Report of the Directors

1. 2001 IN RETROSPECT

The past year has been a difficult one for India. Economic growth has slowed with two consecutive bad agricultural years impacting rural demand adversely. Industrial growth is also at its lowest for several years. Consumer spending is declining as overall confidence in the economy is low and there is a widespread sense of instability.

The overall effect of this has been a slowing of market growths across the FMCG categories. Competition has also intensified. The combined effect of these two factors has resulted in some of our markets even declining in value.

Anticipating this, your Company developed a new strategy with three clear thrusts – (i) to lead growth of the FMCG businesses, especially Home and Personal Care by focussing on 30 Power Brands out of a total of 110 brands; (ii) to improve the profitability of the Foods business; and (iii) to secure the future of the non-FMCG businesses while securing shareholder value for these.

Very good progress was made in implementing all three thrusts as borne out by the excellent results achieved in difficult market conditions in the face of intense competition.

2. PERFORMANCE OF THE COMPANY

2.1 Results

Your Company's performance during 2001 is summarised below :

(Rs. Lakhs)

	2001	2000
Gross turnover	**11781,30**	11392,14
Turnover, net of excise	**10971,90**	10603,79
Profit before tax	**1943,37**	1665,09
Tax on profits	**(402,42)**	(355,00)
Exceptional Income	**100,36**	Nil
Net profit	**1641,31**	1310,09
Taxation adjustments of previous years	**(1,01)**	17,23
Dividend (incl. tax on distributed profits)	**(1158,31)**	(942,36)
Transfer to General Reserve	**(165,00)**	(135,00)
Profit & Loss Account balance carried forward	**(759,98)**	(442,99)

2.2 Key Ratios

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

	2001	2000
Earnings per share (Rs.)	**7.46 (per share of Re. 1/- each)**	5.95 (per share of Re. 1/- each)
Dividend per share (Rs.)	**5.00 (per share of Re. 1/- each)**	3.50 (per share of Re. 1/- each)
Return on Net Worth (%)	**53.9**	52.6

2.3 Turnover

Turnover for the year increased by 3.42% gross and 3.47% net. The sales of products in different categories, net of excise, appears below:

Rs. Lakhs

	2001		2000	
	Sales	***Others****	*Sales*	*Others**
Soaps, Detergents and Scourers	**4284,76**	**1,067**	4169,19	656
Personal Products	**2212,08**	**586**	1763,87	575
Beverages	**1414,27**	**455**	1546,17	689
Foods	**794,20**	**—**	777,21	—
Ice Creams	**156,57**	**529**	163,91	475
Exports**	**1750,62**	—	1771,82	—
AFS	**Not applicable**		71,41	—
Others	**359,40**	**2,779**	340,22	1,512
Total	**10971,90**	**5,416**	10603,79	3,907
Total Segmental Revenue	**11026,06**		10642,86	

* Sales figures of 2001 not aligned to the sales figures of 2000 as reported last year, in view of the modified reporting pattern in compliance with the segmental reporting requirement of the listing agreement pursuant to SEBI regulations.

Accordingly sales figures of 2000 as appearing in the Report and Accounts of 2000 have been translated into the new format for the sake of comparative analysis.

* The other revenue represents service income from operations, appropriated to the relevant businesses.

** Export sales represents the cumulative revenue as allocated to the individual businesses for the exports arising from the said businesses.

Report of the Directors

3. 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.

4. CORPORATE GOVERNANCE

Certificate dated May 20, 2002 of the auditors of your Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with stock exchanges, is enclosed.

Your Company has been practicing 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.

5. PRODUCT CATEGORIES

5.1 Soaps & Detergents

The overall market growth for Soaps & Detergents was sluggish during the year with a sharp decline in the Popular & Premium segments of the market. In particular, rural markets where the business has a traditionally strong presence performed poorly following decline in the agricultural growth. The discount segment continued to face severe price-led competition. Against this background, the business registered a relatively better performance in terms of growth. Major investments were made behind quality enhancements of key brands like Lux, Surf and Wheel during the year with clear consumer benefits. These were backed by some strong consumer promotions during the year including multi-packs. Lifebuoy Active was launched during the year and in a short time, the brand grew handsomely with a 3.7% share of the segment. This helped offset the decline of Lifebuoy Carbolic. Major investments have been planned to retain and grow the Lifebuoy franchise in 2002.

Overall, Power Brands grew significantly ahead of the market and are poised well for a stronger performance once the market turns around with the impending economic revival. Innovation will continue to drive growth in the following year, with several projects in the pipeline.

Major initiatives to improve distribution reach, particularly in the rural markets, were undertaken during the year to build upon the competitive advantage that the business currently holds in sales and distribution. Significant investments were also made in networking & Information Technology (IT) to manage supply chain more efficiently and make a quantum improvement in the customer service levels. Project LEAP which brings together the combined strength of IT, Sales and Commercial to deliver better customer service and make the entire supply chain – including the back end systems connected with suppliers of materials – respond faster to the short term changes in the market place, has been implemented towards the end of the year in the Soaps business and the initial results were encouraging. The focus in 2002 will be to stabilise the system and prepare for rolling it out to other businesses.

A few highlights of the 2001 brand performance are :

— With Wheel and Rin, the business not only recorded brand leadership again after a decade but also captured No. 2 slot in Laundry.

— Lux recorded its highest ever share in the last 24 months.

— Wheel Green Powder shares are at their highest in 24 months.

— Surf Excel has reached its highest value share ever.

Report of the Directors

The business also created new benchmarks in capacity creation with 4 new plants (2 for NSD Bars, 1 for Soaps and 1 for NSD Powders) being commissioned in record time. These factories have stabilised very quickly giving significant supply chain and tax benefits to the business. Safety and Environmental compliance continue to be focus areas within the business, and major investments have been made behind TPM processes in the factories to improve the productivity of operations.

Superior Technology in the business repertoire will be leveraged to deliver improved quality at lower cost to achieve profitable growth.

The business sees a big opportunity in market growth in the medium to long term, particularly in the rural areas, and has initiated programmes to drive consumption of soaps in the context of the increased awareness of health and hygiene. For the year 2002, market growth which is linked to the turnaround of the economy remains the major risk factor.

Vasishti Detergents Limited (VDL)

The Associate Company continues to manufacture Soaps and Detergents for your Company. The supply arrangements have however been restructured and VDL now operates as a 'converter' of finished goods for a conversion charge, where raw materials and packing materials are provided by your Company, as against the past arrangement where VDL was acting as a 'supplier' of finished goods to the Company by way of an outright sale. The new arrangement is expected to improve the efficiency and benefit both the Companies.

SC Johnson Products Pvt. Ltd. (SCJ) (Formerly Lever Johnson (Consumer Products) Pvt. Ltd.)

After a careful evaluation of the performance of this Joint Venture (JV), the JV partners have decided to demerge the disinfectant business into a separate Company, Toc Disinfectants Ltd. with identical shareholding pattern. While SCJ will provide leadership, technology and marketing support for the insect control and air care, HLL will provide leadership, technology and marketing support for the disinfectant business, the sharper focus is expected to improve the performance of the insect control, air care and disinfectant business of the JV. It is the intent that over time SCJ will assume majority control of the demerged company while HLL Group will gain majority control in the Resultant Company, i.e. Toc Disinfectants Limited.

5.2 Personal Products

Personal products has had a good year in 2001, with double digit growth. This was achieved by focussing on the core brands and investing in building their equity. In spite of slow market growths, your Company increased its investments in innovation, research and advertising on its big brands resulting in growth ahead of the market.

The Hair Category had another year of growth, with high quality relaunches of Clinic Plus, Clinic All Clear and Sunsilk. The packaging of Sunsilk and All Clear bottles were changed in line with international developments, while a new stand-up pack was launched in the mid-price segment. Your Company entered the nascent category of hair colourants, with the launch of Sunsilk hair colours in the metros. In order to address the opportunity at the low price end of sachets, Lux sachets were launched at prices of Re.1 and Re. 0.50, and these have met expectations.

The Skincare Category had a very good year, with Fair & Lovely as star performer in 2001. In Fair & Lovely, the launches in 2001 included a fairness soap, a dark circle under eye cream, and sachet with a recloseable cap. The main Fair & Lovely cream brand was also relaunched with improved packaging and communication. All these initiatives, alongwith investments in advertising and rural penetration, led to high growth for the franchise through the year.

The Pond's brand returned to double-digit growth after a slowdown for 2 years, with comprehensive relaunches to its talc as well as skincare ranges. The growth was achieved by improvement in the functionality of products, packaging and impactful market activity. A new talc variant, Ponds Light n' Fresh, and a new mini Cold Cream jar priced at Rs.5 were successfully launched in 2001. The skin range of Lakme was renovated and strengthened and a premium new product, Lakme Fair Perfect, was introduced towards the end of 2001.

In the Oral Category, Pepsodent was relaunched and emerged much stronger in 2001 as a result of innovation, advertising and marketplace activation. The introduction of value packs as well as new advertising helped increase

Report of the Directors

market shares for Pepsodent. Your Company decided to de-prioritize the toothpaste brand Aim, in order to focus all efforts on Pepsodent and Close-Up – this strategy has been successful as demonstrated by the growth and brand building that has been achieved in the second half of 2001.

In the Deodorants business, Axe continued on a high growth path, with many imaginative market activities and new introductions in 2001. Rexona was relaunched with international packaging and has achieved salience on the 24 hours delivery of deo benefits.

Colour cosmetics saw many innovations on both Lakme and Elle 18 including a new range of colours based on the Lakme India Fashion Week.

Your Company acquired the assets and liabilities of its colour cosmetics, fragrances and personal care business from Lakme Lever Ltd. at net book value, with effect from 31.3.2001. Post merger, Aviance business continued to focus on direct marketing of personal care products to gain better understanding of this channel.

Supply chain and sourcing efficiencies led to significant cost reduction, whilst quality improvement came through technologies and innovations. Your Company continues to focus on low unit price packs, which provide the consumer with quality products at low put-down prices. A new Personal Products factory was commissioned in Doom Dooma in Assam, to cater to the growing market demand.

Indexport Ltd

This 100% subsidiary continued the oil operations. Nihar Perfumed Coconut Oil continued to grow well, while Clinic All Clear Dandruff Oil registered substantial growth of more than 50%. Nihar Amla Oil was also launched around the end of the year, to exploit opportunities in this segment of hair oils.

Kimberly Clark Lever Limited

This joint venture had satisfactory performance during the year. The Joint Venture continues to be the market leader in infant care products (diapers) and continues to make progress in feminine care products (sanitary napkins).

5.3 Beverages (Tea/Instant Tea and Coffee)

Indian Packet Tea market had another challenging year in 2001 as the bearish sentiment in commodity continued for the third successive year. Easy availability of loose tea at low prices, coupled with the reduced purchasing capacity, particularly among consumers depending upon agricultural income, led to significant downtrading. Overall packet tea market declined by over 6%.

Your Company continued to follow its long term strategy of upgrading the portfolio by focussing innovation and marketing efforts only on Power brands. Non core brands with un-viable margins have been rationalised, leading to a decline in overall turnover.

The marketing strategy focussed on high impact communication and innovative market activation. “Ustaad Zakir Hussain’s Challenge” further strengthened the position of Taj Mahal as the best tea. Taj Mahal recorded good growth in a difficult year. Innovative market activation in Taaza generated unprecedented excitement in the market place, resulting in higher volumes. In the mass market, the challenge is to establish a profitable business by effectively competing with loose tea and low priced regional brands. Your Company has been investing significant sums in Research and Development, to gain leading edge knowledge on tea and developing products with functional benefits relevant for these consumers. A1 was relaunched in Maharashtra with a faster infusing, stronger tea, with encouraging consumer response. In Karnataka, a variant of A1, fortified with vitamins, was test marketed in the latter part of the year.

Share of Throat of Tea as a category has not been growing in the last few years particularly among the youth. A number of micro-level activities have been undertaken to drive aggressive growth in the Out of Home channels and create new consumption occasions for Tea.

Lipton Ice, Unilever’s globally successful brand in the soft drinks category, with its unique positioning of ‘Pleasure, excitement and goodness’ has met with encouraging response in the selected markets where the same has been introduced. Out of Home and Lipton Ice, will be major contributors in our future growth.

Profitability of the Beverages business improved significantly by over 850 basis points at gross margin level. This has been achieved by upgrading the brand

Report of the Directors

portfolio and re-engineering the supply chain. A number of initiatives in sourcing, blending, manufacturing and distribution were taken to compress supply chain lead time, leading to significant improvement in quality, particularly on freshness parameter. Manufacturing locations have been reconfigured and modernised to optimise total systems cost. These steps, in addition to bringing down costs, helped the business to manage its operations with negative working capital.

