CORPORATE INFORMATION

MANAGEMENT COMMITTEE

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

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

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

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

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

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

BRANCH OFFICES
Spencer Plaza, 6th Floor 769, Anna Salai, Chennai - 600 002 (Tamil Nadu)

7, Hare Street, Kolkata - 700 001 (West Bengal)

Hiranandani Gardens, Main Street, 4th Floor,
Colgate Research Centre Building, Powai, Mumbai - 400 076 (Maharashtra)

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

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

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

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

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

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

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

LISTING OF EQUITY SHARES (Listing Fees paid)
The Delhi Stock Exchange Association Limited,
DSE House
3/1, Asaf Ali Road
New Delhi - 110 002

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

ANNUAL GENERAL MEETING
Friday, 29th April, 2005 at 10.00 AM at
Air Force Auditorium, Subroto Park, New Delhi 110 010

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

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Nestlé

DIRECTORS' REPORT

Dear Members,

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

Financial Results and Operations

	2004	2003
	(Rs. in Millions)	
Gross Revenue	22,420	21,684
Earning before Interest, Tax and Depreciation excluding Other Income (EBITDA)	4,510	4,447
Interest	8	19
Depreciation	491	463
Impairment Loss on Fixed Assets (Net)	23	22
Provision for Contingencies (Net)	267	230
Provision for Tax	1,346	1,361
Net Profit	2,519	2,631
Profit Brought Forward	443	250
Balance Available for Appropriation	2,962	2,881
Interim Dividends Paid	1,928	1,928
Final Dividend Proposed	434	–
Corporate Dividend Tax	313	247
Transfer to General Reserves	252	263
Surplus carried in Profit and Loss Account	35	443
Key Ratios		
Earnings per Share (Rs.)	26.13	27.29
Dividend per Share (Rs.)	24.50	20.00

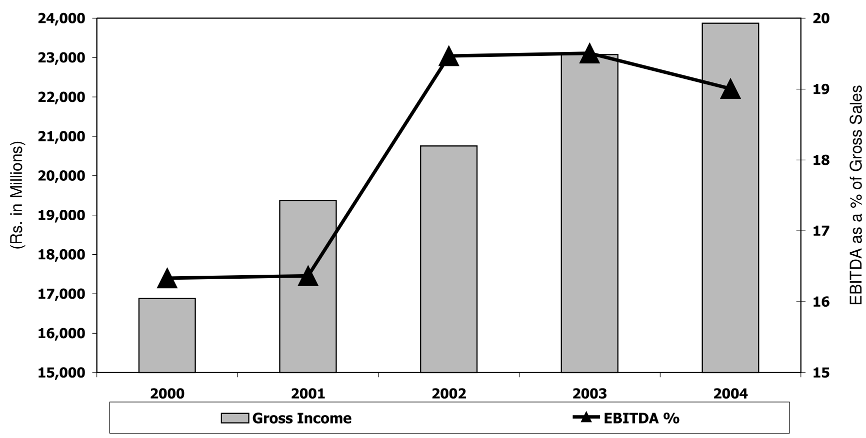
Domestic Sales grew by 5.3% in value and 4.5% by volume, during the year. Export Sales decreased by 5.3% in value terms and grew in volume by 11.1%.

Net Profit for the full year has decreased from 12.1% of Gross Revenue in 2003 to 11.2% in 2004 and EBITDA as a percentage of Net Sales decreased from 20.8% in 2003 to 20.2% in 2004. These decreases are mainly due to the increase in commodity prices, particularly in milk solids, which have not been entirely passed on to the consumers. Nestlé Group saving initiatives, mainly Target 2004+, that focused on manufacturing processes, optimisation of line efficiencies/occupation, raw and packing materials, energies etc. facilitated in mitigating the adverse impact of a steep increase in input costs and controlling other costs throughout the year.

