FOCUS ON GROWTH

was the subject of the speech,

delivered by Mr. M.S. Banga,

Chairman, Hindustan Lever Limited,

at the Annual General Meeting

held on Friday, June 13, 2003

FOCUS ON GROWTH

Two years ago, in the context of changing markets, we outlined a strategy for Hindustan Lever to deliver sustainable profitable growth. This strategy builds on the past and reshapes for the future. I would like to update you on the progress made in executing this strategy and also outline our future approach.

GROWTH POTENTIAL

Our published results for 2002 show a sales decline of 6.7% on account of discontinuation of non value adding businesses and divestments. Our domestic FMCG business was flat with the growth in Home & Personal Care being offset by a decline in Foods. This may lead to a question on our growth potential. Indeed, there is a common misconception that our categories are mature with little scope for growth. In fact, the very opposite is true. Several of our categories still have low usership levels. In addition, the actual amount used per capita is far lower in India as compared to other countries, as shown below:

Per Capita Consumption (kgs)					
	Fabric Wash	**Personal Wash**	**Toothpastes**	**Shampoo**	**Tea**
India	**2.63**	**0.50**	**0.07**	**0.04**	**0.64**
Thailand	4.71	0.87	0.40	0.38	-
Brazil	9.03	1.46	0.61	0.72	-
UK	13.90	1.31	0.23	0.40	2.28

Also, the GDP growth of about 5% is driving up discretionary income of our consumers by about 8% per annum. Literacy levels are rising, creating higher aspirations further fuelled by the world they see on television. There is no doubt that today's consumer wants a better quality of life which is what our brands help realise.

However, HLL is faced with the challenge that FMCG markets, after growing in strong double-digits throughout the nineties are now declining in value for the last couple of years. Why is this happening? In urban India, consumers are now being exposed to and are trying several new categories, such as mobile phones, leisure, durables etc, and are, therefore, down-trading their FMCG purchases. Rural demand has been dampened by three unusually poor monsoons in the last four years. We believe that both these factors are transitory in nature and FMCG markets will surely find a new growth equilibrium.

Be that as it may, we are leaders in many FMCG categories, and are taking active steps to re-attract consumer spending to our brands. We are doing this by providing exciting, new and differentiated benefits as well as greater value, thereby leading growth. We have every confidence in the validity of this approach given our experience in recent years, whereby several of our biggest brands, supported by such innovation, have grown strongly, even in this very challenging context.

FOCUSSING THE COMPANY

With increased competition for the consumer's wallet in today's market environment, driving growth requires a much higher level of resource in all areas, be it technology, media spend or people talent. Consumer brands in everyday life is our area of core competence both in India and globally with Unilever and thus our area of focus. Two years ago, the FMCG business accounted for 85% of HLL. Today, 95% of HLL is its FMCG business, of which 86% is domestic, with 9% being exports of consumer brands.

Over the years, we had entered several non-FMCG businesses in line with national priorities. These businesses were successful and created good value. However, with the opening up of India, staying in these businesses would have required us to invest heavily in accessing technology and achieving world-class competitiveness. In line with our strategy, we have exited non-FMCG businesses like Animal Feeds, Seeds, Flavours & Fragrances, Nickel Catalyst and Adhesives with total sales of over Rs.600 crores. In doing so, we have secured good value realising in all Rs.430 crores with a profit on disposal of over Rs.260 crores.

We also had a very broad export portfolio covering several areas which also has been restructured and focussed. Going forward, the major thrust is on driving exports of our consumer brands primarily to other Unilever companies from whom we receive considerable support. This is an area where we see enormous potential for growth, given our clear competitive advantage. Indeed we are already supplying Tea bags to Singapore, Australia, Japan and the USA, Personal Products to the Middle East, Far East and African countries and are marketing Pears globally. In all, such exports already constitute over 40% of our total exports of US $ 300 million. We are also driving exports in other chosen areas where India has a competitive advantage, like Rice, Castor and Marine products. Marine products, for example, have huge potential given India’s long coastline and sustainable fishing capability. We are the largest exporters of Marine products from India and have already built up a leading position in shrimp exports to the demanding markets of the USA and Europe. We also acquired Amalgam, a leader in value-added Marine products, to drive further growth in this area. At the same time, we have discontinued a number of non value-adding exports. Our continuing exports are now growing by about 15%.

