Report of the Directors and Management Discussion & Analysis

1. PERFORMANCE OF THE COMPANY

1.1 Results

Your Company's performance during 2002 is summarised below :

Rs. Lakhs

	2002	2001
Gross turnover	**10951,61**	11781,30
Turnover, net of excise	**9954,85**	10667,56
Profit before tax	**2197,12**	1943,37
Tax on profits	**(479,85)**	(402,42)
Exceptional Income	**38,42**	100,36
Net profit	**1755,69**	1641,31
Taxation adjustments of previous years	**14,05**	(1,01)
Dividend (incl. tax on distributed profits)	**(1210,68)**	(1158,31)
Transfer to General Reserve	**(177,00)**	(165,00)
Profit & Loss Account balance carried forward	**1198,16**	759,98

1.2 Key Ratios

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

	2002	2001
Earnings per share (Rs.)	**Re. 7.98 (per share of 1/- each)**	Re. 7.46 (per share of 1/- each)
Dividend per share (Rs.)	**5.50 (per Re. share of 1/- each)**	5.00 (per Re. share of 1/- each)
Return on Net Worth (%)	**48.0**	53.9

1.3 Turnover

Gross turnover for the year decreased by 7% and net turnover decreased by 6.7% primarily due to discontinuation of non value added traded exports and business disposals. The sales of products in different categories, net of excise, appears below :

Rs. Lakhs

	2002		2001	
	Sales	**Others***	Sales	Others*
Soaps, Detergents and Scourers	**4367,54**	**17,64**	4160,04	10,67
Personal Products	**2069,72**	**25,63**	2047,81	5,86
Beverages	**1226,73**	**5,30**	1414,27	4,55
Foods	**714,19**	**31**	794,20	—
Ice Creams	**105,90**	**1,35**	143,28	5,29
Exports	**1256,05**	**—**	1750,62	—
Others	**214,72**	**33,37**	357,34	27,79
Total	**9954,85**	**83,60**	10667,56	54,16

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

1.4 Summarised Profit and Loss Account

Rs. Lakhs

For the year ended 31 December	2002	2001	Rate of growth %
Net sales	**9954,85**	10667,56	(6.7)
Other income	**384,55**	381,79	0.7
Total income	**10339,40**	11049,35	(6.4)
Operating expenses	**(7999,00)**	(8953,57)	(10.7)
PBDIT	**2340,40**	2095,77	11.7
Depreciation	**(134,10)**	(144,66)	(7.3)
PBIT	**2206,30**	1951,11	13.1
Interest	**(9,18)**	(7,74)	18.6
Profit Before Taxation (PBT) and exceptional items	**2197,12**	1943,37	13.1
Taxation : Current tax	**(458,94)**	(397,69)	15.4
Taxation : Deferred tax	**(20,91)**	(4,73)	342.1
Profit After Taxation (PAT) and before exceptional items	**1717,27**	1540,95	11.4
Exceptional items (net of tax)	**38,42**	100,36	(61.7)
Net profit	**1755,69**	1641,31	7.0

2. RESPONSIBILITY STATEMENT

The Directors confirm :

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

b) that they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profits of the Company for that period;

c) that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

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

3. CORPORATE GOVERNANCE

Certificate 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.

4. MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

Based on feedback from members on the Report and Accounts for the year ended 2001, this Report includes MD&A as appropriate so that duplication and overlap between Directors Report and a separate MD&A is avoided and the entire material is provided in a composite and comprehensive document.

5. PRODUCT CATEGORIES

During the year the export business of the Company was reorganized into three distinct categories viz., HPC Exports, Beverages Exports and Speciality Exports. HPC Exports and Beverages Exports have now been closely aligned and integrated with domestic Personal Products and Beverages businesses respectively to leverage on supply chain synergies and other benefits arising from this re-alignment. This report deals with exports based on the revised alignment.

5.1 Home and Personal Care Business

5.1.1 Soaps & Detergents

The Soaps and Detergents business had a good year against a backdrop of sluggish growth in the economy and down trading. As in 2001, most categories saw shrinking markets and price discounting. Overall, soaps & detergents market as reported by ORG declined by 3.9%. There were signs of some recovery in the latter half of the year.

The business succeeded in outperforming the declining market in all categories to achieve sales growth of 5% driven by focus on Power Brands.

Some highlights of 2002 brand performance are :

Lux and Lifebuoy recorded strong double digit growth from consumer value enhancing relaunches. The respective market shares have improved by 2.4% and 2.0% to reach 15.7% and 14.1%. This is the highest ever market share in the past three years.

Liril icy cool was launched with excellent consumer response and the Liril franchise recorded double digit growth during the year. Hamam was relaunched in the second half of the year with a focussed regional strategy and enhancement in quality.

Wheel continues to surge ahead with significant improvement in profitability and it has become the market leader in its category.

The Rin franchise came under pressure from low end competition. The business has lined up aggressive growth plans for the brand through value correction and innovation.

The Surf franchise performed well in a declining market; significant re-engineering of the brand architecture has been initiated to further strengthen its value perception. We expect that these efforts to yield good growth.

Vim and Domex have performed exceedingly well driven by Vim relaunch in early part of the year and strong activation in Domex.

Operating margins improved over last year despite a significant hike in raw material prices and increased investments in quality and advertising. Lower than expected oilseeds production resulted in a sharp 60% increase in average oil prices compared to 2001. Strategic buying in key oils, use of alternative materials, focussed cost effectiveness programmes, global buying synergies and effective price management have helped to mitigate the effect of cost increase.

A major supply chain IT initiative, Project Leap undertaken in 2001 has been fully implemented and stabilized in 2002. Benefits envisaged under this project have been fully achieved with significant increases in stock service levels at distribution centres. Redistribution Stockists contributing to over 80% of sales have been electronically connected thereby facilitating replenishment based servicing at the front end of supply chain.

The new manufacturing plants commissioned last year are performing well and related supply chain and tax benefits are fully being realised. Technology upgradation has been successfully implemented to lower the cost of production, improve quality and launch new innovations. Total Productive Maintenance (TPM) initiatives commenced in 2001, were successfully rolled out across key manufacturing locations in the business. Focus on safety and environment and increasing its awareness amongst employees and associates are continuing.

Vasishti Detergents Limited (VDL)

VDL continued to produce soaps and detergents for the Company. VDL now converts raw materials and packaging material provided by HLL into finished goods for which receives a conversion/processing charge. This has reduced the investment in working capital by VDL.

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

The Scheme of De-merger of the above Joint Venture (JV) company splitting up of its product portfolio became effective from October 1, 2002. As per the Scheme the insect control and aircare business is retained with SC Johnson and the disinfectants business comprising DOMEX range of household care products has been transferred to TOC Disinfectants Limited, a subsidiary of your Company. It is intended that JV partner SC Johnson will assume leadership role for insect control and aircare business while your Company will assume leadership for household care products. The two JV partners continue to have equal holding in the company.

