Nestlé

Driving Nutrition, Health & Wellness

Nestlé India Limited | Annual Report - 2008

The Board of Directors of Nestlé India

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

Narendra Singh - Chairman Emeritus

Board of Directors

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

Company Secretary

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

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India

Nestlé touches the lives of millions of people everyday and is amongst the most trusted companies in India. It is an integral part of the social fabric and focused on understanding the changing lifestyles of India, to anticipate consumer needs. Nestlé brands are leaders in India because the Company has continuously tracked consumer needs and provided relevant products whenever, wherever and however consumers may need them.

Nutrition, Health and Wellness
The Foundation

Consumers across the world choose Nestlé products for their quality and their intrinsic value, and this has made Nestlé the largest food company in the world. It is the foremost Nutrition, Health and Wellness company, committed to increasing the nutritional value of products while improving the taste. Nestlé constantly develops products based on consumer insights by leveraging science and nutritional expertise.

This is not surprising. 'Nutrition, Health and Wellness' is in the DNA of the company since 1867, when Henri Nestlé, the founder of the company developed 'Farine Lactee Nestlé' as the world's first infant food to save the life of a child.

The Company has continued to build on this heritage and Nestlé has always been at the forefront of food science and nutritional research. In the 150 years since its inception, it has continued to find newer and better applications of scientific knowledge to improve the quality of life of consumers across the world.

Nestlé's expenditure for ongoing research in food and nutrition is the largest in the global food industry. This helps translate scientific advances and new discoveries into relevant products that provide superior taste, convenience, and 'Nutrition, Health and Wellness'.

Nutrition, Health and Wellness
The Guidance

For many years taste, convenience and quality have been the more important criteria for consumers. Today, as lifestyles are beginning to change rapidly, health and wellness is becoming the underlying consumer criteria for choice, along with taste, quality and convenience. This is not new for Nestlé. It has always believed that Good Food is central to health and wellness and with this foresight it has developed technology and in-depth expertise to support the nutritional needs at every stage of life, while providing superior taste, quality and convenience.

The 60:40+ Advantage

All Nestlé products are constantly benchmarked on the 60:40+ concept i.e. achieve at least 60% consumer taste preference with the added 'plus' of nutritional advantage.

Bringing taste and nutrition together in the same product is not easy. Nestlé works on the principle that healthy foods do not need to taste bad. This principle is put into practice by pulling together expertise in taste and texture with expertise in health and nutrition, and strength in the science and technology of foods.

Navigating Nutrition

Proper and balanced nutrition is important during all stages of life starting from infancy. While science based nutrition drives the innovation and renovation of all our brands we also provide the Nestlé Nutritional Compass on our packs to help you make healthier choices and achieved a balance diet. The Nutritional Compass provides transparent and easy to understand nutrition information on our products.

NUTRITIONAL COMPASS™
® Reg. Trademark of Société des Produits Nestlé S.A.
Recommended Dietary Allowance (RDA) per day, Adult, ICMR 2007.

Nutrition, Health and Wellness
Consumer Insights

We are constantly using consumer insights and scientific rigour to innovate and develop relevant products at the appropriate time, with lower fat, increased natural fibre, natural anti-oxidants or reinforcing them with nutrients such as calcium and proteins to better manage health and wellness. We accelerated this process with MAGGI, and innovated new products such as Vegetable Atta Noodles, Healthy Soups, Sanjeevni Soups and Rice Noodles to pioneer the concept of 'Taste Bhi Health Bhi'.

We understood the emerging consumer need for healthy low fat options and launched Nestlé FRESH 'N' NATURAL Slim Dahi which is 98 % fat free. Since then, as our consumer insights confirmed the growing awareness of health and wellness amongst consumers, we have innovated more. We have used our science and nutrition expertise to pioneer products in India, including Nestlé NESVITA Probiotic Dahi, which is also 98% fat free, for healthy digestion and Nestlé NESVITA PRO HEART Milk with Omega 3 to help manage cholesterol.

Nutrition, Health and Wellness In Daily Life

Scientifically formulated Nestlé NIDO is a nutritious milk for growing kids, with Calcium and Vitamin D for stronger bones.

MAGGI 2-Minute Noodles contain protein and calcium that are necessary for growing children and adults.

Regular consumption of the probiotic culture used in Nestlé NESVITA Dahi helps digestion. The pioneering launch of Nestlé NESVITA Probiotic Dahi was based on our consumer insights that many of us are increasingly being affected by weakened digestion. This, amongst others, is because of the stress of emerging modern lifestyles

NESTEA Iced Tea is a special blend of natural tea & natural fruit flavour. Each glass (150ml) of NESTEA Iced Tea provides 50% of the daily requirement for VITAMIN C.

MAGGI Sanjeevni Soups contain traditional ingredients like Amla that are 'Good for you'.

MAGGI Bhuna Masala to cook tasty and balanced everyday meals, more conveniently.

Nestlé India pioneered Nestlé NESVITA PRO-HEART milk with Omega 3 in India since milk and milk products are consumed daily and will help consumers make cholesterol management part of their daily diet.

Nutrition, Health and Wellness In Daily Life

Nestlé MILO beverage [RTD] - Two packs[200ml each] provide over 80 % of RDA for Calcium and Vitamin D, and 30 % of zinc, iodine and vitamin A daily needs so that children have the energy to give their best in school, sports or play.

MAGGI Vegetable Atta Noodles offer the dietary fibre of whole wheat along with the goodness of vegetables. It is the first of its kind in India. It is made from whole wheat and provides wholesome nutrition.

Nestlé MILKYBAR Calcium Rich white confectionery, with the goodness of milk and power of calcium.

The range of MAGGI Healthy Soups has the goodness of vegetables, are low in fat and cholesterol, have no added MSG or synthetic color.

MAGGI CUPPA MANIA with the goodness of vegetables and calcium is the trendy ally of the emerging multitasking generation.

Nestlé SLIM milk and Nestlé SLIM Dahi are high quality, preferred "low fat" propositions for daily use.

Celebrating
Good Food, Good Life

Today, Nestlé is one Company in India that has Nutrition, Health and Wellness (NHW) embedded in all its businesses, developing products for consumers through different stages of their lives.

We are actively working to innovate and renovate and pioneer products and concepts that add value to consumers at various price points on the price spectrum, bringing safe, hygienic, high quality products that bring NHW closer to a larger number of consumers and into products of everday use.

Celebrating Economic Prosperity

Success for us means, Creating Shared Value for everyone we touch – from the farmers who supply raw materials, to our employees, to our consumers and the communities where we operate.

We work with the communities as 'Partners in Growth' and follow a two fold approach. We create direct and indirect employment and through transfer of technology, knowledge, and the more recent 'Village Women Dairy Development Programmes' we enable people to actively participate in economic activity. Already 100,000 farmers and over 35000 village women are benefitting. At the same time, efforts to provide sanitation facilities for girl students, enhancing awareness of hygiene, as well as importance of scarce resources like water helps them improve the quality of their lives. Our investments to provide access to clean drinking water already directly benefit over 45000 students in village schools.

CORPORATE INFORMATION

MANAGEMENT COMMITTEE

Martial G. Rolland - Chairman & Managing Director
Shobinder Duggal - Finance & Control
Pascal Fournier - Human Resources
A. Ganesan - Sales
Shivani Hegde - Food
B. Kannan - Chocolates & Confectionery
Roel Keus - Technical
Sanjay Khajuria - Corporate Affairs
Vineet Khanna - Supply Chain
Virat Mehta - Communications
B. Murli - Legal & Company Secretary
G.G. Pillai - Additional Channels
Rajkamal Sharma - Exports
Gary Tickle - Infant Nutrition
Ajoy Titus - Coffee & Beverages
Mayank Trivedi - Shelf Stable & Chilled Dairy

BANKERS

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

AUDITORS

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

WEBSITE

www.nestle.in

INVESTOR EMAIL ID.

investor@in.nestle.com

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

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)

Tower “C”, 12th Floor, DLF IT Park, 08, Major Arterial Road, Block - AF
New Town, Rajarhat, Kolkata - 700 156 (West Bengal)

1st 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 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)

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

ANNUAL GENERAL MEETING

Tuesday, 5th May, 2009 at 10.00 A.M. 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 31st December, 2008.

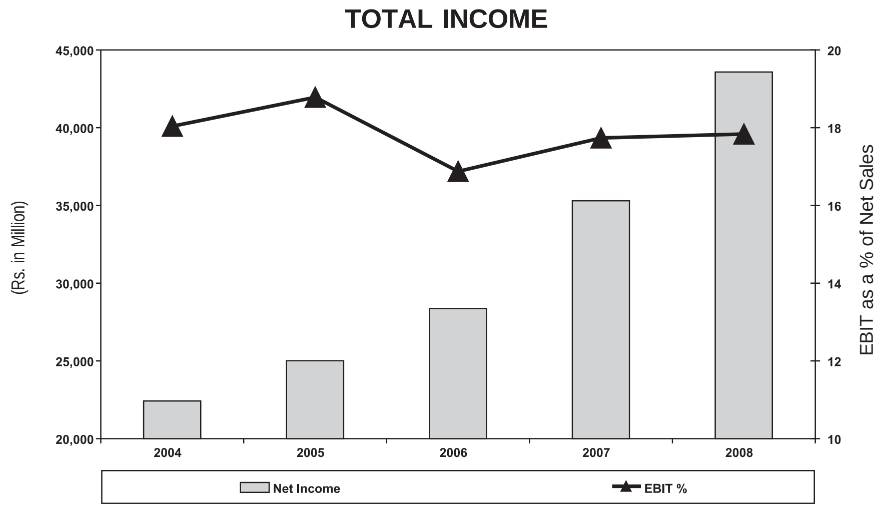
Financial Results and Operations

(Rs. in Million)

	2008	2007
Revenue from Operations#	43,351	35,131
Profit from Operations@	7,822	6,302
Net interest/financing income	214	159
Impairment Loss on Fixed Assets (Net)	3	12
Additional Employee Cost	-	753
Provision for Contingencies (Net)	305	(590)
Provision for Tax	2,387	2,148
Net Profit	5,341	4,138
Profit Brought Forward	125	105
Amount transferred from Share Premium Account*	432	-
Amount transferred from General Reserve*	431	-
Balance Available for Appropriation	6,329	4,243
Interim Dividends	2,218	2,941
Special Dividend*	723	-
Final Dividend Proposed	1157	241
Corporate Dividend Tax	696	522
Transfer to General Reserve	534	414
Surplus carried in Profit and Loss Account	1001	125
Key Ratios		
Earnings per Share (Rs.)	55.39	42.92
Dividend per Share (Rs.)	42.50**	33.00

\# Excludes interest/financing income
@ before impairments, additional Employee Cost, contingencies and net interest/financing income
* Pursuant to the Scheme of Arrangement.
** Includes special dividend of Rs. 7.50 per share, paid under the Scheme of Arrangement.

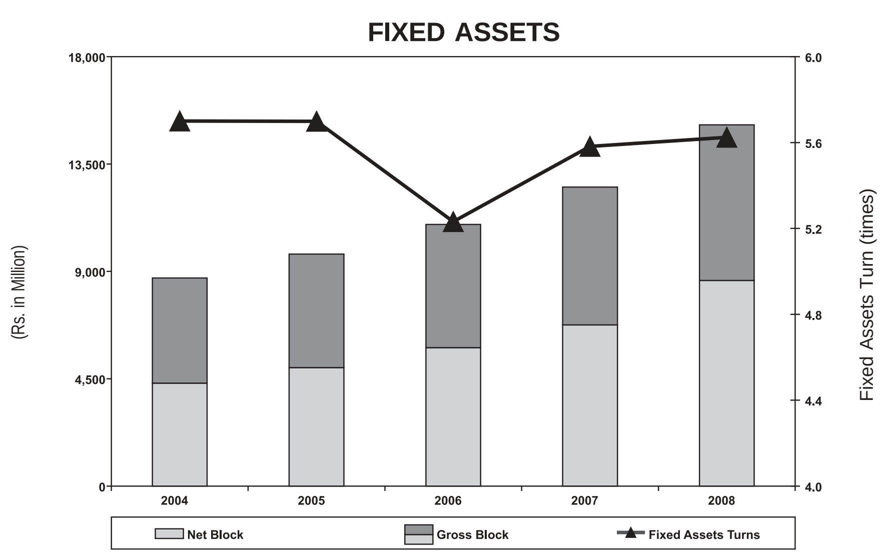
Net Sales for the year 2008 increased by 23.4% over the previous year. With increased volumes as well as better realisations, Domestic Sales for the year increased by 25.6%. Exports for the year increased by 2.6% mainly due to depreciation of the Indian Rupee.



The Profit from Operations for the year 2008 increased by 24.1% with margin improving to 18% from 17.9%, due to scale. Staggered price increases and cost optimisation initiatives contributed to offset steep increase in commodity prices like milk solids, green coffee, fuels and vegetable fat. Net Profit increased by 29.1% over 2007 with margin improvement to 12.3% from 11.8%. This has been positively influenced by the tax holiday of the Pantnagar Factory for the full fiscal year ended 31.03.2008. Your Company continued to lay emphasis on cash generation and delivered strong operating cash flow during the year. Surplus funds have been prudently invested after ensuring that such investments satisfy the Company's criteria of security and liquidity.

The Company supplemented the Provision for Contingencies with further amount of Rs.305 Million (net) for contingencies resulting mainly from issues, which are under litigation/ dispute. This was after the write back of Rs. 21 Million provision, due to satisfactory settlement of certain disputes and other matters for which provision was no longer required.

The year 2008 was a mixed one, marked by tremendous uncertainties. Most part of the year was characterised by high commodity prices and other costs, whilst growing inflation was a concern. Corrective



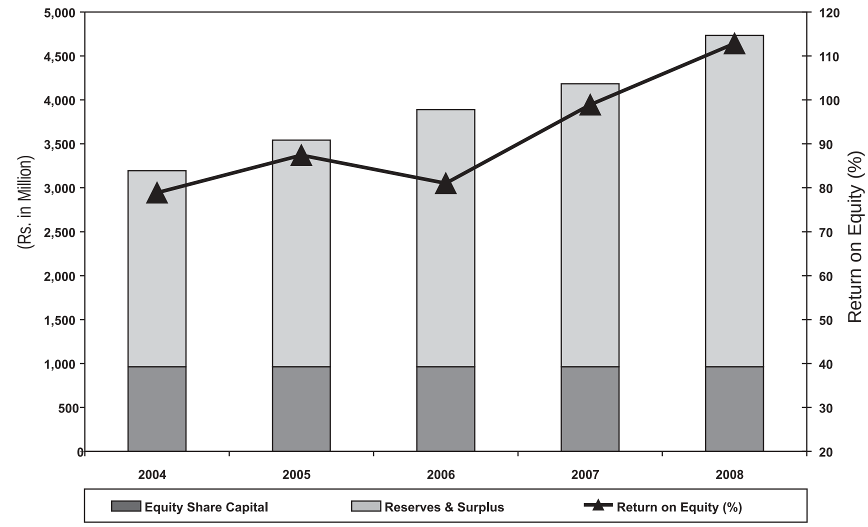
action by the Government and the Reserve Bank of India managed to contain the inflationary spiral but during the second half, the global economic environment was in virtual turmoil. With an unprecedented and unexpected economic crisis that affected the entire world, business confidence and sentiments suddenly ebbed. The growth rate in the Indian economy slowed down and the Indian Rupee depreciated. Stock markets are now hovering at much lower levels, and the pressure to improve productivity has increased.

Despite the slowing down of the economy during the second half of 2008, most policy makers believe that the fundamentals of emerging India's growth story are intact. Your Company continues to have potential for growth.

During 2008, your Company has continued to deliver strong turnover and profits. While the positive economic environment in the first part of the year played a role, this continuing growth largely reflects the increased people engagement within the Company. This growth has also been possible because of your Company's strong and continued focus on understanding the consumer, increasing awareness of health and wellness amongst consumers and on the demographics of India. "Good Food, Good Life" is our corporate proposition and your Company has always understood that good food is central to health and wellness.

Your Company has a distinct competitive advantage. Nestlé S.A. is the foremost Food, Nutrition, Health and Wellness Company in the world and your Company has access to their immense nutritional expertise, extensive Research and Development, latest food technology and brands, to help consumers navigate the road to Health and Wellness through proper scientific nutrition. Nutritional products that support healthy growth of infants and children have been in the market since the inception of the Company, while health and wellness has continuously driven the innovation and renovation in the product portfolio. Today your Company takes pride that it has Nutrition, Health, and Wellness (NHW) embedded in all its businesses, developing products for consumers from infancy to adulthood and making NHW affordable and part of daily diet.

