

## BOARD OF DIRECTORS

Narendra Singh  
Chairman Emeritus

### DIRECTORS

Carlo M.V. Donati  
Chairman & Managing Director

Jean Marc Waelti (Upto 16<sup>th</sup> June, 2002)  
Michael T. Scales (From 17<sup>th</sup> June, 2002)  
Director – Finance and Control

Michael W.O. Garrett  
Ravinder Narain  
Tejendra Khanna  
Rajendra S. Pawar  
Richard Sykes  
[Alternate to Michael W.O. Garrett]

### SECRETARY

B. Murlu

### BANKERS

ABN Amro Bank N.V.  
BNP Paribas  
Citibank N.A.  
Corporation Bank  
Deutsche Bank  
HDFC Bank Limited  
ICICI Bank Limited  
Punjab National Bank  
Standard Chartered Bank  
State Bank of Hyderabad  
State Bank of India

### AUDITORS

A.F. Ferguson & Co.,  
9, Scindia House, Kasturba Gandhi Marg,  
New Delhi 110 001

### REGISTERED OFFICE AND SHARE DEPARTMENT

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

### HEAD OFFICE

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

### BRANCH OFFICES

2nd Floor, Silicon Terrace, 30/1, Adugadi, Koranmangala,  
Bangalore 560095  
915, N.A.C. Manimajra, Chandigarh (U.T.) 160 101  
Spencer Plaza, 6<sup>th</sup> Floor 769, Anna Salai, Chennai 600 002  
7, Hare Street, Kolkata 700 001  
Hiranandani Gardens, Main Street,  
4<sup>th</sup> Floor, Colgate Research Centre Building, Powai, Mumbai 400 076  
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  
Dist. Moga (Punjab)  
Industrial Area, Nanjangud 571 301 Mysore District (Karnataka)  
P.O. Cherambadi 643 205 Dist. Nilgiris (Tamil Nadu)  
Patti Kalyana, Kiwana Road, Samalkha 132 101 Dist. Panipat (Haryana)  
Plot No. 294-297, Usdao Industrial Area, Ponda 403 406 (Goa)

### LISTING OF EQUITY SHARES (Listing Fees paid)

The Delhi Stock Exchange Association Limited,  
DSE House  
3/1, Asaf Ali Road New Delhi 110 002  
  
The Stock Exchange, Mumbai,  
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001

### ANNUAL GENERAL MEETING

Wednesday, 30<sup>th</sup> April, 2003 at 10.00 AM at  
Air Force Auditorium, Subroto Park, New Delhi 110 010

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

## TABLE OF CONTENTS

Directors' Report	02	Annexure-2 to The Directors' Report	31
Annexure-1 to The Directors' Report	07	Balance Sheet Abstract and	Inside Back Cover
Auditors' Report	12	Company's General Business Profile	
Annual Accounts	14		

## DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in submitting their report and the statement of accounts for the year ended 31<sup>st</sup> December, 2002.

### Financial Results and Operations

	(Rs. in Millions)	
	2002	2001
Gross Revenue	20,756	19,372
Earning before Interest, Depreciation and Tax excluding Other Income	3,991	3,144
Interest	61	99
Depreciation	494	435
Impairment Loss on Fixed Assets	212	14
Provision for Contingencies (net)	314	181
Provision for Tax	1,119	846
Exceptional Item of earlier years (net of tax)	54	—
Net Profit After Exceptional Item	2,015	1,732
Profit Brought Forward	172	101
Balance Available for Appropriation	2,187	1,833
Interim Dividends Paid	1,735	1,350
Corporate Dividend Tax	—	138
Transfer to General Reserve	202	173
Surplus carried in Profit and Loss Account	250	172

Domestic Sales grew by 12.4 % in value and 14.6% in volume terms, during the year. Export Sales declined by 23.8% in value and 7.4% in volume. Profit After Tax grew by 16.4% from Rs. 1,732 million to Rs. 2,015 million.

The uncertain market conditions and weak consumer confidence persisted during the year 2002, with drought like conditions and failing monsoons in many parts of the country weakening the market. Your Company's focus on the flagship brands coupled with product innovation and renovation, concerted efforts to maintain the price of products, continuous improvement of factory activities and supply chain and a professional work environment,

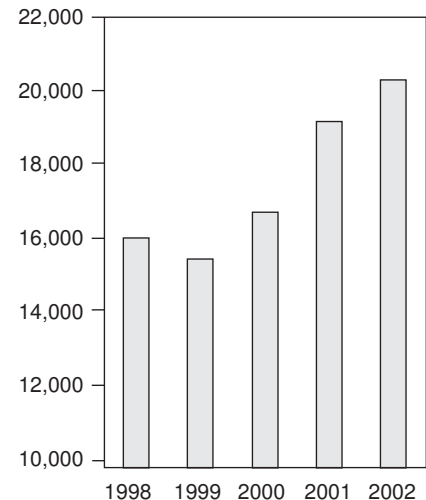
sustained the performance during 2002. Impact of the adverse market environment on the Company was mitigated, by continued efforts to better understand and anticipate consumer needs to facilitate development of products that provide nutrition and wellness.

Considering the GDP growth rate of 4.4% and the general downturn in performance of the FMCG sector, your Company's performance is matter of pride. The Company's overall sales and profit progression during 2002 can be considered extremely satisfactory and is a reconfirmation of the focussed efforts of a team capable of taking on challenges and the strength of Nestlé technology and brands.

During the year Net Profit was positively impacted by effective control over costs, lower interest costs due to improved cash flows and lower interest rates, favourable commodity prices mainly during the first half of the year and the reversal of an earlier provision for litigation. Net Profit was adversely impacted by the early implementation of the new Accounting Standard (AS-28) on Impairment of Assets that resulted in some assets being written down to their recoverable value/ value in use, higher provision for contingencies and an exceptional depreciation due to reclassification of certain specialised assets. The Net Profit was also adversely impacted by additional depreciation on office equipment, furniture and fixtures due to downward revision of their useful life. Staff costs continued to be impacted due to revaluation of retiral benefit liabilities on account of continuing decline in interest rates and minor improvement in the pension scheme.

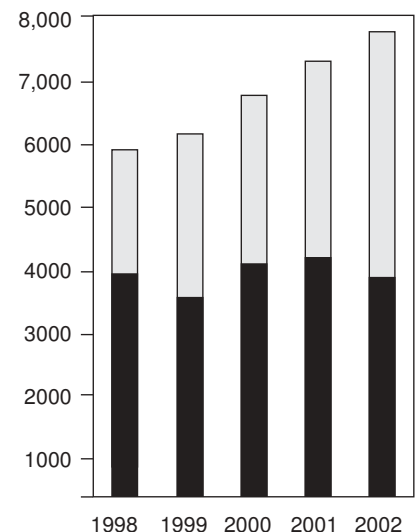
Implementation of the new Accounting Standard on Impairment of Assets has resulted in the fixed assets employed in the Water business and Instant Tea business and certain fixed assets employed in a part

### Gross Income (Rupees in Millions)



### Fixed Assets (Rupees in Millions)

■ Net Block □ Gross Block



of the Chocolate and Confectionery business, being written down to their recoverable value or value in use. The impairment loss on Water business and a part of Chocolate and Confectionery business has been charged against the profit for the year, while impairment loss on Instant Tea business has been adjusted against the General Reserve as on 1<sup>st</sup> January, 2002.

Out of business prudence, the Company supplemented the Contingency Provision with further amount in 2002 of Rs. 314 Million (Net) to provide for various contingencies resulting from matters relating to issues under litigation, management discretion and investments made by employees' trusts.

The current year has commenced as per plan. The economic indicators however point towards continued sluggishness in the market and low economic growth during 2003. The procurement prices of key commodities have firmed up as compared to the favourable trend during first half of 2002. While your Company would continue to focus on measures to maintain its performance, uncertain and difficult domestic and international market environment could impact the performance.

### Exports

Export Sales for the year were Rs. 2,362 Million and compared to last year they have declined both in value and volume terms.

Though total volume declined by 7.4%, the Company once again emerged as the highest coffee exporter from India and the highest exporter of value added Instant Coffee. Export of Instant Tea and culinary products achieved higher volumes. The drop in volume is mainly due to restructuring of the tea business and certain opportunity sales in the past year.

Export Sales declined in value by 23.8% over the past year. This decrease in value of exports has been mainly due to lower realisation on instant coffee exports to Russia due to depressed prices of green coffee, ocean freight and product mix being in favour of bulk packs as compared to the previous year.

Efforts continue to tap new markets and product opportunities to improve export performance besides reducing the risks associated with export of NESCAFE Instant Coffee to Russia which constitutes over 80% of Export Sales. Efforts are underway to develop products that would cater to the needs of the ethnic population of Indian origin around the world.

### Dividends

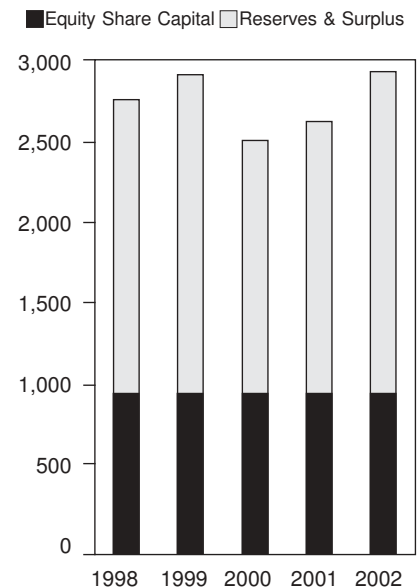
An interim dividend of Rs. 18.00 per equity share, subject to tax, was paid during December, 2002. The Directors do not recommend any final dividend for the year 2002.

### Business Development

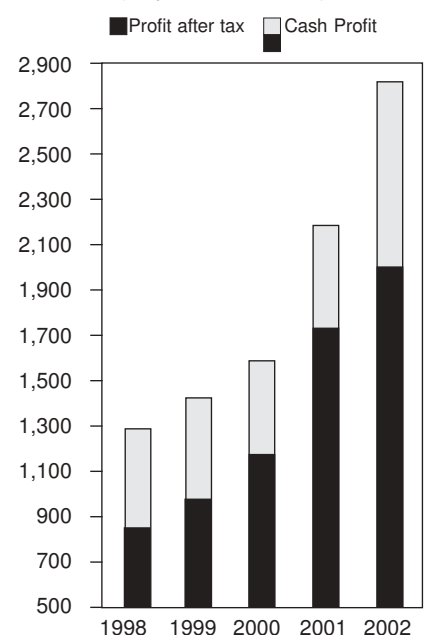
During the year 2002 the focus on obtaining actionable consumer insights and affordability, value for money and availability of products, remained thrust areas. The Company introduced various new or improved products that provide nutrition, wellness, refreshment or convenience to the consumer. The domestic market responded with significant volume growth in most of the brands.

The Company has been able to operate efficiently because of the culture of professionalism, integrity and continuous improvement in all functions and areas. Ongoing improvement in the efficiency of supply chain operations ensured freshness of stocks to consumers. Efforts were initiated or sustained to improve white-collar productivity, focus on continuous

### Shareholders' Funds (Rupees in Millions)



### Earnings (Rupees in Millions)



improvement, facilitate innovation and renovation, strengthen distribution management, deliver products at better price points and ensure more effective consumer communications. These have ensured efficient utilisation of the Company's resources for sustainable and profitable growth.

