Nestlé India Limited

Disclaimer

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

Responses can be given to questions, which are not price sensitive.

Calculations in this presentation are based on non-rounded figures.

Real Internal Growth (RIG) and Organic Growth (OG) are basis Nestlé Internal Reporting Standards in relation to third party sales only.

Figures have been regrouped / reclassified to make them comparable to current period.
Management remains “cautious” in a “challenging” year

Missed revenue growth due to .. insufficient capacity.., channel mix rationalisation

Revenue growth primarily led by realisations

Amongst the best consumption plays

Slowest growing consumer firm in our coverage

Soft Quarter, Volume growth remained muted, highest margin in past 12 quarters

Volume growth continues to disappoint

Unexciting quarter + stretched valuation = Downgrade to IN-LINE

Aggressive Price hike, superior product mix

Nestle continues to optimise its product portfolio by discontinuation of...

Result below expectations

Out of the comfort zone ...

.. long term vision in India

Low revenue growth temporary

below expectations; disappointing sales, reducing returns

Volume trajectory - new launches is the key metric to watch

Margin obsession

Result below expectations

Out of the comfort zone ...

.. long term vision in India

Low revenue growth temporary

below expectations; disappointing sales, reducing returns

Volume trajectory - new launches is the key metric to watch

We are perplexed with Nestle’s short term earnings focus at the cost of growth

Underperformer

Bitter Sweet

Just a breather

.. would be one of largest beneficiaries of rural opportunity led by growing awareness for nutrition

Bitter Sweet

Unexciting quarter + stretched valuation = Downgrade to IN-LINE

Aggressive Price hike, superior product mix

Just a breather

.. would be one of largest beneficiaries of rural opportunity led by growing awareness for nutrition
The critical balance!
Analysts' Rating on Nestle India

No. of Reports

<table>
<thead>
<tr>
<th>Year</th>
<th>Buy</th>
<th>Sell</th>
<th>Hold</th>
<th>Not rated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>8</td>
<td>10</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>2008</td>
<td>71</td>
<td>16</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>2009</td>
<td>71</td>
<td>16</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>2010</td>
<td>33</td>
<td>22</td>
<td>44</td>
<td>8</td>
</tr>
<tr>
<td>2011</td>
<td>33</td>
<td>22</td>
<td>44</td>
<td>8</td>
</tr>
<tr>
<td>2012</td>
<td>35</td>
<td>23</td>
<td>35</td>
<td>12</td>
</tr>
</tbody>
</table>

Nestle India's Share Price

(%)
### RIG explained...

<table>
<thead>
<tr>
<th></th>
<th>Previous Year (PY)</th>
<th>Current Year (CY)</th>
<th>Weighted Sales #</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volumes</td>
<td>Price</td>
<td>Sales Value</td>
</tr>
<tr>
<td>SKU A</td>
<td>1,000</td>
<td>2.0</td>
<td>2,000</td>
</tr>
<tr>
<td>SKU B</td>
<td>5,100</td>
<td>9.6</td>
<td>48,960</td>
</tr>
<tr>
<td>SKU C</td>
<td>8,050</td>
<td>3.2</td>
<td>25,760</td>
</tr>
<tr>
<td>SKU D</td>
<td>12,700</td>
<td>5.5</td>
<td>69,850</td>
</tr>
<tr>
<td>SKU E</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26,850</td>
<td>5.5</td>
<td>146,570</td>
</tr>
</tbody>
</table>

# CY volumes @ price of PY

Organic Growth (OG) = 11.8
Volume Increase (%) = 2.4

Real Internal Growth (RIG) = \[
\frac{\text{Weighted Sales}}{\text{PY Sales Value}} \times 100 - 100 = 6.5
\]

Pricing impact = OG - RIG = 5.3

...... takes into account product mix as well as volumes
RIG Evolution

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>16.2</td>
</tr>
<tr>
<td>2010</td>
<td>16.9</td>
</tr>
<tr>
<td>2011</td>
<td>14.5</td>
</tr>
<tr>
<td>Jan-Jun 12</td>
<td>9.8</td>
</tr>
</tbody>
</table>
There is a co-relation between GDP and Nestle Sales growth

Nominal GDP  Nestle Total Sales Growth  Nestle Domestic Sales Growth
Inflation trends

- Inflation (WPI)
- Inflation (Food)
- Inflation (CPI)

2007: 6.4, 4.9
2008: 7.3, 8.7, 8.4
2009: 2.4, 12.7
2010: 9.6, 12.0, 17.7
2011: 9.5, 9.1
2012: 8.3, 9.5, 7.4