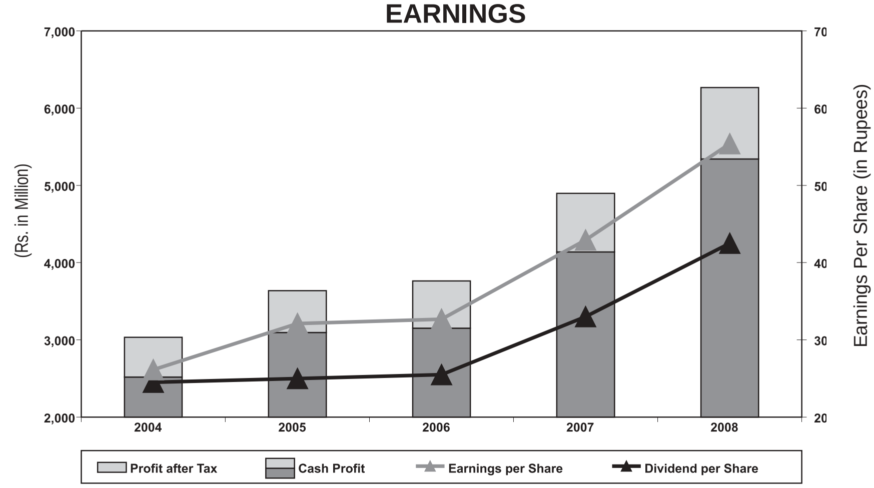
SHAREHOLDERS' FUNDS



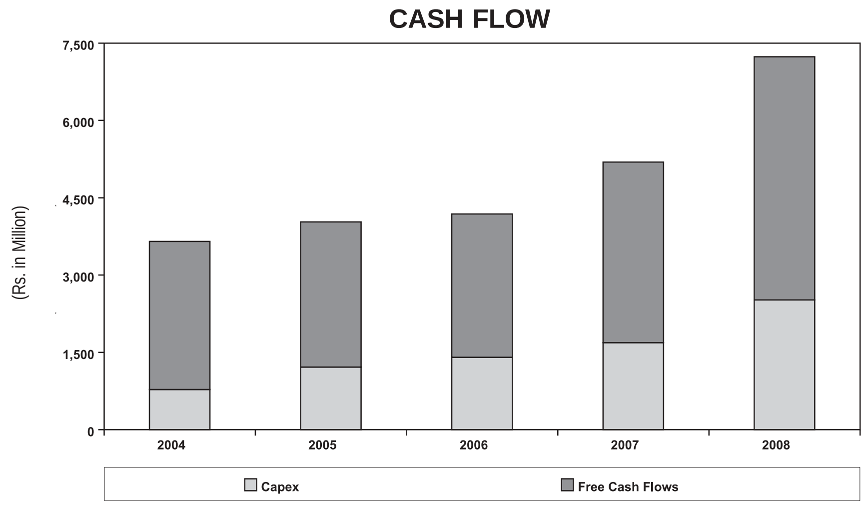
During 2007 your Company had experimented with a unique concept of "Nestlé Nutricorners" to bring nutritional knowledge closer to the consumers. During 2008, "Nestlé Nutricorners" consumer contact programme was rolled out more extensively, counselling and guiding consumers and empowering them with basic knowledge on how to make healthier food choices in general. All your Company products carry the NUTRITIONAL COMPASS that provides the consumers with the relevant information on nutritional ingredients to help them make healthier choices on the nutritional ingredients in the product and the benefits resulting from those ingredients.

Many of the initiatives that your Company has implemented in recent years in all areas of operations have made your Company more efficient and robust and will certainly further enhance the trust that consumers place in your Company's products. Success of these initiatives depends on positive employee engagement and your Company has a culture of positive and strong mindset

EARNINGS



Years 2004 and 2008 includes Special Dividend of Rs. 4.50 and Rs. 7.50 per share, respectively.



that is helping everyone understand their potential and take pride in achieving more, with greater efficiency.

The current year has commenced as per plan. In the year 2009, the economic environment is going to be more challenging and will require innovative thinking, agility and speed in anticipating changes. Your Company will continue to direct its efforts on product innovation and renovation, to control costs, improve penetration and manage price-value relationship for its brands, in increasingly difficult market conditions. We are positive with regard to the future and remain confident of the long-term business prospects of the Company and its ability to sustain fair returns to the shareholders.

Exports

During the year, Export Sales at Rs. 3,384 Million, grew by 2.6%. Exports of culinary products, continued to grow steadily notwithstanding the economic slowdown in some of the importing markets. Sales of noodles particularly grew impressively. The performance was negatively impacted due to lower exports of beverages. Instant Coffee exports fell mainly due to a substantial reduction in imports by the traditionally major market of Russia. Though Coffee exports to Russia have a much lower weightage in the Company's export basket, it offset the nascent development activity achieved by your Company in other markets. Instant Tea exports remained depressed, with global competition burgeoning.

Efforts are on to widen the customer base and develop more customer-specific variants. Initiatives to develop products for the Indian ethnic community abroad are continuing.

Dividends

The Board of Directors has recommended a final dividend of Rs. 12.00 per equity share of the face value of Rs. 10/- each for the year 2008.

This is in addition to the Interim Dividend at the rate of Rs. 8.50 per share paid on 9th May, 2008. Further, Second Interim Dividend at the rate of Rs. 14.50 per share alongwith Special Dividend (distribution under the Scheme of Arrangement) of Rs. 7.50, aggregating Rs. 22.00 per share was paid on 26th November, 2008. Therefore, dividends aggregating to Rs. 30.50 per equity share have been already paid during the year 2008.

The total payout for 2008 would be Rs. 4,794 Million (including the corporate dividend tax).

Scheme of Arrangement

During the year 2008, the Hon'ble High Court sanctioned the Scheme of Arrangement (hereinafter referred to as "Scheme") between the Company and its Shareholders and Creditors, for utilisation of the balance in the Share Premium Account (Rs. 432.4 Million) and a part of the balance in the General Reserve Account formed by excess transfer of surplus profit in earlier years (Rs. 430.8 Million), for payment to the shareholders, subject to applicable taxes. The Scheme became effective on 31st October, 2008 with the filing of the certified copy of the High Court Order sanctioning the Scheme, with the Registrar of Companies, NCT of Delhi & Haryana. Consequently, a Special Dividend at the rate of Rs. 7.50 per share, arrived at after taking into account applicable corporate dividend tax and rounding off to nearest half a Rupee, was paid to all the shareholders on 26th November, 2008.

Business Development

Your Company continued its focus on understanding consumer needs and providing relevant products whenever, wherever and however the consumer may need them. Today as 'Health and Wellness' is becoming the underlying consumer criteria for choice, your Company has the expertise to innovate and renovate its food and beverage products and bring NHW to consumers in all stages of life while providing superior taste, quality and convenience.

The **'Milk Products and Nutrition'** business continued to perform well as per expectations. Driving innovation in the market based on the process of combining local consumer insights with the Nestlé Group research and development competence remained in strategic focus. After the pioneering work to bring probiotics in Dahi to Indian consumers, your Company pioneered the concept of Milk with Omega-3, and launched NESTLÉ NESVITA PRO-HEART Milk with Omega-3 in Mumbai. NESTLÉ NESVITA PRO-HEART is part of daily diet and has Omega-3 heart friendly nutrients scientifically known to help manage cholestrol. NESTLÉ EVERYDAY Dairy Whitener and NESTLÉ MILKMAID Sweetened Condensed Milk continued to grow market share with good volume growths. During the year 2007, your Company also activated the category of Growing Up Milks with the relaunch of the world's largest selling milk powder brand NESTLÉ NIDO which is a nutritious milk for growing children above the age of 2 years providing calcium, vitamin D and 25 other essential nutrients. The performance of NESTLÉ NIDO has been as per expectations and the product will be rolled out selectively to more geographies in India. The portfolio in the Chilled Dairy segment continued to grow well. It also helped strengthen the credibility of your Company as the pioneer in science based nutrition, as well as in reinforcing it's Nutrition, Health and Wellness credentials. Regular consumption of probiotic culture used in NESTLÉ NESVITA Dahi benefits digestion. NESTLÉ NESVITA 98% fat free dahi with probiotics continued to expand its reach and volumes.

It is widely accepted by nutritionists and scientists that the foundation for good health starts forming during infancy. Your Company actively supports and promotes breast feeding as being the best possible source of nutrition for the developing infant. Recognising that there are circumstances where the mother is unable to feed, Nestlé continues to build on its heritage in providing suitable alternatives to meet the needs of the infant.

Science based innovation and renovation remains central to the ongoing development of products in the Infant Nutrition category. While the existing product portfolio continues to be appreciated by doctors and health workers, as part of our ongoing commitment to offering best in class nutrition products to Indian consumers, your Company launched NESTLÉ NAN 3, a follow-up formula for older infants.

MAGGI, the pioneer of the 'TASTE BHI HEALTH BHI' concept, has been a favourite with generations of consumers who have grown up relishing MAGGI 2-Minute Noodles, enjoying the MAGGI range of Ketchups and Sauces, and savouring MAGGI Healthy Soups. The business for **'Prepared Dishes and Cooking Aids'** continued to lead the market with rapid growth through strong consumer centric innovation and renovation, enhanced availability and new offerings that improved affordability. The concept of 'TASTE BHI HEALTH BHI' now extends across the portfolio, with offerings like MAGGI 2-Minute Noodles (containing protein and calcium), MAGGI Vegetable Atta Noodles (offering the dietary fibre of whole wheat and the goodness of vegetables), MAGGI Healthy Soups (with the goodness of vegetables, low in fat and cholesterol, and no added MSG or synthetic colours), and MAGGI Sanjeevni Soups (with traditional ingredients like Amla and Badam). Your Company understands that many in the younger generation today are continuously on the go and facing busier lifestyles. To provide them a tasty, convenient and wholesome light meal on the go, the business launched MAGGI Cuppa Mania, delicious Instant Noodles in a cup, with the power of calcium and the goodness of real vegetables. During the year, MAGGI PICHKOO Tomato Ketchup was launched in a unique easy to handle day pack to drive affordability, taste and convenience for a larger number of consumers. Your Company also launched another pioneering product, MAGGI Bhuna Masala, to cook tasty and healthy everyday meals, more conveniently. It enables the housewife to prepare delicious dishes, yet bypass the process of preparing the base/gravy. It is ready to use and does not compromise on the fresh taste, nutrition and health aspects of cooking. The MAGGI Noodles Chotu Pack continued to drive distribution and extended the reach of MAGGI Noodles to another 300,000 new outlets in one single year.

MAGGI continued to be recognised as a very strong brand. This was again highlighted in the annual survey compiled by Brand Equity where MAGGI moved up in the rankings as one of India's Top 5 Most Trusted Food Brands. This was also brought out in another independent survey by NCAER (National Council for Applied Economic Research), wherein MAGGI ranked as the Number 1 Most Valuable FMCG Brand.

During 2008, the **'Chocolate and Confectionery'** business remained buoyant. Consumers are increasingly seeking to balance indulgence with health and wellness while choosing products. Your Company has continuously leveraged its insights and the global expertise in nutrition and technology to innovate and create new segments that help consumers increase the wellness dimension. This has made your Company the leader in 'lighter eating' with NESTLÉ KITKAT and NESTLÉ MUNCH by balancing indulgence with lighter eating. During the year, the 'Chocolate and Confectionery' business further consolidated leadership in the light-wafer-chocolayer segment and focused on improving distribution and penetration.

NESTLÉ KITKAT Mini and NESTLÉ BAR ONE Mini, at Rs.3/- price point were launched to expand the repertoire of offerings. Similarly, the launch of the NESTLÉ KITKAT CHUNKY at Rs.15/- is another innovative concept to strengthen the range of wellness oriented Nestlé products that consumers can choose from. NESTLÉ MILKYBAR enriched with calcium has made your Company the leader in white confectionery and the calcium rich proposition was extended to the unique NESTLÉ MILKYBAR CHOO.

NESTLÉ POLO continued to build strong brand equity with its consumers through its unique proposition "THE MINT WITH THE HOLE".

Your Company is the value leader in Instant Coffee with NESCAFÉ and believes that there is potential to grow the market further. The **'Coffee and Beverages'** business focused on strengthening consumer insights to improve marketing-sales activities, enabling it to accelerate growth momentum on NESCAFÉ products.

The NESCAFÉ product range now includes Cappuccino, a perfect combination of thick froth, rich aroma and great coffee taste. Your Company's access to the latest Instant Coffee manufacturing technology resulted in distinct superiority in quality and taste of NESCAFÉ products and this will further drive competitive advantage. In addition, during the year a NESTLÉ MILO "Ready to Drink" [RTD] beverage was introduced for test marketing in key metros through modern retail stores. NESTEA Iced Tea Premix with Vitamin C was also launched in select markets in Lemon and Peach flavours.

The continuing initiatives in the 'Out-Of-Home' segment delivered satisfactory results. Your Company accelerated its presence through 'NESTLÉ Consumption Zones', Café NESCAFÉ outlets and vending machines in offices, colleges and other locations that experience high footfall. Your Company has by far the largest number of vending machines installed in the market, and a significant presence in Out-Of-Home, selling over 7.7 Million cups of hot and cold beverages per day.

Technology and Quality

Nestlé touches the lives of millions of people every day and is amongst the most trusted companies in India with a strong corporate culture and constant innovation and renovation to provide science-based nutrition. You can be justifiably proud that the factories are amongst the 'Best in Class' within the Nestlé Group. Each factory uses its people, processes and state-of-the-art automated manufacturing facilities to create safe and nutritious products and impact the community around it positively.

The Company has a General Licence Agreement with the Nestlé Group, Switzerland, that enables access to their continuing investments in Research and Development and the latest food technologies that support development of products relevant to our market. Your Company continuously upgrades and implements best practices at its factories and commitment to quality is an integral part of the manufacturing process. This commitment to product quality is supported by state-of-the-art technology and a high degree of automation.

In view of the fact that your Company has very stringent specifications, including those for raw materials, it is continuously working with local suppliers to help them develop capabilities for supply of high quality raw materials. During the year, your Company has made significant progress in developing suppliers at par with international quality which will help it become less reliant on imports for these raw materials.

During the year, three more factories were awarded the internationally recognised external certification ISO 14001 for adherence to environmental processes and OSHAS 18001 for Health and Safety. With this, all the seven factories of your Company now have ISO 14001 and ISO 18001 certifications. You can be proud that our factories not only create world class products delivering Nutrition, Health and Wellness but also provide economic prosperity to farmers by processing agricultural products in a sustainable manner.

Sales

The focus on continuous business excellence extends across the Company. While your Company has an efficient distribution system, it has consistently pushed itself over the recent years to further improve its service levels and to help consumers easier access to the Company's products. During the year, there was further improvement in the distribution network and availability of fresh, high quality Nestlé products. The specialised teams for Key Account Management, Channel and Category Sales Development, Route-to-market and the existing trade channels continued to improve availability and visibility of products. The quality and capabilities of the people are key to this and, during the year, your Company maintained focus on training and development of the sales teams to reinforce skills and impart best practices.

Human Resources

People are key to driving the performance of the company and your Company has continuously focused its efforts to empower them more effectively. Significant resources and efforts continue to be devoted to people engagement initiatives that support a performance driven culture and enhance the passion to win mindset. During the year, the focus was on unlocking the people potential and further developing their functional and behavioural competencies.

The Mini Business Unit concept initiated in the previous year was extended across the Company and further enhanced the commitment and engagement of people through goal alignment. This was supported by increased sharing of information on people and the Company through an integrated internal communication framework, cross functional activities and team building activities and initiatives. The development of its people and performance culture is a priority for your Company and it continued to support the development of people to ensure commitment and superior performance. Focus on coaching and development activities, continuous learning, and launch of new learning initiatives in partnership with top business schools, all enhanced employment value for the employees. This motivated people to participate with superior performance and commitment and contributed to your Company's achievements. During the year, repositioned campus activities in targeted business schools also enhanced the visibility for your Company as a preferred employer.

SWOT Analysis for the Company

Strengths:

- Access to the Nestlé Group's proprietary technology / brands, expertise and the extensive centralised Research and Development facilities under the General Licence Agreement.

- High quality and safe 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, based on feedback on consumer insights.
- Well diversified product portfolio.
- Efficient supply chain.
- Multi focal business structure.
- Distribution structure that allows wide reach and coverage in the target markets.
- Capable and committed human resources.

Weakness:

- Complex supply chain configuration.
- Export of coffee to Russia, still constitutes significant part of overall exports.

Threat:

- Prices of raw materials and fuels.
- Slow down in environment .

Opportunities:

- Potential for expansion in smaller towns and other geographies.
- Growing trend for 'Out-of-Home' consumption.
- Leverage Nestlé Technology to develop more products that provide Nutrition, Health and Wellness.

Environment

At the factories, efficiency and controlling costs extends beyond the commercial to minimising consumption of natural resources and reducing waste and emissions. Energy and water management practices are being continuously upgraded and specific water usage in manufacturing has been further reduced. All waste water is treated, and as much as possible, recycled within the factory with focus on zero waste water discharge. The emphasis is on efficient use of resources. Your Company ensures that, while resources are used optimally, inefficiencies or leakages that could cause wastage are eliminated. Ways to minimize the usage of these resources are looked at continuously. Using waste heat of one process as input for another, recovering steam condensate to substitute fresh water, utilising coconut shells and process waste to replace fuels with high sulphur content to reduce green house gases, using waste cashew shells and coffee husk as additional alternative fuel in boilers, and reusing water after reverse osmosis treatment are some examples of how carefully your Company approaches this responsibility.

