



C E L E B R A T I N G R E L A T I O N S H I P S



THE BOARD OF DIRECTORS OF NESTLÉ INDIA



From (L to R) Ravinder Narain, Tejendra Khanna, Michael W.O. Garrett, Martial G. Rolland, Rajendra S. Pawar, Shobinder Duggal, B. Murli



Narendra Singh - Chairman Emeritus

Board of Directors

Martial G. Rolland	Chairman & Managing Director
Shobinder Duggal	Director - Finance & Control
Michael W.O. Garrett	Non -Executive Director
Ravinder Narain	Non- Executive Director
Tejendra Khanna	Non-Executive Director
Rajendra S. Pawar	Non-Executive Director
Richard Sykes	Alternate Director to Michael W.O. Garrett

Secretary

B. Murli - Sr. Vice President - Legal & Company Secretary

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CREATING SHARED VALUE CELEBRATING RELATIONSHIPS

Since Nestlé started trading activity with India in 1912, its relationship with the country and its people has grown into a rewarding partnership that is touching and changing lives across the nation. It is an enduring partnership of shared values, business ethics and long-term commitment that actively benefits thousands of farmers and their families.

The most obvious benefit that Nestlé India brings to the place that it operates in is the creation of both direct and indirect employment that leads to the upliftment of the whole community, and inclusive growth. Economic prosperity is only one aspect of our relationship with India. Our activities help in the transfer of technology and knowledge that takes India's success story to the people who need it most and help them live healthier lives.

“Because of Nestlé's support and training to develop dairy in Moga, I sell more than 400 Kgs of milk per day. This has helped me give my children good education.”

Mr. Darshan Singh
Village Kot Karor

SPREADING SMILES AND HAPPINESS

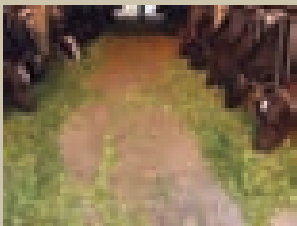


Our relationships are based on the understanding that our investments must result in long term sustainable growth and economic and social progress for the community as well.

The Company has been continuously working to increase investments in cooling tanks and insulated tankers for efficient collection of fresh milk, providing technical assistance to improve farm productivity and helping farmers to develop expertise in herd management and farm economics.

This pioneering work with the communities of Moga has helped to develop a vibrant milk economy, increased all round prosperity and brought smiles to faces, creating and providing economic opportunities for different generations.

The factory in Moga in 1961 was just the beginning. Over the years Nestlé India operations have grown manifold. Today it has seven factories across the country and the journey is continuing.



“Earlier the milk used to get spoilt. But with better dairy technology and chilling tanks Nestlé has helped us to increase productivity and earn more.”

Mr. Sukhraj Singh, Village Gureh



Moga & Samalkha Milk Districts
Milk collection agencies : 2255
Farm coolers & chillers installed : 729
Farmers benefiting directly > 98,000



“With clean drinking water in the school, less children are falling sick. They also go home and help their families to save water.”

Mrs. Dalbir Kaur
Central Head Teacher
Government Primary School
Fatehgarh Korotana

WATER FOR EVERYONE



Water is a scarce resource and plays a critical role in the sustainable development including poverty reduction.

Therefore, since 1999, Nestlé India has been setting up projects that provide access to clean drinking water in village schools and to educate and create awareness in communities to conserve water. Already 74 such projects have been completed and more are being implemented in the communities around our operations across India.



Water Projects completed : 74
Children benefiting directly > 27,000

“Nestlé has taught me how to keep our cattle healthy and the milk clean, and how I can help my family live a better life.”

Mrs. Daljit Kaur
Village Walipur Khurd

EMPOWERED WOMEN, HAPPIER HOMES



Education and training are the foundation for a good life. Recognising the role that women can play in the community, Nestlé India runs special training programmes for village women on good dairy farming practices to help them play a more active role. The women's village dairy development initiative also spreads awareness about health, hygiene, conservation and economic independence. Already this programme has empowered 19,400 village women and is gaining momentum.



Villages covered : 375
Women covered : 19400
Men participants : 6700

Every new smile that makes a family happier is reason for us to continue creating shared value and celebrate our relationships.

CORPORATE INFORMATION

MANAGEMENT COMMITTEE

Martial G. Rolland - Chairman & Managing Director
Stewart Dryburgh - Chocolate & Confectionery
Shobinder Duggal - Finance & Control
Pascal Fournier - Human Resources
Muhammed Hamza - Coffee & Beverages
Shivani Hegde - Foods
Christian Van Houtteghem - Infant Nutrition
Roel Keus - Technical
Vineet Khanna - Supply Chain
Virat Mehta - Communications
B. Murli - Legal & Company Secretary
Suresh Narayanan - Sales
Hari Narani - Globe
G.G. Pillai - Additional Channels
Rajkamal Sharma- Exports
R. Singh - Corporate Affairs and Strategic Planning
Mayank Trivedi - Shelf Stable & Chilled Dairy

BANKERS

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

AUDITORS

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

WEBSITE

www.nestle.in

INVESTOR EMAIL ID

investor@in.nestle.com

REGISTRAR & TRANSFER AGENTS

M/s Alankit Assignments Limited
2E/21, Jhandewalan Extension, New Delhi - 110 055
Tel. No. : 011-42541234, 23541234
Fax No. : 011-42541967

LISTING OF EQUITY SHARES (Listing Fees paid)

The Bombay Stock Exchange Limited,
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001

REGISTERED OFFICE

M-5A, Connaught Circus, New Delhi - 110 001
Tel. No.: 011- 2341 8891, Fax No. : 011- 2341 5130

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)

1st Floor, ICC Chambers, Near Saki Vihar Telephone Exchange,
Saki Vihar Road, Powai, Mumbai - 400 072 (Maharashtra)

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

FACTORIES

Village Maulinguem (North), Bicholim Taluka - 403 504 (Goa)

Ludhiana-Ferozepur Road, Near Kingwah Canal, Moga - 142 001
(Punjab)

Industrial Area, Nanjangud - 571 301 Mysore District (Karnataka)

P.O. Cherambadi - 643 205 Dist. Nilgiris (Tamil Nadu)

Patti Kalyana, Kiwana Road, Samalkha - 132 101 Dist. Panipat (Haryana)

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

Plot No. 1, Sector No. 1A, Integrated Industrial Estate, SIDCUL,
Pantnagar- 263145, District: Udham Singh Nagar (Uttarakhand)

ANNUAL GENERAL MEETING

Thursday, 3rd May, 2007 at 9.30 A.M. at
Air Force Auditorium, Subroto Park, New Delhi - 110 010

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

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in submitting their report and the statement of accounts for the year ended 31st December, 2006.

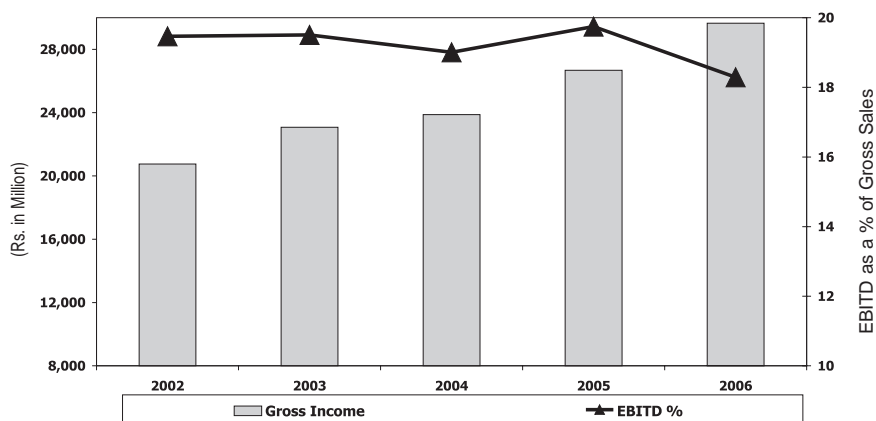
Financial Results and Operations

	(Rs. in Million)	
	2006	2005
Gross Revenue	28,367	25,006
Earning before Interest, Tax and Depreciation excluding Other Income (EBITD)	5,385	5,220
Interest	4	2
Depreciation	663	568
Impairment Loss on Fixed Assets (Net)	4	(26)
Provision for Contingencies (Net)	115	223
Provision for Tax	1,654	1,595
Net Profit	3,151	3,096
Profit Brought Forward	72	35
Balance Available for Appropriation	3,223	3,131
Interim Dividends	2,458	2,218
Final Dividend Proposed	-	193
Corporate Dividend Tax	345	338
Transfer to General Reserve	315	310
Surplus carried in Profit and Loss Account	105	72
Earnings per Share (Rs.)	32.68	32.11
Dividend per Share (Rs.)	25.50	25.00

Net Sales for the year 2006 increased by 13.7% over the previous year. Net Domestic Sales grew by 14.4%, both on account of higher volumes and price increases. Export Sales grew by 7.9%, but were adversely impacted by lower exports of beverages to Russia and Japan, though offset by improved sales in other categories and geographies.

The EBITD for the year 2006 excluding other income increased by 3.2%. The growth was adversely impacted by steep increase in prices of commodities, higher operating costs associated with upgraded formulations and manufacturing processes of the Infant

GROSS INCOME



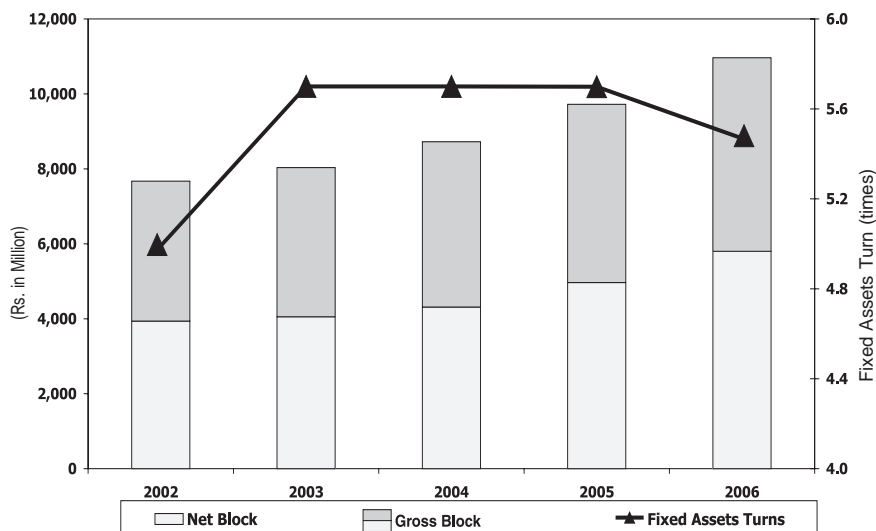
Nutrition products to further enhance their quality, as well as increase in structural costs to better prepare the organisation to benefit from the opportunities for accelerated growth. Increase in selling prices, higher volumes and the one-time write back partly offset the cost increases. Nestlé Group's Operation Excellence savings initiatives, focusing on more efficient sourcing of raw and packing materials, energy costs and efficiencies, manufacturing processes and optimisation of line efficiencies/occupation etc., helped mitigate the adverse impact of input costs and in controlling other costs throughout the year. Net Profit for the year

2006 increased by 1.8%, mainly on account of the lower EBITD growth.

Out of business prudence, in 2006 the Company supplemented the Contingency Provision with a further amount of Rs.114.6 Million (Net), to provide for contingencies resulting mainly from matters relating to litigation/dispute and other items requiring management judgement and discretion. Members are requested to refer to the Notes to the Accounts for the details.

During 2006 the Indian economy sustained its steady growth. Continuing fiscal

FIXED ASSETS



consolidation, healthy FDI inflows and FII investments, higher growth in services and manufacturing sectors, bullish stock market and real estate, boosted the market sentiments and consumer confidence. While increased investments in the economy during 2006, coupled with the fiscal prudence being exercised by the Government are positive indicators for the future economic direction, the agricultural front is an area of concern.

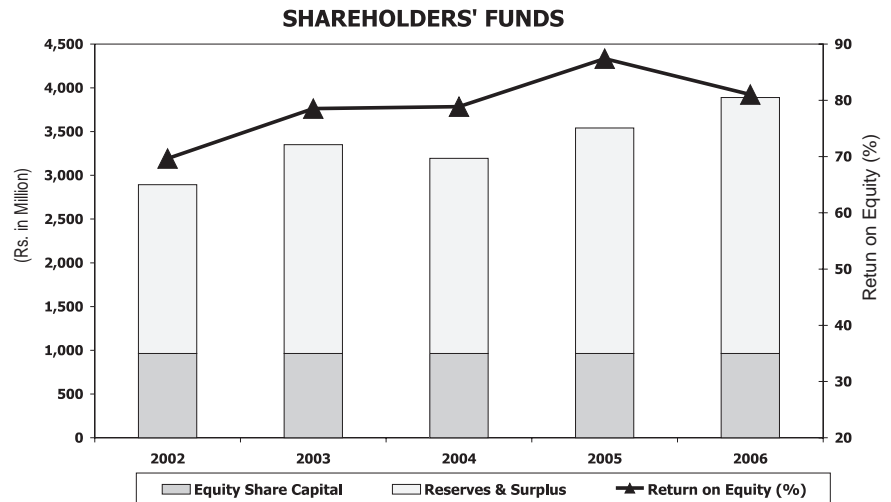
The unsatisfactory performance in agriculture and the hardening of international prices for primary commodities, mainly agro based commodities, pushed the inflationary trend for most part of the year.