Coffee business had another outstanding year and recorded excellent growth, both in top line and bottom line. Bru was successfully relaunched with a significantly improved product and excellent communication to build a modern, youthful image for the brand. The mix has been well received in the marketplace.

Plantations

The Year 2001 for the plantations business was a Quality Growth year. South Indian tea factories were upgraded to enable production of Assam type of teas (i.e. the non-reconditioned type of manufacture). This initiative was successful in meeting the milestone quality levels, that of Assam. As on date 70% of total production in South India has been converted to this type of manufacture. This has achieved a better blend fit for South Indian teas in the packet tea brands of Beverages, even as our South Indian garden teas continue to get premium prices in the auctions.

Doom Dooma Division in Assam registered record crops for the year while tea quality showed significant improvement.

The gardens of Rossell Industries Ltd. (RIL), a Group subsidiary, showed noteworthy improvements in quality as well. More than two-thirds of the production found a 'home' in the premium blends of Beverages Division. Crops recorded were 10% over the previous year, an increase not matched by any in an industry where many gardens have not shown any growth at all. The year saw most of RIL's production going into HLL tea packets.

In Assam, concentrating on improving land and labour productivity, controlled costs. Remarkably, costs took a downward route overriding an industry wide wage increase in Assam of 15% effective from 1st May 2001. Semi-mechanical harvesting, with plucking shears, was extended to all tea area in Doom Dooma Division, where the high tea clone percentage with its amenable morphology took to this method of harvesting well. Shearing contributes to improved earnings for the workers even as harvesting costs come down. While this initiative was driven, close attention was paid to its impact on the quality of raw material, as that remains the key to quality of the final product. Along with this various agronomic practices are constantly being fine-tuned to deliver quality at lesser cost.

The Division has taken on board, in a very focussed manner, the Unilever driven Sustainable Agriculture Project. Unilever's commitment to creating economic value hand in hand with ensuring that its operations/ activities are not responsible for any adverse impact on the environment, or on the local communities in which it operates, and a focus on the use of renewable resources in preference to non-renewable ones constitute the key elements of sustainable development. Applying this to agriculture is very relevant when one sees that 70% of the Company's products come from agricultural raw materials. Plantations has incorporated the process of moving to a measurable index made up of ten identified indicators of sustainability that include impact of its activities on soil, climate, water, the local economy, value creation and the use of renewable resources. Progress made includes crop protection with environmentally safe chemicals, rationalization of chemical fertilizer complemented with increasing use of organic manure, vermiculture, and moving towards renewable firewood by replacing coal. Extensive interaction has been set up with stakeholding communities including the initiating of fish farms and other activities that would involve villages in the vicinity of the estates. Stakeholder endorsement of the initiatives has made progress with keeping in regular touch with various NGOs and experts.

Safety, Health and Environment standards continue to be the best in the industry with the Accident Frequency rate being 0.05 (for 2001) compared to 0.08 in the previous year. The training and dissemination of information to move towards Framework Standards implementation has made much progress and the Division is poised to improve even further on its safety record.

Report of the Directors

Supply chain integration with Beverages Division was further strengthened using almost all the teas produced for your Company's brands well backed by the benefits arising from innovations and product development. The South Indian tea industry is in the midst of challenging times with changing markets and the opening up of the world economy. In Assam too the impact of these worldwide changes have been felt on tea prices. Our gardens have focussed on upgrading quality to fit into the packet tea business' premium blends and on keeping costs at the lowest in the industry.

5.4 Specialty Chemicals, Bulk Chemicals and Fertilisers

While the stagnation in the global market continued in the Specialty and Aroma Chemicals segment, your Company was able to create new opportunities for growth by tapping the export market. Refined Glycerine operations had an excellent year with a double digit volume growth. Sustained focus and export initiatives helped achieve a growth of 60% in Nickel Catalyst exports. A sharper portfolio focus, rationalisation of manufacturing facilities and aggressive cost reduction programme helped Aroma Chemicals operations to fight the pressure on margins. Substantial growth across segments helped Functional Bio-Polymer division to grow by an impressive 29%.

The Fertiliser and Bulk Chemicals operations continued to be part of Hind Lever Chemicals Limited (HLCL) in which your Company holds 50% equity. Own manufactured volumes of Fertiliser grew by an impressive 26% and the Bulk Chemicals operations grew by 10%. HLCL reduced their dependence on low margin traded fertiliser operations. Aggressive cost reduction programme helped the business to improve their profitability. The unaudited results for the 12 months ending December, 2001 of HLCL reported a PBT of Rs.46 Crs compared to Rs.32 Crs reported for the 12 months ending December, 2000.

5.5 Foods

Kissan

The Culinary Products business of your Company that has been operating under the Kissan brand name in Ketchups, Jams and Cold Beverages categories has been strengthened with the amalgamation of the Bestfoods business during the year. One of the drivers for growth in these categories is increased penetration among consumers. This process has been facilitated by the withdrawal of excise duty on these categories by the Government in the Union budget 2001. During the year 2001, new campaigns were launched for Ketchups and Jams and these have shown positive results in second half of 2001. The outlook for 2002 is optimistic.

As part of the continuing efforts at improving the robustness of the supply chain, both in terms of cost effectiveness and in terms of stock freshness, your Company is in the process of optimising production sites on a regional basis. As part of this exercise, the factory at Zahura, Punjab was restructured in 2001. The reconfigured supply chain will considerably enhance the operational efficiency of the business in the coming years.

Bestfoods

Bestfoods business was successfully integrated with focus being on growing the Knorr brand and improving profitability significantly. The focussed thrust behind Knorr brand resulted in doubling of its turnover in one year. The profitability of the business was improved by streamlining the supply chain and restructuring some of the operations.

The salt factory at Gandhidham (Gujarat) had undergone extensive damage during the Earthquake in Jan 2001 and this was restructured in an amicable manner during the year.

Spreads, Cooking Products and Bakery Fats

The turnover of the Spreads, Cooking category and bakery fats business of your Company grew by 21% during the year 2001. The business continued to focus on margin improvements and was able to achieve significantly higher operating profit compared to the previous year.

The edible oils and fats market in 2001 was subjected to considerable uncertainty due to a series of changes in import duty. Further, there was a sharp increase in competition in the area of vanaspati and refined oils, with a number of new international players entering the field. Despite this, Dalda Vanaspati was able to increase its market share from 25.7% in 2000 to 29.0% in 2001 in consumer packs vanaspati market.

Report of the Directors

The business is now firmly focussed on innovation and differentiative products. Dalda Activ, a healthier product than traditional vanaspati, consolidated its position during the year. The test market in Tamil Nadu for Dalda Classic, a cooking product with a delicious aroma, met with encouraging results. The Company also launched its initiative in the Spreads area with the test launch of Kissan Choco Kick and Honey Kick in select markets.

Popular Foods

The Popular Foods Business operates in 2 categories, Salt and Wheat Flour.

Annapurna Atta is fortified with iron and vitamins. Chapatis made from Annapurna Atta (300 gms) can meet a consumer's total iron requirement for a day. The benefit is specifically relevant in our country since 60% of children and women are iron deficient**.**

During the year, Annapurna atta was relaunched using patented technology which delivers softer and tastier chapatis. Annapurna continues to maintain its dominating No.1 position in the branded atta market despite the entry of several new players.

In line with its strategy to provide value added products, Annapurna Ready to Eat chapatis were launched in Mumbai in December 2001. These chapatis are fully cooked and can be consumed after a simple 10 second heating. The Company is in the process of extending this product to other metro cities.

During the year, Annapurna salt was relaunched backed by a path breaking new technology which allows it to prevent loss of iodine in salt during storage, transit and Indian cooking conditions. Your Company has filed for a patent for this new technology. With this launch, Annapurna salt is now the only salt in the market in which the iodine content is retained at incorporation levels. Annapurna salt has now become the largest branded salt in the market.

Modern Food Industries (India) Limited (MFIL)

The Modern Foods business, despite the large number of small players and highly fragmented market with low entry barrier, has been able to gain a market share of 7%. This is attributable to growing trends in urbanization and changing food habits. Synergies from integrated wheat procurement and processing, improvement in quality, extended distribution and introduction of value added products at the premium end augur well for future growth of this business. Reducing conversion costs at own factories continue to be a key challenge for this business.

During the year, Modern Brand extended geographically to 25 new towns. Modern Milk Classic was successfully launched across the country in the premium segment. Further supply chain initiatives and synergies in sourcing, have led to improvement in operating margins. Besides significant investments are underway behind modernization of plants and market development.

5.6 Ice Creams

Your Company's ice cream business passed through a challenging year in 2001, with the worst weather conditions the industry has ever faced which led to a decline in market value. Focussing on key brands, the portfolio gained significant value share in large ice cream markets, like Delhi and Mumbai, despite aggressive low price competition.

The Company's market initiatives were concentrated on developing a new channel, and strengthening franchises of select brands. The Kwality Wall's Soft ice cream (Softies), sold through tamper-proof machines, has been extended to all key cities. It has received a very encouraging response.

In the traditional impulse and take-home segments, initiatives were concentrated on Cornetto, targeted at young adults, and Max, targeted at children. The business worked to the strategy of introducing strongly differentiated products, based on local preferences and affordability. Accordingly offerings, like Kwality Wall's Sundae tubs with delicious sauces, Max 123, Cornetto Snackers and Feast Snacko, were launched in all key markets.

The manufacturing strategy, covering regional factories, was further honed to drastically reduce supply chain costs, while maintaining strict international hygiene standards. The business is geared to consolidating its cost competitiveness by focussing on the power brand, Kwality Wall's, and driving it through differentiated

Report of the Directors

products, target geographies and new channel development.

5.7 Exports

The exports business for the group registered a strong growth of 11% over the previous period in manufactured exports. In line with the stated policy last year, your Company has consciously scaled down traded exports by over 40% this year. The growth in manufactured exports was largely led by aggressive growth of value added sea food products, and home and personal care products. Your Company including its subsidiaries continued to show a very strong foreign exchange surplus of Rs. 668 Crores.

The Company will work aggressively to grow exports of key consumer goods categories by acting as a sourcing partner for Unilever Companies abroad and by focussing on value added products in certain key categories where India has a competitive advantage. Traded Exports will be completely phased out in the year 2002.

Hindustan Lever Ltd., was accorded the prestigious status of *Golden Super Star Trading House*, given the outstanding Exports performance over the last 3 terms. For the third successive year, your Company received the prestigious *GLOBOIL Award for outstanding performance in exports of Castor Seeds, Castor Oil and derivatives*. Your Company is already India's largest exporter of tea, and home and personal care products, and value added marine products. HLL has been selected by The *Marine Products Export Development Authority for the Export Award* for 2000-2001 as the largest exporter overall and the largest exporter of value added products in the sea food category.

The home and personal care export business growth of 38% this year was propelled primarily through an increase in oral care and skin care exports. Two new plants were set up in record time to cater to increased exports of Fair & Lovely and for manufacturing of liquid detergents and household care products for the South East Asian markets. HLL has secured a 10000 Ton business in liquid laundry and household products from South East Asia and supplies have commenced in the last quarter of 2001. The Fair & Lovely business had a healthy growth of 15% in volumes driven by sustained sales campaign in South East Asia. Several new products such as Dove Body Lotion, Dove Body Wash, Fair & Lovely Under Eye Cream were manufactured / launched for the first time in the Middle East. Pepsodent Whitening toothpaste was launched in Kazakhstan. Domex Lemon variant was launched in the Philippines. Your Company has successfully set up direct marketing arrangements for the Pears range of products in the US and is in the process of setting up similar arrangements in a few select countries.

The Beverages division exported higher volumes of both tea and coffee compared to the previous period. However, given the depressed prices of tea and coffee, the division registered a drop of 2% in value terms over the previous period. During the year, Unilever Russia, our single largest customer has decided to start manufacturing on shore, on account of the high import duty differentials between garden teas and packed tea into that country. Since the full impact of this will be felt in 2002, your Company has taken proactive steps to compete and win the tea bags business of Unilever Australia and the United States of America. Production against these orders is expected to commence in the second half of 2002. The new business secured will be the high value categories of tea bags in various packing formats as also normal black tea, herbals, infusions and flavored tea. A new EOU is being set up in Pune to cater to the needs of this business.

The Marine Division registered a very substantial increase of 60% in exports over the previous period. Growth came from the new business of salad shrimps and pasteurized crabs from the factories taken on Wet Lease from the Amalgam Group in the previous period. Your Company is already one of Asia's largest exporter of fish protein isolates. During the year, the division commenced exports of value added products in the fish protein isolates category, i.e. imitation crabsticks. Your Company proposes to exit the non value added sea catch business in 2002, which accounted for 8% of the divisions turnover in 2001. The division now has a wide range of value added sea food products and this constitutes a focus area for exports growth for your Company.

