



CORPORATE INFORMATION

MANAGEMENT COMMITTEE

Martial G. Rolland - Chairman & Managing Director
Rajiv Deraniyagala – Marketing
Shobinder Duggal – Finance & Control
Wim Van Geffen – Supply Chain
Shivani Hegde – Additional Channels
Malcolm Lobo – Globe
Virat Mehta – Communications
B. Murli – Legal and Company Secretary
Beda Rust – Technical
H. K. Singh – Human Resources
R. Singh – Corporate Affairs and Strategic Planning
Anup Kumar Srivastava – Sales

BANKERS

ABN Amro Bank N.V.
BNP Paribas
Citibank N.A.
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

M-5A, Connaught Circus, New Delhi 110 001
Ph: 011 - 2341 8891

REGISTRAR & TRANSFER AGENTS

MCS Limited
W-40, Okhla Industrial Area, Phase II
New Delhi – 110 020
Ph : 011 - 26384909 Fax : 011 - 26384907

HEAD OFFICE

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

BRANCH OFFICES

Spencer Plaza, 6th Floor 769, Anna Salai, Chennai - 600 002 (Tamil Nadu)
7, Hare Street, Kolkata - 700 001 (West Bengal)
Hiranandani Gardens, Main Street, 4th Floor,
Colgate Research Centre Building, Powai, Mumbai - 400 076 (Maharashtra)
M-5A, Connaught Circus, New Delhi - 110 001

FACTORIES

Village Maulinguem (North), Bicholim Taluka - 403 504 (Goa)
Ludhiana-Ferozepur Road, Near Kingwah Canal, Moga - 142 001 (Punjab)
Industrial Area, Nanjangud - 571 301 Mysore District (Karnataka)
P.O. Cherambadi - 643 205 Dist. Nilgiris (Tamil Nadu)
Patti Kalyana, Kiwana Road, Samalkha - 132 101 Dist. Panipat (Haryana)
Plot No. 294-297, Usgao 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

Friday, 29th April, 2005 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.

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DIRECTORS' REPORT

Dear Members,
Your Directors have pleasure in submitting their report and the statement of accounts for the year ended 31st December, 2004.

Financial Results and Operations

	(Rs. in Millions)	
	2004	2003
Gross Revenue	22,420	21,684
Earning before Interest, Tax and Depreciation excluding Other Income (EBITDA)	4,510	4,447
Interest	8	19
Depreciation	491	463
Impairment Loss on Fixed Assets (Net)	23	22
Provision for Contingencies (Net)	267	230
Provision for Tax	1,346	1,361
Net Profit	2,519	2,631
Profit Brought Forward	443	250
Balance Available for Appropriation	2,962	2,881
Interim Dividends Paid	1,928	1,928
Final Dividend Proposed	434	–
Corporate Dividend Tax	313	247
Transfer to General Reserves	252	263
Surplus carried in Profit and Loss Account	35	443

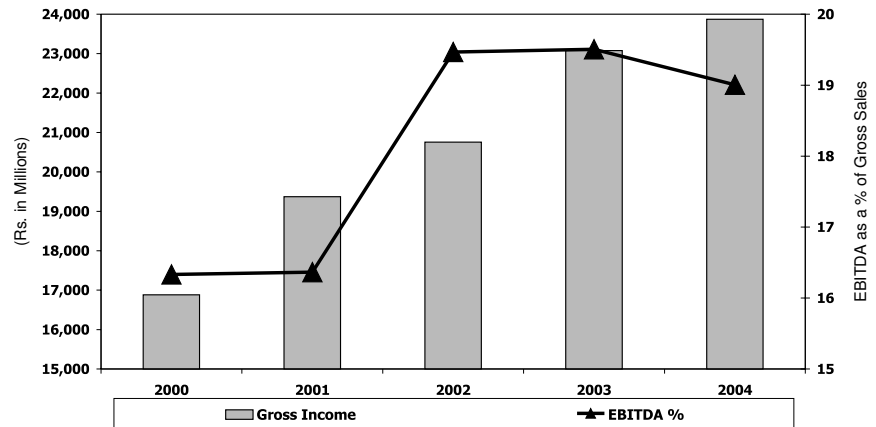
Key Ratios

Earnings per Share (Rs.)	26.13	27.29
Dividend per Share (Rs.)	24.50	20.00

Domestic Sales grew by 5.3% in value and 4.5% by volume, during the year. Export Sales decreased by 5.3% in value terms and grew in volume by 11.1%.

Net Profit for the full year has decreased from 12.1% of Gross Revenue in 2003 to 11.2% in 2004 and EBITDA as a percentage of Net Sales decreased from 20.8% in 2003 to 20.2% in 2004. These decreases are mainly due to the increase in commodity prices, particularly in milk solids, which have not been entirely passed on to the

GROSS INCOME



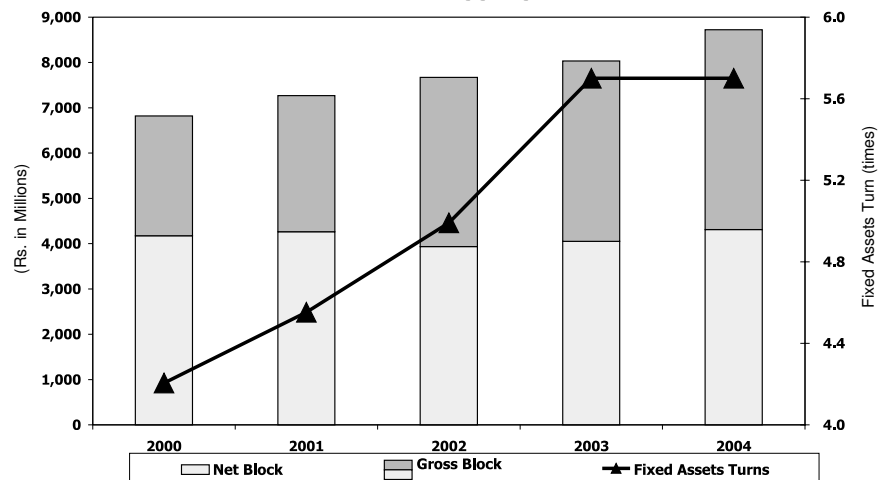
consumers. Nestlé Group saving initiatives, mainly Target 2004+, that focused on manufacturing processes, optimisation of line efficiencies/occupation, raw and packing materials, energies etc. facilitated in mitigating the adverse impact of a steep increase in input costs and controlling other costs throughout the year.

Out of business prudence, the Company supplemented the Contingency Provision with a further amount of Rs.266.9 Million (Net) in 2004, to provide for various contingencies resulting mainly from matters

relating to litigation/ dispute and other items requiring management judgement and discretion. This was partially offset by the write back of Rs.114 Million provision, consequent to the satisfactory conclusion of certain matters under litigation.

A slow down in consumer demand has been apparent in recent years and 2004 was challenging. Even under these circumstances, your Company achieved a satisfactory EBITDA/Net Sales ratio of 20.2% and performed better than most other comparable companies in the industry.

FIXED ASSETS



The overall performance of your Company can be considered satisfactory.

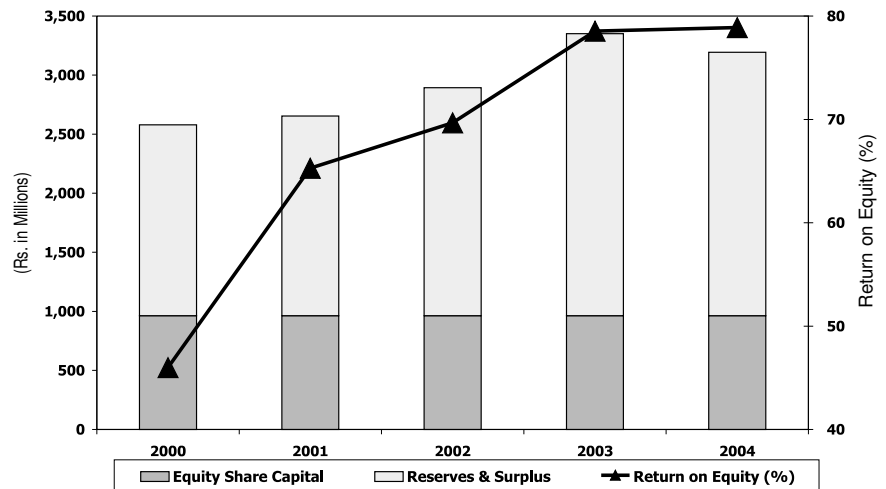
Though the GDP growth during the year was healthy, there was a shift in consumer spending towards asset building and non-food related lifestyle changes, driven by low cost credit widely available to the consumers, which diverted some consumer demand from FMCG products.

The first half of the year also witnessed an uncertain economic environment, with several landmark events such as the parliamentary elections, the change in the government at the centre, crash in the stock market and an inflationary upsurge in the economy.

Your Company focused on maintaining market share of products, improving organisational structures, increasing penetration into newer territories and controlling costs. 'Value for money' and 'affordability' remained thrust areas and the Company took a conscious decision not to pass on the entire increase in commodity prices to consumers. The Company increased its efforts to make Nestlé products more visible and conveniently available and to ensure greater freshness of products on the retailer shelves. Investments in brands were sustained during the year and the Company continued with initiatives to further improve products and gain consumer insights.

Your Company is stable and healthy, with strong fundamentals and is focused on long term, sustainable and profitable growth. The Company follows an economic model that comprises seven value drivers that are a mix of sales growth, profit margins and capital efficiency. It also follows four strategic pillars to achieve sustainable competitiveness - Low cost highly efficient operations; Innovation and Renovation; Product Availability – Whenever, Wherever, However; and Consumer Communication.

SHAREHOLDERS' FUNDS

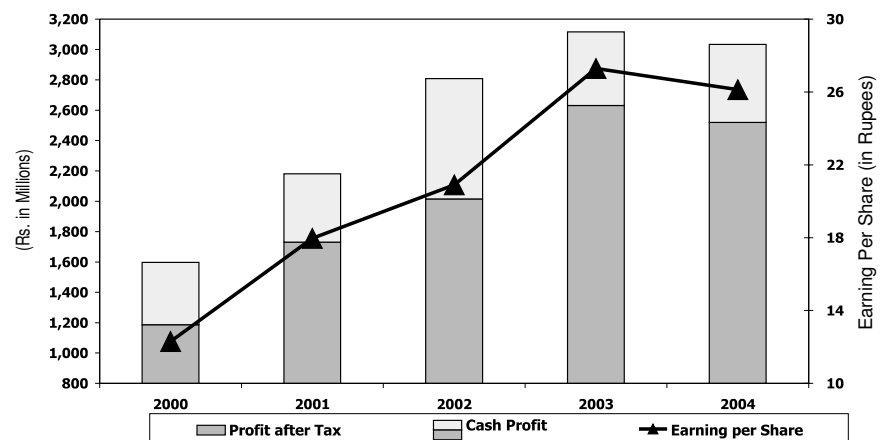


Your Company will continue to leverage its strengths to generate demand in the future. Access to the Nestlé Group's proprietary technology, strong brands and extensive centralised Research and Development facilities, the culture of innovation and renovation within the Company and focus on adding value to the consumer, will help the Company grow to its potential. The Company will continue to direct its efforts to control costs, improve penetration in newer geographies and focus on the management

of prices. This should sustain return to shareholders. We remain confident of the long-term business prospects of the Company.

The current year has commenced as per plan. The Company has put into action certain initiatives that will further strengthen the professionalism and teamwork within the Company and enable the Company to progress in an increasingly competitive market.

