Gillette India Limited

ANNUAL REPORT 2001

Dear Shareholders,

The fiscal year 2001 would be remembered for an all round economic slow down. This impacted India as well resulting in lowering of the growth in GDP. For your Company, it was a challenging year. These challenges were ones that the Company chose to address in the long term interests of the Company. The Company could have chosen to stay the course and end the year on a high profit note. That would have been not only easy, but to most, quite logical. However, your Company consciously chose to tread the path of planning for the future, taking hard measures and, most important, ensuring that the inadequacies and inefficiencies which had crept into the system were addressed and corrected. That said, I am equally pleased to share with you that these course corrections were undertaken without in any manner undermining your long term interests as our shareholders.

Optimism and enthusiasm go hand in hand with the ability to deal with situations, battle through changing times and find the necessary motivation - all characteristics of a responsible Company. It is with this optimism that your Company has declared an enhanced Dividend for the year.

As you have probably been aware, right through the year 2001, the Company embarked on a tough mission of freeing working capital from unproductive deployment. From destocking to emphasis on secondary sales and sharp reduction in receivables, the Company aligned itself with the worldwide strategic thrust by Gillette to rationalize business streams and free working capital. A hard but unavoidable decision was to cease production at the Duracell facility at Manesar due to unviability of the Indian plant.

The Rs.85 Crore grant by The Gillette Company, USA to strengthen the financial position of the Company, combined with the enhanced efficiencies on capital deployment and utilisation of assets have very positive implications for the Company. The Capital Grant is being used to meet the Company's debt and interest commitments.

We expect the Company to be virtually debt free by the end of the current fiscal. 2001 has also seen a 61 per cent reduction in net working capital, a benefit that will rollover to the coming fiscal.

While 2001 was dominated by business restructuring and improved productivity measures, Gillette products continued to strengthen market share. Key lead brands such as Mach 3 grew handsomely as did the Wilkinson range. With successful trade destocking over the past one year, we are positive about a strong demand-pull driving sales during the year.

Finally, the progress and success of our Company has always depended heavily on the competence, motivation, performance and dynamism of our people at all levels. Your Company is a firm believer in Total Quality Management principles and there will be no let-up in driving the principles and practice of TQM internally as the guiding spirit of the Company. Gillette's key strength has always been its employees and their commitment to the progress of the Company. It is therefore with great pride that I share the fact that Gillette India has been ranked amongst the "Top Ten Best Employers of India" in a recent "Best Employers of India" survey conducted by Hewitt Associates and the Business Today magazine. This award recognizes the truly global management team that Gillette possesses.

2001 was the year where we did the hard work for a vibrant future of the Company. The winning organisation will be the one that's able to take corrective actions expeditiously and make the Company stronger for the future.

