Report of the Directors and Management Discussion & Analysis

1. PERFORMANCE OF THE COMPANY

1.1 Results

Your Company's performance during 2005 is summarised below :

Rs. Lakhs

	2005	2004
Gross turnover	**11975,53**	10888,38
Turnover, net of excise	**11060,55**	9926,95
Profit before tax	**1604,47**	1505,32
Tax on profits	**(249,96)**	(306,05)
Exceptional Items	**53,60**	(1,93)
Net profit	**1408,11**	1197,34
Dividend (incl. tax on distributed profits)	**(1260,25)**	(1246,15)
Transfer to General Reserve	**(142,00)**	(125,00)
Profit & Loss Account balance carried forward	**650,66**	644,80

1.2 Key Ratios

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

	2005	2004
Earnings per share (Rs.)	**6.40 (per share of Re. 1/- each)**	5.44 (per share of Re. 1/- each)
Dividend per share (Rs.)	**5.00 (per share of Re. 1/- each)**	5.00 (per share of Re. 1/- each)
Return on Net worth (%)	**61.1**	57.2

1.3 Turnover

Gross turnover for the year increased by 10% and net turnover increased by 11.4% primarily due to higher production in fiscal benefit zones. The sales of products in different categories, net of excise, appears below:

Rs. Lakhs

	2005		2004	
	Sales	Others*	Sales	Others*
Soaps, Detergents & Scourers	**4928,94**	**32,77**	4447,98	22,76
Personal Products	**2907,88**	**44,00**	2434,83	37,41
Beverages	**1277,35**	**9**	1192,89	1,66
Foods	**313,72**	**—**	285,07	—
Ice Creams	**97,03**	**1,11**	87,74	1,20
Exports	**1347,80**	**—**	1249,02	—
Others	**187,83**	**55,37**	229,42	45,31
Total	**11060,55**	**133,34**	9926,95	108,34

* The 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,	2005	2004	Rate of growth%
Net sales	**11060,55**	9926,95	11.4
Other income	**304,78**	318,83	(4.4)
Total income	**11365,33**	10245,78	10.9
Operating expenses	**(9617,22)**	(8489,58)	13.3
PBDIT	**1748,11**	1756,20	(0.5)
Depreciation	**(124,45)**	(120,90)	2.9
PBIT	**1623,66**	1635,30	(0.7)
Interest	**(19,19)**	(129,98)	(85.2)
Profit Before Taxation (PBT) and exceptional items	**1604,47**	1505,32	6.6
Taxation : Current tax	**(223,00)**	(266,00)	(16.2)
Taxation : Deferred tax	**(41,00)**	(54,74)	(25.1)
Taxation : Fringe Benefit Tax	**(30,00)**	—	—
Taxation adjustments of previous years (net)	**44,04**	14,69	199.7
Profit After Taxation (PAT) and before exceptional items	**1354,51**	1199,27	12.9
Exceptional items (net of tax)	**53,60**	(1,93)	(2873.0)
Net profit	**1408,11**	1197,34	17.6

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 dated April 28, 2006 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. CHANGE IN THE ORGANISATION STRUCTURE

Pursuant to changes in the Unilever operating framework, the organisation structure of your Company was simplified during the year by the appointment of a Management Committee comprising Mr. M.K. Sharma, Mr. D. Sundaram, Mr. S. Ravindranath, Mr. Anoop Mathur, Mr. Sanjay Dube, Mr. Nitin Paranjpe and Mr. Dhaval Buch under the leadership of Mr. Douglas Baillie, as CEO and Managing Director of the Company.

The new structure consisting of business and functional leaders aims at driving the agenda of creating and building dedicated consumer and customer resources and is poised towards achieving a greater organisational balance between 'Focus' and 'Scale' as a means to tap the market opportunities in the emerging economic and social conditions in India.

5. MANAGEMENT DISCUSSION AND ANALYSIS (MD & A)

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

6. PRODUCT CATEGORIES

This report records the business performance of the Company in a simplified structure with a sharper focus on power brands and categories in the combined (i) Home and Personal Care (HPC) Division and, an integrated (ii) Foods Division, comprising Beverages, Foods, and Ice Cream businesses. New ventures and Speciality Exports continued to operate outside these two Divisions.

6.1 Home and Personal Care Business

HPC markets which returned to growth in second half of 2004 sustained their revival and grew by 6.6% in 2005. The market continued to witness intense competitive activity both from multinational and local players. The business also faced severe challenges on the cost front due to higher crude oil prices.

In this context your Company's sales grew by a robust 11.4%. The segment profit of the business grew by 6.6%, the profit impacted by cost and higher brand investments. A&P investments behind our brand increased by 20.3% to strengthen their competitiveness.

6.1.1 Soaps & Detergents

In the Soaps & Detergents segment, your Company sales grew by 11%. The segment profit however declined by 11.8% over 2004.

In fabric wash intense competitive activity continued. High crude oil prices resulted in increased raw material costs thereby affecting the margins. In this background Laundry category sales grew by a smart 16.3% achieving double digit growth for a second year in succession. Significant investments were continued to be made in product innovation and quality. During the year, Rin Advanced continued to strengthen its position and gained market share. The unique patented 'zero mineral' detergent bar "Rin Supreme" continued to grow strongly, backed by great product performance and advertising. Overall Rin portfolio grew in double digits.

Wheel, your Company's largest brand, crossed Rs.1,000 crores of sales in the current year. It was the fastest growing brand in HLL's laundry business growing at over 19%. During the year, Wheel was relaunched as "Lemon fresh" and this launch was backed by significant activation programmes. With its Active Wheel portfolio, the brand focused specifically on gaining market shares in Uttar-Pradesh and Madhya-Pradesh. Backed by significant activation efforts in over 30,000 villages and with focus on "geographic specific strategy" Wheel gained 0.5% share in the current year.

The Surf Excel Quick Wash test launch in TN and AP in 2004 with low foaming properties that enables consumers to wash clothes effectively with substantial reduction in water usage, was nationally extended in 2005 summer. This was supported with a new advertisement campaign and activation programmes. During the year, Surf Excel Blue was strengthened with "Removes stains, not colours" campaign. This was well received by the consumer and the brand recorded healthy growth. The Surf Franchise also reinforced its emotional connect with consumers with the launch of new "Daag aache hain" (dirt is good!) campaign.

All these activities in fabric wash paid back well and the category reported a gain in market share of 0.3%.