EARNINGS



Exports

The Company once again emerged as the highest Coffee exporter from India and the highest exporter of value added Instant Coffee.

Export Sales during 2004 at Rs. 2,435 Million, have decreased by 5.3% in value terms, mainly due to the shift in composition of Instant Coffee exports to Russia, from retail to bulk packs. However, in volume terms Export Sales increased by 11.1% mainly supported by export of infant nutrition products within the South Asian region, which commenced during the year. This helped to offset the drop in sales of NESCAFÉ Instant Coffee to Russia. The Company is working towards further developing exports to SAARC countries during the current year. Instant Tea exports continued to do well, buoyed by the sales of Instant Green Tea to Japan. Export of culinary products continued to show healthy growth.

The efforts to develop new products and geographies to broaden the Company's export portfolio, helped to reduce dependence on export of Instant Coffee to Russia. Export of products excluding NESCAFÉ Instant Coffee to Russia, constituted around 43% of the export sales, as against 25% in 2003.

Initiatives to develop products for the Indian ethnic community abroad are continuing. During 2004 the Company test launched a range of 'Ready-to-cook' pastes in United States of America and Canada under the MAGGI brand.

Dividends

In view of the good cash flows during 2004, the Board of Directors have recommended a special Dividend of Rs.4.50 per equity share, amounting to Rs. 433.9 Million, mainly

out of undistributed profits of the previous financial years.

This is in addition to the two interim dividends for 2004, of Rs. 10/- each, aggregating to Rs. 20/- per equity share (amounting to Rs.1928.3 Million), paid during 2004.

The Directors consider it fit to pay a special Dividend, to return to the shareholders the excess liquidity, for which there are no plans for alternate deployment. The Dividend, if approved, will be paid to the shareholders, whose names appear on the Register of Members, determined with reference to the book closure from 25th April, 2005.

Business Development

The Company is committed to provide consumers with high quality, safe food products that add value to the consumer. In order to do this, the Company continuously focuses its efforts to better understand the changing needs of the consumer, regularly conducts research and monitors consumer panels to anticipate consumer needs. Based on this the Company constantly reviews its product portfolio, innovates and renovates products to cater to the consumer preferences and for long term, sustainable and profitable growth.

During the year, prudent management of input costs and price points, improved distribution and penetration in the markets and more efficient supply chain management has helped the Company to maintain market shares in most categories.

With changing lifestyles, consumers in modern India are seeking food products that provide greater convenience, enable them to manage their well-being and enhance their physical and mental performance. Taste and pleasure continue to be important in the choice of food but health and nutrition are

becoming important considerations for consumers. The Company is aware of this and is working on initiatives to provide consumers with products that they prefer and value.

The Company implemented various initiatives during the year to strengthen its brands and stressed on more impactful consumer communication. This included use of more creative techniques and popular personalities for NESTLÉ MUNCH, MAGGI 2-Minute Noodles, MAGGI Ketchup and Sauces and for NESCAFÉ SUNRISE. In the Chocolates and Confectionery category, the Company rationalised the prices of NESTLÉ KITKAT, which reflects the Company's appreciation of consumer purchase behaviour. These initiatives are expected to strengthen the brand recall with the consumers and support efforts to increase market shares.

In 'Prepared Dishes and Cooking Aids', MAGGI products remained strong. MAGGI 2-Minute Noodles increased in volume and the Company continues to have the highest sales volume amongst all Nestlé companies. MAGGI Sauces continue to be the leader in the market, but in the face of aggressive competition, the performance was not satisfactory during the year.

Continuing activities to connect better with the consumers have helped the 'Chocolates and Confectionery' category to bring back the consumers' trust and in the past few months sales trends have improved. Most of the Nestlé brands are performing as planned. Both NESTLÉ MUNCH and NESTLÉ KITKAT are growing faster than the industry and NESTLÉ MUNCH is the largest selling Stock Keeping Unit (SKU) in the segment. The launch of NESTLÉ Coffee Eclairs and NESTLÉ Chocolate Eclairs during the year further reinforced the

Company's leadership in the segment, where the Company is already present with NESTLÉ MILKYBAR Eclairs, NESTLÉ Eclairs and POLO Lozenges. These products have further strengthened the presence of the Company products in the smaller outlets. The performance of NESTLÉ CHOCOSTICK has not been satisfactory and the product is under review for corrective action.

In the 'Beverages' category, the Company has performed satisfactorily. NESCAFÉ, which is the largest Instant Coffee brand in the world, continued to be the leader and the largest brand of Instant Coffee in the Indian market. Continuous innovation and renovation to keep the product and brand top of mind and communicate the value it provides the consumer, is helping it to grow satisfactorily. In the recent past, the Company has been reviewing the performance of MILO Chocolate Energy Food Drink, which has been impacted in an extremely competitive market environment. The Company developed MILO with 'Badam Shakti', which was launched in select cities of Tamil Nadu, during the latter part of the year. The performance of MILO with 'Badam Shakti' is being monitored.

In the 'Milk Products and Nutrition' category, the Company continued to focus on introducing products that leverage the Nestlé Group's Know-how and Research and Development competence. During 2003, the Company had launched the NESTLÉ DEVELOPMENTAL NUTRITION PLAN and CERELAC 123 wheat based weaning food, which is backed by continuous and ongoing research at the worldwide Research and Development facilities of the Nestlé Group. This was a major breakthrough in infant feeding. During the third quarter of 2004, the Company has also launched NESTUM 123, which is a rice based weaning food, to

ensure the right eating experience at the right stage of development for the infant. NESTUM 123 also incorporates Nestlé Group's unique Z-line technology that makes the product easy for the infant to digest.

Using its knowledge of infant nutrition and local needs, the Company introduced NESTUM Ragi in the Southern market and LACTOGEN 3 in select geographies, to provide proper nutrition at the appropriate stage. Also, since India has a high incidence of 'low birth weight infants', who require specialised nutrition, the Company utilised its access to the technology from the Nestlé Group to introduce PRE-LACTOGEN.

EVERYDAY Dairy Whitener, continued to boost sales with good volume growth, but MILKMAID Sweetened Condensed Milk did not perform as per plan. Corrective action is being taken to improve performance of MILKMAID SQUEEZY, that was introduced as topping, in a convenient and innovative packaging.

In the area of 'UHT Milk and Chilled Dairy', the Company continued its efforts to provide consumers with products that add value. The Company launched NESTLÉ Sweet Lassi during the year, developed as a ready to drink convenience product providing refreshment, nutrition and wellness. This will enable the Company to provide consumers with a wider portfolio of value added products that includes NESTLÉ Dahi, NESTLÉ UHT Milk, NESTLÉ Butter, NESTLÉ Mishti, NESTLÉ Fruit 'n Dahi and NESTLÉ Fruit 'n Milk as a ready to drink beverage. The market performance of the liquid UHT Milk is currently below expectations and a full review is being undertaken.

The continuing initiatives of the Alternative Trade Channel unit to tap opportunities for

out of home consumption, delivered very satisfactory results. 'Value for money' and 'affordability' continued to be thrust areas and the Company increased the number of "Coffee Corners", "Nestlé Consumption Zones" and placement of various vending machines for NESCAFÉ Instant Coffee, NESTEA, NESTLÉ Badam Milk and MAGGI Hot Cup Soup, at carefully selected sites across the country. The Company continued its efforts to provide solutions for emerging needs in the market. This helped the Company to arrange for the development of new and superior multi-option beverage vending machines for offices and institutions and further add value to consumers.

Technology and Quality

The Company has access to the most advanced technology in the world through the General Licence Agreement with Nestlé Group, Switzerland. The Company is consistently leveraging this strength to provide consumers in India with products that add greater value to them because of this technological superiority. During 2004, a project has been initiated to upgrade the production technology for infant nutrition products at the Samalkha factory. When the new facilities are ready for commercial production later this year, Samalkha factory will be amongst the top ten production facilities in Nestlé Group worldwide, for the manufacture of infant nutrition products.

Manpower Development

The Company has consistently emphasised the need for improved white-collar productivity. To enable this the Company provides employees with appropriate access to training including international exposures, where relevant, that help them improve their skills and capabilities. During 2004, the Training and Development and manpower

initiatives also included structured programmes on '360 Degree Feedback' to improve leadership capabilities.

Sales Branches

The Company has focused on sustainable and profitable growth and is systematically leveraging the opportunities that may exist in the vast geographies of the country. Recognising the need for a more flexible sales force capable of tapping emerging opportunities, the Company had restructured the sales organisation during the latter part of 2003 and created mother branches with multiple regional sales offices within each branch. This is expected to help the sales force go deeper into the market, to understand the market and the consumer needs more effectively and to identify opportunities for further growth. With the sales structure that was put in place beginning to stabilise, the Company has, during the year, significantly increased the outlets that retail its products.

Supply Chain

With increasing market penetration and larger coverage of geographies, the Company has initiated efforts to ensure that the supply chain and distribution structure remains efficient. In order to strengthen these efforts to improve the distribution of Stock Keeping Units (SKU's) across retail outlets and to improve the quality of sales and consumer satisfaction, the Company has implemented web related processes to increase efficiencies in supply chain and order planning. During the year, the Company also initiated the rationalisation of stocks in order to increase the freshness of stocks available to the consumer. These initiatives are necessary to maintain the high quality that Nestlé Guarantees the consumer.

SWOT Analysis for the Company

Strengths :

- Access to the Nestlé Group's proprietary technology/brands, expertise and the extensive centralised Research and Development facilities under the General Licence Agreement.
- High quality, safe food products at affordable prices, endorsed by the Nestlé Seal of Guarantee.
- Strong and well differentiated brands with leading market shares.
- Ongoing product innovation and renovation, to convert consumer insights.
- Well diversified product portfolio.
- Efficient supply chain.
- Distribution structure that allows wide reach and coverage in the target markets.
- Capable and committed human resources.

Weakness :

- Exports of coffee to Russia constitutes substantial part of overall exports.
- Complex supply chain configuration.

Threat :

- Indications of shift in consumer spending towards asset building and non-food related life style changes, diverting consumer demand for FMCG products.
- Rising prices of raw materials and fuels.
- Change in fiscal benefits.

Opportunities :

- Potential for expansion in the smaller towns and other geographies.
- Potential for growth through increased penetration.
- Growing trend for 'out of home' consumption.

- Leverage Nestlé Technology to develop more products that provide Nutrition, Health and Wellness.

GLOBE (Global Business Excellence)

During the year 2003, the Company commenced participation in this global Nestlé initiative to create and adapt common business processes, permitting adoption of best practices, standardisation of internal and external master data and standardisation of the information systems infrastructure. This is being done after a full review of the existing business processes and procedures and takes into account the country specific and complex requirements for the Company. The Company has been steadily progressing the implementation of GLOBE (Global Business Excellence) in order to stay equipped to handle future business requirements. Supported by SAP, the Company is expected to GO LIVE (or transit from legacy system to SAP), using the GLOBE methodology during the first half of 2005.

GLOBE will enable the Company to adopt the best practices and help gain operational efficiencies by implementing sophisticated and integrated information technology systems, much needed for a complex value chain. GLOBE is a substantial investment, necessary to retain the ability of your Company to react and respond more efficiently to the demands of the consumers and shareholders. Its implementation scheduled during 2005, is likely to adversely impact the cost of your Company in the short run, to avail of the benefits in the future. GLOBE is an investment for the future, where accurate and timely information and operational excellence are seen as the drivers of future growth.

Contributions to the Exchequer

Your Company is a leading tax payer and over the years has been contributing significantly to various taxes. During the year 2004, the Company through its operations, contributed (directly and indirectly) towards tax collections at Central and State level, close to Rs. 6.2 Billion in the aggregate.