The Company took various initiatives in the culinary segment which have helped MAGGI in sustaining leadership. While MAGGI Instant Noodles continued to boost sales with good volume growth, MAGGI Chinese Noodles was launched in select cities to offer more variety and value added products to the consumers. Efforts to increase affordability and convenience to consumers showed results in the soup segment also. MAGGI Hot Cup, an instant soup powder, was launched in single serve sachets. Smaller, two serve packs of the regular MAGGI soup (Tomato and Chicken variants), were also introduced in the market. The consumer response to the new launches has been encouraging. MAGGI Sauces continued to show satisfactory growth. MAGGI Pickles was discontinued, after completion of the review undertaken due to the unsatisfactory performance.

In the Beverages Category, the Company continued to perform satisfactorily and the NESCAFÉ brand maintained its performance against aggressive competition. In order to provide superior and value added products, the Company had implemented the state of art aromatisation technology towards the end of 2001. This has enabled the introduction of NESCAFÉ Classic with higher aroma. The year witnessed the launch of NESCAFÉ Redimix, which is a single serve sachet containing a special mix of NESCAFÉ instant coffee, milk and sugar. Competitively priced, the product offers ease, convenience and authentic taste of coffee and has received encouraging response.

During 2001, the Company had launched NESTLÉ PURE LIFE in the premium bottled water segment and has been manufacturing bottled water under stringent quality controls. NESTLÉ PURE LIFE is an excellent product, tested to conform to the highest quality norms. In a very competitive market environment, the product has performed below expectation and consequently a full review of this business category, including the business model, is being undertaken.

The Chocolate and Confectionery brands sustained their momentum and continued to strengthen their presence in the markets through innovation and renovation and efficient conversion of consumer insights. NESTLÉ MUNCH, which is the largest selling unit in the wafer segment and POLO Lozenges, gained in volumes. NESTLÉ CHOCOSTICK and NESTLÉ MILKYBAR CHOO, acknowledged by industry as excellent innovations and launched in 2001, were rolled out nationally and showed significant volume growth. Though NESTLÉ ECLAIRS was adversely impacted during 2002, corrective action has already been taken. During the year the Company successfully entered the functional confectionery by launching the throat soother NESTLÉ ACTI-V with Anticol.

In the Milk Products and Nutrition Category, the performance of infant nutrition remained satisfactory and the Company continued to focus on introducing products that leverage Nestlé Know-how and Research and Development competence. EVERYDAY Dairy Whitener and MILKMAID Sweetened Condensed Milk continued to show good volume growth. However, the performance of MILKMAID Dessert Mixes continued to be disappointing and the future of the product range is being reviewed. During the year the Company launched DAIRY MATE Tea Creamer to cater to an emerging demand in select cities in the East and South of India.

The Company presence in the UHT liquid milk business was strengthened during the year with the launch of its first ready to drink product NESTLÉ Fruit 'n Milk. Free from preservatives it is specially formulated to retain nutrition and delicious taste. This healthy, anytime drink is available in two variants - Mango and Strawberry in convenient packs. During 2001 the Company had entered the Chilled Dairy business with the launch of NESTLÉ Dahi and NESTLÉ Butter, which have shown good volume growth during 2002. Realising that consumers are increasingly looking for nutrition and convenience in their food, your Company developed and launched the fruit yoghurt NESTLÉ Fruit 'n Dahi. With this, the Company now has a wide range of dairy products.

**Improved Penetration:** Improved penetration of brands is an important consideration in your Company's vision of sustained growth. Expansion of distribution and reach was a focus area. Some of the initiatives that are expected to contribute significantly, include introduction of single serve convenience packs at affordable price points, such as NESCAFÉ Redimix and MAGGI Hot Cup Soup Powder. The initiative to automate distributor operations has continued and is expected to be completed during 2003. This will help your Company to achieve greater speed and transparency in the flow of information, ensure better levels of customer contact and enable faster response to consumer needs.

**Out-of-home Consumption:** The Company continued to strengthen initiatives to facilitate availability of products for out-of-home consumption. These initiatives were supported by a number of new product launches. The development of NESTEA Instant Tea premix for hot vending offers consistency and convenience as compared to tea bag preparation; NESCAFÉ Frappe premix for cold vending has been introduced in Quick Serve Restaurants; Italian Tomato

Sauce Mix was specially formulated for restaurant chain; Low Sugar NESCAFE premix has been developed for health conscious consumers; MAGGI Hot Cup Soup dispensed through vending machines is an innovative and pioneering concept in the market. Large number of Nestlé Consumption Zones including Café NESCAFE, Coffee Corners and multibrand stalls were set up and innovative vending machines were introduced for Iced Tea. Sustained focus on continuously improving the value to the consumer, helped to introduce vending machines with eight beverage options to offer consumers a range of speciality beverage at the same location.

**Manpower Development:** Efforts in this area continued to be focussed on white collar productivity. Keeping headcount increases under control and enhancing the linkage of remuneration to performance, both of the Company and the employee, were some of the key measures taken during the year. The 'Sales and Marketing Productivity Improvement Project' undertaken during the year would further enhance focussed approach in the business operations.

Employee communication within the Company received attention during the year. A new dimension was added to training, through special initiatives taken for e-learning, to offer employees opportunity for learning and updating their skill sets, at a speed and time determined by the employees.

In the past years the Company has supported its officials by providing them opportunities for postings and assignments to other Group Companies, as part of their development and training. This support has increased in recent years and continued through 2002. The increased opportunities opening up to the personnel of your Company and the positions that they hold

is an acknowledgement of the caliber and strength of your Company's personnel.

**Supply Chain:** Thrust on strengthening the supply chain continued to receive attention during the year and the Company advanced towards becoming the Best in Class Supply Chain in the FMCG sector.

Distribution costs were contained by increased and efficient use of railways for primary despatches. Simultaneously, the vehicles transporting raw and packing materials to factories were used for finished goods despatches too, thereby saving freight costs. Efforts in collaborative logistics with other companies and third party service providers have begun to yield benefits.

In order to improve response to customer demand, forecasting was given considerable attention. This has led to an empowered demand planning role that ensures optimised inventory as well as satisfaction of consumer demand. Initiatives in e-connectivity with the distributors and also with the suppliers are further aligning our efforts in this direction.

### **Innovation and Renovation and Technology from Nestlé**

The continuous efforts on product innovation and renovation during the year has contributed significantly to the performance of the Company during the year and would remain a key element even in the future to sustain leadership and profitable growth, especially in a market that is becoming increasingly competitive.

Under the General Licence Agreement with Nestlé Group, your Company has the licence for know-how, patents, brands and other intellectual property, in relation to the products manufactured and/ or sold by your Company. Access to proprietary technology of Nestlé and the fruits of extensive centralised Research and Development is

available on a continual basis. The excellent performance of the Company over the years has been greatly influenced by these inputs.

### **Community Development**

Initiatives by the Company, for community development continued to be focussed on programmes in the areas where the factories are located. These programmes give importance to providing drinking water facilities in schools, supporting and participating in immunisation programmes, providing basic facilities to local schools and arranging medical camp.

### **Information Technology**

The Company continued to make significant investments in the Information Services/ Technology area. Such investments are considered necessary to create and update the infrastructure required to cope with the growing information requirements of a complex supply chain environment and our ability to manage them effectively.

### **Directors' Responsibility Statement**

Pursuant to Section 217(2AA) of the Companies Act, 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 judgements 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

A separate report on Corporate Governance alongwith Auditor's certificate on its compliance is attached as Annexure-1 to this Report.

## Directors

Your Directors have re-appointed Mr. Carlo M.V. Donati, as the Chairman and Managing Director, for a further period of five years from 1<sup>st</sup> July, 2003, after the expiry of his existing term on 30<sup>th</sup> June, 2003. Mr. Donati, was appointed as Managing Director of the Company from 1<sup>st</sup> July, 1998 and his able leadership is best reflected in the sustained good performance of your Company. The re-appointment of Mr. Donati is appropriate and in the best interest of the Company. Nomination has been received from Nestlé S.A. under the Articles of Association of the Company relevant to the re-appointment.

Your Directors appointed Mr. Michael T. Scales as a Wholetime Director, currently designated as Director – Finance and Control, for a period of five years with effect from 17<sup>th</sup> June, 2002. Mr.Scales has been appointed as a Director pursuant to the nomination received from Nestlé S.A. under

the Articles of Association of the Company and in place of Mr. Jean Marc Waelti, who relinquished office as a Wholetime Director and Director of the Company with effect from 1<sup>st</sup> June and 17<sup>th</sup> June, 2002, respectively. Mr. Scales is well qualified and has wide and varied international experience. His appointment is appropriate and in the best interest of the Company.

In accordance with Article 119 of the Articles of Association, Mr. Ravinder Narain retires by rotation and being eligible offers himself for re-appointment.

## Auditors

M/s A. F. Ferguson & Co., Auditors of the Company, retire in accordance with the provisions of the Companies Act, 1956, and being eligible offer themselves for re-appointment.

In pursuance of Section 233-B of the Companies Act, 1956, your Directors have appointed M/s Ramnath Iyer and Co. as the Cost Auditors to conduct the cost audit of milk foods for 2003, subject to the approval of 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.

## Employees

The Directors wish hereby to place on record their appreciation of the efficient and loyal services rendered by all staff and work force of the Company, without whose wholehearted efforts, the overall very satisfactory performance would not have been possible.

On behalf of the Board of Directors

7<sup>th</sup> March, 2003  
Gurgaon

CARLO M.V. DONATI  
CHAIRMAN

## ANNEXURE-1 TO THE DIRECTORS' REPORT

### Report on Corporate Governance for the year ended December 31, 2002

#### NESTLÉ'S PHILOSOPHY ON CODE OF GOVERNANCE

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

Nestlé India's business objective and that of its management and employees is to manufacture and market the Company's products in such a way as to create value that can be sustained over the long term for consumers, shareholders, employees, business partners and the national economy. Nestle 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 at the Board Meetings and the last Annual General Meeting, Outside Directorships and other Board Committees

Above information as on 31<sup>st</sup> December, 2002 or for the year 2002, as applicable, is tabulated hereunder:

Director	No. of Board Meetings attended <sup>A</sup>	Attendance at previous AGM on 30.04.2002	No. of outside Directorship held <sup>B</sup>	No. of membership/ chairmanship in other Board Committees <sup>C</sup>	Executive/ Non-Executive/ Independent
Mr. Carlo M.V. Donati <sup>1</sup>	4	Present	Nil	Nil	Executive
Mr. Jean Marc Waelti <sup>2</sup>	2	Present	Not Applicable	Not Applicable	Executive/ Non-Executive
Mr. Michael T. Scales <sup>3</sup>	2	Not Applicable	Nil	Nil	Executive
Mr. Ravinder Narain	5	Present	3	Nil	Non-Executive & Independent
Mr. Tejendra Khanna	5	Present	1	2	- do -
Mr. M. W. O. Garrett	1	Not Present	Nil	Nil	Non-Executive
Mr. Rajendra S. Pawar	3	Not Present	8	1	Non-Executive & Independent
Mr. Richard Sykes <sup>4</sup>	1	Present	Nil	Nil	Non-Executive

<sup>1</sup> Nominee of Nestlé S.A.

<sup>2</sup> Nominee of Nestlé S.A. Ceased to be an Executive Director with effect from 01.06.2002 and a Non-Executive Director of the Company with effect from 17.06.2002.

<sup>3</sup> Nominee of Nestle S.A. Appointed as Director with effect from 17.06.2002.

<sup>4</sup> Alternate Director to Mr. M. W. O. Garrett.

<sup>A</sup> Attendance at the Board Meetings relevant to the period when Director of the Company. Participation over phone by Mr. Donati (1 Meeting) has not been included.