In the Dish Wash category, Vim continued to grow on the back of the consumer relevant 'polycoat' innovation, which was launched across the country in October 2005. This significant innovation has received wider acceptance with this brand recording a double digit growth in the current year and enabled the brand to be a strong market leader despite competition from regional players.

2005 has been a good year for the toilet soap category. After a consistent decline in the last 2 years the category achieved a value growth of 6.6%. However the category continued to witness intense competition from local and regional players. To meet the competition, investment in this category was significantly stepped up with Advertising spends increasing by over 32%. This strategy to plough back money into advertising to build brands, has helped kick-start growth in the category. Vegetable Oil prices remained largely stable during the year though prices started firming up towards the end of the year.

During the year the No.1 Soap brand Lifebuoy continued its growth momentum for the third consecutive year. The brand successfully leveraged the relaunch of 2004 through excellent activation in 2005 by "Health and Hygiene" in urban markets and "Swasth – Chetna" (Health Awareness) programme focused on rural markets. It also launched 'save the children campaign'.

During the year Lux was relaunched with a new shape using superior technology. A novel sensory look was introduced with coloured "Bits" for the first time in the toilet soap category, to enhance the appeal and functionality of the product. In 2005 the Lux brand celebrated its 75th year of existence in India and this occasion was used to launch various activation programmes aimed at strengthening the brand's leadership and consumer intimacy.

This year also marked the turnaround of Hamam and Rexona, which was relaunched at the beginning of the year. Both the brands have grown well. Dove, a highly successful international brand, almost doubled its volumes for the second year in succession. This was achieved by offering a consumer attractive value proposition, focused distribution and trial generation programmes.

Breeze and Liril however, declined during the year and actions are in place to restore the growth in these brands.

6.1.2 Personal Products

In the Personal Products segment, sales grew by 19.4% and the segmental profit by 4.7% over 2004.

In the highly competitive category of Hair wash your Company achieved a strong growth of 32%. Your Company has three main brands, viz., Clinic Plus, Clinic All Clear and Sunsilk and all the brands grew in double digits. This growth was achieved by several innovations and launches. Sunsilk silky strength was relaunched as Sunsilk Thick & Strong with proposition of solving the problem of breakage due to thinning hair. The new product Sunsilk 9 to 9 after wash combing lotion was well received by consumers.

In Clinic Plus growth was driven by the successful launch of an innovative shampoo plus oil through sachet pack. Clinic All Clear black variant was introduced with the benefit of hair fall reduction and dandruff.

It was another good year for the skin care category with a strong all-round performance by Fair & Lovely, Pond's and Vaseline. Fair and Lovely was relaunched with an improved formulation and packaging. Vaseline's growth was aided by successfully driving the usage of this brand in non winter months.

It has been a very good year for the talcum category. After a continuous decline for the past 4 years, talcum market grew this year and the growth was primarily driven by Ponds. The thrust on driving penetration in rural markets through Rs. 5 packs was very successful in expanding this category. A new variant of Ponds viz. Ponds Oil Control was successfully launched and was well received by consumers.

The toothpaste market which has been stagnating for more than two years grew in low single digits in 2005. In a highly competitive year, Close Up performed handsomely, growing well ahead of market with a very strong double digit value growth and increased its market share in its key markets of South India which contributes to almost half of the brand's volumes. Pepsodent performed satisfactorily with an NPS value growth of 6%, albeit with flat market shares for the year.

Lakme continued on its consistent high growth performance. During 2005 the Lakme Hair NeXT hair styling range was a notable extension of the brand in the hair care segment. A premium skin care line specially designed for oily skin, MATT EFFECT, received enthusiastic response both from trade and consumers. Lakme Beauty Salon business now operates from 88 locations.

Axe's deos were severely impacted in the past by the presence of imported "grey" products in the market. Your Company took a bold step of reducing prices by 25% to counter the grey products. This has resulted in significant volume uplift in the current year.

6.1.3 Customer Management

This was a year of transformation in customer management with strong focus on winning customers at PoP (Point of Purchase).

Your Company took several initiatives to delight its customers, both distribution and trade. A major re-organization of sales structure was done with the objective of achieving excellence in execution at the point of purchase. Focused efforts are being taken to build sales capabilities by leveraging IT. Roll out of RSnet - the tool for electronic connectivity - with the distributors has progressed well and enhanced the speed and accuracy of sales and stock holding information from the distributors. Initiatives such as continuous replenishment of stock enable better management of distributor's investment.

The pro-active initiative of your Company in creating dedicated channel teams for Modern Trade and Rural has been successful.

6.1.4 Supply Chain

Year 2005 witnessed unprecedented increase in petroleum and petrochemical costs. This contributed to substantial inflationary pressure on raw material, packaging material and distribution costs. Your Company's sharp focus on cost reduction programmes mitigated this cost pressures to a considerable extent. In this your Company continued to benefit from Unilever's global and regional strengths, which led to significant buying cost advantages. Strategic alliances with many international and local vendors led to development of new technologies, new materials and joint cost reduction programmes, the benefits of which were shared between your Company and the concerned vendors.

Towards the end of 2004 your Company commissioned two new factories at Uttranchal and Himachal at a total investment of Rs. 220 crores to meet the growing demand and to derive supply chain benefits. Production in the new factories has been successfully scaled up and benefits of these locations have been realized as per plans. Several vendors have also set up supporting ancillary units in these two locations, which has led to significant employment generation, in line with the Government policy of enhancing employment opportunities in such areas.

6.1.5 Kimberly Clark Lever Pvt. Ltd.

Kimberly Clark Lever Pvt. Ltd. (KCL), the joint venture between your Company and Kimberly Clark Corporation, USA, had yet another year of good performance. Turnover grew by 26% to Rs. 107 crores while volumes grew by 21%. This was the second successive year for the JV where it achieved 25%+ growth. Cumulative losses have been completely wiped out and the JV is now poised to pay dividends to its shareholders. The JV has also expanded its capacity for manufacturing diapers, and has also tied up with a contract manufacturer to manufacture Kotex sanitary napkins. Huggies continued to be the market leader in diapers and grew volumes by 31%. A new range of imported diapers was rolled out as Huggies Ultra-Comfort and met with good response. In the sanitary napkins category, Kotex faced severe competition from market leaders but still grew volumes by 15%. Towards the end of the year, a new range of Kotex was launched as Kotex Maxi and Kotex Ultra and received encouraging response.