Inflation (WPI)  Inflation (Food)  Inflation (CPI)
The portfolio Challenge

**Volume**
- Jan-Jun 11: 100
- Jan-Jun 12: 85
- Change: -15%

**Value**
- Jan-Jun 11: 100
- Jan-Jun 12: 102
- Change: +2%

**Portfolio mix by realisation/Kg**

<table>
<thead>
<tr>
<th>Jan - Jun 11</th>
<th>Jan - Jun 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs. 125/Kg</td>
<td>18</td>
</tr>
<tr>
<td>Rs. 125/Kg to Rs. 250/Kg</td>
<td>56</td>
</tr>
<tr>
<td>Above Rs. 250/kg</td>
<td>26</td>
</tr>
</tbody>
</table>

Profitability indexed to average for the portfolio, taken as 100
First half highlights

**2012**

- **Net Sales**: INR 40.3 Bio, +12.9%
- **Weighted Volumes & Prices**: INR 7.6 Bio, +50 bps
- **OPBIT**: INR 1.0 Bio
- **Net Profit**: INR 5.2 Bio, +12.9% *

**2011**

- **Net Sales**: INR 35.7 Bio
- **RIG**: 15.7
- **OG%**: 22.1
- **OPBIT**: INR 6.6 Bio, 18.4% *
- **Net Profit**: INR 4.7 Bio, 13.1% *
- **EPS**: INR 48.7

**Third Party Sales**

**Basis Internal Reporting Standards**

* % of Net Sales
Quarterly evolution of results

**NET SALES**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>22.3</td>
<td>22.3</td>
<td>13.1</td>
</tr>
<tr>
<td>Q2</td>
<td>20.2</td>
<td>19.6</td>
<td>17.0</td>
</tr>
<tr>
<td>Q3</td>
<td>19.9</td>
<td>19.5</td>
<td>17.0</td>
</tr>
<tr>
<td>Q4</td>
<td>17.0</td>
<td>19.5</td>
<td>12.7</td>
</tr>
</tbody>
</table>

% YoY growth: 16.9 21.3 25.7 23.6

62.5 Bio = 21.9%
74.9 Bio = 19.8%
40.3 Bio = 12.9%

**OPBIT**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>19.3</td>
<td>17.4</td>
<td>19.5</td>
</tr>
<tr>
<td>Q2</td>
<td>17.4</td>
<td>18.9</td>
<td>18.2</td>
</tr>
<tr>
<td>Q3</td>
<td>18.9</td>
<td>18.2</td>
<td>18.3</td>
</tr>
<tr>
<td>Q4</td>
<td>18.2</td>
<td>18.3</td>
<td>7.6</td>
</tr>
</tbody>
</table>

% of Net Sales: 19.2 17.8 18.3 17.6

11.4 Bio = 18.2%
13.8 Bio = 18.5%
7.6 Bio = 18.9%
Mix & Price led growth

3rd Party Sales

Volume (000’ Tons)

<table>
<thead>
<tr>
<th></th>
<th>Jan-Jun 11</th>
<th>Jan-Jun 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1%</td>
<td>215.1</td>
<td>217.5</td>
</tr>
</tbody>
</table>

Value (INR Bio)

<table>
<thead>
<tr>
<th></th>
<th>Jan-Jun 11</th>
<th>Jan-Jun 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>+14.2%</td>
<td>34.3</td>
<td>39.2</td>
</tr>
</tbody>
</table>

Exports (Affiliated)

Volume (000’ Tons)

<table>
<thead>
<tr>
<th></th>
<th>Jan-Jun 11</th>
<th>Jan-Jun 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>-27.3%</td>
<td>4.4</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Value (INR Bio)

<table>
<thead>
<tr>
<th></th>
<th>Jan-Jun 11</th>
<th>Jan-Jun 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>-19.1%</td>
<td>1.4</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Mix & Price led growth
A perspective on Portfolio optimisation (H1)

**Volume Growth**
- **Reported**: 1.1%
- **Impact**: 280 bps
- **Adjusted**: 3.9%

*Impact computed basis stripping out discontinued/curtailed businesses from both periods*

