



## CORPORATE INFORMATION

### MANAGEMENT COMMITTEE

Carlo M.V. Donati - Chairman  
 Rajiv Deraniyagala – Marketing  
 Shobinder Duggal – Corporate Control  
 Wim Van Geffen – Supply Chain  
 Shivani Hegde – Additional Channels  
 Malcolm Lobo – Globe  
 Virat Mehta – Communications  
 B. Murli – Legal and Company Secretary  
 Ranjit Raj – Corporate Affairs and Strategic Planning  
 Michael T. Scales – Finance and Control  
 H. K. Singh – Human Resources  
 Anup Kumar Srivastava – Sales  
 J. M. Stocker – Technical

### BANKERS

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

### AUDITORS

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

### REGISTERED OFFICE

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

### REGISTRAR & TRANSFER AGENTS

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

### HEAD OFFICE

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

### BRANCH OFFICES

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

### FACTORIES

Village Maulinguem (North), Bicholim Taluka - 403 504 (Goa)  
 Ludhiana-Ferozepur Road, Near Kingwah Canal, Moga - 142 001 (Punjab)  
 Industrial Area, Nanjangud - 571 301 Mysore District (Karnataka)  
 P.O. Cherambadi - 643 205 Dist. Nilgiris (Tamil Nadu)  
 Patti Kalyana, Kiwana Road, Samalkha - 132 101 Dist. Panipat (Haryana)  
 Plot No. 294-297, Usgao Industrial Area, Ponda - 403 406 (Goa)

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

The Delhi Stock Exchange Association Limited,  
 DSE House  
 3/1, Asaf Ali Road  
 New Delhi - 110 002

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

### ANNUAL GENERAL MEETING

Friday, 30<sup>th</sup> April, 2004 at 10.00 AM at  
 Air Force Auditorium, Subroto Park, New Delhi 110 010  
 Shareholders attending the AGM are requested to bring with them the  
 enclosed ATTENDANCE SLIP.

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## DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in submitting their report and the statement of accounts for the year ended 31<sup>st</sup> December, 2003.

### Financial Results and Operations

	(Rs. in Millions)	
	2003	2002
Gross Revenue	23,077	20,756
Earning before Interest, Depreciation, Tax and Other Income (EBITDA)	4,447	3,985
Interest	19	61
Depreciation	463	494
Impairment Loss on Fixed Assets	22	213
Provision for Contingencies (Net)	230	314
Provision for Tax	1,361	1,119
Exceptional Item of earlier years	—	54
Net Profit After Exceptional Item of earlier years	2,631	2,015
Profit Brought Forward	250	172
Balance Available for Appropriation	2,881	2,187
Interim Dividends Paid	1,928	1,735
Corporate Dividend Tax	247	—
Transfer to General Reserve	263	202
Surplus carried in Profit and Loss Account	443	250

#### Key Ratios

Earnings per Share (Rs.)	27.29	20.90
Dividend per Share (Rs.)	20.00	18.00

Domestic Sales grew by 11.7 % in value and 10.8% in volume terms, during the year. Export Sales grew by 8.9% in value terms and 3.2% in volume terms.

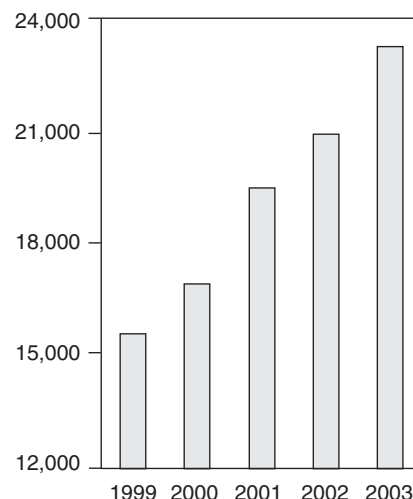
Net Profit grew by 30.5% from Rs.2,015 million to Rs.2,631 million. After adjusting the amounts for the respective years for non-comparable/exceptional items under Other Income, employee costs, other expenditures, Impairment Loss on Fixed Assets, Provision for Contingencies, Provision for Tax and Exceptional Item of earlier years, the

adjusted Net Profit has increased by 16.5%, which is largely due to the increase in EBITDA. While the reported EBITDA has increased by 11.6% from Rs.3,985 million to Rs.4,447 million, after adjusting the amounts for respective years for the non-comparable/exceptional items under employee costs and other expenditures, the adjusted EBITDA has increased by 14.5%.

