

Board's Report - 2018

Dear Members,

Your Directors are pleased to present their report and financial statements for the year ended 31st December, 2018.

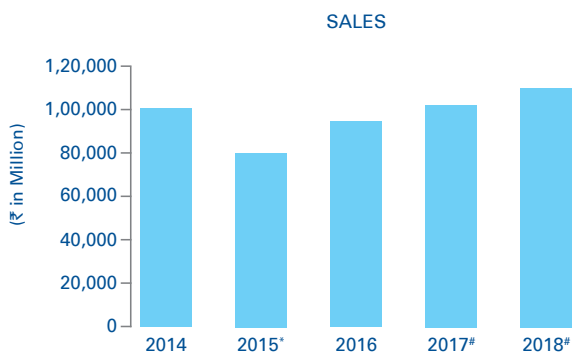
Financial Results and State of Company's Affairs

(₹ in Million)

Particulars	2018	2017
Sale of products	112,162.3	101,351.1
Add : Other operating revenues	760.4	570.7
Add : Other Income	2,589.2	1,769.2
Total Income	115,511.9	103,691.0
Less : Total Expense	91,222.4	85,298.0
Profit before tax	24,289.5	18,393.0
Less: Tax expense	8,220.2	6,141.1
Profit after tax #	16,069.3	12,251.9
Add : Other Comprehensive Income	(404.1)	(889.8)
Total Comprehensive Income	15,665.2	11,362.1
Opening balance in Retained Earnings	25,054.5	23,689.3
Amount available for appropriation	40,821.8	35,034.0
Interim dividends 2018: ₹90.00 per share 2017: ₹63.00 per share	8,677.4	6,074.2
Final dividends 2017: ₹23.00 per share 2016: ₹23.00 per share	2,217.6	2,217.6
Less: Dividend distribution tax	2,238.7	1,687.7
Closing balance in Retained Earnings	27,688.1	25,054.5
Key ratios:		
Earnings per share (₹)	166.67	127.07
Dividend per share (₹)		
Interim	90.0	63.0
Proposed - Final	25.0	23.0
#Profit from operations	23,508.6	18,304.8

Reported Total Sales and Domestic Sales for the year increased by 10.7% and 10.9%, respectively. These growth rates are adversely impacted due to lower reported sales by the change in structure of indirect taxes. Domestic

Sales growth is volume led and broad based. "Export Sales" increased by 6.9%.

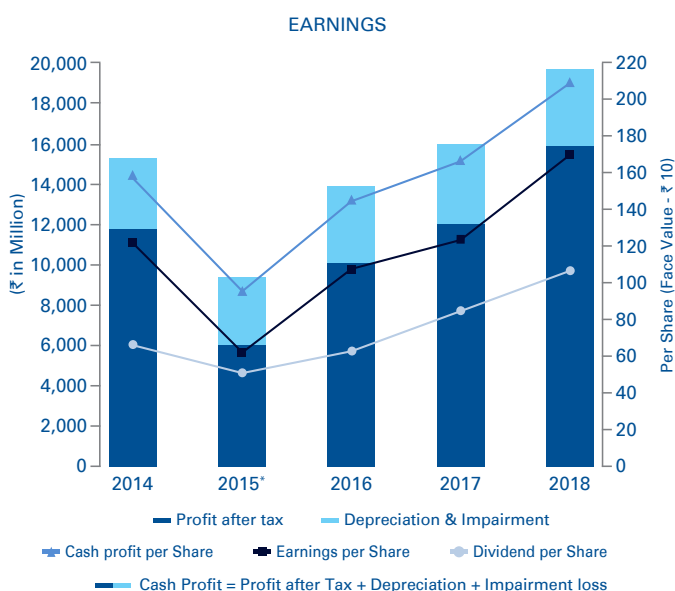


*Impacted by MAGGI Noodles issue

Figures from 2016 onwards are stated as per Ind AS

*Sales are not comparable Refer note 4 of the financial statements

Other Income has increased due to higher average liquidities as well as higher yields. The Impairment loss on property, plant and equipment of ₹110.8 million relates to various items of plant and machinery and building that have been brought down to their recoverable values upon evaluation of future economic benefits from their use.



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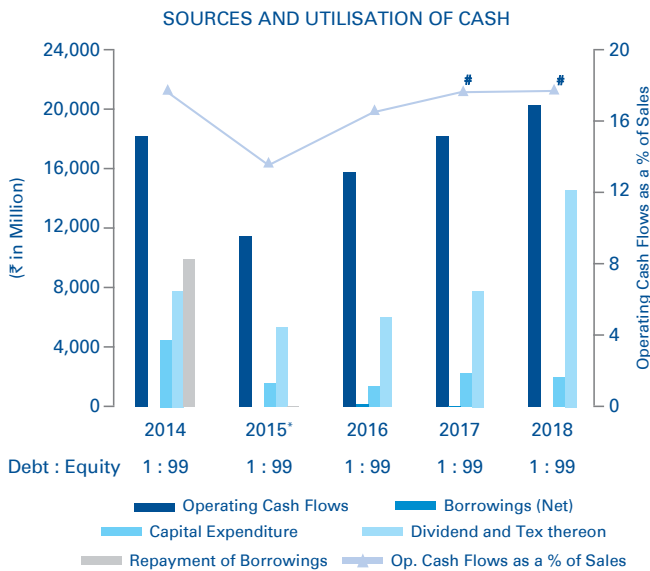
Figures from 2016 onwards are stated as per Ind AS

Your Company has created a contingency provision of ₹1,242.5 million for various contingencies resulting mainly from matters, which are under litigation / related disputes and other uncertainties requiring management judgement. Your Company has also reversed, utilised/settled contingency provision of ₹205.7 million due to the satisfactory settlement of certain litigations and settlement of obligations under free replacement warranty for which provision was no longer required.

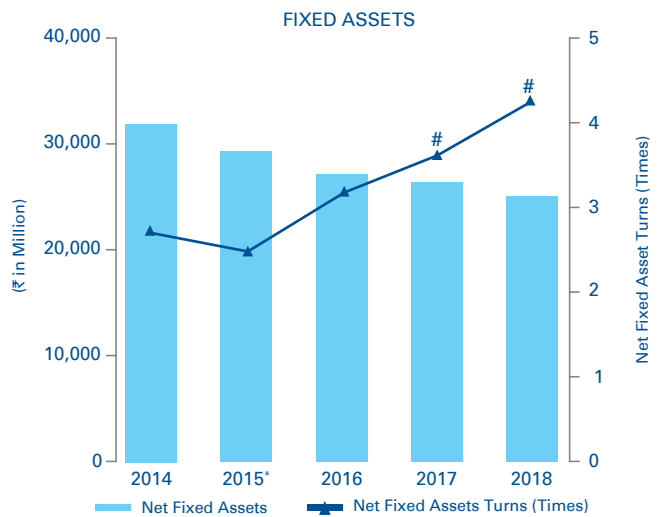


Market Capitalisation is based on year end closing share price quoted on the Bombay Stock Exchange. Book Value per share is based on the total shareholder's funds as at the year end.

