



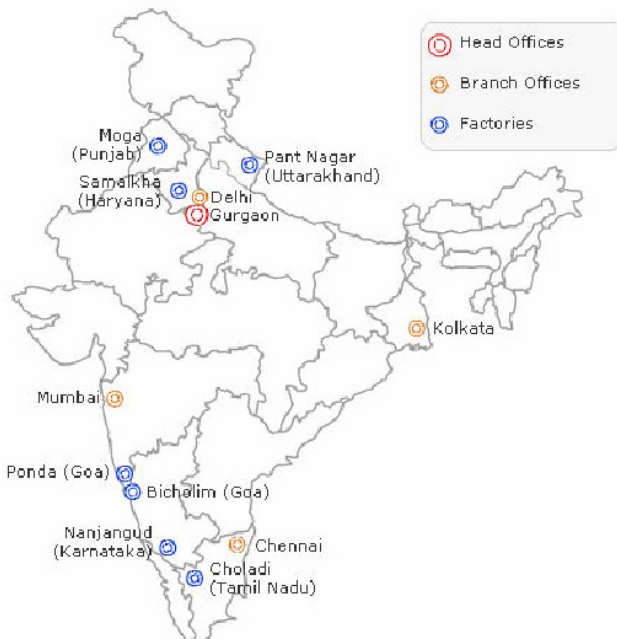
NESTLÉ INDIA

Nestlé India (NI), with a market cap of US\$3.6bn, is the 62% owned listed subsidiary of Nestlé S.A., the world's leading nutrition, health and wellness company.

NI exhibits the characteristics of a company we love and, in our opinion, is an outstanding long term investment opportunity. It commenced operations in India 90 years ago and focuses on four major segments.

Product Group	% of Total Sales
Milk Products and Nutrition	43%
Beverages	20%
Chocolates and Confectionary	21%
Prepared Dishes and Cooking Aids	16%

NI has an excellent understanding of the local market and has launched products that meet the tastes and needs of the local population. The majority of its products currently cater to urban Indians and the company is progressively expanding its reach into rural areas as the country's per capita income grows.



Leading Brands



Milk Products and Nutrition

NI's largest segment is Milk and Milk Products. The company has been closely involved in the development of the milk industry over the last three decades, and in the process has developed strong relations with nearly 85,000 farmers country-wide. As a result it has access to the best quality milk in India.

The Milk Products and Nutrition segment is further broken down into Infant Foods and Other Dairy Products. Nestlé has 80% market share in the baby cereal segment – a segment that has a very promising future. Literacy among women, an increase in their disposable income and their increasing share in the workforce will encourage more and more mothers to use branded infant foods. Globally this industry is worth nearly US\$20bn, and Nestlé is the market leader.

Beverages

Nestlé is the Indian market leader in instant coffee, with 55% market share, and its Nescafé brand dominates the premium segment. The company has been trying to increase out of home consumption by setting up coffee machines in public places. It has by far the largest number of vending machines installed in the market, selling over 700m cups of hot and cold beverages per annum. However, tea is still the most popular hot beverage in India by far, with one cup of coffee being drunk for every 100 cups of tea. We believe the coffee market has a long way to grow in India, and NI is well positioned to cater to that growing market.



Chocolates and Confectionary

India has a young population which is supportive of ongoing growth in the confectionery business. NI's Munch bar is the largest selling brand in its category. India is the largest consumer of sugar in the world, however most of this consumption is currently in the form of traditional sweets.

Prepared Dishes and Cooking Aids

Ready to cook food and cooking aids are sold under the umbrella brand name Maggi. NI has about 80% market share in the instant noodle segment. This segment will be an important growth driver going forward. Processed Foods are at a very nascent stage in India, but higher disposable incomes, increased media exposure, rising literacy and better standards of living will all drive the consumption of these products.

Exports

Exports currently account for around 10% of NI's sales. Coffee exports to Russia currently account for a large part of this, but its share should decline over time as Nestlé increases exports of other products and enters new markets. In 2007, Nestlé started exporting culinary products to Australia and South Africa. The company is aiming to increase its range of export products and countries, as well as developing products to cater to the Indian community outside India.



Most of NI's products come from its parent's stable, however they are tailored ('Indianised') to suit local tastes. At the moment NI utilises approx. 40% of its parent's product portfolio.

Global parentage also provides assurance on corporate governance and management practice.

Operational Efficiency

As NI has built critical mass it has been able to achieve economies of scale and improve logistics, with excellent supplier arrangements. This operational efficiency, coupled with strong brand loyalty has enabled NI to continue growing sales, though not at the expense of margins – even in the current inflationary environment. Operating margins have actually increased in the recent full year results, in the face of a large run up in raw material costs.

Management Depth & Excellence

In our opinion, NI's management team is one of the best we have met. Managing Director Martial Rolland has recently returned to India, having previously held a marketing position with NI. He wants his employees to be "high performing athletes".

The group's culture encourages global training and NI provides executives to Nestlé's global network. The head of HSBC in India sits on Nestlé's global board, attesting to both the standing of the individual and the importance of India to the company going forward.

Attractive Business Model

We believe NI is a high quality business for the following reasons.

Global Parentage

Over the 90 years it has operated in India NI has leveraged off the excellence of the global company to enable it to participate in each and every stage of India's economic growth. It can access its parent's global product range and lever off its R&D capacity to cater to the needs of this highly dynamic, fast growing market.

Strong Financial Position

NI has no debt and generates a high ROE (even without financial gearing). Strong operational cash flow is assisted by negative working capital and, notwithstanding the company's continuous reinvestment in the business (in capacity expansion, logistics, and brand development), it has also been able to pay out a high percentage of annual earnings to shareholders.



Please see a summary of NI's 2007 full year results below:

- Net sales growth 24%
- Net earnings 31%
- ROE 99%
- Payout ratio 77%

Nestlé India's Future

A stronger rural economy, increasing disposable income, and a shift to branded products will mean higher growth rates for the FMCG industry in the coming decade. India's population is over one billion, which means that one in every six people in the world is Indian. This population is young (70% below 35 years) and there is a burgeoning middle class – good demographic tailwinds.

Demand for Nestlé's products has typically kicked off in a big way in countries where GDP per capita has crossed the US\$1,000 threshold. India's GDP per capita is around US\$700-800 and growing at 6% per annum. In this respect the 'plus US\$1,000' market is growing every year and is expected to continue growing for decades.

The Indian consumer's aspirations are changing. This can be gauged by growing urbanization, exposure to media, rising ownership of consumer durables and greater use of credit. Declining birth rates, increasing education of women, and rising per capita income are all delivering a 'demographic dividend'. This is expected to translate into rising consumption of convenience foods and out-of-home eating. The increasing confidence and changing lifestyle of the Indian consumer bode well for the long term growth of NI.

Over the last 18 months we have built the Fund's position in NI quietly, as our conviction has grown. We bought at a very attractive entry point and whilst the company's share price has subsequently risen substantially, it still only trades at close to our base case valuation. This valuation gives no upside for the introduction of new product categories as per capita income rises. We fully expect to be very long term investors in Nestlé India.

Further Information

More information can be found on NI's website, <http://www.nestle.in>. We recommend you look at the company's 2007 annual report.

