REPORT OF THE AUDIT COMMITTEE OF NESTLE INDIA LIMITED DATED 28 JULY 2021 RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN THE COMPANY AND ITS MEMBERS

Present

1. Mr PR Ramesh, Independent Non-Executive Director

2. Mr Rajya Vardhan Kanoria, Independent Non-Executive Director

Mr. PR Ramesh occupied the chair.

Mr. B. Murli, General Counsel & Company Secretary was present at the meeting.

Background

1. A meeting of audit committee ("**Audit Committee**") was held on 28 July 2021, *inter-alia*, to consider and if thought fit, recommend to the board of directors (the "**Board**") of Nestle India Limited (the "**Company**"), the proposed scheme of arrangement under Section 230 of the Companies Act 2013, as amended (the "**Act**") and other applicable provisions of the Act between the Company and its members (the "**Scheme**").

2. The Scheme will be presented to the NCLT (*as defined under the Scheme*) under Section 230 of the Act, the rules and regulations made thereunder, and will also be in compliance with the SEBI Circular No. CFD/DIL3/CIR/2017/21 dated 10 March 2017, as amended ("**SEBI Scheme Circular**") read with SEBI Master No. SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated 22 December 2020 ("**SEBI Master Circular**").

Requirement of SEBI Circular and SEBI Master Circular

3. The Audit Committee noted that in terms of the SEBI Scheme Circular read with SEBI Master Circular, the Audit Committee of a listed company is required to recommend to the Board the draft Scheme after taking into account *inter alia*, the valuation report and fairness opinion (if applicable), the rationale of the Scheme, impact of the Scheme on the shareholders, cost benefit analysis of the Scheme, the Scheme is not detrimental to the shareholders of the Company and any other matters specified matters (as applicable) in the SEBI Scheme Circular and SEBI Master Circular. This report of the Audit Committee is made in order to comply with the requirements of the SEBI Scheme Circular, the SEBI Master Circular and other provisions of the applicable law.

Documents placed before Audit Committee

4. This Report of the Audit Committee is being issued to comply with the requirements of the SEBI Scheme Circular and the SEBI Master Circular. The Audit Committee has made this Report after perusing the following documents:

   (a) draft Scheme, initialled by the chairman, for the purpose of identification; and

   (b) certificate dated 28 July 2021 issued by M/s BSR and Co LLP, Chartered Accountants, the Statutory Auditors of the Company to the effect that the accounting treatment contained in the Scheme is in compliance with all the accounting standards specified by the Central Government under Section 133 and other applicable provisions of the Act or the accounting standards issued by the Institute of Chartered Accountants of India, as applicable, and other generally accepted accounting principles;

(c) shareholding pattern of the Company as on 30 June 2021;

(d) financial statements of last 3 years of the Company (financial year of the Company is from 1 January to 31 December);

(e) limited reviewed unaudited financial results of the Company for the second quarter and half year ended 30 June 2021;

(f) the draft of the management undertaking to be issued by the Company to the M/s BSR and Co LLP, Chartered Accountants, in relation to non-applicability of paragraph (I)A.9(b) of Annexure I of the SEBI Scheme Circular and paragraph (A)(10)(b) of Part I of the SEBI Master Circular;

(g) draft of the certification to be issued by M/s BSR and Co LLP, Chartered Accountants, the Statutory Auditor in relation to the non-applicability of paragraph (I)A.9(b) of Annexure I of the SEBI Scheme Circular and paragraph (A)(10)(b) of Part I of the SEBI Master Circular; and

(h) other presentations, reports, documents, and information furnished before the Audit Committee.

5. The Audit Committee has noted that the Scheme only involves the reclassification of the General Reserves (*as defined below*) of the Company and no new shares are to be issued by the Company and/or any shares are being swapped pursuant to the Scheme. Accordingly, the Company is not required to: (a) obtain a valuation report from an Independent Chartered Accountant in terms of paragraph I(A)(4)(a) and paragraph I(A)(4)(b) of Annexure I of the SEBI Master Circular; and (b) any fairness opinion.

Need for and rationale of the Scheme

6. The Audit Committee noted that the Scheme is being proposed with following objectives and rationale:

   (a) The Company is one of India's leading companies and has demonstrated consistent growth, sustained improvement in profitability and robust cash generation over the years.

   (b) The Company has net cash and cash equivalent and investments of Rs. 24,777.4 Million as on 31 December 2020. The Company has financial liabilities - borrowings worth Rs. 348.4 Million as on 31 December 2020 which are adequately covered by available cash and cash equivalents. Other than above, the Company does not have any secured or unsecured loans, fixed deposits or preference shares which entail repayment obligations.

   (c) The Company has since then built up significant reserves amounting to Rs. 8,374.3 Million (as per the audited annual accounts as on 31 December 2020) from its retained profits by way of transfer to its General Reserves, comprising of the amounts transferred to General Reserves in accordance with the statutory requirement applicable until 31 December 2014 for the Company. The Company has not transferred any amounts to the General Reserves after the financial years commencing from 1st January 2015 and do not intend to transfer any amounts in the year ended 31 December 2021. While the excess reserves can be profitably utilised for the Company's overall growth strategy, the Board of the Company is of the view that after considering the foreseeable investments required for such opportunities over the next few years, barring unforeseen circumstances and considering the track record of the Company, the Company is confident of meeting its ongoing and future capital expenditure programmes and working capital requirements through generation of own funds and other financing options.