Overall, the economic environment has been stable, supportive and in the right direction with continuing thrust on inclusive growth.

Continuous positive development on the economic front, rapid changes in the retail environment and an increasing demand for FMCG products are all favourable indicators for your Company. The growing and young population, rising middle class incomes, various changes in life style and aspirations and the thrust of Government on inclusive growth, present a unique opportunity for a Company like yours.

However, this economic confidence and increasing globalisation brings with it a more complex and competitive environment. It also underscores greater understanding of consumer needs and trends as well as the ability to address them in a sustained and competitive manner.

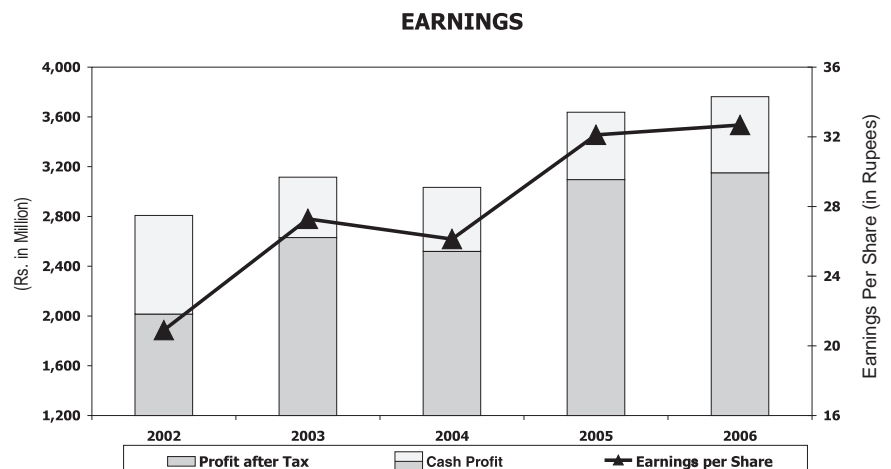
Your Company recognises this and has been responding to it with foresight. The Nestlé name is synonymous with 'Good Food, Good Life'. Fulfilling consumer needs, expectations and requirements, has always been and will remain the cornerstone of the Company. Constant focus is maintained in



understanding and anticipating consumer needs. The Company launched products that fulfill such consumer needs and aspirations and also renovated some products to better address the consumer trends. Leveraging its access to world class technology available from Nestlé Group, your Company made good progress in the thrust area of increasing the Nutrition, Health and Wellness dimensions across the portfolio of products. Your Company developed/renovated several products that address the nutrition and health attributes while continuing to provide the same

excellent taste that they have been preferred for by the consumers. During the year, the Company sustained its investments in building brands and maintained its focus on making the Nestlé products more visible and conveniently available whilst ensuring greater product freshness.

Your Company is stable and healthy, with strong fundamentals and is focused on long term, sustainable and profitable growth. This stability and health lies in the consumer franchise, strength and vitality of the brands in its varied portfolio, which have over the



years built a relationship of trust and confidence with consumers. The Company remains steadfast in following the four strategic pillars for sustainable growth - 'Low cost, highly efficient operations'; 'Innovation and Renovation'; 'Product availability'; and 'Consumer communication'. It also follows an economic model that comprises the seven value drivers that synergise sales growth, profit margins and capital efficiency.

The current year has commenced as per plan. The multi-focal business structure, the strengthening of consumer insights to focus on Nutrition, Health and Wellness, reorganisation of the sales organisation to adapt to the new Channels, Customers and Category needs and implementation of the GLOBE project amongst others have created the foundation required to seize the opportunities for accelerated growth. Your Company would maintain a strong focus on input costs, where inflationary pressures are likely to continue. We remain confident of the long term business prospects of the Company and its ability to sustain fair return to the shareholders.

Exports

Export Sales during 2006 at Rs.2,796 Million, increased by 7.8% over the year 2005. This was largely influenced by the increase in per unit realisation in export of Instant Coffee due to higher Green Coffee prices and the improved sales in other categories and geographies, but was adversely impacted by lower exports of beverages to Russia and Japan. New businesses were developed in Instant Tea exports which continued to do well during 2006.

The efforts to develop new geographies helped to reduce dependence on exports to Russia. Initiatives to develop products for the Indian ethnic community abroad are continuing. Several new products were

introduced for the community abroad, including MAGGI Atta Noodles, Oriental Noodles and some new variants of MAGGI Sauces. Your Company also commenced export of Chocolate and Confectionery products to the Asia-Pacific region.

Dividends

For the year 2006, three Interim Dividends aggregating Rs. 25.50 per equity share were declared by the Board of Directors, out of which the first at the rate of Rs. 6/- and second at the rate of Rs.18/- per equity share, were paid on 9th May, 2006 and 21st December, 2006 respectively, while the third at the rate of Rs.1.50 per equity share will be paid on 29th March, 2007.

Keeping in view the Interim Dividends declared, the Board of Directors have not recommended any Final Dividend for the year 2006.

The total payout of Rs.2,803 Million (including the corporate dividend tax) for 2006, is the highest dividend payout to date.

Scheme of Arrangement

On 15th January, 2007, the Board of Directors have approved a Scheme of Arrangement (hereinafter referred to as "Scheme") between the Company and its Shareholders and Creditors proposing the utilisation of the balance in the Share Premium Account and a part of the balance in the General Reserve Account formed by excess transfer of surplus profit in earlier years. After evaluation of the various uses of the available free cash represented by the Share Premium Account (Rs. 432.4 Million) and part of the balance in the General Reserve Account (Rs. 430.8 Million), your Company believes that distributing the same would give an opportunity to the shareholders to earn superior returns as compared to those, which the Company can earn by investing in short

term liquid instruments. The reduction would further enhance the return on equity, provide an opportunity to leverage the balance sheet which in turn could further optimise the cost of capital and thus improve the economic value. Meeting of shareholders would be convened to approve the Scheme as per directions of the Hon'ble High Court. The Scheme is subject to the approval of the Hon'ble High Court.

Business Development

The Company constantly innovates and renovates products in its portfolio to create value that can be sustained over the long term, by offering high quality, safe food products at affordable prices, providing Nutrition, Health and Wellness. In order to do this successfully, the Company continued to remain sharply focused in its efforts to obtain relevant consumer insights through research and consumer engagement activities.

To enable the Company to respond faster and in a more focused manner to consumer needs and customer expectations, a new department - the Channel & Category Sales Development (CCSD) had been set up last year to develop new solutions for the various channels and customers and improve the implementation of commercial plans in the market place. The Company had also created a new department the 'National Key Accounts Management Organisation' to focus on modern formats in retail trade that are rapidly establishing their presence in the Indian market. In addition, during 2006, steps were taken to strengthen the category/brand and channel focus at the Sales Branches together with augmenting the resources to strengthen route to market initiatives. These initiatives have prepared the Company to effectively address the emerging channel opportunities and formats which are expected to contribute to accelerating growth in the coming years.

Your Company's unique access to Nestlé global expertise and competence will provide the edge in ensuring the success of these initiatives.

During 2005, some internal Company structures were realigned to make it a multi-focal Company with category specific business units and processes to further strengthen the brands. These and other structural changes are now allowing the Company to benefit from the rapidly changing consumer and economic environment.

The Company also stepped up initiatives to provide consumers with relevant information to make choices for a more balanced diet. The NESTLÉ NUTRITIONAL COMPASS which is an initiative to help consumers to navigate through the nutrition attributes of a product and make an informed choice has been implemented on almost all the product packaging, where it can be implemented. In select areas this communication was also rolled out through unique in-store initiatives 'NESTLÉ NUTRIWORLD'.

In the **'Prepared Dishes and Cooking Aids'** category, the MAGGI brand witnessed a very good performance and continued to lead the market for Instant Noodles, Soups, Sauces and Ketchups, doing pioneering work in developing new products. During 2005 the Company had initiated the pro-position 'Taste Bhi Health Bhi' and launched the innovative concept MAGGI Vegetable Atta Noodles, and the very popular MAGGI 2-Minute Noodles were renovated to provide Calcium and Protein for the core target group. During 2006, the portfolio was further supplemented with another innovative concept MAGGI Dal Atta Noodles, which offers the goodness of protein from the unique combination of 'Atta' and 'Dal' in addition to the wholesome nutrition of dietary fibre from the whole wheat (Atta). To address specific consumer needs "No Onion and No Garlic" MAGGI Noodles were also introduced in

select markets during 2006. All these initiatives will strengthen the consumers' bond with MAGGI Noodles, as it enters its 25th year of existence in the Indian market.

Your Company is a pioneer in the Instant Soups market and in the last quarter of 2005, had launched a range of new MAGGI Healthy Soups that are even more delicious, quick to prepare, convenient and healthy. The products were developed to cater to the unique taste of the Indian consumers and do not contain any added MSG or added preservative, no artificial colours, are low on fats and cholesterol and have real vegetables. As expected, with the launch of new MAGGI Healthy Soups, the overall performance of Soups improved significantly during 2006. In keeping with your Company's focus to meet consumer needs, a new range of Instant Soups were launched during early 2007, under the brand MAGGI Healthy Soups - Sanjeevni that have met with a satisfactory market response. The new range of Instant Soups brings together the Nestlé know how in developing Soups with sharper consumer insights into the relevance of traditional ingredients like 'Amla' and 'Badam', that are seen to ensure health and well being.

In Sauces and Ketchups, MAGGI maintained its leadership and continued to add new and innovative products to its range. The portfolio of Sauces with the unique taste of 'Chutney' was strengthened with the addition of MAGGI Teekha Masala, while MAGGI Oriental Chilli Sauce and MAGGI Pizza Maaza were the other excellent products that were added to the portfolio. MAGGI Tiffin Pack, a pouch containing six Tomato Ketchup sachets, one for each day of school, was introduced for kids who love taking Sauce in their tiffin.

The performance in the **'Chocolate and Confectionery'** category was very satisfactory. The Company continued to

grow its leadership in the chocolate wafers category and overall the key brands demonstrated good health. NESTLÉ MUNCH continued to be the largest distributed brand in India. NESTLÉ KITKAT, Calcium rich NESTLÉ MILKYBAR, NESTLÉ MILKYBAR CHOO and NESTLÉ Eclairs continued to grow well. A breakthrough innovation in the category was brought about with the launch of NESTLÉ KIT KAT Lite, a unique product with 50% less sugar and 100% great taste. The product was specifically developed for India, with the technology and expertise from Nestlé Group. The Company also expanded the core NESTLÉ KIT KAT brand into gifting with the successful launch of the NESTLÉ KIT KAT 'Goldpack'. In the Sugar Confectionery category, the Company launched NESTLÉ POLO Powermint, the stronger and bigger POLO mint, providing instant refreshment, at a 50 paise price point. This proved a very strong performer. NESTLÉ FUNBAR was also launched during the year in select towns, positioned as another chocolaty treat at the price point of Rs. 2/-. The initial response has been very encouraging.

In the **'Beverages'** category, NESCAFE continued to be the largest brand of Instant Coffee in the Indian market and initiatives are being put in place to strengthen it even further. During the year MILO Chocolate Energy Food Drink was renovated. The improved new MILO is superior in taste and is fortified with ACTIGEN-E [a proprietary branded active benefit BAB] that helps to optimise the release of energy from food. The performance of this modified MILO is being closely monitored.

In the **'Milk Products and Nutrition'** category, the Company continued to leverage the Nestlé Group's experience in milk and nutrition and the superior R&D competencies. Based on advanced paediatric research, the Company renovated the premium formula NAN.

The upgraded NAN helps to enhance the natural immunity of infants through a unique combination of nutrients. Overall the quality of Infant Nutrition products was further enhanced, by the upgradation of formulation and manufacturing processes.

The Dairy business is a strategic area for the Company and an area which offers possibilities for development of high quality products that provide Nutrition, Health and Wellness. With increasing consumer preference for NESTLÉ FRESH 'N' NATURAL Dahi, the volumes have doubled in the past few years making it a leading brand in all the metros. During the year the Company extended to other key markets, the availability of NESTLÉ FRESH 'N' NATURAL Jeera Raita that is accepted by consumers as convenient, consistent, delicious and healthy. While NESTLÉ EVERYDAY Dairy Whitener sustained its performance during the year, the Company launched a new formulation for Instant Dairy Whitener in select markets that could add even greater value to the consumers.

During the year 2006 the Company worked on several path breaking concepts that have been launched in the last quarter of 2006 or in early 2007 and highlight the Company's capacity to use science based technology and Nestlé Group's vast experience in nutrition to develop relevant products for consumers.

