



THERE IS  
AN INDIA IN **NESTLÉ**  
AND  
A **NESTLÉ** IN INDIA

NESTLÉ INDIA LIMITED  
ANNUAL REPORT 2005

## 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

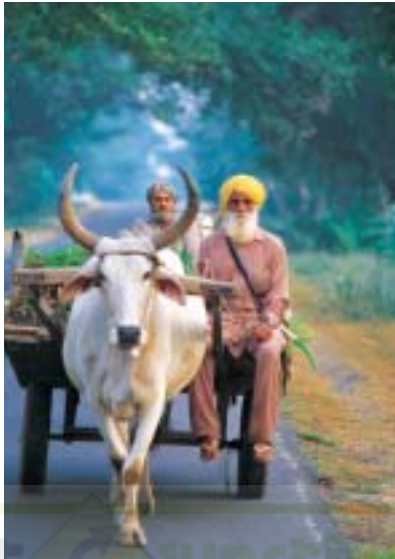
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## There is an India in Nestlé.

Nestlé India is an integral part of India and continuously reaches out to its people, touching, changing lives, building confidence and earning the trust of the Community.

### Its heart has the beat of India



Nestlé and India first met far back in 1912. The real meeting of hearts and minds, however, happened in 1961 when Nestlé India set up a world-class factory in Moga, Punjab. At that time transport between villages was difficult and harvests were poor. Farmers kept a pair of oxen to plough their fields and one or two buffaloes to provide milk for their own families. The sale of surplus milk was considered taboo. This changed after Nestlé India started operations here.

During the initial pioneering years the Moga factory received milk from only 180 farmers. The Company's collection agents had to surmount great odds to ensure the efficient collection of fresh milk. Over the years with investments in cooling tanks and insulated and refrigerated milk tankers Nestlé India has changed this. In addition, transfer of technology, technical assistance to improve animal productivity, herd management and farm economics, has developed the region economically and has ensured better remuneration for the farmer. Nestlé India's investments have transformed Moga into a prosperous and vibrant milk district. Moga factory today collects over 230,000 tons of fresh milk annually, from over 85,000 mostly small-scale farmers.

Amongst the pioneers of the modern milk industry in India, Nestlé India has done this without compromising the farmer's traditions, making his dreams of a better tomorrow a reality on his own terms.



**Nestlé India's investments  
have transformed Moga  
into a prosperous and  
vibrant milk district**

**Moga factory today  
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scale farmers**



Above all, Nestlé India has helped to fulfill the most important need of the farmer. Our continuing efforts to develop the means for sustained economic and social progress have helped him improve his standard of living and enabled him to help himself and generations to come.



The India in Nestlé constantly helps us to reach out for ways to make the community happier and more capable.

To empower village women we have started rural support programs that have already educated 10,000 women in dairy farming practices. We are also developing software to optimise quality of milk and reduce cost of production to encourage dairy farming as a sustainable cash crop.



**Nestlé India's ability to integrate itself with the communities has brought smiles to thousands of faces**

**Rural support programs have already educated 10,000 women in dairy farming practices**



Today Nestlé India is more than Moga. It has six factories across India that buy amongst others, large quantities of coffee, chicory, tea, milk, wheat, and tomato that benefits farmers.

The Company has the ability to integrate itself with the communities, promote projects that benefit the quality of their lives, and as a consequence earn their respect and trust. In short, the Company has brought smiles to thousands of faces! Providing access to clean drinking water is one such project. Water is a scarce resource in India. Around 200 million people do not have access to clean drinking water. Nestlé India is setting up clean drinking water facilities in village schools around its factories and also educating the children to conserve this scarce resource.

Nestlé bears 90% of the cost and the projects are then maintained jointly with the local community. 60 such projects, directly benefiting over 22,000 school children have already been completed.