The first ever Website for Castor viz. Castorworld.com was formally launched by your Company early this year. This has opened up new markets. Early this year, the business has entered into direct sales in the U.S. market

Report of the Directors

through a successful new distribution set-up. Your Company has also commenced and is focussing on higher exports of specialty oils and derivatives. Slowdown in the global economy had an adverse impact on the business in the latter half of the year under review. Chemical industry, the major castor consuming industry, continues to pass through a difficult period as a result of the economic slowdown and this is likely to be a setback to ambitious plans ahead of the business in the year 2002.

The rice business faced acute low priced competition from Pakistan basmati in the Gulf and European markets. Several initiatives were undertaken to move the business into more stable and profitable segments in the rice category. The basmati rice brand Gold Seal Indus Valley is being relaunched in the Gulf and other markets starting Jan 2002. The product developed in-house has improved delivered aroma and new packaging. The business entered into a collaborative farming arrangement (with farmers in Punjab spread over 150 villages and 8000 acres of farmland) to be able to offer "Seed to Shelf" traceability. Avenues are being explored to exploit this proposition on product authenticity during the year 2002. Post the earthquake in Kandla, in an effort to improve operating efficiency and control on quality, the production facilities were integrated into a single complex at Rai in Haryana during 2001.

The Company has exited the Glass Thermometer business during the year, owing to the worldwide decline in demand and issues regarding disposal of Mercury.

The Mushrooms division continued to face stiff Chinese competition, affecting selling prices. In an effort to improve the performance, the business is exploring possibilities of developing new customers and new markets.

Leather exports registered a strong growth of 40% in 2001. Significant growth has come through the addition of new customers in Italy, Germany, and the UK. The Division consolidated its position with Hush Puppies licensees in Middle-East and Canada. Significant progress was also made towards entering the US market with the development of a new range of products. A whole new range of leathers were developed, and this helped in offering a range of products to the customers.

5.8 New Ventures

Project Millennium had identified several new growth opportunities for your Company. The New Ventures group was charged with the responsibility of rigorously assessing these opportunities, incubating and testing the selected growth initiatives. This involved a detailed and rigorous assessment of the markets, consumer understanding, and identification and planned build-up of new capabilities required, as well as current capabilities leveraged, and market testing. After a rigorous review, the following New Ventures were shortlisted for implementation.

— Confectionery

— Health Care

— E-tailing

— Rural Connectivity

Detailed status for each of these are given below:

Confectionery

Your Company entered the confectionery market in 2001. The consumer response to the entry has been excellent. This is Company's first foray into the Rs.2000 crore confectioneries market. Your Company is also the first company within Unilever to market sugar confectioneries. Max, which has already carved a niche in the ice cream category in India, is focussed all over the world on children. In confectioneries too, children are a key segment. Therefore, Max was extended to confectioneries, in line with Company's strategy of leveraging brands across relevant categories.

Besides the equity of Max as a brand, the businesses used capabilities of and understanding within different HLL categories to seed and establish the confectioneries operation. These include a deep insight into children's preferences acquired through existing categories like ice cream, culinary products and oral care; the company's well-penetrated distribution network; experience gained in hair care in low-unit price packs like sachets; and a cost-effective manufacturing strategy mastered in the detergents business.

These strengths, together enable the Company to market Max confectioneries at prices as low as 25 paise and 50 paise. The range comprises three different products: *ChocoMax*, a delicious candy with milky chocolate taste

Report of the Directors

at 50 paise; *Max Magic*, a single candy with two distinct flavors, one inside and one outside, for 50 paise; and *Max Masti*, a plain fruit candy with the taste of real fruit at 25 paise.

Following a successful test-market in Tamil Nadu between May and September 2001, the product was rolled out to other regions. With excellent consumer response, it is well positioned to become a favourite brand of children across the country.

Health Care

The New Ventures team has spent 2001 in scoping out the opportunity and preparing an entry strategy to exploit the health care opportunity. The entry mix will be rigorously tested in 2002 after which a decision on further extension and rollout would be taken.

E-Tailing

The e-tailing initiative was launched in a pilot in 2001. The service is branded Sangam Direct and is geared towards meeting the bulk grocery needs of consumers. In addition to a commerce-enabled web-site, a web-enabled call centre has also been set up to receive orders through the telephone. The initial response in the pilot is satisfactory. The testing period for the service will continue before a final decision on this business can be taken.

Rural Connectivity

The Rural Connectivity team working with NGOs and Self Help Groups evolved a model that would carry both our brands and their communication to inaccessible parts of rural India. Project Shakti was launched in Nalgonda district of Andhra Pradesh as a pilot. Initial response to this initiative has been good and market shares have shown a handsome increase across categories, in the pilot areas. Currently Project Shakti is operational through 400 Self-Help Groups and the intention is to extend its reach during 2002.

5.9 Agri Business – Seeds and Plant growth nutrients

Agri business had another good year of excellent growth in volumes and turnover. Sales growth of over 35% helped the business to cross the Rs.100 Cr turnover mark and became one of the top seeds company in the country. The continued focus on Hybrid seeds helped the business to maintain its strong market share.

6. RESEARCH & DEVELOPMENT AND TECHNOLOGY

Hindustan Lever Research Centre (HLRC) has been a source of several technological breakthroughs and has been providing technological backup for novel products developed and launched by your Company.

Fundamental research in the area of particulate soil-fabric-wash liquor interactions has led to filing of several patents during 2001 which deal with breakthrough avenues to improve detergency. Novel detergent bars and next generation pre-treatment products have also been developed. In Soaps, new understanding about network forming structurants has enabled creation of novel bars with unique sensory feel, significantly milder to skin, and ability to deliver functional actives onto skin or hair. In Home Care, technology to enhance performance of dish wash bar was developed and is being implemented. Research in Biology of Skin Pigmentation has provided new patented actives for Fair and Lovely, one of which has been the basis of its relaunch during the year.

Indepth studies in the area of physiology of Tea Plant and processing of Black Tea have provided unique capability to deliver superior teas in the brands, as well for vastly improving the quality of tea produced in South Indian Plantations of the Company.

It was demonstrated that significant loss of iodine occur between the point of manufacture of iodized salt and consumption by consumers. A breakthrough and exclusive patented technology to stabilize iodine in salt was developed and a plant designed and commissioned paving the way for launch of Annapurna iodized salt with stable iodine. The science and technology of a wheat based "active" for enhancing taste of chapati was also developed.

Several new technologies have been developed and implemented in the area of specialty chemicals. Exclusive technologies to manufacture high performance wet-end additive and surface sizing additive for paper (Biopolymers) improving the quality of paper in paper mills was developed and implemented. Technology for a

Report of the Directors

higher value specialty grade castor oil was developed and implemented.

Hindustan Lever Research Foundation: As part of the process to relaunch the Ph.D. program with a clear mandate to strengthen it, a committee chaired by Dr Bhivgude, Head, Dept of Life Sciences of Bombay University visited the Andheri Lab. The final plan will be drafted at HLRC in collaboration with Bombay University.

7. ENVIRONMENT, SAFETY AND ENERGY CONSERVATION

Safety and environment management continues to be a key result area for your Company. The Corporate Vision for Safety envisages "Zero Accidents" as the only acceptable standard of performance. Accident frequency rates during 2001 were maintained at a level much lower than industry average and one of the best amongst Unilever companies worldwide. With a view to raise safety to a new level, several initiatives have been put in place which ensures participation of all employees at the shop floor level. The Company has adopted a Framework of Standards aligned to ISO 14001 / OHSAS 18001 standards to ingrain positive safety culture across the organisation. The integration of safety, health and environment management of newly acquired sites in Modern Foods Industries Ltd is progressing as per schedule with consolidation of basic safety systems. Kandla factory received the coveted Unilever Premier Safety Award for the best safety performance in the Unilever world. This is the fourth year in a row when one of the company's sites has received this honour. Additionally, 28 other units received the Unilever Gold, Silver and Bronze Awards and Certificates of Excellence through continuous improvement in their safety performance. Yavatmal factory received the prestigious award from Vidharbha Industrial Safety Committee for its exemplary safety performance. In order to share good safety management practices, all the units in Pondicherry participated in a safety exhibition organised by local Safety Forum.

Through ongoing programmes of continuous reduction of the environmental impact of operations, the environmental load of key parameters, already well below the statutory requirements, has reduced further. Annual reduction targets for individual manufacturing sites are monitored for adherence on a monthly basis. In key areas of national priority such as energy and water, your Company has recorded further reductions in specific consumption of 5% and 15% respectively over 2000, through productivity improvements, inducting novel processing routes and adopting clean technologies and recycling / reuse where feasible. The experience gained in vermi-culture and vermi-composting in the Tea Plantations group is now being extended to other manufacturing sites to convert domestic wastes into value added fertiliser supplement for cultivation.

In March 2001, Company faced an allegation of pollution due to mercury waste from its Thermometer factory at Kodaikanal. In order to comprehensively address the allegation, your Company stopped manufacturing operation immediately and engaged internationally renowned environmental consultants M/s. URS Dames & Moore to assess the impact, if any and suggest suitable remedial measures. Results of this study indicated that there was no significant impact on the environment. Further, your Company carried out a comprehensive health check for all its employees at Kodaikanal. These checks have confirmed that there has been no adverse impact on the health of employees due to handling of mercury and mercury bearing materials and wastes in the plant. Company worked very closely with concerned authorities and local bodies and have shared the results of these studies. As a part of business restructuring, Company has however decided to discontinue this operation and a detailed plan has been worked out for safe disposal of the plant machinery and mercury bearing materials & wastes in accordance with the applicable regulations.

8. SUPPLY CHAIN INITIATIVES

During 2001, there were several new initiatives in the area of supply chain, aimed at improving effectiveness and efficiencies. Stock availability and customer service levels improved due to better connectivity, and implementation of relevant IT solutions. A drive was undertaken to improve 'time to market', and this yielded good results. A tie-up with Indian Railways helped move stocks in safe and secure condition to different parts of the country. Reliable forwarding service providers were developed for safe and timely delivery of 'small parcels'.

Report of the Directors

As a result of the above initiatives, your Company was able to supply stocks more frequently to the trade, maintain freshness of stocks, and improve order processing efficiencies. A pilot project on continuous replenishment was carried out in Mumbai, and the results have been encouraging. Another pilot was conducted in the Personal Wash business to set up an 'end to end supply chain management system', which has also produced significant improvement in service levels and optimisation of stock levels. Your Company will be rolling out these initiatives nationally across all FMCG businesses in the year 2002.

In the area of buying, the Vendor Certification Program was continued, and several vendors were certified for implementation of quality systems, and zero defect track record. Your Company was able to achieve significant buying efficiencies and cost reduction through strategic tie-ups for key raw and packing materials, joint development efforts to reduce input costs, locational synergies, and import substitution. Several small scale industries and ancillary units have been developed to support your Company's operations. Your Company also undertook a 'Partner in progress' initiative, under which more than 500 managers visited about 65 suppliers to develop meaningful ways of improving the quality of the supply chain through mutually rewarding partnerships.

9. PERSONNEL

Harmonious Employee Relations prevailed during 2001 with Long Term Settlements signed in 10 of our units consequent to bi-lateral negotiations with the employee representatives. As has been our approach, all these settlements were based on the principle of mutual gains, sharing of productivity improvements achieved in these units, which have helped us to remain competitive in the market place. In an attempt to further align the interests of shareholders and employees we have piloted a stock grant scheme in a few of our units.

The restructuring programme based on our Long Term Business Strategy continued to be pursued and where suitable redeployment of employees was not possible they have been offered voluntary separation option, which as usual was well above the statutory provisions, keeping in line with our philosophy of being fair and humane in all our dealings with employees.

The Total Productive Maintenance (TPM) programme continued to be a key driver for establishing the "Enterprise Culture" in our manufacturing units to achieve sustained high-performance through the creative excellence of all our employees. During 2001 three more of our factories have achieved the Level 1 certification for TPM awarded by Japan Institute of Plant Maintenance, taking the total number of factories in the Company to have achieved this distinction to 4.

Providing a solid edifice for the high performance culture in your Company is its strong value system. During the last year we have reaffirmed our commitment to the Company values of Action, Courage, Caring and Truth. A number of initiatives to reinforce these values at all levels in the organisation have been started. 360 degree feedback and Coaching have been adopted as tools for leadership development.

