Report of the Directors and Management Discussion & Analysis

To the Members,

Your Directors have great pleasure in presenting the Seventy Fourth Annual Report together with the Audited Statements of Accounts for the year ended December 31, 2006.

1. PERFORMANCE OF THE COMPANY

1.1 Results

Your Company's performance during 2006 is summarised below :

Rs. Lakhs

	2006	2005
Turnover, net of excise	**12103,39**	11060,55
Profit before tax	**1861,68**	1604,47
Tax on profits	**(322,01)**	(249,96)
Exceptional Items	**315,70**	53,60
Net profit	**1855,37**	1408,11
Dividend (incl. tax on distributed profits)	**(1511,38)**	(1260,25)
Transfer to General Reserve	**(191,00)**	(142,00)
Profit & Loss Account balance carried forward	**803,65**	650,66

1.2 Key Ratios

The underlying performance can be ascertained from the following key ratios :

	2006	2005
Earnings per share (Rs.)	**8.41 (per share of Re. 1/- each)**	6.40 (per share of Re. 1/- each)
Dividend per share (Rs.)	**6.00 (per share of Re. 1/- each)**	5.00 (per share of Re. 1/- each)
Return on Net worth (%)	**68.1%**	61.1%

1.3 Turnover

Turnover, net of excise, in respect of continuing businesses increased by 10.0% over previous year. This increase arose from higher sales volume, better sales mix, price increases effected by the Company and effects of fiscal and taxation changes during the year. The details of Sales, net of excise, and Other Revenue by segments, appears below:

Rs. Lakhs

	2006		2005	
	Sales	Others@	Sales	Others@
Soaps & Detergents	**5563,41**	**32,48**	4928,94	32,77
Personal Products	**3309,65**	**50,14**	2907,88	44,00
Beverages	**1325,96**	**4,78**	1277,35	9
Foods	**380,46**	**4,45**	313,72	—
Ice Creams	**134,42**	**2,65**	97,03	1,11
Exports	**1278,88**	**—**	1347,80	—
Others	**120,11**	**60,14**	195,10	55,37
Less : Inter segment revenue	**(950)**	**—**	(7,27)	—
Total	*** 12103,39**	**154,64**	* 11060,55	133,34

@ The other revenue represents service income from operations, relevant to the respective businesses.

* Includes sales from discontinued business, Rs. 78,20 lakhs in 2005 and Rs. 21,71 lakhs in 2006.

1.4 Summarised Profit and Loss Account

Rs. Lakhs

For the year ended 31 December,	2006	2005
Net sales	**12103,39**	11060,55
Other operational income	**191,46**	152,49
Total	**12294,85**	11213,04
Operating expenses	**(10455,33)**	(9617,22)
PBDIT	**1839,52**	1595,82
Depreciation	**(130,16)**	(124,45)
PBIT	**1709,36**	1471,37
Interest income (net)	**152,32**	133,10
PBT	**1861,68**	1604,47
Taxation : Current tax	**(260,00)**	(223,00)
Taxation : Deferred tax	**(26,80)**	(41,00)
Taxation : Fringe Benefit Tax	**(35,00)**	(30,00)
Taxation adjustments of previous years (net)	**(21)**	44,04
PAT (bei)	**1539,67**	1354,51
Exceptional items (net of tax)	**315,70**	53,60
Net profit	**1855,37**	1408,11

2. RESPONSIBILITY STATEMENT

The Directors confirm :

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

b) that they have selected such accounting policies and applied them consistently and made judgements 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) that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

d) that they have prepared the annual accounts on a going concern basis.

3. CORPORATE GOVERNANCE

Your Company has been practising the principles of good corporate governance over the years. The Board of Directors supports the broad principles of corporate governance. In addition to the basic governance issues, the Board lays strong emphasis on transparency, accountability and integrity.

Your Company has been in compliance with all the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with stock exchanges, and a certificate from the auditors to this effect is enclosed as a part of the Corporate Governance Report.

In terms of sub-clause (v) of Clause 49 of Listing Agreement, certificate of the CEO/CFO, inter alia, confirming the correctness of the financial statements, adequacy of the internal control measures and reporting of matters to the Audit Committee in terms of the said Clause, is also enclosed as a part of the said Report.

4. CHANGE IN THE ORGANISATION STRUCTURE

The organisation structure of your Company was simplified during the year by doing away with the two Divisional Management Committees for HPC and Foods headed by respective Managing Directors and a National Management Committee comprising Mr. M.K. Sharma, Mr. D. Sundaram, Mr. Arun Adhikari and Mr. S. Ravindranath. The structure was replaced by the appointment of a single Management Committee comprising Mr. M.K. Sharma, Mr. D. Sundaram, Mr. S. Ravindranath, Mr. Anoop Mathur, Mr. Sanjay Dube, Mr. Nitin Paranjpe and Mr. Dhaval Buch under the leadership of Mr. Douglas Baillie, as CEO and Managing Director of the Company. In line with this, the distinct and separate structure for HPC & Foods Divisions were merged and the relevant personnel from the Foods Division, which had its corporate office at Brookefields in Bangalore, relocated to Mumbai.

The New Ventures structure is also being discontinued from February 1, 2007. Shakti is being fully integrated with the Customer and Sales function to better harness synergies in the Rural areas, and HLL Network and the Consumer Health Care (Ayush) businesses are being incorporated with HPC. Water will continue as an independent business reporting to the CEO.

5. NEW CORPORATE OFFICE

In order to leverage scale and synergies of integrated business operations, your Board has decided to move its Corporate Offices to a new state-of-the-art campus to be built at Andheri, Mumbai on a 12.6 acre site owned by the Company. This move will integrate all existing business offices of the Company at both Bangalore and Mumbai and the transition will be completed during 2008. The new campus will have a built-up area of approx.8,80,000 sq. ft. and will entail an expenditure of approx. Rs. 375 crores over two years.

This is a significant step forward to bring the scale and might of the Company to win in the market place. A unified corporate office will help to further integrate business processes and leverage scale and synergies across the organisation. It will enable the Company to drive a single-purpose agenda to win with its consumers and customers.

The Company's Foods and Beverages, Home and Personal Care businesses as well as Finance, HR, Sales & Customer development, Supply Chain, Legal & Secretarial, and the Regional Category functions and Training Centres will work together in the proposed new campus. This co-location will also harness synergies between Regional Category teams and the operating company. The R&D Centre at Bangalore and certain IT resources will, however, continue to operate from Bangalore.

The transition to the new office is being done in two phases. In Phase 1, the Bangalore Foods team was relocated in January 2007 to the Mumbai Head Office. In Phase II, the Mumbai Head Office and Training Centre will be relocated to the new Andheri campus during 2008.

The new campus will be built to a single purpose – of creating an inspiring work environment. It will be a facility that will tangibly demonstrate what Company stands for as an organisation, befitting Company's stature as India's largest and most successful FMCG Company and as one of India's pre-eminent corporations.

This move will be cashflow positive, since it will release valuable real estate at Bangalore and Mumbai for disposal, which is expected to yield higher realisation than the proposed investment in the new corporate office.

6. PROPOSED NAME CHANGE TO HINDUSTAN UNILEVER

The Board has proposed, subject to shareholders approval, the change of the Company name from Hindustan Lever Limited to Hindustan Unilever Limited.