Community Development

Your Company has been a partner in India's growth for the past four decades and supports initiatives that improve the economic security of its people. The Company has always promoted the spirit of social responsibility and community development and believes that this can be achieved by nurturing the culture of honesty, integrity, transparency, respect and recognising the interest of its shareholders, consumers, employees, business partners and suppliers. Your Company endorses the UN's Global Compact that wants companies to take a long-term view to promote prosperity in the society.

In Moga, when your Company set up its first factory, there was no infrastructure and virtually no milk supply that could sustain commercial production of products. Your Company encouraged systematic development and injected resources into the system. It worked with the local community to gradually build confidence in the milk trade without compromising customs and sentiments. Your Company introduced Nestlé Group's expertise and know-how in Agricultural Services to educate, advise and help the farmers in a variety of aspects. The Company invested substantially to establish milk collection centers, with cooling tanks and milking machines and farmers were provided training in breeding and feeding practices and methods to increase

the yield of their herds. Your Company's efforts had a multiplier effect on the development of the region and transformed Moga into a prosperous and vibrant milk district.

Your Company is fully integrated into the social, cultural, and economic life of the country and continues to facilitate and promote community projects around its factories. These included investments to provide children in government schools clean drinking water facilities, participation in immunisation programmes, renovation of local schools by provision of basic facilities and arranging of free medical camp for villagers. The Company is also conducting other campaigns that directly benefit the local communities. These focus on 'Health and Wellness', 'Education and Training' and 'Public Health and Hygiene' to empower women and children in the local communities and to help them improve the quality of their lives.

Tsunami Relief

Just prior to the year end the country was drawn into the totally unexpected Tsunami disaster. This was amongst the worst disasters that the world has faced and the entire Nestlé family responded to the process of relief and rebuilding. The Company supplied UHT Milk, Sweetened Condensed Milk and Instant Noodles to the affected people through the Indian Red Cross and the Swiss Agency for Development and Cooperation. The Company's sampling vehicles supplied NESCAFÉ Instant Coffee and ready-to-drink MILO Chocolate Energy Food Drink to the victims. Voluntary donations by employees from their salaries were matched with cash contribution by the Company and given to the Prime Minister's Relief Fund.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same;
- they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profits for that period;
- they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- they have prepared the annual accounts on a going concern basis.

Corporate Governance

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

Cautionary Statement

Statements in this Report, particularly those which relate to Management Discussion and Analysis as explained in the Corporate Governance Report, describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations.

Actual results might differ materially from those either expressed or implied in the statement depending on the circumstances.

Directors

Your Directors appointed Mr. Martial Gildas Rolland as the Managing Director of the Company, for a period of five years with effect from 11th December, 2004, pursuant to the nomination received from Nestlé S.A., Switzerland, under the Articles of Association of the Company, in place of Mr. Carlo M. V. Donati, who relinquished office. Mr. Rolland is well qualified and has had a distinguished career with varied international experience including an earlier three years posting in India. His appointment is appropriate and in the best interest of the Company.

Mr. Carlo M. V. Donati, relinquished office as the Managing Director with effect from 10th December, 2004, consequent upon his appointment as the Worldwide Chairman and CEO of Nestlé Waters and as a member of the Executive Board of Nestlé S.A., Switzerland. Mr. Donati assumed office as Managing Director of the Company in July, 1998 and his contributions are reflected in the sustained healthy performance of your Company during his tenure. The Directors wish to place on records their sincere thanks and appreciation for the leadership and contributions of Mr. Donati, which has helped your Company, reach the current position.

Your Directors appointed Mr. Shobinder Duggal as a Whole-time Director, designated as Director - Finance and Control, for a period of five years with effect from 10th May, 2004. Mr. Duggal has been appointed as a Director, pursuant to the nomination received from Nestlé S.A., Switzerland under the Articles of Association of the Company and in place of Mr. Michael T. Scales, who relinquished office. Mr. Duggal is well qualified, has had a distinguished career

with the Company and experience in diverse areas of finance, both in India as well as in Switzerland, at the Headquarters of Nestlé S.A., Switzerland. His appointment is appropriate and in the best interest of the Company.

During the year Mr. Michael T. Scales relinquished office as Director on 10th May, 2004, consequent upon his taking up a new assignment with Beverages Partners Worldwide, Switzerland. The Directors would like to place on record their appreciation for the contributions made by Mr. Scales during his tenure as Director - Finance and Control, of the Company.

In accordance with Article 119 of the Articles of Association, Mr. Rajendra S. Pawar 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 2005, 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.

Trade Relations

Your Company continued to receive co-operation and unstinted support from the distributors, retailers, stockists, suppliers and others associated with the Company as its trading partners. The Directors wish to place on record their appreciation for the same and your Company will continue in its endeavor to build and nurture strong links with trade based on mutuality, respect and co-operation with each other and consistent with consumer interest.

Appreciation

Your Company has been able to operate efficiently because of the culture of professionalism, integrity and continuous improvement in all functions and areas to ensure efficient utilisation of the Company's resources for sustainable and profitable growth.

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

On behalf of the Board of Directors

14th March, 2005
Gurgaon

MARTIAL G. ROLLAND
CHAIRMAN

AUDITORS' REPORT TO THE MEMBERS OF NESTLÉ INDIA LIMITED

1. We have audited the attached balance sheet of Nestlé India Limited as at December 31, 2004 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with 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 Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the annexure referred to 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, the profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - d) in our opinion, the balance sheet, profit and loss account and the cash flow statement dealt with by this report 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 the directors and taken on record by the Board of Directors, we report that none of the directors of the Company is disqualified as on December 31, 2004 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, 2004,
 - (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 flow statement, of the cash flows for the year ended on that date.

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

(MANJULA BANERJI)

Partner

14th March, 2005
New Delhi

(Membership No. 86423)

ANNEXURE REFERRED TO IN PARAGRAPH '3' OF THE AUDITORS' REPORT TO THE MEMBERS OF NESTLÉ INDIA LIMITED ON THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2004.

- (i) (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) In our opinion, the management has physically verified most of the fixed assets of the Company during the year at reasonable intervals, having regard to the size of the Company and nature of its assets. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of account.
- (c) In our opinion and according to the information and explanations given to us, since the Company has not disposed off a substantial part of its fixed assets during the year, paragraph 4(i)(c) of the Companies (Auditor's Report) Order, 2003 (hereinafter referred to as the Order) is not applicable.
- (ii) (a) During the year, the inventories have been physically verified by the management. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the records of inventories, we are of the opinion that the Company is maintaining proper records of inventories. The discrepancies noticed on physical verification of inventories as compared to book records were not material and have been properly dealt with in the books of account.
- (iii) (a) According to the information and explanations given to us, the Company has, during the year, not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (a), (b), (c) and (d) of the Order, are not applicable.
- (b) According to the information and explanations given to us, the Company has, during the year, not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (e), (f) and (g) of the Order, are not applicable.
- (iv) In our opinion and according to information and explanations given to us during the course of the audit, there are adequate internal control systems, commensurate with the size of the Company and the nature of its business with regard to the purchase of inventories, fixed assets and with regard to sale of goods. There are no sale of services during the year. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have any information of any instances of major weaknesses in the aforesaid internal control systems.
- (v) (a) In our opinion and according to the information and explanations given to us, there are no transactions that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956.
- (b) In our opinion and according to the information and explanations given to us, as there are no transactions that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956, paragraph 4 (v) (b) of the Order is not applicable.
- (vi) As, the Company has not accepted any deposits from the public, paragraph 4 (vi) of the Order is not applicable.
- (vii) In our opinion and according to the information and explanations given to us, the Company has an internal audit system commensurate with its size and the nature of its business.
- (viii) We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the rules made by the Central Government, the maintenance of cost records have been prescribed under Section 209 (1)(d) of the Companies Act, 1956 and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of records with a view to determining whether they are accurate or complete.
- (ix) (a) According to the information and explanations given to us and the records of the Company examined by us, the Company has been regular in depositing undisputed statutory dues including provident fund, employees' state insurance dues, income-tax, Investor Education and Protection Fund, sales tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it with the appropriate authorities. We are informed that there are no undisputed statutory dues as at the year end, outstanding for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no disputed dues of service tax, customs duty, wealth tax and cess, which have not been deposited. The details of disputed dues as at December 31, 2004 in respect of excise duty, sales tax and income-tax that have not been deposited by the Company, are as follows :-

Name of the Statute	Nature of the Dues	Amount * (Rs.) ('000s)	Period to which the amount relates (various years covering the period)	Forum where dispute is pending
Central Excise Laws	Excise Duty	56,348	1996 – 2000	Supreme Court
		2,220	2000 – 2003	Customs, Excise and Service Tax Appellate Tribunal
		5,568	1998	Appellate authority upto Commissioners' level
Sales Tax Laws	Sales Tax	29,046	1992 – 2004	Appellate authority upto Commissioners' level
Income Tax Act, 1961	Income tax	118,558	1992 – 1994	High Court
		55,083	2000 - 2001	Commissioner of Income-tax (Appeals)

* Amount as per demand orders including interest and penalty wherever indicated in the Order.

The following matters, which have been excluded from the table above, have been decided in favour of the Company but the department has preferred appeals at higher levels. The details are given below:-

Name of the Statute	Nature of the Dues	Amount (Rs.) ('000s)	Period to which the amount relates (various years covering the period)	Forum where department has preferred appeals
Central Excise Laws	Excise Duty	28,068	1989 – 2001	Supreme Court
		36,982	1994 – 2000	High Court
Income Tax Act, 1961	Income tax	7,328	1983 – 1995	High Court
		184,270	1993 – 2000	Income-tax Appellate Tribunal

- | | | |
|--|---|--|
| <p>(x) The Company does not have accumulated losses as at the end of the financial year December 31, 2004. Further, the Company has not incurred cash losses during the financial year ended December 31, 2004 and in the immediately preceding financial year ended December 31, 2003.</p> <p>(xi) According to the records of the Company examined by us and on the basis of information and explanations given to us, the Company has not defaulted in repayment of dues to banks during the year. The Company has not taken any loans from financial institutions and has not issued debentures during the year.</p> <p>(xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities, accordingly paragraph 4 (xii) of the Order is not applicable.</p> <p>(xiii) The Company is not a chit fund / nidhi / mutual benefit fund / society to which</p> | <p>the provisions of special statute relating to chit fund are applicable, accordingly paragraph 4 (xiii) of the Order, is not applicable.</p> <p>(xiv) As the Company is not dealing or trading in shares, securities, debentures and other investments, paragraph 4 (xiv) of the Order is not applicable.</p> <p>(xv) According to the information and explanations given to us, the Company has not given any guarantee during the year for loans taken by others from banks or financial institutions.</p> <p>(xvi) In our opinion and according to the information and explanations given to us, the Company has not taken any term loans during the year.</p> <p>(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that, during the year, short term funds have not been used to finance long term investments.</p> | <p>(xviii) The Company has not made any preferential allotment of shares during the year.</p> <p>(xix) The Company has not issued any debentures during the year.</p> <p>(xx) The Company has not raised any money by way of public issue during the year.</p> <p>(xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the year ended December 31, 2004.</p> |
| | | <p>For A.F. FERGUSON & CO.,
Chartered Accountants</p> <p>(MANJULA BANERJI)
Partner</p> <p>14th March, 2005
New Delhi</p> <p>(Membership No. 86423)</p> |