10. AMALGAMATION OF INTERNATIONAL BESTFOODS LIMITED (IBFL) AND AVIANCE LIMITED

Following approval of the members at the Court Convened meeting held on June 22, 2001, the Hon'ble High Court of Judicature at Bombay on September 5, 2001 passed orders confirming the Scheme of Amalgamation of International Bestfoods Limited and Aviance Limited, which became effective from September 26, 2001 with retrospective effect from July 1, 2001 being the Appointed Date under the Scheme of Amalgamation. Accordingly 6,48,723 equity shares of Re. 1/- each were issued and allotted to the shareholders of IBFL pursuant to the Scheme which provided for the Company to issue shares in the ratio of two equity shares of the Company of Re. 1/- each for every three shares of Rs. 10/- each of IBFL. The shares held by the Company in IBFL aggregating to approx. 83.36% of its capital were cancelled as per the Scheme. No shares of the Company were issued to the members of Aviance, a 100% subsidiary of the Company upon amalgamation and all shares of Aviance Limited stand cancelled in terms of the Scheme.

11. ROSSELL INDUSTRIES LIMITED

During the year Rossell Industries Limited (RIL) became a subsidiary of your Company consequent to Lipton

Report of the Directors

India Exports Limited (LIEL), a 100% subsidiary of your Company raising its shareholding in RIL to 60,02,708 equity shares of Rs. 10/- each constituting 59.62% of the issued and the paid up capital. The above together with 37,00,000 equity shares of Rs. 10/- each constituting 36.56% of the issued and paid up capital of RIL held by UOHBV raised the promoter shareholding in RIL to 95.89%. LIEL has initiated steps to delist the Company in compliance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and the process is expected to be completed during the year 2002.

12. MODERN FOOD INDUSTRIES (INDIA) LIMITED (MFIL)

Your Company had acquired 74% equity in this subsidiary, being the first case of disinvestment by the Government. The Balance 26% equity continued to be held by the Government. Company has now received a communication from the Government that it desires to sell its remaining 26% equity in the Company by exercising its 'put' option. Accordingly, your Company is progressing acquisition of the remainder 26% equity from the Government with a view to make it a wholly owned subsidiary of the Company. The acquisition of 26% equity is expected to entail an investment of approx. Rs. 45 Crores, subject to such adjustment as may be actually agreed between the parties to resolve the due diligence and completion issues arising from the transaction.

13. DIVESTMENTS

13.1 Quest Joint Venture

Pursuant to a joint venture arrangement with ICI India Limited and Quest International BV, the flavours and fragrances business of the Quest Division of Hindustan Lever Limited was transferred to Quest International India Limited in which ICI India and Quest International BV together hold 51% and the balance 49% is held by the Company. The joint venture combines ICI India's long standing knowledge of India, HLL's detailed understanding of Indian consumers' preferences coupled with Quest International's consumer understanding, technological and creative expertise.

The joint venture would however, exclude the aroma chemicals business of HLL and the erstwhile Industrial Perfumes Limited which continues to be carried on as a division of HLL.

13.2 Adhesives

Your Company sold its Adhesives Business, a sub-unit of Specialty Chemicals Division for a consideration of Rs. 9 Crores to ICI India Limited.

This transfer of Adhesives Business with an annual turnover (including captive consumption) of around Rs. 10 Crores to ICI secures the future of this Business since ICI Plc through its subsidiary National Starch is a major global player in Adhesives Business.

13.3 Nickel Catalyst

During the year, your Company also sold its Nickel Catalyst business, a sub-unit of Specialty Chemicals Division for a consideration of Rs. 21 Crores on a 'going concern basis' which involved ICI taking over the manufacturing facilities relating to Nickel Catalyst operations located as part of Taloja Factory (near Mumbai) alongwith the services of 17 related employees. This transfer resulted in a profit of around Rs.12.5 Crores to the Company apart from securing the future of this business and the related employees in the hands of ICI.

13.4 Exit from Joint Venture with Godrej Agrovet

The members will recall that your Company entered into a joint venture with Godrej Agrovet Limited (GAVL), a subsidiary of Godrej Soaps Limited and a leading player in the animal feeds and agricultural inputs market such that 74% stake in Gold Mohur Foods & Feeds Limited (GFFL), a subsidiary of the Company was transferred to GAVL with 26% stake continuing to remain with the Company effective 1st January, 2001. Subsequently, in terms of the said agreement the balance 26% was also transferred by the Company to GAVL with effect from September 20, 2001, to enable GFFL to become a wholly owned subsidiary of GAVL. Accordingly, GAVL was transformed into a 100% Godrej Group Company with effect from the said date.

13.5 Paras Extra Growth Seeds Limited

Pursuant to approval of the members through a postal

Report of the Directors

ballot conducted in February 2002, your Company transferred its undertaking engaged in the Seeds business to its subsidiary Paras Extra Growth Seeds Limited (formerly named as Grand Food and Catering Consultants Limited) on a "going concern" basis. The seeds business employed approx. 45 people and had a turnover of approx. Rs. 101 Crores in 2001. The Company realised a gross consideration of Rs. 115 Crores by way of transfer and sale of the seed business.

In order to pay for the part of the purchase consideration, the capital base of Paras Extra Growth Seeds Limited was expanded and 74% of its equity was issued and allotted to India Seeds Holdings Limited (ISHL), a Company incorporated in Mauritius engaged in the seed and biotechnology industry. Your Company has subscribed to additional equity in the expanded capital base of Paras Extra Growth Seeds Limited, at par to retain 26% stake in the Company, which would in due course be disposed of to the new promoters, ISHL or their nominees.

13.6 Diversey Lever Business

Pursuant to the approval of the members for the transfer and sale of Company's Industrial and institutional cleaning business popularly known as Diversey Lever, forming part of its Detergents Business, the Company transferred in May 2002, this business to Johnson Wax Professional Pvt. Ltd. a 100% subsidiary of SC Johnson Commercial Markets Inc. USA for a consideration of Rs. 56 Crores. The Business employs approx. 65 people and had a turnover of approx. Rs. 27 Crores in 2001.

13.7 Lever Gist Brocades — Yeast Operations

Based on the joint review with the JV partner, DSM of Netherlands, your Company agreed to exit the yeast operations carried through Lever Gist Brocades Limited as the operations were found unviable with no significant long term growth opportunities. Consequently the unit has been transferred to Burns Philp India Limited.

13.8 Pond's Exports Limited

Pursuant to the approval granted at the Annual General Meeting of the Company held on June 22, 2001, the leather business of the Company was transferred to Pond's Exports Limited, a 100% subsidiary, on and from 31.3.2002. This would facilitate formation of a joint venture or a possible divestment at a future date to a party which could leverage the strength of this business more effectively.

13.9 Mushrooms Business

Likewise, it is also proposed to pursue the approval granted by the shareholders for transfer of the Mushrooms business to one of the Company's subsidiaries. This is expected to be actioned shortly.

14. ISSUE OF BONUS DEBENTURES

Your Company had formulated a Scheme under Section 391 of the Companies Act for issue of bonus Debentures by drawing upon the General Reserves of the Company which have been created through retained earnings/ undistributed profits of the Company. An amount of approx. Rs. 1320 Crores from the General Reserves was proposed to be utilised for issue and allotment of Debentures of the face value of Rs. 6/- each which were to be issued and allotted to the existing members of the Company by way of bonus Debentures in the ratio of one fully paid Debenture of Rs. 6/- each for every Re. 1/- equity share held in the Company on a record date to be fixed by the Board after the Scheme is sanctioned by the Bombay High Court. Such issue and allotment of Debentures would be considered as a 'deemed dividend' under the provisions of the Income Tax Act and the Scheme contemplated that the Company would bear and pay, dividend distribution tax at 10.2% on the said issue of Debentures from the General Reserves. Thus a total amount of approx. Rs. 1455 Crores was proposed to be utilised from the General Reserves.

The detailed terms and conditions of the Scheme have already been communicated to the Members as set out in the Explanatory Statement to the Notice of the Court Convened Meeting, held on December 12, 2001 and hence are not being repeated in this Report. While the Members approved of the Scheme on December 12, 2001 by an overwhelming majority and the Scheme was awaiting sanction of the Hon'ble High Court of Judicature at Bombay, the Finance Bill 2002, as approved by both Houses of Parliament, made significant changes in the tax laws.

Due to these changes, instead of a uniform rate of 10.2%

Report of the Directors

as dividend distribution tax proposed to be absorbed by the Company on the entire issue of bonus Debentures, the Company will now be required to make Tax Deduction at Source (TDS) at varying rates on these Debentures and members may have additional liability for tax on the Debentures over and above the TDS depending upon the tax slabs applicable to them. In order to have a clearer picture on the tax provisions applicable to Debentures, further progress on the Scheme was put on hold. The Finance Bill 2002 now has received approval of both the Houses of Parliament with the provisions on taxability of dividends, including deemed dividends at the hands of the shareholders being retained.

In the circumstances, the Board at its meeting held on May 20, 2002 decided to make certain changes to the Scheme with a view to ensure that the promised benefits are made available to the Members in a fair and equitable manner, in the light of the revised tax regime. The following are the salient features of the revised Scheme:

— The face value of the Debentures at Rs. 6/- and the ratio of issue, i.e. one bonus Debenture of Rs. 6/- each for every equity share of Re.1/- held by the members by utilising the General Reserves of the Company are being retained.

— Similarly the interest on Debentures has been retained at 9% per annum payable in arrears.

— The General Reserve will however not be debited to the extent of approx. Rs. 135 Crores, being dividend distribution tax payable @ 10.2% on "deemed dividend" as contemplated in the original Scheme since dividend distribution tax is no longer applicable.

— Instead the Company, under the Scheme, intends to declare a Special Dividend of Rs. 2.76 for every share of Re.1/- held by the members involving a pay out of approx. Rs. 608 Crores. This Special Dividend will be payable by reference to the same Record Date as may be fixed for allotment of bonus Debentures and is proposed to be absorbed by the Profit & Loss Account Balance which as of December 31, 2001 stands at Rs. 759.98 Crores.

Accordingly in comparison to the earlier Scheme, adjusting for the non-applicability of the dividend distribution tax, the Company is committing itself to an incremental outlay of about Rs. 473 Crores under the revised Scheme.

— Tax Deduction at Source at applicable rates (varying from Nil to 31.5%) would be made from the bonus Debentures constituting deemed dividend and on the quantum of Special Dividend treating the two as an integrated transaction involving payout of deemed dividend/ Special Dividend aggregating to Rs. 8.76 per share of Re. 1/- each to the Members. While the face value of the Debentures will be uniform at Rs. 6.00, the entire TDS on Rs. 8.76 per share will be made from the Special Dividend of Rs. 2.76 per share. Balance of Special Dividend, if any, would be paid to the members. All members would be able to discharge their tax liability on the bonus Debentures and Special Dividend both in terms of TDS and the Advance Tax payment from and out of the quantum of Special Dividend.

— The Debentures would be redeemed after 18 months in one installment instead of redemption in two equal installments after 24 and 36 months as was originally proposed. This has been proposed in recognition of the fact that significant time has already elapsed since the Scheme was originally formulated.

— The grant price of the Options issued to the Management Employees will be reduced by Rs. 8.76 to reflect the exceptional nature of the payment. Further these Options will not qualify either for the Bonus Debentures or the Special Dividend.

— Such other changes as the Board in its discretion may decide to implement to reflect the exceptional nature of the Scheme, in the light of changes proposed as above.

Other terms & conditions of the original Scheme are proposed to be retained. Since the proposed changes are material and significant, the revised Scheme would be presented as a new Scheme for consideration by the Members and the Hon'ble High Court of Judicature at Bombay.

Report of the Directors

15. EMPLOYEE STOCK OPTION PLAN (ESOP)

Pursuant to approval granted by the members to "2001 HLL Stock Option Plan" at the Annual General Meeting of the Company held on June 22, 2001, the Company in consultation with the Compensation Committee of the Board, granted HLL Stock Options to 320 managerial employees and 4 wholetime directors of the Company for the accounting period ending 31.12.2001, aggregating in all to 24,75,100 equity shares of Re. 1/- each at the price of Rs. 217.45 per share, being the closing price at the Bombay Stock Exchange on July 24, 2001, the date of the Grant.

Likewise, at the recommendation of the Compensation Committee of the Board, Company granted HLL stock options to 303 managerial employees and 4 wholetime directors of the company for the Accounting year ending 31.12.2002 aggregating in all to 32,33,601 equity shares of Re. 1/- each at the price of Rs. 210.35 per share being the closing price at the BSE on April 23, 2002, the date of the Grant.

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 employee or wholetime director have received options exceeding 5% of the value of the options issued for the years ending December 2001 or December 2002.

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

Since the Scheme as formulated by the Company provides for a minimum of three year period for vesting of the options, the stock options granted during the year 2001/2002 have not yet vested in any employee or director and consequently, there is no occasion for any employee or director to exercise such options. In the circumstances, there is neither any dilution in EPS, nor has any consideration been received by the Company for grant of options as above for the year 2001 and 2002.