While the Explanatory Statement appended to the Notice of Annual General Meeting deals with the logic and rationale elaborately, it is appropriate to reiterate that the Company believes that the proposed name provides the optimum balance between maintaining the heritage of the Company and the future benefits and synergies of global alignment with the corporate name of Unilever. Most importantly, the proposed name retains "Hindustan" as the first word in its name to reflect the Company's continued commitment to local economy, consumers, customers and employees.

The proposed alignment of the corporate name with Unilever will be a source of considerable strength and synergies to harness Unilever's global scale and size for the benefit of the Indian business, both in domestic and export markets. It would also assist in attracting and retaining talent both locally and internationally – a key imperative for business success in the present day context.

The Company has adopted and subscribed to a vision Statement: "To earn the love and respect of India by making a real difference to every Indian". The Company remains committed to pursue this vision as it believes that this will not only be key to its business success, but would also make business sustainable and enduring by giving the Company, its employees and business partners an inspirational goal beyond sales and profits.

7. MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

As in the previous year, this Report includes MD&A as appropriate so that duplication and overlap between Directors' Report and a separate MD&A is avoided and the entire material is provided in a composite and comprehensive document.

8. PRODUCT CATEGORIES

This report records the business performance of the Company in a simplified structure with a sharper focus on key brands and categories in (i) the combined Home and Personal Care (HPC) Division and (ii) an integrated Foods Division, comprising Beverages, Foods, and Ice Cream businesses. New Ventures and Speciality Exports continued to operate outside these two divisions during the year under review and have accordingly been dealt with separately.

8.1 Home and Personal Care Business

HPC markets grew well in 2006. The market continued to witness intense competitive activity both from multinational and local players. The business also faced severe challenges on the cost front due to higher crude oil & commodity prices for the third year in succession.

Given this context, your Company's HPC sales on a continuing basis grew by a robust 13.7%. In response to the competitive intensity and to further strengthen our brands Advertisement & Promotion investments of the Company increased by 27%. The segmental profit of the business recorded strong growth despite the impact of higher input costs and significant increases in brand investments.

8.1.1 Soaps & Detergents

In the Soaps & Detergents segment, your Company's sales grew by 12.9%.

Fabric Wash

Fabric wash, like in 2005, was intensely competitive. Higher crude oil price resulted in cost inflation for the third consecutive year. Judicious price increases and aggressive cost effectiveness measures taken by your Company helped neutralise this inflation, which given the circumstances was a significant achievement.

Against this background, Laundry achieved a double digit sales growth for the second year in succession. During the year, Surf Excel was relaunched with a significantly improved formulation and packaging which helped the brand grow strongly and improve its key Mind Measure parameters. The Surf Franchise's "Daag aache hain" (dirt is good!) campaign was extended with a new 10 / 10 (dirt removal) campaign, which further helped strengthen its emotional connect with the consumers. In 2006, your business also took active initiatives to migrate Rin Supreme Bar to Surf Excel Bar in Tamilnadu to simplify the Rin brand architecture. The Company is planning to extend this across all geographies in 2007.

Wheel driven by strong activations like "Smart Shrimathi" (Smart Housewife) and "Budget ka Jadoo" (magic of Budget) continued to be the biggest brand of your Company with sales in excess of Rs. 1,000 crores. The path breaking Smart Shrimathi campaign on Doordarshan backed by powerful and relevant activation in over 30,000 villages resulted in Wheel gaining 50 bps market share and significantly strengthening its key attributes and consumer loyalty.

In summary, in a highly competitive market and difficult cost environment, your Company has delivered growth ahead of market. However, margins and profitability in this category continue to be a challenge given the intensity of the competitive scenario.

Dish Wash

The 'polycoated' Vim Dishwash Bar continued to perform well during 2006 and helped the brand retain its strong leadership position despite competition from low cost and regional players. During the year, your Company initiated a Test Market of Vim Dishwash Liquid. The initial results look encouraging and the Company is planning to pursue this format across geographies.

Personal Wash

In a growing market, the business continued to witness intense competition from local and regional players. Despite this, 2006 was another good year for your Company with both volume and value showing competitive growth. Advertising & Promotion spends were increased to further strengthen the portfolio, and the business exited the year with strong market shares. Vegetable Oil costs remained largely stable during the year. However, they started firming up towards the end of the year requiring price increases to offset input cost inflation.

During the year, your Company's biggest soap brand, Lifebuoy, was relaunched with improved formulation and packaging. Coupled with excellent activation under the "Health and Hygiene" platform in urban markets and "Swasth – Chetna" (Health Awareness) program in the rural markets, this brand grew well in 2006. The Indian Postal Authorities recognised the contribution of the brand to society through its Swasth – Chetna programme, by the release of a Postal Cover.

During the year 2005, Lux celebrated its 75th year of existence in India. This occasion was used to launch various activation programs aimed at strengthening the brands leadership and consumer intimacy. Variants like 'White Glow" and the "Uplifting Bar" along with limited edition celebration packs (Aqua Sparkle & Chocolate Seduction) helped the brand grow and sustain momentum through 2006.

During the year, Dove bar expanded its range with the roll out of new variants. Also, Hamam Ubtan was introduced in the southern states. Further, the entire Breeze portfolio was relaunched during the latter half of the year and is expected to arrest volume decline of the brand.

In 2006, your Company invested in building the liquid soap format by introducing new variants in Lux and Dove body wash as well as new Lifebuoy hand wash liquids. These were well accepted and promise to play a significant role in upgrading consumers, and in driving value growth for the category in future.

8.1.2 Personal Products

In the Personal Products segment, continuing sales grew by 15.7%.

Hair

In the highly competitive Hair Wash category, your Company delivered strong growth with all three main brands, viz., Clinic Plus, Clinic All Clear and Sunsilk growing in double digits.

The entire Sunsilk shampoo portfolio was relaunched at the beginning of 2006 followed by an outstanding activation through Sunsilk Gang of Girls (www.sunsilkgangofgirls.com). This helped the brand to identify and uniquely connect with its target group.During the year, Sunsilk entered the top end segment with the launch of a range of wash-off and leave-on conditioners under the "Colour Shine" and "Hair Expert" positions. This has enabled the brand to expand its imprint from hair wash to a broader hair care position.

Clinic Plus performed strongly further consolidating its Family Health position and overall market leadership. Sachets continued to remain a key growth driver and are playing an important role in building category penetration and consumption.

Clinic All Clear continued to deliver competitive growth driven largely on the back of successful variant launches like the Ice-cool variant (with Menthol). Also the Hair Fall defense (Black) variant introduced in 2005 continued to perform well.

Skin Category

2006 was another good year for the skin care category with a strong all-round performance by creams, lotions and talc.

Having relaunched in 2005 the core of the Fair & Lovely brand, 2006 was devoted to strengthening the variants under the Fairness credentials. A new variant, Menz, targeted at males was introduced during the year, and FAL Active Sun block performed strongly in the sunscreen segment. Further, in 2006 the entire Anti Marks range was relaunched as Skin Clarity with the proposition of blemish-free skin. These launches coupled with innovative consumer activations like the "fairness meter" helped the brand grow well in 2006.

During the year, significant investments were made in the Ponds brand to introduce a new top end mix, and to provide a world class buying experience for the top end consumers. New products to address the anti-ageing, moisturising and skin lightening needs were introduced. The category made significant investments in creating the right infrastructure at the front-end for selling top end products. These investments were both in technology and equipment for evaluating skin type as well as in skilled manpower to recommend beauty solutions based on skin analysis. Ponds cold cream with an improved formulation and attractive packaging was relaunched during the year and a full range of Pond's facial wash products was introduced with impressive results. Talcum powder had a good year, driving category penetration in rural markets through the Rs. 5 pack.