- MAGGI Rice Noodle Mania offers the delicious taste of MAGGI Noodles with the healthy goodness of rice.
- MAGGI Healthy Soups - Sanjeevni.
- NESTLÉ EVERYDAY Slim is the first low fat Tea Whitener in India, specially developed for India and is targeted at the urban health conscious consumer.
- NESTLÉ KIT KAT Lite.

- NESTLÉ MUNCH POPCHOC, a unique choco-wafer cube that can be nibbled anytime, anywhere and is great value for money.
- NESTLÉ FRESH 'N' NATURAL Slim Dahi is the first low fat dahi available in the country.

With rapidly increasing opportunities in the 'Out of Home' segment, especially in coffees and beverages the Company has continued to increase 'NESTLÉ Consumption Zones' and vending machines in offices, colleges, and other locations that experience high footfalls. The Company has by far the largest number of vending machines installed in the market. Your Company sees the 'Out of Home' opportunities as significant to leverage its skills and competencies in vending and using its product portfolio to address consumer needs therein.

Technology and Quality

The Company's General Licence Agreement with the Nestlé Group, Switzerland, enables it to access the most advanced technology in the world for foods and beverages. The Company leverages this continuously to provide consumers in India with high quality and safe food products that add value to them and are affordable. The Samalkha Factory is amongst the ten most modern plants for Infant Nutrition products in the Nestlé Group, worldwide, consequent to the upgradation of the production technology, which was commissioned in the later part of 2005.

In order to ensure that manufacturing processes follow best practices and are efficient, the Company has a strong technical team that follows strict norms. To demonstrate that your Company's processes are certainly at par with the best, the Company has initiated a process of external certification. In the first phase, the factories at Nanjangud and Choladi were assessed

and awarded the ISO 14001:2004 certification for the factory's environmental management system. ISO 14001:2004 is the international standard for environmental system and the certification demonstrates the strict environment norms being followed.

New Factory in Uttarakhand

In 2005 the Company had announced the intention to set up the seventh plant in the State of Uttarakhand mainly for the manufacture of culinary products. The new state-of-art factory was set up with the technology and support received from the Nestlé Group, at record speed and commissioned in July 2006 as planned. The completion of the initial phase in record time of less than seven months was a benchmark and reflects the capability, professionalism and dedication of the Company's personnel.

Manpower Development

The Company believes that in order to unleash 100% potential, it is necessary to empower talent and prepare its people with the necessary skills to exploit their own potential and the potential of the Company. To enable this, the Company continued to provide employees with appropriate training initiatives and development programs to continuously improve their skills; and international exposures, where feasible and relevant. During 2006, the Company increased its focus on people development. In the current environment people attraction and retention remains a key challenge and focus area for the Company. During 2006, some specific measures were initiated to deal with this challenge.

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 and safe food products at affordable prices, endorsed by the Nestlé Seal of Guarantee.
- Strong and well differentiated brands with leading market shares.
- Strong equity with consumers as a Company with “high quality” brands.
- 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.
- Integrated and advanced Information Systems - GLOBE.

Weakness :

- Exports of coffee to Russia constitutes significant part of overall exports.
- Complex supply chain configuration.
- Ability to pass through cost increases in price point Stock Keeping Units.

Threat:

- Competitive environment with diverse players.
- People attraction and retention.
- Rising prices of commodities and fuels.
- Change in fiscal benefits/ laws.

Opportunities:

- Potential for expansion in the smaller towns and other geographies.
- Development of modern retail formats.
- 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.
- Growing per capita income.

Contributions to the Exchequer

Your Company has been a leading taxpayer of the country and over the years has been contributing significantly to various taxes. During the year 2006, the Company through its operations, enabled tax collections at Central and State level, of close to Rs. 7.2 Billion in the aggregate.

Community Development

The Company has always believed that corporate social responsibility is an inherent part of its business approach and that, to create value for its shareholders over the long term, the business must bring value to society. Since the very beginning of operations in India the Company has catalysed economic growth and fostered social progress and helped communities around its factories. The Company has done excellent work with the farmers in Moga, helping them to be productive, successful and economically empowered. Various programmes are being conducted to help the village women improve their knowledge and skills so that they can participate and add greater value to economic activity of their families.

The Company endorses the United Nations Global Compact and the Millennium Development goals that encourage companies to take a long-term view to promote prosperity in the society. It is accepted that access to clean drinking water is one of the most important areas that affect the welfare of society. The Company believes that it is important to create awareness about this and has developed a model that involves the community and the school children in the village schools to educate them and help them experience the difference that clean drinking water can bring to their quality of life. The Company has already completed 74 such projects, directly benefiting over 27,000 school children every year. But more important is

the fact that this enables the communities to become more aware of the role that they can play in protecting the resources in their community and become active partners in society.

Awards & Recognitions

Over the years your Company has earned the trust of every strata of society that it comes in contact with and is considered amongst the ‘Most respected Companies of India.’

During the year the Company was felicitated by Guru Angad Dev University of Veterinary and Animal Sciences, Ludhiana for its contribution to the economic development of Punjab and for outstanding support and investment to develop an entrepreneurial model of sustainable dairy business in Punjab.

Your Company was again recognised for its outstanding performance in Exports by the Coffee Board of India in the Export Awards 2005-06 as the Second Highest Exporter of Instant Coffee and Second Highest Exporter of Coffee to the Far East countries. Your Company has received the highest coffee exporter awards from the Coffee Board of India for many years.

It is also an honour for the Company that in a survey conducted by A.C.Nielsen for CNBC, consumers voted NESCAFÉ as the most preferred coffee brand of the nation. On another occasion the Company was honoured by the Central Excise Department for the excellent and clean track record of the Nanjangud factory. Only those establishments were considered who were large contributors to the exchequer.

Directors’ Responsibility Statement

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

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

Corporate Governance

In compliance with the requirements of Clause 49 of the Listing Agreement with the Stock Exchange, a separate report on Corporate Governance along with Auditors' certificate on its compliance is attached as Annexure –1 to this Report.

Cautionary Statement

Statements in this Report, particularly those which relate to Management Discussion and Analysis as explained in the Corporate Governance Report, describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied in the statement depending on the circumstances.

Directors

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

Auditors

The Statutory Auditors of the Company, M/s. A. F. Ferguson & Co., Chartered Accountants, New Delhi, retire in accordance with the provisions of the Companies Act, 1956 and are eligible for re-appointment. M/s. A. F. Ferguson & Co., Chartered Accountants, New Delhi have sought the re-appointment and have confirmed that their re-appointment if made, shall be within the limits of Section 224(1)(B) of the Companies Act, 1956. The Audit Committee and the Board recommends the re-appointment of M/s. A. F. Ferguson & Co., Chartered Accountants, as the Auditors of the Company.

Complying with the provisions of Section 233-B of the Companies Act, 1956, the Board of Directors have appointed, subject to the approval of the Central Government, M/s. Ramanath Iyer and Co., Cost Accountants, New Delhi to carry out an audit of cost accounts of the Company in respect of milk foods for the year 2007.

Information regarding Conservation of Energy etc. and Employees

Information required under Section 217(1)(e) of the Companies Act, 1956 (hereinafter referred to as "the Act") read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure - 2 forming part of this Report. Information as per Section 217(2A) of the Act, read with the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, forms part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the Act, the Report

and Accounts are being sent to all the members excluding the statement containing the particulars of employees to be provided under Section 217(2A) of the Act. Any member interested in obtaining such particulars may inspect the same at the Registered Office of the Company or write to the Company Secretary for a copy.

Trade Relations

The Company maintained healthy, cordial and harmonious industrial relations at all levels. Despite severe competition, the enthusiasm and unstinting efforts of the employees have enabled the Company to remain at the forefront of the Industry.

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

Appreciation

Your Company has been able to operate efficiently because of the culture of professionalism, creativity, integrity and continuous improvement in all functions and areas to ensure efficient utilisation of the Company's resources for sustainable and profitable growth. The Directors wish to thank each and every employee for their contribution to the good performance of the Company.

On behalf of the Board of Directors

20th March, 2007
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, 2006, the profit and loss account and also 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 in paragraph 3 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, 2006 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, 2006;
 - (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)

20th March, 2007 Partner
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, 2006.

- (i) (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) The fixed assets of the Company are physically verified by the management in a phased manner at regular intervals. In our opinion, the frequency of physical verification is reasonable having regard to the size of the Company and nature of its fixed assets. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of account.
- (c) In our opinion and according to the information and explanations given to us, the Company has not disposed off a substantial part of its fixed assets during the year.
- (ii) (a) During the year, the inventories have been physically verified by the management. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the records of inventories, we are of the opinion that the Company is maintaining proper records of inventories. The discrepancies noticed on physical verification of inventories as compared to book records were not material and have been properly dealt with in the books of account.
- (iii) (a) According to the information and explanations given to us, the Company has, during the year, not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (a), (b), (c) and (d) of the Companies (Auditor's Report) Order, 2003 (hereinafter referred to as the Order) are not applicable.
- (b) According to the information and explanations given to us, the Company has, during the year, not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (e), (f) and (g) of the Order, are not applicable.
- (iv) In our opinion and according to information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to the purchase of inventories, fixed assets and with regard to sale of goods. There is no sale of services. Further, on the basis of our examination and according to the information and explanations given to us, no major weaknesses in the aforesaid internal control system, has been noticed.
- (v) (a) 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, the Company has an internal audit system commensurate with its size and the nature of its business.
- (viii) We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the rules made by the Central Government, the maintenance of cost records have been prescribed under 209 (1) (d) of the Companies Act, 1956 and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of records with a view to determining whether they are accurate or complete.
- (ix) (a) According to the information and explanations given to us and the records of the Company examined by us, the Company has been regular in depositing undisputed statutory dues including 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 customs duty, wealth tax and cess, which have not been deposited. The details of disputed dues as at December 31, 2006 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	44,298	1996 – 2003	Supreme Court
		11,866	2000 – 2005	Customs, Excise and Service Tax Appellate Tribunal
	Service Tax	180,850	2002 – 2004	Appellate authority upto Commissioners' level
Sales Tax Laws	Sales Tax	4,776	1996 – 2005	High Court
		62,065	1992 – 2006	Appellate authority upto Commissioners' level
		1,361	2000 – 2006	Appellate Tribunal
Income Tax Act, 1961	Income tax	118,558	1992 – 1994	High Court
		229,906	1993 – 2004	Commissioner of Income-tax (Appeals)
		1,431	2004 – 2005	Assessing Officer

* 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	36,982	1994 – 2000	High Court
Sales Tax Laws	Sales Tax	4,300	1994 – 1998	High Court
Income Tax Act, 1961	Income tax	111,157	1983 – 1998	High Court
		353,310	1993 – 2002	Income-tax Appellate Tribunal

- | | | |
|--|---|--|
| <p>(x) The Company does not have accumulated losses at the end of the financial year December 31, 2006. Further, the Company has not incurred cash losses during the financial year ended December 31, 2006 and in the immediately preceding financial year ended December 31, 2005.</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, 2006.</p> <p style="text-align: right;">For A.F. FERGUSON & CO.,
Chartered Accountants</p> <p style="text-align: right;">(MANJULA BANERJI)
Partner
20th March, 2007
New Delhi (Membership No. 86423)</p> |
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NESTLÉ INDIA LIMITED

BALANCE SHEET OF NESTLÉ INDIA LIMITED AS AT DECEMBER 31, 2006

SOURCES OF FUNDS	SCHEDULE	2006 (Rs. in thousands)	2005 (Rs. in thousands)
SHAREHOLDERS' FUNDS			
Share Capital	A	964,157	964,157
Reserves and surplus	B	<u>2,924,722</u>	<u>2,577,176</u>
		3,888,879	3,541,333
LOAN FUNDS			
Secured Loans	C	<u>162,676</u>	<u>143,045</u>
		4,051,555	3,684,378
APPLICATION OF FUNDS			
FIXED ASSETS	D		
Gross block		10,582,749	9,494,439
Less: Depreciation		<u>5,164,780</u>	<u>4,756,737</u>
Net block		5,417,969	4,737,702
Capital work-in-progress		<u>382,400</u>	<u>228,251</u>
		5,800,369	4,965,953
INVESTMENTS	E	<u>777,732</u>	<u>1,044,276</u>
DEFERRED TAX ASSETS/(LIABILITIES) (NET)	F	<u>(191,559)</u>	<u>(99,521)</u>
CURRENT ASSETS, LOANS AND ADVANCES	G		
Inventories		2,762,185	2,530,993
Sundry debtors		557,569	305,247
Cash and bank balances		763,560	366,453
Loans and advances		<u>1,270,424</u>	<u>1,424,272</u>
		5,353,738	4,626,965
Less: CURRENT LIABILITIES AND PROVISIONS	H		
Liabilities		3,735,917	3,198,326
Provisions		<u>3,952,808</u>	<u>3,654,969</u>
		7,688,725	6,853,295
NET CURRENT ASSETS/(LIABILITIES)		<u>(2,334,987)</u>	<u>(2,226,330)</u>
		4,051,555	3,684,378