**Value Growth**
- **Reported**: 14.2%
- **Impact**: 220 bps
- **Adjusted**: 16.4%

Excise Duty: Adverse 80 bps

3rd Party Sales
Contribution of Product categories to Net Sales

- **Milk Products & Nutrition**
  - Jan-Jun 12: 49.2%
  - Jan-Jun 11: 46.4%

- **Prepared Dishes & Cooking Aids**
  - Jan-Jun 12: 27.9%
  - Jan-Jun 11: 28.5%

- **Chocolate & Confectionery**
  - Jan-Jun 12: 13.4%
  - Jan-Jun 11: 15.0%

- **Beverages**
  - Jan-Jun 12: 9.5%
  - Jan-Jun 11: 10.1%

3rd Party Sales
Product categories growth

- **Value Growth (%):**
  - Chocolate & Confectionery: 5.2
  - Beverages: 3.7
  - Milk Products & Nutrition: 19.3
  - Prepared Dishes & Cooking Aids: 11.0

- **Volume Growth (%):**
  - (5)
  - (10)

- **Bubble shows Sales Amount (INR Bio):**
  - x = 1.1
  - x = 14.2

3rd Party Sales
Milk Products & Nutrition

Innovation & Renovation

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

Market Position (Value)

Contribution 49.2%

000’ tons  3rd Party Sales  INR Bio

Jan-Jun 11  Jan-Jun 12  Jan-Jun 11  Jan-Jun 12

75.2  73.4  16.0  19.3

RIG 12.8%  -2.4%  +20.9%

OG 21.5%
Prepared Dishes & Cooking Aids

Market Position (Value)
- No. 1 in Instant Noodles, Sauces & Pasta
- No. 2 in Healthy Soups

Contribution 27.9%
Chocolate & Confectionery

Innovation & Renovation

Market Position (Value)
- No. 1 in Wafers and Whites

Contribution 13.4%

000’ tons 3rd Party Sales INR Bio
Beverages

Market Position (Value)
- No. 1 in Instant Coffee
- Very strong presence in Vending

Innovation & Renovation

- RIG 0.9%
- OG 7.2%

Exports depress overall volume growth

0.2% +7.1%

Jan-Jun 11  Jan-Jun 12
9.8 9.9
3.5 3.7

000’ tons  3rd Party Sales  INR Bio

Contribution 9.5%
Our Cost Structure

% Net Sales

INR Bio 18.2 18.5
Materials 3.2 2.6
Employees cost 4.5 4.6
Distribution 1.8 1.6
A&SP 2.0 1.6
Power & Fuel 1.8 1.4
Depreciation 1.2 0.7

Not to scale

Height of bars represent absolute value
Materials exclude free goods, A&SP includes free goods

Not to scale
Maintained Healthy Margins

<table>
<thead>
<tr>
<th>Year</th>
<th>OPBIT (INR Bio)</th>
<th>OPBIT % w/o Denominator Effect</th>
<th>OPBIT % of Net Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>9.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>11.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>13.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan-Jun 2011</td>
<td>6.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan-Jun 2012</td>
<td>7.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

OPBIT (INR Bio)  OPBIT % w/o Denominator Effect  OPBIT % of Net Sales
Key factors influencing OPBIT% 

Jan-Jun 2011: 18.4% 

Jan-Jun 2012: 18.9% 

Positive 

Negative 

Sales Mix 70 

Pricing 260 

Denominator effect 20 

One-off etc. 20 

Employees cost 70 

Depreciation & Impairment 120 

Power & Fuel 60 

A&SP* 70 

% & basis points in boxes are with reference to Net sales 

*Including free goods
Excludes Fringe Benefit & Dividend Distribution Tax

100% tax holiday down to 30% from Apr 2011 for PANTNAGAR Unit
Key factors impacting PAT%:

- **Positive**
  - OPBIT *: 13.1%
  - Marginal Tax rate: 10%
  - Others: 10%

- **Negative**
  - Financing Cost *: 40%
  - Tax holiday: 40%

* Net of tax

% & basis points in boxes are with reference to Net sales

Jan - June 2011: 13.1%
Jan - June 2012: 12.9%
Earnings Per Share growth over 10 years

CAGR 18.7%
Operating Working Capital

= Inventories + Debtors - Trade Payables (except Staff Costs, Contingencies, Capex & Taxes)
= Average for 5 quarter end data

*Based Nestlé Internal Reporting Standards*
Operating Cash Flows

2009: 9.3
2010: 10.4
2011: 11.9
Jan-Jun 11: 4.2
Jan-Jun 12: 6.3

Working Capital • Depreciation • Operating Margin
CAPEX/Fixed Assets exclude Intangibles. Capital advances are included in commitments.
### ECB Cost & Accounting Treatment

#### Financing Cost

<table>
<thead>
<tr>
<th>Gross Cost</th>
<th>24</th>
<th>1,145</th>
<th>836</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cost</td>
<td>11</td>
<td>1,119</td>
<td>816</td>
</tr>
</tbody>
</table>