Vaseline has continued to benefit from it's successful repositioning as an "all season brand" away from an "exclusive winter brand" through the launch of Aloe fresh in summer. Vaseline Lotion mix underwent a full packaging and formulation relaunch at the start of winter. These innovations led to a strong double digit growth in 2006.

Lakme Skin continued to grow strongly. The entire range has been upgraded with a relaunch just before the start of the winter season.

Colour Cosmetics

Lakme continued to perform well driven by a steady flow of innovations and the integrated approach in supporting the full Lakme franchise. The Lakme Fashion platform, now twice every year, has given the brand a vibrant and contemporary image. Lakme Salons now have a significant presence operating from 88 locations across the major metro centres.

Deodorants

The category is small and undeveloped, and is poisted to benefit from the rise in consumer disposable incomes.

The agenda to build the category was driven through the introduction of an affordable and efficacious product, Rexona Deo roll-on priced at Rs.30 for 25 ml. The product launch was accompanied by a nationwide thematic campaign which emphasised the need to capitalise on opportunities without the setback of body odour. A large sampling programme has been instrumental in driving penetration and usage across colleges and workplaces.

Axe saw the launch of a new variant – Click, which met with tremendous success and resulted in strengthening the iconic character of the brand amongst its target group. The brand also made successful forays into new communication vehicles such as mobile application episodes, SMS activated consumer promotions, and ownership of unique channels such as post-card distribution and out of home clusters - cafes, malls and multiplexes.

Toothpaste

In a highly competitive year, Close Up grew ahead of the market and delivered a double digit sales growth. This was led by the introduction of Milk Calcium variant, which helped the Brand increase its market share in its key markets of South India. During the year, the entire Pepsodent germi-check range was relaunched as "Pepsodent Complete", followed by an excellent activation around fighting "10 teeth and gum problems". This helped the brand to grow during the year.

8.1.3 Kimberly Clark Lever Pvt. Ltd

Kimberly Clark Lever Pvt. Ltd (KCLL), the joint venture between your Company and Kimberly Clark Corporation, USA, had yet another year of good performance. Turnover grew by 17.5% to Rs.125 crores aided by volume growth of 13.5%. This was the fourth consecutive year of double digit volume growth for the JV. High profitability enabled the JV to declare its second consecutive dividend, which was 20% higher than the previous year.

Huggies was re-launched during the year, and continued its leadership status. The Fem Care category recorded a 10% volume growth, amidst competitive pressures, primarily driven by the economy segment.

8.1.4 Home and Personal Care (HPC) Exports

HPC exports business grew by 23.5% recording a turnover of Rs. 434 crores, despite an appreciation of the Rupee against most major currencies. Growth was based on strong competitive business gains in Oral Care exports, which grew by 46%. The Skin Care business grew by 10%, and both these categories have been sustaining growth momentum for the past few years.

Your Company has been making a strong pitch for becoming a sourcing hub for Unilever and is being considered for various global projects. Going forward, there are robust growth plans based on the projects in the pipeline for manufacturing of various high end skin care products in India. Pears soap for which your Company has secured rights to market in most parts of the world, recorded a growth of 10%. While the business will continue to be challenged by other low cost sources in Asia, your Company is confident of retaining and securing business opportunities given it's past record of quick roll out of new innovations and it's export skills. Buoyancy in HPC exports is expected to be sustained.

8.2 Foods

The Foods Division of your Company (comprising the Beverages, Processed Foods and Ice Cream businesses) recorded good growth in 2006, with significant improvement in profitability. The business continues to drive operational efficiencies and cost synergies for growing profitably.

The highlights of the product categories are given below:

8.2.1 Processed Foods

The Packaged Foods business delivered a robust performance during 2006. This was on the back of a good 2005, reflecting sustained momentum in the Kissan, Knorr and Annapurna brands.

Kissan was relaunched with a new strategic positioning, improved packaging and a superior formulation, which significantly enhanced the quality of the product.

Simultaneously, the Company focused on improving delivered freshness of processed foods to consumers with an improved supply chain that led to drop in pipe line stocks in depots and with trade. This had a positive effect on consumer acceptance and offtake that led to share improvements and stronger brand equity.

Knorr soups enjoy a large share in the nascent and small soup market and held that position during 2006. A new range of international quality soups were introduced during the year. Simultaneously, a new campaign to encourage soup consumption at various moments in the day has been well received by consumers and customers. This will help the business to build volumes through higher consumption.

The staples business of Annapurna (Salt and Atta) also grew at a steady pace.

With a strong momentum behind all brands and categories, your Company looks forward to 2007 with hope and excitement for this business.

8.2.2 Tea

The packet tea market continued to be extremely competitive with national, regional and local players vying for increased share and volumes. Prices of garden tea remained stable during the year, but have begun to firm up towards the later part of the year.

Our strategy of investing in building Brooke Bond as a mega brand to consolidate and strengthen your Company's leadership in the packet tea market helped Brooke Bond maintain its leadership during the year. In 2006, Brooke Bond Taj Mahal and Brooke Bond Taaza were successfully re-launched. Aggressive Brand building support behind Brooke Bond Red Label Natural Care has established Natural Care as a significant variant within the portfolio. The focus on brand building, and innovation has helped your Company to sustain its leadership position in the overall category and exit the year with a growth momentum.

Lipton continued to grow strongly in the Out-of-Home, Vending Channel through acquisition of some major regional and national clients, and by strong activation at key consumer points.

The business continued to record sustained profitability through its focused brand portfolio and highly streamlined supply chain and cost management.

8.2.3 Coffee

The Coffee business had another excellent year, led by strong growth in Instant Coffee. Our strategy to strengthen the brand equity of Bru through clutter breaking and highly visible communication, coupled with world class activation led to significant share gain further consolidating its leadership position within the branded coffee market. Bru Cappuccino continues to help Bru recruit new consumers into its franchise and consolidate Bru's channel leadership particularly in Modern Trade. The Re. 1 and Rs. 3 low unit price packs continue to contribute significantly to the brand's growth and drive category expansion.

The coffee category, particularly Instant Coffee, continued to be extremely competitive with national players securing growth in volumes and market share. Ground and Roasted coffee, predominantly confined to South India, faced competition from local and regional players. There is a perceptible trend of increasing number of consumers migrating to instant coffee from roasted and ground coffee due to its inherent convenience.

8.2.4 Ice-cream

Building on a good 2005, the year under review, has been an outstanding year for the Ice-creams business with sales growth accelerating to 38.5%. Profitability has improved significantly. The business continued its strategy of driving growth by focusing on availability, affordability & acceptability. A massive availability expansion plan modeled on Unilever success elsewhere in the world was put in place. Post a pilot in one market in the first half of 2006, it was rolled out to the rest of the country. This contributed significantly to the sales growth.

Ice cream market continued to remain highly competitive with principal competition from milk co-operatives at the national level, and private sector players at the local and regional levels. Competition, however, has been predominantly price-led rather than innovation-led providing your Company a unique opportunity to build this business on Unilever's global capabilities in Innovation.

Launch of two new flavors in Cornetto, Feast Fruit n Nut, and new flavors in family packs led to growth in Impulse and In-Home segments. Launch of a differentiated Rs. 5 stick, Choco Vanilla helped drive growth in kids portfolio and support the availability expansion plans.