During the last 10 years even as sales have increased substantially, the Company has reduced the generation of waste water by around 70%, usage of water by 65%, usage of energy by 60% and has reduced the generation of greenhouse gases by around 65%, all per tonne of production.

Community Development

The phrase 'inclusive growth' can be said to be of recent origin but it reflects what your Company has always believed in and worked towards, that our business must be good for society, improving the quality of life of the people we touch and in the communities where we operate. The business objective is to create value that can be sustained over the long term for the economy and society, using natural resources in a sustainable manner, creating growth opportunities and prosperity. Your Company also endorses the United Nations Global Compact and the Millennium Development Goals to promote prosperity in society.

The 'Nestlé in the community' model is simple. As 'Partners in Growth' the Company has followed a two-fold approach while creating economic prosperity over the years. On the one hand, it is creating direct and indirect employment and, through transfer of technology, knowledge, and training programs continuing to empower and enable people in the community to participate in economic prosperity. On the other hand, it is continuously working with them to understand what is needed to improve their quality of life in a sustainable manner. Continuing initiatives include the extensive work with dairy farmers, providing access to clean drinking water and sanitation facilities in village schools, enhancing awareness of scarce resources like water, and empowering village women.

Your Company is continuing to do extensive work at Moga to develop dairy farmers. Dedicated Nestlé agronomists and veterinarians are providing international knowledge and best practices for dairy farming. This has increased productivity, improved yields of their herd and focused them on the quality of milk. By investing in installation of farm coolers and chillers, your Company has improved the supply chain infrastructure for milk collection. While all this directly benefits close to 100,000 farmers and has been recognised by the State Government, your Company is playing another significant role in the community by helping women play a much more productive role in the villages. This will have a lasting impact on the lives of the village community though the impact will only be realised over a period of time. For the past few years, your Company has been conducting dairy development programs amongst village women to train them in good dairy practices as well as spread awareness about personal health, hygiene, water conservation and economic independence. As of today, nearly 35,000 women and 25,000 men from 700 villages benefit from this initiative.

Access to clean drinking water is necessary to improve quality of life and over the past few years, your Company has been setting up clean drinking water facilities in village schools around its factories. Clean and hygienic drinking water has been found to reduce illnesses amongst children and the community is able to better appreciate the water education that your Company provides to the children. The unique clean drinking water facilities are directly benefiting over 45,000 school children every year, who then become more aware of the role they can play as ambassadors for water conservation.

Contributions to the Exchequer

Your Company has been a leading taxpayer of the country and over the years has been contributing significantly to various taxes. During the year 2008, the Company through its operations, enabled tax collections at Central and State level of close to Rs. 10.5 Billion in the aggregate.

Awards and Recognitions

In this dynamic year of volatile business environment, your Company continued to be recognised for its efficient operations and as a stable and healthy Company.

During the year, your Company was honoured with the NDTV PROFIT Business Leadership Award in the FMCG Food category.

Later in the year, Standard & Poor announced that Nestlé India was one of only two Indian Companies on their Global Challengers List for 2008. This list consists of 300 mid-size companies worldwide that are expected to emerge as challengers to the world's leading companies and show the highest growth characteristics.

In another study by TNS TRI*M Index, your Company was rated "Best in Class" in FMCG in terms of overall performance. TNS TRI*M Index is an annual barometer of Corporate Reputation and seeks to measure goodwill in both business and social contexts.

As in the past, Nestlé India was again awarded for export excellence. Your Company received awards from the Coffee Board for being the Highest Exporter of Coffee to Russia and CIS during the year 2007-08 and was also recognised for being the Second Highest Exporter of Instant Coffee during the year 2007-08. Your Company also received a prestigious Export Award for 2008 from the Ministry of Commerce and Industry in recognition of it's outstanding export performance in the export of Instant Tea during the year 2006-07.

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

In compliance with the requirements of Clause 49 of the Listing Agreement with the Stock Exchange, a separate report on Corporate Governance along with Auditors certificate on its compliance is attached as Annexure –1 to this Report.

Cautionary Statement

Statements in this Report, particularly those which relate to Management Discussion and Analysis as explained in the Corporate Governance Report, describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied in the statement depending on the circumstances.

Directors

In accordance with Article 119 of the Articles of Association, Mr. Michael W.O.Garrett retires by rotation and being eligible offers himself for re-appointment.

The term of Mr. Shobinder Duggal, as Whole-time Director, designated as 'Director –Finance & Control', which was for a period of 5 years from 10th May, 2004, is expiring on 9th May, 2009. The Directors are seeking re-appointment of Mr. Duggal for a further period of 5 years with effect from 10th May, 2009. Details of his proposal for re-appointment are mentioned in the Explanatory Statement under Section 173(2) of the Companies Act, 1956 covered under Item no. 5 of the Notice of the 50th Annual General Meeting.

Auditors

The Statutory Auditors of the Company, M/s. A. F. Ferguson & Co., Chartered Accountants, New Delhi, retire in accordance with the provisions of the Companies Act, 1956 and are eligible for re-appointment. M/s. A. F. Ferguson & Co., Chartered Accountants, New Delhi have sought re-appointment and have confirmed that their re-appointment if made, shall be within the limits of Section 224(1) (B) of the Companies Act, 1956. The Audit Committee and the Board recommends the re-appointment of M/s. A.F. Ferguson & Co., Chartered Accountants, as the Auditors of the Company.

Complying with the provisions of Section 233-B of the Companies Act, 1956, the Board of Directors have appointed M/s. Ramanath Iyer and Co., Cost Accountants, New Delhi, to carry out an audit of cost accounts of the Company in respect of Milk Foods for the year 2009. This appointment has been approved by 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 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

The Company maintained healthy, cordial and harmonious industrial relations at all levels. Despite severe competition, the enthusiasm and unstinting efforts of the employees have enabled the Company to remain at the forefront of the Industry.

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 endeavour 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, creativity, integrity and continuous improvement in all functions and areas as well as the efficient utilisation of the Company’s resources for sustainable and profitable growth.

The Directors wish to hereby place on record their appreciation of the efficient and loyal services rendered by each and every employee, without whose whole-hearted efforts, the overall very satisfactory performance would not have been possible.

Your Directors look forward to the future with confidence.

On behalf of the Board of Directors

6th March, 2009 MARTIAL G. ROLLAND
Gurgaon CHAIRMAN

AUDITORS' REPORT TO THE MEMBERS OF NESTLÉ INDIA LIMITED

1. We have audited the attached balance sheet of Nestle India Limited as at December 31, 2008, the profit and loss account and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the 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 in paragraph 3 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, 2008 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, 2008;
      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)

March 6, 2009
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, 2008.

(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, the Company has not disposed off a substantial part of its fixed assets during the year.

(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 Companies (Auditor's Report) Order, 2003 (hereinafter referred to as 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, 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 is no sale of services. Further, on the basis of our examination and according to the information and explanations given to us, no major weaknesses in the aforesaid internal control system, has been noticed.

(v) (a) According to the information and explanations given to us, we are of the opinion that, the particulars of the contracts/arrangements referred to in Section 301 of the Companies Act, 1956, were entered in the register required to be maintained under that Section.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rupees five lacs in respect of any party were made at prices which were reasonable having regard to prevailing market prices at the relevant times.

(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, 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 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, wealth tax, customs duty, excise duty, cess and other material statutory dues applicable to it and has generally been regular in depositing undisputed statutory dues including sales tax and service tax 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 customs duty and wealth tax, which have not been deposited. The details of disputed dues as at December 31, 2008 in respect of excise duty, sales tax, service tax, cess and income-tax that have not been deposited by the Company, are as follows :-

Name of the Statute	Nature of the Dues	Amount * (Rs.) ('000s)	Period to which the amount relates (various years covering the period)	Forum where dispute is pending
Central Excise Laws	Excise Duty	44,170	1996 – 2003	Supreme Court
		3,132	2000 – 2006	Customs, Excise and Service Tax Appellate Tribunal
		376	2006	Appellate authority upto Commissioners' level
	Service Tax	342	2005	Customs, Excise and Service Tax Appellate Tribunal
Sales Tax Laws	Sales Tax	3,698	1996 – 2004	High Court
		330	1999 – 2004	Appellate Tribunal
		133,106	1992 – 2007	Appellate authority upto Commissioners' level
Local State Act	Cess	4,242	2001 – 2008	Appellate authority upto Commissioners' level
Income Tax Act, 1961	Income tax	118,558	1992 – 1994	High Court
		159,787	2004 – 2005	Commissioner of Income-tax (Appeals)

* Amount as per demand orders including interest and penalty wherever indicated in the Order.

The following matters, which have been excluded from the table above, have been decided in favour of the Company but the department has preferred appeals at higher levels. The details are given below :-

Name of the Statute	Nature of the Dues	Amount (Rs.) ('000s)	Period to which the amount relates (various years covering the period)	Forum where department has preferred appeals
Central Excise Laws	Excise Duty	8,526	2000 – 2005	Supreme Court
		36,982	1996 – 2004	High Court
		14,591	2004 – 2006	Customs, Excise and Service Tax Appellate Tribunal
	Service Tax	148	2005	High Court
Sales Tax Laws	Sales Tax	35,401	1997 – 2003	High Court
Income Tax Act, 1961	Income tax	316,890	1996 – 2000	High Court
		419,751	1993 – 2004	Income-tax Appellate Tribunal

(x) The Company does not have accumulated losses at the end of the financial year December 31, 2008. Further, the Company has not incurred cash losses during the financial year ended December 31, 2008 and in the immediately preceding financial year ended December 31, 2007.

(xi) According to the records of the Company examined by us and on the basis of information and explanations given to us, the Company has not defaulted in repayment of dues to banks during the year. The Company has not taken any loans from financial institutions and has not issued debentures during the year.

(xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities, accordingly paragraph 4 (xii) of the Order is not applicable.

(xiii) The Company is not a chit fund / nidhi / mutual benefit fund / society to which the provisions of special statute relating to chit fund are applicable, accordingly paragraph 4 (xiii) of the Order, is not applicable.

(xiv) As the Company is not dealing or trading in shares, securities, debentures and other investments, paragraph 4 (xiv) of the Order is not applicable.

(xv) According to the information and explanations given to us, the Company has not given any guarantee during the year for loans taken by others from banks or financial institutions.

(xvi) In our opinion and according to the information and explanations given to us, the Company has not taken any term loans during the year.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that, during the year, short term funds have not been used to finance long term investments.

(xviii) The Company has not made any preferential allotment of shares during the year.

(xix) The Company has not issued any debentures during the year.

(xx) The Company has not raised any money by way of public issue during the year.

(xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no material fraud on or by the Company has been noticed or reported during the year ended December 31, 2008.

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

(MANJULA BANERJI)
Partner
(Membership No. 86423)

March 6, 2009
New Delhi

BALANCE SHEET OF NESTLÉ INDIA LIMITED AS AT DECEMBER 31, 2008

SOURCES OF FUNDS	SCHEDULE		**2008 *(Rs. in thousands)***		2007 *(Rs. in thousands)*
SHAREHOLDERS' FUNDS					
Share Capital	A	**964,157**		964,157	
Reserves and surplus	B	**3,769,340**	**4,733,497**	3,220,084	4,184,241
LOAN FUNDS					
Secured Loans	C		**8,177**		28,711
DEFERRED TAX LIABILITIES/(ASSETS) (NET)	D		**368,810**		286,974
			5,110,484		4,499,926
APPLICATION OF FUNDS					
FIXED ASSETS	E				
Gross block		**14,048,460**		11,797,711	
Less:Depreciation		**6,518,538**		5,779,626	
Net block		**7,529,922**		6,018,085	
Capital work-in-progress		**1,091,689**	**8,621,611**	736,979	6,755,064
INVESTMENTS	F		**348,992**		944,014
CURRENT ASSETS, LOANS AND ADVANCES	G				
Inventories		**4,349,117**		4,012,153	
Sundry debtors		**455,933**		534,901	
Cash and bank balances		**1,936,893**		377,604	
Loans and advances		**1,237,589**		1,453,883	
		7,979,532		6,378,541	
Less: **CURRENT LIABILITIES AND PROVISIONS**	H				
Liabilities		**5,066,494**		4,599,744	
Provisions		**6,773,157**		4,977,949	
		11,839,651		9,577,693	
NET CURRENT ASSETS/(LIABILITIES)			**(3,860,119)**		(3,199,152)
			5,110,484		4,499,926
NOTES TO THE ACCOUNTS	O				

March 6, 2009 Gurgaon	MARTIAL G. ROLLAND Chairman & Managing Director	SHOBINDER DUGGAL Director - Finance & Control	B. MURLI Sr. VP - Legal & Company Secretary

Per our report attached
For A.F. FERGUSON & CO.,
Chartered Accountants

(MANJULA BANERJI)
Partner
Membership No. 86423

March 6, 2009
New Delhi

PROFIT AND LOSS ACCOUNT OF NESTLÉ INDIA LIMITED
FOR THE YEAR ENDED DECEMBER 31, 2008

	SCHEDULE		2008 (Rs. in thousands)		2007 (Rs. in thousands)
INCOME					
Sales					
Domestic		41,326,718		33,174,093	
Export		3,383,907		3,297,739	
Gross		44,710,625		36,471,832	
Less: Excise Duty		1,468,175		1,428,300	
Net Sales			43,242,450		35,043,532
Other Income	I		338,852		254,405
			43,581,302		35,297,937
EXPENDITURE					
Materials consumed and purchase of goods	J		21,386,673		17,522,681
Manufacturing and other expenses	K		13,563,778		11,231,159
Interest	L		16,430		8,545
Depreciation	E		923,601		747,432
Adjustment due to decrease / (increase) in stock of finished goods and work-in-progress	M		(345,448)		(673,059)
			35,545,034		28,836,758
PROFIT BEFORE ADDITIONAL EMPLOYEE COST, IMPAIRMENT, CONTINGENCIES AND TAXATION			8,036,268		6,461,179
Additional employee cost			-		753,650
Impairment loss/(gain) on fixed assets (Refer Note 1 - Schedule O)	E		3,084		11,758
Provision for contingencies (Refer Note 2 - Schedule O)	N		304,916		(590,367)
PROFIT BEFORE TAXATION			7,728,268		6,286,138
Income tax expense					
Current tax		2,223,114		1,939,000	
Deferred tax		81,836		166,948	
Fringe benefit tax		82,496	2,387,446	42,068	2,148,016
PROFIT AFTER TAXATION			5,340,822		4,138,122
Balance brought forward			125,159		104,689
Add : Transferred from Share Premium Account (Refer Note 22- Schedule O)			432,363		-
Add : Transferred from General Reserve (Refer Note 22 - Schedule O)			430,857		-
BALANCE AVAILABLE FOR APPROPRIATION			6,329,201		4,242,811
Appropriations:					
Dividends:					
Interim			2,217,561		2,940,680
Final proposed			1,156,989		241,040
Special (Refer Note 22 - Schedule O)			723,118		-
Corporate dividend tax			696,398		522,120
General reserve			534,082		413,812
SURPLUS CARRIED TO THE BALANCE SHEET			1,001,053		125,159
BASIC AND DILUTED EARNINGS PER SHARE (IN RUPEES)	O		55.39		42.92
NOTES TO THE ACCOUNTS	O				

March 6, 2009	MARTIAL G. ROLLAND	SHOBINDER DUGGAL	B. MURLI
Gurgaon	Chairman & Managing Director	Director - Finance & Control	Sr. VP - Legal & Company Secretary

Per our report attached to the balance sheet
For A.F. FERGUSON & CO.,
Chartered Accountants

