

P&G

Annual Report
2009-2010



Gillette India Limited



Dear Shareholders,

One of the key phrases that I believe and which stands out across various aspects and milestones of this financial year, is 'steady growth'. We all know from economic surveys, that India is on its way to become one of the fastest growing economies in the coming years. Surveys also tell us that the country's economy will soon be bouncing back to a high 9% growth by 2012. And last but not the least, we also know from Consumer Research reports that the consumer sentiment in India is higher than ever before. It is in this context of steady growth and positivity, that I am pleased to share with you the details of your Company's annual performance for the financial year 2009-2010, where the trend is no different.

Riding on the increasing consumer sentiment in the country is the FMCG industry which has recorded strong double digit growth and is likely to sustain this momentum in the coming years due to rising income in the urban areas and good monsoon that brings in higher disposable income in the rural areas.

I am more than happy to share that over the last 12 months, your Company too has delivered strong business results with an increase of over 29% in sales, and an increase of over 20% in profit before tax, as compared to the figures we shared with all of you last year. This good news has enabled the Board of Directors to recommend a dividend of ₹15 per share, an increase of 20%.

Your Company's growth story was always led by a steady increase in the demand for our Male Grooming, Oral Care and Portable Power products. Needless to say, this was coupled with the right fundamental brand building activities, including insightful advertising, superior value propositions, innovative products and stronger distribution across all categories we play in. I am happy to share that consumer-focused efforts have also led to Oral Care sales growing by an astounding 57%, followed by Personal Grooming business growing at 22% and Portable Power category by 17% respectively.

Committed to inclusive growth, your Company continues to lead the way for the industry on sustainability practices as the Bhiwadi plant earns a 'Gold' award for reduction in usage of earth resources and safeguarding environment. Speaking of sustainable growth, your Company's focus on improving more lives, only gets stronger as our CSR program *Shiksha*, in its 6th year, reaches out to over 150,000 children with a donation of over ₹5 crores. We hope this will now lead to the building of many more '*Shiksha schools*' across the country to help educate more children in need.

As stated earlier, the key phrase this year is 'steady growth', and we are all set to be on an even stronger path to success in the coming years with the strong brand-building seeds sown by us till date. The growing middle class, rising per capita income, favorable demographics and changing lifestyles is resulting in consumers demanding superior products, which your Company is more than equipped to offer at reasonable price.

As we continue to excel, I would like to thank all our employees for their outstanding performance and you, our shareholders for your resolute trust in the Company. I look forward to your continued support as we head towards greater horizons.

A handwritten signature in black ink, appearing to read 'S. K. Poddar'.

S. K. Poddar
Chairman

Mumbai
August 18, 2010



DIRECTORS' REPORT TO THE MEMBERS

The Directors have pleasure in presenting their twenty-sixth Annual Report together with the Audited Accounts for the financial year ended June 30, 2010.

FINANCIAL RESULTS

(Figures in ₹ Crores)

| | 2009-10 | 2008-09 |
|---------------------------------------|---------------|---------|
| Sales (less excise duty) | 852.48 | 661.51 |
| Other Income | 21.18 | 30.01 |
| Profit before tax & exceptional items | 212.76 | 177.02 |
| Exceptional Items | – | – |
| Profit before Tax | 212.76 | 177.02 |
| Profit after tax | 137.09 | 113.13 |
| Transfer to General Reserve | 13.71 | 11.32 |
| Proposed dividend plus tax thereon | 57.00 | 47.65 |
| Balance carried forward | 282.55 | 222.17 |

DIVIDEND

Your Directors are pleased to recommend, subject to the approval of the members, a dividend of ₹ 15 per equity share of ₹ 10 each, amounting to ₹ 48.88 crores, for the financial year ended June 30, 2010.

OPERATIONS

Your Company achieved a healthy sales growth during the year ended June 30, 2010. The total sales (net of excise) at ₹ 852 crores are up by 29% when compared to ₹ 662 crores of the previous year. The sales in all three business segments have grown with Oral Care leading by 57%, Personal Grooming by 22% and Portable Power by 17%. We are very happy with these solid results that are driven by a continued focus on the consumer, robust innovation and distribution expansion.

Profit Before Tax (PBT) for the year under review is at ₹ 213 crores, up by 20% when compared to PBT of ₹ 177 crores of the previous year. Profit After Tax (PAT) at ₹ 137 crores is up 21% when compared to last year's PAT of ₹ 113 crores.

PERSONAL GROOMING

Mach3, our premium Blades & Razors brand posted a strong growth of 26%. This was made possible by the successful launch of the ₹ 125 *Gillette Mach3* razor, aimed at expanding the user base of the brand and enabling more consumers to experience its ultimate comfort. During the year under review, *Mach3* distribution increased by over 60,000 stores throughout India. The high double digit growth in razor sales versus year ago was on account of powerful marketing campaigns and razor placement programs.

The *Shave India Movement* introduced in November 2009 to launch the ₹ 125 *Mach3* razor generated unprecedented brand awareness and trial for the product.



