

Explanatory Statement for Item No. 6

The existing General Licence Agreements (hereinafter 'the GLAs') with Société des Produits Nestlé S.A. ("the Licensor") allows your Company access to Nestlé Group's intellectual property rights including global portfolio of brands, proprietary technology including numerous patents, extensive research and development capabilities and expertise in best practices. The GLAs include access to large number of brands such as NESTLÉ, MAGGI, NESCAFÉ and technologies developed by the global network of 31 Research & Development Centres, including Centre in India at Manesar, Haryana. All the products manufactured and/or sold by the Company, are on the basis of the Licences provided by the Licensor to the Company under the GLAs, other than Breakfast Cereals products.

The GLAs have contributed significantly to the success story of your Company. For ten years' performance and other related details, please refer to the Annual Report 2018.

The Board's Report for the year ended 31st December, 2012, had an Addendum for review of the GLAs for the royalty rates. At the Annual General Meeting held on 8th May, 2013 the members voting received, considered and adopted the Financial Statements of the Company for the year 2012 including audited Balance Sheet as at 31st December, 2012, the Statement of Profit and Loss and Cash Flow Statement for the year ended on that date and the Reports of the Board of Directors and Auditors thereon. Below extracts from the Addendum to the Board's Report - 2012:

"Nestlé Group had requested two years ago for a review of the two decades old royalty rates and subsequently substantiated the same by a study conducted by McKinsey & Co. This study was subjected to fairness review by two Indian firms i.e. M/s Bansi S. Mehta & Co. and KPMG (Registered) who independently used different valuation methods and recommended ranges of royalty rates which were similar to that of McKinsey & Co. The GLA, the proposal from Nestlé Group and the studies by the independent firms were examined by the Corporate Governance Committee. The Board of Directors on 22nd March, 2013 with only the Independent Directors voting and the Executive Directors recusing, approved staggered increase in the royalty rate @ 0.20% per annum over the next 5 years effective 1st January, 2014. Under the GLA, Royalty is paid on third party sales and is net of tax. Your Company negotiated increase in royalty from 3.5% to 4.5% of sales in a staggered manner by making an increase of 0.20% per annum over the next five years effective 1st January, 2014. The royalty rate on exports will also be aligned to 4.5% of sales. The Independent Directors appreciated the high emphasis on corporate governance keeping in view the elaborate review process. The access under the GLA to the capabilities of Nestlé Group, world's leading Nutrition Health and Wellness Company having the largest Food and Nutrition R&D network globally, will enable your Company to continue to deliver long term sustainable profitable growth and Create Shared Value for society and the shareholders."

Accordingly, basis the elaborate review process undertaken as detailed in the Addendum to the Board's Report-2012, general licence fees (royalty) payments are currently made to Licensor at the rate of 4.5% (Four and a half percent), net of taxes, of the net sales of the products sold by the Company. Further, general licence fees paid to the Licensor, are in the ordinary course of business and are on an arm's length basis. Post coming into force of the Companies Act, 2013, the GLAs were adopted and approved by the Audit Committee under Section 177 of the Companies Act, 2013.

Regulation 23(1A) has been inserted in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulation") effective from 1st April, 2019 and provides that transactions involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed two percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

While the bundle of intellectual property rights available under the GLAs extends beyond brand usage to include access to patents, technology, know-how and related assistance in implementation; in compliance with Regulation 23 of the Listing Regulations, and other applicable provisions, if any, approval of shareholders by way of Ordinary Resolution is being sought for continuation of general licence fees (royalty) payments to the Licensor at the rate of 4.5% (Four and a half percent), net of taxes, of the net sales of the products sold by the Company under the existing GLAs from 1st April, 2019 onwards. As per Regulation 23(4) of the Listing Regulations, none of the related parties shall vote on the Ordinary Resolution.