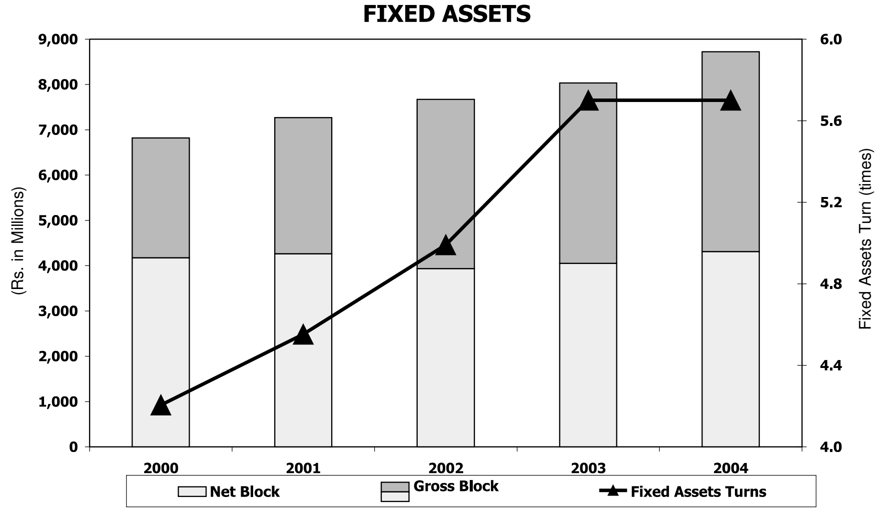
Out of business prudence, the Company supplemented the Contingency Provision with a further amount of Rs.266.9 Million (Net) in 2004, to provide for various contingencies resulting mainly from matters relating to litigation/ dispute and other items requiring management judgement and discretion. This was partially offset by the write back of Rs.114 Million provision, consequent to the satisfactory conclusion of certain matters under litigation.

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

GROSS INCOME



FIXED ASSETS



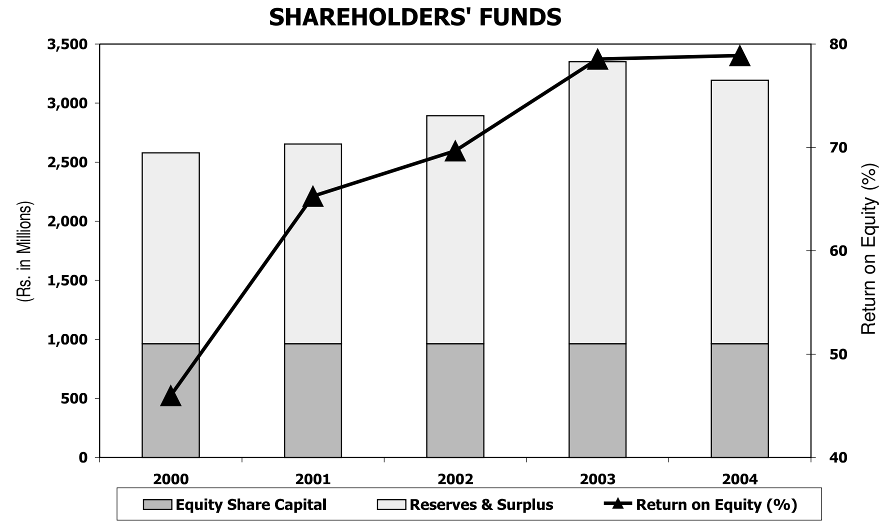
The overall performance of your Company can be considered satisfactory.