<sup>B</sup> Directorship in companies registered under the Companies Act, 1956, excluding directorships in private companies and alternate directorship.

<sup>C</sup> Only covers membership/chairmanship of Audit Committee, Remuneration Committee and Shareholders / Investors Grievance Committee.

#### Board Meetings held during the year 2002

During the year 2002, five Board Meetings were held on 6<sup>th</sup> March, 2002, 30<sup>th</sup> April, 2002, 16<sup>th</sup> May, 2002, 30<sup>th</sup> July, 2002 and 31<sup>st</sup> October, 2002.

## BOARD COMMITTEES

### Audit Committee

The role and terms of reference of the Audit Committee covers the areas mentioned under Clause 49 of the Listing Agreement and Section 292 A of the Companies Act, 1956 besides other terms as may be referred by the Board of Directors. These include oversight of Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible; 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.

The Audit Committee comprises of Mr. Tejendra Khanna, Mr. Ravinder Narain and Mr. Rajendra S. Pawar, all being Non-Executive and Independent Directors. Mr. Tejendra Khanna, who has financial and accounting knowledge, is the Chairman of the Audit Committee. Mr. B. Murli, Company Secretary, acts as the Secretary to the Committee.

The Audit Committee met 4 times during the year 2002 on 6<sup>th</sup> March, 2002, 30<sup>th</sup> April, 2002, 30<sup>th</sup> July, 2002 and 31<sup>st</sup> October, 2002. Mr. Tejendra Khanna and Mr. Ravinder Narain attended all the meetings held during the year while Mr. Rajendra S. Pawar attended the meetings held on 6<sup>th</sup> March, 2002 and 31<sup>st</sup> October, 2002 and participated over phone in the meeting held on 30<sup>th</sup> July, 2002.

### Shareholders Committee

Shareholder / Investor Grievance Committee is headed by Mr. Ravinder Narain, a Non-Executive and Independent Director. Mr. B. Murli, Company Secretary, is the Compliance Officer.

During the year 2002, 152 complaints were received from shareholders and investors. All the complaints have generally been solved to the satisfaction of the complainants, except for disputed cases and sub-judice matters, which would be solved on final disposal by the Court.

All valid requests for share transfer received during 2002 have been acted upon by the Company 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 on their contributions.

## REMUNERATION OF DIRECTORS FOR 2002

(Rupees in '000)

Name of the Director	Sitting Fee	Salaries	Perquisites	Commission	Total
Mr. Carlo M.V. Donati <sup>1</sup>	NA	6880	4236	13072	24188
Mr. Michael T. Scales <sup>2</sup>	NA	3233	859	2910	7002
Mr. Tejendra Khanna	33	NA	NA	200	233
Mr. Ravinder Narain	37	NA	NA	200	237
Mr. Jean Marc Waelti <sup>3</sup>	NA	2275	2153	1138	5566
Mr. Rajendra S. Pawar	19	NA	NA	200	219

<sup>1</sup> The Company has service contract with Mr. Carlo M.V. Donati for a period of 5 years with effect from 1<sup>st</sup> July, 1998. The notice period is of one month and the severance fee is the sum equivalent to remuneration for the notice period or part thereof in case of shorter notice.

<sup>2</sup> The Company has service contract with Mr. Michael T. Scales for a period of 5 years with effect from 17<sup>th</sup> June, 2002. 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.

<sup>3</sup> Mr. Jean Marc Waelti has ceased to be an Executive Director of the Company with effect from 1<sup>st</sup> June, 2002. No remuneration was paid to him as a Non – Executive Director from 1<sup>st</sup> June, 2002 to 16<sup>th</sup> June, 2002.

Commission is subject to adequate profits being earned. Performance criteria for the Executive Directors takes into account the business plans and market conditions. The Company does not have any stock option scheme.



## GENERAL BODY MEETINGS

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

Year	Venue	Date	Time
2002	Air Force Auditorium, Subroto Park, New Delhi 110 010	30 <sup>th</sup> April, 2002	10.00 A.M.
2001	- do -	27 <sup>th</sup> June, 2001	10.00 A.M.
2000	- do -	24 <sup>th</sup> April, 2000	10.00 A.M.

There was no other General Body Meeting in the last three years and no resolution was put through postal ballot.

## DISCLOSURES

During the year 2002, the Company had no materially significant related party transaction, which is considered to have potential conflict with the interests of the Company at large.

There has not been any non-compliance, penalties or strictures imposed on the Company by the Stock Exchanges, SEBI or any other statutory authority, on any matter relating to the capital markets, during the last three years.

## MEANS OF COMMUNICATION

### Half-Yearly report to shareholders, Quarterly Results, Newspaper in which published, Website etc.

The Quarterly, Half-Yearly and Annual Results are generally published by the Company in all editions of the Financial Express and in Jansatta, Delhi. The Half-Yearly reports are not sent to household of shareholders. The Company currently does not have a Website. Official news releases and presentations made to analysts are sent to the stock exchanges at Delhi and Mumbai, where shares of the Company are listed.

### Management Discussion and Analysis Report

(within the limits set by the Company's competitive position)

Industry structure and developments, opportunities and threats, segment wise or product-wise performance, outlook, risks and concerns of the Company and discussion on financial performance with respect to the operational performance, has been covered in the Directors' Report – more specifically under the sections on Financial Results and Operations, Exports and Business Development.

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.

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 Nestle Group Companies.

Manpower figure of the Company as on 31.12.2002 was 3,074.

## GENERAL SHAREHOLDER INFORMATION

### Annual General Meeting

Date and Time : 30<sup>th</sup> April, 2003 at 10.00 a.m.

Venue : Air Force Auditorium, Subroto Park, New Delhi – 110 010.

**Financial Calendar : 2003**

First Quarter Results : Last Week April, 2003      Third Quarter Results : Last Week October, 2003  
 Second Quarter and Half Yearly Results : Last Week July, 2003      Annual Results : March, 2004

**Date of Book Closure** : 24<sup>th</sup> April, 2003 to 30<sup>th</sup> April, 2003, both days inclusive.

**Dividend payment date** : Interim Dividend for the year 2002 was paid on 20<sup>th</sup> December, 2002.

**Outstanding ADRs/GDRs/Warrants or any convertible instruments, conversion date and likely impact on equity:** Not applicable.

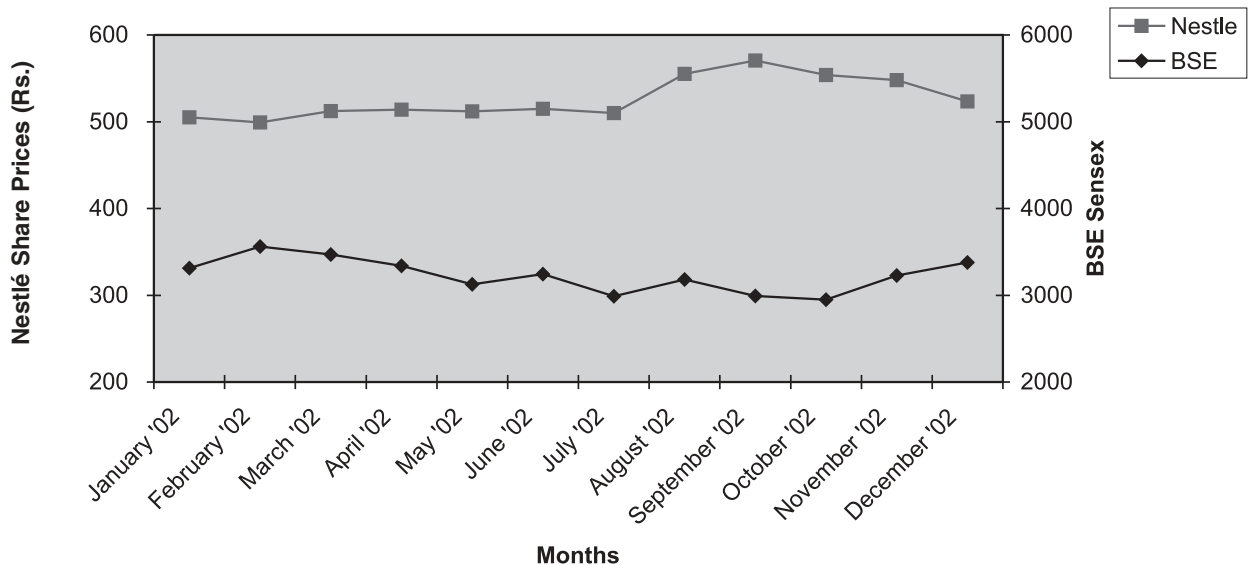
**Listing on Stock Exchanges and Stock Code**

Shares of the Company are listed at The Delhi Stock Exchange Association Limited (Stock Code 0035) and The Stock Exchange, Mumbai (Stock Code 790).

**Market Price Data : High/Low in each month of Calendar Year, 2002 on The Stock Exchange, Mumbai**

Month	High (Rs.)	Low (Rs.)	Month	High (Rs.)	Low (Rs.)	Month	High (Rs.)	Low (Rs.)
January	511.75	490.05	May	550.00	500.00	September	579.95	551.00
February	547.00	485.10	June	517.95	488.00	October	574.00	546.25
March	526.00	500.00	July	525.00	505.00	November	570.00	455.55
April	527.70	500.00	August	568.40	495.10	December	555.55	507.00

[Source : [www.bseindia.com](http://www.bseindia.com)]

**Performance in comparison to BSE Sensex**
**Share Price/BSE (Sensex) Monthly Closing**


[Source : [www.bseindia.com](http://www.bseindia.com)]

**Registrar and Transfer Agents, Share Transfer System**

The Company has an in-house share transfer facility. Share transfers are registered and returned in the normal course within an average period of 10 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. Connectivity with NSDL and CDSL is maintained through M/s. MCS Limited, Srivenkatesh Bhawan, 212A Shahpurjat, New Delhi 110 049.

**Categories of Shareholding as on 31<sup>st</sup> December, 2002**

Category	Number of Shares	Percent of total shares
Promoters	56,595,847	58.70
Foreign institutional investors	7,382,641	7.65
Banks, Financial Institutions, Insurance		
Companies (Central /State Govt. Institutions/Non Govt. Institutions)	5,695,507	5.91
Mutual funds and UTI	4,751,630	4.93
Private Corporate Bodies (including clearing members)	1,655,330	1.72
Non Resident Indian (NRI) and Overseas Corporate Bodies (OCB)	374,285	0.39
Indian Public	19,960,476	20.70
<b>Total</b>	<b>96,415,716</b>	<b>100.00</b>

**Distribution of shareholding as on 31<sup>st</sup> December, 2002**

No. of shares	Number of shareholders	Number of Shares	Percent of total shares
1 to 250	43,937	3,333,021	3.46
251 to 500	5,710	2,068,110	2.14
501 to 1000	3,942	2,848,721	2.96
1001 to 2000	1,449	2,053,321	2.13
2001 to 3000	435	1,085,677	1.13
3001 to 4000	217	752,320	0.78
4001 to 5000	145	650,556	0.67
5001 to 10,000	290	2,007,583	2.08
10001 and above	254	81,616,407	84.65
<b>Total</b>	<b>56,379</b>	<b>96,415,716</b>	<b>100.00</b>

**Dematerialisation of shares and liquidity :** 40.67% equity shares of the Company have been dematerialised as on 31<sup>st</sup> December, 2002.