The year 2003 has been one of the most challenging in recent times. The economic environment during the first six months remained depressed for the most part. Global uncertainties, the Iraq war and the SAR syndrome impacted consumer confidence and business. In the domestic economy, it was further complicated by the prolonged uncertainty over VAT implementation, the transport strike and the controversies relating to 'Pesticides' in the first half of the year and 'Chocolates' during the later part the year. Good monsoons in most parts of the country and revival in manufacturing activity improved the sentiment in the second half of the year, but the impact on consumer spending in the FMCG segment was limited.

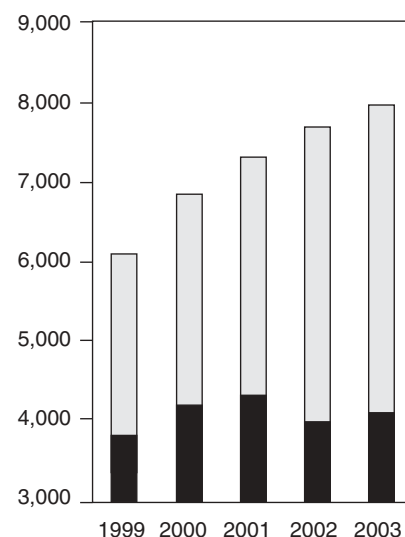
Within this environment, your Company has been successfully able to navigate the year through teamwork, professionalism and a continued focus on providing value to the consumer. Continued efforts to improve distribution and penetration of products, efforts to innovate and renovate, continuous improvement in manufacturing processes and financial management as well as supply chain management, helped to offset some of the impact of the adverse market environment. Your Company's performance in such a competitive environment is a matter of pride and satisfaction and once again confirms the strength of Nestlé technology and brands.

### Gross Income (Rupees in Millions)



### Fixed Assets (Rupees in Millions)

■ Net Block ■ Gross Block





The negative impact of rising commodity prices and contingency provisions was partially offset by selected selling price increases, lower interest costs, improved control over fixed costs, increased efforts to apply best practices and savings in the procurement of selected raw and packaging material by introduction of e-auction.

Out of business prudence, the Company supplemented the Contingency Provision with further amount in 2003 of Rs.230 million (Net) to provide for various contingencies, resulting mainly from matters relating to litigation / dispute, management discretion and investments by employees' trusts. The Contingency Provision is after the write back of provision of Rs.129 million, created in earlier years, consequent to satisfactory and favourable conclusion of a litigation.

The changing demographics of India and the continuing restructuring of the economy has placed India on the global radar and raised interest in its economic potential. Even internally there is increased expectation. Government policies and investments in infrastructure to match the image, would facilitate economic and industrial growth and build consumer confidence.

The economic indicators and the 'feel good' sentiment in the economy indicates improved outlook for the future, though it has not yet generated significant additional demand for FMCG products. The recent reduction in prices announced by some FMCG companies for premium detergent products, reflects the intensity of the competitive environment and the consumer resistance to price levels. The Company has during the past years taken concrete steps

to manage price points and for some products even reduced prices. In the face of rising commodity prices and uncertainty in consumer spending on food products, the Company will continue to direct its efforts at cost efficiencies and the management of prices, to sustain the return to shareholders.

The current year has commenced as per plan. The Company will continue to leverage the strong brands and the technology available to it from the Nestlé Group and will remain focussed on continuous improvement and business excellence. The Company will continue to emphasise on improving the distribution and penetration of its products in the markets and sees an opportunity for expansion in geographies that have good GDP growth, particularly in the South and West regions.

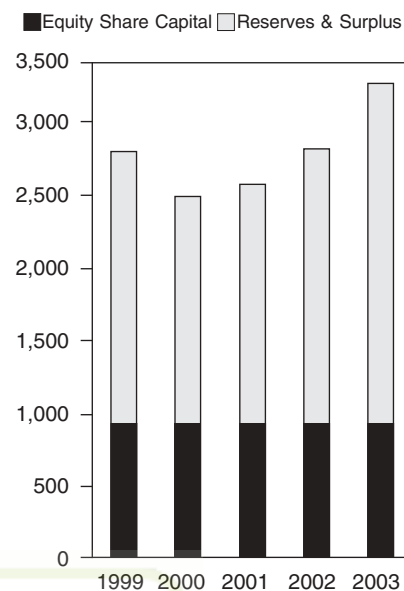
## Exports

Export sales during 2003 at Rs. 2,571 million, have increased by 8.9% in value terms, positively influenced by the increase in per unit realisation in exports due to higher green coffee prices, though partially offset by the shift towards bulk packs. Exports sales increased by 3.2% in volume terms.