NOTES TO THE ACCOUNTS

O

March 20, 2007
Gurgaon

MARTIAL G. ROLLAND
Chairman & Managing Director

SHOBINDER DUGGAL
Director - Finance & Control

B. MURLI
Sr. VP - Legal & Company Secretary

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

(MANJULA BANERJI)

Partner

(Membership No. 86423)

March 20, 2007
New Delhi

PROFIT AND LOSS ACCOUNT OF NESTLÉ INDIA LIMITED FOR THE YEAR ENDED DECEMBER 31, 2006

	SCHEDULE	2006 (Rs. in thousands)	2005 (Rs. in thousands)
INCOME			
Sales			
Domestic		26,646,111	23,847,096
Export		2,795,852	2,591,776
Gross		29,441,963	26,438,872
Less: Excise Duty		1,281,317	1,669,862
Net Sales		28,160,646	24,769,010
Other Income	I	206,100	237,433
		28,366,746	25,006,443
EXPENDITURE			
Materials consumed and purchase of goods	J	13,366,621	11,280,564
Manufacturing and other expenses	K	9,574,238	8,390,049
Interest	L	4,408	2,122
Depreciation	D	662,846	568,377
Adjustment due to decrease / (increase) in stock of finished goods and work-in-progress	M	(165,123)	(122,093)
		23,442,990	20,119,019
PROFIT BEFORE IMPAIRMENT, CONTINGENCIES AND TAXATION		4,923,756	4,887,424
Impairment loss/(gain) on fixed assets (Refer Note 1 - Schedule O)	D	3,871	(26,369)
Provision for contingencies (Refer Note 2 - Schedule O)	N	114,646	223,219
PROFIT BEFORE TAXATION		4,805,239	4,690,574
Income tax expense			
Current tax		1,521,876	1,447,900
Deferred tax		92,038	111,559
Fringe benefit tax		40,360	35,400
PROFIT AFTER TAXATION		3,150,965	3,095,715
Balance brought forward		72,239	34,548
BALANCE AVAILABLE FOR APPROPRIATION		3,223,204	3,130,263
Appropriations:			
Dividends:			
Interim dividend		2,458,601	2,217,562
Final proposed		—	192,831
Corporate dividend tax		344,818	338,059
General reserve		315,096	309,572
SURPLUS CARRIED TO THE BALANCE SHEET		104,689	72,239
BASIC AND DILUTED EARNINGS PER SHARE (IN RUPEES)	O	32.68	32.11

NOTES TO THE ACCOUNTS

March 20, 2007
Gurgaon

MARTIAL G. ROLLAND
Chairman & Managing Director

SHOBINDER DUGGAL
Director - Finance & Control

B. MURLI
Sr. VP - Legal & Company Secretary

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

(MANJULA BANERJI)

Partner

(Membership No. 86423)

March 20, 2007
New Delhi

**CASH FLOW STATEMENT OF NESTLÉ INDIA LIMITED
FOR THE YEAR ENDED DECEMBER 31, 2006**

	2006 <i>(Rs. in thousands)</i>	2005 <i>(Rs. in thousands)</i>
A CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	4,805,239	4,690,574
Adjustments for :		
Depreciation	662,846	568,377
Unrealised exchange differences	5,508	207
Deficit/(surplus) on fixed assets sold/scrapped/written off/written back	38,948	(3,441)
Interest expense	4,408	2,122
Impairment loss/(reversal) on fixed assets	3,871	(26,369)
Provision for wealth tax	–	1,000
Interest on inter corporate deposits	(12,073)	(6,782)
Operating profit before working capital changes	5,508,747	5,225,688
Adjustments for :		
Decrease/(increase) in trade and other receivables	(272,511)	(282,897)
Decrease/(increase) in inventories	(231,192)	(364,265)
Increase/(decrease) in trade payables	345,188	526,811
Increase/(decrease) in provision for contingencies	114,646	223,219
Increase/(decrease) in provision for pension and gratuity	238,162	217,886
Cash generated from operations	5,703,040	5,546,442
Direct taxes paid	(1,517,575)	(1,515,817)
Net cash from operating activities	4,185,466	4,030,626
B CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets (adjusted for suppliers payables and capital work in progress)	(1,425,945)	(1,300,477)
Sale of fixed assets	23,075	85,854
Interest received on inter corporate deposits	13,040	5,997
Inter corporate deposits refunded	172,500	(95,000)
Sale of Long Term Investments	10	–
Net cash used in investing activities	(1,217,320)	(1,303,625)
C CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds/(Repayments) of borrowings	19,631	63,994
Interest paid	(4,408)	(2,122)
Dividends paid	(2,501,216)	(2,649,401)
Corporate dividend tax	(351,580)	(371,864)
Net cash outflow from financing activities	(2,837,573)	(2,959,393)
Net increase / (decrease) in cash and cash equivalents (A+B+C)	130,573	(232,393)
Cash and bank balances	366,453	94,485
Current investments	1,044,266	1,548,627
Cash and cash equivalents as at opening	1,410,719	1,643,112
Cash and bank balances	763,560	366,453
Current investments	777,732	1,044,266
Cash and cash equivalents as at closing	1,541,292	1,410,719
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	130,573	(232,393)

March 20, 2007
Gurgaon

MARTIAL G. ROLLAND
Chairman & Managing Director

SHOBINDER DUGGAL
Director - Finance & Control

B. MURLI
Sr. VP - Legal & Company Secretary

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

(MANJULA BANERJI)

Partner

(Membership No. 86423)

March 20, 2007
New Delhi

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT DECEMBER 31, 2006

		2006 (Rs. in thousands)	2005 (Rs. in thousands)
SCHEDULE A			
SHARE CAPITAL			
Authorised			
100,000,000	Equity shares of Rs. 10 each (Previous year 100,000,000)	<u>1,000,000</u>	<u>1,000,000</u>
Issued, subscribed and paid-up			
96,415,716	Equity shares of Rs. 10 each fully paid up (Previous year 96,415,716)	<u>964,157</u>	<u>964,157</u>
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 Maggi Enterprises Limited, the ultimate holding company being Nestlé S.A.		
SCHEDULE B			
RESERVES AND SURPLUS			
Share premium account			
As per last balance sheet		432,363	432,363
Capital subsidy			
As per last balance sheet		2,500	2,500
General reserve			
As per last balance sheet		2,070,074	1,760,502
Add : Transferred from profit and loss account		315,096	309,572
		<u>2,385,170</u>	<u>2,070,074</u>
Surplus, being balance in profit and loss account (undistributed profits)		<u>104,689</u>	<u>72,239</u>
		<u>2,924,722</u>	<u>2,577,176</u>
SCHEDULE C			
SECURED LOANS			
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.		162,676	143,045
		<u>162,676</u>	<u>143,045</u>

NESTLÉ INDIA LIMITED

SCHEDULE D

FIXED ASSETS

(Rs. in thousands)

	GROSS BLOCK				DEPRECIATION						NET BLOCK	
	Cost as at December 31, 2005	Additions [#]	Deletions/ adjust- ments	Cost as at December 31, 2006	As at December 31, 2005	For the year	Impairment loss##		On Deletions/ adjustments	As at December 31, 2006	As at December 31, 2006	As at December 31, 2005
							charged	reversed				
Tangible Assets (A)												
Freehold land	56,026	—	—	56,026	—	—	—	—	—	—	56,026	56,026
Leasehold land	63,131	28,062	—	91,193	58	832	—	—	—	890	90,303	63,073
Buildings	1,234,254	232,569	2,689	1,464,134	409,454	43,786	—	2	2,185	451,053	1,013,081	824,800
Railway sidings	11,733	—	—	11,733	8,570	553	—	—	—	9,123	2,610	3,163
Plant and machinery	6,717,240	1,046,757	244,369	7,519,628	3,575,936	413,438	5,875	2,002	185,366	3,807,881	3,711,747	3,141,304
Furniture and fixtures	389,792	61,006	12,746	438,052	287,021	48,326	—	—	11,770	323,577	114,475	102,771
Information technology equipment	419,352	32,245	38,592	413,005	366,565	37,158	—	—	38,586	365,137	47,868	52,787
Vehicles	74,564	456	22,301	52,719	38,686	10,448	—	—	20,767	28,367	24,352	35,878
Sub Total	8,966,092	1,401,095	320,697	10,046,490	4,686,290	554,541	5,875	2,004	258,674	4,986,028	5,060,462	4,279,802
Intangible Assets (B)												
Management information systems	528,347	7,912	—	536,259	70,447	108,305	—	—	—	178,752	357,507	457,900
Total (A+B)	9,494,439	1,409,007	320,697	10,582,749	4,756,737	662,846	5,875	2,004	258,674	5,164,780	5,417,969	
Previous year	8,381,605	1,389,966	277,132	9,494,439	4,409,447	568,377	12,648	39,017	194,718	4,756,737		4,737,702
Capital work-in-progress including capital advances and machinery-in-transit											382,400	228,251
											5,800,369	4,965,953

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.

Additions for the year include fluctuations in the rate of foreign exchange of Rs. 7,873 thousands (previous year Rs. 10,929 thousands).

Refer Note 1 - Schedule O

SCHEDULE E

INVESTMENTS

(NON TRADE, UNQUOTED)

LONG TERM

Coffee Futures Exchange India Limited – Units (previous year 1 equity share of face value of Rs. 10,000 each)

—

10

CURRENT

GOVERNMENT SECURITIES

Treasury bills – Face value of Rs. 350,000 thousands (previous year Rs. 1,101,500) purchased and Rs. 550,000 thousands (previous year Rs. 1,271,500) sold during the year

—

197,363

MUTUAL FUNDS - DEBT

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

JM Mutual Fund – Units (previous year 4,995,608) of JM High Liquidity Fund Super Institutional Plan - Daily Dividend Option. (5,117 units purchased and 5,000,725 units sold during the year)

—

50,038

Standard Chartered Mutual Fund

– Units (previous year 3,501,301) of GCCD Grindlays Cash Fund Super Institutional Plan C - Daily Dividend Option. (4,024 units purchased and 3,505,325 units sold during the year)

—

35,013

2006
(Rs. in
thousands)

2005
(Rs. in
thousands)

SCHEDULE E (Contd...)

			2006 (Rs. in thousands)	2005 (Rs. in thousands)
	12,711,349	Units (previous year Nil) of Standard Chartered liquidity Manager - Daily Dividend option (31,278,738 units purchased and 18,567,389 units sold during the year)	127,126	—
	—	Units of Standard Chartered liquidity Manager plus- Daily Dividend option (442,979 units of face value of Rs. 1000 each purchased and sold during the year)	—	—
	—	Standard Chartered Fixed Maturity 19th Plan (5,575,715 units purchased and sold during the year)		
	5,000,000	Standard Chartered Fixed Maturity Plan Quarterly Series 2 (5,000,000 units purchased during the year)	50,000	—
Principal Mutual Fund	—	Units (previous year 7,500,155) of Principal Cash Management Fund Liquid Option Institutional Premium Plan - Daily Dividend Option. (78,774,566 units purchased and 86,274,721 units sold during the year)	—	75,007
	4,294,058	Units (previous year Nil) of Principal Floating rate fund Short Maturity Plan Institutional - Option Daily Dividend Reinvestment Plan (42,791,363 units purchased and 38,497,305 units sold during the year)	42,943	—
Prudential ICICI Mutual Fund	—	Units (previous year 10,000,000) of Prudential ICICI Fixed Maturity Plan - Dividend Plan. (167,130 units purchased and 10,167,130 units sold during the year)	—	100,000
	5,003,680	Units (previous year Nil) of Prudential ICICI Liquid Plan Super Institutional - Daily Dividend Option. (100,718,110 units purchased and 95,714,430 units sold during the year)	50,037	—
	5,004,021	Units (previous year Nil) of Prudential ICICI Floating Rate Plan D - Daily Dividend Plan. (100,133,024 units purchased and 95,129,003 sold during the year)	50,040	—
	—	Prudential ICICI FTP Series 32 - 3 months Plan B (10,141,900 units purchased and sold during the year)	—	—
Kotak Mahindra Mutual Fund	15,544,780	Units (previous year 7,091,430) of Kotak Liquid Institutional Premium Plan - Daily Dividend Option. (65,501,444 units purchased and 57,048,094 sold during the year)	190,083	86,715
Birla Sun Life Mutual Fund	—	Units (previous year 9,989,778) of Birla Cash Plus Institutional Premium Plan - Daily Dividend Option. (102,986,577 units purchased and 112,976,353 units sold during the year)	—	100,092
DSP Merrill Lynch Mutual Fund	—	Units (previous year 15,000,000) of DSP Merrill Lynch Fixed Term Plan - Series I Dividend Plan. (177,575 units purchased and 15,177,575 units sold during the year)	—	150,000
	—	DSP ML Liquidity fund IP-Daily Dividend (642,417 units of face value Rs. 1000 each purchased and sold during the year)	—	—
ABN Amro Mutual fund	—	ABN Amro Cash Fund - Institutional Plus - Daily Dividend Option. (8,006,628 units purchased and sold during the year)	—	—
	—	ABN AMRO FTP Series 3 Quarterly Plan D Dividend (5,076,256 units purchased and sold during the year)	—	—
ING Vysya Mutual Fund	14,424,656	Units (previous year Nil) of ING Vysya Liquid Fund Super Institutional - Daily Dividend Option. (45,482,367 units purchased and 31,057,711 units sold during the year)	144,281	—
Tata Mutual Fund	18,410	Units of face value of Rs. 1000 each (previous year 44,897) of Tata Liquid Super High Investment Fund - Daily Dividend Option. (705,091 units purchased and 731,578 units sold during the year)	20,518	50,038