BALANCE SHEET AS AT DECEMBER 31, 2004

SOURCES OF FUNDS	SCHEDULE	2004 (Rs. in thousands)	2003 (Rs. in thousands)
SHAREHOLDERS' FUNDS			
Capital	A	964,157	964,157
Reserves and surplus	B	<u>2,229,913</u>	<u>2,385,797</u>
		3,194,070	3,349,954
LOAN FUNDS			
Secured	C	79,051	50,999
		<u>3,273,121</u>	<u>3,400,953</u>
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross block	D	8,381,605	7,894,480
Less: Depreciation		<u>4,409,447</u>	<u>3,980,786</u>
Net block		3,972,158	3,913,694
Capital work-in-progress		<u>340,885</u>	<u>139,351</u>
		4,313,043	4,053,045
INVESTMENTS	E	1,548,637	736,439
DEFERRED TAX ASSETS/ (LIABILITIES) (NET)	F	12,038	(105,238)
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	G	2,166,728	2,194,162
Sundry debtors		261,683	317,016
Cash and bank balances		94,485	62,894
Loans and advances		<u>1,058,856</u>	<u>1,065,920</u>
		3,581,752	3,639,992
Less: CURRENT LIABILITIES AND PROVISIONS	H		
Liabilities		2,693,640	2,389,656
Provisions		<u>3,488,709</u>	<u>2,533,629</u>
		6,182,349	4,923,285
NET CURRENT ASSETS		(2,600,597)	(1,283,293)
		<u>3,273,121</u>	<u>3,400,953</u>
NOTES TO THE ACCOUNTS	P		

14th March, 2005
Gurgaon

MARTIAL G. ROLLAND
Chairman & Managing Director

SHOBINDER DUGGAL
Director - Finance & Control

B. MURLI
VP - Legal & Company Secretary

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

14th March, 2005
New Delhi

(MANJULA BANERJI)
Partner
Membership No. 86423

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2004**

	SCHEDULE	2004 (Rs. in thousands)	2003 (Rs. in thousands)
INCOME			
Sales			
Domestic		21,292,753	20,226,832
Export		2,435,407	2,571,444
Gross		23,728,160	22,798,276
Less: Excise Duty		1,452,421	1,392,144
Net Sales		22,275,739	21,406,132
Other Income	I	144,541	278,275
		22,420,280	21,684,407
EXPENDITURE			
Materials consumed and purchase of goods	J	10,407,866	9,496,872
Manufacturing and other expenses	K	7,438,477	7,382,867
Interest	L	7,822	19,242
Depreciation	D	491,369	462,728
Adjustment due to decrease / (increase) in stock of finished goods and work-in-progress	M	(80,436)	79,393
		18,265,098	17,441,102
PROFIT BEFORE IMPAIRMENT, CONTINGENCIES AND TAXATION		4,155,182	4,243,305
Impairment loss on fixed assets (Refer Note 1 - Schedule P)	D	23,306	22,193
Provision for contingencies (Refer Note 2 - Schedule P)	N	266,945	229,623
PROFIT BEFORE TAXATION		3,864,931	3,991,489
Provision for income tax	O	1,345,773	1,360,642
PROFIT AFTER TAXATION		2,519,158	2,630,847
Balance brought forward		442,348	249,965
BALANCE AVAILABLE FOR APPROPRIATION		2,961,506	2,880,812
Appropriations:			
Dividends:			
Interim dividend		1,928,314	1,928,314
Final proposed		433,871	—
Corporate dividend tax		312,857	247,065
General reserve		251,916	263,085
SURPLUS CARRIED TO THE BALANCE SHEET		34,548	442,348
BASIC AND DILUTED EARNINGS PER SHARE (IN RUPEES)	P	26.13	27.29
NOTES TO THE ACCOUNTS	P		

14th March, 2005
Gurgaon

MARTIAL G. ROLLAND
Chairman & Managing Director

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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

14th March, 2005
New Delhi

(MANJULA BANERJI)
Partner
Membership No. 86423

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2004

	2004 (Rs. in thousands)	2003 (Rs. in thousands)
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	3,864,931	3,991,489
Adjustments for :		
Depreciation	491,369	462,728
Unrealised exchange differences	(5,334)	188
Deficit on fixed assets sold/scrapped	35,601	40,511
Interest expense	7,822	19,242
Impairment loss on fixed assets	23,306	22,193
Provision for wealth tax	603	399
Interest on inter corporate deposits	(8,596)	(19,863)
Operating profit before working capital changes	4,409,702	4,516,887
Adjustments for :		
Decrease/(increase) in trade and other receivables	(55,735)	(38,120)
Decrease/(increase) in inventories	27,434	(2,649)
Increase/(decrease) in trade payables	270,816	160,217
Increase/(decrease) in provision for contingencies	266,945	229,623
Increase/(decrease) in provision for pension and gratuity	193,414	229,678
Cash generated from operations	5,112,576	5,095,636
Direct taxes paid	(1,460,812)	(1,507,815)
Net cash from operating activities	3,651,764	3,587,821
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(784,752)	(672,798)
Sale of fixed assets	5,457	40,034
Interest received on inter corporate deposits	8,853	20,400
Inter corporate deposits refunded	120,000	318,470
Inter corporate deposits granted	—	(115,000)
Net cash used in investing activities	(650,442)	(408,894)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds/(Repayments) of borrowings	28,052	(576,066)
Interest paid	(7,822)	(19,242)
Dividends paid	(1,925,756)	(1,923,648)
Corporate dividend tax	(252,007)	(247,065)
Capital subsidy received	—	1,500
Net cash outflow from financing activities	(2,157,533)	(2,764,521)
Net increase in cash and cash equivalents (A+B+C)	843,789	414,406
Cash and cash equivalents as at opening		
Cash and bank balances	62,894	58,667
Current investments	736,429	326,250
Cash and cash equivalents as at opening	799,323	384,917
Cash and cash equivalents as at closing		
Cash and bank balances	94,485	62,894
Current investments	1,548,627	736,429
Cash and cash equivalents as at closing	1,643,112	799,323
NET INCREASE IN CASH AND CASH EQUIVALENTS	843,789	414,406

14th March, 2005
Gurgaon

MARTIAL G. ROLLAND
Chairman & Managing Director

SHOBINDER DUGGAL
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

(MANJULA BANERJI)
Partner
Membership No. 86423

14th March, 2005
New Delhi

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT DECEMBER 31, 2004

	2004 (Rs. in thousands)	2003 (Rs. in thousands)
SCHEDULE A		
SHARE CAPITAL		
Authorised		
100,000,000 Equity shares of Rs. 10 each (Previous year 100,000,000)	1,000,000	1,000,000
Issued, subscribed and paid-up		
96,415,716 Equity shares of Rs. 10 each (Previous year 96,415,716)	964,157	964,157
Of the above:		
73,413,626 Shares of Rs. 10 each (Previous year 73,413,626) were allotted as fully paid-up bonus shares by capitalisation of general reserves Rs. 73,897 thousands (Previous year Rs. 73,897 thousands) and share premium Rs. 660,239 thousands (Previous year Rs. 660,239 thousands).		
736,331 Shares of Rs. 10 each (Previous year 736,331) were allotted as fully paid-up pursuant to a contract without payment being received in cash.		
Of the above:		
32,166,274 Shares of Rs. 10 each (Previous year 32,166,274) are held by Nestlé S.A.		
27,463,680 Shares of Rs. 10 each (Previous year 27,463,680) are held by Nestlé's Holdings Ltd., the ultimate holding company being Nestlé S.A.		
 SCHEDULE B		
RESERVES AND SURPLUS		
Share premium		
As per last balance sheet	432,363	432,363
Capital subsidy		
As per last balance sheet	2,500	1,000
Add : Received during the year	—	1,500
	2,500	2,500
General reserve		
As per last balance sheet	1,508,586	1,245,501
Add : Transferred from profit and loss account	251,916	263,085
	1,760,502	1,508,586
Surplus, being balance in profit and loss account (undistributed profits)	34,548	442,348
	2,229,913	2,385,797
 SCHEDULE C		
SECURED LOANS		
From Banks		
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.	79,051	50,999
	79,051	50,999

SCHEDULE D

FIXED ASSETS

(Rs. in thousands)

	GROSS BLOCK				DEPRECIATION						NET BLOCK	
	Cost as at December 31, 2003	Additions	Deletions/adjustments	Cost as at December 31, 2004	As at December 31, 2003	For the year	Impairment loss##		On Deletions/adjustments	As at December 31, 2004	As at December 31, 2004	As at December 31, 2003
							charged	reversed				
Land	55,523	503	—	56,026	—	—	—	—	—	—	56,026	55,523
Buildings	1,116,412	56,192	1,468	1,171,136	330,092	34,734	18,561	8,522	654	374,211	796,925	786,320
Railway siding	11,738	—	—	11,738	7,455	558	—	—	—	8,013	3,725	4,283
Plant and machinery	5,939,177	461,472 #	103,011	6,297,638	3,118,432	335,938	86,081	72,814	67,212	3,400,425	2,897,213	2,820,745
Furniture and fixtures	328,213	42,241	11,387	359,067	171,410	64,600	—	—	7,575	228,435	130,632	156,803
Information technology equipments	381,385	39,171	5,097	415,459	321,761	42,818	—	—	5,097	359,482	55,977	59,624
Vehicles	62,032	14,618	6,109	70,541	31,636	12,721	—	—	5,476	38,881	31,660	30,396
Total	7,894,480	614,197	127,072	8,381,605	3,980,786	491,369	104,642	81,336	86,014	4,409,447	3,972,158	
Previous year	7,491,451	721,499	318,470	7,894,480	3,733,790	462,728	22,193	—	237,925	3,980,786		3,913,694
Capital work -in-progress including capital advances and machinery-in-transit #											340,885 @@	139,351
											4,313,043	4,053,045

Notes:

- (a) Buildings include Rs.500 being the cost of share in a Co-operative Housing Society.
- (b) Buildings and plant and machinery include Rs. 53,998 thousands (Previous year Rs. 53,998 thousands) being the cost of leasehold improvements.
- # Fixed assets have increased by Rs. 12 thousands (Previous year by Rs. 151 thousands) on account of foreign exchange fluctuation.
- ## Refer Note 1 - Schedule P
- @@ Includes Rs. 73,940 thousands (Previous year Nil) on account of intangibles.

SCHEDULE E

INVESTMENTS

(NON TRADE, UNQUOTED)

LONG TERM

Coffee Futures Exchange India Limited 1 Equity share of the face value of Rs. 10,000 each

2004
(Rs. in
thousands)

2003
(Rs. in
thousands)

10

10

CURRENT

GOVERNMENT SECURITIES

Treasury bills Face value of Rs. 1,435,000 thousands (previous year Rs. Nil) purchased and Rs. 1,065,000 thousands (previous year Rs. Nil) sold during the year

366,129

—

MUTUAL FUNDS - DEBT

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

JM Mutual Fund 9,986,275 Units (previous year Nil) of JM High Liquidity Fund Super Institutional Plan - Daily Dividend Option. (40,089,237 units purchased and 30,102,962 units sold during the year)

— JM Mutual Fund FMP Dividend Option. (20,000,000 units purchased and sold during the year)

— Units (previous year 16,863,779) of JM High Liquidity Fund - Growth Plan. (70,933,018 units purchased and 87,796,797 units sold during the year)

100,027

—

—

175,000



Nestlé

SCHEDULE E (Contd...)