The "Pleasure Up" summer communication and activation campaign helped improve brand salience and strengthened brand imagery.

Several cost effectiveness programs implemented across manufacturing & extended supply chain, and the scale benefits resulting from the growth rates, helped significantly improve the profitability of the business. A new manufacturing unit was setup at Nalagarh, HP to service North Region markets.

Business is well poised to sustain the performance into the future.

8.2.5 Modern Food Industries (India) Limited (MFIL)

Modern Food Industries (India) Limited (MFIL) reported an operating profit in the Bread business (before depreciation, interest and restructuring/exceptional items and excluding profit on sale of assets) of Rs. 265 L in 2006 (against Rs. 221 L in the previous year). This is the second successive year of operating profit thus reflecting a turnaround in the business.

In 2006, the Bread business focused on profitable growth and margin improvement. On a comparable basis, Bread sales in continuing units grew by 16.8%. Bread gross margins improved despite an unprecedented 30% rise in price of key raw materials – Maida & Atta. Margin improvement was aided by growth in the premium portfolio, bold price increases and cost efficiency measures - continuing focus on energy savings, improvement in manufacturing efficiencies and supply chain initiatives in procurement, contracting and sourcing. Modern Foods continued to lead the market in the area of health and vitality. The two key innovations - Atta Bread and 7 Must Bread (a multi cereal bread with goodness of seven different cereals, pulses and nutrients) - recorded healthy growth in 2006.

Upgradation of quality and consumer safety standards, is a key priority, and this progressed as per plan. Three units were audited in 2006 by specialist Unilever quality audit teams, bringing the total number of units cleared to five. The remaining unit at Cochin is scheduled for audit in early 2007.

8.3 Customer Management

During the year, your Company witnessed a changing business environment with expanding "Modern Trade" format providing a very different consumer experience. Many serious players entered the organised retail business, and this format shows a promising opportunity in the years to come. Your Company, in 2006, invested behind equipping itself to face the changing market dynamics, be it building a seamless supply chain with reduced response time or building the knowledge base to operate in an organised retail environment. At the same time, given its strength in general trade, the Company continued its focus on supporting and collaborating with the traditional retail to assist them in adapting to the changing business environment. It is your Company's endeavour to build and nurture strong partnership with both traditional and modern trade to provide consumers an outstanding shopping experience.

With the entry of Reliance, Walmart and aggressive expansion plans of the existing Modern Trade players, India will evolve to a hybrid customer structure in the coming years. This will require a new set of capabilities and processes to service the new customer base. Your Company is investing in building these new capabilities and processes.

These investments in customer management and several new initiatives, both in General Trade and Modern Trade, have ensured that your Company is significantly ahead of its competition in delivering customer satisfaction.

8.4 Supply Chain

Petroleum and petrochemical prices continued to put substantial inflationary pressure on raw materials, packaging materials and distribution costs. Your Company's sharp focus on cost reduction programmes mitigated these cost pressures to a considerable extent with cross functional teams from buying, manufacturing, R&D coming together to deliver substantial savings in 2006. In this, your Company continued to benefit from Unilever's global and regional strengths that led to significant buying cost advantages through scale and deployment of best practices used elsewhere in Unilever.

HLL's factories turned in another great year of productivity improvement led by the continuing excellence in TPM implementation across units. Line flexibility has improved significantly in many units with several lines now being changed over in minutes, thereby allowing your Company to respond nimbly to market demand. Investments and better capacity utilisations at our newer factories at Uttaranchal and Baddi have further ensured that your Company's volume requirements were fully met.

In line with the changing face of the Indian customer environment, a greater focus has now been put on customer service with common objectives and metrics in place across the organisation. Information Technology has been used extensively to allow real time data capture and reporting to ensure quick response across the Supply Chain.

8.5 Speciality Exports

The Speciality Export Business focused on improving profitability and building the value added portfolio during the year. The share of value added exports increased significantly in 2006.

8.5.1 Marine

The Marine Division increased the share of the value-added portfolio during the year. The operations at the factories in Pamarru (AP) and Rabale (Maharashtra) were restructured to improve the profitability. The business faced difficult trading conditions on account of Anti Dumping Duties in US and quality related issues in the EU. The Surimi business had its best sales performance in the last 4 years and the Crabstick business continued its profitable growth. Several new products such as Skin Pack Shrimps, Marinated Seafood and Minced Crabsticks were developed and commercialised during the year. The business also expanded its customer base in Europe and Middle East and developed new markets in Mexico.

The Aroor factory achieved BRC higher level certification besides receiving awards from the Kerala State Pollution Control Board and the Safety Practice Awards from the National Safety Council.

8.5.2 Rice

Rice business focused on improving profitability by simplifying the business, enhancing operational efficiency, selective price increases and building the value added portfolio which now amounts to over 70%. The branded business grew by 6%, and has extended its portfolio into the largest Basmati rice market – Saudi Arabia, in 2006. Focus on working capital and receivables management improved the capital efficiency.

8.5.3. Castor

The Castor business focused on Value Added products i.e. Castor Derivatives and Specialty Oils. The Value Added business registered a handsome volume growth of 60% over 2005. This was achieved through foray into new territories in the Americas and widening of customer bases in Asia Pacific and Russia. The Value Added thrust was also ably supported by significant improvement in the areas of customer service and supply chain logistics.

8.5.4 Leather

Pond's Exports Limited (PEL)

The Leather and Leather Products industry in India is a focused category for growth by the Government. The imposition of duty by EU on Chinese imports of leather Foot Wear is opening a growth opportunity for the Industry. PEL with its established credentials as a long term reliable supplier is poised for cashing this opportunity.

During the year, the business achieved sustainable cost competitiveness through restructuring of its two high cost upper making facilities at Tindivanam in Tamil Nadu and Mettupalayam in Puducherry. This turned around the upper business segment. During this phase, the business maintained customer service levels without any disruption.

In the shoes segment, major markets continue to be price sensitive and innovation led. The business maintained its No.1 position with its key customers like Hush Puppies and Gabor through high product quality and focus. Another brand of international repute "Caterpillar" of Wolverine World Wide was added as a customer. This will provide a window for growth in future.

8.6 New Ventures

8.6.1 Water

Your Company has launched Pureit, an inhome drinking water purification system. Pureit is the only inhome water purifier in the world that gives water that is as safe as boiled water, without having to boil water, and without needing electricity or continuous tap water supply. Pureit removes all harmful viruses, bacteria, parasites, and pesticides, thereby providing complete protection from all water borne diseases like jaundice, diarrhea, typhoid, and cholera. What's more, Pureit is priced such that it is affordable to the common man.

Pureit was test launched in a few cities in Tamil Nadu in 2005. The market response has been encouraging. Consequently, the water business has been building up its overall capability with respect to manufacturing, supply chain, distribution, and IT. As this capability has been built up in 2006, Pureit was launched throughout Tamil Nadu, and then rolled out successively to Karnataka and Andhra Pradesh.

8.6.2 Hindustan Lever Network

Hindustan Lever Network is a multi-category business opportunity started in 2003 in the area of network marketing. While the global industry is estimated at over $ 100 Bln, this industry in India is estimated to be around Rs.1,500 Crores growing at 15% p.a.

During the past year, the business has given opportunities to 45,000 new members. Hindustan Lever Network today services consultants in over 1400 towns.

With a belief that entrepreneurs need to see greater value in participating in the opportunity, the business strengthened its compensation plan. This plan has been well received and has served to create a benchmark in the Network marketing business in India.