6.2 Foods

The Foods division of your Company (comprising the Beverages, Processed Foods and Ice Creams businesses) recorded an excellent performance during 2005 with a double digit top line growth and significant improvement in profitability. In its first full year of operations significant operational efficiencies and cost synergies have been realized, thereby making the business fit to accelerate its growth profitably.

The highlights of the individual product categories are given below :

6.2.1 Tea

Our consistent strategy of building Brooke Bond and Lipton as mega brands to consolidate and strengthen your Company's leadership in the packet tea market has yielded positive results. Brooke Bond and Lipton grew handsomely for the third successive year. High impact consumer advertising and strong activation have strengthened the brands and significantly expanded its consumer base. During the year, Red Label Natural Care with 5 natural ingredients was launched to strengthen its 'family care' position, to help the family stay healthy. To tap the huge opportunity at the bottom of the pyramid, value packs at price points of Rs. 10/- and Rs. 2/- were aggressively built, particularly in small towns and rural markets. The sustained focus on brand building, innovation and aggressive distribution expansion has helped your Company to gain share in the overall category and establish Brooke Bond as the largest brand in the packet tea market.

Lipton continued its aggressive growth by focusing on youth and leveraging HLL's strong presence in the Out of Home channel. Lipton has also established its strong presence in the Modern Trade channel. During the year, Lipton Ice Tea was launched in 14 cities using the Pepsi distribution system, under our strategic partnership with them.

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

6.2.2 Coffee

The Coffee business had another excellent year, with strong growth both in Instant and Roast and Ground (R&G)

categories. Our strategy to strengthen the brand equity of Bru through clutter breaking and highly visible communication, coupled with world-class activation led to significant share gains, making it the leader in the branded coffee market. During the year, exciting formats like Cappuccino were successfully launched to recruit new consumers and strengthen the Bru's channel leadership particularly in the Modern Trade channel. The satchets format continued to aggressively drive category expansion, while contributing significantly to the brand's growth.

6.2.3 Processed Foods

Processed Foods business delivered a strong performance during 2005. As reported last year, a series of steps were undertaken to streamline the supply chain, including reduction of pipeline stocks, heightened focus on product freshness and significantly improved customer service. These have all been successfully implemented. During the year, Knorr and Annapurna brands were relaunched with improved mixes. The response in the market place has been very encouraging as indicated by the growth numbers. The profitability of the business has also improved considerably. Annapurna Atta and Salt were relaunched with significantly improved product and contemporary packaging. This, coupled with focused investment in advertising and channel activation has helped the brand to regain its growth momentum.

Kissan brand has been comprehensively relaunched with a distinct identity in early 2006. A strong marketing mix including aggressive media, high visibility and activation have been planned to strengthen Kissan's strong equity among consumers as the family nutrition brand.

6.2.4 Ice Creams

2005 was a good year for the Ice Cream business with a double digit top line growth and positive bottom line for the first time in its history. The business continued its strategy of driving growth by focusing on availability, affordability and excitability. Availability was improved by an order of magnitude in all channels, viz., the traditional channel, mobile vending channel and parlours. The business launched Cornetto Chocobloc and Bikimax, two new exciting products, to add to its exciting product range. A highly noticed media and outdoor communication, supported by a powerful activation platform have helped in establishing Kwality Walls visible presence across the country. Extensive cost re-engineering programmes, particularly in manufacturing, have been implemented to improve the cost structure of the business including purchase of sourcing rights for North Indian markets. The business is well poised to sustain its good performance of 2005 in future.

6.2.5 Modern Food Industries (India) Limited (MFIL)

Modern Food Industries (India) Limited (MFIL) reported an operating profit in the Bread business (before depreciation, interest and restructuring/exceptional items and excluding profit on sale of assets of Rs. 221 L in 2005, against a loss of Rs. 74 L in the previous financial year. This is in line with HLL's strategy to turn around the Company.

Among the key actions during the year 2005 was the closure of the loss making units in Chandigarh, Ahmedabad and Indore in MQ. Further, the Delhi bread unit, which was the single largest loss-making unit of Modern, was also fully closed in Nov. 2005. The restructuring was done through peaceful separation of the workers under appropriate VRS schemes. Post the closure of own manufacturing in these geographies, the bread operations were handed over to newly appointed franchisees under a Licence agreement.

Own bread sales in continuing units grew by 6.8% in 2005. The Bread business continued to focus on loss-reduction coupled with profitable growth and margin improvement, in continuing units. On a comparable basis, 2005 showed an improvement in Bread gross margin over the previous year, by 270 basis points. Margin improvement was aided by closure of the loss making units, cost efficiency measures in continuing units - especially in the area of energy saving, reduction in unit overheads, improvement in manufacturing efficiencies and supply chain initiatives in wheat procurement, maida contracting in season and yeast sourcing.

Up-gradation of Quality and Consumer Safety standards, being one of HLL's key priorities, was progressed as per plan in 2005, and Kolkatta and Bangalore bread units were put up for audits by specialist Unilever quality audit teams; Mumbai and Chennai units had been cleared by audit study teams in 2004. Quality audits for the remaining 2 units at Cochin and Hyderabad are scheduled for 2006.

6.3 Speciality Exports

The Speciality exports business achieved an NPS of Rs. 594 crores for the year 2005. The value added portfolio currently being focused grew by 21%. The business incurred a segment loss of 11%.

6.3.1 Castor

Castor business registered a growth of 2% over 2004. The Derivatives segment, which is the next step in value chain, registered a significant growth of 23% over 2004 in sales. In this segment, Company started to service the customers in the Middle East. The product list was expanded with the addition of superior grade of HSA/HCO powder.

6.3.2 Marine

Tsunami at the end of the previous year severely affected the entire supply chain infrastructure on the east coast thereby reducing fish availability. This along with the anti dumping duty in the US on Shrimp exports and the declining US dollar impacted the Indian shrimps industry during 2005.

To address the issues faced by the Marine industry in India for over 2 years now, HLL developed and launched several value added products like Breaded Shrimps, Marinated shrimps and squids and Seafood mixes in US and EU markets in 2005. This segment offers better potential and is likely to be the growth driver in future. The value added products, along with Surimi and Crabsticks business registered a growth of over 50% over 2004.

Several new customers in markets such as Romania and Switzerland in EU, Russia, Taiwan, Uruguay and Mexico were developed for the shrimps business, while Italy was added in Crabsticks business.