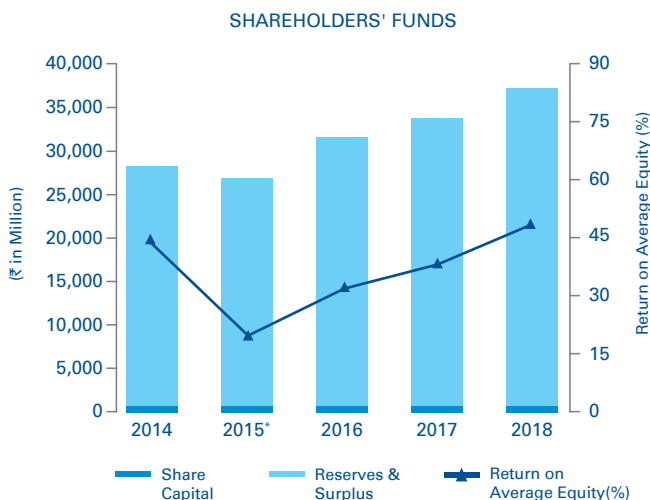
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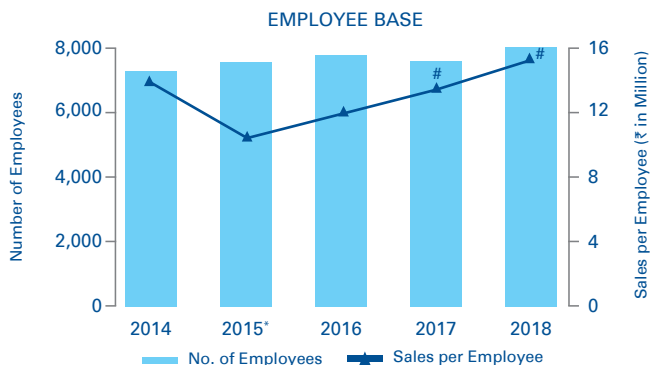
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Dividends

The Board of Directors have recommended a final dividend of ₹25.0 per equity share

amounting to ₹2,410.4 million for the year 2018. The total dividend for 2018 aggregates to ₹115.00 per equity share which includes first interim dividend of ₹20.00 per equity share paid on 1st June, 2018, second interim dividend of ₹20.00 per equity share paid on 24th August, 2018 and third interim dividend ₹50.00 per equity share paid on 21st December, 2018.

Amount Transfer to Reserves

Your Directors do not propose to transfer any amount to the reserves.

Exports

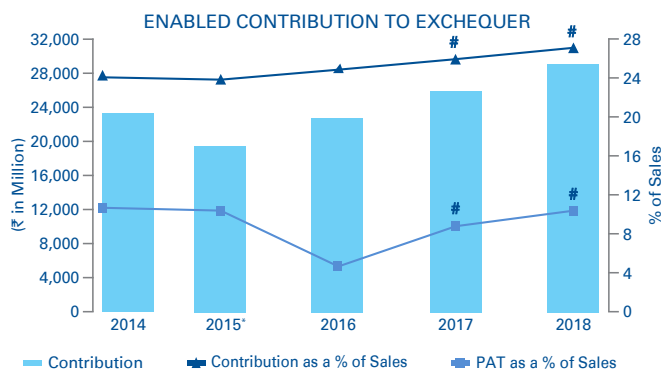
The exports for your Company registered growth of 6.9 % in 2018. Your Company continued to extend the MAGGI brand beyond India in 13 geographies. In 2018, the culinary category registered strong growth in markets with sizeable Indian diaspora contributing the highest quantum. Your Company also registered growth in the exports of infant nutrition products to Bangladesh.

Instant Tea exports had strong growth and the outlook for future looks positive with continued focus on premium and value added range.

Your Company continues to explore new markets for its products with added focus on confectionery products and instant tea vending mixes.

Contribution to the Exchequer

Your Company over the years has been enabling significant contribution to various taxes. During the year 2018, the Company through its business, enabled tax collections at Central and State level close to ₹30.76 billion, in aggregate.



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#Ratio is not comparable (Refer note 4 of the financial statements)

Business Development

Your Company's commitment to Nutrition, Health and Wellness was further strengthened in 2018 through new product launches, community engagement, contribution to the society and care for the environment. Your Company made steady strides in the foods and beverages sector for the Indian consumers that are designed to provide tastier and nutritious product offerings of high quality. The year 2018 was shaped by innovation and renovation, with the launch of around 13 new products. Your Company continued to access the brands, technology and assistance from Nestlé Group to drive product innovations and renovations. Offerings continued to be adapted to suit the interests, tastes and sensibilities of the diverse consumers across India. Introduction of newer formats, local flavours and ingredients enabled your Company to connect with consumers across all ages and adapt to the evolving market place.

Striving towards building a healthier society, your Company continued to work towards reducing sodium, sugars and saturated fats, and adding healthful ingredients like whole grains, vegetables and micronutrients to its foods and beverages making them more nutritious.

Your Company reinforced its commitment towards sustainable environment with special focus on plastic waste management, paving the way to build a healthier society.

Innovating and Renovating 'Prepared Dishes and Cooking Aids'

During the year 2018 'Prepared Dishes and Cooking Aids' benefitted from strong performances across MAGGI range of products, especially MAGGI Noodles, where multifaceted inputs and regional engagement drove penetration, distribution and volume growth. MAGGI Noodles in the Instant Noodles category maintained its leadership position.



MAGGI Noodles continued its focus on innovation

and renovation, with the launch of MAGGI Special Masala, with ingredients comprising of 20 roasted spices and herbs. Your Company also introduced for the first time MAGGI NUTRILICIOUS Baked Noodles with sweet corn.

The Cooking Aids business witnessed extremely encouraging consumer response for MAGGI MASALA-AE-MAGIC, refurbished with attractive packaging and amplified with the launch of new variants for non-vegetarian and South-Indian dishes. The Sauces business continued to generate topline growth.

During the year, MAGGI introduced its new campaign aimed at driving advocacy, 'Kuch Achha Pak Raha Hai'. Building on the concept, MAGGI KITCHEN JOURNEYS, a communication platform engaging with women showcased 12 inspiring stories of women who have established their own unique identity, using food as a medium and made a difference, leveraging their culinary skills creatively. This platform also offers online courses on cookery, food safety, hygiene and even tips on financial management for start-ups.