16. GUJARAT EARTHQUAKE RELIEF

Large parts of Gujarat State were hit by a devastating earthquake on January 26, 2001 which severely impacted the region with loss of life and property at an unprecedented scale. Your Company has strong links with the region with its manufacturing facilities located at Kandla and Chorwad and its sales and distribution set up across the State. Since the Company's manufacturing facilities had been designed and built having taken adequate precautions for possible earthquakes since Kandla falls in Seismic zone prone to earthquakes, there was no significant damage to Company's plant and machinery, though there were some damages to the buildings and structures. The Company put in place a disaster management plan, both in relation to its own operations and to assist the society to cope up with the tragedy. Company was able to recommence production within 3-4 weeks and the entire factory operations were stabilised within eight weeks.

On the social front, the Company acted at four levels –

* It provided immediate relief in terms of sending required material to the staff, workmen and the community at large. This included tents, blankets, lanterns, food stuff and essential medicines. An estimated expenditure of 0.18 Crore was incurred towards this.
* A water supply scheme to the nearby villages involving an outlay of about Rs. 8.6 Lakhs was commenced and continued for six months until the normal water supply to these villages was restored.
* Company embarked upon a programme to restructure and repair of houses of its employees through a Scheme funded by the Company and its employees.
* Company has also decided to rebuild a new village named Yashoda Dham near Nani Chirai. The project envisages construction of 289 houses for the villagers whose dwellings were destroyed in the Earthquake. This is being done in a participatory process with Shri Vivekanand Research & Training Institute (VRTI) , a Non-Governmental Organisation

Report of the Directors

and in collaboration with the Government of Gujarat and Gram Navrachana Samiti. Company expects to fund this project to the extent of Rs. 3.75 Crores, the balance coming from the State Government and the contributions from Company's employees.

17. INFORMATION TECHNOLOGY

Your Company has continued to leverage on Information Technology and progressed its strategic investments in this area.

Technology investments to upgrade internal planning systems have progressed satisfactorily during the year. This capability would synchronize daily production and distribution with day to day customer off-take – unlocking significant benefits in terms of supply chain efficiency and customer service.

Stockists at major towns are now connected through internet enabling them to transact directly and plan collaboratively for market activities. This technology has enabled your Company to pilot successfully the concept of continuous replenishment of stocks. This concept is being actively extended to cover more Stockists in 2002 calling for one of the largest IT implementation efforts across the country. A mobile handheld IT capability has been developed to enhance salesmen productivity and coverage. This is also poised for a phased roll out during 2002.

Many of our major Suppliers are connected with the Company during the year. They have direct visibility on phased material requirements, which will help to achieve a continuous replenishment of input material.

Your Company plans to simplify internal transaction processing systems, which are currently operating at over 200 locations. Company will leverage Information Technology to simplify and re-engineer the processes and operate them out of a central location. This calls for upgrading Company's existing computers into a powerful central computing facility and enhancing connectivity through wide area network for higher reliability and bandwidth. All this will significantly enhance your Company's agility and effectiveness.

Your Company has invested on superior information storage and retrieval capability using "Datawarehousing" techniques. This will provide need-based consistent and quality management information from a single source.

Your Company has deployed Internet enabled technologies for Voice and Video conferencing capabilities. We have set up 15 Video-conferencing studios. They enable virtual meetings and instant communication at much lower cost.

Knowledge Management had received a major attention during the year. Intranet web sites on packaging development, consumer behaviour, commercial information, etc. are some of the major initiatives launched during the year to leverage collective internal knowledge.

Your Company will continue the IT investment in the above strategic areas, simplifying processes to reduce costs, leveraging quality information to enhance decision effectiveness, connecting with business partners to achieve enhanced supply chain efficiencies and customer service.

18. FINANCE & ACCOUNTS

Cash generation during the year continued to be very good due to strong business performance, enhanced capability of the supply chain and efficient collection system. The Company follows a conservative investment policy based on safety, liquidity and return. Return on the cash surplus was significantly improved by investing in a judicious mix of instruments in a benign interest environment. Your Company continues to enjoy P1+ rating by CRISIL for its commercial paper programme. However no commercial paper was placed during the year.

The total amount of fixed deposits as of 31st December, 2001 was Nil. Deposits amounting to Rs. 65.30 Lakhs were unclaimed by depositors as at 31st December, 2001. Your Company has sent reminders to these depositors to complete the procedural formalities for repayments.

In terms of the provisions of Investor Education and Protection Fund (awareness and protection of investor) Rules 2001, no unpaid/unclaimed dividends were required to be transferred during the year to the Investor Education and Protection Fund.

Pursuant to directions from the Department of Company Affairs for appointment of Cost Auditors, your Company appointed M/s. N.I. Mehta & Co., as the Cost Auditor for the Soaps and Detergents, Cosmetics and Personal Products and Vanaspati businesses.

Report of the Directors

The Report and Accounts of the subsidiary companies are annexed to this Report along with the statement pursuant to Section 212 of the 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 accounts as contemplated by Section 219 of the Companies Act, 1956. Members desirous of receiving the full Report and Accounts including the Report and Accounts of the subsidiaries will be provided the same on receipt of a written request from them. This will help save considerable cost in connection with printing and mailing of the Report and Accounts.

19. DIVIDEND

An interim dividend of Rs. 2.50 per share of Re. 1/- each for the year 2001, amounting to Rs. 55014.88 Lakhs, was declared by the Board of Directors in July 2001. The Directors now recommend to the Annual General Meeting, the declaration of a final dividend for the year ended December 31, 2001 of a further amount of Rs. 2.50 per share of Re.1/- each amounting to Rs. 55031.09 Lakhs.

20. 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.

21. DIRECTORS

Mr. H.R. Khusrokhan did not offer himself for re-appointment at the last AGM due to his other commitments and he therefore ceased to be a director.

Mr. Aditya Narayan was appointed as a non-wholetime Director during the year to hold office till the conclusion of the ensuing Annual General Meeting (AGM).

Mr. S. Ramadorai has been appointed as a non-wholetime Director in May 2002 to hold office till the conclusion of the ensuing AGM.

Notices together with money deposits have been received from members pursuant to Section 257 of the Companies Act 1956 proposing Mr. Aditya Narayan and Mr. S. Ramadorai for appointment as Directors of the Company at the ensuing AGM.

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

22. AUDITORS

The joint auditors, M/s. A.F. Ferguson & Co. and M/s. Lovelock & Lewes retire and offer themselves for re-appointment.

23. APPRECIATION

Your directors take this opportunity to thank all employees for rendering impeccable service to every constituent of the Company's customers and shareholders. Your directors also 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.

On behalf of the Board

M.S. Banga
Chairman

Mumbai
May 20, 2002

ANNEXURE TO THE DIRECTORS' REPORT 2001

Disclosure pursuant to the provisions of Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999

		Stock Option 2001	Stock Option 2002
a)	Options granted	24,75,100 equity shares of Re. 1/- each valued at 5382.11 L	32,33,601 equity shares of Re. 1/- each valued at Rs. 6801.88 L
b)	The Pricing Formula	Closing market price as on the date of option grant - 24.7.2001 Rs. 217.45	Closing market price as on the date of option grant - 23.4.2002 Rs. 210.35
c)	Options vested	NA – since options not exercisable before the expiry of three years from the grant of option (24.7.2001)	NA – since options not exercisable before the expiry of three years from the grant of option (23.4.2002)
d)	Options exercised	NA	NA
e)	The total number of shares arising as a result of exercise of option	24,75,100 equity shares of Re. 1/- each	32,33,601 equity shares of Re. 1/- each
f)	Options lapsed	15,500 equity shares of Re. 1/- each	—
g)	Variation of terms of options	NA	NA
h)	Money realised by exercise of options	NA	NA
i)	Total number of options in force	24,59,600 equity shares of Re. 1/- each	—
j)	Employee-wise details of options granted to :		
	i) Senior managerial personnel	Details in enclosed Appendix	Details in enclosed Appendix
	ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year	NA	NA
	iii) Identified employees who were granted option during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	NA	NA
k)	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with International Accounting Standard (IAS) 33	NA – Since no options have been exercised till date.	NA – Since no options have been exercised till date.

APPENDIX

List of Senior Management Employees to whom Stock Options were granted pursuant to the "2001 HLL Stock Option Plan"

Name of the Manager	Stock Options granted	
	2001	**2002**
M.S. Banga	66400	**115340**
M.K. Sharma	24800	**32215**
Gurdeep Singh	24800	**32215**
D. Sundaram	37200	**40270**
A.S. Abhiraman	NA	**16108**
Arun Adhikari	24800	**32215**
Satish K. Dhall	24800	**32215**
Gunender Kapur	24800	**40270**
Anoop K. Mathur	12400	**32215**
J.H. Mehta	24800	**16108**
S. Ravindranath	24800	**32215**
Dalip Sehgal	12400	**24170**
C.V. Natraj	24800	**NA**
V. Balaraman	12400	**NA**

2001

Management Discussion and Analysis

2001 was a year many would like to forget. It began with the catastrophic Gujarat earthquake on 26 January and ended with the terrorist attack on Parliament on 13 December. There was also the impact of 11 September, intensified terrorist activities and the gathering of war clouds.

On the economic front, the scenario was equally gloomy. The general economic slowdown, which began in 2000, gathered momentum in 2001. GDP growth for 2001 will be less than 2000. No doubt, the sudden scaling down of GDP growth for 2000-2001 from 5.2% to 4% by the Central Statistical Organisation may create an illusion of growth for the year. Almost anyone in business will agree that 2001 was a much tougher year than before. Indeed, it may turn out to be the worst year since 1994.

Corporate earnings fell both in the manufacturing and the services sector. A survey of 1,603 manufacturing companies by the Confederation of Indian Industry reveals a 9% decline in post-tax profits for April-September 2001, and a 3% decline for 401 service sector companies. Stock prices, too, have taken a beating: the BSE Sensex lost almost 700 points during the year.

It is being claimed that agriculture has done relatively well in 2001. This may be so. However, it is important to note that higher growth, if any, will have occurred after two very poor years. In any event, this growth is yet to translate to higher agricultural income. Hindustan Lever's market research and sales data suggest that rural demand is still sluggish and subdued.

General uncertainty and lack of consumer confidence have taken their toll on Hindustan Lever. Market growth has slowed down, and several product categories witnessed negative growth in volumes. After the scorching 15 to 20% growth of the 1990s, when the fast moving consumer goods (FMCG) sector truly lived up to its name, the FMCG market actually declined by 4.1% in November 2001. Not surprisingly, Hindustan Lever's sales grew by just 3.5% in 2001 as against 4.5% in 2000 and 7.0% in 1999.

Notwithstanding such challenges, we have reasons to feel proud about our performance in 2001.

— Sales of the 30 Power Brands grew by 6.5% versus 3.5% growth in aggregate net sales.

— Profits before depreciation, interest and taxes (PBDIT) rose by 15.9%, from Rs. 1,809 crore in 2000 to Rs. 2,096 crore in 2001.

— Profits before tax and exceptional items (PBT) increased by 16.7%, from Rs. 1,665 crore in 2000 to Rs. 1,943 crore in 2001.

— Net profit went up by 25.3%, from Rs. 1,310 crore in 2000 to Rs. 1,641 crore in 2001.

— Return on net worth (RONW) grew from 52.6% in 2000 to 53.9% in 2001.

— Earnings per share (EPS) rose by 25.2%, from Rs. 5.95 in 2000 to Rs. 7.46 in 2001.

Table 1 shows the growth in sales versus post-tax profit over the last five years.

Table 1: Profit growth has consistently outstripped sales growth

Years	Sales (Rs. Crore)	Sales growth	Post-tax profits (Rs. Crore)	Profit growth
1997	7820	18.5%	580	40.4%
1998	9482	21.3%	837	44.3%
1999	10142	7.0%	1070	27.8%
2000	10604	4.5%	1310	22.4%
2001	10972	3.5%	1541	17.6%

These results strengthen our conviction that the strategy adopted for Hindustan Lever is correct and, even under difficult conditions, is delivering the desired results.

As shareholders may remember, the Company's strategy was enunciated in early 2001, and consisted of three key objectives:

— To focus on the profitable growth of 30 Power Brands, which account for more than 80% of the Company's FMCG business.

— To enhance the profitability of the Foods business.

— To secure the long-term future of the Company's non-FMCG businesses.

In the course of this chapter, we will discuss how the Company is pursuing these objectives, what are their results, and why we believe that this strategy will enable it to leverage opportunities and minimise threats. We shall begin with products and markets, move on to operations, and then discuss the financials.