The business was awarded the highest overall exporter of seafood from India, highest value added seafood exporter's award as well as an award for special efforts for new products and new markets by MPEDA for the year 2004-05. This is the 5th consecutive year that HLL has won the awards for overall exports and value added products. Besides, the seafood factories at Chorwad and Aroor received higher level of British Retailers Consortium rating and top rating by internal UQCSRM (Unilever quality and consumer safety norms).

6.3.3 Rice

The Rice brands grew by 11% led by a significant 93% growth in Rozana brand in the popular segment. The branded business currently constitutes over 55% of the total Rice Exports business. Strong brand growth has helped the business to put into action its new strategy of focusing on Brands in specific geographies. Strong growth in Rozana, leading position of some of the brands in Kuwait and Oman and Gold Seal Indus Valley Rice activation in North America with the new marketing mix have been some of the major achievements in 2005.

6.3.4 Leather

Ponds Exports Ltd.

Leather Business under Ponds Exports Ltd. (a 100% subsidiary of your Company) maintained its markets in Footwear and Upper business segments.

Europe, our major market was sluggish and the market growth has been slow in Germany. Retailers in Europe are dropping prices to improve sales with China continuing to dominate the scene. However, HLL maintained its customer list with Hush Puppies and Gabor as key customers and strengthened it further with increased business from new customers like Primigi and GBB in France and Kiaya in Portugal. An old customer for shoes business, Josef Siebel returned to India and to HLL.

6.4 New Ventures

6.4.1 Water

Your Company has developed Pureit, the most advanced water purifier in the world, because it is the only in home water purifier that gives as safe as boiled water without boiling and without needing electricity or continuous tap water supply. Pureit removes all harmful viruses, bacteria, parasites and pesticides and therefore provides complete protection from all waterborne diseases like jaundice, diarrhea, typhoid and cholera.

Pureit has been test launched in a few cities of Tamil Nadu in 2005 and the response has been encouraging. This has been launched at a price affordable to the common man and the cost of water from Pureit is even cheaper than cost of boiling. A unique business model has been established for customer acquisition and sale & distribution of the product. This involves consumers going through an experiential brand interaction in specially created Pureit Safe Water Zones, and in consumer homes.

The business is currently building its capability with respect to manufacturing, supply chain, and information technology as a precursor to a wider geographic rollout.

6.4.2 Hindustan Lever Network

Hindustan Lever Network is a multi-category business opportunity started in 2003, in the area of network marketing. Network marketing has now become a 100 Bln $ business globally, with higher growths in Asian markets in recent past.

Your Company has given apportunities of self-employment to 74,000 new members and the base of self-employed entrepreneures in the network business has crossed over 4,00,000. A vibrant training organization with a capacity to train 35,000 persons per month is in place providing customized training to our members across the country. Hindustan Lever Network is now present in over 220 locations across the country servicing over 1400 towns.

Based on superior consumer understanding and Unilever's world-class technology, 12 new products were launched during the year. This included expanding the Foods range, health range, and personal care range .The rapid pace of innovation has ensured maintenance of market shares in 2005 in the home and personal care segment in network marketing.

During 2006, Hindustan Lever Network would further build the channel capability. In addition, capabilities in Training, Information Technology, Supply Chain would be further upgraded to achieve sustainable competitive advantage.

6.4.3 Project Shakti

70% of Indian population lives in 6,27,000 villages and these markets with their large population present a significant opportunity for your Company. Over two thirds of these villages are not easily accessible due to poor infrastructure and lack of business viability. 'Shakti' is our unique, win-win programme addressing this opportunity. 'Shakti' operates through 3 initiatives.

Shakti Ammas provide micro-enterprise opportunities for women from Self-help-groups (SHG's) making them independent women entrepreneurs as direct-to-home distributors of your Company. This network of entrepreneurs has **doubled your Company's direct rural reach,** with 18,222 Shakti entrepreneurs covering 71,977 villages in twelve states at the end of 2005. Moreover, Shakti entrepreneurs visit and sell to over two million rural homes every month, creating a unique, sustained rural direct-to-home channel. Your Company aims to reach 600 million consumers in 5,00,000 villages through 1,00,000 entrepreneurs by 2010.

Shakti Vani is a communication initiative that seeks to improve the standard of living in the rural community. Village women are trained as 'Vanis' and disseminate information on basic hygiene practices, adoption of which will dramatically improve the health & hygiene standards in the villages. Shakti Vani coverage has doubled to 20,000 villages across four states in 2005. Shakti Vanis through communication creates awareness for health and hygiene and this helps in developing growth opportunities for such products in the rural India.

IShakti is a rural community portal that provides relevant and valuable information for the rural populace. Information is available on areas such as agriculture, health and hygiene, education, veterinary, legal, employment, etc. thus filling the information gap that exists in the villages and unlocking rural productivity and prosperity. The site is completely in local language with text to voice facility enabling even the illiterate to get benefit of information. IShakti is currently available in over 1,000 Kiosks. IShakti makes available information useful/ relevant to rural consumers. IShakti also gives platforms for advertising the products and creating awareness on the benefits of its use, apart from generating revenue through selling spaces on the portal to other companies.

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

6.4.4 Consumer Health Care

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

The business is being developed strongly on two legs - direct selling and health and wellness services through a franchise operation. Ayush is the first Ayurvedic brand to get into Therapy Centers. Ayush Therapy Centers show promising signs of an independent business opportunity. The revenue from centres have more than doubled in 2005. Currently, Ayush Therapy Centers are present across 7 cities of Chennai, Bangalore, Mumbai, Hyderabad, Goa, Pune and Delhi. During 2006, it is planned to double the reach through additional centers .

Ayush Spa range which was extended in direct selling channel through HL Network in 2004, has received excellent response registering 50% + growth. During the Year, 3 new products were launched under Ayush brand, expanding the health care range.

6.4.5 Sangam Direct

Unilever India Exports Limited (Previously known as Indexport Limited)

Sangam Direct, the direct to consumer e-tailing initiative, services orders placed by customers on phone or e-mail within 24 hours. During the year, Sangam was extended to south Mumbai and with this, it now services the whole of Mumbai. Revenues from Sangam have grown by 60% in 2005.

Sangam offers a unique convenience benefit to customers which is increasingly relevant in urban areas. Over 1,40,000 families have already tried out the convenience offered by Sangam. The Company will take a view on this business model bearing in mind relevant considerations such as channel conflict, scalability and viability of the business to contribute to the growth of your Company.