Under another initiative, the MAGGI Spice Plan, your Company, with the help of partners, has worked with more than 1,250 farmers in establishing provenance of high quality, locally sourced spices that has contributed to improving agricultural practices and consequently, yields. Today, more than 90% of spices used in MAGGI TASTEMAKER have traceability up to the farm level.

Introduction of Breakfast Cereals

In line with the vision to introduce products rooted in Nutrition, Health and Wellness, your Company has added Nestlé Breakfast Cereals



from Cereal Partners Worldwide (CPW) to its existing portfolio during the year. CPW is a 50/50 joint venture which combines the expertise of Nestlé S.A, Switzerland and General Mills Inc.,

United States, to produce and sell breakfast cereals. With this launch, your Company's objective is to provide high quality nutritious breakfast cereals to the consumers in India.

Strengthening of 'Milk Products and Nutrition'

The 'Milk Products and Nutrition' business continued to register a satisfactory growth, driven by volume of existing products and an encouraging response to new products.

Your Company extended chilled dairy portfolio range of healthier yoghurt based option of Dip and Spread, under the brand of MAGGI in exotic flavours such as, Jalapeno Salsa and Cheese Garlic.



Your Company continued to drive dessert recipe solutions under the legacy brand MILKMAID, by driving Ice Cream Kits and Choco-Dessert Kits on e-commerce platforms, inspiring consumers to try new age recipes with MILKMAID condensed milk.



Your Company introduced NANGROW, a nutritious milk drink for growing children aged 2-5 years, containing nutrients that includes high quality whey proteins, DHA (Docosahexaenoic Acid), probiotics and immunonutrients, to support the overall growth and development of the child with 'Zero Added Sugar' (sucrose). DHA supports the child's normal brain development and whey protein is required for easy digestion. NANGROW is the only milk drink in its segment with the proposition of 'All Growth'. 'Zero Added Sugar', provides a healthier option for children.

CEREGROW, an iron fortified nutritious cereal for children over 2 years, launched its new communication titled, 'Poora Poshan, Poori Tasalli'. CEREGROW is designed to meet the

nutrition requirements of children aged between 2-5 years.

Your Company rolled out a communication titled 'Pet Bhara, Par Nutrition Bhara Kya?' to educate consumers to help them make right food choices.

Your Company believes breast milk provides the best nutrition for babies, and every child should be exclusively breastfed for six months, followed by introduction of age appropriate complementary feeding and breast milk until two years and beyond.

In the Infant Formula, your Company re-launched NAN PRO with DHA (Docosahexaenoic Acid) and ARA (Arachidonic Acid). NAN EXCELLAPRO was also re-launched with high quality, partially hydrolysed proteins.



In Healthcare Nutrition Products marketed under the umbrella of Nestlé Health Science, your Company has over 10 brands with an array of appropriate nutritional solutions. This includes RESOURCE Diabetic intended for dietary management of individuals with diabetes. RESOURCE Diabetic has low Glycemic Index, contains 20 vitamins and minerals and has high quality protein. Your Company introduced RESOURCE Renal and RESOURCE Dialysis for chronic kidney diseases and NOVASOURCE NUTRIHEP for Hepatic disorders. PEPTAMEN, a nutritionally balanced peptide based diet, was re-launched with a new recipe based on latest advancement in medical nutrition.

Growing 'Powdered and Liquid Beverages'

2018 was an exciting year for the 'Powdered and Liquid Beverages' business as your

Company continued to focus on growing the coffee and beverages market. NESCAFÉ consolidated market share in coffee with robust brand growths and also led the household penetration of the category.



Your Company ventured into the domain of personal coffee machines with the launch of NESCAFÉ É, a smart app enabled coffee machine.

After the successful launch of NESCAFÉ Ready-To-Drink Coffee in UHT format, your Company also launched successfully Ready-To-Drink Coffee in can format, under iconic youth brand of NESCAFÉ. Instant Premix Tea was also launched under the heritage brand of EVERYDAY in three variants - Desi Masala, Saffron & Cardamom and Ginger & Lemongrass.

NESCAFÉ Classic leveraged its connect with the youth and launched a number of initiatives and activations. The new campaign 'Badal Life Ki Raftaar' establishes the strong role of NESCAFÉ Classic to provide the stimulation that equips the youth to take on the pressure of being a grown up. The topical execution of the campaign during monsoon with innovative formats in outdoor was highly appreciated by consumers. Weather based targeting on digital platforms enabled NESCAFÉ Classic to connect with the target audience through relevant messaging. The brand also reached out to the youth by experiential coffee sampling at colleges and consumer touch points across several cities.



NESCAFÉ SUNRISE continued its journey of driving brand differentiation in the core coffee market of South India. The new communication campaign 'Start Your Day Bright' was complemented with a regionalised approach to drive brand salience, consumption and

availability. To take the brand culturally closer to the consumers, NESCAFÉ SUNRISE launched a new festive campaign about how small gestures can make a big difference, just like the rich aroma granules of NESCAFÉ SUNRISE.

The premiumisation journey was accelerated with the relaunch of NESCAFÉ Gold. The new product leverages global innovations to build premium cues and to deliver a superior coffee cup to consumers. The campaign 'For The Moments That Matter' focused on celebrating special bonds in your life with a cup that is crafted with care.

More offerings in 'Confectionery'

The 'Confectionery' business continued its focus on growing the core and foraying into the value-up/premium segment. The business wielded its strength towards continuous innovation and renovation of its portfolio to befit the evolving consumer trends. It was a year that delivered strong growth and consumers responded favourably to the new launches.



Your Company extended its portfolio and set another innovation benchmark in the coated wafer category with the launch of MUNCH Crunch-O-Nuts. It offers in every bite the multi textural combination of cocoa balls, double choco layer and delicious peanut crème.



MUNCH also became the official Crunch Partner of three popular teams in IPL 2018 with its mega campaign.



Consumers were offered cool attitude bands, a limited edition T20 special MUNCH Orange Spinner flavor and a whole new TVC that

brought to life the idea of MUNCH giving 'Free Ka Attitude'.

MUNCH Nuts new campaign was amongst the most viewed ads on YouTube, and was also declared number one campaign on The Economic Times Brand Equity list.

Your Company also introduced KITKAT DESSERT DELIGHT Brownie Kubes, a unique western dessert concept that provides balanced dark chocolate for the Indian consumers. Continuing to provide innovative breaks to its consumers, your Company launched a new strawberry flavoured NESTLÉ KITKAT Strawberry Duo.



KITKAT, which has always inspired consumers to take a break from the monotonous routine, launched a new packaging, showcasing immersive travel locations of Goa. Your Company also collaborated with Government of Goa and Drishti to train 1,000 lifeguards, cruise crew, beach cleaning staff and watersport operators.