Additionally, the business has created a paradigm change in the conventional network business through the creation and launch of the Privilege Consumer Programme – a programme designed to enable consumers to avail of world class products while earning loyalty points. Through this programme, the business has reached out to close to 100,000 new consumers.

The business has focused on driving an execution culture amongst the entrepreneur base – this has meant a greater focus this past year on building entrepreneur capabilities through various training initiatives. In particular, the business has co-created a powerful training programme with best-in-class training providers such as NIS Sparta & City & Guilds (UK) that serves to build leadership and selling capabilities.

In order to ensure continued excitement along with the need to build strong brands, the business, using Unilever's world class technology, launched 6 new products during 2006. In particular, the business launched a new range of top-end products with a view to strengthen core brands within the Network business portfolio.

8.6.3 Project Shakti

70% of Indian population lives in 627,000 villages and these markets with their large population present a significant opportunity for your Company. Over two thirds of these villages are not easily accessible due to poor infrastructure and lack of business viability. 'Shakti' is our unique, win-win program addressing this opportunity. 'Shakti' operates through 3 initiatives.

Shakti provides a micro-enterprise opportunity for women from Self-help-groups (SHG's) making them independent women entrepreneurs as direct-to-home distributors of your Company. This network of entrepreneurs has **more than doubled your Company's direct rural reach**, with 30,800 Shakti entrepreneurs covering 100,000 villages in fifteen states at the end of 2006. Moreover, Shakti entrepreneurs visit and sell to around three million rural homes every month, creating a unique rural direct-to-home channel. Your Company aims to reach 600 million consumers in 500,000 villages through 100,000 entrepreneurs by 2010.

Shakti Vani is a communication initiative that seeks to improve the standard of living in the rural community. Village women are trained as 'Vanis' and disseminate information on basic hygiene practices, adoption of which will dramatically improve the health & hygiene standards in the villages. Shakti Vani has covered a total of 40,000 villages in seven states since 2005. The awareness and adoption of health and hygiene practices would provide growth opportunities in rural India for products that cater to this need.

IShakti is a rural community portal that provides relevant and valuable information for the rural populace. Information is available on areas such as agriculture, health and hygiene, education, veterinary, legal, employment, etc. thus filling the information gap that exists in the villages and unlocking rural productivity and prosperity. The site is in the local language with text to voice facility enabling even the illiterate to get benefit of information. IShakti is currently available in around 200 Kiosks in AP. Interesting pilots to use these kiosks for providing value added services like Spoken English and Computer tutorials have also been initiated. Ishakti also gives platforms for advertising the products and creating awareness on the benefits of their use, apart from generating revenue through selling spaces on the portal to other companies.

'Shakti' provides significant benefits for all its participants. For the SHG women, it provides a stable, sustainable source of income. For villagers, this channel has become a source of genuine and correctly priced products. Access to basic health and hygiene information through Shakti Vani and other relevant information through IShakti is improving living standards and unlocking rural prosperity in the villages. For your Company this initiative provides discontinuous increase in rural coverage.

Effective February 2007, the Shakti channel has been aligned with the mainstream Sales and Customer Development function with appropriate changes in reporting relationship.

8.6.4 Consumer Health Care (Ayush)

The Ayush range of Ayurvedic products offer health and beauty benefits by combining ancient Ayurvedic knowledge with clinical efficacy of modern science. These unique formulations have cleared rigorous test protocols and are backed by endorsement from the reputed Arya Vaidya Pharmacy, Coimbatore. In addition to gaining deep knowledge of Ayurveda, the business has built a strong technological foundation for Ayurvedic product development and safety clearance protocols along with sourcing and testing of herbs. This would be leveraged to develop Ayush range of products for future.

The business is being developed strongly on two legs - direct selling and health & wellness services through a franchise operation. Ayush is the first Ayurvedic brand to get into therapy centres. Ayush Therapy Centres have shown positive signs of an independent business opportunity – the revenue from centres continue to grow both through expansion and through growth from existing centres. Customers have expressed high degree of satisfaction with the services being offered, leading to doubling of revenues for second successive year. The business has expanded its operations from 7 cities to 11 cities and has increased the number of centres from 15 to 40. During 2007, the business plans to significantly increase its reach through additional centres in existing markets as well as new cities.

The Ayush Spa range launched in the direct selling business in 2004, has focused on building strong credentials in the area of Health & Wellness. During the year, the brand has seen the launch of 5 new products – all in the area of Health & Wellness.

Effective February 2007, the consumer health care business has been aligned with the HPC business with consequent changes in reporting relationship.

8.6.5 Sangam Direct -Unilever India Exports Limited

Sangam Direct, the direct to home e-tailing venture of your Company continued to grow strongly in 2006. Revenues grew by 35% over 2005 figures.The business also extended it's services to several outlying suburbs of Mumbai in the second half of the year. The on-line shopping portal www.sangamdirect.com was launched, enabling consumers to now shop on-line at any time of the day or night. This benefit builds strongly upon Sangam's core consumer proposition of convenient shopping.

As modern retail formats explode and consumers have more choices than ever before, the Sangam Direct proposition of convenient shopping for daily household products is becoming increasingly relevant. The customer base of Sangam now stands at over 200,000 households. The Company is evaluating the long-term strategic direction and business model of Sangam Direct for growth, scalability and profitability in the future.

9. RESEARCH & DEVELOPMENT AND TECHNOLOGY

HLL's R&D commitment to fully explore technological options, and sustainably provide true value to its consumers, continued with increased focus and vigour in 2006. Significant progress was made in many areas, especially water purification, skin care, laundry cleaning and beverages.

R&D on technologies for in-home water purification continued, with a focus on developing products which are affordable for the mass market. While continuing to refine HLL's in-home water purifier (Pureit), currently under roll-out across many states, a series of futuristic technologies are under development to provide cost-effective solutions to eliminate other contamination, in addition to the microbials, from drinking water.

In the area of personal wash, transparent soaps (Pears variants) with specific performance attributes (milder variants) were developed. Several novel processing modifications have resulted in exciting new technologies for additional and/or superior functionalities in soaps. The research in the area of skincare continues to focus on development of understanding the occurrence of Acne, which in turn will lead to novel technologies to reduce its incidence and/or intensity. Skin lightening continues to be a major area of emphasis and new insights regarding the mechanism of pigmentation are yielding exciting leads. In addition, understanding the role of sunscreens and antibacterial in skin hygiene and health is underway.

Consumer excitable technology options to augment health and vitality benefits through tea (in addition to it's own natural goodness) are under development.

Yet another important area of research is in the domain of Naturals, where the focus is on unlocking the molecular and biochemical secrets, and add to the inherited treasure of Ayuvedic knowledge, to benefit HLL's consumers in Ayurvedic Therapies, Foods and Home & Personal Care. Several novel propositions are under development.

Scientific explorations in the area of laundry cleaning have yielded a series of options which can now be pursued to improve the cleaning performance of laundry products.

Overall, 2006 was a year of R&D excellence, wherein the role of technology was substantially reinforced as an important tool to ensure consumer value creation, with significant prospects for taking HLL ahead of our competition.

10. ENVIRONMENT, SAFETY AND ENERGY CONSERVATION

Safety and Environment Performance is integral to the business performance of your Company, and received continued focus throughout the year. The only acceptable standard of safety performance for your Company is "zero accidents". The Accident Frequency Rate continued to be one of the lowest amongst Unilever Companies worldwide and the reducing trend was maintained during the year.