#### Annualised Gross Cost

- Jan - Jun 11: 52.1%
- Jul - Dec 11: 19.5%
- Jan - Jun 12: 4.7%

#### Accounting Treatment

<table>
<thead>
<tr>
<th></th>
<th>Jan - Jun 11</th>
<th>Jul - Dec 11</th>
<th>Jan - Jun 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>INR Mio</td>
<td>1,119</td>
<td>1,079</td>
<td>816</td>
</tr>
<tr>
<td>Capitalised</td>
<td>40</td>
<td>1,079</td>
<td>209</td>
</tr>
<tr>
<td>Expensed Off</td>
<td>11</td>
<td>5</td>
<td>607</td>
</tr>
</tbody>
</table>

*Legend:*  
- **Pink:** Coupon  
- **Blue:** FX movement  
- **Green:** Earning
ECB Cost

If INR depreciates from 56.2 (Jun 12 closing) to 62 by Dec 2012 & stays there till the maturity of loan

Total cost (%) over the loan period

- 29.9% in Jun 2012
- 28.3% in Dec 2012
- 17.1% in 2013
- 12.9% in 2014
- 10.6% in 2015
- 9.5% in 2016

Interest cost: 3.7%
Unrealised Exchange Loss: 28.3, 17.1, 29.9, 12.9, 10.6, 9.5
Return on Invested Capital

Significantly higher CAPEX from 2011 onwards

Invested capital is average for 5 quarter end data.

*Basis Nestlé Internal Reporting Standards*
ROE decreases as earnings retained in line with financing strategy

Average Share Price (INR)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Share Price (INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1987</td>
</tr>
<tr>
<td>2010</td>
<td>3021</td>
</tr>
<tr>
<td>2011</td>
<td>4023</td>
</tr>
<tr>
<td>Jan-Jun 11</td>
<td>3967</td>
</tr>
<tr>
<td>Jan-Jun 12</td>
<td>4632</td>
</tr>
</tbody>
</table>

Debt : Equity

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt : Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5.8 : 100</td>
</tr>
<tr>
<td>2010</td>
<td>8.6 : 100</td>
</tr>
<tr>
<td>2011</td>
<td>12.7 : 57</td>
</tr>
<tr>
<td>Jan-Jun 11</td>
<td>12.2 : 82</td>
</tr>
<tr>
<td>Jan-Jun 12</td>
<td>18.0 : 43 : 57</td>
</tr>
</tbody>
</table>

Period end Shareholders fund (INR Bio), DPS (INR), EPS (INR), Avg ROE %
USD:INR

H1 2011: $x = 45.0$

H2 2011: $\bar{x} = 48.3$

H1 2012: $\bar{x} = 52.3$

16.2% increase from H1 2011 to H1 2012.
Nestle India Commodity Basket

Price Index

2007 2008 2009 2010 2011 Jan-Jun 12

100 110 112 123 138 148

10% 1.6% 10.4% 12.1% 7.3%
Impact of price change & Price indices reflect YoY change. Based on production and Internal Accounting Standards.
Green Coffee prices ↑ 14.4% over 2011

Indexed with base Q1-09
Sugar prices ↑ 6.0% over 2011

Indexed with base Q1-09
Wheat Flour prices ↑ 0.6% over 2011

Indexed with base Q1-09
Palm Oil prices ↓5.4% over 2011

Current

Indexed with base Q1-09

Palm Oil prices ↓5.4% over 2011

Indexed with base Q1-09
Fresh Milk Fat prices ↑ 10.8 % over 2011

Indexed with base Q1-09
Indexed with base Q1-09

MSK prices ↑ 9.1 % over 2011
SUGAR - [NCX]
Power & Fuels

Share % in Total Power & Fuel cost

Furnace Oil ~ 54%
HSD ~ 11%

<table>
<thead>
<tr>
<th></th>
<th>H1 2011</th>
<th>H1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furnace Oil Price Rs./kg</td>
<td>37.9</td>
<td>49.1</td>
</tr>
<tr>
<td>HSD Price Rs./Kg</td>
<td>35.5</td>
<td>39.1</td>
</tr>
</tbody>
</table>

Change in Price:
- Furnace Oil: + 29.6%
- HSD: + 10.1%
Impact of Union Budget 2012

Basis 2011 actual

BUT without factoring mitigating measures

Negative impact on OPBIT
(Excise Duty & Service Tax) ~ 100 bps

No change in Direct Taxes

Negative impact on PAT ~ 70 bps