The Company once again emerged as the highest coffee exporter from India and the highest exporter of value added Instant Coffee. However, efforts continued to reduce the dependence on select products or markets, and to tap new markets and product opportunities to further improve export performance. During the year export of Instant Tea and culinary products showed healthy growth. Export of NESCAFÉ Instant Coffee to Russia, constituted around 67% of the export sales.

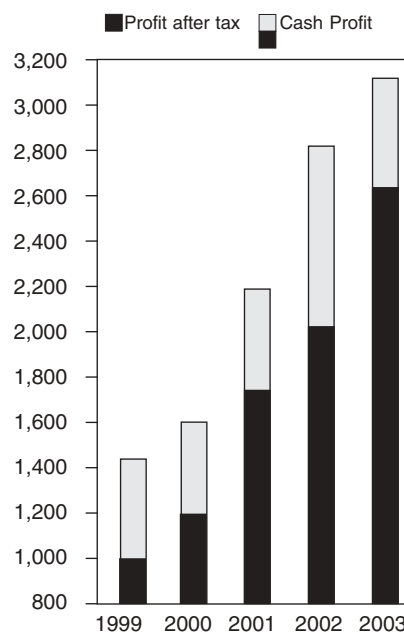
## Shareholders' Funds

(Rupees in Millions)



## Earnings

(Rupees in Millions)





The thrust on developing products for the large Indian ethnic community abroad continued and in the past few months the Company developed a range of 'Ready-to-cook' pastes for these consumers. Manufacture and export of 'steamed instant green tea', was another significant achievement during 2003.

## Dividends

Two interim dividends, both of Rs.10/-, aggregating Rs.20/- per equity share, were paid during the year 2003. The total payout of Rs. 2,175 million, which includes the Corporate Dividend Tax, is the highest to date.

## Business Development

Your Company is conscious of the trust that consumers repose in Nestlé products. The NESTLÉ brand on a product is a promise to the consumer that it complies with all regulations, meets high quality standards and is the Seal of Guarantee. Your Company ensured, as is the normal practice, that quality standards were maintained for all products leaving the factories. This is in line with the objective to consistently provide consumers with a wide range of high quality, safe food products at affordable prices. The Company also continued its practice of educating and training the members of the trade who deal with the Company, regarding the proper and hygienic storage of products.

Though the year 2003 was largely dominated by uncertainty, your Company remained focussed on understanding the changing lifestyles. Taste and Pleasure continue to be important in the choice for food, but Health and Nutrition are becoming increasingly important concerns for the consumers in their efforts to manage well

being and enhance their physical and mental performance. Your Company has access to the world's most advanced food technology and know-how from the Nestlé Group and is leveraging it to convert the consumer insights into products that provide nutrition, wellness or convenience to the consumer. This and a 'back to basics' marketing approach have ensured that Nestlé products are constantly being evaluated for their ability to add value, affordability, availability and better visibility.

The continuing thrust on innovation and renovation, management of price points, more efficient demand forecasting and supply chain management, and improving distribution and penetration in the markets, helped in achieving growth. This was supported by more focussed and better consumer communication. Most of the brands demonstrated significant volume growth.

In "Prepared Dishes and Cooking Aids", MAGGI products sustained their growth. MAGGI Instant Noodles continued to achieve volume growth and your Company has the highest sales volume for MAGGI Noodles amongst all other Nestlé companies. MAGGI Sauces and MAGGI Soups showed satisfactory growth. As part of the initiatives to consolidate its leadership further, the Company test marketed MAGGI 2-Step Mix, a ready to cook recipe-mix, for Paneer Tikka, Chicken Tikka and Chicken Biryani. The initial response has been satisfactory.

In "Beverages", NESCAFÉ brand maintained leadership and demonstrated aggressive growth. Your Company's continued ability to leverage the technology and know-how from the Nestlé Group contributed in a significant way to product

improvements. This coupled with the introduction of lower priced packs at Re.1/- and Rs.10/-, the launch of NESCAFÉ Redimix in single serve sachets offering ease, convenience and authentic taste of coffee, and a more focussed consumer communication and advertising, have resulted in growth and increased share of the market for the brand.