FOCUS ON POWER BRANDS

In the FMCG business, we had developed a portfolio of over 110 brands organically and through acquisitions. Several of these had overlapping benefits and competed directly with each other, while others were simply too small. Growing brands in today's market requires scale. We, therefore, decided to focus all our resources on thirty Power Brands. These were identified for their size, brand strength, uniqueness and growth potential. In addition, they span all the relevant benefit and price positions in our market. For example, in Laundry, we chose three brands: Surf - providing the very best stain removal, Rin - making clothes look very good, and Wheel - offering great cleaning and value. These three brands also cover the entire price spectrum for every class of consumer.

We have migrated several of our other brands to converge with these Power Brands and harvested others. Now, Power Brands account for over 93% of our domestic consumer business. Indeed, through this approach, we are achieving big scale with several brands being individually as big as our competitor companies. The top five brands together account for sales of over Rs.3000 crores, and last year, grew by over 10%. We see each of these mega brands achieving a potential scale of Rs.1000 crores in the foreseeable future.

GROWING THE POWER BRANDS

How will we grow the Power Brands? Firstly, by leveraging their scale -- this is crucial in a crowded market where 3000 advertisements are seen on television every month and where the number of SKUs stocked by retailers has gone up by about 40% in last three years. Brand scale enables us to get a larger share of the consumer's mind as well as a larger share of the retail shelf. For instance five of our Power Brands are among the top ten most heavily advertised brands in India. We derive scale competitive advantage from our combined media spends.

Redefining Categories

We are redefining the way we look at our categories. For example, we have traditionally measured our presence in shampoos by our market share of more than 50%. Our real opportunity, however, is to view this as the hair wash market -- indeed consumers often use soap, natural products or just water to wash their hair, apart from shampoos. Seen this way, our share of hair wash is only 7%, providing enormous space for growth. Similarly, the launch of Lipton Ice Tea is attracting younger consumers and also re-defining the role of tea in a consumer’s life. The thrust in placing Tea, Coffee and Ice-cream vending machines in offices, factories and places of public congregation is creating new opportunities to consume our brands out of home. Extension of the Lakme brand beyond cosmetics to Salons is another example.

Liberating Brands

In addition, we are liberating brands from their existing category mindset. Historically, brands originated and stayed within a category product format. We, however, see our Power Brands as being able to occupy a unique position in the consumer's mind and therefore being able to stretch into other product formats or categories. The launch of Fair & Lovely Soap, Lifebuoy Talc, taking the Max Ice-cream brand to Confectionery are all examples of extending brands into new categories. All these extensions have had a promising start and there are more to come.

Exciting Innovations

A key driver of growth is innovation that surprises and delights consumers with new, differentiated and relevant benefits. We identify these benefits by placing the consumer at the very heart of our business. Traditionally, the consumer has been brought into the business through the lens of the marketing department, using market research tools and techniques. This is valuable and necessary. However, much deeper insight is needed in today's competitive environment. We need to go well beyond listening to what the consumer tells us. Indeed we need to develop a degree of intimacy and understand what is deep in her sub-conscious mind -- and seldom or never articulated. We are doing this by having cross-functional teams interface continuously with the consumer at her home, in the shops, sharing her life, thereby building a deep and shared understanding. This will help deepen our "collective intuition" and enable us to deliver better products as well as superior advertising.

