

## HLL'S HPC DIVISION HOLDS VOLUME SHARES IN CATEGORIES WITH MOST INTENSE COMPETITION

Hindustan Lever Limited's (HLL) key Home & Personal Care categories, in a year of exceptional competitive challenges and significant price reductions on several brands, was able to grow sales. However, profits suffered during the year.

Earlier in the year, HLL had formed one combined HPC division, integrating the Soaps & Detergents and Personal Products businesses. The simplified organisation has, as envisaged, led to sharper focus on brands and categories. The division has also harnessed synergies of size and scale in its supply chain across manufacturing, commercial and sales.

In Detergents, HLL has effectively countered intense competition, and has increased volume market share while holding value share. In Powders, HLL's volume market share has gone up to 29.8% in December Quarter (DQ) compared to 27.8% in March Quarter (MQ); value market share in DQ is 37.5% compared to 37.3% in MQ.

The Surf Excel franchise, with new price points and product innovations, led the charge. The relaunch of Surf Excel Blue has delivered good growth. Surf Excel Quick Wash's water saving formulation and proposition have been well received. Rin Supreme Nil Mineral Bar, offering superlative whiteness, posted strong double digit growth, despite a premium to the market. The introduction of Rin Advanced Bar and Powder in September is a major initiative to strengthen the Rin brand. The Wheel franchise, aided by the relaunch of Wheel Active, continued to grow strongly for the third consecutive year and is now India's single largest detergent brand by both value and volume.

Pepsodent exited the year with an increase in value market share. The two new flavours of Pepsodent launched in 2003, the launch of Pepsodent Whitening in 2004, the night brushing campaign and the affordable Rs.5 pack fostered growth. Close-up has benefitted from the new relaunch campaign and an aggressive thrust on low-price (Rs.10) flow-wrap pack.

In Shampoos, HLL's strategy of improved products at more affordable prices has resulted in sharp 30% volume growth. HLL's shampoo market share (volume) has gone up to 51% from 48.7% at the end of 2003. Clinic Plus led the growth, with a highly successful new mix meeting five most important hair health benefits in more affordably priced bottles and sachets. During the year, HLL relaunched Clinic All Clear with an improved formulation at a higher price.

Lifebuoy continued to power ahead in Soaps, posting strong double-digit growth for the third consecutive year. Lifebuoy was once again relaunched in 2004 with a significantly improved mix and a new communication. A new Lifebuoy Green variant has been added. The Lux franchise too has been expanded with a premium Lux Body Wash and Lux International Bar, and a mid-price soap, Lux with exotic flower petals and Jojoba Oil.

HLL has also strengthened Hamam, the leading brand of Tamil Nadu, with quality improvement, a new shape and fragrance.

The Skin Care portfolio of Fair & Lovely, Pond's, Vaseline and Pears have all posted growth, now for four consecutive years. Affordable Rs.5 packs for most of them are helping increase penetration. The Fair & Lovely franchise has been further expanded with the Oil Control Gel, and the Fair & Lovely Perfect Radiance range of premium skin care products. Vaseline Petroleum Jelly has been given a fillip with a distinctive new pack. Pears added an innovative blue colour germ protecting (with mint extracts) soap bar.

Innovation also spurred Lakme with continuing double digit growth. Lakme Sunscreen Lotion has been expanded as the Lakme Sun Expert range, catering separately to oily, normal and sensitive skin. Another distinctive introduction was the Dual Definition Lipstick & Liner combination. Lakme, by the end of the year, has opened 69 Beauty Salons in 26 cities and towns.

To counter competition and, in some cases, to catalyse market growth, the HPC Division has invested behind its brands through higher brand support, lower prices and improved quality. This has had an impact during the year on profits which declined. These initiatives are intended to ensure long term growth and strengthen market positions of the brands.

HLL is confident of the immense long term potential of the HPC market, and has expanded its manufacturing base. Two new factories have been set up in Uttaranchal and Himachal Pradesh.

#### **BROOKE BOND EXPANDS PRESENCE, MARKET SHARE UP; STRONG GROWTH IN COFFEE**

Hindustan Lever Limited's (HLL) packet tea business has strengthened its position in the market in 2004, led by its two mega brands, Brooke Bond and Lipton. Simultaneously HLL continues to post strong growth in coffee.