(MANJULA BANERJI)
Partner
Membership No. 86423

March 6, 2009
New Delhi

CASH FLOW STATEMENT OF NESTLÉ INDIA LIMITED FOR THE YEAR ENDED DECEMBER 31, 2008

		2008 (Rs. in thousands)	2007 (Rs. in thousands)
A	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net profit before tax	**7,728,268**	6,286,138
	Adjustments for :		
	Depreciation	**923,601**	747,432
	Unrealised exchange differences	**10,867**	6,895
	Deficit/(surplus) on fixed assets sold/scrapped/written off/written back	**27,260**	27,114
	Interest expense	**16,430**	8,545
	Impairment loss/(reversal) on fixed assets	**3,084**	11,758
	Interest on inter corporate deposits	**-**	(796)
	Operating profit before working capital changes	**8,709,510**	7,087,086
	Adjustments for :		
	Decrease/(increase) in trade and other receivables	**9,547**	(87,064)
	Decrease/(increase) in inventories	**(336,964)**	(1,249,968)
	Increase/(decrease) in trade payables	**153,187**	828,613
	Increase/(decrease) in provision for contingencies	**304,916**	(549,822)
	Increase/(decrease) in provision for Employee Benefits	**418,677**	1,217,100
	Cash generated from operations	**9,258,873**	7,245,945
	Direct taxes paid	**(2,023,216)**	(2,054,013)
	Net cash from operating activities	**7,235,657**	5,191,932
B	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Purchase of fixed assets (adjusted for suppliers payables and capital work in progress)	**(2,549,937)**	(1,696,394)
	Sale of fixed assets	**30,765**	8,466
	Interest received on inter corporate deposits	**-**	796
	Net cash used in investing activities	**(2,519,172)**	(1,687,132)
C	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Proceeds/(Repayments) of borrowings	**(20,534)**	(133,965)
	Interest paid	**(16,430)**	(8,545)
	Dividends paid	**(3,177,021)**	(3,080,525)
	Corporate dividend tax	**(540,733)**	(501,439)
	Capital subsidy received	**2,500**	-
	Net cash outflow from financing activities	**(3,752,218)**	(3,724,474)
	Net increase / (decrease) in cash and cash equivalents (A+B+C)	**964,267**	(219,674)
	Cash and bank balances	**377,604**	763,560
	Current investments	**944,014**	777,732
	Cash and cash equivalents as at opening	**1,321,618**	1,541,292
	Cash and bank balances	**1,936,893**	377,604
	Current investments	**348,992**	944,014
	Cash and cash equivalents as at closing	**2,285,885**	1,321,618
	NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**964,267**	(219,674)

March 6, 2009	MARTIAL G. ROLLAND	SHOBINDER DUGGAL	B. MURLI
Gurgaon	Chairman & Managing Director	Director - Finance & Control	Sr. VP - Legal & Company Secretary

Per our report attached to the balance sheet
For A.F. FERGUSON & CO.,
Chartered Accountants

(MANJULA BANERJI)
Partner
Membership No. 86423

March 6, 2009
New Delhi

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT DECEMBER 31, 2008

		2008 (Rs. in thousands)	2007 (Rs. in thousands)
SCHEDULE A			
SHARE CAPITAL			
Authorised			
100,000,000	Equity shares of Rs. 10 each (Previous year 100,000,000)	**1,000,000**	1,000,000
Issued, subscribed and paid-up			
96,415,716	Equity shares of Rs. 10 each fully paid up (Previous year 96,415,716)	**964,157**	964,157
Of the above:			
73,413,626	Shares of Rs. 10 each (Previous year 73,413,626) were allotted as fully paid-up bonus shares by capitalisation of general reserves Rs. 73,897 thousands (Previous year Rs. 73,897 thousands) and share premium Rs. 660,239 thousands (Previous year Rs. 660,239 thousands).		
736,331	Shares of Rs.10 each (Previous year 736,331) were allotted as fully paid up pursuant to a contract without payment being received in cash.		
Of the above:			
32,166,274	Shares of Rs. 10 each (Previous year 32,166,274) are held by Nestlé S.A.		
27,463,680	Shares of Rs. 10 each (Previous year 27,463,680) are held by Maggi Enterprises Limited, the ultimate holding company being Nestlé S.A.		

	2008 (Rs. in thousands)	2007 (Rs. in thousands)
SCHEDULE B		
RESERVES AND SURPLUS		
Share premium account		
As per last balance sheet	**432,363**	432,363
Less : Transferred to profit and loss account (Refer Note 22- Schedule O)	**432,363**	-
	-	432,363
Capital subsidy		
As per last balance sheet	**2,500**	2,500
Add : Received during the year	**2,500**	-
	5,000	2,500
General reserve		
As per last balance sheet	**2,660,062**	2,385,170
Less : Transferred to profit and loss account (Refer Note 22 - Schedule O)	**430,857**	-
Less : Liability for Employee cost upto December 31, 2006	**-**	138,920
Add : Transferred from profit and loss account	**534,082**	413,812
	2,763,287	2,660,062
Surplus, being balance in profit and loss account (undistributed profits)	**1,001,053**	125,159
	3,769,340	3,220,084
SCHEDULE C		
SECURED LOANS		
Loans from Banks		
Secured by a first *pari passu* charge on all movable assets (excluding plant and machinery), finished goods, work-in-progress, raw materials and book debts.	**8,177**	28,711
	8,177	28,711

	2008 *(Rs. in thousands)*	2007 *(Rs. in thousands)*
SCHEDULE D		
DEFERRED TAX LIABILITIES AND ASSETS		
Deferred tax liabilities		
Difference between book and tax depreciation	**739,574**	695,371
Other temporary differences	**18,303**	-
	757,877	695,371
Deferred tax assets		
Provision for contingencies	**269,093**	211,528
Provision for employee costs	**68,847**	128,969
Other items deductible on payment or deposit of withholding taxes	**27,653**	44,481
Other temporary differences	**23,474**	23,419
	389,067	408,397
Deferred tax liabilities/(assets) (net)	**368,810**	286,974

SCHEDULE E

FIXED ASSETS

(Rs. in thousands)

	GROSS BLOCK				DEPRECIATION					NET BLOCK	
	Cost as at December 31, 2007	Additions	Deletions/ adjust-ments	**Cost as at December 31, 2008**	As at December 31, 2007	For the year	Impairement loss#	On Deletions/ adjustments	**As at December 31, 2008**	**As at December 31, 2008**	As at December 31, 2007
Tangible Assets (A)											
Freehold land	56,026	-	-	**56,026**	-	-	-	-	**-**	**56,026**	56,026
Leasehold land	94,657	338	-	**94,995**	1,905	1,056	-	-	**2,961**	**92,034**	92,752
Buildings	1,661,687	411,738	11,482	**2,061,943**	496,642	58,281	-	567	**554,356**	**1,507,587**	1,165,045
Railway siding	11,733	-	-	**11,733**	9,680	557	-	-	**10,237**	**1,496**	2,053
Plant and machinery	8,423,102	1,875,167	169,810	**10,128,459**	4,231,018	648,378	3,084	124,702	**4,757,778**	**5,370,681**	4,192,084
Furniture and fixtures	545,574	162,302	15,161	**692,715**	357,773	66,664	-	14,385	**410,052**	**282,663**	187,801
Information technology equipment	420,425	47,002	39,118	**428,309**	363,690	35,041	-	39,100	**359,631**	**68,678**	56,735
Vehicles	48,248	-	10,227	**38,021**	32,914	6,372	-	9,019	**30,267**	**7,754**	15,334
Sub Total	11,261,452	2,496,547	245,798	**13,512,201**	5,493,622	816,349	3,084	187,773	**6,125,282**	**7,386,919**	5,767,830
Intangible Assets (B)											
Management information systems	536,259	-	-	**536,259**	286,004	107,252	-	-	**393,256**	**143,003**	250,255
Total (A+B)	11,797,711	2,496,547	245,798	**14,048,460**	5,779,626	923,601	3,084	187,773	**6,518,538**	**7,529,922**	
Previous year	10,582,749	1,394,886	179,924	11,797,711	5,164,780	747,432	11,758	144,344	5,779,626		6,018,085
Capital work -in-progress including capital advances and machinery-in-transit										**1,091,689**	**736,979**
										8,621,611	**6,755,064**

Notes:

(a) Buildings include Rs.500 (Previous year Rs. 500) being the cost of share in a Co-operative Housing Society.

(b) Buildings and plant and machinery include Rs. 53,998 thousands (Previous year Rs.53,998 thousands) being the cost of leasehold improvements.

\# Refer Note 1 - Schedule O

SCHEDULE F

INVESTMENTS

			2008 (Rs. in thousands)	2007 (Rs. in thousands)
(NON TRADE, UNQUOTED)				
CURRENT				
(at cost or fair value, whichever is lower)				
GOVERNMENT SECURITIES				
Treasury bills	1,000,000	Face value of Rs. 1,598,400 thousands (previous year Rs. 1,600,000 thousands) purchased and Rs. 1,498,400 thousands (previous year Rs.1,600,000 thousands) sold during the year	**98,340**	–
MUTUAL FUNDS - DEBT				
[Units of face value Rs. 10 each, unless otherwise stated]				
TATA Mutual Fund	134,900	Units (previous year 142,431) of Tata Liquid Super High Investment Fund – Daily Dividend Reinvestment Plan (3,225,463 Units of face value of Rs.1000 each purchased and 3,232,994 Units sold during the year)	**150,349**	158,742
Birla Sun Life Mutual Fund	10,010,791	Units (previous year 11,344,009) of Birla Cash Plus Institutional Premium – Daily Dividend Reinvestment Plan (218,430,678 Units purchased and 219,763,896 Units sold during the year)	**100,303**	113,661
Standard Chartered Mutual Fund	–	Units (previous year 52,197) of Standard Chartered Liquidity Manager Plus– Daily Dividend Reinvestment Plan (250,386 Units of face value of Rs. 1000 each purchased and 302,583 Units sold durig the year)	**–**	52,208
Principal Mutual Fund	–	Units (previous year 13,873,012) of Principal Cash Management Fund Liquid Option Institutional –Daily Dividend Reinvestment Plan (236,982,836 Units purchased and 250,855,848 Units sold during the year)	**–**	138,740
Kotak Mahindra Mutual Fund	–	Units (previous year 2,760,241) of Kotak Liquid Institutional Premium Plan – Daily Dividend Reinvestment Plan (20,154,550 Units purchased and 22,914,791 Units sold during the year)	**–**	33,753
ING Vysya Mutual Fund	–	Units (previous year 19,128,755) of ING Vysya Liquid Fund Super Institutional – Daily Dividend Reinvestment Plan (3,058,979 Units purchased and 22,187,734 Units sold during the year)	**–**	191,379
Sundaram BNP Paribas	–	Units (previous year 14,145,446) of Sundaram BNP Paribas Money Fund Super Institutional – Daily Dividend Reinvestment Plan (158,421,119 Units purchased and 172,566,565 Units sold during the year)	**–**	142,803
	–	Units (previous year 11,246,017) of Sundaram BNP Paribas Liquid Plus Super Institutional Daily Dividend Reinvestment Plan (123,938,594 Units purchased and 135,184,611 Units sold during the year)	**–**	112,728
Repurchase price as at December 31, 2008		Rs. 349,887 thousands (previous year Rs. 944,014 thousands)	**348,992**	944,014

During the year, the following current investments were purchased and sold :

MUTUAL FUNDS - DEBT (UNQUOTED) (Units of face value of Rs.10 each)

1) 18,151,249 Units of Prudential ICICI Floating Rate - Daily Dividend Reinvestment Plan
2) 181,991,254 Units of ICICI Prudential Liquid Plan - Super Institutional - Daily Dividend Reinvestment Plan
3) 5,001,535 Units of IPMRD ICICI Prudential Interval Fund 1 Month Plan A - Retail Dividend-Reinvestment Plan
4) 38,107,606 Units of Birla Sun Life Liquid Plus - Institutional Premium - Daily Dividend - Reinvestment Plan
5) 134,127,712 Units of HSBC Cash Fund Institutional Plus - Daily Dividend Reinvestment Plan
6) 20,141,189 Units of ABN AMRO Money Plus Institutional - Daily Dividend Reinvestment Plan
7) 78,975,603 Units of JM High Liquidity Fund - Super Institutional Plan - Daily Dividend (92) Reinvestment Plan
8) 18,002,407 Units of JM Money Manager Fund Super Plus Plan - Daily Dividend (171) Reinvestment Plan
9) 52,075,739 Units of Reliance Liquid Fund - Treasury Plan Instituitional Option - Daily Dividend Reinvestment Plan
10) 7,505,213 Units of Reliance Liquidity Fund - Daily Dividend Reinvestment Plan
11) 10,225,540 Units of SBI Debt Fund Series 90 days-29 - Dividend

COMMERCIAL PAPERS (UNQUOTED) (Units of face value of Rs.500,000 each)

1) 200 Units of GE Capital Service India Ltd Commercial Paper
2) 100 Units of RABO India Finance (P) Ltd Commercial Paper

DEBENTURE (QUOTED) (Units of face value of Rs.1,000,000 each)

1) 250 Units of Citi Financial- Non Convertible Debenture

SCHEDULE G		2008 *(Rs. in thousands)*		2007 *(Rs. in thousands)*
CURRENT ASSETS, LOANS AND ADVANCES				
Inventories				
Stores and spare parts *		**248,931**		210,460
Stock-in-trade ** :				
Finished goods		**2,327,186**		1,977,141
Work-in-progress		**385,378**		424,279
Raw materials		**1,213,980**		1,240,513
Packing materials		**173,642**		159,760
		4,349,117		4,012,153
* At cost				
** At cost or net realisable value, whichever is lower				
Sundry debtors (Unsecured)				
Considered good				
Over six months	**8,667**		968	
Others	**447,266**	**455,933**	533,933	534,901
Considered doubtful				
Over six months	**14,067**		9,469	
Others	**15,650**	**29,717**	18,430	27,899
		485,650		562,800
Less: Provision for doubtful debts		**29,717**		27,899
		455,933		534,901
Cash and bank balances				
Cash in hand		**32**		84
Cheques in hand		**25,262**		119,313
With scheduled banks - on current accounts		**101,349**		38,076
- on deposit accounts		**1,810,250**		220,131
		1,936,893		377,604
Loans and advances				
(Unsecured, considered good - unless otherwise stated)				
Advances recoverable in cash or in kind or for value to be received*				
Considered good				
Secured	**43,940**		36,205	
Unsecured	**1,184,043**	**1,227,983**	1,125,678	1,161,883
Considered doubtful		**8,723**		5,184
		1,236,706		1,167,067
Less: Provision for doubtful advances		**8,723**		5,184
		1,227,983		1,161,883
Taxation (payments less provisions)		**9,606**		292,000
		1,237,589		1,453,883
		7,979,532		6,378,541

* Advances recoverable, disbursed under the Company's housing loans scheme for its employees, includes Rs. Nil (Previous year Rs. 5,380 thousands) due from a Director of the Company - maximum amount due during the year Rs. 5,433 thousands (Previous year Rs. 9,500 thousands).

SCHEDULE H	**2008 *(Rs. in thousands)***	2007 *(Rs. in thousands)*
CURRENT LIABILITIES AND PROVISIONS		
Current liabilities		
Sundry Creditors -		
Micro and small enterprises (Refer to Note 17 - Schedule O)	**15,917**	10,495
Others	**5,001,981**	4,545,350
Investor Education and Protection Fund shall be credited by the following:		
Unpaid dividends #	**48,596**	43,899
	5,066,494	4,599,744
Provisions		
Pension and Gratuity	**3,076,982**	2,680,488
Contingencies (Refer Schedule N)	**1,971,794**	1,666,878
Employee Benefits, Incentives and Welfare *	**370,762**	348,579
Proposed final dividend	**1,156,989**	241,039
Corporate dividend tax	**196,630**	40,965
	6,773,157	4,977,949
	11,839,651	9,577,693

There is no amount due and outstanding to be credited to Investor Education and Protection Fund.

* Includes compensated absences, restricted stock unit plans, long service awards and ceremonial gifts.