5.1.2 Personal Products

During 2002 Personal Products recorded low growth in the context of a flat to declining market in many of the categories. The year was marked by focus on innovation and activation of the core brands and investment in strengthening their equity.

The Skin Care category had a very good year with Fair & Lovely performing well for the second year in succession. The gains from innovations of 2001 were consolidated and the brand was extended into herbals and naturals area with the launch of Fair & Lovely Ayurvedic Cream. The sachet pack grew well and led to increased penetration of the brand particularly in rural areas. The Skin range of Lakme was extended with several innovative products including a strawberry cream and an anti-ageing product. The Vaseline brand was extended to the foot care areas offering effective relief for cracked heels in an innovative product form.

In the Oral Category, the toothpaste market showed both volume and value decline over the previous year. There was also increased competition from low priced brands. Within this challenging market situation, Pepsodent gained market share, while Close-up declined marginally. Towards the end of the year a new lime-mint variant of Close-up was launched with an encouraging initial response.

In the Hair Category, the shampoo market saw the growth of low priced sachets at Re.1 and 50 p. Our leading brands, Sunsilk and Clinic have extended into these new price points and are expected to do well leading market growth in rural areas. These brands now operate across the entire spectrum of shampoo sachets and bottles. The Clinic Plus brand was relaunched in the second half of the year with a new pack design and improved product. Shampoo bottles have performed well after the introduction of extra value packs across the entire range.

In the Deodorants Category, focus was on Axe and Rexona. Axe brand was extended to male toiletries including Talcum Powder and Shaving Products. Rexona strengthened its positioning on long term deodorant efficacy backed by delivery and advertising.

Colour Cosmetics category saw product and packaging improvements and many innovations on both Lakme and Elle 18 - this included a well received range of new colours based around the Lakme India Fashion Week.

Focus on cost reduction continued; significant progress was achieved across all parts of the business. The new Personal Products Factory in Doom Dooma, Assam which was commissioned during 2001 reached high levels of operating efficiency in 2002 despite the complex logistics involved in this operation.

Indexport Ltd.

Indexport Limited which is a 100% subsidiary of your Company continued its focus on oil category. Nihar brand was strengthened and extended with growth in the Amla Oil and Perfumed Variants.

Kimberly Clark Lever Ltd.

The joint venture between Kimberly Clark and Hindustan Lever performed well. It continues to be a market leader in diapers for infant care and has made satisfactory progress in sanitary napkins for feminine care.

5.1.3 **HPC Exports**

Despite difficult market conditions in our key export markets in 2002, Home and Personal Care Exports business registered a growth of 6.4%.

Personal Wash volumes more than doubled and has been a key driver for growth, led by steady increases in Lux and Lifebouy business to the Middle East and Africa.

Marketing initiatives in Personal Wash products under the Pears brand has fared well and operations have commenced in the UK & Middle East besides the US. In the US, the business has been successful in getting listings from key retail chain stores. Aggressive plans are being progressed for entry into other markets with a whole "new look" Pears range supported by strong functional claims.

Based on manufacturing cost bench marking studies across Unilever globally, your Company has emerged to be one of the most competitive home and personal care products production centres globally and this has resulted in the Company securing trial orders to service the Unilever European market requirements of toothpaste. The process of meeting the various customer and regulatory requirements and expanding the customer base for supply of toothpaste to Europe is underway.

Skin Care exports have achieved a 14% increase in volumes, driven largely by innovation and new launches on the Fair and Lovely and Dove range. The business is working on several new projects in the Skin Care segment under the Dove brand and is confident of successfully driving growth in the future on this platform.

The service levels to our export customers have been significantly enhanced with an IT based system which provides for web enabled tracking of orders.

Nepal Lever Limited

Your Company's subsidiary in Nepal which predominantly operates in HPC categories performed well in the domestic market of Nepal with sales growth of 25%. However exports to India were adversely affected by, levy of countervailing duty with reference to Maximum Retail Price of products consequent to change in Indian legislation and non-availability of benefits of credit for duty paid on inputs sourced from India. The Company achieved a turnover of Nepalese Rs. 123,61 lakhs for financial year ending July 16, 2002.

5.2 Foods and Beverages

5.2.1 Beverages - Tea/Instant Tea and Coffee

The bearish trends in tea commodity prices continued for the fourth successive year. Excessive supply compared to demand led to easy availability of loose tea. Pressure of family budgets for non-durable consumer goods led to downgradation and consequently decline in packet tea market. Overall packet tea market declined by over 9%.

In this scenario, your Company continued to follow its long term strategy of focussing innovation and marketing efforts only on power brands to drive profitable growth. The commodity price pressures at the mass market segment and rationalisation of unviable and non-strategic brands led to a overall sales decline.

Taj Mahal and 3 Roses in the premium segment were relaunched with significantly improved mixes, supported by high impact communication and market activation. The mass market segment is getting commoditised with the emergence of large number of regional players. Your Company has always focussed on offering "value for money" brands by leveraging its sourcing and R&D capabilities. During the year, our brands in this segment were relaunched with significantly improved strength and taste, supported by rural market activation. The initial results have been encouraging.

Lipton Ice, Unilever's globally successful brand in the soft drinks category, with its unique proposition of adolescent vitality, has been test marketed in Bangalore. The response has been extremely positive. The brand will be extended to other cities during 2003. The business continued its focus of driving growth in Out of Home channels through Vending and Hot Tea operations. Out of Home and Lipton Ice will be the major contributors for volume growth.

Instant coffee continued its record of excellent growth. Relaunch of Bru late in 2001, supported by aggressive drive on increasing penetration through low unit price packs, has yielded excellent results. Introduction of new flavours, particularly in the Out of Home segment, will further strengthen the brand's equity in the market. Deluxe Green Label, our conventional Coffee brand, was relaunched with significantly stronger aroma. The mix has been well received. The brand has held its position in its strong South Indian markets despite significant pressures from regional brands.

The profitability of the Beverages business has significantly improved, reflecting the favourable impact of the measures taken to re-engineer the supply chain and upgrade the brand portfolio. Initiatives in supply chain, straddled across sourcing, blending, manufacturing and distribution, with significant benefits accruing in terms of quality and cost.

Manufacturing locations were re-configured and modernised to optimise total cost chain. To fully derive the benefits of process re-engineering across the supply chain, a Shared Services Centre has been set up, as part of Tea Excellence Centre at Kolkata.

5.2.2 Pepsi Foods - Strategic Alliance

In a strategic move your Company formed an alliance with Pepsi Foods Pvt. Ltd. to jointly market through a vending format a full range of our hot beverages and soft drinks from their portfolio of world-class brands.

The partnership leverages each other's strengths with a good business model that creates a powerful distribution base to market a unified portfolio through a combined fountain, vending and institutional initiative. The alliance will make available leading brands of the two FMCG giants - Lipton, Taj Mahal, Bru, Pepsi Cola, 7Up, Mirinda and other popular carbonated soft drinks through vending machines and fountains.