'Nestlé Professional' – Out-of-Home Business



Your Company's 'Out of Home business' registered volume and value growth in 2018. This growth was driven by increased reach and distribution of products across key out of home channels such as education institutes, airlines, railways, offices as well as the food service channels such as hotels and restaurants. Your Company also engaged with young chefs in various hotel management institutions and celebrated International Chefs Day, by organizing cooking workshops for adolescents, teaching them the basics of nutrition.


Institutional packs of NESCAFÉ Classic, MAGGI Coconut Milk powder and MILKMAID performed well with new customer acquisitions and increased penetration through stronger customer engagement. New product in the form of KITKAT bits meant for the bakeries and cafes was also launched.

With access to an array of brands under its portfolio, your Company through its retail formats 'One Nestlé Experience', brought brands and consumers closer. MAGGI and NESCAFÉ adopted this format with consumers seeking high quality food options that fit into their time crunched lifestyle. Additionally, 300 kiosks operated by third parties selling Company products were added across cities of India.

Awards and Recognitions

Your Company received awards at various industry platforms in the area of corporate management, marketing, advertising, digital engagement, packaging, human resource development and corporate social responsibility. Some awards are listed below:

- Bagged 'Employee Engagement Leadership Award' in the category 'Best Initiative in Benefits for Working Mothers' at the Employee Engagement Leadership Converge 2018. 
- Featured amongst the '100 Best Companies for Women in India' at the 'Best of Best Conference 2018', presented by Avtar group and Working Mother Media. 
- Recognized by Brand Equity, as one of the 'Top 10 Ads of March 2018' for MAGGI MASALA-AE-MAGIC 'Kuch Achha Pak Raha Hai' film.
- Won the 'Campaign of the Month Award – All India', by allaboutoutdoor.com for KITKAT DESSERT DELIGHT Brownie Kubes outdoor launch.
- Won silver for 'Nanhi Kali- Story Books Finds A Way' in 'Direct Marketing' and Bronze for NESCAFÉ RJ Rishi Campaign in 'Consumer Products-Beverages & Drinks Category' at Effie Awards 2018.
- Awarded 'Product Innovation of the year 2018' in the Nutrition Category for NESTLÉ CEREGROW
- Awarded 'The Emerging Brand' by CIMS Medica in the Health and Wellness Category for RESOURCE Diabetic.

- Received Best Supplier Award for 'Supply Chain – Food' at Walmart India annual 'Supplier Summit'
- Recognised by Confederation of Indian Industries for Food Safety; Food Testing, Manufacturing Competitiveness and Quality Management.
- Awarded Silver by Skoch Awards for 'Corporate Social Responsibility' for Project Jagriti implemented in partnership with NGO Mamta.
- Won ET NOW, CSR Leadership Awards for the commendable work in the category of 'Concern for Health'.
- Mr. Suresh Narayanan was ranked amongst the 'Best CEOs' at Asia Pacific Gender Diversity and Leadership Excellence Awards for 'Leading on Gender Diversity'. 
- Mr. Suresh Narayanan was honoured with the 'Responsible Business Leader' award for successfully embedding responsible business practices across Nestlé India at Responsible Business Summit 2018.
- Mr. Shobinder Duggal was awarded 'The Best CFO of A MNC – Large' by YES Bank and Business World.

Employee Focus

Your Company has been recognized as one of the leading three FMCG Companies for campus placements, which was further strengthened through multiple new touch points including the launch of Company's Instagram page, 'N-Reach', a first of its kind industry-academia partnership, and 1st Day on Campus with Nestlé.

Your Company in 2018 made successful lateral hires and strengthened its position as an 'Equal Opportunity Employer'. Your Company also saw a strong representation of women both as managers and in the field force. In 2018, its field force constituted 20% women, 71% women as management trainees, 60% women as technical trainees and 75% women as sales trainees. The

diversity extends to your Company's Board of Directors, 50% of independent directors are women.

To further improve diversity, your Company organized unconscious bias programmes for employees. Provision of sanitary pad dispenser and disposal units in all factories and offices, sessions on menstrual health in factories and enhanced travel benefit for mothers, contributed towards the creation of an inclusive environment, that led to an increase in representation of women employees.



Your Company also launched the Nestlé Changemakers programme – a social sabbatical policy that allows employees to volunteer their time and skills with an NGO partner on a socially relevant project for 4 weeks.

Sales

Your Company has further strengthened its distribution base, sales capabilities and execution skills to deliver leadership position in most categories. The speed, efficiency and best-in-class roll-out of putting new products on to the shelves and online platforms, along with the requisite consumer sampling and engagement activities has ensured availability, visibility and accessibility. Your Company continues to enhance its distribution footprint in the emerging purchase and consumption domains and geographies.



The fast growing shopper and consumer opportunities on the e-commerce channels were tapped and promoted through customized

inputs, offers and packs like MAGGI Masala, NESCAFÉ travel kit, MAGGI rakhi and diwali packs.

Your Company believes that distribution-excellence and customer servicing will remain the key differentiator in the rapidly evolving retail landscape. Your Company recognized the necessity of a granular business focus approach and alignment process, and therefore conducted dedicated regional meets with its business partners across the country. New opportunities, initiatives and training programmes were shared, embraced and organized at these regional meets to ensure the continued excellence of our sales operations through our trusted business partners. Your Company has continued with its commitment of conducting its sales operations under the Nestlé Business Excellence framework. This has led to further efficiencies via enhanced automation, simplification, order-and-collection management and in addressing the service gaps and opportunities.

Management Analysis

Review of Economic Scenario and outlook

India's economy in 2018 gained momentum as a result of the stabilization of Goods and Services Tax (GST) and India opening up more to foreign investors.

The year 2018 witnessed quick recovery and India's growth accelerated to an estimated 7.3 per cent for 2018 - 19. The economy regained after a temporary slowdown due to demonetisation and the implementation of GST. Economic activity continued to recover with strong domestic demand and increase in consumption remained a major contributor to this growth. India emerged as the fastest growing major world economy in 2018 despite increased global vulnerabilities, such as rising oil prices, escalated trade wars between global partners, and the US monetary shutdown.

During the year 2018, India made some important strides. It climbed another 23 points in the World Bank's ease of doing business index to the 77th position, for the first time.

During the year 2018, the Food Processing sector grew at an average pace of 8% per annum. Government's flagship programmes played a significant role towards boosting investment in this sector.

Opportunities and Risks

Aided by consumer demand, private consumption remains robust in India. Healthy demand growth outlook will continue to boost the economy. The rural markets performed well because of numerous government schemes and also because of the growing income levels of the rural population. Consumption in the rural market was buttressed by a large base of technologically savvy Indian consumer.

The young India, is aspirational, this is reflected in the lifestyle choices adopted by them, both in their personal and professional life. The availability of high disposable income and exposure to a rapidly changing environment is encouraging the millennials to consider health and wellness as an important part of overall well-being that complements their changing and upwardly mobile lifestyle. While there are quick purchases, these purchase decisions are backed by healthy choices and increasing demand for value-up and premium products. Your Company has specialized digital acceleration and e-commerce teams that are pursuing business opportunities in the space of e-commerce.