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

**Address for correspondence :** Shareholder Services, M – 5 A, Connaught Circus, New Delhi 110 001.

**E-mail for Investors :** Investor@IN.nestle.com

On behalf of the Board of Directors

7<sup>th</sup> March, 2003  
Gurgaon

CARLO M.V. DONATI  
CHAIRMAN

**CERTIFICATE**
**To the Members of Nestle India Limited**

We have examined the compliance of conditions of Corporate Governance by Nestle India Limited for the year ended December 31, 2002, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended December 31, 2002, no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

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

7th March, 2003  
New Delhi

(A.K. MAHINDRA)  
Partner

## AUDITORS' REPORT TO THE MEMBERS OF NESTLE INDIA LIMITED

1. We have audited the attached balance sheet of Nestlé India Limited as at December 31, 2002 and the profit and loss account of the Company for the year ended on that date, annexed thereto and the cash flow statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of section 227 (4A) of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
  - a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books;
  - c) the balance sheet and the profit and loss account dealt with by this report are in agreement with the books of account;
  - d) in our opinion, the balance sheet and profit and loss account comply with the mandatory accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - e) on the basis of written representations received from directors and taken on record by the Board of Directors, we report that none of the directors of the Company are disqualified from being appointed as director of the Company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - f) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (i) in the case of the balance sheet, of the state of affairs of the Company as at December 31, 2002,
    - (ii) in the case of the profit and loss account, of the profit of the Company for the year ended on that date and
    - (iii) in the case of cash flows statement, of the cash flows for the year ended on that date.
4. Further to our comments in the annexure referred to above, we report that:
  - a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books;
  - c) the balance sheet and the profit and loss account dealt with by this report are in agreement with the books of account;
  - d) in our opinion, the balance sheet and profit and loss account comply with the mandatory accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - e) on the basis of written representations received from directors and taken on record by the Board of Directors, we report that none of the directors of the Company are disqualified from being appointed as director of the Company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - f) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (i) in the case of the balance sheet, of the state of affairs of the Company as at December 31, 2002,
    - (ii) in the case of the profit and loss account, of the profit of the Company for the year ended on that date and
    - (iii) in the case of cash flows statement, of the cash flows for the year ended on that date.

### ANNEXURE REFERRED TO IN PARAGRAPH 3 OF THE AUDITORS' REPORT TO THE MEMBERS OF NESTLE INDIA LIMITED ON THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2002

1. The Company is maintaining proper records to show full particulars including quantitative details and situation of fixed assets. The management has physically verified most of the fixed assets of the Company. The discrepancies noticed on comparison between book records and physical inventory were not material and have been properly dealt with in the books of account.

2. None of the fixed assets have been revalued during the year.
3. The stocks of finished goods, stores, spare parts and raw materials of the Company have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
4. 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.
5. The discrepancies noticed on physical verification of stocks as compared to book records were not material and have been properly dealt with in the books of account.
6. In our opinion and on the basis of our examination, the valuation of stocks is fair and proper and in accordance with normally accepted accounting principles and is on the same basis as in the previous year.
7. The Company has not taken any bans from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. In terms of sub-section (6) of section 370 of the Companies Act, 1956, provisions of the section are not applicable to a Company on or after October 31, 1998.
8. The Company has not granted any bans to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. In terms of sub-section (6) of section 370 of the Companies Act, 1956, provisions of the section are not applicable to a Company on or after October 31, 1998.
9. In respect of bans and advances in the nature of bans given to employees and others, recovery of principal amounts and interest, wherever applicable, has been as stipulated.
10. In our opinion and according to the information and explanations given to us during the course of the audit, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets and with regard to the sale of goods.
11. According to the information and explanations given to us, the transactions of purchase of goods made in pursuance of contracts or arrangements entered in the Register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000 or more in respect of each party, have been made at prices which are reasonable having regard to the prevailing market prices for such goods. There are no transactions of sale of goods, materials and services made in pursuance of contracts or arrangements entered in the Register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000 or more.
12. As explained to us, the Company has a reasonable system for the determination of unserviceable or damaged stores, raw materials and finished goods. Adequate provision has been made in the accounts for the loss arising in respect of items so determined.
13. According to the information and explanations given to us, the Company has not accepted deposits from the public during the year.
14. In our opinion, the Company is maintaining reasonable records for the sale and disposal of realisable by-products and scrap.
15. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
16. We have broadly reviewed the books of account maintained by the Company in respect of infant milk foods and malted foods, where, pursuant to the rules made by the Central Government, the maintenance of cost records have been prescribed under Section 209(1) (d) of the Companies Act, 1956. We are of the opinion that, prima facie, the prescribed accounts and records have been maintained. We have not, however, made a detailed examination of the records with the view to determining whether they are accurate or complete.
17. According to the records of the Company, Provident Fund and Employees State Insurance dues have been regularly deposited during the year with the appropriate authorities.
18. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income-tax, wealth-tax, sales-tax, customs duty and excise duty outstanding as at December 31, 2002 for a period of more than six months, from the date they became payable.
19. According to the information and explanations given to us, no personal expenses, other than those payable under contractual obligations or in accordance with generally accepted business practices, have been charged to revenue account.
20. In our opinion, the Company is not a sick industrial company within the meaning of the clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986).
21. In respect of the trading activities of the Company, adequate provision has been made in the accounts for damaged goods.

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

7th March, 2003  
New Delhi

(A.K. MAHINDRA)  
Partner

**BALANCE SHEET AS AT DECEMBER 31, 2002**

SOURCES OF FUNDS	SCHEDULE	2002 (Rs. in thousands)		2001 (Rs. in thousands)	
<b>SHAREHOLDERS' FUNDS</b>					
Capital	A	964,157		964,157	
Reserves and surplus	B	<u>1,928,829</u>	<u>2,892,986</u>	<u>1,688,696</u>	2,652,853
<b>LOAN FUNDS</b>					
Secured	C		<u>627,065</u>		<u>1,399,082</u>
			<u>3,520,051</u>		<u>4,051,935</u>
<b>APPLICATION OF FUNDS</b>					
<b>FIXED ASSETS</b>					
Gross block	D	7,491,451		7,081,308	
Less: Depreciation		<u>3,733,790</u>		<u>3,004,804</u>	
Net block		3,757,661		4,076,504	
Capital work-in-progress		<u>179,943</u>	<u>3,937,604</u>	<u>188,302</u>	4,264,806
<b>INVESTMENTS</b>					
	E		<u>326,260</u>		104,611
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>					
Inventories	F	2,191,513		2,127,345	
Sundry debtors		225,446		292,326	
Cash and bank balances		58,667		42,124	
Loans and advances		<u>1,123,830</u>		<u>1,104,385</u>	
		<u>3,599,456</u>		<u>3,566,180</u>	
Less: <b>CURRENT LIABILITIES AND PROVISIONS</b>					
Liabilities	G	2,151,093		2,009,616	
Provisions		<u>2,073,126</u>		<u>1,782,184</u>	
		<u>4,224,219</u>		<u>3,791,800</u>	
<b>NET CURRENT ASSETS</b>					
			<u>(624,763)</u>		(225,620)
<b>DEFERRED TAX LIABILITIES (NET)</b>					
	H		<u>(119,050)</u>		<u>(91,862)</u>
			<u>3,520,051</u>		<u>4,051,935</u>

**NOTES TO THE ACCOUNTS**

P

7<sup>th</sup> March, 2003  
Gurgaon

CARLO M.V. DONATI  
Chairman & Managing Director

MICHAEL T. SCALES  
Director - Finance & Control

B. MURLI  
VP - Legal & Company Secretary

As per our report attached  
For A.F. FERGUSON & CO.,  
Chartered Accountants

7<sup>th</sup> March, 2003  
New Delhi

(A.K. MAHINDRA)  
Partner

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	SCHEDULE	2002 (Rs. in thousands)	2001 (Rs. in thousands)
<b>INCOME</b>			
Domestic sales		18,114,704	16,110,845
Export sales		2,362,242	3,099,146
Others	I	278,828	162,321
		<u>20,755,774</u>	<u>19,372,312</u>
<b>EXPENDITURE</b>			
Materials consumed and purchase of goods	J	8,508,262	8,307,391
Manufacturing and other expenses	K	6,959,298	6,848,752
Interest	L	60,745	98,604
Excise duty		1,113,842	1,005,165
Depreciation (Refer Note 1 - Schedule P)	D	494,030	434,740
Adjustment due to increase in stock of finished goods and work-in-progress	M	(94,898)	(94,911)
		<u>17,041,279</u>	<u>16,599,741</u>
		3,714,495	2,772,571
<b>PROFIT BEFORE IMPAIRMENT, CONTINGENCIES, TAXATION AND EXCEPTIONAL ITEM</b>			
Impairment loss on fixed assets (Refer Note 2 - Schedule P)	D	212,464	13,921
Provision for contingencies - net (Refer Note 3 - Schedule P)	N	313,588	180,943
		<u>3,188,443</u>	<u>2,577,707</u>
<b>PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEM</b>			
Provision for income tax	O	1,119,370	846,187
		<u>2,069,073</u>	<u>1,731,520</u>
<b>PROFIT BEFORE EXCEPTIONAL ITEM</b>			
Exceptional item in relation to earlier years- net of tax (Refer Note 4 - Schedule P)		53,889	-
		<u>2,015,184</u>	<u>1,731,520</u>
<b>NET PROFIT AFTER EXCEPTIONAL ITEM</b>			
Balance brought forward		171,782	100,916
		<u>2,186,966</u>	<u>1,832,436</u>
<b>BALANCE AVAILABLE FOR APPROPRIATION</b>			
<b>Appropriations:</b>			
Dividends:			
Interim, subject to deduction of tax for 2002		1,735,483	1,349,820
Corporate dividend tax		-	137,682
General reserve		201,518	173,152
		<u>249,965</u>	<u>171,782</u>
<b>SURPLUS CARRIED TO THE BALANCE SHEET</b>			
<b>BASIC AND DILUTED EARNINGS PER SHARE (IN RUPEES)</b>			
	P	20.90	17.96
<b>NOTES TO THE ACCOUNTS</b>			
	P		

7<sup>th</sup> March, 2003  
Gurgaon

CARLO M.V. DONATI  
Chairman & Managing Director

MICHAEL T. SCALES  
Director - Finance & Control

B. MURLI  
VP - Legal & Company Secretary

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

7<sup>th</sup> March, 2003  
New Delhi

(A.K. MAHINDRA)  
Partner

## SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT DECEMBER 31, 2002

	2002 (Rs. in thousands)	2001 (Rs. in thousands)
<b>SCHEDULE A</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised</b>		
100,000,000 Equity shares of Rs. 10 each (Previous year 100,000,000)	<u>1,000,000</u>	<u>1,000,000</u>
<b>Issued, subscribed and paid-up</b>		
96,415,716 Equity shares of Rs. 10 each (Previous year 96,415,716)	<u>964,157</u>	<u>964,157</u>
<b>Of the above:</b>		
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.		
29,132,167 Shares of Rs. 10 each (Previous year 24,437,005) are held by Nestle S.A.		
27,463,680 Shares of Rs. 10 each (Previous year 27,463,680) are held by Nestle's Holdings Ltd., the ultimate holding company being Nestle S.A.		
<b>SCHEDULE B</b>		
<b>RESERVES AND SURPLUS</b>		
<b>Share premium</b>		
As per last balance sheet	432,363	432,363
<b>Capital subsidy</b>	1,000	—
<b>General reserve</b>		
As per last balance sheet	1,084,551	1,082,125
Less: Adjustment of impairment loss as at 1.1.2002 (Refer Note 2 - Schedule P)	(40,568)	—
Less: Adjustment of deferred tax liabilities as at 1.1.2001	—	(170,726)
Add: Transferred from profit and loss account	<u>201,518</u>	<u>173,152</u>
	<u>1,245,501</u>	<u>1,084,551</u>
<b>Surplus, being balance in profit and loss account</b>	<u>249,965</u>	<u>171,782</u>
	<u>1,928,829</u>	<u>1,688,696</u>
<b>SCHEDULE C</b>		
<b>SECURED LOANS</b>		
<b>Debentures</b>		
Nil (Previous year 1,000) 14.5% Secured, Redeemable, Non-Convertible, privately placed Debentures of Rs. 500,000 each fully paid-up, were redeemed at par on 27.5.2002 (PP-4).	—	500,000
<b>From Banks</b>		
Secured by a first <i>pari passu</i> charge on all movable assets (excluding plant and machinery), finished goods, work-in-progress, raw materials and book debts.	627,065	899,082
	<u>627,065</u>	<u>1,399,082</u>