**Nestlé India is providing  
access to clean drinking water and educating  
communities to conserve water**

**60 such projects are directly benefiting  
over 22,000 school children**



The Company has built a very special relationship of trust and commitment with the people of India. It is continuously focusing its efforts to assimilate the culture and traditions of India. Understanding the changing lifestyles and anticipating consumer needs helps it to further reinforce the relationship. Quietly and unobtrusively Nestlé India has become a part of the fabric of India and is a partner in its growth.

**There is a Nestlé in India.**


**Nestlé**

## CORPORATE INFORMATION

### MANAGEMENT COMMITTEE

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

### BANKERS

ABN Amro Bank N.V.  
 BNP Paribas  
 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

### REGISTERED OFFICE

M-5A, Connaught Circus, New Delhi - 110 001  
 Ph: 011- 2341 8891, Fax: 011- 2341 5130

### REGISTRAR & TRANSFER AGENTS

MCS Limited  
 W-40, Okhla Industrial Area, Phase II,  
 New Delhi – 110 020  
 Ph : 011- 41406149, Fax : 011- 41709881

### 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 District Nilgiris (Tamil Nadu)  
 Patti Kalyana, Kiwana Road, Samalkha - 132 101 District Panipat (Haryana)  
 Plot No. 294-297, Usgao Industrial Area, Ponda - 403 406 (Goa)

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

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

### ANNUAL GENERAL MEETING

Tuesday, 25<sup>th</sup> April, 2006 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.

## 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, 2005.

### Financial Results and Operations

	(Rs. in Millions)	
	2005	2004
Gross Revenue	25,006	22,420
Earning before Interest, Tax and Depreciation excluding Other Income (EBITDA)	5,220	4,510
Interest	2	8
Depreciation	568	491
Impairment Loss on Fixed Assets (Net)	(26)	23
Provision for Contingencies (Net)	223	267
Provision for Tax	1,595	1,346
Net Profit	3,096	2,519
Profit Brought Forward	35	443
Balance Available for Appropriation	3,131	2,962
Interim Dividends Paid	2,218	1,928
Final Dividend Proposed	193	434*
Corporate Dividend Tax	338	313
Transfer to General Reserve	310	252
Surplus carried in Profit and Loss Account	72	35

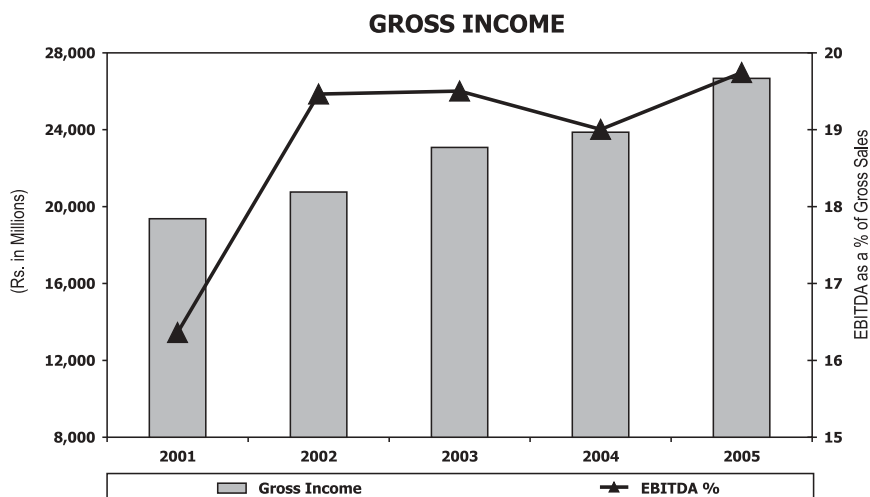
#### Key Ratios

Earnings per Share (Rs.)	32.11	26.13
Dividend per Share (Rs.)	25.00	24.50*

\* Comprises / Includes a special dividend of Rs. 4.50 per share of the face value of Rs. 10/- each, paid mainly out of undistributed profits of previous financial years.

During the year Domestic Sales grew by 11.8% and Export Sales grew by 6.4%.