Your Company can leverage access to Nestlé technology to develop more science-based products that provide superior benefits of Nutrition, Health and Wellness at appropriate price points. Your Company has state-of-the-art manufacturing facilities, efficient supply chain, sales automation with extensive reach. This combined with access to strong R&D and expertise in science based nutrition plays an important role in providing high quality and safe food products. The product portfolio of your Company continues to be strengthened by accelerated innovation and renovation to stay relevant to the emerging and differentiated needs of the consumers.

Your Company continues to receive valuable support from Nestlé Group's unmatched R&D capabilities and expertise. Under the General

License Agreements (GLAs), your Company has ongoing access to global portfolio of thousands of brands and patents, proprietary technologies and know-how developed by the global network of 31 R&D centres (including one in India); as well as expertise across the business value chain in operations, commercial and support functions. All the products manufactured and/or sold by the Company, are on the basis of the Licences provided by the Licensor to the Company under the GLAs. The access under the GLAs to the capabilities of Nestlé Group, is integral for the Company to continue to deliver long term sustainable growth, Create Shared Value for the shareholders and the society.

Your Company has initiatives in place to minimize the environment footprint in the areas of water, plastic waste management, conservation and proper disposal of packaging materials which are in the latter part of the report.

Despite risks arising out of volatile crude oil prices and the weakening of the Indian Rupee against US dollar, the rural markets combined with ongoing structural reforms are expected to continue to boost economic activity in India.

Operational Efficiency

Your Company's improved operational efficiencies have delivered products of higher quality and at a competitive cost.

Your Company through digitalization has moved towards 'Paperless Shop Floor'. By introducing Factory Automation System (FAS) at all factories, your Company has ensured data security and reliable network. In addition to the above, your Company already has an Advanced Process Control at Samalkha factory which ensures smooth manufacturing operations, automated recipe adjustment flexibility, better control on loss and performance and delivery of quality products.

Quality and Food Safety

Quality and Food Safety are highest priority for your Company. Your Company continued

to deliver products that meet high quality standards and are safe for consumption. In line with the requirement of Food Safety Training & Certification Programme (FoSTaC) under Food Safety and Standards Act (FSSA), 469 employees have been trained across all factories.

During the year 2018, all factory laboratories of your Company have received accreditation from the National Accreditation Board for Testing and Calibration Laboratories (NABL), which is aligned with ISO 17025 Standard. Accreditation of Laboratories is considered to be an important indicator of the technical competency to undertake the tests for which the laboratory is accredited and further strengthen consumer trust in the products of your Company.

Environment

The aim of your Company is to develop business while improving its environmental performance in order to create a more sustainable future. In order to achieve this, your Company continues to focus on measures for the conservation and optimal utilization of energy in all the areas of its operations. Factories are encouraged to consistently improve operational efficiencies, minimize consumption of natural resources and reduce water, energy and carbon emissions while maximizing production volumes.

From 2003-2018, for every tonne of production, your Company has reduced the usage of energy by 45%, reduced water usage by 53%, reduced greenhouse gases generation by 55% and the generation of waste water by 49%.

Waste for Disposal

Your Company is always looking at ways to improve efficiency, quality and productivity with optimal resources and less waste. As part of the commitment to zero waste to landfill in the operations, efforts to reduce waste have shown marked improvement over the last year. During the year 2018, the factories reduced waste for disposal to landfill by 68.5% over 2017. Six out of eight factories are zero waste to landfill and your Company aims to make all factories as zero waste to landfill by 2020.

Packaging and Plastic Waste Management '2 Minute Safaai Ke Naam'

Your Company believes that there is a need to engage with consumers and bring about a behavioural change about the need for disposing plastic waste responsibly. Therefore, your Company designed a campaign for this purpose and called it, '2 Minute Safaai Ke Naam' (2 minutes for cleanliness) in Dehradun and Mussoorie. In this campaign, the Company incentivized the consumers by giving them a packet of MAGGI Noodles on return of every 10 empty

MAGGI noodles wrappers. This campaign brought together



multiple stakeholders to address the issue of proper plastic waste disposal. Your Company, the media partner, NGO, not for profit waste management organizations, colleges / universities, retailers, owners of MAGGI branded retail outlets (MAGGI Point), all came together for responsible disposal of plastic waste and protecting the environment.

In the second phase of this Project, your Company is working with Mussoorie Nagar Palika Parishad (MNPP) and RECITY Network by implementing an integrated plastic waste management system in Mussoorie. The initiative will focus on governance, understanding waste streams and its generation, filling the infrastructure gaps, driving behavioral change, developing a monitoring framework to ensure transparency and developing a circular economy and structure to carry forward the systems developed by the Project. The aim of this Project is to support Mussoorie being amongst the cleanest hill stations in India.

Extended Producers Responsibility and Consortium Approach

Your Company believes that tackling the issue of plastic waste requires collective approach. Also, there was an urgent need to showcase that multi layered plastic waste, when properly collected, segregated and disposed can be processed and managed till the end of its life. A consortium

which initially comprised of 5 companies was formed. The consortium engaged with various NGOs, waste management service providers and conducted successful pilot projects to manage multilayered plastics effectively. The projects focus on the following:

- Awareness and training programmes for rag pickers
- Improve livelihood of waste pickers
- Collection, segregation and recycling of post-consumer waste

Post successful pilots, the consortium started working in the states of Punjab and Maharashtra. The membership of the consortium has increased to almost 35 FMCG companies and is expanding. Your Company in its individual capacity expanded its waste management projects to another 10 states. In the year 2018, your Company managed approximately 5,986 metric tonnes of post-consumer multi layered plastic waste, as a part of commitment towards Extended Producers Responsibility.

Reduction in Greenhouse Gas Emissions

The Nanjangud factory in the State of Karnataka has entered into long term power purchase agreements with two solar power developers to supply 20 Mio KWH (units) per annum, which is 56% of the total requirement. This initiative will reduce greenhouse gas emissions by 18,200 tonnes per annum and also save cost.

Safety and Health

Your Company developed a comprehensive and systematic programme on machinery safety for the benefit of the employees to prevent any untoward incident. Your Company has also taken considerable measures to promote road safety by conducting awareness campaigns for the employees as well as third party transport service drivers. Your Company provides preventive health check-up to employees. Your Company offers programmes for employees, that support healthier lifestyle choices and also conducts programmes on yoga, stress management, bone health and ergonomics.

Supply Chain

During the year 2018, Supply Chain continued to actively work towards enabling consumer led growth and creating a winning edge. Post implementation of Goods and Services Tax (GST) during 2017, your Company initiated work on simplification of the downstream value chain and progressed well in reducing the distribution centres from the starting point of 38 to 30 and plans to continue the work for further optimisation. This initiative has led to savings in costs, improved freshness and better availability of products.