5.2.3 Plantations

The performance of tea plantations business in 2002 has to be viewed in the context of an extremely challenging year for the Indian tea industry which witnessed continued fall in prices and reduction of industry-wide crop due to adverse weather conditions. Global abundance of supplies and a slow-down in Indian exports led to continuance of bearish commodity markets. Good quality teas barely managed to hold on to prices.

The production of our own crop was adversely affected in North Indian plantations due to unfavourable weather conditions while in the South Indian plantations it was compounded by an industry-wide wage dispute, leading to labour unrest and a lock-out in one of the divisions. The quality levels were however maintained. The production facilities were upgraded in Assam and South India to ensure better product mix of CTC and Orthodox teas and to enhance quality. Export of plantation teas was significantly enhanced during the year.

Initiatives on improved harvesting methods and refinement of agricultural practices continued to improve land and labour productivity and enabled controlling costs. However high wages and social costs continues to be serious cause for concern, adversely impacting international competitiveness of Indian Tea Plantations.

Steady and noteworthy progress was made on the Unilever driven Sustainable Agriculture Project aimed at upholding Unilever's commitment to creating economic value while ensuring that its operations/ activities are not responsible for any adverse impact on the environment, or on the local communities in which it operates. The project focuses on using renewable resources in preference to non-renewable ones. Planting of cover crops & soil binding species and scientifically laid out drainage schemes catered to reducing soil loss, while significant reduction in nitrogen fertilizers was possible with use of organic & bio-fertilizers. Vigorous introduction of Integrated Pest Management practices has led to 20-30% reduction in pesticide usage. Fungal bio-control agents and pheromone traps have been used to successfully control key pests such as *Helopeltis* in Assam and *Shot Hole Borer* & *mites* in South India. The project worked closely with third-party stakeholders - the MS Swaminathan Research Foundation, Chennai, renowned experts on sustainable development in India.

Rossell Industries Limited (RIL)

Rossell Industries Ltd. (RIL), a subsidiary of your Company engaged in cultivation and manufacture of tea, achieved a turnover of Rs. 5139.74 lakhs during 2002 and incurred a loss of Rs. 643.09 lakhs due to prevailing market conditions.

Consequent to the second offer made by Lipton India Exports Limited (LIEL), in compliance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, during the year the promoter shareholding of RIL has increased to 96.92% of voting share capital of the Company. LIEL has initiated steps to delist the shares of the Company from the stock exchanges. In principle approval for the same has been obtained from all the stock exchanges concerned.

5.2.4 Beverages Exports

Your Company's Beverages Exports business had a year of mixed performance. The turnover was adversely affected by the loss of packet tea exports business to Russia consequent to the discriminatory import duty introduced by the Russian government on packet tea vis-à-vis loose tea. We have also lost some businesses in the Gulf countries due to the political and economic uncertainties. On the positive side, we have gained sustainable value added exports to the US, Australia and South East Asia. Another outstanding achievement during the year was the setting up of a world-class manufacturing unit in Pune for tea bags. Coffee exports have recorded excellent growth during the year by building a strong customer base in European countries.

5.2.5 Popular Foods

The Popular foods business operates essentially in two categories, Salt and Wheat flour.

In a declining market, Annapurna continued to be the market leader in branded Atta during the year. During the course of the year your Company focussed on margin improvement and took steps to correct the pricing.

Knorr Annapurna "3 Must Atta" has been launched in North and East. Consumers have been adding different food grains to their Atta in a bid to increase the nutritional value of their Chapatis. However, buying these grains, getting them ground and most importantly getting the right blend is difficult and complex. Meeting this need, Knorr Annapurna 3 Must Atta has the goodness of 3 Must - Soya, Maize and Channa blended in the right quantity with premium quality wheat to give great tasting Rotis that helps in the family's wellness in the long term. It has been launched in the metros in North and East.

In line with the strategy to provide value added products, Annapurna Ready to Eat Chapatis were extended to Bangalore and Chennai markets.

Salt

Branded Salt market during the year declined by 5%. The category witnessed intense competitive activity with the entry of new players into the market. New entrants created instability in the prices by undercutting and aggressive promotional activities. Despite this the margins improved significantly. Knorr Annapurna mineral balance salt was launched in the metros and mini metros during the year and this is expected to create differentiation to our product.

Good volumes realized in the second half of the year and the encouraging response to our innovations,augurs well for the business.

5.2.6 Modern Food Industries (India) Limited (MFIL)

Since acquiring management control in MFIL, the first PSU to be disinvested, in January 2000, HLL has been successfully implementing a strategy to turn around the Company, which is progressing as per plan. The strategy comprises modernisation of factories, innovation, marketing and distribution expansion, synergies through an integrated wheat sourcing model, and pro-active industrial relations.

MFIL has invested in market development, trade and channel support and has extended coverage to several new towns, while growing in existing markets. The sales drive has been backed by appropriate trade promotion schemes.

During the year a new bread on Atta platform - Modern Atta Bread, was launched for the first time in India. Unlike normal bread, made from maida, Modern Atta Bread is made from special fortified Annapurna Atta.

Supplementary Nutritional Foods (SNF) business performed satisfactorily during 2002 executing the state government orders, essentially from UP, well. However, the business faces uncertainity due to lack of government orders as of now. During the year the Company could obtain additional orders from the World Food Programme for supplies for relief work undertaken by the WFP, in India as well as to Afghanistan.

During the year the Government of India exercised its put option for sale of remaining 26% equity shares held by it, to your Company. Consequent to the acquisition of these shares Modern Food Industries (India) Limited is now a wholly owned (100%) Subsidiary of your Company.

5.2.7 Culinary Products

The Culinary business grew well driven largely by launch of value-added products and seamless integration of the Bestfoods business. The Knorr brand which became a part of Company portfolio consequent to Bestfoods merger has registered a growth of 56% during the year. A number of innovations have been seeded in the market-place. These include Knorr Annapurna Spices and Cooking Aids, Ethnic Sauces, 4'O Clock Tiffin, Kissan flavoured spreads and Kissan Greedy Bistix.

With the objective of building the core of Knorr Annapurna across the country, significant resources have been invested in developing deep consumer insights and in understanding the cooking habits of young mothers. These insights are currently being translated into differentiated marketing mixes.

The business undertook a major initiative to reconfigure the supply chain on a regional basis. This has helped in significantly improving the freshness of stocks in trade and in reducing supply chain costs.

5.2.8 Spreads, Cooking Products and Bakery Fats

The market for cooking mediums in India is highly fragmented and commoditised with a large number of players operating in regional geographies. Industry is characterised by low capacity utilisation (about 35%), and low differentiation. It is also subject to continuous Government intervention in the form of import duty and other changes.

Dalda however continued its premier position across the regions, and commanded premium price, reflecting the consumer trust in this heritage brand.