Best wishes,

S. K. PODDAR
Chairman

A GILLETTE-PODDAR JOINT VENTURE

BOARD OF DIRECTORS

Mr. S. K. Poddar
Chairman

Mr. Zubair Ahmed
Managing Director

Mr. G. S. Gill

Mr. Peter Mee

Mr. Akshay Poddar

Mr. M. K. Kumar

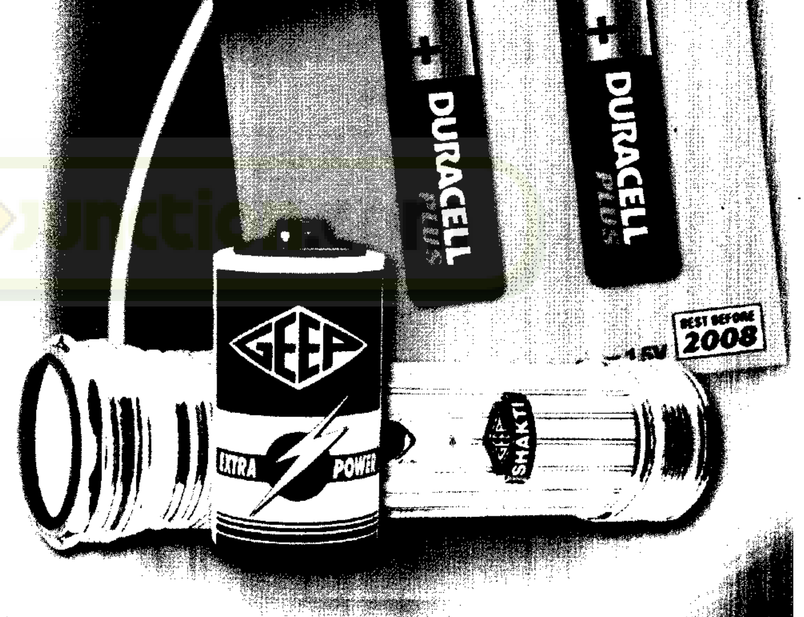
Mr. Abhey Yograj

Mr. P. N. Dang

Mr. V. N. Mathur
[illegible]

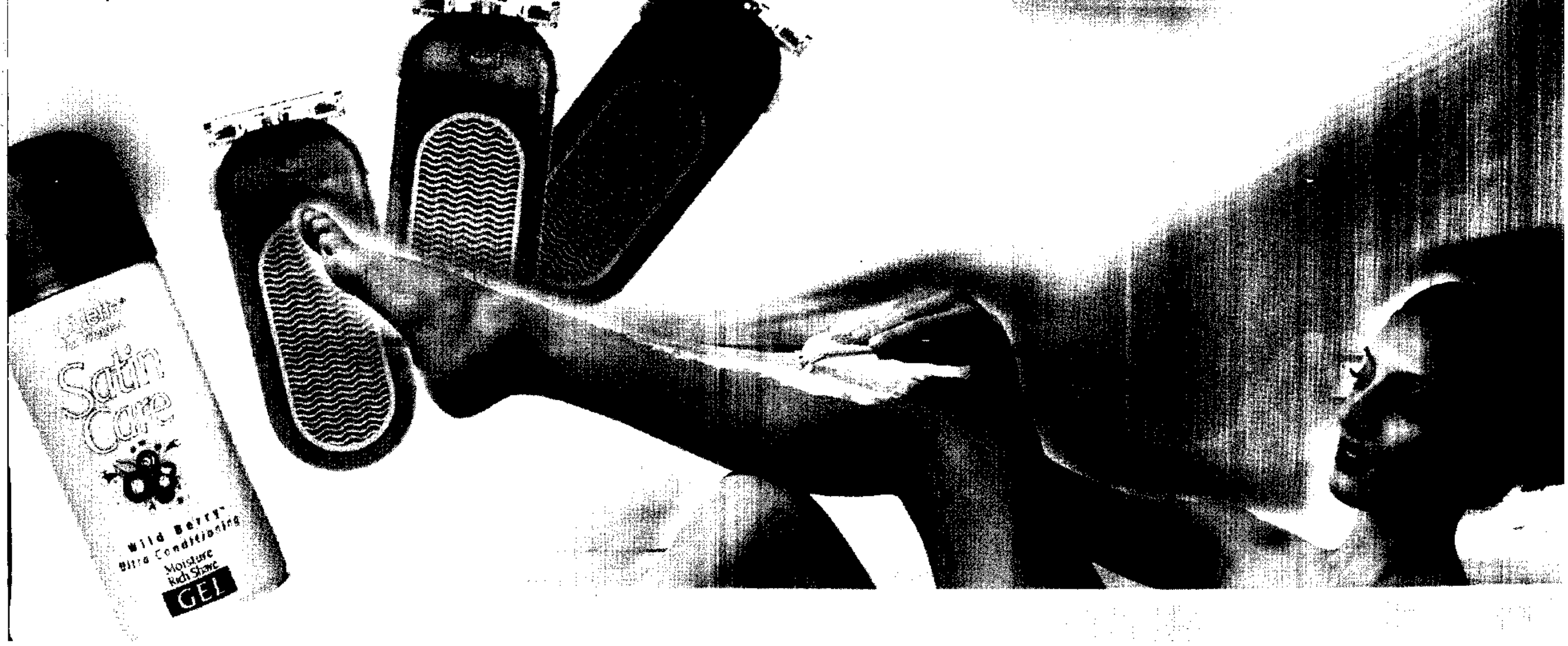
Mr. S. N. Talwar
[illegible]