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2008

SCHEDULE I	**2008 *(Rs. in thousands)***	2007 *(Rs. in thousands)*
OTHER INCOME		
Dividend on current, non-trade investments	**58,974**	92,808
Interest on income tax refund in relation to earlier years	**3,115**	21,352
Interest received on loans, deposits & debentures (gross) (Tax deducted at source Rs. 25,172 thousands previous year Rs. 4,439 thousands)	**145,058**	52,975
Export incentives	**9,754**	3,095
Miscellaneous income	**121,951**	84,175
	338,852	254,405

SCHEDULE J

MATERIALS CONSUMED AND PURCHASE OF GOODS

	2008 (Rs. in thousands)	2007 (Rs. in thousands)
Raw materials consumed	**17,352,859**	14,391,229
Packing materials consumed	**3,531,546**	2,784,775
Purchase of goods - outside manufacture	**502,268**	346,677
	21,386,673	17,522,681

SCHEDULE K

MANUFACTURING AND OTHER EXPENSES

	2008	2008 (Rs. in thousands)	2007	2007 (Rs. in thousands)
Employee cost				
Salaries, wages, bonus, pension, gratuity, performance incentives etc.	**2,853,949**		2,454,121	
Contribution to provident and other funds	**102,088**		86,660	
Staff welfare expenses	**189,771**	**3,145,808**	153,645	2,694,426
Advertising and sales promotion		**1,943,555**		1,722,059
Freight, transport and distribution		**2,035,530**		1,608,368
General licence fees (net of taxes)		**1,459,570**		1,168,459
Taxes on general licence fees		**226,233**		181,125
Power and fuel		**1,597,565**		1,239,442
Maintenance and repairs				
Plant and machinery	**278,069**		249,264	
Buildings	**33,716**		30,507	
Others	**59,948**	**371,733**	42,338	322,109
Travelling		**418,069**		355,978
Contract manufacturing charges		**456,500**		372,172
Rates and taxes		**201,483**		173,762
Rent		**176,972**		181,615
Information technology and management information systems		**400,391**		308,714
Milk collection and district development expenses		**114,490**		116,623
Consumption of stores and spare parts (excluding Rs.160,775 thousands charged to other revenue accounts, previous year Rs.136,678 thousands)		**151,846**		112,682
Training expenses		**175,239**		121,080
Market research		**96,591**		71,590
Deficit on fixed assets sold/scrapped/written off		**27,260**		27,114
Laboratory (quality testing) expenses		**137,557**		99,501
Insurance		**16,563**		22,344
Miscellaneous expenses		**410,823**		331,996
		13,563,778		11,231,159

		2008 *(Rs. in thousands)*		2007 *(Rs. in thousands)*
SCHEDULE L				
INTEREST				
Interest on fixed loans		**13,117**		5,449
Others		**3,313**		3,096
		16,430		8,545
SCHEDULE M				
ADJUSTMENT DUE TO (INCREASE)/DECREASE IN STOCK OF FINISHED GOODS AND WORK-IN-PROGRESS				
Opening stock				
Work-in-progress	**424,279**		284,758	
Finished goods	**1,977,141**		1,406,559	
	2,401,420		1,691,317	
Less: Excise duty	**129,300**		92,256	
Net opening stock (A)		**2,272,120**		1,599,061
Less: Closing stock				
Work-in-progress	**385,378**		424,279	
Finished goods	**2,327,186**		1,977,141	
	2,712,564		2,401,420	
Less: Excise duty	**94,996**		129,300	
Net closing stock (B)		**2,617,568**		2,272,120
Movement in opening and closing stock (A-B)		**(345,448)**		(673,059)
SCHEDULE N				
PROVISION FOR CONTINGENCIES				
Balance as at December 31, 2007		**1,666,878**		2,216,700
Add: Created during the year	**325,882**		163,283	
Less: Reversed/utilised during the year	**(20,966)**		(753,650)	
Net provision taken to the Profit and Loss Account		**304,916**		(590,367)
Add: Reclassified during the year		**-**		40,545
Balance as at December 31, 2008		**1,971,794**		1,666,878
(Refer Note 2- Schedule O)				

SCHEDULE O

NOTES TO THE ACCOUNTS

1. During the year ended December 31, 2008, Impairment loss on fixed assets (Gross - Rs. 3,084 thousands, net of deferred taxes - Rs. 2,036 thousands) relates to various items of plant and machinery that have been brought down to their recoverable values upon evaluation of future economic benefits from their use.

2. The Company has created a contingency provision of Rs. 325,882 thousands (Previous year Rs. 163,283 thousands) for various contingencies resulting mainly from issues, which are under litigation/dispute and other items requiring management judgment and discretion. The Company has also reversed contingency provision of Rs. 20,966 thousands (Previous year Rs. 753,650 thousands) due to the satisfactory settlement of certain disputes and other matters for which provision was no longer required. An amount of Rs. Nil (Previous year Rs. 40,545 thousands), pertaining to provisions created in earlier years and shown earlier under current liabilities, has been reclassified to Contingencies during the year. The details of class-wise provisions are given below :

	2008 *(Rs. in thousands)*			2007 *(Rs. in thousands)*		
Description	**Provisions for**			Provisions for		
	Litigations and related disputes	**Others**	**Total**	Litigations and related disputes	Others	Total
Opening Balance	**1,613,078**	**53,800**	**1,666,878**	1,409,250	807,450	2,216,700
New Provisions	**325,882**	**–**	**325,882**	163,283	–	163,283
Reversals	**(20,966)**	**–**	**(20,966)**	–	(753,650)	(753,650)
Total cost for the year in Profit and Loss account	**304,916**	**–**	**304,916**	163,283	(753,650)	(590,367)
Reclassified during the year	**–**	**–**	**–**	40,545	–	40,545
Closing Balance	**1,917,994**	**53,800**	**1,971,794**	1,613,078	53,800	1,666,878

Notes:

(a) **Litigations and related disputes** - represents estimates made mainly for probable claims arising out of litigations / disputes pending with authorities under various statutes (i.e. Income Tax, Excise Duty, Service Tax, Sales and Purchase Tax etc.). The probability and the timing of the outflow with regard to these matters depends on the ultimate settlement /conclusion with the relevant authorities.

(b) **Others** - include estimates made for products sold by the Company which are covered under free replacement warranty on becoming unfit for human consumption during the prescribed shelf life, investments held by the employee benefit trusts and other items requiring management judgment and discretion .The timing and probability of outflow with regard to these matters will depend on the external environment and the consequent decision / conclusion by the Management.

	2008 *(Rs. in thousands)*	2007 *(Rs. in thousands)*
3. Capital commitments remaining to be executed and not provided for	**849,025**	632,711
4. Auditors' remuneration including service tax and expenses in respect of:		
a) Statutory audit	**3,382**	3,236
b) Audit of accounts for fiscal year and tax audit	**1,309**	1,309
c) Limited review of quarterly un-audited results	**742**	742
d) Certification for general license fee remittances, corporate governance and others	**229**	229
e) Audit of employee trust accounts and other certificates	**262**	324
f) Certification of tax holiday benefits	**70**	81
g) Reimbursement of out of pocket expenses for statutory audit and other matters	**212**	287

		2008 (Rs. in thousands)	2007 (Rs. in thousands)
5.	Managerial remuneration @		
	Salaries	**26,430**	21,984
	Company's contribution to provident fund	**1,158**	630
	Leave Travel	**563**	891
	Commission to managing/whole-time directors	**34,612**	31,961
	Commission to non whole-time directors	**1,400**	1,105
	Directors sitting fees	**510**	365
	Other perquisites	**11,894**	8,900
		76,567	65,836

@ Does not include provision for incremental pension liability of Director - Finance & Control since the actuarial certificate is for the Company as a whole. There is no incremental gratuity liability since he had already earned gratuity, prior to his appointment as Director - Finance & Control. Provision for incremental compensated absences liability has also been excluded since the computation for the same has been done for the company as a whole.

Computation of net profit in accordance with Section 198 of the Companies Act, 1956

	2008	2007
Net Profit after taxation	**5,340,822**	4,138,122
Add:		
Managerial remuneration	**76,567**	65,836
Net gain/(deficit) on fixed assets sold/scrapped as per Section 350 of the Companies Act, 1956	**(27,456)**	(27,121)
Net (gain)/deficit on fixed assets sold/scrapped as per accounts	**27,260**	27,114
Provision for income-tax	**2,304,950**	2,105,948
Net Profit	**7,722,143**	6,309,899
Commission: - Amount	**36,012**	33,066
- Percentage of net profit	**0.47%**	0.52%

		2008	2007
6.	Exchange difference (net) debited to the profit and loss account	**106,068**	13,687

		2008 (Rs. in thousands)	2008 %	2007 (Rs. in thousands)	2007 %
7.	Stores and spare parts consumed:				
	Imported	**26,863**	**8.6**	31,041	12.4
	Indigenous	**285,758**	**91.4**	218,319	87.6
		312,621	**100.0**	249,360	100.0
8.	Earnings from exports:				
	Export of goods in:				
	- Foreign Currency at F.O.B value {including sales to Russia invoiced in Rupees of Rs. 1,016,174 thousands (Previous year Rs. 1,076,367 thousands)}	**2,682,417**		2,782,554	
	- Rupees (all inclusive sales to Nepal & Bhutan)	**670,148**		476,934	
	- Proceeds from sale of fixed assets in foreign currency at F.O.B value	**21,612**		7,432	

		2008 (Rs. in thousands)	2007 (Rs. in thousands)
9.	C. I. F. value of imports:		
	Raw/Packing materials	**878,110**	725,956
	Capital goods	**920,389**	480,361
	Goods – outside manufacture	**71,981**	13,722
	Components and spare parts	**69,028**	53,826

		2008		2007	
		Quantity (MT)	***(Rs. in thousands)***	*Quantity (MT)*	*(Rs. in thousands)*
10.	Raw materials consumed:				
	Fresh milk and milk concentrate	**445,447**	**6,933,034**	394,919	5,540,582
	Green coffee	**23,761**	**2,254,827**	26,222	1,970,792
	Vegetable oils	**28,161**	**1,902,523**	22,201	1,268,463
	Wheat flour	**104,037**	**1,522,246**	79,759	1,115,672
	Skimmed milk powder	**10,002**	**1,358,968**	9,725	1,208,072
	Sugar	**49,126**	**854,541**	45,057	695,581
	Tomato Paste	**5,042**	**229,066**	4,090	154,784
	Lactose	**2,459**	**188,962**	1,508	152,624
	Maltodextrine Powder	**5,115**	**163,870**	5,220	188,761
	Liquid Glucose	**9,626**	**148,570**	7,911	130,717
	Whey powder	**862**	**145,819**	1,160	142,542
	Cocoa based raw materials	**1,012**	**118,470**	1,063	106,506
	Rice Flour	**3,489**	**105,255**	4,109	105,652
	Strawberry Crunchies	**137**	**101,187**	100	73,030
	Onion Flakes/Powder	**1,033**	**99,703**	743	79,366
	Wheat Gluten	**927**	**96,000**	816	58,468
	Apple concentrate	**980**	**86,111**	892	78,574
	Chicory	**4,077**	**82,031**	3,757	70,661
	Black tea/green leaf	**6,092**	**80,939**	6,891	67,590
	Others (net of sale proceeds of by-products/surplus materials)		**880,737**		1,182,792
			17,352,859		14,391,229

	2008		2007	
	(Rs. in thousands)	***%***	*(Rs. in thousands)*	*%*
Of the above:				
Imported	**1,035,685**	**6.0**	966,068	6.7
Indigenous	**16,317,174**	**94.0**	13,425,161	93.3
	17,352,859	**100.0**	14,391,229	100.0

		2008 (Rs. in thousands)	2007 (Rs. in thousands)
11(a).	Expenditure in foreign currency (accrual basis):		
	General license fees (net of tax)	**1,459,570**	1,168,459
	Information technology and management information systems	**334,977**	292,613
	Travelling and training	**55,339**	38,815
	Other matters	**154,365**	184,985
11(b).	Expenditure recovered/received in foreign currency (accrual basis)	**128,848**	33,610

12. Amount remitted in foreign currencies towards dividends during the year

	2008			2007		
	Number of Non-resident Shareholders	**Number of Equity Shares held**	**Dividend remitted *(Rs. in thousands)***	Number of Non-resident Shareholders	Number of Equity Shares held	Dividend remitted *(Rs. in thousands)*
Final - 2007	**2**	**59,629,954**	**149,075**	-	-	-
Interim	**2**	**59,629,954**	**1,371,489**	2	59,629,954	1,908,159
Special	**2**	**59,629,954**	**447,225**	-	-	-

13. Earnings per share

	2008	2007
Profit after taxation as per profit and loss account (Rs. in thousands)	**5,340,822**	4,138,122
Weighted average number of equity shares outstanding	**96,415,716**	96,415,716
Basic and diluted earnings per share in rupees (face value – Rs. 10 per share)	**55.39**	42.92

14. Capacities, Production/Purchases, Stocks and Sales of Finished Goods

Class of goods	Licensed Capacity (Annual) Quantity (MT)	Opening stock Quantity (MT)	Opening stock Value *(Rs. in thousands)*	#Actual Production & Purchases (MT)	Closing stock Quantity (MT)	Closing stock Value *(Rs. in thousands)*	Gross Sales Quantity* (MT)	Gross Sales Value *(Rs. in thousands)*
Milk Products and Nutrition								
- Licensed	**72,502.50 (a)**	**7,829**	**858,874**	**71,753**	**7,950**	**952,556**	**71,040**	**12,845,174**
	(72,502.50)	(5,983)	(588,820)	(67,635)	(7,829)	(858,874)	(65,305)	(10,427,702)
- Others	**Not Applicable**	**3,067**	**303,179**	**48,535**	**3,150**	**325,552**	**47,611**	**6,542,607**
		(2,671)	(236,513)	(43,415)	(3,067)	(303,179)	(42,431)	(5,328,340)
Beverages	**Not Applicable**	**2,171**	**381,197**	**24,203**	**1,971**	**387,974**	**24,114**	**8,008,525**
		(1,522)	(247,051)	(24,951)	(2,171)	(381,197)	(24,107)	(7,218,583)
Prepared dishes and cooking aids	**Not Applicable**	**4,870**	**217,057**	**130,107**	**6,565**	**323,711**	**127,835**	**10,519,346**
		(3,810)	(163,838)	(100,064)	(4,870)	(217,057)	(98,259)	(7,811,377)
Chocolate and Confectionery	**Not Applicable**	**2,254**	**216,834**	**41,413**	**3,381**	**337,394**	**40,200**	**6,794,973**
		(1,989)	(170,337)	(36,211)	(2,254)	(216,834)	(35,752)	(5,685,830)
			1,977,141			**2,327,186**		**44,710,625**
			(1,406,559)			(1,977,141)		(36,471,832)

Includes product manufactured by contract manufacturers on conversion basis.
* Sales quantity includes goods withdrawn for sales promotion.

(a) Includes 50,000 MT (50,000 MT) covered by Industrial Entrepreneurs Memorandums in terms of Notification No. 477(E) dated 25th July, 1991 of the Department of Industrial Development, Ministry of Industry, Government of India. Milk products comprise sweetened condensed milk, baby milk foods, milk powders, acidified infant food and other milk products, which are covered by one class of goods.

(b) The products are manufactured in integrated plants as certified by the Management on which the Auditors have relied. Hence, in respect of all the above class of goods, individual installed capacities cannot be given, as they are mainly dependent on product mix.

(c) Actual production and purchase include purchases of 13,806 MT (11,732 MT) in Milk Products and Nutrition - Others, 309 MT (187 MT) in Beverages, 455 MT(Nil MT) in Prepared dishes and cooking aids, 61 MT (12 MT) in Chocolate and Confectionery. The total value of these purchases is Rs. 502,268 thousands (Rs. 346,677 thousands).

(d) Previous year's figures are indicated in brackets.

15. Segment reporting

Based on the guiding principles given in Accounting Standard on 'Segment Reporting' (AS-17), the Company's primary business segment is Food. The food business incorporates product groups viz. Milk Products and Nutrition, Beverages, Prepared dishes and cooking aids, Chocolates and Confectionery, which mainly have similar risks and returns. As the Company's business activity falls within a single primary business segment the disclosure requirements of AS -17 in this regard are not applicable.

16. Related party disclosures under Accounting Standard 18

Holding companies: Nestlé S.A. and Maggi Enterprises Limited.

Fellow subsidiaries are disclosed to comply with para 3 (a) of Accounting Standard -18 on "Related party Disclosures" albeit these do not control or exercise significant influence on Nestlé India Limited:

Belte Schweiz AG, Galderma India Pvt. Limited., Nestec S.A., Nestec York Limited, Nestlé (Fiji) Limited, Nestlé (China) Limited., Nestlé (PNG) Limited, Nestlé (South Africa) (Pty) Limited, Nestlé (Thai) Limited, Nestlé Australia Limited, Nestlé Bangladesh Limited, Nestlé Brazil Ltda, Nestlé Central And West Africa Ltd, Nestlé Deutschland AG, Nestlé Egypt S.A.E., Nestlé Foods Kenya Ltd, Nestlé France S.A.S., Nestlé Ghana Ltd, Nestlé Hong Kong Limited, Nestlé Hungaria Kft., Nestlé Iran (Private Joint Stock Company), Nestlé Japan Ltd, Nestlé Korea Ltd, Nestlé Kuban LLC, Nestlé Lanka PLC, Nestlé Manufacturing (Malaysia) Sdn. Bhd, Nestlé Middle East FZE, Nestlé Nederland B.V., Nestlé Nigeria PLC, Nestlé Pakistan Ltd, Nestlé Philippines, Inc., Nestlé Polska S.A., Nestlé Product Technology Centre Lebensmittelforschung GMBH, Nestlé Products Sdn..Bhd., Nestlé R&D Centre (Pte) Limited, Nestlé Romania S.R.L., Nestlé Shanghai Limited., Nestlé Singapore (PTE) Limited, Nestlé Suisse S.A., Nestlé Taiwan Limited, Nestlé Tianjin Limited., Nestlé Trading (Fiji) Limited, Nestlé Turkiye Gida Sanayi A.S., Nestlé UK Ltd., Nestlé USA Inc, Nestlé Vietnam Limited., Nestlé Waters Supply Est, Nestrade-Nestlé World Trade Corporation, Osem Food Industries Limited, Osem UK Limited, PT Nestlé Indonesia, Servcom SA, Société des Produits Nestlé S.A., Speciality Foods India Pvt Limited, Nestlé Canada Inc, Nestlé Bolivia S.A., Nestlé Waters France S.A.S, Nestlé R&D Center Shanghai Limited, Nestlé Italiana S.p.A, Nestlé Maroc S.A, Nestlé Portugal S.A, Nestlé Panama S.A, Nestlé Senegal, Nestlé Adriatic doo, Nestlé New Zealand Limited, Nestlé Shuangcheng Limited, Nestlé Mexico S.A.de C.V, Nestlé's Products (Mauritius) Limited, Nestlé Business Services S.A., Nestlé Dongguan Limited, Nestlé Equatorial Africa Region (EPZ) Limited.