Your Company's safety journey focused on behavioural aspects as well as continual improvements in engineering controls and safety management systems made good progress. The behavioural safety training has now covered more than 3200 employees. Every manager and officer in the Company in manufacturing, sales, research and offices is engaged in safety with his / her team. There was a significant jump in one-to-one contacts being made by management staff with our employees. This is also serving to reinforce the implementation of Unilever's Framework of Standards aligned to international standards of ISO 14001 / OHSAS 18001 which has significantly progressed as measured through independent periodic audits.

Footwear Factory at Puducherry received "National Safety Award" during the year. Factories at Aroor and Tatapuram also received safety awards from National Safety Council (Kerala Chapter). Aroor factory also got State recognition as it bagged an award for pollution control from Kerala State Pollution Control Board. In addition, the factory at Kalwa, received Best Industrial Safety Performance Award from Thane Manufacturers' Association, Directorate of Industrial Safety & Health.

Your Company's ongoing programmes for reduction in the environmental impact of operations have resulted in a lower environmental load in key parameters. These continue to remain well below the statutory requirements, with annual reduction targets for individual manufacturing sites monitored on a monthly basis. Your Company has recorded further reduction in specific energy and water consumption levels through productivity improvements, use of alternative sources of energy and recycling/reuse of energy / water where feasible. Further your Company has initiated a pilot project to study the feasibility of recycling of packaging materials. Our detergent product in premium sector, Surf Excel, continues to help reduce consumption of fresh water - a national resource in short supply in many parts of the country - by requiring less water for washing at the consumer's end. To conserve ground water, your Company has further progressed rainwater harvesting projects at the manufacturing sites. Other ongoing sustainability projects such as greening of barren land in and around factories and vermi-composting of wastes into value added fertilizer supplements, are progressing well.

11. PERSONNEL

The HR agenda for 2006 focused on delivering distinctive people and organisational capabilities, attracting and retaining the right talent and enhancing productivity in our manufacturing units through the process of bilateral negotiations.

To enhance our functional capabilities, particularly in the areas of marketing and customer development, a number of our managers underwent short term exposure stints wherein they visited Unilever operations in different countries and learnt from good practices there which are being implemented. Significant investment has also been made in training interventions to upgrade the level of skills. The focus on execution has been strengthened. This has been led from the top and the leadership team has driven initiatives like strategy into action (SIA) to ensure strategic clarity and alignment to the annual goals of the Business. A number of team building interventions has been carried out to support team working behaviours. Continuous communication and engagement led by the CEO directly, initiatives to drive recognition and celebration have all helped to embed the vitality culture.

In mid 2006, the decision to create "One Corporate Office" for HLL in India was announced. In accordance with that the Foods Business was relocated from Bangalore to Mumbai. This transition was carried out successfully by January 2007 with no disruption to the business. Appropriate resettlement assistance through best in class outplacement, redeployment and relocation services was provided to our employees who were unable or unwilling to relocate to Mumbai.

During 2006, TPM gains were further consolidated and 4 sites were audited for JIPM awards. Mangalore factory achieved coveted TPM Special Award thereby being the first HLL factory to have achieved this award, Kidderpore and Goa factory challenged the Consistency award while Hosur challenged the Excellence award in 2006.

The Employee Relations in the Company continued to be positive. During the course of the year, 12 productivity linked LTS impacting in all 2605 employees were signed across 10 sites (including a Settlement with the All India Brooke Bond Employees Federation) through a process of bilateral negotiations with the employee representatives.

During the year, nine units (factories and establishments) were restructured in line with the long term business strategy including the Sewri Factory in Mumbai owned by Bon Limited and some of the Leather and Marine Exports units. The restructuring was primarily due to reasons of economic un-viability over an extended period and in some cases (i) aggravated by locational disadvantages/constraints and (ii) unwillingness of the employees to engage in constructive collaboration to secure a turnaround. This restructuring was either through liberal VRS schemes or after obtaining requisite approvals and permissions from regulatory authorities. These actions were necessary to sustain long term viability of the business and were undertaken after exploring all other alternatives. Restructuring was also undertaken at the erstwhile Foods Division's Corporate Office at Brookefields and the Sales stream. In all, 1618 permanent employees were impacted on account of this Restructuring; 100 of these employees were relocated to other HLL units.

In line with our commitment towards Affirmative Action, the Special Apprenticeship Scheme was launched in the second half of the year and recruitment for Apprentices has already been undertaken in the Supply Chain function where 35 apprentices have joined various factories across the country and 15 more are to join by 31st March 2007. In Sales system, similarly the recruitment is underway for 50 apprentices across the four regional offices. Your Company as a responsible corporate has accepted to abide by the Code evolved by Confederation of Indian Industries (CII) for affirmative actions in private sector.

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and under Section 217 (1) (e) of the said Act, read with the Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988 are given in Annexures forming part of this report.

12. MERGERS/ACQUISITIONS & DISPOSALS

12.1 Divestment of 51% controlling stake in Unilever India Shared Services Limited

Unilever India Shared Services Limited (previously known as Indigo Lever Shared Services Limited) was a 100% subsidiary of your Company. It was engaged in providing financial shared services in the area of Sales commercial, manufacturing commercial, IT enabled services, operational control assessment processes and Sarbanes Oxley compliance. Apart from HLL, the Company had contracts for similar services with other Unilever companies in Australia, New Zealand, South Africa, Sri Lanka etc.

In line with its strategy to focus on core areas, during October 2006, HLL divested its 51% controlling stake in the business to CapGemini SA for a consideration of Rs. 52 crores. The business will now benefit from the systems and processes brought in by a leading player in the BPO space. Both parties have a put/call option for the balance 49% stake in 2008/09.

12.2 Divestment of balance 49% in the Quest Business

A joint venture was entered with ICI for disposal of the perfumery and flavours business in 2001. HLL held 49% in the JV while ICI and its associates held 51%. As per the agreement, both parties had a call/put option at the end of 5 years i.e post 31st March 2006. In June quarter 2006, both parties agreed to complete the transaction as per the agreement. Consequently, HLL exercised its put option and exited from the JV at a consideration of Rs. 54 Crores computed on a pre-agreed basis for valuation.

12.3 Sale of NIHAR/COCOCARE Brand and related intellectual property rights

As a part of your Company's Brand/ Category rationalisation strategy, Company decided to exit edible coconut oil market and disposed off its Nihar brand at an attractive valuation.

Your Company also disposed off its "Cococare" trademark - a dormant brand for last two years - along with related intellectual property rights in the Indian market. Both these sales are in line with the portfolio rationalisation strategy and the decision to exit the edible grade pure Coconut oil business.

12.4 Scheme of Amalgamation of Modern Foods Industries (India) Limited & Modern Foods and Nutrition Industries Limited with Hindustan Lever Limited

Modern Foods Industries Limited was acquired by purchasing 74% of the equity capital from the Government of India (GOI) in February 2000 and the balance 26% in November 2002. This was in line with your Company's policy to have a diversified Foods portfolio. MFIL's two business streams viz. Bread and Supplementary Nutritional Foods (SNF) were not making enough margins and various steps were taken to revive the operations of the business including improved product mix, focus on quality initiatives, technical efficiencies improvement and the business was brought on the path to recovery in 2002. In 2003, however, the business lost the SNF turnover in the states of UP and Rajasthan accounting for 46% of the total company turnover with a substantial impact on profitability even while the bread business continued to improve performance despite steep input price increases through cost effectiveness programmes, technical efficiencies, rationalisation of units and the like. In 2006, during a BIFR review the company was advised to rework its revival plans including merger of the business with the parent company. In deference to the opinion of the BIFR, your Company has agreed to implement the amalgamation. Accordingly the Company had sought approval from the shareholders and the courts to merge the companies with your Company as of September 30, 2006. The High Court approvals are in progress and once granted the amalgamation will be completed with effect from the respective appointed dates stipulated in the Amalgamation Scheme approved by the High Courts of Mumbai and Delhi.