7. RESEARCH & DEVELOPMENT AND TECHNOLOGY

Robust technology initiatives are in place to deliver sustainably enhanced consumer value through HLL's brands. The R&D programmes are aligned to deliver "vitality" to consumers through the entire spectrum of HLL's products. Some of the initiatives have already succeeded and several more are in the pipeline.

Contamination in drinking water is a major source of diseases in India and many parts of the world. Providing cost-effective and convenient solutions to consumers to purify water in-home is the objective of one of our R&D programmes. This work had resulted in the development of a new hybrid technology, which provides consumers freedom to purify water, irrespective of the source and also whether or not they have running tap or electricity. This product was successfully test marketed in Chennai and other parts of Tamilnadu. R&D continues to produce new inventions and refinements to enhance the value of this product. Plans are in place to roll this out to other parts of the country.

Robust research programmes are in place to derive maximum consumer value from the rich source of traditional Ayurvedic knowledge. A framework to assure the safety of herbal/natural products was developed and this framework is expected to be the foundation for clearance of herbal products for use anywhere in the world. A series of research programmes have been initiated to offer the benefits of specific performances of Ayurvedic herbs and formulations through home and personal care, as well as food products. One of the early examples of the success of this programme is the launch of Brook Bond *Nature Care* tea. Primary focus in the R&D programmes in the area of tea is to enhance the health benefits of tea. There is also a significant research programme to offer enhanced nutrition to Kids as well as adults. Several R&D advances are in the innovation pipeline of foods and HPC. These also include scientific rationalization of Ayurvedic therapy.

Rollout of improved dish-wash bar was extended to many other parts of India. The polymer coated dish wash bar provides distinctly superior in-use economy to consumers.

Technology to reduce occurrence of acne was developed and incorporated in a specific variant of Lifebuoy that was launched in 2005. A mild soap bar that is especially suitable for kids was developed. Skin lightening is a key focus area in R&D, seeking herbal and other actives for skin creams with better control of skin colour.

Role of technology in providing superior consumer value is well engrained in HLL's business strategy and your Company's R&D is pursuing it with increasing intensity, facilitated by several new initiatives to advance the *researching process*. These include Science Monday PM, Guiding Measurements, Cross-functional Scoping of Research Projects, and Partnering with Complementors. These processes are serving to provide new directions for areas, such as Laundry, that would be otherwise deemed "mature."

8. ENVIRONMENT, SAFETY AND ENERGY CONSERVATION

Your Company's focus and attention continued throughout the year on the important key result area of Occupational Safety and Environment Management. The only acceptable standard of Safety performance for your Company envisions "zero accidents". The Accident Frequency Rate, already one of the lowest amongst Unilever Companies worldwide, continued its reducing trend during the year.

The safety journey of your Company with an intensive focus on behavioural aspects of safety, along with continual improvements in engineering controls and safety management systems, made good progress. The behavioural safety training has now covered more than 2500 managers and officers. Clear signs of increased positive safety behaviour are becoming evident through one-to-one safety contacts being made by management staff with our employees. This is also serving to reinforce the implementation of Unilever's Framework of Standards aligned to international standards of ISO 14001 / OHSAS 18001 which has significantly progressed as measured through independent periodic audits. During the year, Rajpura factory was certified to ISO 14001 and OHSAS 18001standards.

Your Company received the "Good Corporate Citizen" award from Bombay Chamber of Commerce and Industry. Tatapuram and Tindivanam factories received awards for exemplary safety performance from National Safety Council (Kerala Chapter) and the Government of Tamil Nadu respectively.

Your Company's ongoing programmes for continuous reduction of the environmental impact of operations have further reduced the environmental load of key parameters. These continue to remain well below the statutory requirements, with annual reduction targets for individual manufacturing sites monitored on a monthly basis. Your Company has recorded further reduction in specific energy and water consumptions of 10% and 13% over 2004, through productivity improvements, use of alternative sources of energy and recycling / reuse of energy / water where feasible. Further your Company's new detergent formulation, currently in the market, is helping to significantly reduce consumption of fresh water - a national resource in short supply in many parts of the country - by requiring less water for washing at the consumer's end. To conserve ground water, your Company has progressed rainwater harvesting projects at the manufacturing sites. Other ongoing sustainability projects such as greening of barren land in and around factories, vermi-composting of wastes into value added fertilizer supplement for cultivation and sustainable agricultural practices in tea plantations have also progressed well.

9. PERSONNEL

The HR agenda 2005 focussed on delivering distinctive people and organizational capabilities, embedding a culture of seamless team working and enhancing productivity in our manufacturing units through the process of bilateral negotiations.

To enhance our leadership capabilities, a number of managers in leadership positions were provided with coaching inputs to imbibe and practice an inclusive style of leadership. The importance of flawless execution has been driven by the leadership team and initiatives in this area have improved the level of strategic clarity and level of alignment to the vision and annual goals of the business. This has helped build our execution capability. Through continuous communication and engagement, spirit of co-creation and team bonding events, a culture of vitality has been embedded. The culture of working in cross functional teams to achieve the priority business goals was driven with a lot of passion and commitment. Team building interventions have been carried out for all teams with positive feedback at evaluation stage and visible shifts in the quality of team effectiveness.

During 2005, TPM gains were further consolidated and 5 sites achieved TPM Consistency Award and 5 sites achieved TPM Excellence award and with this, 25 sites in HLL have been accredited by JIPM till date. TPM is also being extended in supply chain and modest beginning has been made in our depots at Mumbai branch in 2005.

The Employee Relations in your Company continued to be positive. During the course of the year, productivity linked LTS were signed in 6 of our units through a process of bilateral negotiations with the employee representatives.

Your Company has introduced organizational changes in line with the global One Unilever operating framework to sharply focus on the 'Go-to-market' and Brand Building capabilities. The consequent movement of people and the transition arrangements have been managed in a smooth and seamless manner ensuring the retention and motivation of our talent pool.

The Company is alive to its responsibility towards the society in the area of creating opportunities for Schedule Castes, Schedule Tribes and Other Backward Communities. The Company has taken conscious efforts in giving employment opportunities within the organization to such classes of our society. From the internal audits carried out by the Company, it is evident that 12% of the employees belong to SCs and 7% belong to STs. You may be gratified to note that the Company created upto 55% employment opportunities in the reserved category, including employment of 36% OBC, without compromising on our principles of meritocracy.