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SCHEDULE E (Contd...)		2006 (Rs. in thousands)	2005 (Rs. in thousands)
	10,264,612 Units (previous year Nil) of Tata Floating Rate Short Term Institutional Plan - Daily Dividend (21,761,162 units purchased and 11,496,550 units sold during the year)	102,704	—
	— Tata FMP Fixed Horizon Fund FMP Series 3 Scheme A (7,604,836 units purchased and sold during the year)	—	—
	— Tata Fixed Horizon Fund Series 5 Scheme D Dividend (10,142,920 units purchased and sold during the year)	—	—
HSBC Mutual fund	— HSBC Cash Fund Institutional Plus - Daily Dividend Option. (74,158,784 units purchased and sold during the year)	—	—
HDFC Mutual fund	— HDFC Cash Management Fund Saving Plan - Daily Dividend Plan. (23,562,415 units purchased and sold during the year)	—	—
Sundaram BNP Paribas	— Sundaram BNP Paribas Money Fund Super Institutional - Daily Dividend (45,792,038 units purchased and sold during the year)	—	—
Repurchase price as at December 31, 2006	Rs. 777,732 thousands (previous year Rs. 847,790 thousands)		
COMMERCIAL PAPERS			
Rabo India Finance (P) Ltd	— Units (previous year 200 units with face value Rs 1,000,000 each) Non- convertible debentures (100 units with face value Rs 1,000,000 each purchased and 300 units were sold during the year).	—	200,000
		<u>777,732</u>	<u>1,044,276</u>
SCHEDULE F			
DEFERRED TAX ASSETS AND LIABILITIES			
Deferred tax assets			
Provision for contingencies		396,581	428,895
Provision for pension and gratuity		9,600	11,835
Other items deductible on payment or deposit of withholding taxes		52,456	55,867
Other temporary differences		22,125	22,382
		<u>480,762</u>	<u>518,979</u>
Deferred tax liabilities			
Difference between book and tax depreciation		672,321	618,500
Deferred tax assets/(liabilities) (net)		<u>(191,559)</u>	<u>(99,521)</u>

CURRENT ASSETS, LOANS AND ADVANCES

Stores and spare parts*

Stock-in-trade:**

Finished goods

Work-in-progress

Raw materials

Packing materials

* At cost

** At cost or net realisable value, whichever is lower

Considered good

Over six months

Others

Considered doubtful

Over six months

Others

Less: Provision for doubtful debts

Cash in hand

Cheques in hand

With scheduled banks – on current accounts

- on deposit accounts

(Unsecured, considered good - unless otherwise stated)

Advances recoverable in cash or in kind or for value to be received*

Considered good

Secured

Unsecured

Considered doubtful

Less: Provision for doubtful advances

Inter corporate deposits

Taxation (payments less provisions)

* Advances recoverable, disbursed under the Company's housing loans scheme for its employees, includes Rs. 9,500 thousands (Previous year Rs. Nil) due from a Director of the Company - maximum amount due during the year Rs. 10,000 thousands (Previous year Rs. Nil)

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SCHEDULE H

CURRENT LIABILITIES AND PROVISIONS

Current liabilities

Sundry Creditors -

Small scale industrial undertakings*

Others

Investor Education and Protection Fund shall be credited by the following:

Unpaid dividends #

Provisions

Pension and gratuity

Interim dividend payable

Proposed final dividend

Corporate dividend tax

Contingencies (Refer Schedule N)

* Refer to Note 18 Schedule O

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

Interest on income tax refund in relation to earlier years

Interest received on loans and deposits (gross)

(Tax deducted at source Rs. 6,188 thousands

previous year Rs. 11,316 thousands)

Export incentives

Miscellaneous income

Surplus on fixed assets sold/scrapped/written back

Profit on sale of current non trade investments

SCHEDULE J

MATERIALS CONSUMED AND PURCHASE OF GOODS

Raw materials consumed

Packing materials consumed

Purchase of goods — outside manufacture

— others

	2006 (Rs. in thousands)	2005 (Rs. in thousands)
SCHEDULE H		
CURRENT LIABILITIES AND PROVISIONS		
Current liabilities		
Sundry Creditors -		
Small scale industrial undertakings*	31,633	39,772
Others	3,665,163	3,125,025
Investor Education and Protection Fund shall be credited by the following:		
Unpaid dividends #	39,121	33,529
	<u>3,735,917</u>	<u>3,198,326</u>
Provisions		
Pension and gratuity	1,601,514	1,363,352
Interim dividend payable	144,624	—
Proposed final dividend	—	192,831
Corporate dividend tax	20,283	27,045
Contingencies (Refer Schedule N)	2,186,387	2,071,741
	<u>3,952,808</u>	<u>3,654,969</u>
	<u>7,688,725</u>	<u>6,853,295</u>
SCHEDULE I		
OTHER INCOME		
Dividend on current non trade investments	68,482	67,575
Interest on income tax refund in relation to earlier years	—	5,253
Interest received on loans and deposits (gross)	51,702	71,780
(Tax deducted at source Rs. 6,188 thousands previous year Rs. 11,316 thousands)		
Export incentives	—	696
Miscellaneous income	85,916	88,500
Surplus on fixed assets sold/scrapped/written back	—	3,441
Profit on sale of current non trade investments	—	188
	<u>206,100</u>	<u>237,433</u>
SCHEDULE J		
MATERIALS CONSUMED AND PURCHASE OF GOODS		
Raw materials consumed	10,709,993	8,819,249
Packing materials consumed	2,388,722	2,178,344
Purchase of goods — outside manufacture	267,906	281,667
— others	—	1,304
	<u>13,366,661</u>	<u>11,280,564</u>

SCHEDULE K
MANUFACTURING AND OTHER EXPENSES

	2006 (Rs. in thousands)	2005 (Rs. in thousands)
Employees' cost		
Salaries, wages, bonus, pension, gratuity etc.	1,955,180	1,660,714
Contribution to provident and other funds	74,371	60,618
Staff welfare expenses	132,070	111,612
	2,161,621	1,832,944
Advertising and sales promotion		
Gross expenditure	1,490,878	1,359,432
Less : amount written-back	102,500	–
	1,388,378	1,359,432
Freight, transport and distribution	1,337,181	1,177,179
General licence fees (net of taxes)	943,343	821,927
Taxes on general licence fees	146,218	127,385
Power and fuel	1,155,566	1,039,103
Maintenance and repairs		
Plant and machinery	198,508	199,812
Buildings	28,492	26,847
General	49,222	35,870
	276,222	262,529
Travelling	353,184	310,715
Contract manufacturing charges	327,983	290,771
Rates and taxes	201,191	196,949
Rent	158,922	153,126
Information technology and management information systems	322,685	242,765
Milk collection and district development expenses	120,884	100,979
Consumption of stores and spare parts	115,509	77,478
(excluding Rs.118,063 thousands charged to other revenue accounts, previous year Rs.161,742 thousands)		
Training expenses	76,996	59,422
Market research	57,784	50,065
Deficit on fixed assets sold/scrapped/written off	38,948	–
Laboratory (quality testing) expenses	89,331	52,738
Insurance	21,711	16,860
Miscellaneous expenses	280,581	217,682
	9,574,238	8,390,049

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	2006 (Rs. in thousands)	2005 (Rs. in thousands)
SCHEDULE L		
INTEREST		
Interest on fixed loans	2,062	276
Others	2,346	1,846
	<u>4,408</u>	<u>2,122</u>
SCHEDULE M		
ADJUSTMENT DUE TO (INCREASE)/DECREASE IN STOCK OF FINISHED GOODS AND WORK-IN-PROGRESS		
Opening stock		
Work-in-progress	271,418	342,419
Finished goods	<u>1,285,707</u>	<u>1,073,759</u>
	1,557,125	1,416,178
Less: Excise duty	<u>123,187</u>	<u>104,333</u>
Net opening stock (A)	1,433,938	1,311,845
Less: Closing stock		
Work-in-progress	284,758	271,418
Finished goods	<u>1,406,559</u>	<u>1,285,707</u>
	1,691,317	1,557,125
Less: Excise duty	<u>92,256</u>	<u>123,187</u>
Net closing stock (B)	1,599,061	1,433,938
Movement in opening and closing stock (A - B)	<u>(165,123)</u>	<u>(122,093)</u>
SCHEDULE N		
PROVISION FOR CONTINGENCIES		
Balance as at December 31, 2005/2004	2,071,741	1,848,522
Add: Created during the year	378,366	308,719
Less: Reversed/utilised during the year	<u>(263,720)</u>	<u>(85,500)</u>
Net provision taken to the Profit and Loss Account	114,646	223,219
Balance as at December 31, 2006/2005	<u>2,186,387</u>	<u>2,071,741</u>
(Refer Note 2 - Schedule O)		

SCHEDULE O

NOTES TO THE ACCOUNTS

- During the year ended December 31, 2006, the Company has reversed certain impairment losses recognised in earlier years and the resultant gain (Gross - Rs 2,004 thousands, net of deferred taxes – Rs. 1,329 thousands) consequent to the disposal of plant and machinery has been credited to the profit and loss account.

Impairment loss on fixed assets (Gross – Rs. 5,875 thousands, net of deferred taxes - Rs. 3,897 thousands) relates to various items of plant and machinery that have been brought down to their recoverable values upon evaluation of future economic benefits from their use.

- The Company has created a contingency provision of Rs. 378,366 thousands (Previous year Rs. 308,719 thousands) for various contingencies resulting mainly from issues, which are under litigation/dispute and other items requiring management judgement and discretion. These include Rs. 101,000 thousands relating to a matter which in the past has been provided in the first quarter of a year after completion of relevant procedure. As the completion timing of the procedure have been advanced and the procedure was completed in the fourth quarter of 2006 instead of the first quarter of 2007, as has been the practise in the past and in keeping with the provisions of Accounting Standard 29, the amount has been provided in 2006 itself. This has resulted in provisions being made for two years during 2006. The Company has also reversed/utilised contingency provision of Rs. 263,720 thousands (Previous year Rs. 85,500 thousands) due to the satisfactory settlement of certain disputes and other matters for which provision was no longer required. The details of class-wise provisions are given below :

(Rs. in thousands)

Description	Class of Provisions			
	Litigations and related disputes	Disputes	Others	Total
Opening Balance	1,315,171	65,000	691,570	2,071,741
	(1,174,832)	(71,000)	(602,690)	(1,848,522)
New Provisions	262,486	–	115,880	378,366
	(140,339)	(65,000)	(103,380)	(308,719)
Utilisation/Settlement	–	32,000	–	32,000
	–	(20,000)	–	(20,000)
Reversal	198,720	33,000	–	231,720
	–	(51,000)	(14,500)	(65,500)
Closing Balance	1,378,937	–	807,450	2,186,387
	(1,315,171)	(65,000)	(691,570)	(2,071,741)

Notes:

- Litigations and related disputes** - represents estimates made mainly for probable claims arising out of litigations / disputes pending with authorities under various statutes (i.e. Income Tax, Excise Duty, Service Tax, Sales and Purchase Tax etc.). The probability and the timing of the outflow with regard to these matters depends on the ultimate settlement /conclusion with the relevant authorities.
- Disputes** - represents estimates made for probable claims arising out of disputes in commercial dealings with third parties. The settlement period will depend on the course of action taken by the parties in dispute.