12.5 Scheme of Arrangement for Demerger of the non-operational facilities in Shamnagar, Jamnagar and the residual "Janmam" lands into separate companies

Your Company had undertaken Demerger of its in operational facilities in Shamnagar, Jamnagar and Janmam lands (after disposal of its tea plantation interests in South India predominantly located in Nilgiris District of Tamil Nadu) into three independent and separate companies, being 100% subsidiaries of the Company known as Shamnagar Estates Pvt. Limited, Jamnagar Properties Pvt. Limited and Hindustan Kwality Walls Foods Pvt. Limited (Since renamed as Daverashola Estates Pvt. Ltd.).

13. EMPLOYEE STOCK OPTION PLAN (ESOP)

Details of the shares issued under ESOP, as also the disclosures in compliance with clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are set out in the Annexure to this Report.

None of the management employees or wholetime director have received options exceeding 5% of the value of the options issued for the year ending December 2006.

Likewise, no employee has been issued share options, during the year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.

Adoption of the Global Share Performance Scheme in place of ESOP

Pursuant to the approval of the members at the Annual General Meeting held on May 29 2006,the Company adopted the "2006 HLL Performance Share Plan" in place of the existing "2001 HLL Stock Option Plan". The Plan has been registered with the income tax authorities in compliance with the relevant provisions of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. As per the terms of the Performance Share Plan, employees are eligible for the award of conditional rights to receive equity shares of the Company at the face value of Re. 1 per share. These awards will vest only on the achievement of certain performance criteria measured over a 3 year period. 272 Employees including wholetime directors were awarded conditional rights to receive a total of 349,750 equity shares at the face value of Re. 1 each.

14. CORPORATE RESPONSIBILITY (CR)

As in earlier years, your Company continued to involve itself in communities across the country, through charity and social investment around issues of education, nutrition hygiene and disaster relief and rehabilitation as also through commercial initiatives for economic development of women in rural areas. Such involvement is in the form of finance, employee time and donations of products/services and equipment. In certain cases requiring radical responses to endemic issues, your Company and Unilever work together.

To illustrate, one of the key agendas of the United Nations 'Millennium Development Goals' (MDGs) was combating maternal health concerns and child mortality. With 40% of the world's malnourished children being in India, a Partnership for Child Nutrition (PCN) was formed for this initiative. Unilevers became the first corporate house to join the PCN in the world's first multi-sectored approach to combat this issue in collaboration with UNICEF and Synergos Institute. In India, as part of this PCN, your Company is working with leading organisations like ICICI Bank, HDFC, TATA group of companies, UNICEF & Govt. of Maharashtra to work together as a multi sectoral alliance. This initiative, aptly christened the Bhavishya Alliance would jointly analyse the problem of child mal-nutrition, and design systemic solutions for implementation. While Unilever has made financial commitment to this alliance, your Company has seconded a team of managers to drive this initiative.

Your Company encourages multiple approaches to make a real difference in India. Thus while brands like Lifebuoy and Fair and Lovely continue to involve themselves on hygiene and education, some of the manufacturing sites involve themselves in water focused community issues.

Your Company also recognises that CR is not only about involving in communities. It is also about responsible business practices with respect to other stakeholders. Hence, your Company continued to support the United Nations Global Compact program.

CR in your Company is also facing challenges. The first challenge is to carve out the scope of responsibility for impact in the value chain when operating in a competitive landscape with inadequate enablers. The second challenge is to articulate the understanding and relevance of charity in a business whose operations are very close to the roots of poverty - like locating in backward regions of the country, making the poor as business partners and supporting causes through categories and brands. The third challenge pertains to institutionalisation of CR so that it gets embedded without creating a bureaucracy.

Thus, although your Company has been recognised for its contributions in this space on various occasions, including the TERI CSR award in 2006, it continues to work on these challenges, recognising that building a successful business and creating positive social impact are not separate objectives.

15. INFORMATION TECHNOLOGY

Your Company has continued to leverage information technology for business value and to create capabilities for the future.

Significant progress has been made to strengthen use of technology in sales and customer development. In the course of the year, we completed a major programme of implementing a common transaction system across all our redistribution stockists, fully integrated with our systems. This has enabled us to collaborate with customers on a near on-line basis and significantly improve our field execution and customer service. We have also leveraged IT to collaborate with the emerging Modern Trade Channels to enhance efficiencies and service levels.

We made significant progress in building an enterprise-wise SAP based transaction capability. This is getting implemented across the Company in a phased manner and will be a fundamental IT capability for the future. This has been accompanied by significant re-engineering and simplification of our business processes to improve our agility and customer service.

Your Company continues to invest in IT infrastructure to support business applications. We have a robust virtual private network using MPLS technology, supplemented by high bandwidth VSATs for the remote locations. This has enabled us to coordinate activities across geographically dispersed locations.

Information Security and a reliable disaster recovery management continue to be a critical focus area – especially as most business processes become fully IT-enabled. We carry our regular exercises to identify vulnerabilities and plug them systemically.

Your Company views IT as a strategic tool to enhance business value and enable new ways of doing business.

16. FINANCE & ACCOUNTS

Your Company delivered a strong performance in cash generation during the year driven by the business performance, enhanced capability of the supply chain and efficient collection system. In the context of a significant increase in interest rates, your Company managed the investments prudently by deployment of cash surplus in a balanced portfolio of safe and liquid debt market instruments; returns earned were higher than market benchmarks.

The total amount of fixed deposits taken by the Company as of December 31, 2006 was Nil. There was no outstanding towards unclaimed deposit payable to depositors as on December 31, 2006.

In terms of the provisions of Investor Education and Protection Fund (awareness and protection of investor) Rules 2001, Rs. 224 lakhs of unpaid/unclaimed dividends, interest on debentures and deposits were transferred during the year to the Investor Education and Protection Fund.

The Report and Accounts of the subsidiary companies are annexed to this Report alongwith the statement pursuant to Section 217 (2-A) and 217 (2-E) of Companies Act, 1956. However, in the context of mandatory requirement to present consolidated accounts, which provides members with a consolidated position of the Company including subsidiaries, at the first instance, members are being provided with the Report and Accounts of the Company treating these as abridged account as contemplated by Section 219 of the Companies Act, 1956. Members desirous of receiving the full Report and Accounts of the subsidiaries will be provided the same on receipt of written request from them. This will help save considerable cost in connection with printing and mailing of the Report and Accounts.

RONW, ROCE and EPS for the last five years

For the year ended 31 December,	2002	2003	2004	2005	**2006**
RONW (%)	48.4	82.8	57.2	61.1	**68.1**
ROCE (%)	51.8	53.0	40.8	62.3	**61.1**
EPS of Re.1	8.04	8.05	5.44	6.40	**8.41**

Economic Value Added (EVA)

Economic Value Added for the last five years is given below :

Rs. Crores

Years	EVA	Average capital employed	EVA as % of capital employed
2002	1,236	3,396	36.4%
2003	1,429	3,780	37.8%
2004	887	3,704	23.9%
2005	1,014	2,560	39.6%
2006	1,125	2,677	42.0%

The above EVA has been computed on a conservative basis. A detailed note is given in page 88.