The details of the existing General Licence Agreements and their material terms are as under:

1. The Company has two GLAs with the Licensor, a wholly owned subsidiary of Nestlé S.A., Switzerland (“NSA”).
2. NSA together with Maggi Enterprises Limited (ultimate holding company being NSA) holds 62.76% shareholding in the Company. The Company and the Licensor are fellow subsidiaries of NSA.
3. The GLAs with Licensor:
 - a. General Licence Agreement dated 19th December, 2000 including amendments thereto, covering all the products currently manufactured and/or sold by the Company, except Healthcare Nutrition Products and Breakfast Cereals products.
 - b. General Licence Agreement dated 14th July, 2008 including amendments thereto, entered by Speciality Food India Private Limited (wholly owned subsidiary of NSA) with the Licensor for Healthcare Nutrition Products, assigned to the Company by Amendment No.1 dated 18th January, 2010, consequent to purchase of the Healthcare Nutrition Business by the Company from Speciality Foods India Private Limited,both the above General Licence Agreements are referred hereunder as “GLAs”.
4. Material Terms:
 - a. Exclusive right and licence to the Company to use the trademarks, brands, designs, visual properties and the like (hereinafter “Trademarks”), set out in the GLAs, within the Territory upon or in relation to the Products.
 - b. Exclusive right and licence to the Company in relation to Products (products listed in the GLAs) during the term of the GLAs to use or have used the Know-how within India, Nepal and Bhutan (hereinafter “Territory”) including any improvements in or developments of Know-how which Licensor may develop, acquire or otherwise possess.
 - c. Exclusive right and licence to the Company under the Patents, during the term of the GLAs, to make, use etc. or sell the Products within the Territory.
 - d. In consideration of the Know-how including technical and non-technical assistance, Trademarks and Patents licences granted or to be granted, Company to pay to the Licensor, during the term of the GLAs, general licence fees of 4.5%, net of taxes, of the net sales of the Products sold by the Company to third parties. Any taxes or charges imposed or payable in India shall be paid by the Company.
 - e. Licensor to make available or cause to be made available, experts as may be required in relation to the Know-how licensed. Upon reasonable request, Licensor to also provide appropriate training for employees of the Company to maintain / attain necessary competence. In relation to above, the Company shall bear or reimburse any travelling, accommodation and such other incidental expenses.
 - f. GLAs shall remain in force indefinitely unless and until Licensor or the Company shall at any time give 12 months prior notice to the other of its intention to terminate.
 - g. Notwithstanding (f) above, either party shall be entitled to terminate the GLAs forthwith under special circumstances as set out under the GLAs. Failure by the Company to make and obtain the transfer of any payment to Licensor within a period of six months after due date, shall be deemed to be a material breach of GLAs.

The access under the GLAs to the capabilities of Nestlé Group, is integral for the Company to continue to deliver long term sustainable growth, Create Shared Value for the shareholders and society. The shareholders have supported the need for GLAs and the general licence fees payment to the Licensor, by adopting the Audited Financial Accounts with Reports of Directors and Auditors thereon, over years with near absolute majority. The resolution set out, is to comply with the new requirement effective 1st April, 2019 under the Listing Regulations. Accordingly, approval of the Members is sought by way of an Ordinary Resolution under Regulation 23 of the Listing Regulations and other applicable provisions, if any, for

continuation of general licence fees (royalty) payments to the Licensor at the rate of 4.5% (Four and a half percent), net of taxes, of the net sales of the products under the existing GLAs with the Licensor on the same terms and conditions, with effect from 1st April, 2019 onwards, notwithstanding that the transactions involving payments to the Licensor with respect to general licence fees (royalty) during any financial year including any part thereof, is considered material related party transactions being in excess of the limits specified under the Listing Regulations.

None of the Directors and the Key Managerial Personnel of the Company and their relatives is concerned or interested, financially or otherwise, in the resolution set out at Item No. 6 of the Notice.

Copy of the GLAs would be available for inspection by the members, without any fees, at the Registered Office of the Company during normal business hours (9:00 am to 5:00 pm) on any working day, excluding Saturday.

The Board of Directors recommend Ordinary Resolution set out at Item No. 6 of the Notice of the AGM for approval by the members.