**SCHEDULE D**
**FIXED ASSETS**
*(Rs. in thousands)*

	GROSS BLOCK				DEPRECIATION					NET BLOCK		
	Cost as at December 31, 2001	Additions	Deletions/adjustments	Cost as at December 31, 2002	As at December 31, 2001	For the year	Impairment loss charged to		On Deletions/adjustments	As at December 31, 2002	As at December 31, 2002	As at December 31, 2001
							Profit & loss account	General reserve ##				
Land	54,714	809	–	55,523	–	–	–	–	–	–	55,523	54,714
Buildings	1,004,238	63,722	71	1,067,889	215,940	33,215	38,926	9,127	20	297,188	770,701	788,298
Railway siding	11,738	–	–	11,738	6,341	557	–	–	–	6,898	4,840	5,397
Plant and machinery #	5,325,140	457,857	150,965	5,632,032	2,467,805	403,419*	173,538	55,012	92,615	3,007,159	2,624,873	2,857,335
Furniture and fixtures	294,769	37,738	24,515	307,992	80,046	56,278	–	–	19,690	116,634	191,358	214,723
Information technology equipments	329,232	33,010	9,059	353,183	212,654	73,772	–	–	8,896	277,530	75,653	116,578
Vehicles	61,477	11,442	9,825	63,094	22,018	11,989	–	–	5,626	28,381	34,713	39,459
<b>Total</b>	<b>7,081,308</b>	<b>604,578</b>	<b>194,435</b>	<b>7,491,451</b>	<b>3,004,804</b>	<b>579,230</b>	<b>212,464</b>	<b>64,139</b>	<b>126,847</b>	<b>3,733,790</b>	<b>3,757,661</b>	
Previous year	6,770,725	449,509	138,926	7,081,308	2,644,811	434,740	13,921	–	88,668	3,004,804		4,076,504
Capital work-in-progress including capital advances and machinery in-transit#											179,943	188,302
											<b>3,937,604</b>	<b>4,264,806</b>

**Notes:**

- (a) Buildings include Rs. 500 being the cost of share in a Co-operative Housing Society.
- (b) Land includes Rs. 10,878 thousands representing 82.03 acres of land at Nanjangud taken on 11 years' lease from the Karnataka Industrial Area Development Board, which has been transferred in favour of the Company on December 27, 2002.
- (c) Buildings and plant and machinery include Rs. 53,998 thousands (Previous year Rs. 53,998 thousands) being the cost of leasehold improvements.
- \* Includes depreciation amounting to Rs. 85,200 thousands being exceptional item in relation to earlier years (Refer note 4 - Schedule P)
- # Gross block of fixed assets have decreased by Rs Nil (Previous year by Rs. 263 thousands) on account of foreign exchange fluctuation.
- ## Refer note 2 - Schedule P

**SCHEDULE E**
**INVESTMENTS**
**(NON TRADE, UNQUOTED)**
**LONG TERM**

Coffee Futures Exchange India Limited 1 Equity share (Previous year 1) of the face value of Rs. 10,000

**2002**
*(Rs. in thousands)*
**10**

2001

*(Rs. in thousands)*

10

**CURRENT**
**GOVERNMENT SECURITIES**

Treasury bills – Face value of Rs. 720,000 thousands (Previous year Rs. 1,455,000 thousands) purchased and Rs. 825,000 thousands (Previous year Rs. 1,350,000 thousands) sold during the year.

–

104,601

Market value of quoted investments as at December 31, 2002 Rs. Nil (Previous year Rs. 104,798 thousands).

**SCHEDULE E (Contd...)**
**MUTUAL FUNDS — DEBT**

[Units of the face value Rs.10 each, unless otherwise stated]

		2002 (Rs. in thousands)	2001 (Rs. in thousands)
Templeton Mutual Fund [Face value Rs.1,000]	155,229 Units (Previous year Nil) of Templeton India Account Growth option. 735,777 units purchased and 580,548 units sold during the year.	230,000	—
JM Mutual Fund	5,567,447 Units (Previous year Nil) of JM High Liquidity Fund Growth Plan - Bonus option. 14,846,524 units purchased and 9,279,077 units sold during the year.	56,250	—
	— 23,831,727 Units of JM High Liquidity Fund Growth Plan purchased and sold during the year.	—	—
	— 4,833,346 Units of JM Short Term Loan Growth Plan purchased and sold during the year.	—	—
Standard Chartered Mutual Fund	3,607,016 Units (Previous year Nil) of GCFG Grindlays Cash Fund growth option. 103,896,516 units purchased and 100,289,500 units sold during the year.	40,000	—
	— 8,919,167 Units of GCFG Short Term Fund growth option purchased and sold during the year.	—	—
HDFC Mutual Fund	— 58,405,151 units of HDFC Liquid Fund - Growth Option purchased and sold during the year.	—	—
Alliance Capital Mutual Fund	— 13,875,612 units of Alliance Cash Manager - Growth Option purchased and sold during the year.	—	—
Zurich India Mutual Fund	— 44,049,326 units of Zurich India Liquidity Fund - Savings Plan - Growth Option purchased and sold during the year.	—	—
	— 3,820,746 units of Zurich India HIF - Short Term Plan purchased and sold during the year.	—	—
Prudential ICICI Mutual Fund	— 40,971,448 units of Pudential ICICI Liquid Plan purchased and sold during the year.	—	—
Kotak Mahindra Mutual Fund	— 16,175,736 units of Kotak Mahindra Liquid Scheme - Growth Option purchased and sold during the year.	—	—
Birla Sun Life Mutual Fund	— 9,739,483 units of Birla Cash Plus Plan - Dividend Option purchased and sold during the year. Face value Rs.10 each.	—	—
	— 8,277,550 units of Birla Cash Plus Plan - Growth Option purchased and sold during the year.	—	—
Reliance Capital Mutual Fund	— 19,777,971 units of Reliance Liquid Fund - Treasury Plan - growth Option purchased and sold during the year.	—	—
DSP Merrill Lynch Mutual Fund	— 13,092,910 units of DSP Merrill Lynch Liquidity Fund Growth Option purchased and sold during the year.	—	—
Repurchase price as at December 31,2002	— Rs. 327,833 thousands	—	—
<b>COMMERCIAL PAPERS</b>			
[Units of the face value Rs 500,000 each]			
GE Capital Services India	— 700 units purchased and sold during the year	—	—
Ranbaxy Laboratories Ltd.	— 100 units purchased and sold during the year.	—	—
ICICI Securities and Finance Co. Ltd.	— 200 units purchased and sold during the year.	—	—
Citicorp Finance India Limited	— 100 units purchased and sold during the year.	—	—
Rabo India Finance Pvt Ltd.	— 200 units purchased and sold during the year.	—	—
Exim Bank	— 100 units purchased and sold during the year.	—	—
		<b>326,260</b>	<b>104,611</b>

**SCHEDULE F**
**CURRENT ASSETS, LOANS AND ADVANCES**
**Inventories**

	2002 (Rs. in thousands)	2001 (Rs. in thousands)
Stores and spare parts	129,632	115,224
Stock in trade:		
Finished goods	1,061,725	989,001
Work-in-progress	367,738	345,564
Raw materials	464,620	482,478
Packing materials	167,798	195,078
	<u>2,191,513</u>	<u>2,127,345</u>

**Sundry debtors (Unsecured)**

Considered good				
Over six months	11,903		8,824	
Others	213,543	225,446	283,502	292,326
Considered doubtful				
Over six months	20,547		20,576	
Others	—	20,547	629	21,205
		<u>245,993</u>		313,531
Less: Provision for doubtful debts		<u>20,547</u>		21,205
		<u>225,446</u>		292,326

**Cash and bank balances**

Cash and cheques in hand		26,301		15,438
With scheduled banks – on current account		29,863		26,661
– on deposit account		2,503		25
		<u>58,667</u>		42,124

**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	54,545		51,065	
Unsecured	566,238	620,783	588,870	639,935
Considered doubtful		<u>27,615</u>		33,937
		<u>648,398</u>		673,872
Less: Provision for doubtful advances		<u>27,615</u>		33,937
		<u>620,783</u>		639,935

## Inter Corporate Deposits

 – Includes Rs. 318,470 thousands (previous year Rs. 331,950 thousands)  
 guaranteed by Nestlé S.A., the holding company

Taxation payments net of provisions		102,077		—
		<u>1,123,830</u>		1,104,385
		<u>3,599,456</u>		3,566,180

**SCHEDULE G**
**CURRENT LIABILITIES AND PROVISIONS**
**Current liabilities**

	<b>2002</b> <i>(Rs. in thousands)</i>	2001 <i>(Rs. in thousands)</i>
Sundry creditors -		
Small scale industrial undertakings *	42,430	30,277
Others	2,084,389	1,940,070
Investor Educaion and Protection Fund shall be credited by the following:		
Unpaid dividends	24,274 #	24,446
Unpaid matured debentures	—	6,476
Interest accrued on Debentures	—	1,792
Interest accrued but not due on loans	—	6,555
	<u>2,151,093</u>	<u>2,009,616</u>
<b>Provisions</b>		
Pension and gratuity	787,374	579,897
Taxation less payments	—	193,073
Contingencies (Refer Schedule N)	1,285,752	1,009,214
	<u>2,073,126</u>	<u>1,782,184</u>
	<u>4,224,219</u>	<u>3,791,800</u>

\* Refer to Note 21 Schedule P

# The figures reflect the position as at December 31, 2002. The actual amount to be transferred to the Investor Education and Protection Fund in this respect shall be determined on the due dates.