Segment-wise results

Hindustan Lever has identified seven business segments in line with the Accounting Standard on Segment Reporting (AS-17). These are : (i) Soaps and Detergents, (ii) Personal Products, (iii) Beverages, (iv) Foods, including Culinary and Branded Staples, (v) Ice Creams, (vi) Exports, and (vii) Others, including Chemicals and Agri-Products. The Table below gives the audited financial results of these segments.

Segment revenue, results and capital employed

Rs. Lakhs

For the year ended 31 December,	**2006**	2005
Segment Revenue (Sales plus Income from Services)		
Soaps and Detergents	**5595,89**	4961,71
Personal Products	**3359,79**	2951,87
Beverages	**1330,74**	1277,45
Foods	**384,90**	313,72
Ice creams	**137,07**	98,15
Exports	**1278,88**	1347,80
Others	**180,25**	250,45
Total	**12267,52**	11201,15
Less: Inter-segment revenue	**9,50**	7,27
Net Revenue	**12258,02**	11193,88
Consisting of		
a) Net Sales	**12103,39**	11060,55
b) Service income from operations	**154,64**	133,34

Rs. Lakhs

For the year ended 31 December,	**2006**	2005
Segment Results		
Soaps and Detergents	**773,09**	683,69
Personal Products	**943,10**	845,21
Beverages	**220,51**	242,40
Foods	**12,86**	(16,10)
Ice creams	**18,72**	5,08
Exports	**66,37**	49,06
Others	**(67,38)**	(27,68)
Total	**1967,27**	1781,65
Less: Interest expense	**(10,73)**	(19,19)
Add: Unallocable income net of other unallocable expenses	**(94,86)**	(157,99)
Total Profit (PBT)	**1861,68**	1604,47
Capital employed in segments (Segment assets less liabilities)		
Soaps and Detergents	**60,83**	(63,33)
Personal Products	**160,02**	227,80
Beverages	**(43,61)**	(62,07)
Foods	**13,46**	(1,63)
Ice creams	**6,44**	(9,43)
Exports	**291,42**	429,95
Others	**(8,90)**	5,50
Total	**479,66**	526,79
Add : Unallocable corporate Assets less Liabilities	**2243,83**	1778,84
Total Capital Employed in Hindustan Lever Ltd.	**2723,49**	2305,63

Note: For greater detail, please see the segment accounts given in the financial statements accompanying the audited Profit and Loss Account and Balance Sheet.

Risk and Internal Adequacy

Hindustan Lever has a low debt equity ratio and is well placed to take care of its borrowings. Your Company is a large net foreign exchange earner and the transactions are suitably covered. There are no materially significant exchange rate risks associated with the Company.

The Company's internal control systems are more than adequate, and are routinely tested and certified by our statutory as well as internal auditors. Moreover, the Company continuously upgrades these systems in line with best international practices.

For a FMCG Company like Hindustan Lever, economic growth has a direct impact on its performance. Our outlook for the economy in 2007 is optimistic, and we expect a GDP growth of about 7-8% subject however to the vagaries of Monsoon and or other unanticipated developments. Our plans for business development, revenue generation and profit growth factor in this GDP growth apart from continued competitive pressures both from international, local and regional competitors.

Cautionary Statement

Statements in this Report, particularly those which relate to Management Discussion and Analysis, 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.

17. DIVIDEND

The Board of Directors at the meeting held on 20th February 2007, recommended a final dividend of Rs.3.00 per share of Re.1/- each for the year 2006, subject to approval of the shareholders. Together with the interim dividend of Rs. 3.00 per share, paid on August 22, 2006 the total dividend for the year is proposed at Rs. 6/- per share of Re. 1/- each, amounting to Rs. 1323.76 crores. Distribution Tax both on the interim and final dividend is being borne by the Company.

18. DEPOSITORY SYSTEM

As the members are aware, your Company's shares are tradable compulsorily in electronic form and your Company has established connectivity with both the depositories, i.e. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). In view of the numerous advantages offered by the Depository system, members are requested to avail of the facility of dematerialisation of the Company's shares on either of the Depositories as aforesaid.

19. MEMBERS OF THE BOARD/MANAGEMENT COMMITTEE

Pursuant to approval of the shareholders and Central Government, Mr. Douglas Baillie was appointed as the Chief Executive Officer (CEO) and Managing Director (MD) of the Company effective from March 1, 2006.

Mr. M.K. Sharma, Vice Chairman and Wholetime Director and Mr. S. Ravindranath, Managing Director, Foods, are retiring from the services of the Company, upon attaining the age of superannuation, with effect from May 31, 2007 and April 30, 2007 respectively.

Accordingly, both Mr. Sharma and Mr. Ravindranath are not seeking re-election at the forthcoming Annual General Meeting of the Company. As of May 19, 2007 there will be two vacancies on the Board due to retirement of Mr. S. Ravindranath on April 30, 2007 and Mr. M.K. Sharma ceasing to be a Director on the conclusion of the AGM on May 18, 2007.

To fill the vacancies caused by the retirement of Mr. Sharma and Mr. Ravindranath, the Company proposes to appoint Mr. Nitin Paranjpe and Mr. Sanjiv Kakkar as Wholetime Directors of the Company in accordance with Section 269 read with Section 314 of the Companies Act 1956 and Article 111 of the Articles of Association. Notices have been received from members pursuant to Section 257 of the Companies Act, together with necessary deposits of Rs. 500/- each proposing the appointment of Mr. Nitin Paranjpe and Mr. Sanjiv Kakkar to the Board of Directors of the Company.

The Board places on record its appreciation for the distinguished service rendered by Mr. M.K. Sharma and Mr. S. Ravindranath to the Board and to the Company for more than three decades.

In accordance with the Articles of Association of your Company, all other Directors of the Company, will retire at the ensuing Annual General Meeting and being eligible offer themselves for re-election.

Mr. Anoop Mathur, Executive Directors, Speciality Exports, availed of early retirement from the services of the Company effective December 31, 2006. The Board places on record its appreciation for the distinguished service rendered by Mr. Anoop Mathur for more than 35 years.

20. AUDITORS

M/s. Lovelock & Lewes, statutory auditors of the Company retire and offer themselves for re-appointment as the statutory auditor of the Company pursuant to Section 224 of the Companies Act, 1956.

21. APPRECIATION

Your directors wish to place on record their appreciation to employees at all levels for their hard work, dedication and commitment. The enthusiasm and unstinting efforts of the employees have enabled the Company to remain at the forefront of the industry despite increased competition from several existing and new players.

22. TRADE RELATIONS

The Board desires to place on record its appreciation for the support and co-operation that the Company received from suppliers/redistribution stockists, retailers and others associated with the Company as its trading partners. The Company has always looked upon them as partners in its progress and has happily shared with them rewards of growth. It will be Company's endeavour to build and nurture strong links with trade based on mutuality, respect and co-operation with each other and consistent with consumer interest.

23. ACKNOWLEDGEMENT

Your Directors take this opportunity to thank all investors, clients, vendors, banks, regulatory and government authorities and stock exchanges, for their continued support. Your Directors also wish to place on record their appreciation of the Contribution made by our business partners/associates at all levels.

On behalf of the Board

Mumbai,
February 20, 2007

Harish Manwani
Chairman