2006
(Rs. in
thousands)

2005
(Rs. in
thousands)

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	2006 (Rs. in thousands)	2005 (Rs. in thousands)
(c) Others - include estimates made for products sold by the Company which are covered under free replacement warranty on becoming unfit for consumption during the prescribed shelf life, investments held by the employee benefit trusts and items requiring management judgement and discretion in relation to certain employee related matters. The timing and probability of outflow with regard to these matters will depend on the external environment and the consequent decision/conclusion by the Management.		
3. Capital commitments remaining to be executed and not provided for	359,279	500,435
4. Auditors' remuneration including service tax and expenses in respect of		
a) Statutory audit	2,448	2,204
b) Audit of accounts for fiscal year and tax audit	954	937
c) Limited review of quarterly un-audited results	590	576
d) Certification for general license fee remittances, corporate governance and others	463	238
e) Audit of employee trust accounts	22	22
f) Due diligence review	—	276
g) Certification of tax holiday benefits	99	109
h) Reimbursement of out of pocket expenses for statutory audit and other matters	428	425
5. Managerial remuneration @		
Salaries	18,373	14,664
Company's contribution to provident fund	485	356
Leave Travel	617	346
Commission to managing/whole time director	25,402	22,331
Commission to non- whole time directors	1,200	1,200
Director sitting fees	310	230
Other perquisites	6,704	4,471
	53,091	43,598
@ 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	3,150,965	3,095,715
Add:		
Managerial remuneration	53,091	43,598
Net gain/(deficit) on fixed assets sold/scrapped as per Section 350 of the Companies Act, 1956	(38,982)	3,298
Net (gain)/deficit on fixed assets sold/scrapped as per accounts	38,948	(3,441)
Provision for income-tax	1,613,914	1,559,459
Net Profit	4,817,937	4,698,629
Commission: - Amount	26, 602	23,532
- Percentage of net profit	0.55%	0.50%

	2006		2005	
	(Rs. in thousands)	%	(Rs. in thousands)	%
6. Exchange difference (net) amounting to Rs. 9,953 thousands debited (Previous year Rs. 3,075 thousand credited) to respective revenue heads in the profit and loss account.				
7. Stores and spare parts consumed				
Imported	28,292	12.1	35,375	14.8
Indigenous	205,280	87.9	203,845	85.2
	<u>233,572</u>	<u>100.0</u>	<u>239,220</u>	<u>100.0</u>
8. Earnings from exports:				
Export of goods in:				
- Foreign Currency at F.O.B value (including sales to Russia invoiced in rupees)	2,217,544		2,063,900	
- Rupees (all inclusive sales to Nepal & Bhutan)	538,898		445,135	
Proceeds from sale of fixed assets in foreign currency at F.O.B value	2,226		66,559	
9. C. I. F. value of imports:				
Raw materials	685,084		1,208,556	
Capital goods	423,706		188,887	
Goods – outside manufacture	38,384		40,250	
Components and spare parts	43,240		44,188	
	Quantity (MT)	(Rs. in thousands)	Quantity (MT)	(Rs. in thousands)
10. Raw materials consumed:				
Fresh milk and milk concentrate	334,256	4,075,542	312,580	3,529,934
Green coffee	23,790	1,351,333	28,691	1,278,942
Sugar	41,191	826,675	37,455	695,035
Vegetable oils	17,507	894,684	14,095	644,371
Skimmed milk powder	9,806	950,951	6,550	555,753
Wheat flour	65,798	850,818	53,673	547,601
Cocoa based raw materials	954	98,759	1,020	138,727
Tomato Paste	3,657	128,451	3,535	124,293
Whey powder	1,397	139,889	1,283	113,990
Black tea/green leaf	9,718	106,217	7,200	70,106
Chicory	3,511	62,382	3,630	66,247
Tapioca starch	386	14,964	3,926	61,395
Apple concentrate	841	45,373	800	39,139
Others (net of sale proceeds of by-products/surplus materials)		1,163,955		953,716
		<u>10,709,993</u>		<u>8,819,249</u>
	(Rs. in thousands)	%	(Rs. in thousands)	%
Of the above:				
Imported	1,204,719	11.2	1,284,025	14.6
Indigenous	9,505,274	88.8	7,535,224	85.4
	<u>10,709,993</u>	<u>100.0</u>	<u>8,819,249</u>	<u>100.0</u>

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	2006 (Rs. in thousands)	2005 (Rs. in thousands)
11. Expenditure in foreign currency (accrual basis)		
General licence fees (net of tax)	943,343	821,927
Information technology and management information systems	268,045	482,065
Travelling and training	43,687	37,012
Ocean freight	43,159	32,584
Other matters	56,379	33,506

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

	Number of Non-resident Shareholders	2006 Number of Equity Shares held	Dividend remitted (Rs. in thousands)	Number of Non-resident Shareholders	2005 Number of Equity Shares held	Dividend remitted (Rs. in thousands)
Final	2	59,629,954	119,260	2	59,629,954	268,335
Interim	2	59,629,954	1,431,119	2	59,629,954	1,371,489

13. Earnings per share

	2006	2005
Profit after taxation as per profit and loss account (Rs. in thousands)	3,150,965	3,095,715
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)	32.68	32.11

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

Class of goods	Licensed Capacity (Annual) Quantity (MT)	Opening stock Quantity (MT)	Value (Rs. in thousands)	Actual# Production & Purchases (MT)	Closing stock Quantity (MT)	Value (Rs. in thousands)	Gross Sales Quantity* (MT)	Value (Rs. in thousands)
Milk Products and Nutrition								
- Licensed	72,502.50 (a) (72,502.50)	5,659 (5,247)	517,849 (414,358)	64,090 (59,776)	5,983 (5,659)	588,820 (517,849)	63,015 (58,827)	8,550,047 (7,611,364)
- Others	Not Applicable	2,344 (2,221)	193,107 (176,484)	40,121 (41,158)	2,671 (2,344)	236,513 (193,107)	39,228 (40,544)	4,306,549 (4,140,772)
Beverages	Not Applicable	1,516 (1,611)	235,752 (189,165)	22,617 (24,741)	1,522 (1,516)	247,051 (235,752)	22,342 (24,606)	6,048,246 (5,821,500)
Prepared dishes and cooking aids	Not Applicable	3,744 (3,440)	163,809 (150,047)	79,409 (66,485)	3,810 (3,744)	163,838 (163,809)	78,706 (65,603)	5,980,120 (5,017,250)
Chocolate and Confectionery	Not Applicable	2,153 (1,592)	175,190 (143,704)	30,314 (26,927)	1,989 (2,153)	170,337 (175,190)	30,402 (26,246)	4,557,000 (3,845,473)
		1,285,707 (1,073,759)				1,406,559 (1,285,707)		29,441,963 (26,436,359)

Includes product 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 comprise 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 8,792 MT (9,761 MT) in Milk Products and Nutrition – Others, 145 MT (85 MT) in Beverages, - 12 MT (30 MT) in Chocolate and Confectionery. The total value of these purchases is Rs. 267,906 thousands (Rs. 281,667 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	— (—)	— (—)	— (34)	— (1,413)	— (—)	— (—)	— (34)	— (2,513)

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, Chocolate 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. and Maggi Enterprises 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., Nestlé Egypt S.A.E., Nestlé Middle East FZE, Nestlé Trading (Thailand) Ltd., Nestec S.A., Nestec York Ltd., Nestlé (Fiji) Ltd., Nestlé (China) Ltd., Nestlé (PNG) Ltd., Nestlé (South Africa) Pty Ltd., Nestlé (Thai) Ltd., Nestlé Australia Ltd., Nestlé Bangladesh Ltd., Nestlé Central And West Africa Ltd., Nestlé Confectionery K.K., Nestlé Deutschland AG, Nestlé Foods Kenya Ltd., Nestlé France S.A.S., Nestlé Ghana Ltd., Nestlé Hungaria KFT., Nestlé Iran P.J.S. Co., Nestlé Korea Ltd., Nestlé Kuban LLC, Nestlé Lanka Ltd., Nestlé Manufacturing (Malaysia) Sdn Bhd, Nestlé Foods (Malaysia) Sdn Bhd, Nestlé Nederland BV, Nestlé Pakistan Ltd., Nestlé Philippines Inc., Nestlé Polska S.A., Nestlé Products Sdn Bhd, Nestlé Purina PetCare (U.K.) Ltd., Nestlé R&D Centre (Pte) Ltd., Nestlé Romania S.R.L., Société des Produits Nestlé S.A., Nestlé Sea Trading Ltd., Nestlé Shanghai Ltd., Nestlé Shuangcheng Co. Ltd., Nestlé Singapore (Pte) Ltd., Nestlé Suisse S.A., Nestlé Tianjin Ltd., Nestlé Trading (Fiji) Ltd., Nestlé Türkiye Gıda Sanayi A.S., Nestlé UK Ltd., Nestlé Vietnam Ltd., Nestlé Waters France, Nestlé Waters North America Inc, Nestrade - Nestlé World Trade Corporation, Osem UK Ltd., P.T. Nestlé Indonesia, Purina PetCare India Private Ltd., Galderama India Pvt. Ltd., Eastern Food Specialities Pvt. Ltd., Pulmuone Waters Co. Ltd.

Whole time directors': Martial G. Rolland, Chairman & Managing Director; Shobinder Duggal, Director – Finance & Control

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Name of transactions	2006 (Rs. in thousands)	2005 (Rs. in thousands)
Holding companies: Dividends	1,550,379	1,490,749
Fellow subsidiaries:		
(a) Sale of finished and other goods		
- Nestlé Kuban LLC	895,488	1,129,708
- Nestlé Bangladesh Ltd.	376,322	302,262
- Nestlé Hungaria KFT	195,328	160,433
- Others	86,759	143,358
(b) Sale of Fixed assets		
- Nestlé (South Africa) Pty Ltd.	3,021	—
- Pulmuone Waters Co. Ltd.	—	68,240
(c) Purchase of fixed assets		
- Nestlé Australia Ltd.	35,808	313,509
- Nestlé Bangladesh Ltd.	—	4,406
(d) Purchase of raw and packing materials and spare parts		
- Nestlé Philipines Inc.	343	—
- Nestlé Bangladesh Ltd.	149	—
- Nestlé Nederland B V	—	19,645
- Others	16	403
(e) Purchase of finished goods		
- Nestlé Suisse S.A.	19,962	12,791
- Nestlé Lanka Ltd.	15,637	—
- Eastern Food Specialities Pvt. Ltd.	—	16,553
- Nestlé U.K. Ltd.	—	10,343
- Others	5,581	9
(f) General licence fees (Net of taxes)		
- Société des Produits Nestlé S.A.	943,343	821,927
(g) Interest on inter corporate deposits		
- Galderama India Pvt. Ltd.	6,623	—
- Alcon India Pvt. Ltd.	5,450	4,726
(h) Expenses recovered/received		
- Purina PetCare India Pvt. Ltd.	8,345	4,237
- Nestec S.A.	3,035	2,352
- Nestlé Middle East FZE	2,248	—
- Nestlé Lanka Ltd.	2,067	986
- Nestlé Central And West Africa Ltd.	1,932	—
- Nestlé Bangladesh Ltd.	1,469	365
- Nestlé (South Africa) Pty. Ltd.	1,172	—
- Nestlé Pakistan Ltd.	1,126	—
- Others	6,566	463
(i) Expenses reimbursed/incurred		
- Nestlé R & D Center (Pte) Ltd.	16,689	4,323
- Nestec S.A.	11,922	—
- Nestlé Tainjin Ltd.	7,703	1,675

	2006 (Rs. in thousands)	2005 (Rs. in thousands)
- Nestlé Deutschland AG	5,498	2,393
- Nestlé France SAS	3,030	—
- Nestrade- Nestlé World Trade Corporation	2,432	—
- Nestlé Australia Ltd.	2,418	—
- P.T,Nestlé Indonesia	1,795	—
- Nestlé Manufacturing (Malaysia) Sdn Bhd	1,394	1,454
- Others	5,729	3,596
(j) Information technology and management information systems		
- Nestlé Australia Ltd.	270,619	168,323
(k) Inter corporate deposits refunded		
- Galderama India Pvt. Ltd.	95,000	—
- Alcon India Pvt. Ltd.	77,500	—
(l) Balance outstanding as at the year end		
- Inter corporate deposits granted	—	77,500
- Receivables (Others)	243,451	110,648
- Payables	292,819	192,038

Notes:

- Inter corporate deposits were granted at the then prevailing bank rate or one month commercial paper benchmark plus a spread thereon, whichever is higher.
- 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, 2006 is Rs. 10,090 thousands (Previous year Rs. 7,051 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 December 31, 2006 are Bharat Box Factory Ltd., Perfect Pack Ltd., Kwaliti Offset Printers, Canton Lab Pvt. Ltd., Rajpura Crowns Pvt. Ltd., VFC Industries Pvt. Ltd., Sukriti Enterprises Pvt. Ltd., JO Bland Enterprises, S S Bedi, Suraksha Packers Private Ltd., Anand Packaging, Herald Publication Pvt. Ltd., Shah Packwell Industries, Laxmi Plastic Industries, Gothi Plascon India Ltd., Jewel Paper Private Ltd, A K Motiwala, Boiler Component Manufacturing, Ganapati Hosiery Mills, Gordhandas Desai Private Ltd., H S Balbir and Brothers, Jain Scientific Glass Works, Jeet Engg. Works, Jugraj Mechanic Works, Mano Meter India Pvt. Ltd., Satnam Fabricators, Shakunt Rubbers, The Sondh Fabrication Gram Udyog. These amounts are not due for payment as per the terms and conditions of the purchase order/contract.