**SCHEDULE H**
**DEFERRED TAX ASSETS AND LIABILITIES**
**Deferred tax assets**

Provision for contingencies	372,186	305,186
Provision for pension and gratuity	18,657	207,023
Accrued expenses deductible on payment	56,024	68,852
Others	22,774	22,294
	<u>469,641</u>	<u>603,355</u>

**Deferred tax liabilities**

Accumulated depreciation	588,691	695,217
<b>Net deferred tax liabilities</b>	<b>(119,050)</b>	<b>(91,862)</b>



	2002 (Rs. in thousands)		2001 (Rs. in thousands)
<b>SCHEDULE I</b>			
<b>OTHER INCOME</b>			
Dividend on current non trade investments (gross)	18,039		—
Interest received on loans and deposits (gross) (Tax deducted at source Rs.5,954 thousands previous year Rs. 6,271 thousands)	50,179		56,373
Export incentives	117,530		62,833
Miscellaneous income	43,458		34,341
Profit on sale of current non trade investments (net)	49,622		8,774
	<u>278,828</u>		<u>162,321</u>
<b>SCHEDULE J</b>			
<b>MATERIALS CONSUMED AND PURCHASE OF GOODS</b>			
Raw materials consumed	5,953,169		5,703,474
Packing materials consumed	2,135,406		2,202,845
Purchase of goods— outside manufacture	418,656		389,441
— others	1,031		11,631
	<u>8,508,262</u>		<u>8,307,391</u>
<b>SCHEDULE K</b>			
<b>MANUFACTURING AND OTHER EXPENSES</b>			
Advertising and sales promotion	1,507,120		1,554,138
Employees' cost			
Salaries, wages, bonus, pension, gratuity etc.	1,338,443	1,199,652	
Contribution to provident and other funds	49,238	45,062	
Staff welfare expenses	74,379	76,258	1,320,972
Freight, transport and distribution	<u>986,288</u>		1,044,659
General license fees (net of taxes)	609,362		555,180
Taxes on general license fees	95,190		92,827
Power and fuel	683,919		641,445
Contract manufacturing charges	282,378		280,420
Maintenance and repairs			
Plant and machinery	187,533	161,694	
Buildings	25,903	24,823	
General	44,255	42,037	228,554
Travelling	<u>206,578</u>		191,014
Rates and taxes	154,242		175,216
Rent	149,356		151,566
Milk collection and district development expenses	67,967		63,433
Information technology expenses	65,417		84,670
Deficit on fixed assets sold/scrapped	56,801		33,164
Consumption of stores and spare parts (excluding Rs.141,079 thousands charged to other revenue accounts, previous year Rs.134,469 thousands)	56,534		47,702
Market research	38,665		53,020
Training expenses	36,169		38,439
Laboratory (quality testing) expenses	26,907		19,885
Insurance	14,597		20,049
Miscellaneous expenses	202,057		252,399
	<u>6,959,298</u>		<u>6,848,752</u>

	2002 (Rs. in thousands)	2001 (Rs. in thousands)
<b>SCHEDULE L</b>		
<b>INTEREST</b>		
Interest on debentures and fixed loans	40,592	82,422
Others	20,153	16,182
	<u>60,745</u>	<u>98,604</u>
<b>SCHEDULE M</b>		
<b>ADJUSTMENT DUE TO (INCREASE)/DECREASE IN STOCK OF FINISHED GOODS AND WORK-IN-PROGRESS</b>		
Opening stock		
Work-in-progress	345,564	316,742
Finished goods	989,001	922,912
Less: Closing stock		
Work-in-progress	(367,738)	(345,564)
Finished goods	(1,061,725)	(989,001)
	<u>(94,898)</u>	<u>(94,911)</u>
	<u>(94,898)</u>	<u>(94,911)</u>
<b>SCHEDULE N</b>		
<b>PROVISION FOR CONTINGENCIES</b>		
<b>Balance as at December 31, 2001/2000</b>	1,009,214	857,423
Add: Created during the year	313,588	279,243
Less: Utilised/reversed during the year	—	(98,300)
Net provision taken to the Profit and Loss Account	<u>313,588</u>	<u>180,943</u>
	<u>1,322,802</u>	<u>1,038,366</u>
Less : Payments made under protest during the year (Total payments under protest upto December 31, 2002 - Rs.66,202 thousands)	<u>(37,050)</u>	<u>(29,152)</u>
<b>Balance as at December 31, 2002/2001</b> (Refer Note 3 - Schedule P)	<u>1,285,752</u>	<u>1,009,214</u>
<b>SCHEDULE O</b>		
<b>PROVISION FOR INCOME TAX</b>		
Current tax	1,233,000	925,051
Deferred tax	(113,630)	(78,864)
	<u>1,119,370</u>	<u>846,187</u>

**SCHEDULE P**
**NOTES TO THE ACCOUNTS**
**2002  
(Rs. in  
thousands)**
**2001  
(Rs. in  
thousands)**

1. Upto December 31, 2001, furniture and fixtures were being depreciated at the rate specified in Schedule XIV to the Companies Act, 1956. W.e.f. January 1, 2002, the Company has reviewed the useful life of furniture and fixtures and has revised downward the estimated useful life to five years. This change in policy has resulted in an increase in depreciation and reduction in profit before tax by Rs 38,059 thousands.
2. In the year 2002, the Institute of Chartered Accountants of India (ICAI) had issued an Accounting Standard on Impairment of Assets (AS-28) including assets employed in continuing businesses. Although, AS-28 is mandatory from financial years beginning 1.4.2004, it encourages early implementation, which has been subscribed to by the Company.

As required by AS-28, the Company has reviewed potential generation of economic benefits from fixed assets and concluded that some of the fixed assets employed in continuing businesses are currently not foreseen to generate adequate economic returns over their useful lives. Consequently, the fixed assets relating to Water and Instant Tea businesses have been written down to their recoverable amount, being the net selling price (determined based on a valuation) and fixed assets relating to a part of the Chocolates & Confectionery business have been written down to their recoverable amount, being the value in use.

Fixed Assets, being building and plant and machinery aggregating Rs. 202,256 thousands, employed in the Water Business have been written down to Rs 30,303 thousands. The impairment loss (Gross - Rs. 171,953 thousands; Net of deferred tax credit - Rs. 108,760 thousands) has been charged to the profit and loss account, as the impairment indicator, being low consumer off-take in a highly competitive market has arisen during 2002. The impairment loss in respect of buildings and plant and machinery is Rs 34,795 thousands and Rs. 137,158 thousands respectively. Full review of the business model is being undertaken.

Fixed Assets, being plant and machinery aggregating Rs. 70,153 thousands, employed in a part of the Chocolates & Confectionery business have been written down to Rs.33,773 thousands. The impairment loss (Gross—Rs 36,380 thousands; Net of deferred tax credit - Rs. 23,010 thousands) has been charged to the profit and loss account, as the impairment indicator, being low consumer off-take due to shift in consumer preference, has arisen during 2002. Future cash flows have been discounted by 12% to arrive at the value in use of these assets.

Fixed Assets, being building and plant and machinery aggregating Rs. 64,139 thousands, employed in Instant Tea Business have been impaired. The impairment loss (Gross - Rs. 64,139 thousands; Net of deferred tax credit - Rs. 40,568 thousands) has been charged to the General Reserve as at January 1, 2002, as the impairment indicator being continuing sluggish export market, was already existing prior to 2002. The impairment loss in respect of buildings and plant and machinery is Rs. 9,127 thousands and Rs. 55,012 thousands respectively.

3. The Company has created a contingency provision of Rs. 313,588 thousands (Previous year Rs. 279,243 thousands) for various contingencies resulting mainly from issues which are under litigation, management discretion and investments made by employees' trusts. The Company has also utilised / reversed contingency provision of Rs. Nil (Previous year Rs. 98,300 thousands).

	2002 (Rs. in thousands)	2001 (Rs. in thousands)
4. The Company has reclassified certain specialized fixed assets to align them better with those specified in Schedule XIV to the Companies Act, 1956, which has resulted in an exceptional depreciation charge of Rs 53,889 thousands (Gross - Rs 85,200 thousands less deferred tax credit of Rs 31,311 thousands) in relation to earlier years.		
5. The Company has contributed an amount of Rs. 55,000 thousands (Previous year Rs. 93,640 thousands) to the approved Gratuity Fund.		
6. Capital commitments remaining to be executed and not provided for	<b>24,388</b>	51,509
7. Auditors' remuneration and expenses in respect of		
a) Statutory Audit	<b>1,313</b>	1,313
b) Audit of accounts for fiscal year and tax audit	<b>531</b>	531
c) Limited review of half yearly results	<b>157</b>	157
d) Certification for royalty remittances and corporate governance (including Rs. 105 thousands relating to earlier years)	<b>333</b>	176
e) Audit of employee trust accounts and other certificates	<b>47</b>	68
f) Advice on taxation matters	<b>80</b>	20
g) Reimbursement of out of pocket expenses (including Rs. 165 thousands relating to 2001)	<b>506</b>	192
8. Managerial remuneration#		
Salaries	<b>12,388</b>	10,183
Commission to managing/whole-time director	<b>17,120</b>	11,850
Commission to non whole-time directors	<b>600</b>	600
Directors' sitting fee	<b>89</b>	104
Other perquisites	<b>7,248</b>	3,517
	<b>37,445</b>	26,254
# Includes Rs 7,002 thousands which is subject to the approval of shareholders in the general meeting.		
Computation of net profit in accordance with Section 198 of the Companies Act, 1956		
Net Profit after taxation and exceptional item	<b>2,015,184</b>	1,731,520
Add:		
Managerial remuneration	<b>37,445</b>	26,254
Net surplus/(deficit) on fixed assets sold/scrapped as per Section 350 of the Companies Act, 1956	<b>(56,868)</b>	(34,526)
Net deficit on fixed assets sold/scrapped as per accounts	<b>56,801</b>	33,164
Provision for income-tax (net of deferred tax credit on exceptional item)	<b>1,088,059</b>	846,187
Net Profit	<b>3,140,621</b>	2,602,599
Commission:		
- Amount	<b>17,720</b>	12,450
- Percentage of net profit	<b>0.56%</b>	0.48%
9. Exchange difference (net) amounting to Rs. 10 thousands credited (Previous year Rs. 8,257 thousands) to respective revenue heads in the profit and loss account.		



	2002		2001	
	(Rs. in thousands)	%	(Rs. in thousands)	%
10. Stores and spare parts consumed				
Imported	38,603	19.5	36,125	19.8
Indigenous	159,010	80.5	146,046	80.2
	<u>197,613</u>	<u>100.0</u>	<u>182,171</u>	<u>100.0</u>
11. Earnings from exports				
F. O. B. value of direct exports (including exports to Russia, Nepal and Bhutan)	2,220,528		2,869,978	
12. C. I. F. value of imports				
Components and spare parts	42,621		23,725	
Capital goods	112,883		95,407	
Raw materials	340,449		531,248	
Goods – Outside manufacture	69,108		73,865	
	<i>Qty</i>	<i>(Rs. in thousands)</i>	<i>Qty</i>	<i>(Rs. in thousands)</i>
	<i>(MT)</i>		<i>(MT)</i>	
13. Raw materials consumed				
Fresh milk	257,963	2,495,549	251,140	2,469,760
Green coffee	29,976	738,525	29,774	864,943
Vegetable oils	9,951	417,232	7,294	267,378
Sugar	29,407	414,511	24,238	369,629
Wheat flour	40,473	358,771	31,877	285,764
Cocoa based raw materials	1,395	184,329	1,259	126,435
Tomato paste	3,067	106,643	2,451	89,762
Black tea/ green leaf	4,559	99,498	4,962	132,869
Whey powder	814	65,429	699	55,674
Tapioca starch	4,237	53,355	4,045	58,169
Apple concentrate	913	44,364	862	44,537
Chicory	2,433	42,684	2,469	47,689
Processed coffee powder	—	—	868	180,080
Others (net of sale proceeds of by-products/surplus materials)		932,279		710,785
		<u>5,953,169</u>		<u>5,703,474</u>
	<i>(Rs. in thousands)</i>	<i>%</i>	<i>(Rs. in thousands)</i>	<i>%</i>
Of the above				
Imported	379,130	6.4	487,728	8.6
Indigenous	5,574,039	93.6	5,215,746	91.4
	<u>5,953,169</u>	<u>100.0</u>	<u>5,703,474</u>	<u>100.0</u>
14. Expenditure in foreign currency				
Travelling and training	17,319		10,804	
General license fees (net of tax)	609,362		555,180	
Ocean freight	129,900		225,231	
Other matters	40,011		35,501	