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

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

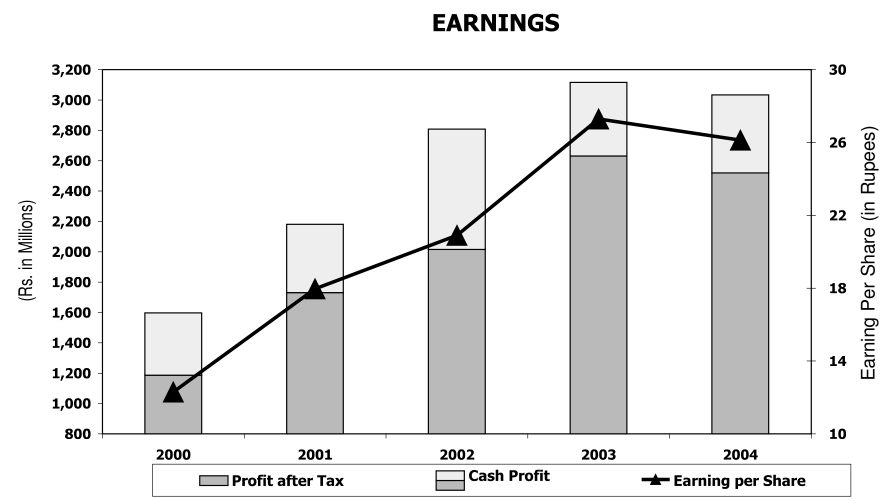
Your Company focused on maintaining market share of products, improving organisational structures, increasing penetration into newer territories and controlling costs. 'Value for money' and 'affordability' remained thrust areas and the Company took a conscious decision not to pass on the entire increase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

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



Your Company will continue to leverage its strengths to generate demand in the future. Access to the Nestlé Group's proprietary technology, strong brands and extensive centralised Research and Development facilities, the culture of innovation and renovation within the Company and focus on adding value to the consumer, will help the Company grow to its potential. The Company will continue to direct its efforts to control costs, improve penetration in newer geographies and focus on the management of prices. This should sustain return to shareholders. We remain confident of the long-term business prospects of the Company.

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



Exports

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

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

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

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

Dividends

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

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

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

Business Development

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

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

With changing lifestyles, consumers in modern India are seeking food products that provide greater convenience, enable them to manage their well-being and enhance their physical and mental performance. Taste and pleasure continue to be important in the choice of food but health and nutrition are becoming important considerations for consumers. The Company is aware of this and is working on initiatives to provide consumers with products that they prefer and value.

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

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

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

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

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

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

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

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

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

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

Technology and Quality

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

Manpower Development

The Company has consistently emphasised the need for improved white-collar productivity. To enable this the Company provides employees with appropriate access to training including international exposures, where relevant, that help them improve their skills and capabilities. During 2004, the Training and Development and manpower initiatives also included structured programmes on '360 Degree Feedback' to improve leadership capabilities.

Sales Branches

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

Supply Chain

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

SWOT Analysis for the Company

Strengths :

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

Weakness :

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

Threat :

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

Opportunities :

- Potential for expansion in the smaller towns and other geographies.
- Potential for growth through increased penetration.
- Growing trend for 'out of home' consumption.
- Leverage Nestlé Technology to develop more products that provide Nutrition, Health and Wellness.

GLOBE (Global Business Excellence)

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

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

Contributions to the Exchequer

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

Community Development

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

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

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

Tsunami Relief

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

Directors' Responsibility Statement

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

– in the preparation of the annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same;

– they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profits for that period;

– they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

– they have prepared the annual accounts on a going concern basis.

Corporate Governance

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

Cautionary Statement

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

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

Directors

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

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

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

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

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

Auditors

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

In pursuance of Section 233-B of the Companies Act, 1956, your Directors have appointed M/s. Ramnath Iyer and Co. as the Cost Auditors to conduct the cost audit of milk foods for 2005, subject to the approval of the Central Government.

Information regarding Conservation of Energy etc. and Employees

Information required under Section 217 (1) (e) of the Companies Act, 1956 (hereinafter referred to as "the Act") read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure - 2 forming part of this Report. Information as per Section 217(2A) of the Act, read with the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, forms part of this Report. However, as per the provisions of Section 219 (1) (b) (iv) of the Act, the Report and Accounts are being sent to all the members excluding the statement containing the particulars of employees to be provided under Section 217(2A) of the Act. Any member interested in obtaining such particulars may inspect the same at the Registered Office of the Company or write to the Company Secretary for a copy.