PRODUCTS AND MARKETS

Soaps and Detergents

Hindustan Lever has a near 60% market share in toilet soaps and over 40% market share in detergents. The soaps and detergents business contributes to 39% of the Company's total net sales. In value terms, this segment grew by 2.8% from Rs. 4,169 crore in 2000 to Rs. 4,285 crore in 2001 (excluding service income from operations amounting to Rs. 6.56 crore in 2000 and Rs. 10.67 crore in 2001).

Clearly, such growth is not good enough at the aggregate level, and reflects sluggish demand. Most segments saw shrinking markets; and all players engaged price discounting and "two-for-one" type schemes were used to push volumes, often at the expense of value. In such a difficult environment, Hindustan Lever succeeded in out-performing the market for most sub-categories. As Chart A shows, this is particularly true for Power Brands.

Chart A : Power Brands beat market growth

During the year, as part of the Power Brands strategy, substantial investments were made to enhance quality of major brands such as Lux, Surf and Wheel. These quality improvements have been backed by strong consumer promotions and communications. The results are beginning to show. During 2001, Lux achieved its highest market share of the last two years; Surf Excel reached its highest value share ever; and, driven by the performance of Wheel and Rin, the Company achieved brand leadership in the fabric wash segment.

Another important development was the launch of Lifebuoy Active in 2001. In a short time, it was able to garner a 3.7% share of the segment — which partly offset the decline of Lifebuoy Carbolic. Major investments have been planned to retain and grow the Lifebuoy franchise in 2002.

There is a widespread belief that, in many consumer categories, the rural market is getting saturated — and that it will no longer be possible to achieve high rates of sales growth. Notwithstanding the current slowdown, we believe otherwise. To us, soaps and detergents are potentially high growth segments, particularly in rural India. For instance, the fact that Hindustan Lever enjoys a 60% share in the soap market has to be tempered by the reality that its soaps are used only for 20% of all bathing occasions in the country. 60% multiplied by 20% is 12% — hardly a case of market saturation.

Thus, far from being saturated, the potential is enormous. We have initiated programmes to drive up the consumption of soaps by creating an increased awareness of health and hygiene. In 2001, we also undertook several initiatives to improve the distribution network and reach, particularly in rural markets. Significant investments have been made in networking and IT to manage supply chain more efficiently and substantially improve levels of customer service.

Having said that, it should be recognised that for 2002, market growth will depend on overall economic turnaround and higher rural incomes. This is, therefore, a short-term risk factor. To a lesser extent, imports constitute a threat for the premium segment. However, at current tariff levels, domestic industry is well protected from legal imports. However, industry will need to be watchful of unauthorised grey imports. While price competition at the discount end constitutes another challenge, we believe that Hindustan Lever has the ability and the marketing strength to meet this threat.

During the year Company has commissioned two NSD Bar plants at Daman and Sumerpur respectively, one NSD powder plant at Haldia and one toilet soap plant at Goa.

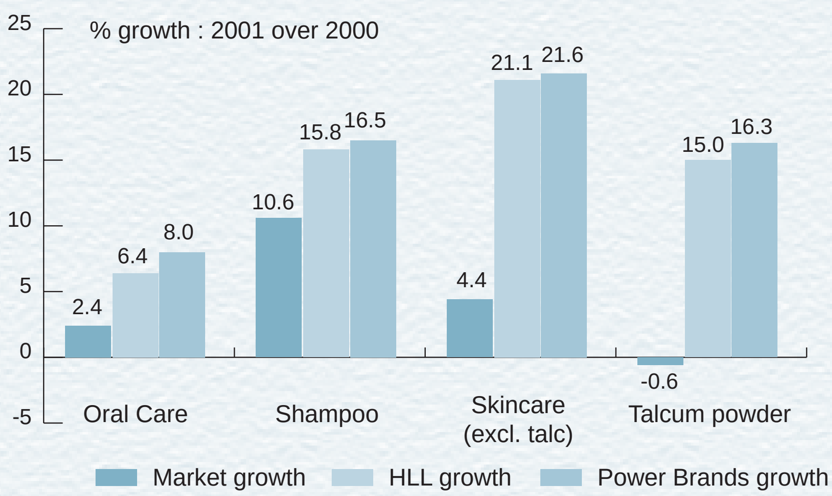
Personal Products

This business which contributes approx. one-fifth to the Company's total net sales comprises of oral care with 36% market share in toothpaste, hair care (64.5% market share in shampoos) and skin care (54% market share in skin creams).

Oral care products, hair care products, skin care products, deodorants, colour cosmetics and talcum powder constitute the Company's personal products business. Despite sluggish market conditions, this business registered a double-digit growth in 2001, and accounted for 20.2% of total net sales of Hindustan Lever during the year. Sales grew by over 25% from Rs. 1,764 crore for 2000 to Rs. 2,212 crore for 2001 (excluding service income from operations amounting Rs. 5.75 crore in 2000 and Rs. 5.86 crore in 2001). Figures for 2001 include the colour cosmetics, fragrances and other personal products businesses of Lakme Lever Limited and Aviance Limited with effect from April 1, 2001 and July 1, 2001 respectively.

As Chart B shows, the strategy of focussing on Power Brands is reaping dividends in this segment as well — they ensured that the Company's sales grew at a faster rate than the market.

Chart B: Again, Power Brands drive growth



During 2001, many of the Company's major brands such as Sunsilk and Clinic in hair care, Fair & Lovely and Ponds in skin care, and Pepsodent in oral care were made more contemporary and successfully re-launched.

In the hair care category, Clinic Plus, Clinic All Clear and Sunsilk were re-launched and the packaging of the Sunsilk and All Clear bottles was changed in line with international developments. The Company also entered the category of hair colourants, with the launch of Sunsilk hair colours in the metros. Simultaneously, Lux sachets were launched at prices of Re.1 and Re. 0.50 to tap the low price end of the sachet market.

In skin care, the Fair & Lovely franchise was strengthened through investments in advertising, increased rural penetration and new launches. The main brand, Fair & Lovely cream, was also re-launched with improved packaging and communication. Other launches included a fairness soap, a cream for removing under eye dark circle, and a sachet with a re-usable cap.

The Pond's brand recorded a double-digit growth after a gap of two years, with comprehensive re-launches of its talc and skin care ranges. A new talc variant, Ponds Light n' Fresh, and a new mini Cold Cream were successfully launched in 2001.

The skin care range of Lakme was renovated and strengthened, and a new premium product, Lakme Fair Perfect, was introduced towards the end of 2001.

In the oral care category, Pepsodent was relaunched and emerged much stronger in 2001. Introduction of value packs as well as new advertising helped increase this brand's market share. Simultaneously, we decided to de-prioritise the toothpaste brand called Aim, in order to focus all our efforts on Pepsodent and Close-Up. Market data shows that this strategy has been successful in the second half of 2001.

Apart from strengthening the Power Brands, the Company followed a strategy of reducing costs and improving quality in the personal products business. Supply chain and sourcing efficiencies led to significant cost reduction, while quality improvement came through new technologies and innovations. While the outlook for this segment is dependent on overall market conditions, we believe that the initiatives taken in 2001 and continued in 2002 will enable Hindustan Lever to continue on the high growth path in this business.

During the year Company has commissioned a personal products factory at Doom Dooma in Assam.

Foods

As discussed earlier, improving profitability of the Foods business is an important strategic objective of the Company. Sales from the Foods business grew by 2.2% to Rs. 794 crore for 2001 from Rs. 777 crore in 2000, and accounted for 7.2% of the Company's total sales. Although small in comparison with most of Hindustan Lever's other businesses, absolute profit from Foods has doubled in 2001, and gross margins have improved by 5 percentage points. However, we still have a long way to go.

— **Culinary Products**

An established brand name in the culinary products segment, Kissan is the leader in jams and squashes, with over 75% of market share in each, and is one of the two dominant players in the ketchup market. However, market conditions were very poor in 2001, which took its toll on the Company's business as well. Total jam sales fell by 7.8%, and the Company too registered a 3.4% decline in the segment. In the case of ketchup, Hindustan Lever fared worse than the market. The Company's sales fell by 8.6%, versus the industry's negative growth of 0.8%.

The market for squashes, as a whole, faces a threat with competition from carbonated soft drinks and ready-to-drink fruit juices. In ketchups, the threat comes from low cost local players. Even so, we are quite upbeat about the prospects of ketchup and jams. The Company launched new campaigns for these products during the year that yielded satisfactory results during the second half of 2001. For instance, the launch of our "All Fruit No Sugar" jams is creating a new high value segment, which ought to expand in the years to come.

To improve and reconfigure the supply chain, we are in the process of optimising production sites on a regional basis. As part of this exercise, the factory at Zahura, Punjab was restructured in 2001. This exercise will continue across other regions, and should enhance operational efficiency in the coming years.

It is our belief that the culinary business will be strengthened with the amalgamation of the business of International Best Foods with Hindustan Lever. Bestfood's Knorr brand doubled its turnover during 2001, and its profitability was improved by streamlining supply chain and restructuring some of its operations. The focus on growing the Knorr brand and improving profitability will continue throughout 2002.

— **Spreads, Cooking Products Category and Bakery Fats**

Sales turnover of the spreads, cooking category and bakery fats business grew by 20.7 % during 2001. The business continued to focus on margin improvements, and was able to achieve higher operating profit compared to the previous year.

The edible oils and fats market in 2001 was subjected to uncertainty due to changes in the import duties by the Government of India. Moreover, there was an increase in competition in vanaspati and refined oils, with a number of new international players entering the field.

Despite these pressures, the Company did well — once again thanks to the Power Brand strategy. Although the overall vanaspati market shrank by 2.6% in 2001, Hindustan Lever managed to grow at an impressive 17.8%. Consequently, Dalda Vanaspati increased its market share from 25.7% in 2000 to 29.0% in 2001.

We are now focussing on innovative and distinctive products. Dalda Activ, a healthier product than traditional vanaspati, consolidated its position during the year. The test market for Dalda Classic, a cooking product with a delicious aroma, met with encouraging results. The Company also launched its initiative in the flavoured spreads area with the test launch of Kissan Choco Kick and Honey Kick in select markets.

— **Popular Foods**

This business comprises branded wheat flour and salt, both of which are sold under the Annapurna name. This is a very tough market, and the Company did not perform as well as it should have. To be sure, Annapurna still continued as the market leader in the branded atta market in 2001. However, against an overall market growth of 9.1% in 2001, Annapurna atta posted a sales decline of 15.4%. The Company is determined to reverse this trend in 2002.

During 2001, an improved Annapurna atta was relaunched using patented technology. Moreover, to enter the higher value niche, Annapurna Ready to Eat chapatis were launched in Mumbai in December 2001. These chapatis are fully cooked and can be consumed after heating for only ten seconds. We are in the process of extending this product to other metro cities.

Annapurna salt has also not fared as well as it should. Although the overall market for salt in India grew by 4.7% in 2001, Annapurna salt saw a sales decline of 5.1%. Again, this is something that will have to be rectified during 2002.

During the year 2001, the popular foods business focussed on improving its profitability in line with the three-pronged strategy of the Company. This yielded good results with improvement in gross margins and operating margins.

A major technological development was the Company's use of a new proprietary technology, which prevents loss of iodine in salt during storage, transit and Indian cooking conditions. Hindustan Lever has filed for a patent for this technology in India and abroad. Annapurna salt was re-launched in 2001 incorporating this iodine preserving technology — which makes it the only salt in the market that retains its iodine content.

Beverages

Hindustan Lever's Beverages business consists of tea and coffee, and accounts for 12.9% of the total net sales. The Company's beverage sales declined by 8.5%, from Rs.1,546 crore in 2000 to Rs. 1,414 crore in 2001 (excluding service income from operations amounting to Rs. 6.89 crore in 2000 and Rs. 4.55 crore in 2001).

This decline was largely due to the Indian market for packet tea shrinking by 6.4 %, with Hindustan Lever's sales falling by 11.7%. In large part, this was due to challenging business environment in 2001. The bearish sentiment in the commodity continued for the third successive year. Easy availability of loose tea at low prices, coupled with reduced purchasing capacity among consumers depending upon agricultural income, led to significant down-trading. The Company also chose to rationalise non-core brands with unviable margins. In 2001, the fall in sales of these brands were not countered by adequate sales growth of the core brands.

Notwithstanding the poor overall market sentiment in tea, Hindustan Lever continued to follow its long-term strategy of upgrading the portfolio by focussing its innovation and marketing efforts only on the Power Brands. The Taj Mahal brand was able to clock good growth in a difficult year and innovative marketing efforts for Taaza resulted in higher volumes. Indeed, the decline in sales growth for the Power Brands was less than the decline of the Indian packet tea market.