			2004 <i>(Rs. in thousands)</i>	2003 <i>(Rs. in thousands)</i>
Standard Chartered Mutual Fund	5,000,675	Units (previous year Nil) of GCCD Grindlays Cash Fund Super Institutional Plan C - Daily Dividend Option. (48,153,464 units purchased and 43,152,789 units sold during the year)	50,007	—
	—	GCFG Grindlays Cash Fund - Growth Option. (51,013,289 units purchased and sold during the year)	—	—
	—	GCCG Grindlays Cash Fund Super Institutional Plan C - Growth Option. (49,747,809 units purchased and sold during the year)	—	—
	—	GFCD Grindlays Floating Rate ST Super Institutional Plan C - Daily Dividend Option. (44,788,154 units purchased and sold during the year)	—	—
Alliance Capital Mutual Fund	—	Units (previous year 5,783,847) of Alliance Cash Manager - Growth Option. (13,455,160 units purchased and 19,239,007 units sold during the year)	—	60,000
	—	Alliance Institutional Plan - Growth Option. (12,278,093 units purchased and sold during the year)	—	—
Principal Mutual Fund	22,078,751	Units (previous year Nil) of Principal Cash Management Fund Liquid Option Institutional Premium Plan - Daily Dividend Option. (22,078,751 units purchased during the year)	220,801	—
Prudential ICICI Mutual Fund	18,406,305	Units (previous year Nil) of Prudential ICICI Liquid Plan Institutional Plus - Daily Dividend Option. (30,641,043 units purchased and 12,234,738 units sold during the year)	218,142	—
	—	Prudential ICICI Liquid Plan Institutional Plus - Growth Plan. (39,531,805 units purchased and sold during the year)	—	—
	—	Prudential ICICI Floating Rate Plan C - Daily Dividend Option. (10,061,892 units purchased and sold during the year)	—	—
Kotak Mahindra Mutual Fund	18,135,494	Units (previous year Nil) of Kotak Mahindra Liquid Institutional Premium Plan - Daily Dividend Option. (19,362,177 units purchased and 1,226,683 units sold during the year)	221,763	—
	—	Kotak Mahindra Liquid Scheme - Growth Option. (15,855,650 units purchased and sold during the year)	—	—
	—	Kotak Mahindra Liquid Institutional Premium Plan - Growth Option. (15,192,530 units purchased and sold during the year)	—	—
Birla Sun Life Mutual Fund	16,978,998	Units (previous year Nil) of Birla Cash Plus Institutional Premium Plan - Daily Dividend Option. (41,199,918 units purchased and 24,220,920 units sold during the year)	170,123	—
	—	Units (previous year 2,661,163) of Birla Cash Plus Plan - Growth Option. (6,149,580 units purchased and 8,810,743 units sold during the year)	—	45,000
	—	Birla Floating Rate Fund Short Term Plan - Weekly Dividend Option. (19,316,330 units purchased and sold during the year)	—	—
Reliance Capital Mutual Fund	—	Units (previous year 6,875,499) of Reliance Liquid Fund - Bonus Plan - Growth Option. (6,875,499 units sold during the year)	—	71,429
	—	Reliance Capital Mutual Fund - FMP - Growth Option. (40,080,600 units purchased and sold during the year)	—	—



Nestlé

SCHEDULE E (Contd...)

		2004 (Rs. in thousands)	2003 (Rs. in thousands)
DSP Merrill Lynch Mutual Fund	— DSP Merrill Lynch Liquidity Fund - Growth Option. (24,710,239 units purchased and sold during the year)	—	—
	— DSP Merrill Lynch Liquidity Fund - Daily Dividend Option. (10,018,938 units purchased and sold during the year)	—	—
Deutsche Mutual Fund	— Units (previous year 20,021,785) of Deutsche Prestige Plan - Growth Option. (5,213,270 units purchased and 25,235,055 units sold during the year)	—	210,000
	— Deutsche Insta Cash Plus Fund Institutional Plan - Growth Option. (33,261,117 units purchased and sold during the year)	—	—
	— Deutsche Insta Cash Plus Fund Institutional Plan - Daily Dividend Option. (40,056,250 units purchased and sold during the year)	—	—
Templeton Mutual Fund	— Units (previous year 11,156,127) of Templeton Floating Rate Fund Short Term Plan. (25,440,011 units purchased and 36,596,138 units sold during the year)	—	125,000
HSBC Mutual fund	20,152,193 HSBC Cash Fund Institutional Plus - Daily Dividend Option. (37,642,399 units purchased and 17,490,206 units sold during the year)	201,635	—
	— HSBC Cash Fund Institutional Plus - Growth Option. (48,831,758 units purchased and sold during the year)	—	—
Templeton Mutual Fund [Face value Rs. 1,000]	— Units (previous year 31,979) of Templeton India TMA Institutional Plan - Growth Option. (835,227 units purchased and 867,206 units sold during the year)	—	50,000
	— Templeton India TMA Institutional Plan - Daily Dividend Option. (315,314 units purchased and sold during the year)	—	—
Repurchase price as at December 31, 2004	Rs. 1,550,962 thousands (previous year Rs. 741,580 thousands)		
COMMERCIAL PAPERS [Units of the face value Rs. 500,000 each]			
GE Capital Services India	— 200 units purchased and sold during the year	—	—
		1,548,637	736,439

SCHEDULE F

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets

Provision for contingencies	435,394	409,849
Provision for pension and gratuity	8,112	5,192
Other items deductible on payment or deposit of withholding taxes	162,387	45,835
Other temporary differences	24,335	23,037
	630,228	483,913

Deferred tax liabilities

Difference between book and tax depreciation	618,190	589,151
Deferred tax assets/(liabilities) (net)	12,038	(105,238)

SCHEDULE G	2004 (Rs. in thousands)	2003 (Rs. in thousands)
CURRENT ASSETS, LOANS AND ADVANCES		
Inventories		
Stores and spare parts *	141,150	124,229
Stock in trade: **		
Finished goods	1,073,759	1,064,179
Work-in-progress	342,419	286,474
Raw materials	494,819	592,814
Packing materials	114,581	126,466
	2,166,728	2,194,162
* At cost		
** At cost or net realisable value, whichever is lower		
Sundry debtors (Unsecured)		
Considered good		
Over six months	7,765	10,623
Others	253,918	261,683
Considered doubtful		
Over six months	10,502	10,216
Others	15,000	13,000
	287,185	340,232
Less: Provision for doubtful debts	25,502	23,216
	261,683	317,016
Cash and bank balances		
Cash in hand	303	391
Cheques in hand	60,275	28,940
With scheduled banks – on current account	33,877	31,060
– on deposit account	30	2,503
	94,485	62,894
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	42,863	51,947
Unsecured	706,294	581,434
Considered doubtful	51,724	57,878
	800,881	633,381
Less: Provision for doubtful advances	51,724	57,878
	749,157	633,381
Inter corporate deposits	77,500	197,500
Taxation (payments less provisions)	232,199	235,039
	1,058,856	1,065,920
	3,581,752	3,639,992

SCHEDULE H	2004 <i>(Rs. in thousands)</i>	2003 <i>(Rs. in thousands)</i>
CURRENT LIABILITIES AND PROVISIONS		
Current liabilities		
Sundry creditors -		
Small scale industrial undertakings *	44,062	38,396
Others	2,618,080	2,322,320
Investor Education and Protection Fund shall be credited by the following:		
Unpaid dividends #	31,498	28,940
	<u>2,693,640</u>	<u>2,389,656</u>
Provisions		
Pension and gratuity	1,145,466	952,052
Proposed final dividend	433,871	—
Corporate dividend tax	60,850	—
Contingencies (Refer Schedule N)	1,848,522	1,581,577
	<u>3,488,709</u>	<u>2,533,629</u>
	<u>6,182,349</u>	<u>4,923,285</u>
* Refer to Note 18 Schedule P		
# There is no amount due and outstanding to be credited to Investor Education and Protection Fund		
SCHEDULE I		
OTHER INCOME		
Dividend on current non trade investments	15,118	—
Interest on income tax refund in relation to earlier years	—	69,484
Interest received on loans and deposits (gross) (Tax deducted at source Rs.1,976 thousands previous year Rs.4,130 thousands)	34,089	40,481
Export incentives	3,541	56,918
Miscellaneous income	61,715	51,888
Profit on sale of current non trade investments	30,078	59,504
	<u>144,541</u>	<u>278,275</u>
SCHEDULE J		
MATERIALS CONSUMED AND PURCHASE OF GOODS		
Raw materials consumed	8,122,752	7,049,294
Packing materials consumed	1,960,875	2,110,027
Purchase of goods — outside manufacture	322,369	331,123
— others	1,870	6,428
	<u>10,407,866</u>	<u>9,496,872</u>

SCHEDULE K
MANUFACTURING AND OTHER EXPENSES

	2004 <i>(Rs. in thousands)</i>	2003 <i>(Rs. in thousands)</i>
Employees' cost		
Salaries, wages, bonus, pension, gratuity etc.	1,499,467	1,450,565
Contribution to provident and other funds	52,049	51,542
Staff welfare expenses	90,964	84,614
Advertising and sales promotion	1,212,585	1,361,156
Freight, transport and distribution	1,096,792	1,049,294
General license fees (net of taxes)	740,673	691,548
Taxes on general license fees	114,805	107,191
Power and fuel	850,667	766,905
Maintenance and repairs		
Plant and machinery	182,192	188,506
Buildings	37,402	30,353
General	40,192	37,079
Travelling	259,101	225,410
Contract manufacturing charges	228,645	211,494
Rates and taxes	176,406	163,343
Rent	149,131	156,372
Information technology and business improvement initiatives	140,132	274,434
Milk collection and district development expenses	81,923	73,801
Consumption of stores and spare parts (excluding Rs.150,902 thousands charged to other revenue accounts, previous year Rs. 164,364 thousands)	72,083	57,017
Training expenses	68,919	51,043
Market research	37,663	42,010
Deficit on fixed assets sold/scrapped	35,601	40,511
Laboratory (quality testing) expenses	33,975	25,947
Insurance	14,779	14,152
Miscellaneous expenses	222,331	228,580
	<u>7,438,477</u>	<u>7,382,867</u>

	2004 <i>(Rs. in thousands)</i>	2003 <i>(Rs. in thousands)</i>
SCHEDULE L		
INTEREST		
Interest on fixed loans	1,868	6,796
Others	5,954	12,446
	<u>7,822</u>	<u>19,242</u>
SCHEDULE M		
ADJUSTMENT DUE TO (INCREASE)/DECREASE IN STOCK OF FINISHED GOODS AND WORK-IN-PROGRESS		
Opening stock		
Work-in-progress	286,474	367,738
Finished goods	1,064,179	1,061,725
	<u>1,350,653</u>	<u>1,429,463</u>
Less: Excise duty	119,244	118,661
Net opening stock (A)	<u>1,231,409</u>	1,310,802
Less: Closing stock		
Work-in-progress	342,419	286,474
Finished goods	1,073,759	1,064,179
	<u>1,416,178</u>	<u>1,350,653</u>
Less: Excise duty	104,333	119,244
Net closing stock (B)	<u>1,311,845</u>	1,231,409
Movement in opening and closing stock (A-B)	<u>(80,436)</u>	<u>79,393</u>
SCHEDULE N		
PROVISION FOR CONTINGENCIES		
Balance as at December 31, 2003/2002	1,581,577	1,351,954
Add: Created during the year	380,945	361,353
Less: Reversed during the year	(114,000)	(131,730)
Net provision taken to the profit and loss account	<u>266,945</u>	<u>229,623</u>
Balance as at December 31, 2004/2003 (Refer Note 2 - Schedule P)	<u>1,848,522</u>	<u>1,581,577</u>
SCHEDULE O		
PROVISION FOR INCOME TAX		
Current tax	1,463,049	1,374,454
Deferred tax	(117,276)	(13,812)
	<u>1,345,773</u>	<u>1,360,642</u>