Your Company continues to improve the freshness of products available on the shelf, leveraging mobile application based technology and advanced analytics using data and information on product attributes and real time information about on-shelf product freshness levels. There is continuous improvement in supply planning resulting in optimum product inventory and availability of your Company's products at each stage of the value chain. Sustained focus is maintained on continuous improvement in trade working capital efficiency. Initiatives during the year targeting optimization of finished goods and material inventories and improvement on trade payables have resulted in improved net trade working capital.

Nestlé Business Excellence

To support Nestlé's organization principles of increased business focus, speed and quality of execution, and highly efficient support structures, Nestlé Business Excellence (NBE) was formed in 2014. Your Company is constantly working towards transforming End-to-End (E2E) processes and leveraging technology to simplify operations and enhance its capabilities to retain the competitive edge. NBE provides the requisite framework to leverage our size, optimize E2E flows and provide world-class services (Nestlé Global Business Service) in an integrated, cost-competitive and seamless manner to support business performance.

Your Company is optimizing six industry-standard global E2E flows, which captures ongoing business operations:-

1. Source to Pay (from sourcing materials and services to paying vendors)
2. Order to Cash (from customer order to invoice payment)
3. Hire to Retire (from attracting talent to enabling employees on their Nestlé journey)
4. Record to Report (from recording transactions to financial and performance reporting)
5. Plan to Execute (from strategic and product planning to supplying products)
6. Idea to Launch (from innovative product ideas to consumer launch)

During the year, your Company implemented the Idea-To-Launch processes and tools. It has set up a Centre of Scale at Gurugram that leverages scale and supports the transactional processes for the various E2Es. A Centre of Competence is also being set up to support and execute competence based E2E activities for the business operations.

The initiative of Nestlé Continuous Excellence (NCE) will continue to enable through people: alignment, leadership development and Lean ways of working. Information Technology will continue to enable through technology: processes, data and systems.

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' Responsibility Statement

The Directors state that:

a) in the preparation of the annual accounts, the applicable accounting standards had been followed and no material departures were made from the same;

b) they had 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 of the Company for that period;

c) they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

d) they had prepared the annual accounts on a going concern basis;

e) they had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and

f) they had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Corporate Governance

In terms of Regulation 34 of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter "Listing Regulations"), a Report on Corporate Governance along with Compliance Certificate issued by Statutory Auditors of the Company is attached as Annexure - 1 and forms integral part of this Report (hereinafter "Corporate Governance Report").

Directors and Key Managerial Personnel

In terms of the Articles of Association of the Company, on the recommendation of the Nomination and Remuneration Committee, the Board of Directors, in its meeting held on

26th October, 2018 subject to approval of the shareholders of the Company, appointed Ms. Roopa Kudva as an Additional Director and Independent Non-Executive Director of the Company with effect from 1st January, 2019 for a period of five consecutive years for a term up to 31st December, 2023. Ms. Roopa Kudva holds office up to the date of the forthcoming Annual General Meeting and is eligible for appointment. Based on the recommendation of the Nomination and Remuneration Committee, the Board recommends for the approval of the Members through an Ordinary Resolution in the 60th AGM of your Company, the re-appointment of Ms. Kudva as an Independent Non-Executive Director for a term of five consecutive years from 1st January, 2019 up to 31st December, 2023.

Pursuant to the provisions of the Companies Act, 2013 ("Act"), the shareholders in the 56th AGM of your Company held on 15th May, 2015 appointed Mr. Rajya Vardhan Kanoria as an Independent Non-Executive Director to hold office for five consecutive years for a term up to 12th May, 2019. Mr. Kanoria is eligible for re-appointment as an Independent Non-Executive Director for a second term of five consecutive years. Pursuant to the provisions of the Act, based on the recommendation of the Nomination and Remuneration Committee, the Board recommends for the approval of the Members through a Special Resolution in the 60th AGM of your Company, the re-appointment of Mr. Kanoria as an Independent Non-Executive Director for second term of five consecutive years from 13th May, 2019 up to 12th May, 2024.

Mr. Martin Roemkens shall retire at the forthcoming AGM of your Company by rotation and being eligible offers himself for re-appointment. His brief resume and other details as required under the Act and Listing Regulations for his re-appointment as Director are provided in the Notice of the 60th AGM of your Company.

Details of the proposal for the appointment / re-appointment of Directors are mentioned in the Explanatory Statement under Section 102 of the Companies Act, 2013 of the Notice of the 60th Annual General Meeting ('AGM') of your Company.

The Independent Directors of your Company have given a declaration confirming that they meet the criteria of independence as prescribed both under the Act and the Listing Regulations. The Nomination and Remuneration Committee had adopted principles for identification of Key Managerial Personnel, Senior Management including the executive directors which are based on "Nestlé Purpose and Values" and "Nestlé Leadership Framework". The Appointment and Remuneration Policy of the Company includes criteria for determining qualifications, positive attributes and independence of a director and policy relating to the remuneration of Directors, Key Managerial Personnel and other employees is framed with the object of attracting, retaining and motivating talent which is required to run the Company successfully. The same is available on the website of the Company at the link: <https://www.nestle.in/investors/policies>

Your Company has devised a formal process for annual evaluation of performance of the Board, its Committees and Individual Directors ("Performance Evaluation"). It covers the areas relevant to the functioning as Independent Directors or other directors, member of Board or Committees of the Board. Your Company engaged a leading HR Consulting Firm for compilation of the feedback received from the Board members, Committee members and directors and for identifying key inferences and observations with respect to Performance Evaluation.

Corporate Social Responsibility

During the year under review, the Corporate Social Responsibility Committee comprised of Dr. (Mrs.) Swati A. Piramal (Chairperson), Ms. Rama Bijapurkar, Independent Non-executive Director and Mr. Suresh Narayanan, Chairman and Managing Director of the Company. The terms of reference of the Corporate Social Responsibility Committee is provided in the Corporate Governance Report. Your Company has also formulated a Corporate Social Responsibility Policy (CSR Policy) which is available on the website of the Company at <https://www.nestle.in/investors/policies>. Annual

report on CSR activities as required under the Companies (Corporate Social Responsibility Policy) Rules, 2014 has been appended as Annexure - 2 and forms integral part of this Report.

In terms of Section 135 of the Companies Act, 2013 read with Companies (Corporate Social Responsibility) Rules, 2014 as amended (“CSR Rules”) and in accordance with the CSR Policy, during the year 2018, the Company has spent above two percent of the average net profits of the Company during the three immediately preceding financial years. The details are provided in the Annual Report on CSR activities. In addition to the above, the Company has been implementing societal activities since many decades under umbrella of Creating Shared Value activities which have not been reckoned for arriving at the spends as per CSR Rules.