Gillette has held and strengthened its leadership position by transforming innovative ideas into useful daily products. Our commitment to provide cutting-edge technology to the consumer is reflected best in the grooming, personal care and portable power category. With world class products like Gillette Mach3 – the first triple blade razor, Gillette Series Shave Gel – the most advanced form of shaving preparation, and Duracell Plus – the best general purpose alkaline battery, we have continuously endeavoured to provide the consumer with only the best.



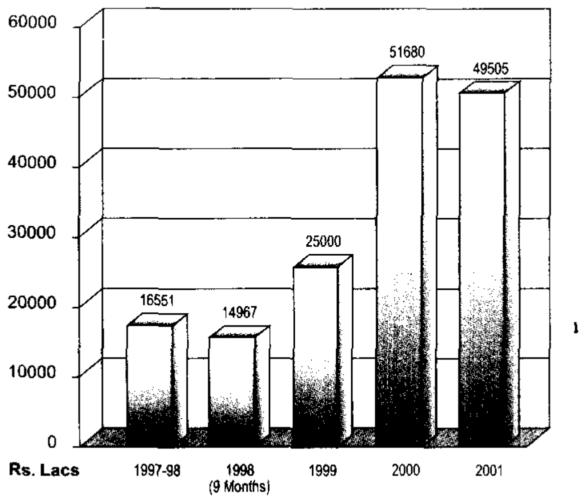
Our dedication to meet diverse consumer needs and embody meaningful technological advances in our products can be experienced across all our portfolios, whether it is in the conventional double-edge blade category or the portable power category. With Gillette 7O'Clock, Wilkinson Sword and the Geep range of batteries and flashlights, we have constantly delivered high standards in quality and consumer value. Gillette is not only for men. Our 'Gillette for Women' range of products include state-of-the-art shaving systems and preparations – for silky smooth legs.

The Gillette Company's vision is to build Total Brand Value by innovating to deliver consumer value and customer leadership faster, better and more completely than our competition.