SCHEDULE P
NOTES TO THE ACCOUNTS

	2004 <i>(Rs. in thousands)</i>	2003 <i>(Rs. in thousands)</i>
1. a) During the year ended December 31, 2004, the Company has impaired certain fixed assets and the resultant loss (Gross - Rs. 104,642 thousands, net of deferred taxes - Rs. 66,351 thousands) has been charged to the profit and loss account. These losses include:		
— Rs. 49,706 thousands relating to certain assets being used in a part of the beverages business which is under performing due to depressed consumer off-take.		
— Rs. 34,977 thousands relating to certain assets of the milk business due to discontinuation of certain projects.		
— Rs. 19,959 thousands relating to plant and machinery and buildings due to projects abandoned and products discontinued.		
b) During the year ended December 31, 2004, the Company has reversed certain impairment losses recognised in earlier years and the resultant gain (Gross Rs.81,336 thousands, net of deferred taxes - Rs. 51,573 thousands) has been credited in the profit and loss account. These reversals include:		
— Rs. 50,735 thousands relating to certain assets being used in a part of the beverages business, due to revival of sales in a buoyant export market.		
— Rs. 30,601 thousands relating to certain assets, which have been put to use after due modification in the manufacture of culinary products.		
2. The Company has created a contingency provision of Rs. 380,945 thousands (Previous year Rs. 361,353 thousands) for various contingencies resulting mainly from issues, which are under litigation/dispute and other items requiring management judgement and discretion. The Company has also reversed contingency provision of Rs. 114,000 thousands (Previous year Rs. 131,730 thousands) due to the satisfactory conclusion of certain matters under litigation in the Company's favour.		
3. Capital commitments remaining to be executed and not provided for	103,859	48,698
4. Auditors' remuneration including service tax and expenses in respect of		
a) Statutory audit	1,725	1,690
b) Audit of accounts for fiscal year and tax audit	793	778
c) Limited review of quarterly / half yearly un-audited results	496	378
d) Certification for royalty remittances and corporate governance	186	133
e) Audit of employee trust accounts and other certificates	55	124
f) Due diligence review	—	540
g) Certification of tax holiday benefits	116	162
h) Reimbursement of out of pocket expenses for statutory audit and other matters	441	622

	2004 <i>(Rs. in thousands)</i>	2003 <i>(Rs. in thousands)</i>
5. Managerial remuneration # @		
Salaries and allowances	15,472	15,840
Company's contribution to provident fund	185	—
Commission to managing/whole-time director	19,954	23,040
Commission to non whole-time directors	900	750
Directors' sitting fees	230	102
Other perquisites	5,681	5,484
	<u>42,422</u>	<u>45,216</u>
# Includes Rs. 4,024 thousands (Previous year Rs. Nil), which is subject to the approval of shareholders in the general meeting.		
@ Does not include provision for incremental pension liability of Director - Finance & Control, since the actuarial certificate is for the Company as a whole. There is no incremental gratuity liability since he had already earned gratuity, prior to his appointment as Director - Finance & Control.		
Computation of net profit in accordance with Section 198 of the Companies Act, 1956		
Net Profit after taxation	2,519,158	2,630,847
Add:		
Managerial remuneration	42,422	45,216
Net deficit on fixed assets sold/scrapped as per Section 350 of the Companies Act, 1956	(35,688)	(40,511)
Net deficit on fixed assets sold/scrapped as per accounts	35,601	40,511
Provision for income-tax	1,345,773	1,360,642
Net Profit	<u>3,907,266</u>	<u>4,036,705</u>
Commission:		
- Amount	20,854	23,790
- Percentage of net profit	0.53%	0.59%
6. Exchange differences (net) amounting to Rs. 12,777 thousands charged (Previous year Rs. 2,688 thousands credited) to respective revenue heads in the profit and loss account.		
	2004	2003
	<i>(Rs. in thousands)</i>	<i>(Rs. in thousands)</i>
	%	%
7. Stores and spare parts consumed		
Imported	24,311	40,217
Indigenous	198,674	181,164
	<u>222,985</u>	<u>221,381</u>
	<u>100.0</u>	<u>100.0</u>
8. Earnings from exports in:		
Foreign currency at F.O.B. value (including sales to Russia invoiced in rupees)	1,840,570	2,008,257
Rupees (all inclusive)	490,342	430,290

	2004		2003	
	(Rs. in thousands)		(Rs. in thousands)	
9. C. I. F. value of imports:				
Components and spare parts	28,072		34,206	
Capital goods	124,497		153,018	
Raw materials	529,799		496,480	
Goods – Outside manufacture	27,270		35,733	
	Qty (MT)	(Rs. in thousands)	Qty (MT)	(Rs. in thousands)
10. Raw materials consumed:				
Milk and milk concentrate	291,402	3,541,537	272,301	2,992,847
Green coffee	30,663	1,002,050	31,386	1,018,376
Vegetable oils	11,997	593,957	11,720	530,708
Sugar	34,785	535,451	32,331	423,801
Skimmed milk powder	5,388	514,192	2,521	228,775
Wheat flour	47,911	478,957	46,331	439,573
Cocoa based raw materials	1,041	170,118	1,254	218,705
Black tea/green leaf	8,398	131,963	6,034	107,471
Tomato paste	3,000	106,873	2,828	100,665
Whey powder	1,069	86,382	880	73,606
Chicory	3,494	68,677	2,918	52,949
Tapioca starch	3,368	56,386	4,093	66,097
Apple concentrate	712	34,502	780	37,705
Others (net of sale proceeds of by-products/surplus materials)		801,707		758,016
		8,122,752		7,049,294
	(Rs. in thousands)	%	(Rs. in thousands)	%
Of the above:				
Imported	548,520	6.8	548,769	7.8
Indigenous	7,574,232	93.2	6,500,525	92.2
	8,122,752	100.0	7,049,294	100.0
11. Expenditure in foreign currency (accrual basis):				
Travelling and training	22,411		19,316	
General license fees (net of tax)	740,673		691,548	
Ocean freight	31,763		121,280	
Information technology and business improvement initiatives	91,050		214,971	
Promotional materials	9,400		15,291	
Other matters	28,800		14,047	

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

	2004			2003		
	Number of Non-resident Shareholders	Number of Equity Shares held	Dividend remitted (Rs. in thousands)	Number of Non-resident Shareholders	Number of Equity Shares held	Dividend remitted (Rs. in thousands)
1 st interim	2	59,629,954	596,300	2	57,793,294	577,933
2 nd interim	2	59,629,954	596,300	2	59,629,954	596,300

13. Earnings per share

	2004	2003
Profit after taxation as per profit and loss account (Rs. in thousands)	2,519,158	2,630,847
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)	26.13	27.29

14. 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		Gross Sales	
		Quantity (MT)	Value (Rs. in thousands)		Quantity (MT)	Value (Rs. in thousands)	Quantity* (MT)	Value (Rs. in thousands)
Milk Products and Nutrition								
— Licensed	72,502.50 (a) (72,502.50)	4,864 (4,533)	386,890 (313,956)	55,366 (48,592)	5,247 (4,864)	414,358 (386,890)	54,511 (48,031)	6,946,666 (5,963,407)
— Others	Not Applicable	1,977 (2,357)	160,378 (185,612)	42,998 (42,023)	2,221 (1,977)	176,484 (160,378)	42,239 (42,070)	3,834,764 (3,916,973)
Beverages	Not Applicable	1,535 (1,422)	171,418 (166,697)	25,222 (26,291)	1,611 (1,535)	189,165 (171,418)	24,994 (26,035)	5,273,671 (5,448,905)
Prepared dishes and cooking aids	Not Applicable	4,514 (4,471)	172,990 (190,727)	59,785 (58,635)	3,440 (4,514)	150,047 (172,990)	60,463 (58,275)	4,206,099 (4,094,043)
Chocolate and confectionery	Not Applicable	1,723 (2,240)	172,503 (204,733)	23,616 (21,111)	1,592 (1,723)	143,704 (172,503)	23,575 (21,450)	3,465,118 (3,366,213)
			1,064,179 (1,061,725)			1,073,759 (1,064,179)		23,726,318 (22,789,541)

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 and purchase include purchase of 13,246 MT (11,130 MT) in Milk products and Nutrition – Others, 199 MT (200 MT) in Beverages, Nil MT (145 MT) in Prepared dishes and cooking aids, 22 MT (108 MT) in Chocolate and Confectionery. The total value of these purchases is Rs. 322,369 thousands (Rs. 331,123 thousands).
- (d) Previous year's figures are indicated in brackets.

15. 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)
Others	— (—)	— (—)	— (—)	1,870 (6,428)	— (—)	— (—)	— (—)	1,842 (8,735)

Previous year's figures are indicated in brackets.

16. 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.

17. Related party disclosures under Accounting Standard 18

Holding companies: Nestlé S.A., Nestlé'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 Nestlé India Ltd.:

Alcon India Pvt. Ltd., Eastern Food Specialities Pvt. Ltd., International Dairy Products Ltd., Nestec SA, Nestlé (Fiji) Ltd., Nestlé (South Africa) Pty Ltd., Nestlé Australia Ltd., Nestlé Bangladesh Ltd., Nestlé Brasil Ltd., Nestlé China Ltd., Nestlé Deutschland AG, Nestlé Egypt SAE, Nestlé Food LLC, Nestlé Foods (Malaysia) Sdn Bhd, Nestlé France SAS, Nestlé Hungaria KFT, Nestlé Hongkong Ltd., Nestlé Italiana S.P.A., Nestlé Foods Kenya Ltd., Nestlé Korea Ltd., Nestlé Lanka Ltd., Nestlé Middle East FZE, Nestlé Milkpak Ltd., Nestlé Netherland BV, Nestlé Philippines Inc, Nestlé Polska S.A., Nestlé (PNG) Ltd., Nestlé Product Technology Centre, Nestlé R & D Centre (Pte) Ltd., Nestlé Singapore (Pte) Ltd., Nestlé Suisse S.A., Nestlé Services Inc., Nestlé Shangai Ltd., Nestlé Syria Ltd., Nestlé Taiwan Ltd., Nestlé Tianjin Ltd., Nestlé Trading (Thailand) Ltd., Nestlé Foods (Thailand) Ltd., Nestlé Turkiye Gida Sanayi A.S., Nestlé UK Ltd., Nestlé USA Inc, Nestlé Ukraine Ltd., Nestlé Vietnam Ltd., Nestlé Waters MT, P.T. Nestlé Indonesia, Société des Produits Nestlé S.A., Purina PetCare India Pvt. Ltd.

Whole time directors': Martial G. Rolland, Chairman & Managing Director (w.e.f. December 11, 2004); Carlo M.V. Donati, Chairman & Managing Director (upto December 10, 2004); Shobinder Duggal, Director – Finance & Control (w.e.f. May 10, 2004); Michael T. Scales, Director – Finance & Control (upto May 9, 2004).