In the mass market, the challenge is to establish a profitable business by effectively competing with loose tea and low-priced regional brands. To do so, we have invested significant sums in research and development with the objective of developing products with functional benefits relevant to the consumer. During 2001, the brand A1 was re-launched in Maharashtra as a stronger tea; and in Karnataka, a variant of A1, which contains vitamins, was test marketed in the latter part of the year.

In the last few years, packet tea has not grown in term of ''share of throat'', particularly among youth. We have, thus, embarked on a strategy of creating new consumption occasions for tea, and growing the Out of Home channels. Lipton Ice, Unilever's soft drink ice-tea brand, has been introduced in select markets and is expected to be a contributor in the future growth of Hindustan Lever's beverage business.

Notwithstanding the decline in sales, profitability of the Beverages business improved significantly by over 850 basis points at the gross margin level. In part, this has been driven by excellent results in the coffee business. Against a drop of 2.7% in the overall India coffee market, Hindustan Lever registered 13.7% growth in sales — with Power Brands growing by 20.6%. Bru was successfully re-launched with a significantly improved product and a new communication strategy to build a modern and youthful image for the brand.

Improved profitability of the Beverages business has been achieved by upgrading the brand portfolio and re-engineering the supply chain. A number of initiatives in sourcing, blending, manufacturing and distribution were taken to compress supply chain lead time, which resulted in significant improvements in quality (particularly freshness) and costs. Manufacturing locations have been reconfigured and modernised to optimise total systems cost. These steps, in addition to bringing down overhead costs, helped the business to manage its operations with negative working capital.

During the year two new manufacturing locations were commissioned at Khalilabad and Silvassa.

Ice Creams

Accounting for 1.4% of the Company's total net sales, ice cream sales have declined by 4.5% from Rs. 164 crore in 2000 to Rs. 157 crore for 2001. This excludes service income from operations amounting to Rs. 4.75 crore in 2000 and Rs. 5.29 crore in 2001. Moreover, Company continued to make losses in 2001 in the Ice creams business, which amounted to Rs. 26.5 crore.

Although the Company's Kwality Wall's is the market leader in the organised sector with a share of over 50%, the consumption of ice creams is virtually stagnant in this sector, and the per capita consumption is very low compared to most other developing countries. Moreover, adverse weather conditions in 2001, aggressive low price competition and poor cold chain infrastructure also impacted growth as well as profits.

During 2001, we focussed on developing a new channel and strengthening the franchises of select brands. Kwality Wall's softies have now been introduced in all key cities, as were clearly differentiated products based on local preferences and affordability. Kwality Wall's Sundae tubs with different sauces, Max 123, Cornetto Snackers and Feast Snacko were launched in all key markets.

The Company has put in place a new strategy for turning around the ice cream business and this will be implemented in 2002. The strategy will cover product portfolio rationalisation, supply chain optimisation and cost reduction, sourcing arrangements and distribution reach, while strictly maintaining international hygiene standards.

Exports

Manufactured exports turnover of Hindustan Lever and its subsidiaries grew by 11% in 2001. In line with the decision to phase out traded exports, the Company consciously scaled these down by over 40%; and they will be further rationalised in 2002. Because of the reduction of traded exports, Hindustan Lever's total exports declined by 1.2%, from Rs. 1,772 crore in 2000 to Rs. 1,751 crore in 2001.

We are India's largest exporter of tea, soap detergents and personal products and value added marine products, and have been accorded the status of Golden Super Star Trading for outstanding export performance over the last three years. We have also received the GLOBOIL Award for outstanding performance in exports of castor seeds, castor oil and derivatives.

Exports of soaps, detergents and personal products grew by 38% during the year, largely on account of increase in oral care and skin care exports. Two new plants have been commissioned to cater to increased exports of Fair & Lovely and to manufacture liquid care and household care products for the South East Asian markets. Several new products such as Dove Body Lotion, Dove Body Wash and Fair & Lovely under eye cream were launched for the first time in the Middle East and a Pepsodent Whitening toothpaste was launched in Kazakhstan. We have also entered into direct marketing arrangements for the Pears range of soaps in the US and are in the process of setting up similar arrangements in a few select countries. In 2001, we secured a 10,000 ton liquid detergents order from South East Asia, and supplies commenced in the last quarter.

Although the Beverages division exported higher volumes of both tea and coffee in 2001 over 2000, the depressed prices of tea and coffee led to a 2% drop in value terms over the previous year. During 2001, Russia — Hindustan Lever's single largest customer of packet tea — decided to start manufacturing in the country. The full impact of the loss of this business will be felt in 2002. However, to compensate for this loss, we have secured orders to supply tea bags to Unilever Australia. Production against these orders are expected to commence in the second half of 2002. A new EOU is being set up in Pune to cater to the needs of this business.

The Company's Marine division registered a 60 % increase in exports, with growth coming from the new business of salad shrimps and pasteurised crabs. The division now has a wide range of value added sea food products, which constitutes a focus area for exports growth. Accordingly, we propose to exit the non-value added sea catch business in 2002.

Rice exports faced severe low priced competition from Pakistan basmati in the Gulf and European markets. Our basmati rice brand, Gold Seal Indus Valley, has been re-launched in the Gulf and other markets from January 2002.

Leather exports registered a strong growth of 40% in 2001, driven by new customers in Italy, Germany, and the UK. The division consolidated its position with Hush Puppies licensees in Middle East and Canada. Progress was also made towards entering the US market, with the development of a new range of products.

Summary of Business Operations

The above discussion highlights the difficult domestic market environment in which Hindustan Lever has to compete. Growth across almost all product categories was sluggish and in several cases negative. However, a few things stand out. First, Hindustan Lever was able to out-perform the market in most cases. Second, its investments in improving quality and enhancing advertising of the Power Brands is paying off: in many categories, the Power Brands grew significantly faster than the market. Third, and most important, with the exception of the ice creams, all other businesses have generated and maintained a steady growth in operating profits. "More from Less" – the Company's strategy of focussing on fewer businesses, products and brands and investing disproportionately larger resources in them — has clearly worked in 2001.

MERGERS

Inorganic growth has been an integral part of Hindustan Lever's strategy. In 2001, the amalgamation of International Bestfoods Ltd (IBFL) with Hindustan Lever was confirmed by the Mumbai High Court. Shareholders of IBFL received two shares of Re.1 each of Hindustan Lever for every three shares of Rs. 10 each held in IBFL. The merger resulted in another powerful brand, Knorr joining the Company's stable, and strengthening the culinary business. The turnover of Knorr doubled in 2001, and its profitability was improved by streamlining supply chain and restructuring some of its operations. We will keep on growing this brand and significantly improving its profitability.

This merger also coincided with the amalgamation of yet another wholly owned subsidiary of the Company, Aviance Limited, to consolidate its personal products range with that of Company's personal products business and thereby facilitate long term growth and viability of these businesses and realise the benefits of greater synergy between these overlapping businesses.

During the year Rossell Industries Limited (RIL), which has seven tea gardens spread over a planted area in excess of 3000 hectares, became a subsidiary of Hindustan Lever consequent to Lipton India Exports Limited (LIEL), a 100% subsidiary of Hindustan Lever raising its shareholding in RIL to 60,02,708 equity shares of Rs. 10/- each constituting 59.62% of the issued and the paid up capital. The above together with 37,00,000 equity shares of Rs. 10/- each constituting 36.56% of the issued and paid up capital of RIL held by UOHBV raised the promoter shareholding in RIL to 95.89%. LIEL has initiated steps to delist the Company in compliance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and the process is expected to be completed during the year 2002.

The Company acquired from Lakme Lever Limited, its wholly owned subsidiary, with effect from March 31, 2001 the assets and liabilities of its colour cosmetics, fragrances and personal care business at net book value.

DIVESTMENTS AND JOINT VENTURES

As mentioned earlier, one of the three key strategic objectives of the Company is to secure the long-term future of the Company's non-FMCG businesses. Operationally, this translates to seeking the main players in such industries, and then either divesting to them or creating joint ventures with them. We believe that such a strategy serves two purposes: it allows Hindustan Lever to focus on FMCG, and it ensures that the non-core businesses are run by the best in the industry.

Keeping this in mind, on 20 September 2001, the Company transferred its remaining 26% stake in Gold Mohur Foods and Feeds Limited (GMFFL) — a Company focussing on animal feeds and agricultural inputs — to its erstwhile joint venture partner, Godrej Agrovet Limited (GAVL). Thus, Hindustan Lever exited from this business, and GMFFL became a 100% Godrej group subsidiary.

We also entered into an agreement with ICI India Limited for the sale of our adhesives business, which was a unit of

Hindustan Lever's Specialty Chemicals Division. We entered into a similar arrangement with ICI India Limited for the sale of the nickel catalyst business on a 'going concern basis' — which involved ICI taking over the manufacturing facilities located at Taloja (near Mumbai) along with the services of 17 employees.

Moreover, following a joint venture arrangement with ICI India Limited and Quest International BV, the flavours and fragrances business of the Quest Division was transferred to Quest International India Limited — a Company in which ICI India and Quest International BV together hold 51%, with the balance 49% being held by Hindustan Lever. This joint venture, however, excludes Hindustan Lever's aroma chemicals business and the erstwhile Industrial Perfumes Limited, which continues as one of our divisions.

We have also proposed to transfer our undertaking engaged in the seeds business to its subsidiary, Paras Extra Growth Seeds Limited (formerly named as Grand Food and Catering Consultants Limited) on a going concern basis. The idea is to segregate this business into a separate entity, so that as and when we can identify a suitable technology partner, we can quickly execute a joint venture agreement. On 12 December 2001, Hindustan Lever initiated this process through postal ballot on an ordinary resolution. The result of the ballot was announced on 18 February 2002, which overwhelmingly approved the transfer.

The Seeds and Plant Growth Nutrient business was transferred in the first quarter of 2002 and a Joint Venture partner with 74% shareholding has been inducted.

INFORMATION TECHNOLOGY

Over the last several years, information technology has been an integral part of the Company's operations and in 2001, too, we continued our investments in this area.

All Hindustan Lever stockists in major towns are now connected on-line with the Company, and this has enabled direct transactions and collaborative planning for market activities. It has also allowed the Company to successfully pilot the concept of continuous replenishment of stocks — and, in what will be one of the largest IT implementations in the country, this practice is now being extended to cover more stockists in 2002. Symmetrically, we have established connectivity with major suppliers during 2001. These vendors now have direct access to the Company's material requirements and stock levels, and this connectivity will help in achieving continuous replenishment of input materials. Our new stockist-to-supplier connectivity is dealt with in greater detail in the section on supply net.

In another radically new initiative, a mobile handheld IT capability has been developed to enhance salesman productivity and coverage. This, too, is poised for roll-out during 2002.

Technology investments to upgrade internal planning systems have progressed well during the year. Internal IT will synchronise daily production and distribution with day-to-day customer offtake — and thus unlock substantial benefits in supply chain efficiencies and customer services. Moreover, the Company is simplifying internal transaction processing systems, which are currently spread over 200 locations. The idea is to leverage IT capabilities to simplify and re-engineer processes, and operate from a central location. This calls for upgrading Hindustan Lever's existing computer network and enhancing its Wide Area Network for higher reliability and bandwidth.

Communication and knowledge management are two other important applications of IT. We use internet enabled technologies for voice and video conferencing capabilities. In the course of the year, we set up 15 video-conferencing studios, to enable virtual meetings and instant communication at much lower costs. Knowledge management, too, has received major attention during the year. To leverage collective internal knowledge, intranet web sites on packaging development, consumer behaviour and commercial information have been launched.

Hindustan Lever will continue IT investments in strategic areas and use IT to simplify processes, reduce costs, leverage quality information and connect with business partners to achieve enhanced supply chain efficiencies and customer service.

SUPPLY NET

The marketing capabilities of Hindustan Lever are well known. What is not so well known is that our marketing prowess is backed by probably the best supply chain system in the country, which keeps costs and inventory under control and makes us extremely competitive in the market place.

We are now poised to seamlessly connect our stockists and suppliers through an end-to-end supply net. Named "Project Leap", this supply chain initiative leverages next generation technology and new business processes and represents one of the largest B2B e-commerce initiatives ever undertaken in India. It will reach towns in the country which lack even local internet infrastructure. Project Leap is expected to become fully operational across most businesses.

The objective of Project Leap is to catalyse Hindustan Lever's growth by ensuring that the right product is available at the right place in the right quantities, on a continuous replenishment basis. It begins with the supplier, runs through the factories and depots and reaches up to the redistribution stockists (RSs).

RSNet is the front-end initiative of Project Leap, connecting stockists through an Internet based system. It provides linkages with RSs' transaction systems, enables monitoring of stocks and secondary sales, and optimises RS orders and inventories. This has been already extended to more than 1,000 soaps, detergents and personal care stockists — and accounts for nearly half the turnover of that business. Information on secondary sales from Gandhidham to Guwahati is now available on the RSNet every day.