Trade Relations

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

Appreciation

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

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

On behalf of the Board of Directors

14th March, 2005 MARTIAL G. ROLLAND
Gurgaon CHAIRMAN

AUDITORS' REPORT TO THE MEMBERS OF NESTLÉ INDIA LIMITED

1. We have audited the attached balance sheet of Nestlé India Limited as at December 31, 2004 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the annexure referred to above, we report that:

   a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

   b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books;

   c) the balance sheet, the profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

   d) in our opinion, the balance sheet, profit and loss account and the cash flow statement dealt with by this report comply with the mandatory accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

   e) on the basis of written representations received from the directors and taken on record by the Board of Directors, we report that none of the directors of the Company is disqualified as on December 31, 2004 from being appointed as director of the Company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

   f) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      (i) in the case of the balance sheet, of the state of affairs of the Company as at December 31, 2004,

      (ii) in the case of the profit and loss account, of the profit of the Company for the year ended on that date and

      (iii) in the case of cash flow statement, of the cash flows for the year ended on that date.

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

(MANJULA BANERJI)
Partner
(Membership No. 86423)

14th March, 2005
New Delhi

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

(i) (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.

(b) In our opinion, the management has physically verified most of the fixed assets of the Company during the year at reasonable intervals, having regard to the size of the Company and nature of its assets. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of account.

(c) In our opinion and according to the information and explanations given to us, since the Company has not disposed off a substantial part of its fixed assets during the year, paragraph 4(i)(c) of the Companies (Auditor's Report) Order, 2003 (hereinafter referred to as the Order) is not applicable.

(ii) (a) During the year, the inventories have been physically verified by the management. In our opinion, the frequency of verification is reasonable.

(b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) On the basis of our examination of the records of inventories, we are of the opinion that the Company is maintaining proper records of inventories. The discrepancies noticed on physical verification of inventories as compared to book records were not material and have been properly dealt with in the books of account.

(iii) (a) According to the information and explanations given to us, the Company has, during the year, not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (a), (b), (c) and (d) of the Order, are not applicable.

(b) According to the information and explanations given to us, the Company has, during the year, not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (e), (f) and (g) of the Order, are not applicable.

(iv) In our opinion and according to information and explanations given to us during the course of the audit, there are adequate internal control systems, commensurate with the size of the Company and the nature of its business with regard to the purchase of inventories, fixed assets and with regard to sale of goods. There are no sale of services during the year. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have any information of any instances of major weaknesses in the aforesaid internal control systems.

(v) (a) In our opinion and according to the information and explanations given to us, there are no transactions that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956.

(b) In our opinion and according to the information and explanations given to us, as there are no transactions that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956, paragraph 4 (v) (b) of the Order is not applicable.

(vi) As, the Company has not accepted any deposits from the public, paragraph 4 (vi) of the Order is not applicable.

(vii) In our opinion and according to the information and explanations given to us, the Company has an internal audit system commensurate with its size and the nature of its business.

(viii) We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the rules made by the Central Government, the maintenance of cost records have been prescribed under Section 209 (1)(d) of the Companies Act, 1956 and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of records with a view to determining whether they are accurate or complete.

(ix) (a) According to the information and explanations given to us and the records of the Company examined by us, the Company has been regular in depositing undisputed statutory dues including provident fund, employees' state insurance dues, income-tax, Investor Education and Protection Fund, sales tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it with the appropriate authorities. We are informed that there are no undisputed statutory dues as at the year end, outstanding for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us and the records of the Company examined by us, there are no disputed dues of service tax, customs duty, wealth tax and cess, which have not been deposited. The details of disputed dues as at December 31, 2004 in respect of excise duty, sales tax and income-tax that have not been deposited by the Company, are as follows :-