Nature of transactions

	2004 <i>(Rs. in thousands)</i>	2003 <i>(Rs. in thousands)</i>
Holding companies: Dividends (Gross)	1,192,600	1,174,233
Fellow subsidiaries:		
(a) Sale of finished and other goods		
- Nestlé Foods LLC	1,076,118	1,726,497
- Others	384,373	170,018
(b) Sale of Fixed assets		
- Nestlé Foods LLC	—	32,115
- Others	—	1,791
(c) Purchase of fixed assets		
- Nestlé Syria Ltd.	—	8,960
- Nestlé Turkiye Gida Sanayi A.S.	—	5,107
- Nestlé Philippines Inc.	—	4,548
- Nestlé Foods (Malaysia) Sdn Bhd	—	2,740
(d) Purchase of raw and packing materials and spare parts		
- Nestlé Nederland B V	4,919	7,243
- Nestlé Brasil Ltda	—	23,547
- Others	350	4,576
(e) Purchase of finished goods		
- Eastern Food Specialities Pvt Ltd.	12,886	10,379
- Nestlé Suisse S.A.	10,786	7,305
- Nestlé (South Africa) Pty Ltd.	—	3,351
- P.T. Nestlé Indonesia	—	8,268
- Others	3,597	3,487
(f) General license fees (Net of taxes)		
- Société des Produits Nestlé S.A.	740,673	691,548
(g) Interest on inter corporate deposits		
- Purina PetCare India Pvt. Ltd.	—	10,004
- Alcon India Pvt. Ltd.	5,197	5,073
(h) Services rendered		
- Nestlé Lanka Ltd.	1,812	962
- Nestlé Bangladesh Ltd.	1,321	545
- P.T. Nestlé Indonesia	865	—
- Nestlé Hungaria KFT	750	—
- Others	2,028	—

	2004 <i>(Rs. in thousands)</i>	2003 <i>(Rs. in thousands)</i>
(i) Services received		
- Nestlé R & D Center (Pte) Ltd.	4,679	4,184
- Nestlé Deutschland AG	4,263	33
- Nestlé Tainjin Ltd.	2,169	940
- Others	3,983	1,670
(j) Information technology and business improvement initiatives		
- Nestlé Australia Ltd.	84,687	205,302
(k) Inter corporate deposits granted		
- Alcon India Pvt. Ltd.	—	75,000
(l) Inter corporate deposits refunded		
- Alcon India Pvt. Ltd.	30,000	—
- Purina PetCare India Pvt. Ltd.	—	318,470
(m) Balance outstanding as at the year end		
□ Receivables	161,328	236,827
□ Payables	372,872	303,564

NOTES:

- i. Inter corporate deposits were granted at the then prevailing market rate and a spread thereon.
- ii. Details of remuneration to whole time directors' are given in the note 5 of the notes to the accounts. Balance payable to Whole time directors as on December 31, 2004 is Rs. 5,790 thousands (Previous year Rs. 6,912 thousands)
18. The names of Small Scale Industrial Undertakings to whom the Company owe a sum, which is outstanding for more than 30 days as on 31st December 2004 are Amrita Moulding Pvt. Ltd., Borkar Packing Pvt. Ltd., M/s Chemline India Ltd., Craftpac Containers Pvt. Ltd., Global Innovations, Industrial Equipment Company, Jewel Paper Product, Jewel Packaging (P) Ltd., Kamet Plastics, Kwaliti Offset Printer, Lazer Printaxis Pvt. Ltd., Liddles Printing Works, Maniesh Offset Pvt. Ltd., Mettler Toledo India Pvt. Ltd., M.R. Equipments, Paras Enterprises, Perfect Pack (Sundernagar), Shivalik Polypack, Sondhi Laminated Beltings, Sri Sai Packaging, Srivari Packaging Ind., Suraksha Packers Pvt. Ltd. and Surya Print Process Pvt. Ltd. These amounts are not due for payment as per the terms and conditions of the purchase order/contract.
19. Previous year's figures have been regrouped/reclassified wherever necessary, to make them comparable.

20. 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. In order to comply with the Accounting Standards Interpretation (ASI-14) issued by the Institute of Chartered Accountants of India, gross sales (including excise duty) and net sales (excluding excise duty) is disclosed in the profit and loss account.

INVENTORIES

Stores and spare parts are stated at cost. Stock-in-trade is valued at cost or net realisable value, whichever is lower, as certified by the management. The bases of determining cost for various categories of inventories are as follows:

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

RETIREMENT BENEFITS

Contributions to the provident fund and provision for pension and gratuity are charged to revenue every year. Provision for pension is made on the basis of an actuarial valuation carried out by an independent actuary as at the year-end. Provision for gratuity is made on the basis of actuarial valuation after taking into account the net result of gratuity trust.

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.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. However, the increase in carrying amount of an asset due to reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

TAXATION

The provision for taxation for the period comprises the residual tax liability for the assessment year 2004-2005 relevant to the period April 1, 2003 to March 31, 2004 and the liability, which has accrued on the profit for the period April 1, 2004 to December 31, 2004.

Deferred tax is recognised, subject to the consideration of prudence, on timing difference, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

CONTINGENT LIABILITIES

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-1 TO THE DIRECTORS' REPORT

Report on Corporate Governance for the year ended December 31, 2004

NESTLÉ'S PHILOSOPHY ON CODE OF GOVERNANCE

Nestlé India Limited, 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 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. Nestlé India is conscious of the fact that the success of a corporation is a reflection of the professionalism, conduct and ethical values of its management and employees. In addition to compliance with regulatory requirements, Nestlé India endeavours to ensure that highest standards of ethical and responsible conduct are met throughout the organisation.

BOARD OF DIRECTORS

Composition, Attendance at the Board Meetings and the last Annual General Meeting, Outside Directorships and other Board Committees

Above information as on 31st December, 2004 or for the year 2004, as applicable, is tabulated hereunder:

Director	No. of Board Meetings attended ^A	Attendance at previous AGM on 30.04.2004	No. of outside Directorship held ^B	No. of membership/ chairmanship in other Board Committees ^C	Executive/ Non-Executive/ Independent
Mr. Martial G. Rolland ¹	Nil	Not Applicable	Nil	Nil	Executive
Mr. Carlo M.V. Donati ²	4	Present	Nil	Nil	Executive
Mr. Shobinder Duggal ³	3	Not Applicable	Nil	Nil	Executive
Mr. Michael T. Scales ⁴	2	Present	Nil	Nil	Executive
Mr. Ravinder Narain	5	Present	2	Nil	Non-Executive & Independent
Mr. Tejendra Khanna	5	Present	3	4	Non-Executive & Independent
Mr. M. W. O. Garrett	Nil	Not Present	Nil	Nil	Non-Executive
Mr. Rajendra S. Pawar	5	Present	11	1	Non-Executive & Independent
Mr. Richard Sykes ⁵	1	Present	Nil	Nil	Non-Executive

¹Nominated by Nestlé S.A. Appointed as Managing Director with effect from 11th December, 2004.

²Nominated by Nestlé S.A. Ceased to be a Director with effect from 10th December, 2004.

³Nominated by Nestlé S.A. Appointed as Director-Finance & Control with effect from 10th May, 2004.

⁴Nominated by Nestlé S.A. Ceased to be a Director on 10th May, 2004.

⁵Alternate Director to Mr. M. W. O. Garrett.

^AParticipation over phone by Mr. Donati (1 meeting) has not been included.

^BDirectorship in companies registered under the Companies Act, 1956, excluding directorships in private companies, alternate directorship and companies under Section 25 of the Companies Act, 1956.

^COnly covers membership / chairmanship of Audit Committee, Remuneration Committee and Shareholder / Investor Grievance Committee.

As at 31st December, 2004, in compliance with the corporate governance norms, the Company's Board of Directors headed by its executive Chairman, Mr. Martial G. Rolland, comprised five other directors, out of which three are independent directors. None of the Directors was a member of more than ten Board-level committees, nor a Chairman of more than five such committees, across all companies in which he was a Director.

Board Meetings held during the year 2004

During the year 2004, five Board Meetings were held on 15th March, 2004, 30th April, 2004, 28th July, 2004, 28th October, 2004 and 7th December, 2004. The maximum gap between any two meetings was less than four months.

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 292A 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 four times during the year 2004 on 15th March, 2004, 30th April, 2004, 28th July, 2004 and 28th October, 2004. All members of the Committee attended the aforesaid meetings.

Shareholders Committee

Shareholder/Investor Grievance Committee is headed by Mr. Ravinder Narain, a Non-Executive and Independent Director and the other member is the Managing Director (Mr. Martial G. Rolland became member with effect from 11th December, 2004 replacing Mr. Donati, who ceased to be a Director with effect from 10th December, 2004). Mr. B. Murli, Company Secretary is the Compliance Officer. The Committee met four times during the year on 11th February, 2004, 1st April, 2004, 1st September, 2004 and 28th October, 2004. All members of the Committee attended the aforesaid meetings.

The Committee oversees redressal of shareholder and investor grievances, transfers of shares, non-receipt of balance sheet, non-receipt of declared dividends and related matters.

During the year 2004, 140 complaints were received from shareholders and investors. All the complaints have generally been solved to the satisfaction of the complainants. The Company has acted upon all valid requests for share transfer received during 2004 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 2004

(Rupees in '000)

Name of the Director	Sitting Fee	Salaries	Allowances	Perquisites	Commission	Total
Mr. Martial G. Rolland ¹	N.A.	508	—	213	610	1331 [@]
Mr. Carlo M. V. Donati ¹	N.A.	8813	907	4550	15246	29516
Mr. Shobinder Duggal ¹	N.A.	1540	—	622	531	2693 [@]
Mr. Michael T. Scales ¹	N.A.	2786	918	481	3567	7752
Mr. Tejendra Khanna	70	N.A.	N.A.	N.A.	300 ^{@@}	370
Mr. Ravinder Narain	90	N.A.	N.A.	N.A.	300 ^{@@}	390
Mr. Rajendra S. Pawar	70	N.A.	N.A.	N.A.	300 ^{@@}	370

¹ The Company has/ had service contract with all Executive Directors for a period of 5 years. The notice period is/was of three months and the severance fee is/ was the sum equivalent to remuneration for the notice period or part thereof in case of a shorter notice.

[@] Remuneration paid or payable, is subject to approval of shareholders.

^{@@} The commission for the year ended 31st December, 2004 will be paid, subject to deduction of tax after adoption of the accounts by the shareholders at the Annual General Meeting to be held on 29th April, 2005.

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



Remuneration of Mr. Shobinder Duggal excludes provisions for incremental liability for pension, since certification of actuary is for the Company as a whole. There is no incremental liability for gratuity, since Mr. Duggal had earned gratuity, before being appointed as a Director. Perquisites of Mr. Duggal include contribution of Rs. 184,800/- to provident fund. These are not applicable to other Whole-time Directors.

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
2004	Air Force Auditorium, Subroto Park, New Delhi - 110 010	30 th April, 2004	10.00 A.M.
2003	- do -	30 th April, 2003	10.00 A.M.
2002	- do -	30 th April, 2002	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 2004, the Company had no materially significant related party transaction, which is considered to have potential conflict with the interests of the Company at large. Transactions with related parties are disclosed in Note No.17 of Schedule P to the Annual Accounts.

The Company has complied with the requirements of regulatory authorities on capital markets and no penalties or strictures has been 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. As per the requirement of Clause 51 of the Listing Agreement all the data related to quarterly financial results, shareholding pattern etc. is provided to the special web-site www.sebiedifar.nic.in within the time frame prescribed in this regard. 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 Nestlé Group Companies.

Manpower figure of the Company as on 31st December, 2004 was 3106.

GENERAL SHAREHOLDER INFORMATION

Annual General Meeting

Date and Time : 29th April, 2005 at 10.00 a.m.

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



Financial Calendar : 2005

First Quarter Results : Last week April, 2005 Third Quarter Results : Last week October, 2005
 Second Quarter and Half Yearly Results : Last week July, 2005 Annual Results : March, 2006

Date of Book Closure : 25th April, 2005 to 29th April, 2005, both days inclusive.