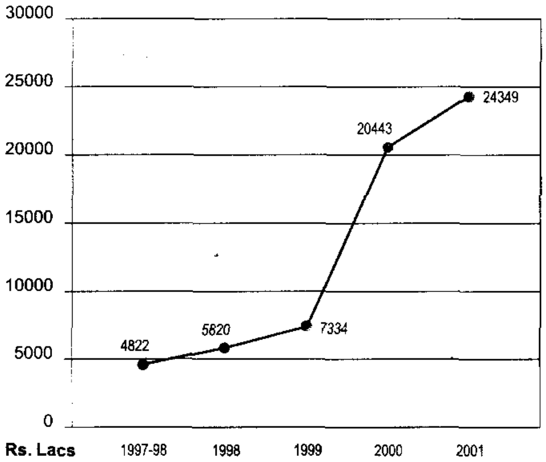


FINANCIAL HIGHLIGHTS

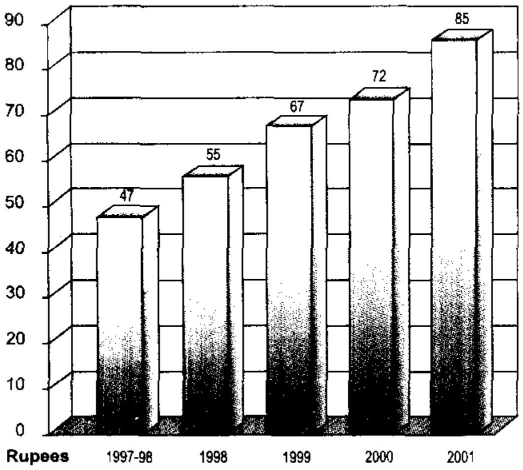
SALES



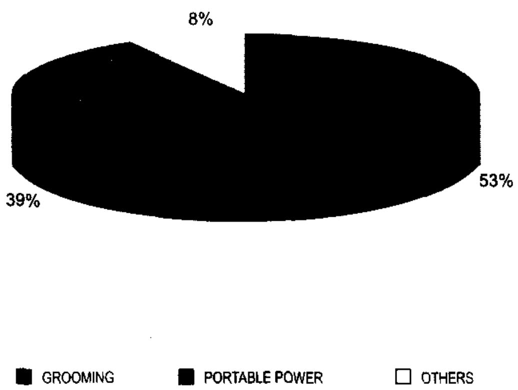
RESERVES & SURPLUS



BOOK VALUE



SEGMENT-WISE CONTRIBUTION TO SALES-2001



DIRECTORS' REPORT TO THE MEMBERS

The Board of Directors have pleasure in presenting their Eighteenth Annual Report together with the Audited Accounts for the year ended 31st December, 2001.

Financial Results

	For the Financial Year Ended 31st December, 2001	2000
	Rs. Lacs	Rs. Lacs
Income (Sales & Other Income)	**51168.10**	53654.31
Profit before Interest & Depreciation	**6248.45**	6437.01
Less : Interest	**1377.30**	1717.88
Depreciation	**3001.09**	2457.29
Profit before Extraordinary Items & Tax	**1870.06**	2261.84
Extraordinary Items	**6064.25**	—
Profit/(Loss) before Tax	**(4194.19)**	2261.84
Provision for Tax/(write back)	**35.10**	(380.19)
Provision for Deferred Tax – release	**1450.41**	—
Profit/(Loss) after Tax	**(2778.88)**	2642.03
Transferred from Investment Allowance Reserve (Utilised)	**—**	218.00
Tax on Dividend Written back	**60.61**	—
Profit brought forward from previous year	**4417.94**	3292.35
Balance available for appropriation	**1699.67**	6152.38
Which the Directors have appropriated as under to:		
a) General Reserve	**—**	132.10
b) Proposed Dividend	**733.17**	488.78
c) Tax on proposed Dividend	**74.78***	110.46
Balance carried to Balance Sheet	**891.72**	5421.04
	1699.67	6152.38

*- The provisions of Finance Bill, 2002, if approved, will shift the incidence of tax on proposed Dividend to the Shareholder and will reduce the tax on proposed Dividend by Rs. 74.78 lacs and consequently increase balance carried to Balance Sheet by this amount.

Dividend

Although your Company has during the year incurred a loss before tax on account of one time extraordinary items, keeping in view the strength of the Company's business fundamentals, the Directors are pleased to recommend an enhanced Dividend of Rs.2.25 per share on the Share Capital as under:-

	Rs. Lacs
On 32,585,217 Equity Shares @ Rs.2.25 per Share	733.17

Operations

The year 2001 reflected an all round economic slow down impacting overall Industrial growth in the Country. However, for your Company, the year was fundamentally geared towards strengthening the business and freeing working capital from unproductive deployment. The Company instituted a number of initiatives directed at better working capital management including elimination of excess trade inventories, emphasis on secondary sales, continued focus on advertising & sales promotions and sharp reduction in trade receivables in line with the worldwide strategic thrust by The Gillette Company.

Your Company recorded a profit of Rs. 18.70 Crore before extraordinary items and tax in fiscal 2001 as against a profit of Rs. 22.62 Crore in the previous fiscal. However, your Company reported a net loss of Rs. 27.79 Crore on account of one-time cost of Rs. 60.64 Crore incurred on the closure of the Duracell plant at Manesar. Sales revenue dropped marginally by 4 per cent from Rs. 517 Crore in fiscal 2000 to Rs. 495 Crore in 2001 primarily as a result of trade destocking initiatives. The drop in Sales is mainly on account of traded products of Braun & Oral care.

Due to better working capital performance and improvement in operating efficiencies, there has been over 61 per cent reduction in net working capital. Strong working capital management has been implemented by reduction in Receivables, Inventory & Loans and Advances.