Your Company believes taking affirmative action of training members of this community so as to enable them to compete with general catergories in seizing opportunities for employment and entrepreneurship. Society at large will benefit from such initiatives without impacting cost, quality or competitiveness of the business.

10. MERGERS/ACQUISITIONS AND DISPOSALS

10.1 Merger of Five subsidiary companies

The Company had several subsidiary companies, which had over a period of time come into company's fold, consequent to the amalgamation of TOMCO, Brooke Bond Lipton India Limited and Pond's India Limited. Your Company had undertaken an exercise to evaluate the commercial rationale for maintaining each of these subsidiaries and it was considered that a consolidation of the activities of these subsidiaries would not only simplify the accounting processes but will also add significant value to the business by elimination of complexity. Accordingly the Company had sought the approval of the shareholders and the High Court, pursuant to which the following five subsidiaries of the Company merged with your Company as of December 30, 2005 with effect from the respective Appointed Dates stipulated in the Merger Scheme approved by the High Court of Mumbai.

- Lever India Exports Limited
- Lipton India Exports Limited
- Merryweather Food Products Limited
- TOC Disinfectants Limited
- International Fisheries Limited

10.2 Merger of Vasishti Detergents Limited with Hindustan Lever Limited

Vasishti Detergents Limited (VDL) came into the fold of your Company as a result of amalgamation of the Tata Oil Mills Company Limited (TOMCO). Your Compnay held 32.9% shareholding in VDL. VDL was merged with your Company on February 28, 2006 pursuant to a Scheme of Arrangement sanctioned by the Hon'ble High Court of Bombay with retrospective effect from July 1, 2005, the Appointed Date. VDL had manufacturing facilities for manufacture of toilet soaps and detergents at Chiplun in Maharashtra and had been engaged in producing goods for your Company. While the 32.9% shareholding held by your Company have been cancelled, the remaining shareholders of VDL have been allotted one fully paid equity share of Re. 1/- each of your Company for every ten equity shares of Rs. 10/- each held by them in the capital of VDL. The Company had fixed March 31, 2006 as the record date by reference to which the shares of HLL have been allotted to the shareholders of VDL. Shareholders of VDL who have become shareholders of your Company, would also be entitled to receive the interim dividend of Rs. 2.50 per share of HLL, which was declared on July 30, 2005.

10.3 Transfer of the Sewri undertaking to Bon Limited

Pursuant to approval of shareholders, the soap and soap intermediate manufacturing facilities at Sewri in Mumbai were transferred to Bon Limited on 17th July, 2005 as a going concern at the net book value of assets plus actual working capital employed as on that date. The transfer entailed inter-alia transfer of all willing employees to the rolls of Bon Limited, with continuity of service and full protection of their existing terms and conditions of service. For this transfer your Company invested Rs. 10.00 crores of additional capital/funds, which enabled Bon Limited to acquire assets worth Rs. 8.33 crores, from the Company as part of the slump sale, balance being retained in cash. Your Company has offered fixed commitments both in terms of returns as well as orders to Bon Limited apart from an undertaking to pay a minimum guarantee of Rs. 11.50 crores per annum for three years in case of shortfall in orders placed on Bon Limited.

The Company has thus facilitated Bon Limited to achieve a simple organization structure with lesser overheads. The Company also has an opportunity to explore relocation of its activities and/or commence additional business through other satellite manufacturing units. It is expected that the risks and rewards of the performance of the undertaking would be fully shared by all the stakeholders viz. the Consumers, Shareholders and the Employees / Workmen. It will enable a fair comparison of the unit as a sourcing location for personal wash products / toilet soaps with other available alternatives on the basis of conversion costs. It will further bring a sharper focus on the need to reduce costs while encouraging enhancement of productivity to overcome the inherent disadvantages.

However, there have been challenges in making the activities of Bon Limited competitive in cost, viable and profitable due to non-cooperation and rigid attitude of the workers. Bon was expecting that with a lean management and their desire to revive the Company, workers' support would be forthcoming but due to confrontations on the part of the workmen, Bon witnessed an erosion in its net worth during the year and had to be reported to BIFR as a potentially sick Company with erosion of 50% of its peak net worth.

The current outlook for the business appears to be dismal and unless the current trends are reversed with active cooperation and collaboration of workforce the Company will soon become a sick company with full erosion of its networth.

10.4 Disposal of the Functionalised biopolymers business

In December 2004, your Company had obtained approval of its shareholders through postal ballot for divestment of its functionalised biopolymer business in line with Company's focused business strategy and consequent exit from its non-core businesses.

The said business comprised manufacture and marketing of tapioca and corn based specialty modified starches mainly for the paper industry. The business pioneered the concept of wet-end starch use in paper making in India and enjoyed a dominant market share in the high-end paper starch segment.

This business was transferred to Riddhi Siddhi Gluco Biols Limited (RSGBL), India's largest integrated corn-wet-miller with a turnover of Rs. 200 crores on a slump sale / going concern including the manufacturing facility at Pondicherry together with employees directly relevant to the business with continuity of service and full protection to existing terms and conditions of service.

10.5 Scheme of Arrangement for Demerger of the Plantations business of the Company in the State of Assam and Tamilnadu to Doom Dooma Tea Company Limited and Tea Estates India Limited respectively

Your Company had undertaken Demerger of its operations in the area of growing of tea and its processing to CTC or orthodox teas and its sale as garden teas in the State of Assam and Tamil Nadu, on a going concern basis, into two independent and separate Companies, being 100% subsidiaries of the Company, known as Doom Dooma Tea Company Limited and Tea Estates India Limited, respectively as the Resultant Companies consequent to such Demerger.

Following the approval of the shareholders, the Hon'ble High Court at Bombay has passed an order dated November 23, 2005 approving the Scheme of Arrangement for Demerger and transfer of Tea Divisions of Assam and Tamil Nadu of your Company to Doom Dooma Tea Company Limited and Tea Estates India Limited respectively, with effect from April 1, 2005, the appointed date of the scheme.

10.5.1. Transfer of Doom Dooma Tea Company Limited (DDTCL)

Pursuant to transfer of business as above, in the first quarter of 2006, your Company's 100% shareholding in Doom

Dooma Tea Company Limited was transferred to McLeod Russel India Limited (MRIL), a lead industry player in tea plantations. DDTCL owned seven tea estates spread over approximately 3,100 hectares and 3 factories for processing of teas in Assam, the average output from which has been approximately 6,000 metric tons.