Whole time directors': Martial G Rolland, Chairman & Managing Director; Shobinder Duggal, Director - Finance & Control.

Name of transactions	2008 (Rs. in thousands)	2007 (Rs. in thousands)
Holding companies:		
Dividends:		
- Interim Dividend	**1,371,489**	1,818,713
- Final Dividend	**715,559**	149,075
- Special Dividend	**447,225**	-
Expenses Reimbursed/incurred:		
- Nestlé S.A.	**46,476**	120,958
Fellow subsidiaries:		
(a) Sale of finished and other goods		
- Nestlé Kuban LLC	**1,041,748**	1,105,485
- Nestlé Bangladesh Ltd.	**480,102**	439,982
- Nestlé Hungaria KFT	**296,003**	225,568
- Others	**403,862**	464,491
(b) Sale of fixed assets		
- Nestrade - Nestlé World Trade Corporation	**21,388**	-
- Nestlé Lanka PLC	**224**	7,432
(c) Sale of spares		
- Nestlé Bangladesh Ltd.	**-**	61
(d) Purchase of fixed assets		
- Nestlé Lanka PLC	**682**	804
- Nestlé R&D Centre (Pte) Ltd.	**449**	-
- Nestlé Korea Ltd.	**-**	2,212
- Nestlé Australia Limited	**-**	1,563
- Nestlé Bangladesh Ltd.	**-**	948
(e) Purchase of raw and packing materials and spare parts		
- Nestlé Nederland B V	**-**	98
(f) Purchase of finished goods		
- Nestlé Lanka PLC	**58,437**	13,725
- P.T. Nestlé Indonesia	**4,424**	2,593
- Others	**9,120**	-
(g) General licence fees (Net of taxes)		
- Société des Produits Nestlé S.A.	**1,459,570**	1,168,459
(h) Interest on inter corporate deposits		
- Galderma India Pvt Ltd.	**-**	796
(i) Expenses Recovered/received		
- Nestlé Kuban LLC	**46,074**	266
- Nestec S.A	**38,148**	5,609
- Nestlé Lanka PLC	**17,594**	7,343
- Speciality Foods India Pvt Ltd.	**4,930**	9,576
- Nestlé (South Africa.) Pty Ltd.	**951**	4,639
- Others	**26,081**	15,753

		2008 (Rs. in thousands)	2007 (Rs. in thousands)
(j)	Expenses Reimbursed/incurred		
	- Nestlé R & D Center (Pte) Limited	**29,951**	19,313
	- Nestlé Deutschland AG	**18,835**	8,405
	- Nestec S.A	**18,270**	17,954
	- Others	**25,896**	18,897
(k)	Information technology and management information systems		
	- Nestlé Australia Ltd.	**304,293**	276,561
(l)	Inter corporate deposits granted		
	- Galderma India Pvt. Limited	**-**	80,000
(m)	Inter corporate deposits refunded		
	- Galderma India Pvt. Limited	**-**	80,000
Balance outstanding as at the year end			
•	Proposed final dividend for 2008 payable to holding companies	**715,559**	149,075
•	Receivables	**202,020**	270,426
•	Payables	**261,499**	331,801

Notes:

i. Inter corporate deposits were granted at the then prevailing bank rate or one month commercial paper benchmark plus a spread thereon, whichever is higher.

ii. Details of remuneration to whole time directors' are given in the note 5 of the Notes to the Accounts. Balance payable to whole time directors' as on December 31, 2008 is Rs. 17,694 thousands (Previous year Rs. 14,540 thousands)

iii. Other transactions with Key Managerial Personnel during the year:
Balance Outstanding against Loans disbursed under Company's Housing Loan Scheme for its employees includes Rs. Nil thousands (Previous Year Rs. 5,380 thousands). Transactions during the year in this housing loan account : Interest debited Rs. 122 thousands (Previous year Rs. 480 thousands); repayments Rs. 5,380 thousands (Previous year Rs. 4,600 thousands).
Lease rentals paid (at market rates) during the year : Rs. 1,560 thousands (Previous year Rs. 780 thousands for part of year).

17. On the basis of confirmation obtained from suppliers who have registered themselves under the Micro Small Medium Enterprise Development Act, 2006 (MSMED Act, 2006) and based on the information available with the Company, the balance due to Micro & Small Enterprises as defined under the MSMED Act, 2006 is Rs.15,917 thousands (Previous year Rs. 10,495 thousands). Further, no interest during the year has been paid or payable under the terms of the MSMED Act, 2006.

18. Employee Plans

a) The company makes contribution towards employees' provident fund and employees' state insurance plan scheme. Under the rules of these schemes, the Company is required to contribute a specified percentage of payroll costs. The Company during the year recognised Rs. 102,088 thousands (Previous year Rs. 86,660 thousands) as expense towards contributions to these plans.

Out of the total contribution, made for employees' provident fund, Rs. 50,793 thousands (Previous year Rs. 42,691 thousands) is made to the Nestlé India Limited Employees Provident Fund Trust while the remainder contribution is made to provident fund plan operated by the Regional Provident Fund Commissioner.

The total plan liabilities under the Nestlé India Limited Employees Provident Fund Trust as at December 31, 2008 is Rs. 877,873 thousands (Previous year Rs. 780,797 thousands) as against total plan assets of Rs. 878,195 thousands (Previous year Rs. 785,831 thousands). The funds of the Trust have been invested under various securities as prescribed under the rules of the Trust.

b) Gratuity scheme - This is a funded defined benefit plan for qualifying employees. The Company makes contributions to the Nestlé India

Limited Employees' Gratuity Trust Fund. The scheme provides for a lumpsum payment to vested employees at retirement, death while in employment or on termination of employment. Vesting occurs upon completion of five years of service.

c) Pension scheme - The Company operates a non funded pension defined benefit scheme for its employees that qualify under the scheme. The scheme is discretionary in nature.

The following table sets out the status of the gratuity scheme and pension scheme plans as at December 31, 2008:-

	As at December 31, 2008 *(Rs. in thousands)*		As at December 31, 2007 *(Rs. in thousands)*	
	Gratuity Scheme Funded Plan	**Pension Scheme Non Funded Plan**	Gratuity Scheme Funded Plan	Pension Scheme Non Funded Plan
Change in benefit obligation:				
1 Present Value of obligation, as at the beginning of the year	**322,190**	**2,662,598**	303,160	1,585,954
2 Service cost	**28,730**	**201,522**	24,050	980,264
3 Interest cost	**22,620**	**186,890**	23,190	118,150
4 Actuarial (gain)/loss *(net of actual benefits paid, as shown under cost for the period below)**	**(17,560)**	**25,310**	(28,210)	(21,770)
5 Present Value of obligation, as at the end of the year	**355,980**	**3,076,320**	322,190	2,662,598
Change in plan Assets:				
1 Plan assets at the beginning of the year	**304,300**	**–**	287,600	–
2 Expected return on plan assets	**21,295**	**–**	22,120	–
3 Contribution by the Company	**45,000**	**–**	14,000	–
4 Actual benefits paid	**(19,247)**	**–**	(19,420)	–
5 Actuarial gain / (loss)	**3,970**	**–**	–	–
6 Plan assets at the end of year	**355,318**	**–**	304,300	–
Liability recognised in the balance sheet as at December 31, 2008	**662**	**3,076,320**	17,890	2,662,598
Cost for the period:				
1 Service cost	**28,730**	**201,522**	24,050	980,264
2 Interest cost	**22,620**	**186,890**	23,190	118,150
3 Return on Plan Asset	**(25,265)**	**–**	(22,120)	–
4 Actuarial (Gain)/Loss on obligation	**(17,560)**	**25,310**	(28,210)	(21,770)
5 Actual benefits paid*	**19,247**	**90,518**	19,420	82,040
Net cost	**27,772**	**504,240**	16,330	1,158,684
Constitution of plan assets:				
1 Bonds	**227,724**	**–**	190,435	–
2 Government of India securities	**53,990**	**–**	45,208	–
3 State Government/State Government guaranteed securities	**72,979**	**–**	65,527	–
4 Cash at bank and receivables	**625**	**–**	3,130	–
Total Plan Assets	**355,318**	**–**	304,300	–
Main Actuarial Assumptions:				
1 Discount Rate (%)	**7.00**	**7.00**	7.65	7.65
2 Expected rate of return on plan assets (%)	**7.00**	**–**	7.65	–

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as demand and supply in the employment market.

The expected return on plan assets is determined considering several applicable factors mainly the composition of the plan assets held, assessed risks of assets management, historical results of return on plan assets and the policy for plan assets management.

19. The Company participates in the Nestlé Restricted Stock Unit (RSU) Plan of Nestlé S.A., whereby select employees are granted non-tradeable Restricted Stock Units with the right to obtain Nestlé S.A. shares or cash equivalent. Restricted Stock Units granted to employees vest, subject to certain conditions, after completion of three years. Upon vesting Nestlé S.A. determines, whether shares, free of charge or cash equivalent to the value of shares, is to be transferred to the employee. The Company has to pay Nestlé S.A. an amount equivalent to the value of Nestlé S.A. shares on the date of vesting, delivered to the employee. Provisions are made based on estimates including Nestlé S.A. share price over the vesting period.

The details are as under : -	No. of Grants	Amount *(Rs. in thousands)*
Outstanding, non vested RSU grants as at 31.12.2008 :	8655	105,827
RSU Grants vested during the year :	3235	61,607

20. The Company's significant leasing arrangements are primarily in respect of operating leases for premises (office, residential, warehouses etc.) and vehicles. These leasing arrangements which are not non-cancellable are usually renewable on mutually agreeable terms. The aggregate lease rentals charged to the profit and loss account are Rs. 271,157 thousands (Previous year Rs. 237,775 thousands).

21. The foreign currency exposure of the Company as on December 31, 2008 is as under:

a) Category wise quantitative data

	As at December 31, 2008			As at December 31, 2007		
	Nos.	**Currency**	**Amount ('000)**	Nos.	Currency	Amount ('000)
Forward contracts against exports	**16**	**USD**	**6,199**	21	USD	9,954
	1	**CAD**	**100**	-	CAD	Nil
	1	**GBP**	**20**	-	GBP	Nil
	–	**EUR**	**Nil**	12	EUR	3,000
Forward contracts against imports	**23**	**USD**	**8,646**	10	USD	6,121
	7	**AUD**	**1,750**	-	AUD	Nil
	5	**CHF**	**1,019**	1	CHF	228
	4	**EUR**	**521**	7	EUR	1,446
	2	**JPY**	**45,176**	-	JPY	Nil
	–	**GBP**	**Nil**	1	GBP	55

b) All the forward contracts are for hedging foreign exchange exposures against firm commitments and/or forecasted transactions.

c) Foreign currency exposures remaining unhedged at the year end:

	As at December 31, 2008		As at December 31, 2007	
	Currency	**Amount ('000)**	Currency	Amount ('000)
Against exports	**CAD**	20	CAD	Nil
	GBP	7	GBP	13
Against imports	**JPY**	86,572	JPY	4,154
	CHF	541	CHF	Nil
	EUR	318	EUR	Nil
	SGD	242	SGD	174
	NZD	103	NZD	Nil
	AUD	86	AUD	4,809
	GBP	21	GBP	87
	ZAR	14	ZAR	14

22. During the calendar year 2007, the Company had sought approval of the Hon'ble Delhi High Court under Sections 391 to 394 of the Companies Act, 1956 for a Scheme of Arrangement ("Scheme") between the Company and its shareholders and creditors. The Scheme envisaged utilisation of following amounts for payment to the shareholders, subject to applicable taxes :

    i) An amount of Rs.432,363 thousands as lying in the Share Premium Account of the Company; and

    ii) An amount of Rs.430,857 thousands from the General Reserve Account of the Company, which was voluntarily transferred by the Company in excess of the prescribed 10% of the profits of the Company in accordance with the provisions of the Companies (Transfer of Profits to Reserves) Rules, 1975 during the financial years 1981 to 1996.

    The equity shareholders supported the Scheme at a meeting held on May 3, 2007 as per directions of the Hon'ble Delhi High Court. Subsequently, the Honourable Delhi High Court vide its Order dated September 30, 2008 sanctioned the aforesaid Scheme and the Scheme became effective from October 31, 2008 after filing of the certified copy of the aforesaid Order with the Registrar of Companies, NCT of Delhi and Haryana. Thereafter as per the Scheme, after deducting applicable corporate dividend tax from the aggregate amount of Rs. 863,220 thousands credited to the Profit and Loss Account, a Special Dividend of Rs.7.50 (Rupees seven and paise fifty only) per share calculated by dividing the net amount by the outstanding 96,415,716 equity shares of face value of Rs. 10/- each and rounding it off to the nearest half Rupee, was paid on November 26, 2008 to those shareholders whose name appeared in the Register of Members/ Beneficial Owners on November 17, 2008.

23. Previous year figures have been regrouped/reclassified wherever necessary, to make them comparable.

24. **SIGNIFICANT ACCOUNTING POLICIES**

ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, in accordance with applicable mandatory accounting standards prescribed under the Companies (Accounting Standards) Rules, 2006 and the relevant provisions of the Companies Act, 1956.

SALES

Sale of goods is recognised at the point of despatch to the customer. Sales include excise duty but exclude value added tax/sales tax. In order to comply with the Accounting Standards Interpretation (ASI-14) issued by the Institute of Chartered Accountants of India, gross sales (including excise duty) and net sales (excluding excise duty) is disclosed in the Profit and Loss account.

INVENTORIES

Stores and spare parts are stated at cost. Stock-in-trade is valued at cost or net realisable value, whichever is lower, as certified by the management. The basis of determining cost for various categories of inventories are as follows:

Raw and packing materials	:	First-in-first out
Stores and spare parts	:	Weighted average
Work-in-progress and finished goods	:	Material cost plus appropriate share of production overheads and excise duty, wherever applicable.

EMPLOYEE BENEFITS

Contributions to the provident fund and provision for pension and gratuity are charged to revenue every year. Provision for pension is made on the basis of an actuarial valuation carried out by an independent actuary as at the year-end. Provision for gratuity is made on the basis of actuarial valuation after taking into account the net result of gratuity trust fund. Recognition of other long term employee benefits, comprising largely of long service awards, is done on a discounted, accrual basis over the expected service period until the benefits become vested. Actuarial gains and losses are recognized immediately in the Profit and Loss account.

Liability on account of short term employee benefits, comprising largely of compensated absences and performance incentives, is recognized on an undiscounted, accrual basis during the period when the employee renders service/vesting period of the benefit.

DEPRECIATION / AMORTISATION

Depreciation is provided as per the straight-line method at rates provided in Schedule XIV to the Companies Act, 1956, except for the following classes of fixed assets, where the useful life has been estimated as under: -

Information technology equipment	:	3 years
Furniture and fixtures and Vehicles	:	5 years
Leasehold land and improvements	:	Lease period
Management information systems (Intangible fixed asset)	:	5 years

IMPAIRMENT OF FIXED ASSETS

Regular review is done to determine whether there is any indication of impairment of the carrying amount of the Company's fixed assets. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on an appropriate discount factor.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. However, the increase in carrying amount of an asset due to reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

TAXATION

The provision for taxation for the period comprises the residual tax liability for the assessment year 2008-2009 relevant to the period April 1, 2007 to March 31, 2008 and the liability, which has accrued on the profit for the period April 1, 2008 to December 31, 2008, under the provisions of the Indian Income tax Act, 1961.

Deferred tax is recognised, subject to the consideration of prudence, on timing difference, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

CONTINGENT LIABILITIES AND PROVISIONS

Contingent liabilities are disclosed after a careful evaluation of the facts and legal aspects of the matter involved, in line with the provisions of Accounting Standard (AS) 29. Provisions are recognised when the Company has a legal/constructive obligation and on management discretion as a result of a past event, for which it is probable that a cash outflow may be required and a reliable estimate can be made of the amount of the obligation.

FIXED ASSETS

Fixed assets are stated at cost (net of CENVAT, wherever applicable) less accumulated depreciation. Cost is inclusive of freight, duties, levies and any directly attributable cost of bringing the assets to their working condition for intended use.

An intangible asset is measured at cost and amortised so as to reflect the pattern in which the asset's economic benefits are consumed.

INVESTMENTS

Investments are classified into current and long-term investments. Current investments are stated at the lower of cost or fair value. Long-term investments are stated at cost.

FOREIGN EXCHANGE TRANSACTIONS

Transactions in foreign currency are recorded on initial recognition at the exchange rate prevailing at the time of the transaction.

Monetary items (i.e. receivables, payables, loans etc.) denominated in foreign currency are reported using the closing exchange rate on each balance sheet date.

The exchange difference arising on the settlement of monetary items or on reporting these items at rates different from rates at which these were initially recorded/reported in previous financial statements are recognised as income/expense in the period in which they arise.

