

HLL DOES NOT GAIN FROM DIVIDEND DISTRIBUTION TAX

MUMBAI, March 5, 2003: Hindustan Lever Limited (HLL) clarifies that the company does not stand to gain due to the Budget 2003-04 proposal to replace the taxation of dividends at the hands of shareholders (including tax deduction at source) by a Dividend Distribution Tax at the hands of the company.

A report to this effect that the company stands to gain out of the Dividend Distribution Tax in a section of the Press is incorrect.

The Scheme of Arrangement for issue of bonus debentures and payment of special dividend, as approved by the shareholders on August 9, 2002, and approved by the High Court provides for issue of one bonus debenture of the face value of Rs. 6/- each for every share of Re. 1/- each. It further provides for a special dividend of Rs. 2.76/- for every share of Re. 1/- each to be paid simultaneous to the issue of bonus debentures, as a part of the integrated transaction. The tax deduction at source for both the bonus debentures constituting "deemed dividend" and on the special dividend was to be made from the special dividend payable to the shareholders so that the face value of bonus debentures could be kept uniform at Rs. 6/- each

The Scheme further provides that in the event of any change in the tax laws, the Board could make consequential changes in the Scheme to ensure that the outflow under the Scheme does not exceed the amount, as approved by the shareholders, at Rs. 1928 crores, being Rs. 1320.7 crores towards bonus debentures and Rs. 607.5 crores by way of special dividend.

The proposed changes in the Budget for 2003-2004 have replaced the provision for taxation of dividend at the hands of the shareholders (including tax deduction at source) by a provision of Dividend Distribution Tax at the hands of the company at a flat rate of Rs. 12.81% (including surcharge). This change would, therefore, not benefit the company in any manner as averred in the Press report.

Accordingly, the company would, subject to the approval of the Board in terms of the authority delegated to it under the Scheme, now bear the Dividend Distribution Tax at Rs. 219 crores (to be paid to the government) and distribute the balance of Rs.388.5 crores to the shareholders, by way of Special Dividend of Rs.1.765 per share of Re.1/- each, over and above the Bonus Debenture of Rs. 6/-. Accordingly, neither the Bonus Debentures as "deemed dividend" nor the special dividend would be taxable at the hands of the shareholders, while the outflow of the company at Rs. 1928 crores remains unaltered.

The company is awaiting approval of the Reserve Bank of India under FEMA, 1999 to progress the Scheme.