Leveraging Technology for Innovation

We continue to invest in technology, both to make our products better as well as to secure cost advantage. Over the years, we have built several global technology centres in India with about 200 R&D people. This, coupled with access to over 5000 R&D personnel in the global Unilever network, with a total budget of US$ 1.3 billion, gives us enormous advantage. There is often a misconception that everyday products like ours do not need high technology. This is totally untrue -- in fact, we need technology of a very high order to offer superior benefits at an affordable price. For instance, the recently relaunched

Surf Excel is based on proprietary technology developed after extensive research. It ensures that rinsing is much easier and quicker. This new Surf Excel reduces the time taken for rinsing by as much as 50%, thereby providing huge convenience. Most importantly, it reduces the amount of water used by 50%, which is a significant benefit, given the acute scarcity of water in most of India. Given that laundry consumes upto 20% of household water, this technology will indeed make a big impact.

Similarly, we have recently launched Knorr Annapurna Salt with the benefit of providing "intact iodine" to the consumer. Iodine added to salt is lost in transport, storage as well as in the process of cooking. We have developed a proprietary patented technology that encapsulates iodine, protecting its bio-availability. This is a very key benefit, given the importance of iodine, especially for the mental development of young children.

TACKLING COMPETITIVE CHALLENGES

In pursuit of growth, we are acutely conscious of the challenge posed by competition, especially the low price players. This phenomenon is not new to us in India or indeed to other developed markets where low price local players and trade brands co-exist with large branded players like ourselves. We are quite clear that we will be able to sustain growth in the face of such competition as we have done in the past. In the Laundry market where there are over a thousand local players, our brand Wheel is now the clear market leader and the largest brand in HLL. What is more, this has not come at a cost to our bottomline as it is strongly profitable. In Personal Wash also, we grew our business by double-digits last year in the face of very aggressive low price competition. We will compete with low price competitors by playing to our strengths -- using our strongest brands backed by superior technology and the lowest cost supply chain. We will succeed in this by leveraging our unique combination of local and global scale.

NEW GROWTH ACORNS

Three years ago, we had identified several new opportunities for growth as an outcome of Project Millennium. We have made very good progress in nurturing these growth acorns for the future. Specifically, we are driving nascent categories in our current businesses such as Deodorants and Processed Foods. In addition, we have entered new adjacent categories like Confectionery and Ayurvedic Health Care. We are also pioneering a retailing business called Sangam and building a direct-to-consumer business called HLL Network. Taken together, all these new initiatives increase the size of our market opportunity by about 40%.

LEVERAGING HLL SCALE FOR GROWTH

The power of HLL's scale is derived from its combined volume of about 4 million tonnes, sales of Rs.10,000 crores and its presence across more than 20 distinct consumer categories. HLL's brands are available in 3 million outlets and touch the lives of two out of three Indians. We are leveraging this scale to derive competitive advantage and sustainable growth.

Building Supply Chain Competitiveness

We are making a quantum change in our supply chain, both in terms of enhanced customer service as well as increased efficiency. Our supply chain is complex, with over 2000 suppliers, 100+ manufacturing locations, 7000 stockists and about one million retail outlets. Significant investment in Information Technology has provided connectivity across the supply chain, from the supplier to the stockist, thereby enhancing customer service while bringing down working capital. Today, we know what our stockists have sold every day, to almost a million outlets. This has brought us much closer to the market place and significantly enhanced our speed of response.

HLL's scale of operations gives a distinct cost benefit. Buying raw and packing materials for HLL as a whole, rather than separately for categories, gives us economies of scale. For example, inputs for packaging, like paper, board and polymers, are bought centrally for all divisions generating big savings. Similarly, in the areas of logistics and transportation, scale enables greater efficiency. We are also exploiting our scale in optimising sourcing of our products. All this gives us a competitive advantage in our cost structure.