The Company continuously evaluates its range of products for the value that they provide to the consumer. As part of this process, NESCAFÉ Choc Café, which was earlier launched as a unique blend of chocolate and coffee with a smooth taste, was discontinued during the year due to unsatisfactory performance. The performance of MILO Chocolate Energy Food Drink continues to be impacted in an extremely competitive market environment and the product is under review to enhance its competitiveness.

In early 2001, your Company had entered the premium bottled water segment by launching NESTLÉ PURE LIFE for test marketing. In view of the test market performance being below expectations, a full review of this business category, was initiated during the year 2002. The review was completed during the year 2003 and indicated that the financial return even in the long term, were not satisfactory. The Company has therefore exited from the bottled water business.

In "Chocolate and Confectionery", Nestlé brands continued to strengthen their presence in the markets. Sales, in the latter half of the year, were negatively impacted by the controversy which affected consumer sentiments towards the overall category. The Company sustained momentum during the year by driving distribution through



innovative consumer promotions and trade offerings and supporting key price points. NESTLÉ MUNCH, which is the largest selling unit in the wafer segment and the most widely distributed, continued to gain in volumes. NESTLÉ CHOTU MUNCH, which was launched at Rs. 2/- price point, was well received. During the year, your Company launched a range of innovative and renovated products in this category that included NESTLÉ Milk Chocolate, NESTLÉ Fruit & Nut, NESTLÉ Krunchy, NESTLÉ MILKYBAR STARZ, NESTLÉ CHOO, NESTLÉ Chocolate Eclairs, NESTLÉ Coffee Eclairs and various flavours for CHOCOSTICK. Corrective action initiated earlier to sustain the performance of NESTLÉ Eclairs, also helped to drive distribution of this category.

In "Milk Products and Nutrition", your Company continued to focus on introducing products that leverage the Nestlé Group's know-how and Research and Development competence. The launch of CERELAC 123 marked the introduction of the NESTLÉ DEVELOPMENTAL NUTRITION PLAN, which is a major breakthrough in infant feeding. CERELAC 123 is graded to meet the right physical and nutritional needs of infants during the three stages in their weaning, as identified in the Plan. The Company also renovated NESTOGEN to make it easier for infants to digest the fat content and the improve absorption.

EVERYDAY Dairy Whitener and MILKMAID Sweetened Condensed Milk, continued to boost sales with good volume growth. The introduction of MILKMAID SQUEEZY in convenient packaging as topping has been well received by the consumers. The performance of infant nutrition remained satisfactory. After a review of the disappointing performance of MILKMAID

Dessert Mixes, the Company decided to discontinue the product.

The Company's Ultra Heat Treated (UHT) liquid milk business, which includes ready to drink products like NESTLÉ Fruit 'n' Milk, performed satisfactorily. To expand the offerings to consumers, apple variant of NESTLÉ Fruit 'n' Milk and NESCAFÉ FRAPPÉ a refreshing and cool, coffee variant, in ready to drink packaging, were launched during the year. In the chilled dairy business NESTLÉ Dahi showed good growth and was further supported with the launch of NESTLÉ Mishti Doi toward the latter half of the year.

Value for money and affordability continued to be thrust areas and the Company supported the distribution of smaller Stock Keeping Units (SKUs). These efforts were further boosted by the increased thrust on setting up "Coffee Corners" and "Nestlé Consumption Zones" at carefully selected sites across the country. The Alternative Trade Channel unit continued its initiative to tap opportunities for out-of-home consumption and the placement of vending machines for NESCAFÉ, NESTEA and MAGGI Hot Cup Soup.

### Manpower Development

The Company has consistently emphasised the need for improved white collar productivity. During 2003 as well all Training, Development and manpower policies were aligned to this objective. In parallel, the Company remained committed to providing international and diverse professional exposure to employees towards individual career development.

### Supply Chain

In the area of supply chain management, the Company continued to build on the base

established in previous years. The Demand planning process further improved its reliability and the supply chain continued to integrate plans with manufacturing to improve upon the ability of the Company to better respond to demand changes, while simultaneously reducing the finished good stock levels and maintain freshness of stocks in the market.