During the course of 2002, oil prices in general increased sharply on account of rise in the international markets coupled with the drought in India. There was consumer resistance to the increased price level and consumption was adversely affected. The total market for vanaspati in consumer packet shrank by more than 20%. Further, there was a major shift in the consumption pattern of oils as soya bean oil became the cheapest cooking medium in view of its favourable import duty rate. As a result, the market for soya bean oil more than doubled, while competing oils such as sunflower shrank by nearly a fourth. There was also the emergence of very large volumes of refined palm oil as cheap substitute for Vanaspati and the problem was compounded by import of vanaspati of Nepalese origin. This was partially stemmed by a quota of 1 lakh tonnes imposed by Government of India on imports from Nepal. In view of the above market context the business faced pressures on both growth and margins.

During 2002, the Company took active steps to build nascent business in spreads in the form of Kissan Choco Kick and Kissan Honey Kick - 2 sweet spreads. Plans are in place to drive good growth in this area in 2003 aided by technology from the parent Unilever who are worldwide leaders in Spreads.

5.3 Ice Creams

5.3.1 Your Company's Ice Cream business embarked on a radical new strategy with a view to turning around the business. The key elements of the new strategy are to focus on the power brand Kwality Wall's, launch of well differentiated products, focus on key Ice Cream markets of the major metros and re-engineered supply chain.

The Company introduced exciting differentiated products for the first time in India. These included Kwality Wall's Black Currant Sundae, Viennetta - Vanilla and Chocolate variants, Super Cornetto, Feast Bar and Exotic Sundaes, such as Mocha Almond and Kesar Magic. These innovations were very aggressively supported by a new advertising campaign focussing on the power brand Kwality Wall's. The focus on power brand received further boost from a mega range promotion "Ek Din Ka Raja". All these actions resulted in excellent consumer response for the new products which covered both in-home and out-of-home opportunities.

Innovation expertise was further extended to the soft ice area where new Cornetto Ripple Softies were launched with encouraging consumer response.

In continuation of the efforts made in the past few years, the supply chain was further re-engineered by focussing on fewer strategic manufacturing locations. Viennetta which was earlier imported, is now manufactured in India. All key manufacturing locations were enabled to produce products of world-class.

The results of the new strategy have been outstanding and are reflected in the segmental results published by your Company, especially from the summer season onwards, represented by the last three quarters commencing April 2002.

Merry Weather Food Products Limited

Merry Weather Foods Products Limited which produces ice cream and frozen desserts for your Company for sales in eastern India posted a profit (before exceptional) of Rs. 58 lakhs (2001 Rs. 17 lakhs). Overall sales have declined to Rs. 6,98 lakhs (2001 Rs. 12,26 lakhs).

5.4 Speciality Exports

The continuing Speciality Exports businesses grew by 11.5%. Of these, the three focus businesses viz. marine, agri and rice recorded an overall growth of 18%. Overall exports declined due to discontinuation non-value adding traded exports and transfer of Leather and Mushroom businesses.

The Leather business was transferred to Pond's Exports Ltd., a 100% subsidiary on March 31, 2002. Likewise, the Mushroom business of the Company was transferred on July 1, 2002, to KICM (Madras) Ltd., a 1 00% subsidiary. This would facilitate formation of a joint venture or a possible divestment, which could leverage the strength of these businesses more effectively.

The performance by individual businesses is summarised below :

5.4.1 Marine

The Marine business registered a growth of 13% over the previous period, led by growth in the Amalgam division - Salad shrimps and pasteurised crabs.

The Surimi business, grew turnover by 8% in 2002, and witnessed record profitability levels as a result of yield improvements and competitive sourcing of raw materials.

The crabstick business in its first full year of operations, achieved a turnover of Rs. 15 crores and currently has orders far in excess of available capacity. Sourcing tie-up has been established with Unilever Spain. In addition, a number of new customers have been developed across Europe and USA.

HLL marine business has been awarded 2 MPEDA awards for second year in a row for having achieved highest exports in sea food and also being the leading exporter in value added sea food.

5.4.2 Agri & Castor

The year 2002 saw a 20% decline of Castor Oil/derivatives exports from India. Worldwide commodity prices were also under pressure impacting growth for the year.

Share of value added Castor derivatives in total business doubled to 11% in line with the business strategy.

Three new products were added to the portfolio. Focus on customisation (with R&D inputs) to suit key customer needs is a strong point of the business.

Your Company has made good progress in identifying and tying up distribution arrangements in key markets of Europe and USA.

Your Company was awarded the Globoil Gold award for outstanding performance in the category of castor seeds, castor oil and derivatives for the 4th consecutive year.

5.4.3 Rice

The business achieved substantial sales growth of over 60%. Focus on brand building, entry into new segments and cost and efficiency improvements, have contributed to improved results.

The flagship brand of "Gold Seal Indus Valley Rice" was successfully relaunched in Middle East and Singapore with improved product cued on superior aroma delivery, and excellent packaging.

The brand in the popular segment, "Rozana" was relaunched in the second half of 2002, with new blend and attractive packaging.

Your Company continued its efforts at maintaining 'Seed to shelf' traceability for basmati through contract farming tie ups and tracking/documentation processes to strengthen the business considerably.

5.4.4 Leather - Pond's Exports Limited

The business faced pressures in 2002, both on top line and profitability. This decline in business was largely attributable to 20% decline in shoe uppers division, caused by loss of key European customers, who have closed down shoe factories and shifted sourcing to China. Despite this, the profitability of the business was maintained mainly due to efficiencies in buying, yields and productivity.

The Shoe business recorded significant growth with existing customers in Europe. 5 New customers have been added during the year, which will fuel growth in 2003. A productivity led settlement has been signed with the Footwear Factory Union leading to significant improvement of productivity levels at the Unit in DQ 02, resulting in cost savings in job work. The customer base for shoe uppers has been expanded by 4 new customers. The business plans to revive the business volumes in Uppers, by focussing on new customer development, and measures to improve profitability led by cost and productivity initiatives.

5.4.5 Mushroom - KICM Limited

The Mushroom business continues to face stiff challenge from the Chinese and the emerging cottage industry segment. This has been exacerbated aggravated by adverse climatic conditions resulting in stagnant, bio yields.

5.5 New Ventures

The New Ventures group has been rigorously evaluating and implementing new growth opportunities identified by Project Millennium. Addressing these opportunities involves detailed market assessment, relevant consumer understanding, identification and acquisition of newly required capabilities as well as leveraging our current capabilities. Your Company has made significant progress in implementing new growth initiatives as given below.

5.5.1 Confectionery

Confectionery is one of the few product categories where kids make their own purchase decisions. Generating and sustaining excitement around the brand is critical and 'Max' confectionery brand has been successful in capturing the imagination of kids. Following a successful test market last year in Tamil Nadu, "Max" was extended nationally during this year. Apart from ChocoMax, MaxMagik and MaxMasti, this year saw successful launches of two well differentiated products - MaxCream and ToffyMax. In the highly fragmented and competitive hard boiled candy market, Max brand share has grown to 5% in year 2002. Continuous innovation and major cost saving initiatives have improved the Gross margins.