In case of forward exchange contracts, the premium or discount arising at the inception of such contracts, is amortised as income or expense over the life of contract as well as exchange difference on such contracts i.e. difference between the exchange rate at the reporting/settlement date and the exchange rate on the date of inception/the last reporting date, is recognised as income/expense for the period.

ANNEXURE - 1 TO THE DIRECTORS' REPORT

Report on Corporate Governance for the year ended December 31, 2008

NESTLÉ'S PHILOSOPHY ON CODE OF GOVERNANCE

Nestlé India Limited, as a part of Nestlé Group, Switzerland has over the years followed best practice of Corporate Governance by adhering to practices laid down by Nestlé Group. The two most significant documents from Nestlé Group, which define the standard of behaviour of Nestlé India, are "Nestlé Corporate Business Principles" and "The Nestlé Management and Leadership Principles".

Nestlé India's business objective and that of its management and employees is to manufacture and market the Company's products in such a way as to create value that can be sustained over the long term for consumers, shareholders, employees, business partners and the national economy. Nestlé India is conscious of the fact that the success of a corporation is a reflection of the professionalism, conduct and ethical values of its management and employees. In addition to compliance with regulatory requirements, Nestlé India endeavours to ensure that highest standards of ethical and responsible conduct are met throughout the organisation.

BOARD OF DIRECTORS

Composition, Attendance of the Directors at the Board Meetings and the last Annual General Meeting, Outside Directorships and other Board Committees

Above information as on 31st December, 2008 or for the year 2008, as applicable, is tabulated hereunder:

Director	No. of Board Meetings attended	Attendance at previous AGM on 03.05.2008	No. of outside Directorship held [A]	No. of Membership/ Chairmanship in other Board Committees [B]	Executive/ Non-Executive/ Independent
Mr. Martial G. Rolland	4	Present	Nil	Nil	Executive
Mr. Shobinder Duggal	5	Present	Nil	Nil	Executive
Mr. Pradip Baijal	5	Present	1	Nil	Non Executive & Independent
Mr. Ravinder Narain	5	Present	5	1	Non Executive & Independent
Mr. M. W. O. Garrett	3	Present	Nil	Nil	Non Executive
Mr. Rajendra S. Pawar	Nil	Present	12	4	Non Executive & Independent
Mr. Richard Sykes [1]	Nil	Not Present	Nil	Nil	Non Executive

1 Alternate Director to Mr. M. W. O. Garrett.

A Directorship in companies registered under the Companies Act, 1956, excluding directorships in private companies, foreign companies, companies under Section 25 of the Companies Act, 1956 and alternate directorship.

B Only covers membership / chairmanship of Audit Committee and Shareholder / Investor Grievance Committee.

As at 31st December, 2008, in compliance with the corporate governance norms, the Company's Board of Directors headed by its executive Chairman, Mr. Martial G. Rolland comprised 5 other directors, out of which three are independent directors. None of the Directors was a member of more than 10 Board-level committees, nor a Chairman of more than 5 such committees, across all companies in which he was a Director.

Board Meetings held during the year 2008

During the year, five Board Meetings were held on 4th March, 2008, 17th April, 2008, 29th April, 2008, 31st July, 2008 and 31st October, 2008. The maximum gap between any two meetings was less than four months. All material information is circulated to the directors before the meeting or placed at the meeting, including minimum information made available to the Board as mentioned under Clause 49 of the Listing Agreement.

The Company has established procedures to enable the Board to periodically review compliance reports of laws applicable to the Company, prepared by the Company as well as steps taken by the Company to rectify instances of non-compliances. The Board reviewed the reports prepared by the Company on half-yearly periodicity.

Compliance with the Code of Conduct

The Company has adopted a "Nestlé India Code of Business Conduct". The Code is available on the official website of the Company www.nestle.in.

It is hereby affirmed that the Directors and Senior Management have given an annual affirmation of compliance with the code of conduct during the year 2008.

AUDIT COMMITTEE

The powers, role and terms of reference of the Audit Committee covers the areas as contemplated under Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956 besides other terms as may be referred by the Board of Directors. The powers include investigating any activity within terms of reference; seeking information from any employee; obtaining outside legal and other professional advice; and securing attendance of outsiders with relevant expertise, if considered necessary. The role includes oversight of Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible; recommending the appointment and removal of external auditor; fixation of audit fee and approval of payment for other services; discussing with internal auditors any significant findings and follow up there on; reviewing annual and quarterly financial statements with management before submission to the Board; reviewing the adequacy of internal control systems with management, external and internal auditors; and reviewing the Company's financial risk and management policies.

The Audit Committee comprises of Mr. Pradip Baijal (Chairman), Mr. Ravinder Narain and Mr. Rajendra S. Pawar, all being Non-Executive and Independent Directors. All members of the Audit Committee are financially literate, and Mr. Pradip Baijal and Mr. Rajendra S. Pawar, have related financial management expertise by virtue of their comparable experience and background. Mr. B. Murli, Company Secretary, acts as the Secretary to the Committee. The Director – Finance & Control and Head of Corporate Control are permanent invitees to the Audit Committee Meetings. The Head of Internal Audit, the concerned partners of A.F.Ferguson & Co., the Statutory Auditors and the Cost Auditors are also invited to the Audit Committee Meetings.

During the year, the Audit Committee met six times on 4[th] March, 2008, 29[th] April, 2008, 31[st] July, 2008, 1[st] August, 2008, 31[st] October, 2008 and 8[th] December, 2008. Mr. Ravinder Narain and Mr. Pradip Baijal attended all the aforesaid meetings, Mr. Rajendra S. Pawar attended the meetings held on 31[st] October, 2008 and 8[th] December, 2008. The maximum gap between any two meetings was less than four months.

SHAREHOLDER / INVESTOR GRIEVANCE COMMITTEE

The Shareholder / Investor Grievance Committee oversees redressal of shareholder and investor grievances, transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends and related matters.

Mr. Ravinder Narain, a Non-Executive and Independent Director, is the Chairman of the Shareholder/ Investor Grievance Committee. The other member is the Managing Director, Mr. Martial G. Rolland. Mr. B. Murli, Company Secretary acts as the Compliance Officer. The Committee met four times during the year on 3[rd] March, 2008, 29[th] April, 2008, 31[st] July, 2008 and 31[st] October, 2008. All members of the Committee attended the aforesaid meetings.

During the year, 32 complaints were received from shareholders and investors. All the complaints have generally been solved to the satisfaction of the complainants and no investor complaint was pending at the beginning or at the end of the year. The Company has acted upon all valid requests for share transfer received during 2008 and no such transfer is pending.

REMUNERATION COMMITTEE

Matters of remuneration of Executive Directors are considered by the Board of Directors of the Company, with the interested Executive Director(s), not participating or voting. The terms of remuneration of Executive Directors are approved by the shareholders at the Annual General Meeting. Therefore, no separate Remuneration Committee has been constituted.

The remuneration of Non-Executive Directors is decided by the Board of Directors as per the terms approved by the shareholders at the Annual General Meeting.

The remuneration policy of the Company is to remain competitive in the industry to attract and retain talent and appropriately reward employees for their individual performance and contribution to the business.

REMUNERATION OF DIRECTORS FOR 2008

(Rupees in thousands)

Name of the Director	Sitting Fee	Salaries	Perquisites	Commission	Total
Mr. Martial G. Rolland[1]	N.A.	20,383	10,689	31,400	62,472
Mr. Shobinder Duggal[1]	N.A.	6,047	2,926	3,212	12,185
Mr. Pradip Baijal	200	N.A.	N.A.	350[@]	550
Mr. Ravinder Narain	220	N.A.	N.A.	350[@]	570
Mr. Rajendra S. Pawar	40	N.A.	N.A.	350[@]	390
Mr. M.W.O.Garrett	50	N.A.	N.A.	350[@]	400

[1] The Company has service contract with all Executive Directors for a period of 5 years. The notice period is of three months and the severance fee is the sum equivalent to remuneration for the notice period or part thereof in case of shorter notice.

[@] The Commission for the year ended 31st December, 2008 will be paid, subject to deduction of tax after adoption of the accounts by the shareholders at the Annual General Meeting to be held on 5th May, 2009.

Sitting fee indicated above also includes payment for Board-level committee meetings.

Remuneration of Mr. Shobinder Duggal excludes provisions for incremental liability for pension, since certification of actuary is for the Company as a whole. There is no incremental liability for gratuity, since Mr. Duggal had earned gratuity, before being appointed as a Director of the Company. Provision for incremental compensated absences liability has also been excluded since the computation for the same has been done for the Company as a whole.

Perquisites of the whole-time/ managing director include Leave Travel. Perquisites of Mr. Rolland and Mr. Duggal also include contribution to provident fund of Rs. 4,32,000/- and Rs.7,25,656/-, respectively. Contribution to the provident fund for Mr. Rolland is with effect from 1st November, 2008, pursuant to the amendment to the Employees Provident Funds Scheme, 1952.

Commission is subject to adequate profits being earned. Performance criteria for the Executive Directors takes into account achievement of performance parameters. The Non-Executive Directors are paid remuneration based on their contribution and current trends.

None of the Non-Executive Directors holds any equity shares or convertible instruments in the Company. The Company does not have any stock option scheme. The Company participates in the Nestlé Restricted Stock Unit Plan (‘Plan’) of Nestlé S.A., whereby select employees are granted non-tradeable Restricted Stock Units of Nestlé S.A. under the Plan.

As required, a brief profile and other particulars of the Directors seeking appointment/re-appointment are given in the Notice of the 50th Annual General Meeting and forms part of the Corporate Governance Report.

CEO/CFO CERTIFICATION

The Managing Director and Director- Finance and Control have certified to the Board of Directors, inter alia, the accuracy of financial statements and adequacy of Internal Controls for the financial reporting purpose as required under Clause 49 (V) of the Listing Agreement, for the year ended 31st December, 2008.

GENERAL BODY MEETINGS

Location and time of last three Annual General Meetings (AGMs) are as under:

Year	Venue	Date	Time	Special Resolutions passed by the shareholders in the AGMs
2008	Air Force Auditorium, Subroto Park, New Delhi - 110 010	02.05.2008	10.00 A.M.	None
2007	- do -	03.05.2007	9.30 A.M.	None
2006	- do -	25.04.2006	10.00 A.M.	None

There was no other General Body Meeting in the last three years and no resolution was put through postal ballot. There is no special resolution proposed to be passed through postal ballot at the ensuing Annual General Meeting on 5th May, 2009. As per the directions of the Hon’ble High Court of Delhi, meeting of equity shareholders was held on 3rd May, 2007 to consider the Scheme of Arrangement between the Company and its shareholders and creditors.

DISCLOSURES

During the year 2008, the Company had no materially significant related party transaction, which is considered to have potential conflict with the interests of the Company at large. Transactions with related parties are disclosed in Note No.16 of Schedule O to the Annual Accounts.

The Company has complied with the requirements of regulatory authorities on capital markets and no penalties or strictures has been imposed on the Company by Stock Exchange, SEBI or any other statutory authority, on any matter relating to the capital markets, during the last three years.

The Company has complied with all the mandatory requirements of Clause 49 of the Listing Agreement entered into with the Bombay Stock Exchange Limited, Mumbai.

The status of adoption of the non-mandatory requirements of Clause 49 of the Listing Agreement is as under:

(a) Maintaining non-executive Chairman's Office: Presently not applicable as the Chairman of the Company is an Executive Director; **(b) Tenure of Independent Director:** No specific tenure has been prescribed for Independent Directors; **(c) Remuneration Committee:** No separate Remuneration Committee has been constituted. Please refer to para above on "REMUNERATION COMMITTEE"; **(d) Shareholder Rights:** Half yearly and other quarterly financial statements are published in newspaper and uploaded on Company website (www.nestle.in) and SEBI website (www.sebiedifar.nic.in). Presently, half-yearly financial performance of the Company is not being sent to each household of shareholders; **(e) Audit Qualifications:** The Company already has a regime of unqualified financial statements. Auditors have raised no qualification on the financial statements; **(f) Training of Board Members :** In the course of Board/ Audit Committee Meetings the Directors are where relevant provided information on the business model, the risk profile of the business parameters, their responsibilities as Directors, and best ways to discharge them. No specific training was arranged for Board members**; (g) Mechanism for evaluating non-executive Board Members:** The Company has not adopted any mechanism for evaluation of individual performance of Non-Executive Directors **(h) Whistle Blower Policy:** The standard of behaviour of Nestlé India is governed by two most significant documents from Nestlé Group, the "Nestlé Corporate Business Principles" and "The Nestlé Management and Leadership Principles". Employees can report to the Company Secretary on a confidential basis any practices or actions believed to be inappropriate under the Nestlé India Code of Business Conduct or believed to be illegal. Further, the Company has appointed Ombudsman for Infant Code, under which employees can report suspected Code violations directly to the Ombudsman, with adequate safeguard to protect the employee reporting.

MEANS OF COMMUNICATION

The Quarterly, Half Yearly and Annual Results are generally published by the Company in leading newspapers such as Business Standard, Financial Express, The Pioneer and Rashtriya Sahara.

As per the requirement of Clause 51 of the Listing Agreement, all the data related to financial results, shareholding pattern etc. are posted on the SEBI's EDIFAR System and the same can be viewed on the SEBI's website www.sebiedifar.nic.in.

The domain name of the Company's website is www.nestle.in and up-to-date financial results, official press releases, presentations to analysts and institutional investors and other general information about the Company, is available on this website.

The presentations made to the institutional investors or analysts, if any, are not communicated to individual shareholders of the Company. However, in addition to uploading on the official website of the Company, the presentations are sent to the Stock Exchange for dissemination.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

(within the limits set by the Company's competitive position)

Industry structure and developments, opportunities and threats, segment wise or product-wise performance, outlook, risks and concerns of the Company and discussion on financial performance with respect to the operational performance, has been covered in the Directors' Report – more specifically under the sections on Financial Results and Operations, Exports, Business Development and SWOT Analysis of the Company.

The Company has an adequate system of internal controls to ensure that transactions are properly recorded, authorised and reported apart from safeguarding its assets. The internal control system is supplemented by well-documented policies, guidelines and procedures and review carried out by the Company's internal audit function, which submits reports periodically to the Management and the Audit Committee of the Board.

In order to foster an improved controls culture in the Company, wherein every employee is fully aware of all the major risk/controls faced in his /her work sphere and assumes responsibility for the controls performed therein, the Company has implemented a tool called "Controls Manager" which works on the basic concept of Control Self Assessment. The self assessments by process / control owner are also used as the basis of CEO/CFO certification as required under Clause 49 of the Listing Agreement with the Bombay Stock Exchange.

There has been no material development in Human Resources / Industrial relations during the period covered by this Annual Report. Your Company has a favourable work environment that motivates performance, customer focus and innovation while adhering to the highest degree of quality and integrity. As part of manpower development and training and with an aim to enhance operational efficiency, employees of the Company have been sent on postings and assignments to the other Nestlé Group companies.

Manpower figure of the Company as on 31st December, 2008 was 4,709.

GENERAL SHAREHOLDER INFORMATION

Annual General Meeting					
Date and Time	:	5th May, 2009 at 10.00 a.m.			
Venue	:	Air Force Auditorium, Subroto Park, New Delhi – 110 010.			
Financial Calender, 2009	:				
First Quarter Results	:	Last week April, 2009	Third Quarter Results	:	Last week October, 2009
Second Quarter and Half Yearly Results	:	Last week July, 2009	Annual Results	:	March, 2010
Financial Year	:	1st January to 31st December			
Date of Book Closure	:	5th May, 2009 to 6th May, 2009, both days inclusive.			

Dividend payment date: Final dividend of Rs. 12.00 per share has been recommended by the Board of Directors and subject to the approval of the shareholders at the ensuing Annual General Meeting, is proposed to be paid on and around 15th May, 2009.

Two Interim Dividends for the year 2008, first at the rate of Rs. 8.50 per share and the second at the rate of Rs. 14.50 per share, were paid on 9th May, 2008 and 26th November, 2008, respectively. Special Dividend at the rate of Rs. 7.50 per share was paid on and from 26th November, 2008 pursuant to the Scheme of Arrangement, along with the Second Interim Dividend for 2008.

Outstanding ADRs / GDRs / Warrants or any convertible instruments, conversion date and likely impact on equity:

Not applicable.

Listing on Stock Exchanges and Stock Code

Shares of the Company are listed at the Bombay Stock Exchange Limited, Mumbai. The Company's Stock Code is 500790.