Interest costs have dropped by 20 per cent from Rs. 17.18 Crore last year to Rs. 13.77 Crore during the year. The Company's financials were also impacted by a higher depreciation on account of capitalisation of the new Corporate Office at Gurgaon and Bhiwadi manufacturing plant expansion and upgradation. Depreciation for the year 2001 stood at Rs. 30 Crore as against Rs. 24.6 Crore in the previous fiscal.

Personal Grooming

The personal grooming range of products continued to show strong volume growth, bolstered substantially by the addition of the Wilkinson range to the product portfolio. While sales grew in the double edge segment by around 10 per cent, Mach 3 showed an impressive sales growth of over 37 per cent. In fixed head Shaving systems, the growth in the volume sales was over 7 per cent while Shaving preparations category grew by about 4 per cent.

The Company launched the Gillette Series Arctic Ice Line of products during the first half and undertook a series of very successful consumer promotions across product lines. The Company also launched the Gillette Series Satin Care for Women Wild Berry Line, the Cool Blue Mach 3 and Gillette Centennial Packs during the course of the year.

Portable Power

Duracell batteries continued to establish its position as the undisputed leader in the alkaline segment. The portable power division reported sustained domestic sales growth in the Duracell range of batteries. Geep Batteries recorded an impressive sales growth of over 9 per cent. Overall, the portable power segment registered a 4 per cent growth while Duracell dropped by 4 per cent due to trade destocking initiatives.

Based on the recommendations of a Review and Implementation Committee on the Company's non-grooming businesses in India, your Company restructured its alkaline battery operations. The Indian alkaline battery market has been growing well below the projected rate. Improved efficiencies at Duracell plants worldwide, coupled with highly competitive global market conditions, made it no longer cost effective to export from the Duracell India plant. Maintaining production for the Indian market was not viable and placed severe financial constraints on the Company. After considering all options, a VRS was offered and accepted by all employees at the plant. Employees were also offered support from placement agencies, tax and investment advisory services, entrepreneurial development programs and counselling services. In light of these developments, it was decided to cease production at the plant.

The decision to discontinue production at the Duracell India plant is in line with The Gillette Company's commitment to reduce costs, improve productivity and enhance shareholder value. Your Company will now source all alkaline batteries from other Duracell worldwide facilities.

Current Operations

The first quarter of 2002 has shown a positive trend in the grooming segment. Your Company will seek to capitalise on the sponsorship of the FIFA Champions World Cup 2002 by The Gillette Company. Your Company will bring to India for the first time ever the FIFA Champions World Cup trophy. The World's largest consumer promotion, the Rs. 5 Crore Challenge, which is being rolled out is expected to give a strong boost to the brand and sales in the forthcoming months in key territories.

The current environment offers growth opportunities to Companies like us with the strength of powerful brands, high market share in high growth categories, high quality standards and strong marketing fundamentals. Your Directors believe that with the hard measures taken in 2001 and continued focus on increased marketing support, emphasis on cost reduction, improved productivity and better asset management, the Company is today poised to return to profitability in 2002 and post strong profit gains in the current year.

Capital Grant

Pursuant to a decision taken by The Gillette Company to strengthen the financial position of your Company and meet its long term commitments, a Capital grant of upto US$ 20 Million was announced. Of this, an amount of US$ 17.5 Million aggregating to Rs. 85. 20 Crore has been received which shall be used to repay debts and other Corporate spendings.

Corporate Governance

The Corporate Governance report forms part of this Annual Report.

Information Technology

Your Company had embarked upon a programme for implementation of a state-of-the-art SAP R/3, an ERP integrated system for Financial, Logistics and Sales Management functions. The Directors take pleasure to report successful implementation of the system in May, 2001. The Wide Area Network (WAN) covers all operations of your Company deployed across the Country providing online information.

Directors Responsibility Statement

(i) The Directors confirm that, in preparation of the Balance Sheet and the Profit & Loss Account of the Company, the applicable accounting standards have been followed.

(ii) The Directors 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 loss of the Company for that year.

(iii) The Directors 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.

(iv) The annual accounts have been prepared on a going concern basis.