The Strength of our confectionery business is the strong brand equity of 'Max' and our deep consumer understanding. Supported by our strong food R&D skills, Max is the only confectionery brand offering a wide choice. The business is strengthening the distribution to cater to fringe outlets.

5.5.2 Aviance

Aviance is a personal care brand that marks the entry of your Company in the Rs. 1700 crores Direct Selling channel which is growing at the rate of 20% per annum.

2002 has been a year of high growth for Aviance. The turnover doubled during the year backed by an even higher growth in the consultant base. Positive strides were made in the area of supply chain management and Information Technology enabling the business to successfully manage this rapid growth. Aviance now services over 300 locations through a network of 14 service centres. On an average, there was one new product launched every month and this pace of innovation is expected to increase in future.

The strong consumer understanding and technology of your Company has been translated into delivering world - class products to consumers. Aviance products have gained a high degree of popularity with consumers commanding high repeat purchase rates.

There is immense scope for leveraging synergies from mainstream HLL in the areas of consumer understanding, banking, supply chain and IT to achieve sustainable competitive advantage.

In order to harness opportunities outside personal care category in the Direct selling channel, the business was relaunched as "HLL Net Work" in the beginning of 2003 with product offerings in a wider range of products. This is expected to yield good results in 2003.

5.5.3 Rural Connectivity

Using the networks of rural women's Self Help Groups, the Rural connectivity model reaches our products and communication to villages hitherto not reached. The model piloted channel intervention called Project 'Shakti' in Nalgonda, Andhra Pradesh in 2001 where Self Help Groups (SHGs) were appointed as Shakti Dealers (SDs) distributing HLL goods directly to consumers. Partnerships with several NGOs and the state government were forged to facilitate the process. The results of the pilot were very encouraging as "Shakti" led to gains in our market share, higher consumption of our categories and increased levels of brand awareness in these markets.

During 2002, the model was extended across the states of Andhra Pradesh, Karnataka and in parts of Gujarat. Project Shakti now works with over 6000 SHGs covering 4,750 villages touching over 1.5 million households. In 2003, it will be rolled out to over 100 districts in Uttar Pradesh and Madhya Pradesh. Work is currently in progress on the *i-Shakti* pilot, an information dissemination service for rural needs delivered through an IT platform.

Project Shakti is an excellent case of a win-win relationship between the SHGs and the Company. While the Company benefits by reaching out to these hitherto untouched markets, the SHGs get a low risk and sustainable income opportunity. The Shakti dealer generates an income of over Rs. 1,000 per month; more than double their existing household income. It also gives the SHGs a social identity and the confidence to undertake larger businesses. This channel has become a source of genuine and correctly priced products for the villagers. Over the next 3 years Shakti will be operational in 30,000 villages across 8 states and touching the lives of 10 million households.

5.5.4 Herbal Health and Beauty

The launch of "AYUSH" is aimed at providing health and beauty benefits by bringing together the authentic knowledge of Ayurveda and the efficacious testing of western science. It attempts to convert users of everyday health and beauty products by providing them with an effective and at the same time safer, gentler alternatives. All the products pass through extensive testing for safety, efficacy, and consumer acceptance. Ayush products are based on unique Ayurvedic formulations endorsed by the Arya Vaidya Pharmacy, Coimbatore. A revolutionary packaging, strong communication and competitive pricing of Ayush have been supported by a comprehensive media plan and a rich micromarketing plan. The brand experience is further enhanced through a service element of Ayush Therapy Centre, Chennai. Considering the vital role of medical practitioners esp. in health products, Medical Equity Program has been initiated to reach them effectively.

Ayush has launched the personal care range in 2002. The healthcare range which is being tested in one state in the South will be extended in 2003.

5.5.5 E-Tailing

The direct to consumer e-tailing initiative branded 'Sangam' launched as a pilot in Thane in 2001 saw a healthy response meeting the targeted action standards. The service offers 3,500 SKUs of branded products and grocery items. Customers place their shopping orders on telephone or internet, orders are received at a web enabled call centre and directly passed on to the Distribution Centre for delivery within 24 hours.

The service has been extended to Navi Mumbai and has been launched in Mumbai city in 2002. The business currently has two distribution centres catering to these territories.

The customer benefit is focussed on providing the widest choice at surprisingly good prices. Customers are very satisfied with the service since it is very convenient and offers relevant choice at value.

The potential for growth is strong and would be driven by maximising customer satisfaction. With the strong distribution network, supply chain and procurement expertise and product reach of the Company, Sangam would provide the ultimate shopping experience to consumers.

5.6 Chemicals and Fertilisers

5.6.1 Speciality Chemicals

The markets for Speciality Chemicals, both global and domestic continue to remain depressed. In this context, the business recorded a 12% growth over the previous period and a significant improvement in profitability.

Aroma Chemicals maintained its sales at 2001 levels, despite a challenging market environment, while recording impressive improvement in profitability. This was achieved by continuing to focus on sharper product portfolio, Cost savings led by rationalisation/consolidation of manufacturing facilities.

Glycerine recorded all time high volumes in 2002. The year also saw a 27% jump in the volumes of branded glycerine, sold in select markets of the country.

Functional Bio-polymers recorded 30% growth in top line in 2002 . This was achieved in the face of a sluggish end user market and growing competitive pressures. The paper polymer business recorded a 35% sales growth, with total sales volume crossing 10000 T for the first time.

5.6.2 Fertilisers and Bulk Chemicals Business - Hind Lever Chemicals Limited (HLCL)

The Fertiliser and Bulk Chemical operations continued to be part of Hind Lever Chemicals Ltd., in which your Company holds 50% equity. Despite the year witnessing one of the worst droughts in recent memory, and consequent pressures on the Fertiliser industry, the business performed well.

The Board of HLCL has proposed to merge the Company with Tata Chemicals Limited (TCL). Fertilisers and Bulk Chemicals is the core business of TCL, with inherent technological strengths. Also, its product portfolio and geographical spread are complementary to that of HLCL. Both companies have very strong brands in their respective areas of operation, built up over the years through intensive farmer extension programmes. The merged company will be able to offer a comprehensive portfolio of Phosphatic and Nirtogenous Fertilisers in the East and in the North. It will similarly have a combined and wider portfolio of Bulk Chemicals, like STPP (from the HLCL side) and Soda Ash (from the TCL stable).

Furthermore, TCL and HLCL, apart from being responsible Corporates, have a compatibility in corporate culture since both companies share the same core values of honesty, integrity, and the highest standards of corporate behaviour towards employees, trade, consumers, society and environment. Subject to obtaining the requisite legal approvals, a Scheme of Amalgamation of HLCL with TCL has been formulated, pursuant to which it is proposed that for every two (2) equity shares of Rs.10/- each of Hind Lever Chemicals Limited, the shareholders of Hind Lever Chemicals Limited (HLCL) would receive five (5) fully-paid shares of Rs.1 0/- each of Tata Chemicals Limited.