Deeper Commitment to Rural India

Our scale also gives us the opportunity to build the deepest possible direct distribution reach into rural India, where over 70% of our population live. Interior villages are difficult to access because of weak infrastructure. In addition, a large proportion is media dark with no awareness of any brands. By consolidating our categories we are establishing a single distribution channel for rural India. We have already appointed 6000 sub-stockists for rural markets, and are now covering approximately 50,000 villages, reaching about 250 million consumers.

In addition, we have also embarked upon an ambitious direct distribution programme called Project Shakti to reach the smallest of villages. Our vision is to reach over 100,000 villages, thereby touching about 100 million rural consumers. We have already piloted this initiative in 5000 villages and are now extending this rapidly. Project Shakti provides a unique micro-enterprise opportunity for under-privileged rural women. Armed with micro-credit from banks, they become direct-to-home distributors in these small villages, providing relevant products as well as improving the overall awareness of nutrition and hygiene. In turn, they benefit through sustainable income, thereby creating a virtuous cycle of growth. Project Shakti uniquely combines our business interest with our ongoing commitment to the development of rural India and women.

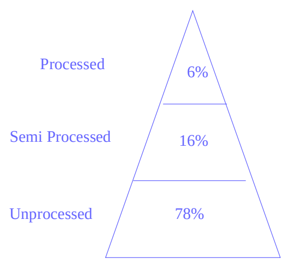
Partnering Modern Trade

In addition to our ongoing commitment to the traditional grocery trade, we are building a special relationship with the small but fast emerging modern trade. Our scale enables us to provide superior customer service including daily servicing, improving their range availability whilst reducing inventories. We are using the opportunity of interfacing more directly with our consumers in this retail environment through specially designed communication and promotions. This is building traffic into the stores while yielding high growth for our business.

BUILDING PROCESSED FOODS

There is a big opportunity to grow Processed Foods, which are still a very small proportion of the overall largely commoditised foods market.

Foods Market Structure



However, developing this market will require relevant and differentiated products which cater to Indian tastes and habits as well as sustained and considerable investment and time for market development. Over the years, we had grown our Foods and Beverages business, organically and through acquisition to significant scale. However, it was necessary for us to increase the inherent profitability profile in several areas in order to generate the capacity to invest in market development. Over the last couple of years, our gross margins have improved by 9%, albeit at the cost of some topline, thereby providing the fuel to invest in both innovation and differentiation. We have reduced our losses in Ice-cream significantly, and considerably improved the performance of the recently acquired Modern Foods. Going forward, our priority is to lead growth of this market through innovation. We have recently launched Kissan Bistix, Kissan Mr.Fruit, Lipton Ice, Modern Atta Bread and the Knorr Annapurna Culinary range, all of which have met with an encouraging response.

TALENT FOR GROWTH

Finally, the most important determinant of our growth is the quality of our people. We are deeply privileged to continue to attract the very best talent as the number one preferred employer at leading campuses. We are also encouraging diversity in our talent base by recruiting people with complementary skills, especially for our newer businesses, and are also bringing in a large number of talented women. Our training programmes have been revamped to expose entrants to local and global business -- they spend time in Indian villages and international cities -- all within a 12-month training programme. HLL's wide variety of categories and Unilever's global operations provide enormous development opportunities through organised career planning. A lot of emphasis has always been placed on skill development -- today we are also concentrating on building individual and leadership capabilities. We offer an energising and empowering environment enabled by creating small teams focussed on key initiatives. We have found this the best way of combining both scale and speed. Deeper in the company, in factories and offices, we are unleashing the talent and creative potential of all employees through initiatives such as TPM.

In conclusion, let me say that HLL's most valuable assets are its brands and people. Today's market is very dynamic and increasingly competitive. We have confidence in our strategy and are learning to grow even in declining markets. We are putting in place key enablers to build our capability for sustained high performance. We have brands with rich heritage and strong consumer equity. We have people who bring the power of their ideas and execution to exploit the full potential of our brands towards delivering continued profitable growth for Hindustan Lever.

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