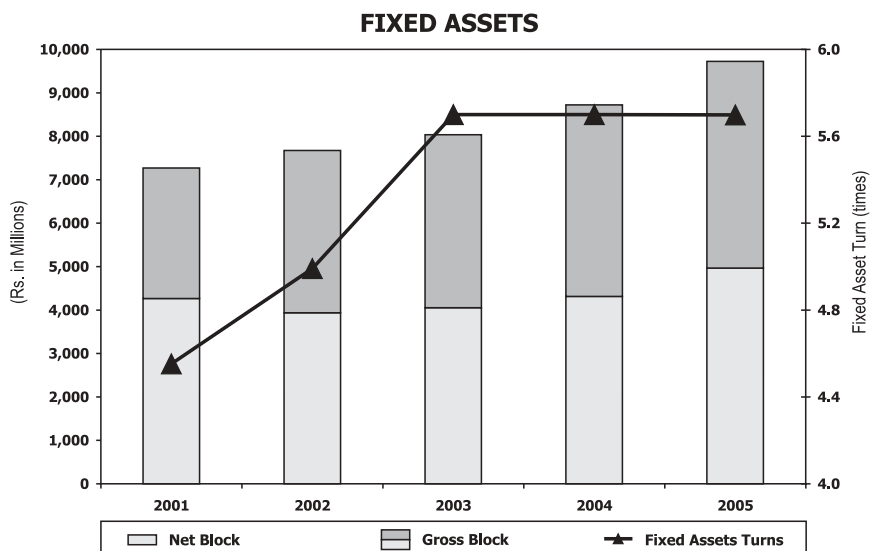
Net Profit for the year 2005 increased to 12.4% of Gross Revenue from 11.2% in 2004 and EBITDA as a percentage of Net Sales increased in 2005 to 21.1% from 20.2% in 2004. The increase in EBITDA is mainly due to the positive impact of selective price increases, higher volumes and favourable product mix, which was partly offset by an overall increase in commodity



prices and costs relating to Information Systems. Nestlé Group savings initiatives mainly Operation Excellence focussing 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. The increase in Net Profit is mainly on account of the overall improvement in EBITDA, increase in Other Income and reduction in corporate tax rates, which has been partially offset by the fringe benefit tax.

Other Income for the year 2005 increased mainly due to returns on the higher surplus liquidities.

Out of business prudence, in 2005 the Company supplemented the Contingency Provision with a further amount of Rs.223.2 Million (Net), to provide for contingencies resulting mainly from matters relating to litigation / dispute and other items requiring management judgement and discretion. This was after the write back of Rs.85.5 Million provision, due to the satisfactory settlement of disputes and other matters.







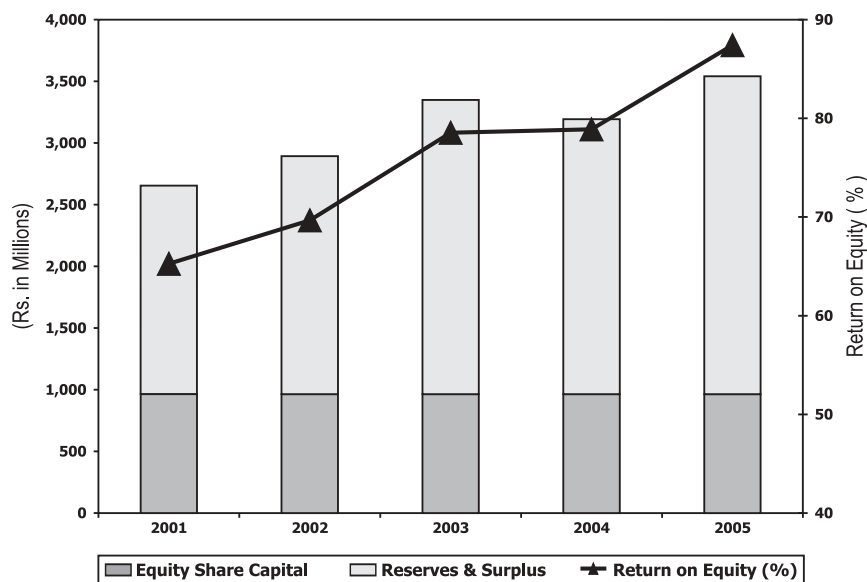
During the year 2005, the Indian economy appeared to be on the right track for GDP growth and planned reforms and was supported by healthy foreign exchange reserves, efficient utilisation of capacities by the manufacturing sector, a bullish stock market, robust increase in exports and low inflation. Despite some political difficulties, there was continuity in reforms and reiteration of the intent to improve the quality of life of the weaker sections of the society. Implementation of Value Added Tax by many States in 2005, was a historic and positive move.