Dividend payment date : Two Interim Dividends for the year 2004, both at the rate of Rs.10/- per share, were paid on 30th July, 2004 and 23rd December, 2004, respectively. A special Dividend of Rs. 4.50 per share, was recommended on 14th March, 2005 and subject to the approval of the shareholders at the Annual General Meeting is proposed to be paid on 10th May, 2005.

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).

In accordance with the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003, it is proposed to delist the Company's shares from The Delhi Stock Exchange Association Limited, New Delhi. The requisite resolution in this regard is placed before the shareholders for their approval in the accompanying Notice of the 46th Annual General Meeting.

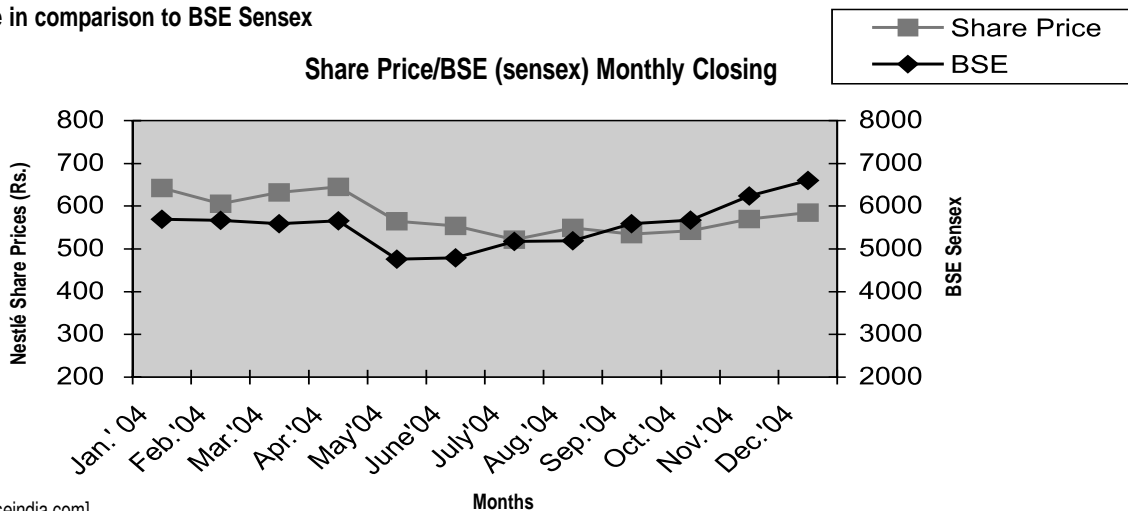
The ISIN Number of Nestlé India Limited on both the NSDL and CDSL is INE239A01016.

Market Price Data : High/Low in each month of Calendar Year, 2004 on The Stock Exchange, Mumbai

Month	High (Rs.)	Low (Rs.)	Month	High (Rs.)	Low (Rs.)
January	720.00	635.00	July	570.00	500.00
February	690.00	581.00	August	552.00	520.00
March	675.00	575.00	September	554.95	525.50
April	675.00	616.60	October	557.70	533.00
May	650.00	545.00	November	570.50	542.00
June	580.00	535.25	December	620.00	558.00

[Source : www.bseindia.com]

Performance in comparison to BSE Sensex



[Source: www.bseindia.com]

Registrar & Transfer Agents : M/s MCS Limited, W-40 Okhla Industrial Area, Phase II, New Delhi - 110 020.

Share Transfer System

Share transfers are registered and returned in the normal course within an average period of 21 days from the date of receipt, if the documents are clear in all respects. Requests for dematerialisation of shares are processed and confirmation is given to the respective depositories i.e. National Securities Depository Limited (NSDL) and Central Depository Services India Limited (CDSL) within 15 days.



Categories of Shareholding as on 31st December, 2004

Category	Number of Shares	Percent of total shares
Promoters and Associates	59,629,954	61.85
Foreign Institutional Investors	7,787,990	8.08
Public Financial Institutions (including Banks)	6,214,250	6.44
Mutual Funds and UTI	2,668,532	2.77
Private Corporate Bodies (including Clearing Members)	1,703,427	1.76
NRI's and OCB's	36,776	0.04
Indian Public	18,374,787	19.06
Total	96,415,716	100.00

Distribution of Shareholding as on 31st December, 2004

No. of shares	Number of shareholders	Number of Shares	Percent of total shares
1 to 500	41,474	4,545,332	4.71
501 to 1,000	3,407	2,465,327	2.56
1,001 to 2,000	1,297	1,826,175	1.89
2,001 to 3,000	384	959,411	1.00
3,001 to 4,000	191	660,281	0.69
4,001 to 5,000	112	503,556	0.52
5,001 to 10,000	254	1,772,888	1.84
10,001 and above	237	83,682,746	86.79
Total	47,356	96,415,716	100.00

Dematerialisation of shares: 42.58% equity shares of the Company have been dematerialised as on 31st December, 2004.

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

Date : 14th March, 2005

Place : Gurgaon

MARTIAL G. ROLLAND
CHAIRMAN

CERTIFICATE

TO THE MEMBERS OF NESTLÉ INDIA LIMITED

We have examined the compliance of conditions of Corporate Governance by Nestlé India Limited for the year ended December 31, 2004, 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, 2004, 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

14th March, 2005
New Delhi

(MANJULA BANERJI)
Partner

ANNEXURE-2 TO THE DIRECTORS' REPORT

Information as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 forming part of Directors' Report for the year ended 31st December, 2004.

A. CONSERVATION OF ENERGY

(a) Energy Conservation Measures Taken

The Company continued to stress upon the measure for conservation and optimal utilization of energy, in all the areas of its operations, including those for energy generation and effective usage of sources/equipment used for generation. The significant measures taken during 2004, which have contributed to energy conservation were:

- Additional frequency drive installed in Effluent Treatment Plant aerators and vacuum compressors.
- Use of energy efficient lighting in manufacturing areas.
- Replacement of electric heating by steam heating wherever possible.
- Recovery of inert gas wastage by heat recovery system.
- Awareness, monitoring and controls in further reduction in water usage.
- Heat recovery through hot water generation from heat of ammonia compression.
- Replacement of over size motors.
- Increase in D.G. yield by improved monitoring through installation of energy meters.
- Energy saving in Coffee oil extraction.

(b) Additional investment

Following proposals are at various stages of implementation:

- Further installation of waste heat recovery boiler on D.G. Sets.
- Installation of Reverse Osmosis on treated waste-water is being evaluated for recycling.

(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 2004, 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

Total energy consumption and energy consumption per unit of production, as per prescribed Form A together with the comparative figures for 2003, are given at the end of this part. The Company manufactures varieties of products each of them using a combination of various sources of energy in different proportions. Therefore the comparison

as mentioned in Form A, does not truly reflect the efforts of the Company at reducing consumption in terms of units of consumption.

B. TECHNOLOGY ABSORPTION

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

Research & Development (R&D)

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

Your Company as a part of Nestlé Group and under the General Licence Agreement has access to and advantage of drawing from the extensive central Research and Development efforts and activities of the Nestlé Group. Nestlé Group spends enormous amounts and efforts in Research and Development and in gaining industrial experiences. It has therefore been possible for your Company to focus its efforts on testing and modification of products for local conditions. Improving and maintaining the quality of certain key raw materials also continued to receive close attention.

2. Benefits derived as a result of the above R&D

The ability to leverage the Research and Development (R&D) expertise and knowledge of Nestlé Group, has helped your Company to innovate and renovate, manufacture high quality and safe products, improve yields, input substitution and achieve more efficient operations. Consequently the consumers perceive the products of your Company as a high value for their money.

3. Future plan of action

Steps are continuously being taken for innovation and renovation of products including new product development, improvement of packaging and enhancement of product quality / profile, to offer better products at relatively affordable prices to the consumers.

4. Expenditure on R&D

Your Company benefits from the extensive centralised Research & Development (R&D) activity and expenditure of the Nestlé Group, at an annual outlay exceeding one billion Swiss Francs. As such Company does not spend on Research and Development. Expenditure of the Company broadly in the nature of Research and Development are those incurred, primarily relating to testing of products and are as under:

	Rs. in thousands
(a) Capital	14,948
(b) Recurring	33,975
(c) Total	48,923
(d) Total R&D as a percentage of total turnover.	0.21%

Technology absorption, adaptation and innovation

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

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

2. Benefits derived as a result of the above efforts

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

3. Imported Technology

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

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

(a) Activities relating to exports; initiatives taken to improve the exports; development of new export market for products and export plans:

Members are requested to refer to the Directors' Report under the paragraph of "Exports", for this information.

(b) Total foreign exchange used and earned:

During the year under review, your Company had earnings from exports of Rs. 2,331 Million comprising foreign exchange earnings of Rs. 1,841 Million (including sales to Russia invoiced in Rupees) and export to neighbouring countries in Rupees amounting to Rs. 490 Million and foreign exchange outgo of Rs. 2,826 Million. Details of earnings from exports and foreign exchange outgo on account of imports, expenditure on traveling, general licence fees, etc. and remittances made to non-resident shareholders on account of dividend are shown in Notes 8, 9, 11 and 12 respectively of Notes to the Accounts. Members are requested to refer to these Notes.

FORM A
CONSERVATION OF ENERGY (CONSOLIDATED)

(A) Power and Fuel Consumption	2004	2003
1. Electricity		
(a) Purchased		
Units (000' KWH)	51,011	49,960
Total Cost (Rs. in thousands)	202,572	200,073
Cost/KWH	3.97	4.00
(b) Own Generation		
(i) Through Diesel Generator		
Units (000' KWH)	34,288	32,711
Units per litre of oil (KWH)	3.65	3.58
Cost/KWH (Rs.)	5.97	4.85
2. Coal (Various grades)		
Quantity (Tonne)	30,216	27,533
Total Cost (Rs. in thousands)	112,812	90,873
Cost/Tonne (Rs.)	3,733	3,301
3. Furnace Oil		
Quantity (KL)	18,872	16,570
Total Cost (Rs. in thousands)	241,534	201,644
Cost/KL (Rs.)	12,799	12,169
4. Other Consumption of Fuel		
(a) High Speed Diesel Oil (HSD)		
Quantity (KL)	1,716	1,770
Total Cost (Rs. in thousands)	35,771	29,764
Cost/KL (Rs.)	20,841	16,814
(b) Heavy Petroleum Stock (HPS)		
Quantity (KL)	—	2,382
Total Cost (Rs. in thousands)	—	36,171
Cost/KL (Rs.)	—	15,185
(c) Non-Conventional Fuels-Coconut Shell & Coffee Husk		
Quantity (Tonne)	11,469	12,979
Total Cost (Rs. in thousands)	34,773	30,222
Cost/Tonne (Rs.)	3,032	2,329
(d) Liquid Petroleum Gas (LPG)		
Quantity (Tonne)	574	540
Total Cost (Rs. in thousands)	15,757	12,063
Cost/Tonne (Rs.)	27,444	22,339

(B) Consumption per unit of production

	Beverages		Milk Products and Nutrition		Chocolates & Confectionery		Prepared Dishes & Cooking Aids	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
	2004	2003	2004	2003	2004	2003	2004	2003
Electricity (KWH/T)	1330.07	1257.33	392.88	397.30	774.65	847.24	178.99	165.22
Furnace Oil (Ltrs./T)	220.93	261.6	111.18	91.89	62.20	75.82	59.63	87.47
Coal (Kgs./T)	188.46	140.2	307.90	294.48	—	—	183.82	198.59
Others:								
HSD, HPS (Ltrs./T)	91.77	93.12	0.26	31.19	—	—	—	4.14
LPG (Kgs./T)	—	—	1.15	0.98	39.64	39.58	—	—

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