Dematerialisation

Effective 17th January, 2000 the equity shares of your Company have been compulsorily traded in dematerialised form. As on 31st December, 2001, a total of 4.33 million equity shares representing 13.29% of the Equity Share Capital have been dematerialised and about 16,000 Shareholders are holding shares in the dematerialised form.

Insurance

All the assets of your Company, including Plant & Machinery, Buildings, Equipment etc. have been adequately insured.

Directors

During the year, Mr. Peter Mee was appointed as an Additional Director of the Company w.e.f. 20th February, 2001. Mr. Mee is a Solicitor and is associated with the Company since 1997 and is currently the Assistant General Counsel at the London Legal Department.

Mr. M.K. Kumar and Mr. Abhey Yograj, Directors retire by rotation and being eligible, offer themselves for reappointment.

Auditors

M/s Bharat S. Raut & Co., Chartered Accountants, New Delhi, the retiring auditors have furnished a certificate of their eligibility for reappointment under Section 224 (1) of the Companies Act, 1956 and have indicated their willingness to continue in this capacity.

Internal Control Systems

Your Company's internal control systems comprise of coverage by Internal Audit Division of The Gillette Company in a phased manner supplemented by Internal Audit checks carried out internally as well as through outside agencies.

Cost Auditor

The Company has reappointed M/s R.J. Goel & Co. as the Cost Auditors of the Company for " Shaving Systems" manufactured at Bhiwadi plant , for the current Financial Year.

Energy & Foreign Exchange

The particulars required under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988, are attached as Annexure to this report.

Human Resource Development

Your Company has a strong focus on organisational excellence which requires improving performance continually in every area and level of organisation. This quest for excellence requires hiring, developing and retaining a diverse workforce of the highest calibre. In this pursuit, various programmes were initiated during the year to enhance capabilities and commitment of employees.

In a recent "Best Employers of India" survey carried out by Hewitt Associates and Business Today magazine, your Company has been ranked amongst the "Top Ten Best Employers of India", indeed a very proud achievement for all of us.

Your Directors wish to place on record their appreciation for the valuable contribution made by employees who through their competence and hard work have enabled your Company to achieve these results.

As required by Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, a statement of information relating to employees forms a part of this report. However, as permitted by Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all Members and other entitled persons, excluding the above statement. Those interested in obtaining a copy of the said statement may write to the Company Secretary at the Corporate Office and the same will be sent by post.

For and on behalf of the Board

Place : Gurgaon
Date : March 30, 2002

S.K. PODDAR
Chairman

ANNEXURE TO DIRECTORS' REPORT

Particulars required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988.

A. Conservation of Energy

1. *Measures taken*

   The Company has an efficient Energy Conservation Task Force which is actively involved in continuous monitoring of energy usage and its conservation. Measures taken this year were :

   a) Automation of Air Conditioning system for optimum utilization.

   b) Optimum utilization of reciprocating Air Compressors.

2. *Additional investments/proposals*

i) a) Replacement of Low Efficiency Chilled Water Pumps and Motors with High Efficiency Pumps and Energy Efficient Motors.

b) Replacement of conventional choke with energy efficient high frequency electronic ballast in all fluorescent lamps.

c) Installation of 11 KV Capacitors to improve Power Factor.

ii) Energy saving

The automation of Air Conditioning system and optimum utilization of reciprocating Air Compressors have resulted in considerable energy saving.

3. *Impact of 1 & 2*

   Energy conservation measures taken have resulted in saving of Power & High-Speed Diesel consumption per million blades, thereby reducing the conversion cost.

4. *Total energy consumption and energy consumption per unit of production as per Form A in respect of industries specified in the scheme thereto.*

   Not applicable.

B. Technology Absorption

Efforts made in technology absorption as per Form B.

Not applicable.

C. Foreign Exchange Earnings and Outgo

1. *Efforts and initiatives in relation to exports*

   The Company 's products continue to be well accepted in Overseas Markets. Efforts are underway to further increase export of personal grooming products to other countries.

2. *Earnings and Outgo*

	Rs. Lacs 31st December, 2001	2000
a) Foreign Exchange earnings	**6948.92**	6855.36
b) Foreign Exchange outgo	**8656.27**	10662.44