HLL has further consolidated on the successful relaunch of Brooke Bond in the second half of 2003. The three Brooke Bond sub-brands, Taj Mahal, Red Label and Taaza, with their distinct positionings, have expanded their presence to cover new geographies. This has helped strengthen marketplace position.

Appropriately priced packs have been introduced to make the Brooke Bond offerings more accessible. Coupled with high-impact market activation, these packs have increased Brooke Bond's market share and sustained its strong growth.

The Lipton brand, targetted at young consumers, has been appropriately expanded in the Out-of-Home segment. Lipton Ice Tea has been successfully test-marketed in Bangalore and Chennai. The consumer test proven mix will now be taken national, leveraging the alliance between HLL and Pepsi.

HLL has already identified Out-of-Home as a growth driver. The channel, which has posted strong growth in the last two years, will be used for the entire HLL Beverages and Foods categories.

In the Instant Coffee segment, HLL continues to post strong growth. Bru Instant Coffee has been relaunched, with a new identity, communication and modern pack formats. Superior activation, penetration building activities and investment in strategic channels, like Out-of-Home, is also contributing to the growth. Bru, as a franchise, has been strengthened with the filter coffee brand, Deluxe Green Label, relaunched as Bru Roast & Ground. The year also witnessed the launch of Bru Malabar Roast & Ground in select geographies.

#### FOODS SUPPLY CHAIN REVAMPED WITH SHARED SERVICE CENTRE, INTEGRATED MANUFACTURING

Hindustan Lever Limited's (HLL) Foods Division has implemented major initiatives in 2004 to revamp the supply chain. A shared service hub for planning, sourcing and production scheduling has come up in Bangalore to ensure inventory management, based on replenishment principles. This is going to result in freshness of products, higher levels of customer service and optimisation of stock levels leading to cost reduction, thereby unlocking maximum value from the supply chain and helping derive full benefits of the integrated Foods Division.

HLL is also implementing integration on the manufacturing side. For example, the Nasik Ice Cream factory is being equipped with facilities for producing jams and squashes. This will upgrade the Foods supply chain to world class standards, while delivering synergies and optimising costs through improved asset utilisation and productivity. This and similar initiatives in the pipeline will enhance flexibility in meeting ambitious growth plans in the coming years and create centres of manufacturing excellence.

The performance of the Processed Foods business was adversely affected in a challenging year. However, the business has increased or held its market share position in key categories, in spite of severe competition from low cost local and international brands. HLL has recorded smart gains in market share in jams, and has held share in ketchup and branded salt. A focussed innovation plan, backed by the streamlined supply chain, is already in place, with tests in smaller geographies before national rollout.

In Ice Cream, HLL offered affordable and exciting products under Kquality-Walls. Key launches included Cornetto (Rs.15), Feast Crunchy Chocobar (Rs. 12), Lime Punch (Rs. 10) and Sunshine Zing cone (Rs. 10), making them accessible to more consumers through break-through cost reengineering and value delivery. In the take-home range, a Viennetta vanilla-chocolate variant and multi-sensorial products, like Cake Crème and Chocolate Xcess, (all at Rs. 99) were introduced. A unique Black Forest Sundae was launched in select geographies with a 100% vegetarian cake. The innovative vegetarian cake was also extended to the ever-popular Cassatta (Rs. 25).

New channel development of parlours has been accelerated. Availability through retail and mobile vending channels, has also been expanded with low cost, low power consuming freezers and attractive visibility.

#### HLL EXPORTS TURNOVER RS.1249 CRORES

Hindustan Lever Limited's (HLL) Exports turnover touched Rs.1249 crores in 2004. This was achieved in line with HLL's strategy to become a global sourcing partner to Unilever for Home & Personal Care Products (HPC) and Tea, and also concentrating on value-added products in Marine, Rice and Castor, in which India has a competitive edge.

#### Toothpaste exports to Europe

Sourcing of HPC products to Unilever companies registered strong value and volume growth. There has been a significant increase in toothpaste exports, with volumes being doubled during 2004. HLL has commenced commercial supplies to Europe, and secured businesses in Russia and the Philippines. New products, under Dove, Fair & Lovely and Pond's, have been rolled out in the Middle East, Malaysia, Kenya and Sri Lanka. A new range of Pears Liquids has also been introduced in the core markets, like the UK, the US and the Middle East, and also in new markets such as South Africa and Saudi Arabia.