(d) In view of the Company's capability to generate required funds, along with a view to provide greater flexibility for the utilisation of such funds, the Company now proposes to transfer the amount lying to the credit of the General Reserves to the retained earnings as reflected in the accounts of the Company ("**Retained Earnings**") to enable, *inter alia*, Payout to the Members, in such manner and to such extent, as the Board, in its sole discretion, may decide, from time to time and in accordance with the provisions of the Act and other applicable law.

(e) After a careful evaluation of various uses of the available excess reserves, the Company believes that distributing the free cash represented by the General Reserves to the extent specified hereunder will 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. Such distribution will further enhance the return on equity, provide an opportunity to leverage the balance sheet of the Company which in turn could further optimise the cost of capital and thus improve the economic value of the Company.

Key features of the Scheme

7. In view of the Company's capability to generate required funds, along with a view to provide greater flexibility for the utilisation of such funds, the Company now proposes to transfer the amount lying to the credit of the General Reserves to the Retained Earnings as reflected in the accounts of the Company to enable, *inter alia*, Payout to the Members, in such manner and to such extent, as the Board, in its sole discretion, may decide, from time to time and in accordance with the provisions of the Act and other Applicable Law.

8. In view of the aforesaid and in the interest of transparency and good corporate governance, the Company has proposed this Scheme of Arrangement between the Company and its Members under Section 230(1)(b) of the Act, pursuant to which and upon its coming into effect, the entire amount of Rs. 8,374. 3 Million lying in the General Reserves of the Company, as of the Appointed Date (*as defined in the Scheme*), be credited to the Retained Earnings of the Company, to enable, *inter alia*, pay-out to its members as per the discretion of the Board (regarding the mode, quantum and time of such pay -out , subject to consideration of all relevant factors), from time to time in accordance with the provisions of the Act and other applicable law and various other matters consequential to or otherwise integrally connected with the above.

9. The equity shares of the Company are listed on BSE Limited ("**BSE**"). The Company will be filing the Scheme along with necessary information/documents with BSE for its approval under Regulation 37 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.

10. The Scheme shall come into effect from the Effective Date (*as defined under the Scheme*), being the date on which all conditions and matters referred to in the Scheme occur or have been fulfilled, obtained or waived, as applicable, in accordance with the Scheme.

Costs benefit of the Scheme

11. After a careful evaluation of various uses of the available excess reserves, the Company believes that distributing the free cash represented by the General Reserves to the extent specified hereunder will 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. Such distribution will further enhance the return on equity, provide an opportunity to leverage the balance sheet of the Company which in turn could further optimise the cost of capital and thus improve the economic value of the Company.

12. Although the proposed Scheme includes certain costs as transaction cost, implementation cost, regulatory fees, etc., however, the benefits of the said Scheme over a longer period would, in the view of the Audit Committee, outweigh such costs for the Company.

View of the Audit Committee and impact of Scheme on the Shareholders

13. The proposal to undertake the Scheme between the Company and its Members under Section 230 of the Act was placed before the Audit Committee at its meeting on 28 July 2021. The Audit Committee was informed that the proposed Scheme sought to reclassify the entire amount of Rs. 8,374.3 Million standing to the credit of the General Reserves of the Company shall be reclassified and credited to the 'Retained Earnings' of the Company, and subsequent thereto, such amounts credited to the 'Retained Earnings' of the Company shall be reclassified as and constitute accumulated profits of the Company for the previous financial years, arrived at after providing for depreciation in accordance with the provisions of the Act and remaining undistributed in the manner provided in the Act and other applicable laws. It is further clarified in the Scheme that such amounts shall be available for utilisation by the Company in relation to any Payout in the manner set out in the Scheme of Arrangement. Given, that the Scheme only involves the reclassification of the General Reserves of the Company and: (a) no new shares are to be issued by the Company; and/or (b) no shares are being swapped; and/or (c) no amalgamation or merger or demerger of any kind is taking place, pursuant to the Scheme, therefore: (i) requirement of valuation report and fairness report; and (ii) analysis of synergies of business, is not required under the present Scheme.

14. The Audit Committee noted the background, salient features, rationale and the benefits to the Company and its shareholders, as set out above, of the proposed Scheme as placed before it.

15. In view of providing greater flexibility for the utilisation of such funds and give an opportunity to the shareholders to earn superior returns by increasing return on equity, the Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme and other documents presented before the Audit Committee, hereby unanimously notes and is of the opinion that the Scheme is not detrimental to the interests of the Company and its shareholders.

Recommendation of the Audit Committee

16. The Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme, rationale of the Scheme, impact of Scheme on the shareholders of the Company, costs benefit analysis of the Scheme and other documents presented before the Audit Committee recommends the draft Scheme for favourable consideration by the Board of the Company, BSE Limited, SEBI and other appropriate authorities for their favourable consideration and approval.

17. This report of the Audit Committee is made in order to comply with the requirements of the SEBI Circular read with SEBI Master Circular after considering the necessary documents (applicable in context of the Scheme).

P.R. Ramesh

PR Ramesh
Chairperson of the Audit Committee of
Nestle India Limited

Date: 28 July 2021

Place: Gurugram