,395.69

(B) Consumption per unit of production

	Beverages		Milk Products and Nutrition		Chocolates and Confectionery		Prepared Dishes and Cooking Aids	
	Current Year 2010	Previous Year 2009	Current Year 2010	Previous Year 2009	Current Year 2010	Previous Year 2009	Current Year 2010	Previous Year 2009
Electricity (KWH/T)	1,068.47	1,097.98	386.82	395.23	662.37	705.74	147.09	143.19
Furnace Oil (Ltrs./T)	200.30	170.51	114.15	108.20	33.35	37.28	73.49	68.69
Coal (Kgs./T)	76.49	108.80	350.21	360.44	-	-	123.11	139.23
Others:								
HSD, HPS (Ltrs. /T)	78.66	74.83	0.38	0.45	-	-	0.51	0.45
LPG (Kgs./T)	-	-	1.54	1.32	51.73	53.04	-	-

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

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 2010		

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
	8888863	8888863
Sources of Funds	Paid-Up Capital	Reserves & Surplus
	964157	7589982
	Secured Loans	Unsecured Loans
	NIL	NIL
Application of Funds	Net Fixed Assets	Investments
	13618453	1506788
+ –	Net Current (Liabilities)/Assets	Miscellaneous Expenditure
–	6236378	NIL
	Accumulated Losses	
	NIL	

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

	Turnover (Total Income)		Total Expenditure
	62973966		51522864
	Profit Before Tax		Profit After Tax
+	11451102	+	8186648
	Earnings Per Share in Rs.		Dividend Rate %
	84.91		485

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

Maggi

Taste Bhi Health Bhi

NESCAFÉ

Switch on

Nestlé

Delight in Every Bite!

Nestlé

Brings Life to Milk

Nestlé

PROFESSIONAL

Creative Food & Beverage Solutions

Nestlé

Nutrition

Enhancing the quality of life

The Recognised Leading Nutrition, Health, and Wellness Company