6. SWOT Analysis for the Company

Strengths :

- Strong and well differentiated brands with leading share positions. Brand portfolio includes both global Unilever brands and local brands of specific relevance to India.
- Consumer understanding and systems for building consumer insight.
- Strong R&D capability, well linked with business.
- Integrated supply chain and well spread manufacturing units.
- Distribution structure with wide reach, high quality coverage and ability to leverage scale.
- Access to Unilever global technology capability and sharing of best practices from other Unilever companies.
- High quality manpower resources.

Weaknesses :

- Increased consumer spends on education, consumer durable, entertainment, travel etc. resulting in lower share of wallet for FMCG.
- Limited success in changing eating habits of people.
- Complex supply chain configuration, unwieldy number. of SKU's with dispersed manufacturing locations.
- Price positioning in some categories allows for low price competition.
- High Social costs (housing, foodgrains & firewood, health and other welfare measures) in the plantation business.

Threats :

- Low priced competition now present in all categories.
- Grey imports.
- Spurious/counterfeit products in rural areas and small towns.
- Changes in fiscal benefits.
- Unfavourable rawmaterial prices in oils, tea commodity etc.

Opportunities :

- Market and brand growth through increased penetration especially in rural areas.
- Brand growth through increased consumption depth and frequency of usage across all categories.
- Upgrading consumers through innovation to new levels of quality and performance.
- Emerging Modern Trade can be effectively used for introduction of more upscale Personal Care products.
- Growing consumption in Out of Home categories.
- Position HLL as a sourcing hub for Unilever companies in various countries.
- Leveraging the latest IT technology.

7. RESEARCH & DEVELOPMENT AND TECHNOLOGY

A significant source of strength for your Company has been its business culture that recognizes technology-driven innovation as the best foundation for a sustainable business. This recognition, and the consequent commitments, has contributed to create, and deliver to the consumers, superior value. These are reflected in Company's products, which are clearly differentiated from its competitors', and its processes that consistently deliver more with less expenditure. This tradition continued through 2002, producing several significant technological contributions from R&D to business.

The most significant advances in R&D and deliveries to Company's HPC businesses in 2002 were

- a novel process to manufacture transparent soaps for personal wash, with a potential to achieve significant cost savings as well as superior performance,
- new dish-wash bar technology capable high product performance differentiation,
- new insights into modulating skin pigmentation, to make superior skin care products, especially providing a step-change in skin lightening performance,
- a series of innovations in the fabric wash products to improve the product performance significantly and save costs.

Similarly, in the foods and beverages area,

- the technology to manufacture new biscuits and a new variant of Atta were developed, and implemented on commercial scale,
- the process to make jams was improved, resulting in significant cost savings.

In addition, research in tea has led to a number of innovations to help improve tea quality and reduce costs.

Overall, significant focus was brought to the creation of scientific and proprietary knowledge, cutting across categories, with rigor and relevance for efficient delivery to business. New "ways of working" processes, which should serve to improve substantially our ability to discover, develop, design and deliver, have been implemented. These measures are expected to contribute discontinuously to the quality and quantity of the output from R&D in 2003 and beyond.

Hindustan Lever Research Foundation : Extensive discussions have been held with a select group of leading academic institutions and research-professors to help build the appropriate framework for industry-university partnership in a Ph.D. program. This program, aimed to offer high value to the students and the partnering institutions, will be formalized and implemented in 2003.

8. ENVIRONMENT, SAFETY AND ENERGY CONSERVATION

Safety and Environment Management continues to be a key result area for your Company. The only acceptable standard of Safety performance for your Company envisions "zero accidents". During 2002, Accident Frequency Rate continued to remain at a level much lower than industry average and one of the best amongst Unilever Companies worldwide. With a view to raise safety level across the Company, several initiatives which were put in place during the last year are now helping to ensure involvement of all employees at shop-floor level. To ingrain deeper commitment to safety and a positive safety culture across the organisation, your Company is spearheading implementation of Framework of Standards aligned to ISO 14001 / OHSAS 18001 standards. Your Company has further initiated steps to benchmark safety management against other world-class Companies. During the year, 12 sites received coveted Unilever Gold/Silver/ Bronze awards of Excellence through continuous improvement in their safety performance. Chhindwara unit received a Prashansa Patra Award from the National Safety Council. All units in Pondicherry actively participated in a State Level Safety Exhibition where Company's Tea Unit received 1st Prize. The Yavatmal unit received recognition from the Directorate of Industrial Safety & Health for its exemplary Safety performance.

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 been 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 7% and 4% respectively over 2001 through productivity improvements, inducting novel processing routes, adopting clean technologies and recycling/reuse where feasible. In the Tea Plantations Group in the State of Tamilnadu, your Company has demonstrated on a pilot-scale, sustainable agricultural practices which are now being extended appropriately to other sites. The experience gained in vermi-culture and vermi-composting now covers a number of manufacturing sites to convert domestic wastes into value added fertiliser supplement for cultivation.

Following an allegation of pollution due to mercury waste from the Thermometer factory at Kodaikanal, your Company had stopped manufacturing operation in March 2001. Subsequently, a study carried out by engaging internationally renowned environmental consultants M/s. URS Dames & Moore indicated that there is no significant impact on environment. A detailed risk assessment study report has been submitted to the authorities. Further a comprehensive health check for all its employees at Kodaikanal confirmed that there has been no adverse impact on the health of the employees. Your Company has now received clearance from Ministry of Environment & Forests for re-export of mercury and mercury bearing materials from this factory. The disposal of plant and machinery and other materials will commence after obtaining authorisation from the local authorities in accordance with the applicable regulation.

9. PERSONNEL

Our employee relations, rooted in the philosophy of bilateralism, continued to yield positive results with productivity linked long term settlements signed in nine of our Units during 2002. Recently we have signed a LTS with the union representing the Monthly paid staff in our Head office. With this bilateral agreement which has happened after a gap of 38 years we believe that a new beginning has been made in building a harmonious and productive relationship with these employees.

The Total Productive Maintenance (TPM) programme has been delivering excellent results in our manufacturing Units. Employees have found this to provide them with great opportunities to unleash their creative energy and significantly contribute to the improvement in operational efficiencies. During 2002, four of our factories achieved the Level I certification and one of our Factories gained Level II certification for excellence in TPM awarded by the Japan Institute of Plant Maintenance.

The focus on building a high performance culture continues unabated and we have invested considerable time and effort in building of our leadership capabilities and installing a culture of coaching and mentoring for improved performance. One of the highlights during the year has been the finalisation of a transformation agenda by the HR community to support business in its path to growth. The agenda focusses on leadership development, strengthening of our performance ethic, reinforcing values and sharper alignment to business goals. Many of the initiatives, part of the transformation agenda, have been rolled out and their positive impact on organisational culture is already beginning to be felt.