10.5.2. Transfer of Tea Estates India Limited

The Company also transferred in the first quarter of 2006, its entire shareholding in its 100% subsidiary Tea Estates India Limited (TEIL) to Maxwell Golden Tea Private Limited (MGT), a Woodbriar Group company on March 1, 2006. TEIL owns 8 tea estates and 6 factories for processing tea in Tamilnadu with an average annual output of approx. 10,500 metric tons.

The Company has thus completed its exit from its tea plantations business both in Assam and Tamil Nadu.

10.6 Sale of NIHAR Brand and related intellectual property rights to Marico Limited

As a part of Company's portfolio rationalization strategy, in the first quarter of 2006, the Company disposed off its "Nihar" trade mark along with related intellectual property rights to Marico Limited both for the domestic and a number of overseas markets for an aggregate consideration of Rs. 216 crores.

Nihar had a current annualized turnover of about Rs. 120 crores spread over two segments-filtered coconut oils (edible grade) and perfumed hair oils. Your Company will continue to operate in the perfumed and value added hair oil segment but has agreed not to compete in the edible coconut oil segment.

11. EMPLOYEE STOCK OPTION PLAN (ESOP)

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

None of the management employees or wholetime directors have received options exceeding 5% of the value of the options issued for the year ending December 2005.

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

Adoption of the Global Share Performance Scheme in place of ESOP

On a review of the operating experience of Stock Options acting as a measure to reward and motivate employees as also to attract the talent and retain the key employees and bearing in mind the changes in the global trends on management rewards, it is proposed to change the reward component in the Stock Option Scheme to a Stock Grant Scheme. The Stock Grant Scheme would be triggered in line with the earlier scheme by Unilever's global performance. The Stock Grants would be made in the ratio of 48:52 for HLL and Unilever Plc/NV, as was the practice in the past. The cost of grant of Unilever Plc/NV shares as also HLL shares would be absorbed by HLL and treated as remuneration of the employees.

Accordingly, it is proposed to formulate a new Scheme for grant of "Performance Shares" which is the most commonly used form of long-term incentive other than stock options to replace the "2001 HLL Stock Option Plan" to give effect to the Grants to be made in 2006. In the new Plan, grants will be made of conditional rights to receive shares in HLL at nil cost, at the end of 3-year performance period. The performance measures for vesting will be Unilever's underlying sales growth and free cash flow.

The performance shares will be issued within the existing approved limit of 1,50,00,000 equity shares of Re. 1/- each, part of which remain unutilised after grant of options till date.

Necessary proposals for approval of the Share Performance Scheme are being placed before the members at the Annual General Meeting for adoption by way of Special Resolution.

12. CORPORATE SOCIAL RESPONSIBILITIES

It was a year of initiating a journey for qualitative up-gradation of Corporate Responsibility (CR) at HLL. To begin with, attempts were made to align CR with the vision at HLL, which is "To earn the love and respect of India, by making a real difference to every Indian". The vision has the power to posit CR as a way of conducting business much before it becomes a profit distribution function, as in this way, real difference could be better achieved. At a strategic level, it also means revisiting the rational for CR at HLL in order to factor in impacts on stakeholders affected due to our operations as also the forces unleashed by globalisation. This way, the Company could enhance its contribution to national development, an imperative for improved sustainability and growth of business. At the operational level, it places a need to perceive CR as strategic long-term business engagements intrinsic to business processes, thereby infusing a two way accountability, on the one hand ensuring business processes are responsible while on the other making CR investments accountable to business.

In order to make a better development impact as also achieve a sense of satisfaction by playing a role in society places a demand on time of our employees as well. Around 9% of our resources for community involvement thus came in the form of employee time. This time ranged from their involvement in Ashadaan – an institution of Missionaries of Charity in Mumbai founded by Mother Teresa, supported by us right from its inception to supporting children from the disaster affected Yashodadham village near Bhuj to find a good school for their education including screening children in a pre interview process and supporting them through scholarships upon their selection in the schools.

As reported in last year's Directors Report, your Company has handsomely contributed to the Tsunami relief work by donating Company products carrying a retail value of approx. Rs. 8 crores for free distribution to affected families. The Company had planned to spend a further amount of approx. Rs. 3 crores inclusive of contributions made by employees to restore means of livelihood to affected fishermen. However, Company received a request from State Government that there was a more pressing need for providing rehabilitation of Tsunami affected families by provision of housing particularly in the city of Chennai. Your Company accordingly decided to gift a plot of land admeasuring approx. 5.76 acres at Tondiarpet at Chennai forming part of its surplus real estate for this purpose. It is also proposed to make a provision for setting up of ration shop, community hall and a nursery school for public use on this plot using contribution upto Rs. 50 lakhs made by the Company employees for this purpose. Your Company was also at the forefront of providing relief to affected fellow citizens of Mumbai after the torrential rains and floods in Mumbai and incurred a cost of over Rs. 1 crore for this purpose.

13. INFORMATION TECHNOLOGY

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

Significant progress has been made during the year to strengthen use of technology for sales and field activities. In the course of the year, we had all our redistribution stockists move to a continuous replenishment system, leveraging the internet. This has enabled us to improve customer order fills and the operating efficiencies of our stockists. We are now in the process of implementing a standard transaction system across all our stockists. We have also leveraged IT to improve service to the emerging Modern Trade Channels. Process Improvements in Sales and Customer service, enabled by innovative use of IT will continue to be a thrust area in the coming years.

We continue to leverage IT to realise greater value in Supply Chain. End-to-end supply chain planning and optimization tools have helped to improve stock availability while reducing supply chain costs. Information Management Systems and Dashboards help provide visibility across the supply chain.

All key financial processes are carried out through fully IT-enabled Shared Service Centres. This has helped us improve service levels to stakeholders, while ensuring controls and improving productivity.

Your Company is in the midst of a significant initiative of adopting SAP based transaction systems. This will help create a robust and responsive IT capability that will be a foundation for initiatives in the future. As part of this programme, we would have significantly re-engineered and simplified our business processes, fully leveraging the power of IT.

Your Company continued to invest in IT infrastructure to support business applications. We now have a core virtual private network using MPLS technology, supplemented by high bandwidth VSATs for the remote locations. We are also enhancing computing server infrastructure, especially to power the SAP initiatives.

In all these initiatives Information Security and a reliable disaster recovery management have been ensured. We carry out regular exercises to identify vulnerabilities and plug them systemically.

