



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



N E S T L É   I N D I A   L I M I T E D   •   A N N U A L   R E P O R T   2 0 0 6

## THE BOARD OF DIRECTORS OF NESTLÉ INDIA



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



Narendra Singh - Chairman Emeritus

### Board of Directors

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

### Secretary

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

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## CREATING SHARED VALUE CELEBRATING RELATIONSHIPS

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

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

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

Mr. Darshan Singh  
Village Kot Karor



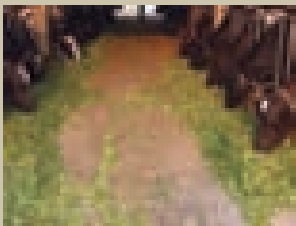
## SPREADING SMILES AND HAPPINESS

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

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

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

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



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

Mr. Sukhraj Singh, Village Gureh



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



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

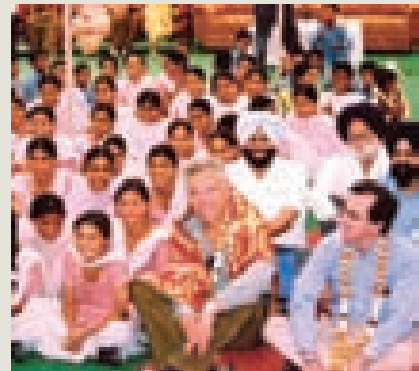
Mrs. Dalbir Kaur  
Central Head Teacher  
Government Primary School  
Fatehgarh Korotana

## WATER FOR EVERYONE



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

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



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

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

Mrs. Daljit Kaur  
Village Walipur Khurd

## EMPOWERED WOMEN, HAPPIER HOMES



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



reportjunction.com



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

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



## CORPORATE INFORMATION

### MANAGEMENT COMMITTEE

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

### BANKERS

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

### AUDITORS

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

### WEBSITE

www.nestle.in

### INVESTOR EMAIL ID

investor@in.nestle.com

### REGISTRAR & TRANSFER AGENTS

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

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

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

### REGISTERED OFFICE

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

### HEAD OFFICE

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

### BRANCH OFFICES

Spencer Plaza, 6<sup>th</sup> Floor, 769, Anna Salai, Chennai - 600 002 (Tamil Nadu)