In this overall positive environment a few factors created some uncertainty. These included the fringe benefit tax on genuine business costs such as sales promotion expenses, the piecemeal approach to implementing VAT and non-elimination of Central Sales Tax (CST).

Continuous positive development on the economic front and policy initiatives by the Government present an exciting environment for a Company like yours. Sustained inflow of global capital into the Indian economy, falling import duties, rapid changes in retail environment and an increasing demand for FMCG products, are all positive indicators for your Company. However, as a result of economic development and globalisation, the competitive landscape in which the Company operates has changed substantially over the years and this brings with it, emerging complexities. It also requires greater understanding of the consumer needs and trends as well as ability to address them in a sustained and competitive manner.

The Nestlé name stands for 'Good Food, Good Life'. Nutrition, Health and Wellness have been part of the DNA of the Nestlé Group since its inception in 1866 and your Company with its access to a strong research driven science and brands, is uniquely placed to leverage these elements within its product portfolio.

### SHAREHOLDERS' FUNDS

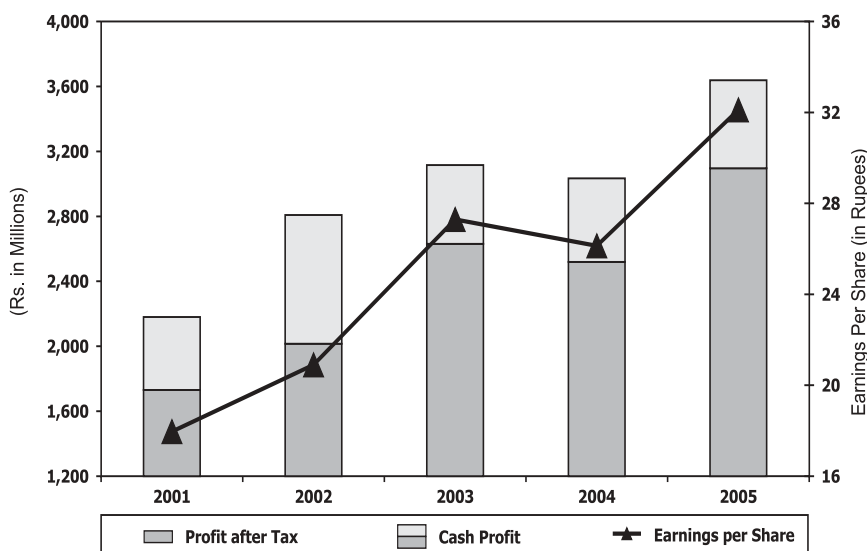


Based on stronger consumer insights, the Company over the past year, has increased its thrust on accelerating innovation and renovation. It has launched products that fulfill the consumer needs and aspirations and increased the Nutrition, Health and Wellness dimensions across the product portfolio, leveraging its access to world class technology available with the Nestlé Group. During the year the Company sustained its investments in building brands and kept its focus on making the Nestlé products more

visible and conveniently available whilst ensuring greater product freshness.

In order to better operate and compete in the market, the Company realigned some of its internal structures to make it a multi-focal Company with category specific business units. While reshaping and adapting itself, the Company has remained steadfast in following the economic model of the seven value drivers synergising sales growth, profit margins and capital efficiency.