19. The foreign currency exposure of the Company as on December 31, 2006 is as under:

a) Category- wise quantitative data

	As at December 31, 2006			As at December 31, 2005		
	Nos.	Currency	Amount	Nos.	Currency	Amount
Forward contracts against exports	4	USD	4,546,400	—		—
	6	EUR	1,474,484	—		—
	1	GBP	83,098	—		—
Forward contracts against imports	8	USD	6,867,335	10	USD	2,463,390
	6	EUR	1,584,019	—		—

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

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

	As at December 31, 2006		As at December 31, 2005	
	Currency	Amount	Currency	Amount
Against exports	USD	234,066	USD	2,298,115
		–	EUR	28,653
	CHF	35,999	CHF	28,653
Against imports		–	GBP	19,821
		–	EUR	243,838
	AUD	4,185,120	AUD	2,273,294
	CHF	230,936	CHF	75,919
	GBP	126,293	GBP	868
	JPY	299,580	JPY	88,020
	SGD	185,033	SGD	23,466
	ZAR	13,684	ZAR	13,684
		–	THB	2,106

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

21. 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 value added tax/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 basis of determining cost for various categories of inventories are as follows:

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

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 / AMORTISATION

Depreciation is provided as per the straight-line method at rates provided in Schedule XIV to the Companies Act, 1956, except for the following classes of fixed assets, where the useful life has been estimated as under: -

Information technology equipment	:	3 years
Furniture and fixtures and Vehicles	:	5 years
Leasehold land and improvements	:	Lease period
Management information systems (Intangible fixed asset)	:	5 years

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 recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on an appropriate discount factor.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses 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 2006-2007 relevant to the period April 1, 2005 to March 31, 2006 and the liability, which has accrued on the profit for the period April 1, 2006 to December 31, 2006.

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

CONTINGENT LIABILITIES AND PROVISIONS

Contingent liabilities are disclosed after a careful evaluation of the facts and legal aspects of the matter involved. Provisions are recognised when the Company has a legal/constructive obligation and on management discretion as a result of a past event, for which it is probable that a cash outflow may be required and a reliable estimate can be made of the amount of the obligation.

FIXED ASSETS

Fixed assets are stated at cost (net of CENVAT, wherever applicable) less accumulated depreciation. Cost is inclusive of freight, duties, levies and any directly attributable cost of bringing the assets to their working condition for intended use.

An intangible asset is measured at cost and amortised so as to reflect the pattern in which the asset's economic benefits are consumed.

INVESTMENTS

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

FOREIGN EXCHANGE TRANSACTIONS

Transactions in foreign currency are recorded on initial recognition at the exchange rate prevailing at the time of the transaction.

Monetary items (i.e. receivables, payables, loans etc.) denominated in foreign currency are reported using the closing exchange rate on each balance sheet date.

The exchange difference arising on the settlement of monetary items or on reporting these items at rates different from rates at which these were initially recorded/reported in previous financial statements are recognised as income/expense in the period in which they arise except where the foreign currency liabilities have been incurred in connection with fixed assets acquired up to March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where exchange difference are adjusted in the carrying amount of fixed assets.

In case of forward exchange contracts, the premium or discount arising at the inception of such contracts, is amortised as income or expense over the life of contract as well as exchange difference on such contracts i.e. difference between the exchange rate at the reporting/settlement date and the exchange rate on the date of inception/the last reporting date, is recognised as income/expense for the period except where the foreign currency liabilities have been incurred in connection with fixed assets acquired up to March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of the fixed assets.

ANNEXURE - 1 TO THE DIRECTORS' REPORT

Report on Corporate Governance for the year ended December 31, 2006

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 of the Directors at the Board Meetings and the last Annual General Meeting, Outside Directorships and other Board Committees

Above information as on 31st December, 2006 or for the year 2006, as applicable, is tabulated hereunder:

Director	No. of Board Meetings attended	Attendance at previous AGM on 25.04.2006	No. of outside Directorship held ^B	No. of Membership/ Chairmanship in other Board Committees ^C	Executive/ Non-Executive/ Independent
Mr. Martial G. Rolland	5	Present	Nil	Nil	Executive
Mr. Shobinder Duggal	5	Present	Nil	Nil	Executive
Mr. Ravinder Narain	5	Present	3	1	Non-Executive & Independent
Mr. Tejendra Khanna	4	Present	3	3	Non-Executive & Independent
Mr. M. W. O. Garrett	3	Present	Nil	Nil	Non-Executive
Mr. Rajendra S. Pawar	3	Present	12	2	Non-Executive & Independent
Mr. Richard Sykes ^A	Nil	Not Present	Nil	Nil	Non-Executive

^A Alternate Director to Mr. M. W. O. Garrett.

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

^C Only covers membership / chairmanship of Audit Committee and Shareholder / Investor Grievance Committee.

As at 31st December, 2006, in compliance with the corporate governance norms, the Company's Board of Directors headed by its executive Chairman, Mr. Martial G. Rolland comprised 5 other directors, out of which three are independent directors. None of the Directors was a member of more than 10 Board-level committees, nor a Chairman of more than 5 such committees, across all companies in which he was a Director.

Board Meetings held during the year 2006

During the year 2006, five Board Meetings were held on 6th March, 2006, 27th April, 2006, 29th July, 2006, 28th October, 2006 and 4th December, 2006. The maximum gap between any two meetings was less than four months. All material information is circulated to the directors before the meeting or placed at the meeting, including minimum information made available to the Board as mentioned under Clause 49 of the Listing Agreement.

The Company has established procedures to enable the Board to periodically review compliance reports of laws applicable to the Company, prepared by the Company as well as steps taken by the Company to rectify instances of non-compliances. The Board reviewed the reports prepared by the Company on half yearly periodicity.

Compliance with the Code of Conduct

The Company has adopted a "Code of Conduct for the Directors and Senior Management". The Code is available on the official website of the Company www.nestle.in.

It is hereby affirmed that the Directors and Senior Management have given an annual affirmation of compliance with the code of conduct during the year 2006.

AUDIT COMMITTEE

The powers, role and terms of reference of the Audit Committee covers the areas as 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; recommending the appointment and removal of external auditor, fixation of audit fee and approval of payment for other services; discussing with internal auditors any significant findings and follow up there on; 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 (Chairman), Mr. Ravinder Narain and Mr. Rajendra S. Pawar, all being Non-Executive and Independent Directors. All members of the Audit Committee are financially literate and both Mr. Tejendra Khanna and Mr. Rajendra S. Pawar, have related financial management expertise by virtue of their comparable experience and background. Mr. B. Murli, Company Secretary, acts as the Secretary to the Committee.

The Audit Committee met five times during the year 2006 on 21st February, 2006, 6th March, 2006, 27th April, 2006, 29th July, 2006 and 28th October, 2006. All members of the Committee attended the aforesaid meetings except for the Audit Committee Meeting held on 27th April, 2006, in which Mr. Rajendra S. Pawar was granted leave of absence. The maximum gap between any two meetings was less than four months.

SHAREHOLDER/INVESTOR GRIEVANCE COMMITTEE

The Shareholder / Investor Grievance Committee oversees redressal of shareholder and investor grievances, transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends and related matters.

Mr. Ravinder Narain, a Non-Executive and Independent Director, is the Chairman of the Shareholder/ Investor Grievance Committee. The other member is the Managing Director, Mr. Martial G. Rolland. Mr. B. Murli, Company Secretary is the Compliance Officer. The Committee met four times during the year on 9th January, 2006, 10th April 2006, 29th July, 2006 and 28th October, 2006. All members of the Committee attended the aforesaid meetings.

During the year 2006, 22 complaints were received from shareholders and investors. All the complaints have generally been solved to the satisfaction of the complainants and no investor complaint was pending at the beginning or at the end of the year. The Company has acted upon all valid requests for share transfer received during 2006 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 2006

(Rupees in '000)

Name of the Director	Sitting Fee	Salaries	Perquisites	Commission	Total
Mr. Martial G. Rolland ¹	N.A.	14,332	6,554	22,785	43,671
Mr. Shobinder Duggal ¹	N.A.	4,041	1,252	2,617	7,910
Mr. Tejendra Khanna	90	N.A.	N.A.	300 [@]	390
Mr. Ravinder Narain	120	N.A.	N.A.	300 [@]	420
Mr. Rajendra S. Pawar	70	N.A.	N.A.	300 [@]	370
Mr. M.W.O.Garrett	30	N.A.	N.A.	300 [@]	330

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

[@] The Commission for the year ended 31st December, 2006 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 3rd May, 2007.

Sitting fee indicated above 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 of the Company.

Perquisites of the whole-time/managing director include Leave Travel. Perquisites of Mr. Duggal also include contribution of Rs. 4,84,848/- to provident fund. This is not applicable to the other Executive Director.

Commission is subject to adequate profits being earned. Performance criteria for the Executive Directors takes into account the business plans and market conditions. The criteria for payment of Commission to Non-Executive Directors takes into account their contribution and current trends.

None of the Non-Executive Directors holds any equity shares or convertible instruments in the Company. The Company does not have any stock option scheme.

As required, a brief profile and other particulars of the Director seeking re-appointment is given in the Notice of the 48th Annual General Meeting and forms part of the corporate governance report.

CEO/CFO CERTIFICATION

The Managing Director and Director- Finance & Control have certified to the Board, inter alia, the accuracy of financial statements and adequacy of Internal Controls for the financial reporting purpose as required under Clause 49 (V) of the Listing Agreement, for the year ended 31st December, 2006.

GENERAL BODY MEETINGS

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

Year	Venue	Date	Time	Special Resolutions passed by the shareholders in the AGMs
2006	Air Force Auditorium, Subroto Park, New Delhi - 110 010	25.04.2006	10.00 A.M.	None
2005	- do -	29.04.2005	10.00 A.M.	1. Authorising the payment of commission and sitting fee to the Non-Executive Directors of the Company. 2. Authorising the delisting of the equity shares of the Company from the Delhi Stock Exchange Association Limited, New Delhi.
2004	- do -	30.04.2004	10.00 A.M.	None

There was no other General Body Meeting in the last three years and no resolution was put through postal ballot. There is no special resolution proposed to be passed through postal ballot at the ensuing Annual General Meeting on 3rd May, 2007.

DISCLOSURES

During the year 2006, 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 0 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 Stock Exchange, SEBI or any other statutory authority, on any matter relating to the capital markets, during the last three years.

The Company has complied with all the mandatory requirements of Clause 49 of the Listing Agreement entered into with the Bombay Stock Exchange Limited, Mumbai.

Particulars	Clause of Listing Agreement	Compliance status
I. Board of Directors	49 I	
(A) Composition of Board	49(IA)	Complied
(B) Non-executive Directors' compensation & disclosures	49(IB)	Complied
(C) Other provisions as to Board and Committees	49(IC)	Complied
(D) Code of Conduct	49(ID)	Complied
II. Audit Committee	49(II)	
(A) Qualified & Independent Audit Committee	49(IIA)	Complied
(B) Meeting of Audit Committee	49(IIB)	Complied
(C) Powers of Audit Committee	49(IIC)	Complied
(D) Role of Audit Committee	49(II D)	Complied
(E) Review of Information by Audit Committee	49(IIE)	Complied
III. Subsidiary Companies	49(III)	Not Applicable
IV. Disclosures	49(IV)	
(A) Basis of related party transactions	49(IV A)	Complied
(B) Disclosure of Accounting Treatment	49(IV B)	Complied
(C) Board Disclosures	49(IV C)	Complied
(D) Proceeds from public issues, rights issues, preferential issues, etc	49(IV D)	Not Applicable
(E) Remuneration of Directors	49(IV E)	Complied
(F) Management	49(IV F)	Complied
(G) Shareholders	49(IV G)	Complied
V. CEO/CFO Certification	49(V)	Complied
VI. Report on Corporate Governance	49(VI)	Complied
VII. Compliance	49(VII)	Complied

The status of adoption of the non-mandatory requirements of Clause 49 of the Listing Agreement is as under:

(a) Maintaining non-executive Chairman's Office: Presently not applicable as the Chairman of the Company is an Executive Director; **(b) Tenure of Independent Director:** No specific tenure has been prescribed for Independent Directors; **(c) Remuneration Committee:** No separate Remuneration Committee has been constituted. Please refer to para above on "REMUNERATION COMMITTEE"; **(d) Shareholder Rights:** Half Yearly and other Quarterly financial statements are published in newspaper, uploaded on Company website (www.nestle.in) and SEBI website (www.sebidifor.nic.in). Presently, half-yearly financial performance of the Company is not being sent to each household of shareholders; **(e) Audit Qualifications:** The Company already has a regime of unqualified financial statements. Auditors have raised no qualification on the financial statements; **(f) Training of Board Members :** In the course of Board/ Audit Committee Meetings the Directors are where relevant provided information on the business model, the risk profile of the business parameters, their responsibilities as Directors, and best ways to discharge them; **(g) Mechanism for evaluating non-executive Board Members :** Their contributions; **(h) Whistle Blower Policy:** The standard of behaviour of Nestlé India is governed by two most significant documents from Nestlé Group, the "Nestlé Corporate Business Principles" and "The Nestlé Management and Leadership Principles". The Company has appointed Ombudsman for Infant Code, under which employees can report suspected Code violations directly to the Ombudsman, with adequate safeguard to protect the employee reporting.

MEANS OF COMMUNICATION

The Quarterly, Half Yearly and Annual Results are generally published by the Company in all editions of the Financial Express and in Jansatta, Delhi.