#### New markets in tea

HLL's exports of branded tea bags, from the global sourcing unit in Pune, to Unilever companies has added volumes. During 2004, HLL began to source the Philippines and countries in Africa. The company is already a supplier to Unilever companies in Japan, China, Australia, the US, Canada, Malaysia, Thailand, Vietnam. Exports of Instant Tea has also reached full capacity.

#### Marine products expand in Europe

HLL's Marine Products exports business maintained shares and its position as the number one exporter from India, despite tough conditions, caused by the declining US dollar and imposition of anti-dumping duty in the US on shrimp exports from 6 countries, including India. HLL has registered handsome growth in the European market, adding several new customers in Europe and the UK. New markets developed include Greece, Romania,

Belgium and Holland for crabsticks, and Korea, Japan, Denmark, South Africa, Norway, Poland and Australia for shrimps. HLL also added several supermarket chains to its customer base, including Auchan in Spain, Jetro in the US and E Le Clerc in France. Within Unilever, sourcing began to Italy and Germany, in addition to Spain. HLL's Crabsticks facility at Chorwad has received accreditation of the British Retail Consortium thereby enabling entry into the highly competitive UK market.

#### Castor adds to customer base

The Castor business registered significant topline growth, driven entirely by higher volumes. In particular, the Derivatives business registered excellent topline and bottomline growth, through expansion in customer base, superior customer service and improved portfolio.

#### Rice meal kits for the US

The branded Rice Exports business, comprising Rozana and Gold Seal Indus Valley, registered strong growth. The Rice Meal Kits range of 9-minute basmati recipes, in the value-added products category, was extended to the US during the year. HLL continues to participate in the contract farming operations in Punjab, for which an area of 4700 acres was contracted during the year.

#### Leather clocks record turnover

The Leather exports business under Pond's Exports Limited (a 100% subsidiary of HLL) grew handsomely and clocked a record turnover. New customers, like Eram from France, Richter from Austria, Primigi in Italy and Eegim in Holland have been added. The business has begun to address the children and ethnic segments too.

### SHAKTI EXTENDED TO 50,000 VILLAGES IN 12 STATES

Shakti, Hindustan Lever Limited's (HLL) initiative of generating livelihoods for rural women by equipping and training them to become an extended arm of the company's operations, now covers 50,000 villages in 12 states. It already has 13,000 women entrepreneurs in its fold. A pioneering effort in association with Self-Help Groups (SHGs), Shakti also includes the Shakti Vani programme of health and hygiene education, and creating access to relevant information through the iShakti community portal.

Started in Nalgonda district of Andhra Pradesh in 2001, Shakti has already been extended to Andhra Pradesh, Karnataka, Gujarat, Madhya Pradesh, Tamil Nadu, Chattisgarh, Uttar Pradesh, Orissa, Punjab, Rajasthan, Maharashtra, and West Bengal. HLL's vision is to scale it up across the country, covering 100,000 villages and touching the lives of 100 million rural consumers by 2005.

Shakti Vani is a social communication programme. Women, trained in health and hygiene issues, address villages communities through meetings at schools, village baithaks, SHG meetings and other social fora. In 2004, Shakti Vani has covered 10,000 villages in Madhya Pradesh, Chattisgarh and Karnataka. The vision is to cover 50,000 villages in 2005.

iShakti, the Internet-based rural information service, has been launched in Andhra Pradesh, in association with the State Government's Rajiv Internet Village Programme. iShakti has been developed to provide information and services to meet rural needs in health and hygiene, agriculture, animal husbandry, education, vocational training and employment and women's empowerment. The service is now available in Nalgonda, Vishakapatnam, West Godavari and East Godavari districts. The vision is to have 3,500 kiosks across the state by 2005.

State Governments as well as NGOs are actively involved with HLL in Shakti. Most SHG women have seen this as a powerful business proposition and are enthusiastically participating in it. A typical Shakti entrepreneur earns between Rs.700 to Rs.1000 per month on a sustainable basis. As most of these women are from below the poverty line, and live in extremely small villages (less than 2000 population), this earning is very significant, and is almost double of their past household income. For most of these families, Shakti is creating opportunities to live in conditions of dignity, with real freedom from want.