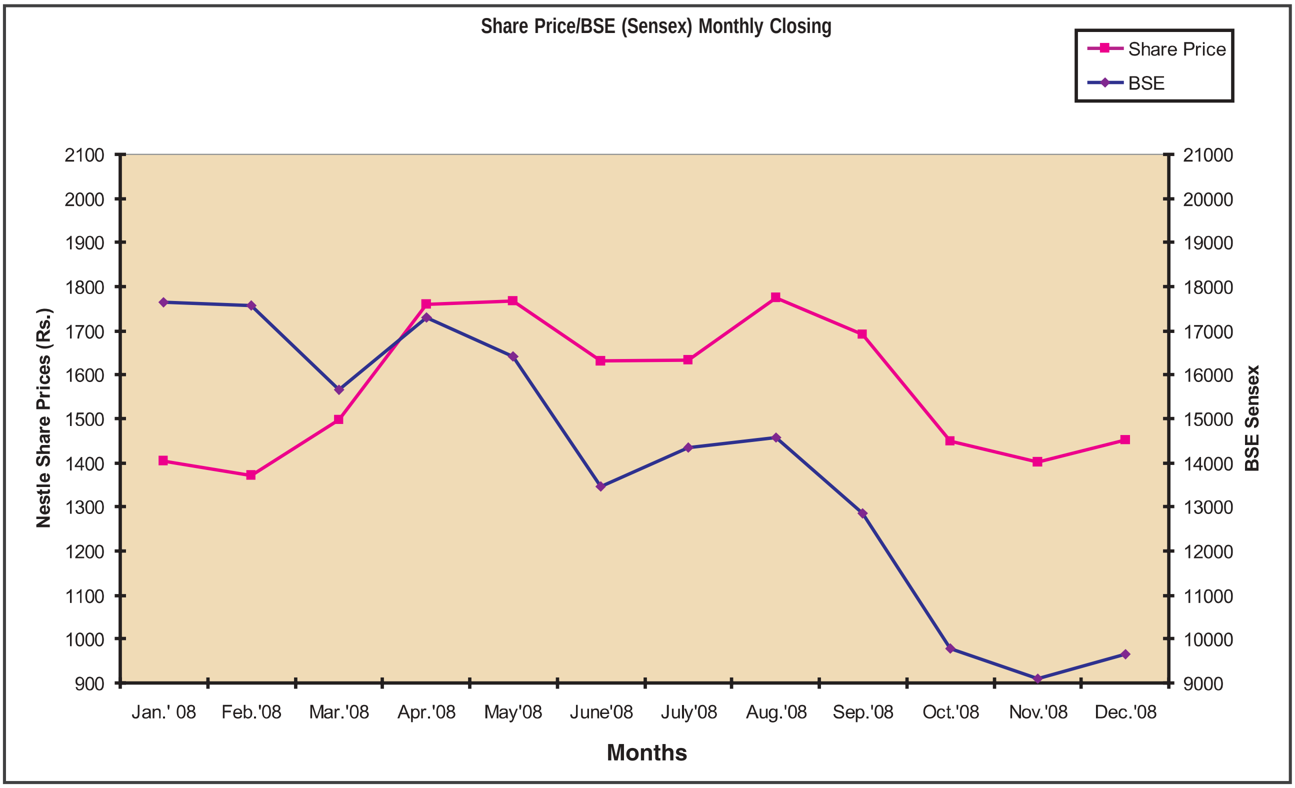
The ISIN Number of Nestlé India Limited on both the NSDL and CDSL is INE239A01016.

Market Price Data: High/Low in each month of Calendar Year, 2008 on the Bombay Stock Exchange Ltd., Mumbai

Month	High (Rs.)	Low (Rs.)	Month	High (Rs.)	Low (Rs.)
January	1,579.00	1,200.05	July	1,696.00	1,480.00
February	1,415.00	1,295.00	August	1,780.00	1,580.00
March	1,675.75	1,368.60	September	1,811.00	1,580.10
April	1,875.00	1,460.50	October	1,745.00	1,290.25
May	1,880.00	1,690.25	November	1,499.80	1,220.00
June	1,771.80	1,578.00	December	1,460.00	1,335.00

[Source: www.bseindia.com]

Performance in comparison to BSE Sensex



[Source: www.bseindia.com]

Registrar and Transfer Agents:

M/s Alankit Assignments Limited, 2E/21, Jhandewalan Extension, New Delhi -110 055.

Share Transfer System

Share transfers are registered and returned in the normal course within an average period of 21 days from the date of receipt, if the documents are clear in all respects. Requests for dematerialisation of shares are processed and confirmation is given to the respective depositories i.e. National Securities Depository Limited (NSDL) and Central Depository Services India Limited (CDSL) within 15 days.

Categories of Shareholding as on 31st December, 2008

Category of Shareholder	Number of Shares	Percent of Total Shares
Promoter and Promoter Group (A)	**59,629,954**	**61.85**
Public Shareholding		
Foreign Institutional Investors	7,200,520	7.47
Insurance Companies	5,907,204	6.13
Mutual Funds/ UTI	5,892,344	6.11
Financial Institutions/ Banks	34,508	0.03
Bodies Corporate	1,641,297	1.70
Individuals	15,735,090	16.32
NRIs and OCBs	374,799	0.39
Total Public Shareholding (B)	**36,785,762**	**38.15**
Total Shareholding (A + B)	**96,415,716**	**100.00**

Distribution of shareholding as on 31st December, 2008

No. of shares	Number of shareholders	Number of Shares	Percent of total shares
1 to 100	28,948	1,073,483	1.11
101 to 500	11,193	2,718,611	2.82
501 to 1,000	2,862	2,082,128	2.16
1,001 to 5,000	1,729	3,473,538	3.60
5,001 to 10,000	231	1,617,848	1.68
10,001 to 50,000	176	4,202,556	4.36
50,001 to 1,00,000	54	3,976,806	4.13
1,00,001 and above	57	77,270,746	80.14
Total	**45,250**	**96,415,716**	**100.00**

Dematerialisation of shares:

45.67 % equity shares of the Company have been dematerialised as on 31st December, 2008.

Plant Locations:

The Company's plants are located at Moga, Samalkha, Nanjangud, Choladi, Ponda, Bicholim and Pantnagar.

Address for correspondence:

Shareholder Services, M – 5A, Connaught Circus, New Delhi – 110 001. Phone : 011-23418891.

E-mail for Investors: investor@in.nestle.com

On behalf of the Board of Directors

Date : March 6, 2009
Place : Gurgaon

MARTIAL G. ROLLAND
CHAIRMAN

CERTIFICATE

TO THE MEMBERS OF NESTLÉ INDIA LIMITED

We have examined the compliance of conditions of corporate governance by Nestlé India Limited, for the year ended December 31, 2008, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchange.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

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

(MANJULA BANERJI)
Partner
(Membership No. 86423)

Date : March 6, 2009
Place : New Delhi

ANNEXURE - 2 TO THE DIRECTORS' REPORT

Information as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 forming part of Directors' Report for the year ended 31st December, 2008.

A CONSERVATION ENERGY

(a) Energy Conservation Measures Taken

As in the past, the Company continued to stress upon the measures for the conservation and optimal utilisation of energy in all the areas of operations, including those for energy generation and effective usage of sources/ equipment used for generation. The significant measures taken/continued during 2008, which have contributed to energy conservation, were:

- Improvement of steam generation ratio (steam / fuel ratio) by improving steam condensate recovery; stack losses & lower blow down losses.
- In addition to coconut shells, usage of spent coffee/ tea waste, new non-conventional fuels like coffee husk, wood waste and cashew shells, for steam generation.
- Maximisation of grid power utilisation over captive power usage.
- Optimisation of hot air generation cost by substituting with low priced heat source.
- Regular energy audit of factories to optimize energy cost (generation, utilization & recovery).
- Tracking and trending of all energy usage for continuous improvements and having aggressive plans for continuous improvement.
- Recycling of treated effluents for use in plantations and in non- process area.
- Adoption of Programmable Logic Control (PLC) for energy cost optimization and reduced idle operation of installations.
- Installation of energy efficient equipment at all factories for improving the power factor.
- Installation of flash steam recovery system for using waste heat of one process as input for another and improving energy consumption per tonne of the product.
- Development of vendors for recycling of noodle laminates instead of inceneration.

(b) Additional Investment

Following proposals are at various stages of implementation:

- Project in progress for captive power generation with heavy oil as fuel for optimizing energy cost.
- Installation of new five effect evaporator to reduce energy consumption.
- Installation of centrifuge filters for Heavy Petroleum Stock and Furnace Oil for improving energy generation efficiency.
- Project planned for recovery of unburnt carbon from coal fly-ash.
- Installation of reverse osmosis plant for the recycling of the waste water and reducing boiler blow down.
- Installation of diffused aeration system in waste water treatment plant at all the new installations for optimization of power usage in waste water plant.
- Recovery of steam condensation to substitute fresh water.
- Installation of de-super heating system in refrigeration plants for heat recovery.

(c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost production of goods.

The measures taken during 2008, including measures initiated in the past in the above direction have facilitated efforts for conservation of energy and helped contain the energy costs. As a result, during the past decade, even as sales have increased substantially, the Company has reduced the generation of waste water by around 70%, usage of water by 65%, usage of energy by 60% and has reduced the generation of greenhouse gases by around 66%, all per tonne of production.

(d) Energy Consumption

Total energy consumption and energy consumption per unit of production, as per prescribed Form A together with the comparative figures for 2007, are given at the end of this part. The Company manufactures varieties of products each of them using a combination of various sources of energy in different proportions. Therefore the comparison as mentioned in Form A, does not truly reflect the efforts of the Company at reducing consumption in terms of units of consumption.

B. TECHNOLOGY ABSORPTION

Efforts made in technology absorption as per Form B are furnished below.

Research and Development (R & D)

1. *Specific areas in which R&D carried out by the Company.*

Your Company as a part of Nestlé Group and under the General Licence Agreement has access to and advantage of drawing from the extensive central Research and

Development efforts and activities of the Nestlé Group. Nestlé Group spends enormous amounts and efforts in research and development and in gaining industrial experiences. It has therefore, been possible for your Company to focus its efforts on testing and modification of products for local conditions. Improving and maintaining the quality of certain key raw materials also continued to receive close attention.

2. Benefits derived as a result of the above R&D

The ability to leverage the Research and Development (R&D) expertise and knowledge of Nestlé Group, has helped your Company to innovate and renovate, manufacture high quality and safe products, improve yields, input substitution and achieve more efficient operations. Consequently the consumers perceive the products of your Company as a high value for their money.

3. Future plan of action

Steps are continuously being taken for innovation and renovation of products including new product development, improvement of packaging and enhancement of product quality / profile, to offer better products at relatively affordable prices to the consumers.

4. Expenditure on R&D

Your Company benefits from the extensive centralised Research & Development (R&D) activity and expenditure of the Nestlé Group, at an annual outlay of around 1.98 Billion Swiss Francs. Expenditure of the Company in the nature of Research and Development are those incurred locally, primarily relating to testing and modifying of products for local conditions and are as under:

		(Rs. in thousands)
a)	Capital	51,246
b)	Recurring	106,068
c)	Total	157,314
d)	Total R&D as a percentage of total turnover	0.36%

Technology absorption, adaptation and innovation

1. *Efforts, in brief, made towards technology absorption, adoption and innovation*

As a result of the Company's ongoing access to the international technology from Nestlé Group, Switzerland, the Company absorbs and adapts the technologies on a continuous basis to meet its specific needs from time to time.

2. *Benefits derived as a result of the above efforts*

Product innovation and renovation, improvement in yield, product quality, input substitution, cost effectiveness and energy conservation are the major benefits.

3. *Imported Technology*

All the food products manufactured and / or sold by the Company are by virtue of the imported technology received on an ongoing basis from the collaborators. Technology transfer has to be an ongoing process and not a one-time exercise, for the Company to remain competitive and offer high quality and value for money products to the consumers. This has been secured by the Company under the General Licence Agreement with the collaborators and provides access for licence to use the technology and improvements thereof, for the product categories, manufactured / sold by the Company, on a continuous basis.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

(a) Activities relating to exports; initiatives taken to improve the exports; development of new export market for products and export plans:

Members are requested to refer to the Directors' Report under the paragraph of "Exports", for this information.

(b) Total foreign exchange used and earned:

During the year under review, your Company had earnings from exports of Rs. 3,374 Million comprising foreign exchange earnings of Rs. 2,682 Million (including sales to Russia invoiced in Rupees) and export to neighbouring countries in Rupees amounting to Rs. 670 Million and foreign exchange outgo of Rs. 5,912 Million. Details of earnings from exports and foreign exchange outgo on account of imports, expenditure on traveling, general licence fees, etc. and remittances made to non-resident shareholders on account of dividend are shown in Notes 8, 9, 11 and 12 respectively of Notes to the Accounts. Members are requested to refer to these Notes.

FORM A

CONSERVATION OF ENERGY (CONSOLIDATED)

(A) Power and Fuel Consumption	**2008**	2007
1. Electricity		
(a) Purchased		
Units (000 KWH)	**72,179**	63,116
Total Cost (Rs. in Thousands)	**301,480**	255,299
Cost/KWH	**4.18**	4.04
(b) Own Generation		
Through Diesel Generator		
Units (000' KWH)	**28,917**	34,288
Units per litre of oil(KWH)	**3.49**	3.62
Cost/KWH (Rs.)	**9.22**	8.33
2. Coal (Various grades)		
Quantity (Tonne)	**31,918**	29,366
Total Cost (Rs. in Thousands)	**167,084**	131,560
Cost/Tonne (Rs.)	**5,234.73**	4,480.03
3. Furnace Oil		
Quantity (KL)	**24,941**	21,381
Total Cost (Rs. in Thousands)	**710,674**	438,739
Cost/KL (Rs.)	**28,494.32**	20,519.73
4. Other Consumption of Fuel		
(a) High Speed Diesel Oil and Superior Kerosene Oil		
Quantity (KL)	**1,312**	1,324
Total Cost (Rs. in Thousands)	**47,107**	37,206
Cost/KL (Rs.)	**35,916.67**	28,095.06
(b) Heavy Petroleum Stock		
Quantity (KL)	**-**	959
Total Cost (Rs. in Thousands)	**-**	18,141
Cost/KL (Rs.)	**-**	18,913.77
(c) Non-Conventional Fuels-Coconut Shell & Coffee Husk		
Quantity (Tonne)	**18,313**	18,614
Total Cost (Rs. in Thousands)	**63,239**	45,872
Cost/Tonne (Rs.)	**3,453.21**	2,464.37
(d) Liquid Petroleum Gas		
Quantity (Tonne)	**1,188**	1,029
Total Cost (Rs. in Thousands)	**56,667**	37,086
Cost/Tonne (Rs.)	**47,715.60**	36,029.21

(B) Consumption per unit of production

	Beverages		Milk Products and Nutrition		Chocolate & Confectionery		Prepared Dishes & Cooking Aids	
	Current Year 2008	Previous Year 2007	Current Year 2008	Previous Year 2007	Current Year 2008	Previous Year 2007	Current Year 2008	Previous Year 2007
Electricity (KWH/T)	997.80	1,063.37	400.62	425.43	706.77	710.62	138.30	145.19
Furnace Oil (Ltrs./T)	153.42	150.61	112.21	106.39	38.77	41.94	66.42	66.32
Coal (Kgs./T)	117.95	101.13	334.78	324.57	-	-	155.26	149.95
Others:								
HSD, HPS (Ltrs. /T)	83.96	84.79	0.47	13.21	-	-	-	0.92
LPG (Kgs./T)	-	-	1.37	1.44	54.89	51.39	-	-

Note : There are no specific standards avialable for each category since the product range under each head shown above consists of various products with different consumption.

NESTLÉ INDIA LIMITED

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No. 003786 State Code 55

Balance Sheet Date 31 12 2008

II. Capital Raised during the Year (Amount in Rs. Thousands)

Public Issue	Rights Issue
NIL	NIL
Bonus Issue	**Private Placement**
NIL	NIL

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

	Total Liabilities	Total Assets
	5110484	5110484
Sources of Funds	Paid-Up Capital	Reserves & Surplus
	964157	3769340
	Secured Loans	Unsecured Loans
	8177	NIL
Application of Funds	Net Fixed Assets	Investments
	8621611	348992
+ –	Net Current (Liabilities)/Assets	Miscellaneous Expenditure
–	3860119	NIL
	Accumulated Losses	
	NIL	

IV. Performance of the Company (Amount in Rs. Thousands)

	Turnover (Gross Revenue)		Total Expenditure
	43581302		35545034
	Profit Before Tax		Profit After Tax
+	7728268	+	5340822
	Earnings Per Share in Rs.		Dividend Rate %
	55.39		425

V. Generic Name of Three Principal Products / Services of the Company (as per monetary terms)

Item Code No. (ITC Code) 19.01.0000

Product Description PREPARATION OF MILK CREAM AND CEREALS

Item Code No. (ITC Code) 19.02.0000

Product Description NOODLES

Item Code No. (ITC Code) 21.01.0000

Product Description SOLUBLE COFFEES COFFEE BLENDS AND TEA


NESCAFÉ
NESCAFÉ CLASSIC IS 100% PURE INSTANT COFFEE.
COFFEE NATURALLY CONTAINS ANTIOXIDANTS THAT HELP FIGHT
FREE RADICALS, ONE OF THE REASONS OF AGING.
SO EACH TIME YOU ENJOY THE GREAT TASTE AND RICH AROMA
OF NESCAFÉ CLASSIC, YOU ALSO GET A CUP FULL OF GOODNESS.
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