### EARNINGS



It also continued to follow the four strategic pillars to achieve sustainable competitiveness - 'Low cost, highly efficient operations'; 'Innovation and Renovation', 'Product availability – whenever, wherever, however' and 'Consumer communication'. These have been the cornerstones for the Company's sustained performance in recent years. Your Company is stable, healthy, with strong fundamentals and is focused on long term, sustainable and profitable growth.

The current year has commenced as per plan. Your Company will continue to leverage its consumer centric approach and competencies to generate demand for its brands 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 organisation and focus on adding value to the consumer needs will help the Company grow to its potential. The Company will continue to direct its efforts on product innovation and renovation, to control costs, improve penetration, exploit geographic opportunities and manage price-value for its brands. We remain confident of the long-term business prospects of the Company and in its ability to sustain fair return to the shareholders.

## Exports

Export Sales during 2005 at Rs. 2,591.8 Million, increased by 6.4% over the year 2004, largely due to the higher realisation from Instant Coffee exports to Russia, due to the higher Green Coffee prices and higher export of Infant Nutrition products, which were partially offset by lower volume of Instant Coffee sales and lower exports to Nepal due to the political turbulence. Although the volume of Instant Coffee exported to Russia dropped further during 2005, exports of other product categories were buoyant. Exports of Infant Nutrition products within the South Asia Region increased during the year, as new products

were added to the portfolio. Exports of Instant Tea and culinary products were satisfactory and new businesses were created through appropriate product development.

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 45% of the Export Sales, as against 43% in 2004.

Initiatives to develop products for the Indian ethnic community abroad are continuing.

## Dividends

The Board of Directors has recommended a final dividend of Rs. 2/- per equity share of the face value of Rs.10/- each for the year 2005, amounting to Rs. 193 Million. The final 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 21<sup>st</sup> April, 2006.

This is in addition to the two interim dividends for the year 2005, first at the rate of Rs. 5/- and the second at the rate of Rs. 18/- per equity share, which were paid on 10<sup>th</sup> May, 2005 and 22<sup>nd</sup> December, 2005 respectively, aggregating to Rs. 23/- per equity share (amounting to Rs. 2,218 Million).

During the year 2004, total dividend of Rs. 24.50 per equity share was paid, which included special dividend of Rs. 4.50 per equity share, mainly out of undistributed profits of the previous financial years. The aggregate dividend for 2005 of Rs. 25/- per equity share, on comparable basis (excluding the special dividend paid for 2004), represents a healthy increase over the total dividend paid for 2004 of Rs. 20/- per equity share. The total payout for 2005 of Rs. 2,749 Million, which includes the corporate dividend tax, is the highest to date.

## Business Development

The Company is committed to providing consumers high quality, safe and nutritious food products. In order to do this, the Company continuously focuses its efforts to better understand the changing needs of the consumer, by conducting research and monitoring consumer panels to measure consumer satisfaction and anticipating future needs. Based on this the Company constantly reviews its product portfolio, innovates and renovates to cater to consumer preferences in order to ensure long term, sustainable and profitable growth. Over the years, your Company has built a strong bond with its consumers by offering them quality products that meet their daily needs.

The Company focused on strengthening its processes and initiating changes that will enable it to respond faster to consumer needs and customer expectations. A new department– the Channel & Category Sales Development (CCSD) was set up to develop new solutions for the various channels and customers and improve the implementation of commercial plans in the market place. The Company also created a new department the 'National Key Accounts Management Organisation' to focus on modern formats in retail trade that are steadily establishing their presence in the Indian market. These emerging formats are expected to be partners in accelerating growth in the coming years. Your Company's unique access to the Nestlé global expertise and competence will be key in ensuring the success of both these initiatives.

In 'Prepared Dishes and Cooking Aids' category, the MAGGI brand is the pioneer in all the areas it operates in, namely, Instant Noodles, Sauces and Ketchup, Soups and Bouillons. In order to further enhance the Taste, Health and Wellness dimension in MAGGI products, the Company leveraged the extensive Research and Development expertise of the Nestlé Group and the