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

14. SHARED SERVICES

Unilever India Shared Services Limited (previously known as Indigo Lever Shared Services Limited) was engaged by your Company to provide financial shared services in the areas of Sales Commercial, Manufacturing Commercial apart from other IT enabled shared services for its Corporate Offices.

In addition the shared services model is also being extended to Unilever companies in Australia, New Zealand, Malaysia, Singapore and the United Kingdom. Operations for Australia and New Zealand were expanded with the addition of Accounts Receivable processes. Project work was also carried out for a number of Unilever companies in the Asian region. It also provides services to Unilever Companies in relation to the Operational Control Assessment and for compliance with the provisions of the Sarbanes Oxley Act 2002.

15. FINANCE AND ACCOUNTS

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

The total amount of fixed deposits taken by the Company as of December 31, 2005 was Nil. Deposits amounting to Rs. 11.13 lakhs were unclaimed by depositors as at December 31, 2005.

In terms of the provisions of Investor Education and Protection Fund (awareness and protection of investor) Rules 2001, Rs. 1,79.20 lakhs of unpaid/unclaimed dividends (including TOMCO, Pond's and Bestfoods, pursuant to their merger), interest on debentures and deposits were transferred during the year to the Investor Education and Protection Fund.

RONW, ROCE and EPS for the last five years

For the year ended 31 December,	2001	2002	2003	2004	**2005**
RONW	53.9%	48.4%	82.8%	57.2%	**61.1%**
ROCE	62.4%	59.4%	60.2%	45.9%	**68.7%**
EPS of Re.1	7.46	8.04	8.05	5.44	**6.40**

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
2001	1080	2816	38.4
2002	1236	3396	36.4
2003	1429	3780	37.8
2004	887	3704	23.9
2005	1014	2560	39.6

The above EVA has been computed under very conservative assumptions. A detailed note on EVA is given in page 80.

Segment-wise results

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

Segment revenue, results and capital employed

Rs. Crores

For the year ended 31 December,	**2005**	2004
Segment Revenue (Sales plus Income from Services)		
Soaps and Detergents	**49,61.71**	44,70.74
Personal Products	**29,51.88**	24,72.24
Beverages	**12,77.44**	11,94.55
Foods	**3,13.72**	2,85.07
Ice Creams	**98.14**	88.94
Exports	**13,47.80**	12,49.02
Others	**2,50.47**	3,00.15
Total	**112,01.16**	100,60.71
Less : Inter-segment revenue	**(7.27)**	(25.42)
Net Sales/Income from Operations	**111,93.89**	100,35.29
a) Net Sales	**110,60.55**	99,26.95
b) Service income from operations	**1,33.34**	1,08.34
Segment Results (PBIT)		
Soaps and Detergents	**6,83.69**	7,75.06
Personal Products	**8,45.21**	8,07.50
Beverages	**2,42.40**	2,38.71
Foods	**(16.10)**	(81.76)
Ice creams	**5.08**	(4.69)
Exports	**49.06**	39.62
Others	**(27.68)**	(32.87)
Total	**17,81.65**	17,41.57
Less : Interest expense	**(19.19)**	(1,29.98)
Add : Unallocable income net of other unallocable expenses	**(1,57.99)**	(1,06.27)
Total Profit (PBT)	**16,04.47**	15,05.32
Capital employed in segments (Segment assets less liabilities)		
Soaps and Detergents	**(63.33)**	2,76.86
Personal Products	**2,27.80**	2,91.72
Beverages	**(62.07)**	(21.18)
Foods	**(1.63)**	13.10
Ice Creams	**(9.43)**	(0.38)
Exports	**4,29.95**	4,48.56
Others	**5.50**	63.43
Total	**5,26.79**	10,72.11
Add : Unallocable corporate Assets less Liabilities	**17,78.84**	10,20.60
Total Capital Employed in Hindustan Lever Ltd.	**23,05.63**	20,92.71

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

Risk and Internal Adequacy

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

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

For a FMCG company like Hindustan Lever, economic growth has a direct impact on its performance. Our outlook for the economy in 2006 is optimistic, and we expect a GDP growth of about 7-8% subject however to the vagaries of Monsoon and / or other unanticipated developments. Our plans for business development, revenue generation and profit growth factors in this GDP growth apart from continued competitive pressuress both from international, local and regional competitors.

Cautionary Statement

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

16. DIVIDEND

The Board of Directors at the meeting held on February 14, 2006, recommended a final dividend of Rs. 2.50 per share of Re. 1/- each for the year 2005, subject to approval of the shareholders. Together with the interim dividend of Rs. 2.50 per share, paid on August 24, 2005, the total dividend for the year works out to Rs. 5/- per share of Re. 1/- each, amounting to Rs. 1,100.62 crores. Distribution Tax both on the interim and final dividend is being borne by the Company.

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 dematerialization of the Company's shares on either of the Depositories as aforesaid.

18. DIRECTORS

Mr. Douglas Baillie, Group Vice President and Head of Unilever AMET (Africa, Middle East and Turkey), was appointed as the Managing Director (MD) and Chief Executive Officer (CEO) of the Company effective from March 1, 2006. Mr. Baillie will also be the Group Vice President responsible for Unilever's business in South Asia, which includes Sri Lanka, Pakistan and Bangladesh.

Mr. Douglas Baillie was appointed as an Additional Director with effect from March 1, 2006 by the Board at the meeting held on February 14, 2006 of the Companies and Article 111 of the Articles of Association to hold office till the conclusion of the ensuing Annual General Meeting of the Company. The requisite notice, together with necessary deposit has been received from members pursuant to Section 257 of the Companies Act, 1956 proposing Mr. Baillie as a Director of the Company at the ensuing AGM.

Mr. Arun Adhikari, the Managing Director of the HPC Division of the Company resigned from the Board of the Company with effect from March 1, 2006 and will be assuming responsibility as the Chairman of Unilever Japan.

The Board places on record its appreciation for the distinguished service rendered by Mr. Adhikari in his capacity as the Managing Director of the HPC division of the Company and wishes him success in his future endeavours.

In accordance with the Articles of Association of your Company, all other Directors of your Company except Mr. S. Ravindranath, who as Managing Directors has a five-year term effective May 1, 2004, will retire at the ensuing Annual General Meeting and being eligible offer themselves for re-election.

19. AUDITORS

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

20. APPRECIATION

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

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 the 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

Mumbai, **Harish Manwani**
April 28, 2006 *Chairman*