Some key initiatives that your Company has been engaged in are as follows:

Nestlé Healthy Kids Programme

The Nestlé Healthy Kids Programme has been developed with a focus to raise nutrition, health and wellness awareness among adolescents. The programme contributes towards overall development of adolescents as well as encourages healthier lifestyle, by arming them with knowledge that impacts them in a meaningful way. The programme is being conducted since 2009 and is helping raise awareness regarding good nutritional and cooking practices, good hygiene and promoting physical fitness. The programme is implemented through two modes, one is in partnership with six regional universities and the second is with NGO Magic Bus India Foundation.

Till year 2018, over 280,000 adolescents across 22 states have been encouraged to live healthier lives through Nestlé Healthy Kids Programme.

Project JAGRITI

As part of the commitment to inspiring people to lead healthier lives and providing educational programmes, your Company, in partnership with Mamta Health Institute for Mother and Child implemented Project JAGRITI. The programme focuses on developing community support for

improved health and nutrition outcomes among adolescents, young couples and caregivers while improving the uptake of public health services.

During the years 2016 to 2018, the programme ran across 15 districts of Rajasthan, Karnataka, Maharashtra, Chandigarh, Odisha, Uttar Pradesh, Bihar and Delhi, reaching out to 4.6 million beneficiaries - 1.5 million direct and impacting 3.1 million beneficiaries indirectly.

Project Serve Safe Food

Recognizing the potential of street food vending as an important source of livelihood, your Company joined hands with NGO Nidan and National Association of Street Vendors of India (NASVI), to develop programmes to train street food vendors on subjects such as health, hygiene, food handling, food safety, personal hygiene, cart hygiene, garbage disposal and entrepreneurship. During the year 2018, this programme was implemented across Delhi, Kerala, Maharashtra, Madhya Pradesh, Chhattisgarh, Tamil Nadu, Gujarat, Odisha, J&K, reaching out to 14,165 street food vendors.

Business Responsibility Report

Creating Shared Value is your Company’s fundamental way of working and contributing to society while ensuring long-term business success. Your Company has been conducting business in a way that delivers long-term shareholder value and benefits to society under approach of “Creating Shared Value”. The Business Responsibility Report as per Regulation 34 of the Listing Regulations has been appended as Annexure – 3 and forms integral part of the Annual Report.

Statutory Auditors

As per Section 139 of the Companies Act, 2013 (‘the Act’), read with the Companies (Audit and Auditors) Rules, 2014, the Members of the Company in 58th Annual General Meeting approved the appointment of M/s. B S R & Co. LLP, Chartered Accountants (ICAI Registration No- 101248W/W-100022), as the Statutory Auditors of the Company for an initial term of 5 years i.e. from the conclusion of 58th

Annual General Meeting till the conclusion of 63rd Annual General Meeting of the Company. Pursuant to amendments in Section 139 of the Companies Act, 2013, the requirements to place the matter relating to such appointment for ratification by members at every annual general meeting has been omitted with effect from 7th May, 2018.

The Report given by M/s. B S R & Co. LLP, Chartered Accountants on the financial statement of the Company for the year 2018 is part of the Annual Report. There has been no qualification, reservation or adverse remark or disclaimer in their Report. During the year 2018, the Auditors had not reported any matter under Section 143 (12) of the Act, therefore no detail is required to be disclosed under Section 134(3)(ca) of the Act.

Cost Accounts and Cost Auditors

In terms of the Section 148 of the Companies Act, 2013 ('the Act') read with Rule 8 of the Companies (Accounts) Rules, 2014, it is stated that the cost accounts and records are made and maintained by the Company as specified by the Central Government under sub-section (1) of Section 148 of the Companies Act, 2013.

In terms of Section 148 of the Act read with Companies (Cost Records and Audits) Rules, 2014, the Audit Committee recommended and the Board of Directors appointed M/s. Ramanath Iyer and Co., Cost Accountants, New Delhi (Registration No. 00019) being eligible, as Cost Auditors of your Company, to carry out the cost audit of milk powder products manufactured by the Company falling under the specified Customs Tariff Act Heading 0402 in relation to the financial year ending 31st December, 2019. Your Company had received their written consent that the appointment will be in accordance with the applicable provisions of the Act and rules framed thereunder.

The remuneration of Cost Auditors has been approved by the Board of Directors on the recommendation of Audit Committee and in terms of the Companies Act, 2013 and Rules thereunder requisite resolution for ratification of remuneration of the Cost Auditors by the

members has been set out in the Notice of the 60th Annual General Meeting of your Company.

During the year 2018, the Cost Accountants had not reported any matter under Section 143 (12) of the Act, therefore no detail is required to be disclosed under Section 134(3)(ca) of the Act.

Secretarial Auditors and Secretarial Standards

The Secretarial Audit was carried out by M/s. S.N. Ananthasubramanian & Co., Company Secretaries (CP No. 1774) for the financial year 2018. The Report given by the Secretarial Auditors is annexed as Annexure – 4 and forms integral part of this Report. There has been no qualification, reservation or adverse remark or disclaimer in their Report. During the year 2018, the Secretarial Auditors had not reported any matter under Section 143 (12) of the Act, therefore no detail is required to be disclosed under Section 134 (3)(ca) of the Act.

In terms of Section 204 of the Companies Act, 2013 read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Audit Committee recommended and the Board of Directors appointed M/s. S.N. Ananthasubramanian & Co., Company Secretaries (CP No. 1774) as the Secretarial Auditors of the Company in relation to the financial year ending 31st December, 2019. Your Company had received their written consent that the appointment will be in accordance with the applicable provisions of the Act and rules framed thereunder.

During the year 2018, your Company has complied with the applicable Secretarial Standards issued by the Institute of Company Secretaries of India.

Meetings of the Board

During the year 2018, the Board of Directors met eight times. For details of the meetings of the Board of Directors, please refer to the Corporate Governance Report.

Extract of Annual Return

The extract of annual return in Form MGT 9 as required under Section 92(3) of the Companies Act, 2013 and Rule 12 of the Companies (Management and Administration) Rules, 2014 is available on the website of the Company at the link: <https://www.nestle.in/investors/stockandfinancials/annualreturns>

Details of Loans and Investments

Details of the loans given by your Company under Section 186 of the Act during the financial year ended 31st December, 2018 are as follows: Nestlé R&D Centre India Private Limited (Fellow Subsidiary): ₹250 million at the interest rate of 7.75% per annum for general business purpose (Loan outstanding at the end of the year was Nil); SMA Nutrition India Private Limited (Fellow Subsidiary): ₹50 million at the interest rate of 8.17% per annum for general business purpose (Loan outstanding at the end of the year was Nil); and PURINA PetCare India Private Limited (Fellow Subsidiary): ₹165 million at the interest rate of 8.04% per annum for general business purpose (Loan outstanding at the end of the year was Nil). For details of investments, please refer note no. 10 forming part of financial statements.