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

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

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

### FACTORIES

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

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

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

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

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

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

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

### ANNUAL GENERAL MEETING

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

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

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# NESTLÉ INDIA LIMITED

## 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, 2006.

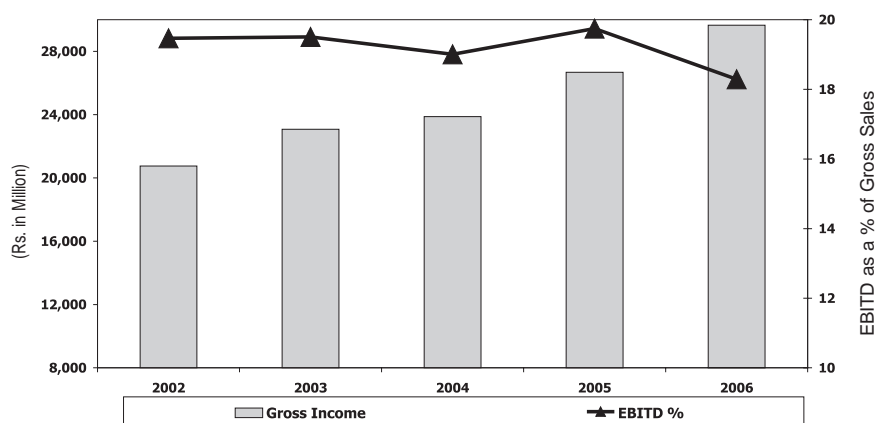
## Financial Results and Operations

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

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

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

### GROSS INCOME



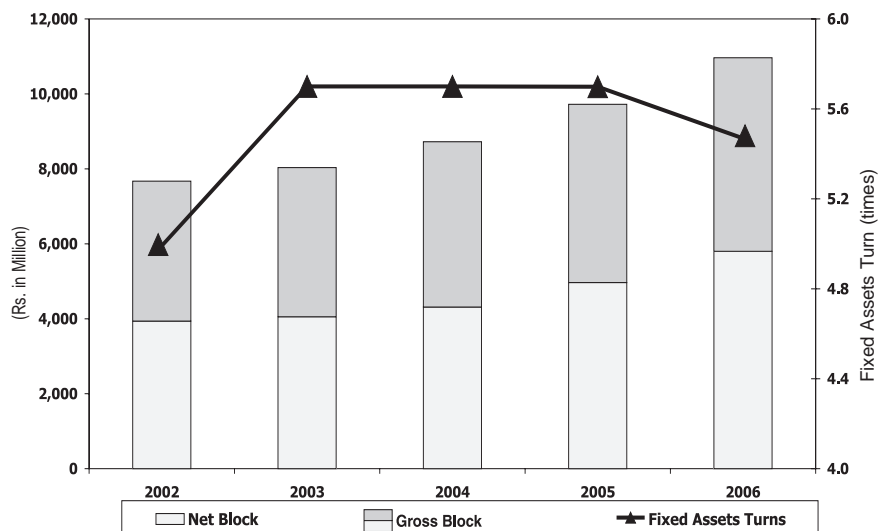
Nutrition products to further enhance their quality, as well as increase in structural costs to better prepare the organisation to benefit from the opportunities for accelerated growth. Increase in selling prices, higher volumes and the one-time write back partly offset the cost increases. Nestlé Group's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

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

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

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

### FIXED ASSETS







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

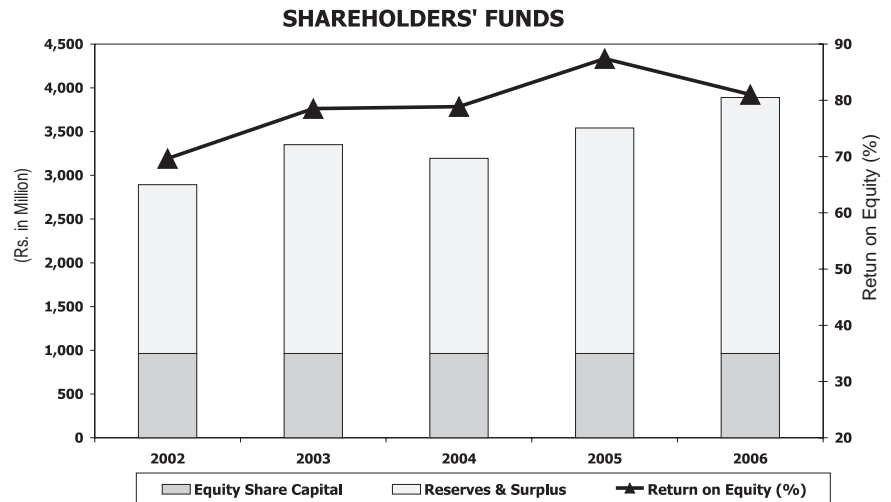
The unsatisfactory performance in agriculture and the hardening of international prices for primary commodities, mainly agro based commodities, pushed the inflationary trend for most part of the year.

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

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

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

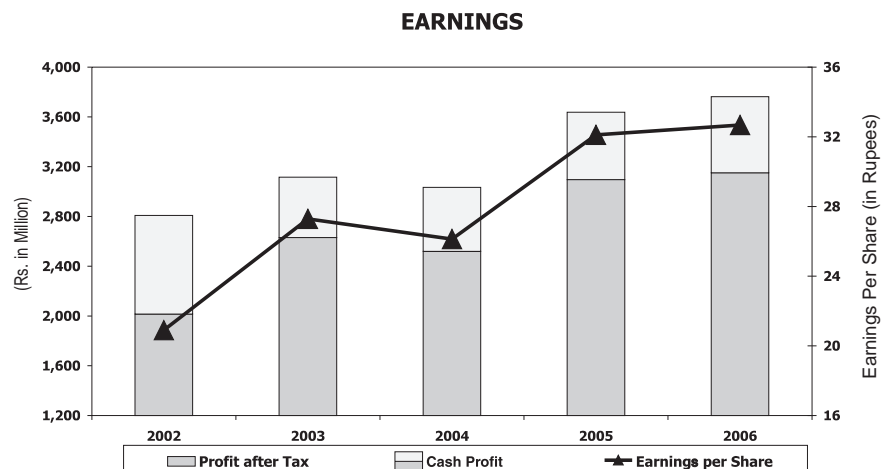
Your Company recognises this and has been responding to it with foresight. The Nestlé name is synonymous with 'Good Food, Good Life'. Fulfilling consumer needs, expectations and requirements, has always been and will remain the cornerstone of the Company. Constant focus is maintained in



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

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

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



## NESTLÉ INDIA LIMITED

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

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

### Exports

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

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

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

### Dividends

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

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

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

### Scheme of Arrangement

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

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

### Business Development

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

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