**15. Capacities, Production/Purchases, Stocks and Sales of Finished Goods**

Class of goods	Licensed Capacity (Annual) Quantity (MT)	Opening stock		Actual# Production & Purchases (MT)	Closing stock		Sales	
	Quantity (MT)	Quantity (MT)	Value (Rs. in thousands)		Quantity (MT)	Value (Rs. in thousands)	Quantity* (MT)	Value (Rs. in thousands)
Milk Products and Nutrition								
– Licensed	<b>72,502.50(a)</b> (72,502.50)	<b>4,244</b> (3,646)	<b>302,912</b> (257,003)	<b>43,439</b> (39,254)	<b>4,533</b> (4,244)	<b>313,956</b> (302,912)	<b>42,945</b> (38,447)	<b>5,220,480</b> (4,762,195)
– Others	<b>Not Applicable</b>	<b>2,272</b> (2,099)	<b>165,058</b> (145,948)	<b>39,151</b> (35,760)	<b>2,357</b> (2,272)	<b>185,612</b> (165,058)	<b>38,791</b> (35,335)	<b>3,629,343</b> (3,397,003)
Beverages	<b>Not Applicable</b>	<b>2,126</b> (1,829)	<b>239,161</b> (246,471)	<b>24,809</b> (27,782)	<b>1,422</b> (2,126)	<b>166,697</b> (239,161)	<b>25,451</b> (27,351)	<b>4,893,406</b> (5,626,913)
Prepared dishes and cooking aids	<b>Not Applicable</b>	<b>2,826</b> (2,785)	<b>117,087</b> (120,094)	<b>52,021</b> (40,278)	<b>4,471</b> (2,826)	<b>190,727</b> (117,087)	<b>50,117</b> (39,933)	<b>3,503,183</b> (2,764,335)
Chocolate and Confectionery	<b>Not Applicable</b>	<b>1,815</b> (1,653)	<b>164,783</b> (153,396)	<b>21,164</b> (17,730)	<b>2,240</b> (1,815)	<b>204,733</b> (164,783)	<b>20,496</b> (17,352)	<b>3,228,801</b> (2,646,359)
			<b>989,001</b> (922,912)			<b>1,061,725</b> (989,001)		<b>20,475,213</b> (19,196,805)

# Includes products manufactured by contract manufacturers on conversion basis.

\* Sales quantity includes goods withdrawn for sales promotion.

- (a) Includes 50,000 MT (50,000 MT) covered by Industrial Entrepreneurs Memorandums in terms of Notification No. 477(E) dated 25th July, 1991 of the Department of Industrial Development, Ministry of Industry, Government of India. Milk products comprises sweetened condensed milk, baby milk foods, milk powders, acidified infant food and other milk products which are covered by one class of goods.
- (b) The products are manufactured in integrated plants as certified by the Management on which the Auditors have relied. Hence, in respect of all the above class of goods, individual installed capacities cannot be given as they are mainly dependent on product mix.
- (c) Actual production & purchases include purchases of 8,906 MT (5,700 MT) in Milk products and Nutrition - Others, 62 MT (48 MT) in Beverages, 285 MT (654 MT) in Prepared dishes and cooking aids, 1,799 MT (2,475 MT) in Chocolate and Confectionery. The total value of these purchases is Rs. 418,656 thousands (Rs. 389,441 thousands).
- (d) Previous year's figures are indicated in brackets.

**16. Quantitative information in respect of other goods**

Class of goods	Opening stock		Purchases		Closing stock		Sales	
	Quantity (MT)	Value (Rs. in thousands)	Quantity (MT)	Value (Rs. in thousands)	Quantity (MT)	Value (Rs. in thousands)	Quantity (MT)	Value (Rs. in thousands)
Commodities	— (—)	— (—)	— (72)	— (4,213)	— (—)	— (—)	— (72)	— (4,536)
Others	— (—)	— (—)	— (—)	<b>1,031</b> (7,418)	— (—)	— (—)	— (—)	<b>1,733</b> (8,650)
				<b>1,031</b> (11,631)				<b>1,733</b> (13,186)

a) Previous year's figures are indicated in brackets.

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

	2002			2001		
	Number of Non-resident Shareholders	Number of Equity Shares held	Dividend remitted (Net of tax) (Rs. in thousands)	Number of Non-resident Shareholders	Number of Equity Shares held	Dividend remitted (Rs. in thousands)
Final dividend of 2000	—	—	—	2	49,416,048	296,496
1st interim	2	56,595,847	862,475	2	49,416,048	197,664
2nd interim	—	—	—	2	51,364,548	513,645

18. Earnings per share

	2002	2001
Profit after taxation as per profit and loss account (Rs in thousands)	2,015,184	1,731,520
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)	20.90	17.96

19. Segment reporting

Based on the guiding principles given in Accounting Standard on 'Segment Reporting' [(AS-17) issued by the Institute of Chartered Accountants of India] the Company's primary business segment is Food. The food business incorporates product groups viz. Milk Products and Nutrition, Beverages, Prepared dishes and cooking aids, Chocolates and Confectionery, which mainly have similar risks and returns. As the Company's business activity falls within a single primary business segment the disclosure requirements of AS -17 in this regard are not applicable.

20. Related party disclosures under Accounting Standard 18

**Holding companies:** Nestle S.A., Nestle's Holdings Ltd.

**Fellow subsidiaries are disclosed to comply with para 3 (a) of Accounting Standard -18 on "Related party Disclosures" albeit these do not control or exercise significant influence on Nestle India Ltd.:** Alcon India Pvt. Ltd., Eastern Food Specialties Ltd., Excelcia Foods Pvt. Ltd., Food Ingredients Specialties S.A., FIS Asia Pacific Services (Pte) Ltd., Goya Inc., JSC Khladoproduct, Nestle Milkpak Ltd., Nestec Ltd., Nestle (South Africa) (Pty) Ltd., Nestle Australia Ltd., Nestle Bangladesh Ltd., Nestle Brasil Ltd., Nestle Cameroun, Nestle Canada Inc, Nestle China Ltd., Nestle Taiwan Ltd., Nestle Foods Kenya Ltd, Nestle Food LLC, Nestle Foods (Thailand) Ltd., Nestle Foods (Malaysia) Sdn. Bhd., Nestle France S.A., Nestle Gida Sanayi A.S., Nestle Ghana Ltd, Nestle Hellas S.A., Nestle Hong Kong Ltd, Nestle Hungaria K.f.t., Nestle Italiana S.P.A., Nestle Jakarta, Nestle Japan Holding Ltd., Nestle Japan Administration Ltd., Nestle Korea Ltd., Nestle Lanka Ltd., Nestle Manufacturing (Thailand) Ltd., Nestle Maroc S. A., Nestle Middle East FZE, Nestle Milk (Thailand) Ltd., Nestle Nederland B.V., Nestle New Zealand Ltd., Nestle Panama S.A., Nestle Philippines Inc., Nestle Polska S.A., Nestle Products Sdn. Bhd., Nestle Romania SRL, Nestle R & D Center (Pte) Ltd., Nestle Shuangcheng Ltd., Nestle Singapore (Pte) Ltd., Nestle Suisse S.A., Nestle Taiwan Ltd., Nestle Tianjin Ltd., Nestle Trading (Thailand) Ltd., Nestle Tunisie, Nestle UK Ltd., Nestle USA Inc., Nestle Vietnam Ltd, P.T. Nestle Indonesia, Quality Coffee Products Ltd., Rennies Nestle Inhouse, Societe Des Produits Nestle S.A., UAB Nestle Baltics.

**Whole time directors':** Carlo M.V. Donati, Chairman & Managing Director; Jean-Marc Waelti, Director – Finance & Control (upto May 31, 2002), Michael T. Scales, - Director – Finance & Control (W.e.f. June 17,2002)

**Nature of transactions**

	2002 (Rs. in thousands)	2001 (Rs. in thousands)
<b>Holding companies: Dividends (Gross)</b>	<b>1,018,725</b>	711,309
<b>Fellow subsidiaries:</b>		
(a) Sale of finished and other goods	<b>1,849,787</b>	2,496,887
(b) Sale of Fixed assets	<b>1,018</b>	—
(c) Purchase of fixed assets	<b>12,695</b>	6,825
(d) Purchase of raw & packing materials, finished goods & spare parts	<b>147,154</b>	300,656
(e) General license fees	<b>609,362</b>	555,180
(f) Interest on inter corporate deposits	<b>24,783</b>	26,688
(g) Other services rendered	<b>6,425</b>	2,841
(h) Other services received	<b>15,347</b>	17,343
(i) Inter corporate deposits granted [Includes Rs. Nil (Previous year Rs. 303,950 thousands) guaranteed by Nestle S.A., the holding company]	<b>20,000</b>	303,950
(j) Inter corporate deposits refunded	<b>13,480</b>	5,000
(k) Balance outstanding as at the year end		
➤ Receivables (Refer note ii below)	<b>425,536</b>	445,646
➤ Payables	<b>133,116</b>	90,541

**Notes:**

- i. Inter corporate deposits were granted at the then prevailing market rate and a spread thereon.
- ii. Receivables include Rs 318,470 thousands (Previous year Rs 331,950 thousands) guaranteed by Nestle S.A., the holding company.
- iii. Details of remuneration to whole time directors' are given in the note 8 of the notes to the accounts.

21. The names of Small Scale Industrial Undertakings to whom the Company owe a sum, which is outstanding for more than 30 days as on December 31, 2002, are Borkar Packing Pvt. Ltd., M/s Chemline India Ltd., CPC Polymers Pvt. Ltd., Duotech Printers, Devindera Industry, Empire Packages Ltd., Gothi Plascon (India) Ltd., Kamet Plastics, Liddles Printing Works, New Color Screens Pvt. Ltd., Perfect Pack, Sri Sai Packaging, Suraksha Packers and Surya Print Process Pvt. Ltd. These amounts are not due for payment as per the terms and conditions of the purchase order/contract.

**22. CASH FLOW STATEMENT**

	2002 (Rs. in thousands)	2001 (Rs. in thousands)
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Net profit before interest (net) and tax</b>	<b>3,114,170</b>	2,620,137
<b>Adjustments for:</b>		
Depreciation	<b>494,030</b>	434,740
Depreciation, being exceptional item in relation to earlier years	<b>85,200</b>	—
Unrealized exchange differences	<b>1,295</b>	(155)
Provision for contingencies (net)	<b>305,691</b>	180,943
Provision for pension and gratuity (net)	<b>207,477</b>	151,441
Deficit on fixed assets sold/scrapped	<b>56,801</b>	33,164
Impairment loss on fixed assets	<b>212,464</b>	13,921
Interest received	<b>21,689</b>	27,041
<b>Operating profit before working capital changes</b>	<b>4,498,817</b>	3,461,232
<b>Adjustments for:</b>		
Decrease/(increase) in trade and other receivables	<b>53,853</b>	178,445
Decrease/(increase) in inventories	<b>(64,168)</b>	(63,274)
Increase/(decrease) in trade payables	<b>198,853</b>	48,653
<b>Cash generated from operations</b>	<b>4,687,355</b>	3,625,056
Direct taxes paid	<b>(1,332,811)</b>	(980,472)
<b>Net cash inflow from operations</b>	<b>3,354,544</b>	2,644,584

	2002 (Rs. in thousands)	2001 (Rs. in thousands)
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(646,905)	(557,894)
Sale of fixed assets	10,787	18,594
Interest received on inter corporate deposits	30,222	27,573
Inter corporate deposits (net)	63,480	(418,950)
<b>Net cash outflow from investing activities</b>	<b>(542,416)</b>	<b>(930,677)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings (net)	—	549,021
Repayment of borrowings (net)	(772,017)	—
Interest paid	(67,300)	(98,441)
Dividends paid	(1,735,619)	(1,922,112)
Corporate dividend tax	—	(196,689)
Capital subsidy received	1,000	—
<b>Net cash outflow from financing activities</b>	<b>(2,573,936)</b>	<b>(1,668,221)</b>
<b>Net increase in cash and cash equivalents (A+B+C)</b>	<b>238,192</b>	<b>45,686</b>
<b>Cash and cash equivalents as at opening</b>		
Cash and bank balances	42,124	101,039
Current Investments	104,601	—
<b>Cash and cash equivalents as at closing</b>		
Cash and bank balances	58,667	42,124
Current investments	326,250	104,601
<b>Cash and cash equivalents as at closing as restated</b>	<b>384,917</b>	<b>146,725</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>238,192</b>	<b>45,686</b>

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

#### 24. SIGNIFICANT ACCOUNTING POLICIES

##### ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, in accordance with applicable mandatory accounting standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

##### SALES

Sale of goods is recognised at the point of despatch to the customer. Sales include excise duty but exclude sales tax.