Backing this up is the internal network planner and optimiser. It handles the complex task of managing the planning, production and distribution requirements on an integrated basis. Already implemented in a part of the home and personal care business, it will handle the complex task of deciding what pack must be produced where, and to what location it should be dispatched to meet the orders generated on RSNet in the most cost effective manner.

This new model will help ascertain the daily stock positions at each point in the supply chain, project stock requirements at these points, plan for replenishment — and do so with complete transparency across the supply chain. An upshot of this is that the Company will be able to do production planning on a continuous basis. Instead of planning for every month, the Company will be able to plan for every day, and even for every shift, in line with an overall optimisation strategy.

The last leg of Project Leap is Supplier Net, which links the suppliers into the chain. Suppliers get access to the inventory levels of raw materials and packaging materials at the factories, as well as projected requirements. They will also have full online access to scheduled orders, receipts of supplies sent, quality control status at the factories, and payment cleared.

NEW VENTURES

In today's business environment, companies have to constantly reinvent themselves, evaluate their business portfolios and explore new growth avenues. A couple of years ago, Hindustan Lever had initiated Project Millennium, which identified several new growth opportunities for the Company. These opportunities were assessed by the Company's New Ventures Group on the basis of market potential, consumer preferences, and current and future capabilities of the Company.

Hindustan Lever's strength lies in brand building, distribution, consumer research and marketing, rural marketing, logistics and supply chain management. Therefore, we have short-listed four ventures that leverage all or most of these strengths. These are:

— **Confectionery**

Hindustan Lever entered the Rs.2,000 crore confectionery market for the first time in 2001. In line with the Company's strategy of leveraging brands across product categories, the Max brand — which is already a great favourite of children when they buy ice cream — has been extended to the confectioneries business. We are marketing Max candies at prices as low as 25 paise and 50 paise. Today, there are three products: ChocoMax, a 50 paise candy with a milky chocolate taste; Max Magic, a 25 paise candy with two distinct tastes; and MaxMasti, a 25 paise plain fruit candy.

These were first launched in Tamil Nadu. In a short span of time, they have emerged as the market leader in the state for their segment. Following this successful test-marketing in Tamil Nadu, the products have been launched in other parts of the country.

Hindustan Lever's successful entry into the confectionery market can be attributed to its insight into children's preferences, acquired through existing categories such as ice cream, culinary products and oral care; experience of selling low unit price packs gained in the hair care business; a well-established distribution network; and a cost-effective manufacturing strategy mastered in the detergents business.

The entry in this market is also significant, as this is the first time that a Unilever group Company is marketing sugar confectioneries. Unilever has a globally well established brand, Max, which is associated world-wide with children. What we have done is to extend this brand to confectioneries. This is an example of leveraging global brands to create local businesses.

— **Health Care**

Our New Ventures team has spent 2001 in mapping out the opportunity and preparing an entry strategy for the growing healthcare business. The entry mix will be rigorously tested in 2002, after which we will take a decision on further extension and rollout.

— **E-Tailing**

A pilot e-tailing initiative was launched in 2001 through a wholly owned subsidiary, Indexport Limited. Branded as Sangam Direct, it is geared towards meeting the bulk grocery needs of consumers. In addition to a B2C commerce-enabled web site, a web-enabled call centre has also been set up to receive orders through the telephone. The initial response for the pilot has been satisfactory, and the testing period for the service will continue before a final business decision is taken.

— **Rural Connectivity**

The Company's rural connectivity team, working with NGOs and Self Help Groups, evolved a model that would carry both Hindustan Lever's brands and their communication to inaccessible parts of rural India. Project Shakti was launched in Nalgonda district of Andhra Pradesh as a pilot. Initial response to this initiative has been good, and the Company's market shares have shown a significant increase across categories in the pilot areas. Currently Project Shakti is operational through 400 Self Help Groups, and we intend to extend its reach during 2002.

HUMAN RESOURCES

The Company considers the quality of its human resources to be its most important asset and constantly endeavors to attract and recruit best possible talent and to retain, nurture and groom it to meet its current and future needs. The Company currently has approximately 31800 employees. It places great emphasis on training and development of employees at all levels and seeks to achieve more close alignment between their objectives and the strategic objectives of the business through intensive communication of the corporate strategic objectives to all its employees. While constantly endeavouring to change and adapt to meet the aspirations and expectations in a highly competitive environment, the Company seeks to deeply embed across the organisation and imbibe in all its employees the core values of Action, Courage, Caring and Truth.

FINANCIALS

Despite a difficult year for the Indian economy, Hindustan Lever has succeeded in achieving good results for 2001. Turnover, net of excise, (or net sales) increased by almost 3.5%, from Rs. 10,604 crore in 2000 to Rs. 10,972 crore in 2001. Profits before depreciation, interest and taxes (PBDIT) increased by 15.9%, from Rs. 1,809 crore in 2000 to Rs. 2,096 crore in 2001. Profits before taxes and exceptional items (PBT) rose by 16.7%, from Rs. 1,665 crore in 2000 to Rs. 1,943 crore in 2001. Net profit increased by 25.3%, from Rs. 1,310 crore in 2000 to Rs.1,641 crore in 2001. Table 2 summarises the results.

Table 2: Summarised profit and loss account of Hindustan Lever (in Rs. Crore)

For the year ended 31 December	2001	2000	Rate of growth
Net sales	**10971.90**	**10603.79**	**3.5%**
Other income	381.79	345.07	
Total income	**11353.69**	**10948.86**	**3.7%**
Operating expenses	(9257.91)	(9139.68)	1.3%
PBDIT	**2095.77**	**1809.18**	**15.9%**
Depreciation	(144.66)	(130.94)	
PBIT	**1951.11**	**1678.24**	**16.3%**
Interest	(7.74)	(13.15)	
Profit before taxation (PBT) and exceptional items	**1943.37**	**1665.09**	**16.7%**
Taxation: current tax	(397.69)	(355.00)	
Taxation: deferred tax	(4.73)	—	
Profit after taxation (PAT) and before exceptional items	**1540.95**	**1310.09**	**17.6%**
Exceptional items (net of tax)	100.36	—	
Net profit	**1641.31**	**1310.09**	**25.3%**

The table clearly shows why Hindustan Lever has been able to increase its profits at a faster rate than growth in net sales. The key to it lies in keeping a very tight control on costs.

Net sales grew by 3.5%, while the growth in operating expenses was limited to 1.3%. Not only did operating expenses grow at a rate less than net sales, but it was also significantly less than the annual rate of inflation. Efficient supply chain management coupled with lower input prices actually reduced cost of goods sold by 1.4% — from Rs. 6,443 crore in 2000 to Rs. 6,354 crore in 2001. This is an example of our strategy of getting "More from Less". Staff costs fell by 3.7% — from Rs. 614 crore in 2000 to Rs. 592 crore in 2001, aided by lower restructuring costs. Securing the future of non-core businesses played a role in reducing this element of cost; it also added over Rs. 100 crore to Net Profit in the form of exceptional income.

Thanks to these results, return on net worth (RONW) has increased from 52.6% in 2000 to 53.9% in 2001. Earnings per share (EPS) has risen by 25.2% — from Rs. 5.95 in 2000 to Rs. 7.46 in 2001. Total dividend has increased from Rs. 3.50 per share of Re. 1 in 2000 to Rs.5 in 2001. Table 3 gives RONW, return on capital employed (ROCE) and EPS over the last five years.

Table 3: RONW, ROCE and EPS for the last five years

For the year ended 31 December	1997	1998	1999	2000	2001
RONW	46.0%	48.9%	50.9%	52.6%	53.9%
ROCE	61.1%	58.7%	61.8%	64.5%	62.4%
EPS of Re.1 (adjusted for bonus, if any), in rupees	2.81	3.67	4.86	5.95	7.46

Economic Value Added (EVA)

EVA is increasingly being used to measure the performance of companies. It is the residual income after charging the Company for the cost of capital provided by lenders and shareholders. EVA represents the value added to a Company's investors — produced by generating operating profits in excess of the cost of capital employed in the business.

EVA = Net Operating Profit after Taxes (NOPAT) – Cost of Capital Employed (COCE), and COCE = Weighted average cost of capital (WACC) (x) Average capital employed. Table 4 gives the EVA for Hindustan Lever over the last five years.

Table 4: EVA for Hindustan Lever in the last five years (Rs. crore)

Years	EVA	Average capital employed	EVA as % of capital employed
1997	365	1287	28.4%
1998	548	1652	33.2%
1999	694	2070	33.5%
2000	858	2389	35.9%
2001	1080	2816	38.4%

Note that these calculations have been made under very conservative assumptions. A detailed note on EVA is given in page 30.

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 oils and fats, culinary, and branded staples, (v) ice creams, (vi) exports, and (vii) others, including chemicals and agri-products. Table 5 gives the audited financial results of these segments.

Table 5: Segment revenue, results and capital employed

For the year ended 31 December 2001	Rs. Crores
Segment Revenue (Sales plus income from services)	
Soaps and detergents	4295.43
Personal products	2217.94
Beverages	1418.82
Foods	794.20
Ice creams	161.86
Exports	1750.62
Others	654.73
Total	11293.60
Less: inter-segment revenue	(267.54)
Net sales/income from operations	**11026.06**
Consisting of:	
a) Net sales	*10971.90*
b) Service income from operations	*54.16*
Segment Results (PBIT)	
Soaps and detergents	978.63
Personal products	670.14
Beverages	173.59
Foods	6.92
Ice creams	(26.52)
Exports	82.04
Others	24.59
Total	1909.39

	Rs. Crores
Less: interest expense	(7.74)
Add: unallocable income net of other unallocable expenses	41.72
Total profits (PBT)	1943.37
Capital employed in segments (segment assets less liabilities) – as at 31 December 2001	
Soaps and detergents	66.10
Personal products	(46.24)
Beverages	(33.53)
Foods	45.98
Ice creams	47.45
Exports	275.40
Others	154.01
Total Capital employed in segments	509.17
Add: unallocable corporate assets less Corporate liabilities	2534.53
Total capital employed in Hindustan Lever	**3043.70**

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

BONUS DEBENTURES

Thanks to a record of profitable growth year after year, Hindustan Lever's reserves have steadily increased over time. The Company's operations are not capital intensive, and the investments required for enabling future growth are modest in relation to turnover and profits. Moreover, the Company has leveraged IT and supply chain efficiencies to significantly reduce its working capital requirements.

We, therefore, concluded that our general reserves are more than what we need for future expansion as well as acquisition; and our cash resources are well in excess of our operational needs.

Since the returns from any prudent treasury operation are significantly less than Hindustan Lever's operational profits, it was clear that investing a growing corpus of reserves in government securities and safe corporate debt instruments would inevitably result in declining return on overall capital employed —more so in a regime of falling interest rates.

Given the ever growing reserves of the Company and conscious of the need to reward shareholders, Hindustan Lever decided to offer its shareholders bonus debentures. Consequently, on 5 November 2001, the Company proposed to issue over 220 crore bonus debentures worth Rs. 1,320.75 crore. At a face value of Rs. 6, these debentures will carry a coupon rate of 9% per year. The instrument is rated, secured, non-convertible, and redeemable in two equal instalments of Rs. 3 each — the first after two years of the date of allotment, and the second after three years. Shareholders will be issued one such bonus debenture for every share held.

The Company's net worth will come down because of this issue. All else being equal, this should significantly increase Hindustan Lever's RONW in 2002 and thereafter. More significantly, the bonus debentures will have returned a part of your Company's wealth back to you, without sacrificing any growth or investment opportunities in the future. Due to changes in taxation regime announced by the 2002 budget, the Company has modified the Scheme which will now be carried forward for approval of members and sanction by the Court. Full details have been set out in the Directors' Report.

RISK AND INTERNAL ADEQUACY

Hindustan Lever has a low debt equity ratio and is well placed to take care of its borrowings. Although it is a large net foreign exchange earner — almost Rs. 1,597 crore in 2001 — the transactions are suitably covered, and 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, the really significant risk factor is the state of the economy. If the economy grows at a rapid pace, so do we. If it doesn't, it becomes very difficult for Hindustan Lever to drive sales and profits.

Our outlook for the economy in 2002 is cautious, and we are not projecting a GDP growth of more than 5%. Our plans for business development, revenue generation and profit growth are based on this very low-key estimate. If reforms kick in and generate 6% growth or more, and if agricultural incomes pick up, then Hindustan Lever should do even better. As Indians, we all want higher growth. But shareholders should rest assured that we are not counting on it in our corporate planning. If higher growth occurs, it will be the icing on the cake.

CAUTIONARY STATEMENT

Statements in this 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.