Related Party Transactions

Your Company has formulated a policy on related party transactions which is also available on Company's website at <https://www.nestle.in/investors/policies>. This policy deals with the review and approval of related party transactions. The Board of Directors of the Company has approved the criteria for making the omnibus approval by the Audit Committee within the overall framework of the policy on related party transactions. Prior omnibus approval is obtained for related party transactions which are of repetitive nature and entered in the ordinary course of business and at an arm's length basis. All related party transactions are placed before the Audit Committee for review and approval.

All related party transactions entered during the year 2018 were in ordinary course of the

business and on an arm's length basis. No material related party transactions were entered during the Financial Year by your Company. The disclosure of related party transactions as required under Section 134(3)(h) of the Companies Act, 2013 in Form AOC 2 is not applicable to your Company. Members may refer to note no. 46 to the financial statement which sets out related party disclosures pursuant to IND AS-24.

Risk Management

The Board of Directors had constituted Risk Management Committee to identify elements of risk in different areas of operations and to develop policy for actions associated to mitigate the risks. The Committee on timely basis informs the Board of Directors about risk assessment and minimization procedures which in the opinion of the Committee may threaten the existence of the Company, if any. The details of Risk Management Committee and its frequency of meetings are included in the Corporate Governance Report.

Public Deposits

Your Company has not accepted any Public Deposits under Chapter V of the Companies Act, 2013.

Significant and Material orders passed by the Regulators/Courts/Tribunals

No significant or material orders were passed by the Regulators or Courts or Tribunals which impacts the going concern status and Company's operations in future.

Complaint filed in National Commission

The Union of India, Department of Consumer Affairs in 2015 had filed a complaint before the National Consumer Dispute Redressal Commission on the allegation that by selling MAGGI Noodles in the past, your Company has indulged in unfair trade practice, sold defective

goods to the public and sold goods which will be hazardous. Complaint seeks compensation of ₹2,845.5 million and punitive damages of ₹3,554.1 million. Your Company has challenged the complaint. The court proceedings are currently ongoing.

Internal Financial Controls and their adequacy

The Directors had laid down internal financial controls to be followed by your Company and such policies and procedures adopted by your Company for ensuring the orderly and efficient conduct of its business, including adherence to your Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The Audit Committee evaluates the internal financial control system periodically.

Audit Committee

During the year under review, the Audit Committee comprised Independent Non-Executive Directors, namely, Mr. Ashok Kumar Mahindra (Chairperson), Dr. Rakesh Mohan and Mr. Rajya Vardhan Kanoria. Powers and role of the Audit Committee are included in Corporate Governance Report. All the recommendations made by the Audit Committee were accepted by the Board of Directors.

Vigil Mechanism

The Vigil Mechanism of your Company is governed by significant documents "The Nestlé Corporate Business Principles", "Nestlé Purpose and Values document" and "Nestlé Code of Business Conduct". The said mechanism is available to the directors and employees, who can report to the Company Secretary, on a confidential basis, any practices or actions believed to be inappropriate or illegal under the Nestlé India Code of Business Conduct ("the Code"). The Code provides for adequate safeguards against victimization of director(s)/employee(s) who avail of the mechanism and also provides for direct access to the Chairman

of the Audit Committee in exceptional cases. It is affirmed that no person has been denied access to the Audit Committee. As an additional facility to all the directors and employees of the Company, the Company under the Code provides Integrity Reporting System ("IRS"), an independent third party operated free phone and web based facility for the directors and employees of the Company across all locations. The details of IRS along with FAQs are available to the directors and employees on your Company's intranet portal. Further, your Company has appointed Ombudsman for Infant Code, under which employees can report Infant Code violations directly to the Ombudsman, with adequate safeguard to protect the employee reporting. Your Company also provides an independent third party operated free phone and web based facility, "Tell us", to all internal and external stakeholders with a dedicated communication channel for reporting potential instances of non-compliance with Nestlé Corporate Business Principles. Details of "Tell Us" are available on www.nestle.in.

Information regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo

Information required under Section 134(3)(m) of the Act read with Rule 8 of the Companies (Accounts) Rules, 2014 for the financial year ended 31st December, 2018 in relation to the Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo is given in the Annexure – 5 forming integral part of this Report.

Information regarding Employees and related disclosures

Your Company considers people as its biggest assets and 'Believing in People' is at the heart of its human resource strategy. Concerted efforts have been put in talent management and succession planning practices, strong performance management and learning and training initiatives to ensure that your Company consistently develops inspiring, strong and credible leadership. During the year the focus of your Company was to ensure that

young talent is nurtured and mentored consistently, that rewards and recognition are commensurate with performance and that employees have the opportunity to develop and grow.

Your Company has established an organization structure that is agile and focused on delivering business results. With regular communication and sustained efforts it is ensuring that employees are aligned on common objectives and have the right information on business evolution. Your Company strongly believes in fostering a culture of trust and mutual respect in all its employees and seeks to ensure that Nestlé values and principles are understood by all and are the reference point in all people matters.

The statement of Disclosure of Remuneration under Section 197 of the Act and Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 ("Rules"), is appended as Annexure – 6 to the Report. The information as per Rule 5(2) of the Rules, forms part of this Report. However, as per first proviso to Section 136(1) of the Act and second proviso of Rule 5(2) of the Rules, the Report and Financial Statements are being sent to the Members of the Company excluding the statement of particulars of employees under Rule 5(2) of the Rules. Any Member interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company.

As per the requirement of The Sexual Harassment of Women at the Workplace (Prevention, Prohibition and Redressal) Act, 2013 (POSH), your Company has a robust mechanism in place to redress complaints reported under it. The Company has complied with provisions relating to the constitution of Internal Complaints Committee under POSH. The Internal Committee (IC) composed of internal members and an external member who has extensive experience in the field. During the year 2018, no cases of sexual harassment were reported in your Company. During the course of the year, several initiatives were undertaken to demonstrate the Company's zero tolerance philosophy against discrimination and sexual harassment, which included creation of comprehensive and easy to understand training and communication material which are also made easily accessible. In addition, workshops were also run for the employees to enhance awareness and knowledge of other biases that may influence thinking and actions.

Trade Relations

Your Company maintained healthy, cordial and harmonious industrial relations at all levels. Despite severe competition, the enthusiasm and unstinting efforts of the employees have enabled your 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 endeavor to build and nurture strong links with trade, based on mutuality, respect and co-operation with each other and consistent with consumer interest.

Appreciation

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

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

On behalf of the Board of Directors

Suresh Narayanan
Chairman and Managing Director

Date : 14th February, 2019
Place : Gurugram