Efforts to control freight rates in the logistics and distribution area remained a priority and the Company successfully achieved this through e-auction on a wider scale. The Company continued to explore ways to improve efficiencies in the supply chain and conducted some experimental pilot projects in collaborative logistics to leverage inbound and outbound transportation synergies.

### Sales Branches

In keeping with the objective of continuous business growth, the Company recognises the opportunities that may exist in the vast geographies of the country. To facilitate this the sales division of the Company was restructured by creating mother branches with multiple regional sales offices within each branch. The modified structure is expected to help the sales force go deeper into market, to understand the market and the consumer needs more effectively and to identify the opportunities for further growth.

### 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 products, endorsed by the Nestlé Seal of Guarantee at affordable prices.



- Strong and well differentiated brands with leading market shares.
- Ongoing Product innovation and renovation, to convert consumer insights.
- Well distributed product portfolio.
- Integrated and efficient supply chain.
- Distribution structure that allows wide reach and coverage in the target markets.
- Capable and committed manpower resources.

#### **Weakness :**

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

#### **Threat :**

- Trend of increased consumer spends on consumer durables resulting in lower spending for FMCG products.
- Rising prices of raw materials and fuels.
- Change in fiscal benefits.

#### **Opportunities :**

- Potential for expansion in the smaller towns and other geographies.
- Existing markets not fully tapped. Potential for growth through increased penetration.
- Growing trend for 'out-of-home' consumption.
- Leverage Nestlé Technology to develop more products that provide Nutrition, Health and Wellness.

### **GLOBE (Global Business Excellence)**

During the year, the Company commenced its participation in this global Nestlé initiative

to create and adapt common business processes, permitting adoption of best practices, standardisation of internal and external master data and of the information systems infrastructure. Supported by SAP, the Company is expected to GO LIVE (transit from legacy system to SAP) using the GLOBE methodology during the first half of 2005. Preparation for the implementation will take place during the current year and employees throughout the Company at various levels would be involved. A special project team has been set up for this purpose, which will be in full force by the first half of 2004. GLOBE implementation will involve a full review of the existing business processes and procedures and intensive training to a significant number of employees, would have to be provided.

GLOBE is an investment for the future where accurate and timely information and operational excellence are seen as the drivers of future growth, allowing the Company to constantly benchmark its operations against the best in class in the Nestlé Group and in the process provide a substantial competitive advantage. Your Company by implementing GLOBE is expecting to improve its ability to react and respond more efficiently to the ever increasing demands of its customers, consumers and shareholders.

### **Community Development**

The Company has always promoted the spirit of Corporate Social responsibility and believes that this can be achieved by nurturing the culture of honesty, integrity, transparency, respect and by recognising the interest of its shareholders, consumers, employees, business partners and suppliers. Over the years, the Company has

through its operations contributed to the overall prosperity of its stake holders and community development, in various spheres such as education, training of staff and transfer of knowledge to business partners.

In addition the Company continues to facilitate and promote community projects around its factories. These include initiatives for provision of drinking water facilities in schools, participation in immunisation programmes, renovation of local schools by providing of basic facilities and arranging of free medical camp for villagers. In appreciation of the quality of this work, and the work being carried out with the milk farmers of Moga, your Company was recommended and finally shortlisted for the international 'Corporate Conscience Award' that is judged by Social Accountability International, USA.

In recent years Dr. Kofi Annan of the United Nations has encouraged business to take a long term view of the society where it operates and has initiated the GLOBAL COMPACT to promote this. Nestlé Group endorses this. The focus on human values and the need to take a long term view to promote prosperity in the society reflects your Company's culture - Nestlé culture. Your Company has been a partner in India's growth for the past four decades and supports initiatives that improve the economic security of its people. Your Company believes education could be a step to promote social justice, sustain economic progress and improve the quality of life. The Company, in addition to the ongoing initiatives in community work around its factories, is experimenting with certain initiatives to promote greater awareness amongst the people to send children to school.



## 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 judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profits for that period;
- they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- they have prepared the annual accounts on a going concern basis.

## Corporate Governance

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

## 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. Tejendra Khanna retires by rotation and being eligible offers himself for re-appointment.

## Auditors

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

In pursuance of Section 233-B of the Companies Act, 1956, your Directors have appointed M/s Ramnath Iyer and Co. as the Cost Auditors to conduct the cost audit of milk foods for 2004, subject to the approval of the Central Government.