##### 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:

Stores, spare parts, raw materials and packing materials	: Weighted average cost
Work-in-progress and finished goods	: Material cost plus appropriate share of production overheads and excise duty, wherever applicable

##### RETIREMENT BENEFITS

Provision for pension and gratuity, is made on the basis of an actuarial valuation carried out by an independent actuary as at the year-end.

## DEPRECIATION

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 equipments	: 3 years
Furniture and fixtures and Vehicles	: 5 years
Leasehold improvements	: Lease period.

## IMPAIRMENT OF FIXED ASSETS

Consideration is given at each balance sheet date 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 recognized 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.

## TAXATION

The provision for taxation for the year comprises the residual tax liability for assessment year 2002-2003 relevant to the period April 1, 2001 to March 31, 2002 and the liability which has accrued on the profit for the period April 1, 2002 to December 31, 2002.

Deferred tax is recognised, subject to the consideration of prudence, on timing differences, 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

Contingent liabilities are disclosed after a careful evaluation of the facts and legal aspects of the matter involved.

## 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.

## INVESTMENTS

Investments are classified into current and long-term investments. Current investments are stated at the lower of cost and fair value. Long term investments are stated at cost.

## FOREIGN EXCHANGE TRANSACTIONS

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. In the case of liabilities incurred for the acquisition of fixed assets, the loss or gain on conversion (at the rate prevailing at the period end or at the forward rate where forward cover has been taken) is included in the carrying amount of the related fixed assets.

Current assets and liabilities (other than those relating to fixed assets) are restated at the rate prevailing at the period end or at the forward rate where forward cover has been taken. The difference between the period end rate and the exchange rate at the date of the transaction is recognised as income or expense in the profit and loss account. In respect of transactions covered by forward exchange contracts, the difference between the contract rate and the rate on the date of the transaction is recognised as income or expense in the profit and loss account over the life of the contract.

## 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 31<sup>st</sup> December, 2002.

### A. CONSERVATION OF ENERGY

#### (a) Energy Conservation Measures Taken

Focus continued on the measures for the conservation and optimal utilisation of energy in all areas of Company's operations, including those for energy generation and effective usage of sources/equipment used for generation. The Company has an Energy Management System, which is in operation since 1997, which facilitates continuous improvement in the area of energy usage. Some specific measures taken during 2002:

- Reduction in utilisation of steam in Noodles manufacturing by continuous monitoring.
- Reduction of Heavy Petroleum Stock usage in hot air generation.
- Installation of more solar heaters in place of electric geysers in milk chilling centres.
- Installation of additional frequency drives in fans in the boiler and air heater.
- Modification of coffee grounds feeding arrangement and increasing its consumption, for steam generation.
- Further improvement in DG Sets yield with installation of Low Temperature Aftercoolers.
- Usage of Light Diesel Oil for Roasters and DG sets, in place of High Speed Diesel.

#### (b) Additional investment

Following proposals are at various stages of implementations:

- Installation of heat recovery system on roasters.
- Installation of variable frequency drives on fans.
- Installation of condensate recovery system on low pressure steam.
- Installation of energy efficient motors and tube lights.

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

The measures taken during 2002, including measures initiated in the past in the above direction have facilitated efforts for conservation of energy and helped contain the energy costs.

#### (d) Energy consumption

Energy consumption as per prescribed Form A together with the comparative figures for 2001, is given at the end of this Part. As has been clarified in the past years, 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. It is also not authentically possible to arrive at the energy consumption for each source per unit of production achieved by the use of that source of energy as required by the second part of the Form. This is for the reason that the Company manufactures varieties of products each of them using a combination of various sources of energy in different proportions. Therefore, even if an attempt is made to present the information as per the prescribed format, the information is most likely to be misleading.

### B. TECHNOLOGY ABSORPTION

Efforts made in technology absorption as per Form B are furnished below.

#### Research & Development (R&D)

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

Your Company as a part of Nestle Group and under the General Licence Agreement has access to and the advantage of drawing from the extensive central Research and Development efforts and activities of the Nestle Group. Nestle 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

Benefits accruing as a result of Research and Development (R & D) is reflected in the position your Company enjoys in the food industry with products that are perceived by the consumers as a high value for their money. Product innovation and renovation is sustained due to the R&D. Besides, R&D benefits in high product quality, improvement in yield, input substitution and more efficient operations.

##### 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, with aim of offering better products at relatively affordable prices to the consumers.

##### 4. Expenditure on R&D

Your Company benefits from the extensive centralised Research and Development (R&D) activity and expenditure for the Nestle Group, with an annual outlay exceeding one billion Swiss Francs. Expenditure of the Company in the nature of Research and Development, that is incurred

locally primarily relates to testing and modifying of products for local conditions, is as under:

	Rs. in thousands
(a) Capital	3,314
(b) Recurring	26,907
(c) Total	30,221
(d) Total R&D as a percentage of total turnover	0.15%

#### Technology absorption, adaptation and innovation

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

As a result of the Company's access to the international technology from Nestle Group, Switzerland, the Company absorbs and adapts the technologies on a continuous basis to meet its specific needs from time to time.

##### 2. Benefits derived as a result of the above efforts

Product innovation and renovation, improvement in yield, product quality, input substitution, cost effectiveness and energy conservation are the major benefits.

##### 3. Imported Technology

All the food products manufactured and / or sold by the Company are by virtue of the imported technology received on an ongoing basis from the Collaborators. Technology transfer has to be an ongoing process and not a one-time exercise, for the Company to remain competitive and offer high quality and value for money products to the consumers. This has been secured by the Company under the umbrella General Licence Agreement with the Collaborators and provides access for import of technology and improvements thereof, for the product categories, manufactured / sold by the Company.

### C. FOREIGN EXCHANGE EARNINGS AND OUTGO

#### (a) Activities relating to exports; initiatives taken to increase exports; development of new export markets 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 achieved Exports of Rs. 2,362 million, representing 11.53 % of the Company's sales turnover. Details of earnings from exports and foreign exchange outgo on account of imports, expenditure on travelling, know-how, royalties etc. and remittances made to non-resident shareholders on account of dividend are shown in Notes 11, 12, 14 and 17 respectively of Notes to the Accounts. Members are requested to refer to these Notes.

**FORM A**
**CONSERVATION OF ENERGY (CONSOLIDATED)**

<b>(A) Power and Fuel Consumption</b>	<b>2002</b>	<b>2001</b>
1. Electricity		
(a) Purchased		
Units (000'KWH)	<b>47,250</b>	43,972
Total Cost (Rs. in thousand)	<b>175,583</b>	158,950
Cost/KWH (Rs.)	<b>3.72</b>	3.61
(b) Own Generation		
(i) Through Diesel Generator		
Units (000'KWH)	<b>32,815</b>	34,183
Units per litre of diesel oil (KWH)	<b>3.61</b>	3.58
Cost/KWH (Rs.)	<b>4.70</b>	4.69
(ii) Through Steam Turbine/Generator		
Units (KWH)	—	—
Units per litre of fuel	—	—
Oil / gas (KWH)	—	—
Cost / KWH (Rs.)	—	—
2. Coal (Various grades)		
Quantity (Tonne)	<b>26,650</b>	26,006
Total Cost (Rs. in thousand)	<b>85,595</b>	82,568
Cost / Tonne (Rs.)	<b>3,211.82</b>	3,174.94
3. Furnace Oil		
Quantity (KL)	<b>11,724</b>	11,544
Total Cost (Rs. in thousand)	<b>132,154</b>	112,262
Cost / KL (Rs.)	<b>11,272.05</b>	9,724.80
4. Other Consumption of Fuel		
(a) High Speed Diesel Oil		
Quantity (KL)	<b>1,748</b>	1,638
Total Cost (Rs. in thousand)	<b>29,678</b>	28,174
Cost / KL (Rs.)	<b>16,977.26</b>	17,197.89
(b) Heavy Petroleum Stock		
Quantity (KL)	<b>5,438</b>	5,829
Total Cost (Rs. in thousand)	<b>63,065</b>	56,346
Cost / KL (Rs.)	<b>11,597.17</b>	9,667.04
(c) Non-Conventional Fuel-Coconut Shells		
Quantity (Tonne)	<b>12,770</b>	12,895
Total Cost (Rs. in thousand)	<b>26,368</b>	24,668
Cost / Tonne (Rs.)	<b>2,064.86</b>	1,913.00
(d) Liquid Petroleum Gas		
Quantity (Tonne)	<b>446</b>	329
Total Cost (Rs. in thousand)	<b>8,732</b>	7,370
Cost / Tonne (Rs.)	<b>19,578.34</b>	22,400.82



# NESTLÉ INDIA LIMITED

## Balance Sheet Abstract and Company's General Business Profile

**I. Registration Details**

Registration No.

0 0 3 7 8 6

State Code

5 5

Balance Sheet Date

3 1

1 2

2 0 0 2

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

Public Issue

N I L

Rights Issue

N I L

Bonus Issue

N I L

Private Placement

N I L

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

Total Liabilities

3 5 2 0 0 5 1

Total Assets

3 5 2 0 0 5 1

Sources of Funds

Paid-Up Capital

9 6 4 1 5 7

Reserves &amp; Surplus

1 9 2 8 8 2 9

Secured Loans

6 2 7 0 6 5

Unsecured Loans

N I L

Application of Funds

Net Fixed Assets

3 9 3 7 6 0 4

Investments

3 2 6 2 6 0

 + -  
+ -

Net Current Assets

6 2 4 7 6 3

Miscellaneous Expenditure

N I L

Accumulated Losses

N I L

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

Turnover (Gross Revenue)

2 0 7 5 5 7 7 4

Total Expenditure

1 7 0 4 1 2 7 9

 + -  
+ -

Profit/Loss Before Tax

3 1 8 8 4 4 3

 + -  
+ -

Profit/Loss After Tax

2 0 1 5 1 8 4

Earnings Per Share in Rs.

2 0 . 9 0

Dividend Rate %

1 8 0

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

Item Code No. (ITC Code)

1 9 . 0 1 . 0 0 0 0

Product Description

P R E P A R A T I O N O F

M I L K C R E A M A N D C E R E A L S

Item Code No. (ITC Code)

2 1 . 0 1 . 0 0 0 0

Product Description

S O L U B L E C O F F E E S

C O F F E E B L E N D S A N D T E A

Item Code No. (ITC Code)

1 9 . 0 2 . 0 0 0 0

Product Description

N O O D L E S