For the second year running, Hindustan Lever has been voted as the 'Employer of Choice', by the students in premier Business School campuses of our Country. Apart from continuing to recruit bright young talent from campuses we have intensified with excellent results our search for top talent with diverse experience.

10. ACQUISITIONS AND DISPOSALS 10.1

Acquisitions **Amalgam - Marine Business**

Your Company had in July 2000, entered into a wet lease arrangement with the Amalgam Group under which four of its manufacturing facilities were being utilised by HLL for export of marine products. The Amalgam Group of Companies, pioneers in setting up IQF (Individual Quick Freeze) technology in India is the country's largest exporter of Cooked Shrimps and Pasteurized Crab Meat.

The wet lease arrangement has been converted into a wholly owned business of the Company by way of a slump sale of the Assets of the frozen seafoods business of the said Amalgam Group including the facilities for cooked shrimps and pasteurised crabmeat on a going concern basis, to the Company with effect from January 1, 2003, subject to requisite approvals.

The Company so far has no presence in the shrimps segment of the marine range of products, which constitutes over 20% of the global marine industry. Accordingly the cooked shrimps business of the Amalgam Group will be a logical extension and complimentary to Company's existing marine facilities for fish protein isolate and crabsticks. This will also provide operational and strategic synergy in the area of raw material procurement/customer management and thus improve the profitability of the overall portfolio of the Company's marine exports.

Further the said acquisition would also make available to the Company, the state-of-the-art technology and US FDA and EU approved processing units located at Aroor and Kuthiathode (in Kerala), Pamarru (in Andhra Pradesh) and Rabale (in Maharashtra) and well known trademarks/ brands such as "Ocean Diamond", "Shogun" and "Ocean Excellence".

10.2 Disposals

10.2.1 Carpets

The Carpets business, a part of the Speciality Exports business with a turnover of approx. Rs. 6,00 lakhs p.a. and the facilities for washing carpets at Varanasi was sold on a going concern basis for a consideration of about Rs. 1,00 lakhs during the year.

10.2.2 Digital Thermometer

The Digital thermometer unit located at MEPZ, Chennai, a part of Company's export business with a reported sale of Rs. 1,45 lakhs for the year 2001 was sold for a consideration of approx. Rs. 55 lakhs.

11. ISSUE OF BONUS DEBENTURES

Pursuant to approval of the shareholders at the Extra Ordinary General Meeting of the Company held on August 9, 2002, with regard to the Revised Scheme of Arrangement for issue of bonus debentures and payment of special dividend 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 Hon'ble High Court of Bombay in Mumbai in December 2002 approved the Scheme of Arrangement for issue of Bonus Debentures, from the General Reserves, for Rs.1321 crores in the ratio of one Bonus Debenture of Rs. 6/- for every share of Re. 1/- and a Special Dividend of Rs. 2.76 per share of Re. 1/-, to be paid by reference of the same Record Date, and to form part of an integrated transaction aggregating to a payment of Rs. 1928 crores to the shareholders.

The Company thereafter made necessary applications to the Reserve Bank of India (RBI) for their requisite approval for the Scheme which was duly received on April 9, 2003. However, the Finance Bill 2003 has made significant changes in the taxation of Dividend and has reintroduced Dividend Distribution Tax at a enhanced rate of 12.81% (including surcharge) to be paid by Corporate and made dividend income tax exempt at the hands of the recipient shareholders. In the circumstances, it is proposed that the Board will in exercise of its delegated authority pursuant to clause 4A of the scheme make appropriate adjustments to the rate of special dividend to provide for Dividend Distribution Tax on bonus debentures (constituting deemed dividend) and special dividend.

12. EMPLOYEE STOCK OPTION PLAN (ESOP)

Stock Options for 2003 have not been granted as on the date of the Directors Report. These will be appropriately disclosed after such Grant is made.

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 whole-time director have received options exceeding 5% of the value of the options issued for the year ending December 2002.

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

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 years 2001 and 2002.

13. GUJARAT EARTHQUAKE RELIEF

Following the devastation caused by the Gujarat Earthquake in January 2001, which severely impacted the region with loss of life and property at an unprecedented scale, your Company as part of its social commitment, inter alia, embarked upon a programme to restructure and repair houses of its employees through a Scheme funded by the Company and its employees. Your Company also decided to rebuild a new village named Yashodadham near Nani Chirai for the villagers whose dwellings were destroyed in the Earthquake. The village of 289 houses was constructed during 2002 through a participatory process with Shri Vivekanand Research & Training Institute (VRTI)-a Non-Governmental Organisation and in collaboration with the Government of Gujarat and the Gram Navrachana Samiti. Each house had a built up area of 400 sq. ft. and stood on a plot of 1600 sq. ft. The houses were provided with useful facilities like slot for lamp, recess for cupboards, loft, paniyara, tiled kitchen platform, cemented floors, sloping RCC roof with mangalore tiles on top, verandah in front and back, individual separate toilet and bathroom etc. Special features to ensure a high degree of earthquake and cyclone resistance were built in. Company put in proper roads, underground sewerage system, septic tanks, running water to kitchen and toilet, electrical connection to each house, large community center and school, Shops etc. Chairman performed the dedication ceremony on December 5, 2002.

The Company funded this project to the extent of Rs. 3.75 crores, the balance coming from the State Government, villagers and the contributions from Company's employees.

14. INFORMATION TECHNOLOGY (IT)

During the year, your Company continued building Information Technology capabilities in the identified areas of strategic thrusts to achieve tangible business value.

Over 3000 key customers are now connected through Internet to the Company Information System using secure e-Commerce technology on a 24X7 basis. This capability helps them to plan their inventory, monitor their sales performance, place orders on-line, access their customer ledger and obtain information on planned market activities. Mobile computing capability has been piloted in select Metros to enhance market-working effectiveness of our field force.

Internal Supply Chain capability has now been recast using advanced planning tools. This has made it possible for your Company to use current information on product off-take to arrive at daily replenishment requirement to distribution warehouses. This in-turn is used to drive the day-to-day production plans at factories resulting in continuous replenishment capability in the Supply Chain. Specialised optimisation tools are used to review and fine-tune Production-Distribution network to achieve lower distribution costs.

We have leveraged IT to simplify and standardise operating procedures and business processes. A networked architecture with powerful server clusters has been deployed at select Data Centres across the country. Special attention is paid towards Security and Disaster Recovery. This will enable us to provide support services like accounting, payments etc. from a few Centres of Excellence. We have made rapid progress in deploying datawarehouse techniques for information management and decision making.

We have leveraged the communication infrastructure to expand our network at lower costs. This has boosted virtual team working, instant video communication and managing innovation process of new products across locations.

We will continue to invest in the above strategic areas to harness the full potential of IT.