## Information regarding Conservation of Energy etc. and Employees

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

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

## Trade Relations

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

## Appreciation

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

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

On behalf of the Board of Directors

15<sup>th</sup> March, 2004  
Gurgaon

CARLO M.V. DONATI  
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, 2003 and 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 Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, and read with General Circular No. 32/2003 dated November 10, 2003 issued by the Department of Company Affairs, we give in the Annexure a statement on the matters specified in Paragraph 4 and 5 of the said Order.
4. Further to our comments in the annexure referred to above, we report that:
  - a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books;
  - c) the balance sheet, the profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
  - d) in our opinion, the balance sheet, the 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 are disqualified from being appointed as director of the Company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - f) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (i) in the case of the balance sheet, of the state of affairs of the Company as at December 31, 2003,
    - (ii) in the case of the profit and loss account, of the profit of the Company for the year ended on that date and
    - (iii) in the case of cash flows statement, of the cash flows for the year ended on that date.

### ANNEXURE REFERRED TO IN PARAGRAPH 3 OF THE AUDITORS' REPORT TO THE MEMBERS OF NESTLÉ INDIA LIMITED ON THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2003

1. The Company is maintaining proper records to show full particulars including quantitative details and situation of fixed assets. The management has physically verified most of the fixed assets of the Company. The discrepancies noticed



- on comparison between book records and physical inventory were not material and have been properly dealt with in the books of account.
2. None of the fixed assets have been revalued during the year.
  3. The stocks of finished goods, stores, spare parts and raw materials of the Company have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
  4. In our opinion and according to the information and explanations given to us, the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
  5. The discrepancies noticed on physical verification of stocks as compared to book records were not material and have been properly dealt with in the books of account.
  6. In our opinion and on the basis of our examination, the valuation of stocks is fair and proper and in accordance with normally accepted accounting principles and is on the same basis as in the previous year.
  7. The Company has not taken any loans from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. In terms of sub-section (6) of section 370 of the Companies Act, 1956, provisions of the section are not applicable to a Company on or after October 31, 1998.
  8. The Company has not granted any loans to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. In terms of sub-section (6) of section 370 of the Companies Act, 1956, provisions of the section are not applicable to a Company on or after October 31, 1998.
  9. In respect of loans and advances in the nature of loans given to employees and others, recovery of principal amounts and interest, wherever applicable, has been as stipulated.
  10. In our opinion and according to the information and explanations given to us during the course of the audit, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets and with regard to the sale of goods.
  11. According to the information and explanations given to us, there are no transactions of purchase of goods and materials and sale of goods, materials and services aggregating during the year to Rs. 50,000 or more in respect of each party made in pursuance of contracts or arrangements entered in the Register maintained under Section 301 of the Companies Act, 1956.
  12. As explained to us, the Company has a reasonable system for the determination of unserviceable or damaged stores, raw materials and finished goods. Adequate provision has been made in the accounts for the loss arising in respect of items so determined.
  13. According to the information and explanations given to us, the Company has not accepted deposits from the public during the year.
  14. In our opinion, the Company is maintaining reasonable records for the sale and disposal of realisable by-products and scrap.
  15. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
  16. We have broadly reviewed the books of account maintained by the Company in respect of milkfood, where pursuant to the rules made by the Central Government, the maintenance of cost records have been prescribed under Section 209(1) (d) of the Companies Act, 1956. We are of the opinion that, prima facie, the prescribed accounts and records have been maintained. We have not, however, made a detailed examination of the records with the view to determining whether they are accurate or complete.
  17. According to the records of the Company, Provident Fund and Employees State Insurance dues have been regularly deposited during the year with the appropriate authorities.
  18. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income-tax, wealth-tax, sales-tax, customs duty and excise duty outstanding as at December 31, 2003 for a period of more than six months, from the date they became payable.
  19. According to the information and explanations given to us, no personal expenses, other than those payable under contractual obligations or in accordance with generally accepted business practices, have been charged to revenue account.
  20. In our opinion, the Company is not a sick industrial company within the meaning of the clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986).
  21. In respect of the trading activities of the Company, adequate provision has been made in the accounts for damaged goods.

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

15th March, 2004 (A.K. MAHINDRA)  
New Delhi Partner  
(Membership No. 10296)