As per the requirement of Clause 51 of the Listing Agreement, all the data related to financial results, shareholding pattern etc. are posted on the SEBI's EDIFAR System and the same can be viewed on the SEBI's website www.sebiedifar.nic.in.

The domain name of the Company's website is www.nestle.in and up-to-date financial results, official press releases, presentations to analysts and institutional investors and other general information about the Company, is available on this website.

The presentations made to the institutional investors or analysts, if any, are not communicated to individual shareholders of the Company. However, in addition to uploading on the official website of the Company, the presentations are sent to the Stock Exchange for dissemination.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

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

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

The Company has an adequate system of internal controls to ensure that transactions are properly recorded, authorised and reported apart from safeguarding its assets. The internal control system is supplemented by well-documented policies, guidelines and procedures and review carried out by the Company's internal audit function, which submits reports periodically to the Management and the Audit Committee of the Board.

In order to foster an improved controls culture in the Company, wherein every employee is fully aware of all the major risk/controls faced in his/her work sphere and assumes responsibility for the controls performed therein, the Company has implemented a tool called "Controls Manager" which works on the basic concept of Control Self Assessment. The self assessments by process / control owner is also used as the basis of CEO/CFO certification as required under Clause 49 of the Listing Agreement with the Bombay Stock Exchange.

There has been no material development in Human Resources/Industrial relations during the period covered by this Annual Report. Your Company has a favourable work environment that motivates performance, customer focus and innovation while adhering to the highest degree of quality and integrity. As part of manpower development and training and with an aim to enhance operational efficiency, employees of the Company have been sent on postings and assignments to the other Nestlé Group Companies.

Manpower figure of the Company as on 31st December, 2006 was 3,502.

GENERAL SHAREHOLDER INFORMATION

Annual General Meeting

Date and Time:	: 3 rd May, 2007 at 9.30 a.m.
Venue	: Air Force Auditorium, Subroto Park, New Delhi – 110 010.

Financial Calender, 2007

First Quarter Results	: Last week April, 2007
Second Quarter and Half Yearly Results	: Last week July, 2007
Third Quarter Results	: Last week October, 2007
Annual Results	: March, 2008

Financial Year	: 1 st January to 31 st December
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Date of Book Closure	: 27 th April, 2007 to 3 rd May, 2007, both days inclusive.
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Dividend payment date: Three Interim Dividends were declared for the year 2006, first at the rate of Rs. 6/- per share, second at the rate of Rs. 18/- per share and the third at the rate of Rs.1.50 per equity share. The first and second interim dividends were paid on and from 9th May, 2006 and 21st December, 2006, respectively, while the third interim dividend shall be paid on and from 29th March, 2007.

Outstanding ADRs / GDRs / Warrants or any convertible instruments, conversion date and likely impact on equity:

Not applicable.

Listing on Stock Exchanges and Stock Code

Shares of the Company are listed at the Bombay Stock Exchange Limited, Mumbai. The Company's Stock Code is 500790.

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

Market Price Data: High/Low in each month of Calendar Year, 2006 on the Bombay Stock Exchange Ltd., Mumbai (BSE)

Month	High (Rs.)	Low (Rs.)	Month	High (Rs.)	Low (Rs.)
January	1,010.00	918.00	July	1,175.00	968.55
February	1,149.00	966.00	August	1,080.00	986.00
March	1,235.00	1,036.40	September	1,142.00	1,005.65
April	1,348.00	1,135.10	October	1,130.00	1,025.00
May	1,308.90	860.55	November	1,100.00	1,005.00
June	1,100.00	800.00	December	1,220.00	1,025.00

[Source: www.bseindia.com]

Performance in comparison to BSE Sensex



[Source: www.bseindia.com]

Registrar and Transfer Agents:

M/s Alankit Assignments Limited, 2E/21, Jhandewalan Extension, New Delhi, 110 055.

With effect from 1st August, 2006, M/s Alankit Assignments Limited, 2E/21, Jhandewalan Extension, New Delhi, 110 055 was appointed as Registrar and Transfer Agents of the Company in place of 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.

NESTLÉ INDIA LIMITED

Categories of Shareholding as on 31st December, 2006

Category of Shareholder	Number of Shares	Percent of Total Shares
A Promoter and Promoter Group	59,629,954	61.85
B Public Shareholding		
Foreign Institutional Investors	8,749,788	9.07
Insurance Companies	5,488,723	5.69
Mutual Funds/ UTI	3,622,091	3.76
Financial Institutions/ Banks	44,408	0.05
Bodies Corporate	1,858,986	1.93
Individuals	16,669,563	17.29
NRIs and OCBs	352,203	0.36
Total Public Shareholding	36,785,762	38.15
Total Shareholding (A + B)	96,415,716	100.00

Distribution of shareholding as on 31st December, 2006

No. of shares	Number of shareholders	Number of Shares	Percent of total shares
1 to 100	26,437	1,100,244	1.14
101 to 500	12,067	2,936,967	3.05
501 to 1,000	3,084	2,240,105	2.32
1,001 to 5,000	1,797	3,634,717	3.77
5,001 to 10,000	236	1,638,908	1.70
10,001 to 50,000	161	3,542,805	3.68
50,001 to 1,00,000	37	2,664,609	2.76
1,00,001 and above	48	78,657,361	81.58
Total	43,867	96,415,716	100.00

Dematerialisation of shares: 44.22% equity shares of the Company have been dematerialised as on 31st December, 2006.

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

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

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

On behalf of the Board of Directors

Date : 20th March, 2007

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, 2006, 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 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

(MANJULA BANERJI)

Partner

(Membership No. 86423)

Date : 20th March, 2007

Place : New Delhi

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, 2006.

A. CONSERVATION OF ENERGY

(a) Energy Conservation Measures Taken

During the year, the Company continued to stress upon the measures for the conservation and optimal utilisation of energy in all the areas of operations, including those for energy generation and effective usage of sources / equipment used for generation. The significant measures taken/continued during 2006, which have contributed to energy conservation, were:

- Improvement in steam generation ratio (Steam/Fuel ratio) by improving steam condensate recovery; stack losses and lower blow down losses.
- Continued usage of non-conventional fuels comprising coconut shells, spent coffee/ tea waste to substitute coal usage.
- Grid power utilisation maximised over captive power usage.
- Usage of Superior Kerosene Oil for roasters, in place of Diesel and Light Diesel Oil.
- Usage of air pre-heater in boiler for better efficiency (heat recovery).
- Hot air generation cost optimised by partial substitution with low priced heat source (from oil fired source to coal/coconut/coffee waste fired heat generating source).
- Heat recovery in inert gas generation and from roasting operations.
- Utilisation of Reverse Osmosis Plant for the make up water in boiler operations, resulting in reduction of blow down losses.
- Installation of Wiped Film Evaporator (WFE) in coffee processing for energy saving.
- Continuous energy review by internal experts to track the inefficient equipments and phase them out in planned manner e.g. old air compressors were phased out and replaced with energy efficient air compressors.
- Tracking and trending of all energy usage for continuous improvements.
- Adoption of new Cleaning-in Process (CIP) technology for the milk processing operations resulting in less water consumption.
- Usage of treated water for gardening and plantation.
- Optimisation of power usage in waste water plant.
- Improvement in Power Factor through auto operation of capacitor banks and installation of energy efficient equipments/ lightings.
- Installation of variable frequency drives on high capacity motors.

- Installation of equipment with less specific power consumption for the fuel feeding system to boiler.
- Installation of Spray Dryers for pre-heating of primary air with steam, thereby reducing the usage of Heavy Petroleum Stock for hot air generation.
- Installation of Desuper Heating System in Chilled Water Plant for heat recovery.

(b) Additional Investment

Following proposals are at various stages of implementation:

- Installation of incinerator with Wet Scrubber.
- Installation of centrifuge filters for Heavy Petroleum Stock and Furnace Oil for improvement in fuel consumption.
- Enhancing the capacity of waste water treatment plant.
- Expansion/ Improvement of effluent treatment plants.
- Installation of Reverse Osmosis Plant for the recycling of the waste water.

(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 2006, 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 2005, 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 around 1.7 billion Swiss Francs. Expenditure of the Company in the nature of Research and Development are those incurred locally, primarily relating to testing and modifying of products for local conditions and are as under:

	(Rs. in thousands)
a) Capital	34,798
b) Recurring	89,331
c) Total	124,129
d) Total R&D as a percentage of total turnover.	0.44%

Technology absorption, adaptation and innovation

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

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

2. Benefits derived as a result of the above efforts

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

3. Imported Technology

All the food products manufactured and / or sold by the Company are by virtue of the imported technology received on an ongoing basis from the collaborators. Technology transfer has to be an ongoing process and not a one-time exercise, for the Company to remain competitive and offer high quality and value for money products to the consumers. This has been secured by the Company under 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. 2,759 Million

comprising foreign exchange earnings of Rs. 2,220 Million (including sales to Russia invoiced in Rupees) and export to neighbouring countries in Rupees amounting to Rs. 539 Million and foreign exchange outgo of Rs. 4095 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

(A) Power and Fuel Consumption		2006	2005
1.	Electricity		
(a)	Purchased		
	Units (000' KWH)	54,203	52,061
	Total Cost (Rs. in thousands)	223,892	212,717
	Cost/KWH	4.13	4.09
(b)	Own Generation		
	Through Diesel Generator		
	Units (000' KWH)	36,285	36,345
	Units per litre of oil (KWH)	3.57	3.66
	Cost/KWH (Rs.)	8.55	7.39
2.	Coal (Various grades)		
	Quantity (Tonne)	28,526	31,699
	Total Cost (Rs. in thousands)	131,754	136,526
	Cost/Tonne (Rs.)	4,619	4,307
3.	Furnace Oil		
	Quantity (KL)	17,758	17,824
	Total Cost (Rs. in thousands)	349,306	281,056
	Cost/KL (Rs.)	19,670	15,768
4.	Other Consumption of Fuel		
(a)	High Speed Diesel Oil and Superior Kerosene Oil		
	Quantity (KL)	1,349	1,685
	Total Cost (Rs. in thousands)	39,201	40,109
	Cost/KL (Rs.)	29,053	23,809
(b)	Heavy Petroleum Stock		
	Quantity (KL)	1,818	2,093
	Total Cost (Rs. in thousands)	37,029	35,106
	Cost/KL (Rs.)	20,364	16,773
(c)	Non-Conventional Fuels- Coconut Shell & Coffee Husk		
	Quantity (Tonne)	15,566	19,131
	Total Cost (Rs. in thousands)	40,974	64,763
	Cost/Tonne (Rs.)	2,632	3,385
(d)	Liquid Petroleum Gas		
	Quantity (Tonne)	812	691
	Total Cost (Rs. in thousands)	29,939	22,222
	Cost/Tonne (Rs.)	36,849	32,137

(B) Consumption per unit of production

	Beverages		Milk Products and Nutrition		Chocolate & Confectionery		Prepared Dishes & Cooking Aids	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
	2006	2005	2006	2005	2006	2005	2006	2005
Electricity (KWH/T)	1,214.26	1,206.44	412.38	431.30	745.17	793.65	153.39	122.88
Furnace Oil (Ltrs./T)	186.73	184.56	86.65	98.91	51.16	60.09	61.01	54.20
Coal (Kgs./T)	129.23	162.29	287.88	312.13	—	—	164.40	162.30
Others:								
HSD, HPS (Ltrs. /T)	91.84	68.39	24.29	26.39	—	—	1.25	2.10
LPG (Kgs./T)	—	—	1.22	1.21	48.69	45.87	—	—

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

NESTLÉ INDIA LIMITED

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No.

0 0 3 7 8 6

State Code

5 5

Balance Sheet Date

3 1

1 2

2 0 0 6

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

Public Issue

N I L

Rights Issue

N I L

Bonus Issue

N I L

Private Placement

N I L

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

Total Liabilities

4 0 5 1 5 5 5

Total Assets

4 0 5 1 5 5 5

Sources of Funds

Paid-Up Capital

9 6 4 1 5 7

Reserves & Surplus

2 9 2 4 7 2 2

Secured Loans

1 6 2 6 7 6

Unsecured Loans

N I L

Application of Funds

Net Fixed Assets

5 8 0 0 3 6 9

Investments

7 7 7 7 3 2

+ -
-

Net Current (Liabilities)/Assets

2 3 3 4 9 8 7

Miscellaneous Expenditure

N I L

Accumulated Losses

N I L

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

Turnover (Gross Revenue)

2 8 3 6 6 7 4 6

Total Expenditure

2 3 4 4 2 9 9 0

Profit Before Tax

+ 4 8 0 5 2 3 9

Profit After Tax

+ 3 1 5 0 9 6 5

Earnings Per Share in Rs.

3 2 . 6 8

Dividend Rate %

2 5 5

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

Item Code No. (ITC Code)

1 9 . 0 1 . 0 0 0 0

Product Description

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

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

Item Code No. (ITC Code)

1 9 . 0 2 . 0 0 0 0

Product Description

N O O D L E S

Item Code No. (ITC Code)

2 1 . 0 1 . 0 0 0 0

Product Description

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

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