15. FINANCE & ACCOUNTS

Cash generation during the year continued to be very good driven by strong business performance, enhanced capability of the supply chain and efficient collection system. In the context of falling interest rate environment, your Company optimised the return on investments by deployment of cash surplus in a balanced portfolio of safe and liquid debt market instruments; returns earned were higher than market benchmarks. Your Company continues to enjoy P1 + rating by CRISIL for its commercial paper programme. However, no commercial paper was placed during the year. The proposed bonus debenture issue of your Company enjoys AAA rating by CRISIL and AAA (Ind) rating by Fitch.

The total amount of fixed deposits as of December 31, 2002 was Nil. Deposits amounting to Rs. 29.40 lakhs were unclaimed by depositors as at December 31, 2002. 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, Rs. 60.12 lakhs of unpaid/unclaimed dividends and deposits were 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.

The Report and Accounts of the subsidiary companies are annexed to this Report along with the statement pursuant to Section 217 (2-A) and 217 (2-E) 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 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.

Other Financial Information

RONW, ROCE and EPS for the last five years

For the year ended 31 December	1998	1999	2000	2001	**2002**
RONW	48.9%	50.9%	52.6%	53.9%	**48.0%**
ROCE	58.7%	61.8%	64.5%	62.4%	**59.4%**
EPS of Re. 1	3.67	4.86	5.95	7.46	**7.98**

Economic Value Added (EVA)

Economic Value Added for the last five years is given below

Rs. Crores

Years	EVA	Average capital employed	EVA as % of capital employed
1998	548	1652	33.2
1999	694	2070	33.5
2000	858	2389	35.9
2001	1080	2816	38.4
2002	1236	3396	36.4

The above EVA has been computed under very conservative assumptions. A detailed note on EVA is given in page F 33.

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. The Table below gives the audited financial results of these segments.

Segment revenue, results and capital employed

Rs. Crores

For the year ended 31 December,	**2002**	2001
Segment Revenue (Sales plus income from services)		
Soaps and Detergents	**4,385.18**	4,170.71
Personal Products	**2,095.35**	2,053.67
Beverages	**1,232.03**	1,418.82
Foods	**714.50**	794.20
Ice creams	**107.25**	148.57
Exports	**1,256.05**	1,750.62
Others	**343.30**	652.68
Total	**10,133.66**	10,989.27
Less : Inter-segment revenue	**(95.22)**	(267.55)
Net sales / income from operations	**10,038.44**	10,721.72
Consisting of		
a) Net Sales	**9,954.85**	10,667.56
b) Service income from operations	**83.59**	54.16
Segment Results (PBIT)		
Soaps and Detergents	**1,132.88**	978.63
Personal Products	**756.34**	670.14
Beverages	**243.59**	173.59
Foods	**(28.92)**	6.92
Ice creams	**(14.39)**	(26.52)
Exports	**95.89**	82.04
Others	**(3.78)**	24.59
Total	**2,181.61**	1,909.39
Less : Interest expense	**(9.18)**	(7.74)
Add : Unallocable income net of other unallocable expenses	**24.69**	41.72
Total profits (PBT)	**2,197.12**	**1,943.37**

Rs. Crores

Capital employed in segments (Segment assets less liabilities) - as at 31 December		
Soaps and Detergents	**177.04**	66.10
Personal Products	**91.51**	(46.24)
Beverages	**(41.12)**	(33.53)
Foods	**(34.90)**	45.98
Ice creams	**(2.71)**	47.45
Exports	**265.04**	275.40
Others	**105.22**	154.01
Total	**560.08**	509.17
Add : Unallocable corporate assets less liabilities	**3,098.80**	2,534.53
Total Capital Employed in Hindustan Lever Limited	**3,658.88**	3,043.70

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

Risk and Internal Adequacy

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

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

For a FMCG company like Hindustan Lever, economic growth has a direct impact on its performance. Our outlook for the economy in 2003 is cautious, and we expect a GDP growth of about 5 per cent. Our plans for business development, revenue generation and profit growth factors in, this GDP growth.

Cautionary Statement

Statements in this Report, particularly those which relate to Management Discussion and Analysis, describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements", within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

16. DIVIDEND

An interim dividend of Rs. 2.50 per share of Re. 1/- each for the year 2002, amounting to Rs. 550.31 crores, was declared by the Board of Directors on July 22, 2002 and paid on August 21, 2002. A final dividend of Rs. 3.00 per share aggregating in all Rs. 660.37 crores was recommended on 29.1.2003. However, the Finance Bill 2003 has proposed to charge Dividend Distribution Tax at the rate of 12.81% (including surcharge) on dividend declared and paid by a Company replacing tax on dividend income at the hands of the recipient shareholders. Consequently, the aforesaid proposed final dividend would include the Dividend Distribution Tax payable and therefore, subject to enactment of the Bill providing for Dividend Distribution Tax at the hands of the Company, net dividend payable to the shareholders will work out to Rs. 2.659 per share. However, the financial outlay of the Company towards proposed final dividend inclusive of Dividend Distribution Tax @ 12.81% would remain unaltered at Rs. 660.37 crores. The net dividend of Rs. 2.659 per share will therefore be free of tax at the hands of the shareholders. Appropriate resolution in this regard would be placed before the shareholders in the ensuing AGM on June 13, 2003 and final dividend as approved at the AGM will be paid on or after June 16, 2003 .

17. 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.

18. DIRECTORS

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.

19. AUDITORS

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

20. 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 form several existing and new players.

21. TRADE RELATIONS

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

On behalf of the Board

M.S. **Banga**
Chairman

Mumbai, April 16, 2003

ANNEXURE TO THE DIRECTORS' REPORT 2002

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 2001StockOption 2
a)	Options granted	24,75,1 00 equity shares of Re. 1/-each valued at Rs. 5382.11 LRe. 1/-each valued at Rs. 6801.88 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	24,75,1 00 equity shares of Re. 1/- each	32,33,601 equity shares of Re. 1/- each
f)	Options lapsed	1,02,300 equity shares of Re. 1/- each	60,450 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	23,72,800 equity shares of Re. 1/- each	31,73,151 equity shares of Re. 1/- each
j)	Employee-wise details of options granted to :		
	i) Senior managerial personnel		Details in 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	
	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	
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.	

Note : i) Stock Option for 2003 have not been granted as on the date of the Directors' Report. These will be appropriately disclosed after such Grant is made, ii) Option lapsed is as on December 31, 2002.

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 2002
M.S. Banga	115340
M.K. Sharma	32215
Gurdeep Singh	32215
D. Sundaram	40270
A.S. Abhiraman	16108
Arun Adhikari	32215
Satish K. Dhall	32215
Gunender Kapur	40270
Anoop K. Mathur	32215
J.H. Mehta	16108
S. Ravindranath	32215
Dalip Sehgal	24170

Note : Above stock options are for 2002. Stock Option for 2003 have not been granted as on the date of the Directors' Report. These will be appropriately disclosed after such Grant is made.