The engaging format of the second edition of the *Gillette Mach3 India Gaming Championship* held in June 2010 drew over 2 million users, which will go a long way in associating young urban consumers with the brand.

The personal care category of the male grooming business includes pre-shave/post-shave products and deodorants. It is heartening to note that your Company is now the market leader in pre-shave (shaving cream and gel) category for the first time in its history. This outstanding achievement has been led by *Gillette Tube Shave Gel* and *Gillette Series Foam* with their exceptional volume growth of over 55% and 40% respectively over the previous year.

Gillette Vector, the entry level system continued to rapidly expand its user base by shipping over 5.6 million razors resulting in shipment of over 76 million blades. *Vector Plus* blades, which was giving the benefit of “fast shave without nicks” grew by over 24% to the consumers behind impactful, television commercials and innovations like “*Vector Flash*”. Distribution expansion initiatives also helped grow *Vector* razor and blades to over 450,000 outlets across the country, resulting in *Vector* registering its highest ever share.

The double edged blades business recorded an excellent value growth of 25% led by *Gillette Wilkinson Sword*. Thus, the entire Gillette Male Grooming portfolio witnessed a strong growth across brands.

Gillette India wins a Silver Lion at Cannes Ad Fest:

Your Company's campaign “*Women Against Lazy Stubble*” has yet again won a Silver Lion at the Cannes Festival this year. It also won at the Golden World IPRA Awards and has also been recognized as a ‘Stevie Winner’ at the International Business Awards amongst several domestic awards.

ORAL CARE

Oral-B toothbrushes continued to make its mark by delivering outstanding value growth of over 57%, which was driven by robust performance of its products across price tiers following fundamental



brand building activities. This helped *Oral-B* consolidate its position at No. 2 in the toothbrush category.

Oral-B continues to strengthen its position across tiers. The trial and awareness generated for the innovative *CrossAction* toothbrushes helped *Oral-B* continue its leadership in the high end segment. *Oral-B 123* and *Classic* continue to lead our growth in the premium tier by providing superior propositions to the consumer. *Oral-B Shiny Clean* further helped strengthen the brands position in the mid-tier segment. Multiple initiatives were undertaken to expand *Oral-B* distribution, which resulted in *Oral-B* toothbrushes being available across price points in more stores.

Oral-B, the brand which more dentists use themselves worldwide, continued its partnership with dentists across India, to promote oral health awareness for yet another year through its free dental checkup initiative. This campaign helps improve the lives of consumers by offering them a free dental checkup close to their residence simply on the purchase of an *Oral-B* toothbrush.

PORTABLE POWER

Duracell continues to enjoy value share leadership in the alkaline segment with strong growth on value sales by 17%. This increase in sales was in large part due to increased awareness and brand building programs. The brand increased distribution nationwide making *Duracell* more accessible to consumers. The growing usage of the high and mid-drain devices like toys and cameras and increased purchasing power in India indicate a good potential for *Duracell* in the coming years.

MANUFACTURING

The Directors have pleasure to inform you that during the year under review, Bhiwadi and Baddi plants continued to perform at record levels. Last year, we informed you about the new initiative we

have embarked upon called Integrated Work System (IWS), which helped enhance overall factory and people capability. As a result, plants delivered outstanding performance in all key measures such as safety, quality, productivity, cost etc. During the year, plants delivered highest ever volumes with a flawless customer service. Bhiwadi plant earned the “Gold” award for reduction in usage of earth resources and safeguarding environment.

In our pursuit of delivering best quality product to consumers, Bhiwadi plant achieved 100% quality assurance capability in the company’s QA system audit.

The Directors also have pleasure to inform you that the Baddi plant implemented a major initiative of local production of *Mach3* razors. Baddi is not only producing for local market but has started exporting to Europe.

CORPORATE SOCIAL RESPONSIBILITY

Shiksha: ‘पढ़ेगा इंडिया तो बढ़ेगा इंडिया’

P&G’s philosophy of ‘purpose-inspired growth’ is about continuing to touch and improve the lives of more people, more completely. Our purpose not only inspires us to make products people love, but also fuels our readiness to touch and improve lives in times of need – which we do through our Corporate Social Responsibility (CSR) programs such as ‘*Shiksha*’.

Shiksha, our signature CSR program has in its 6th year helped improve the lives of over 150,000 children across 602 communities with a donation of over ₹5 crores by all the P&G group companies in India. This year, *Shiksha* moves onto a new vision of creating tangible, visibly long-lasting impact through the building of ‘*Shiksha schools*’ across the country that offers quality education to children in need. Over the last 6 years, your Company has already been associated with helping bring to life over 100 schools via either building them (near our plants), supporting them through non-governmental organizations (NGOs), working with Army Wives Welfare Association schools, or reactivating Government schools through our work with NGO partner CRY. This year we hope that the building of “*Shiksha schools*” will lead to far



Shiksha School at Kolwan, Pune.



more children being able to access quality education. After all, 'पढ़ेगा इंडिया तो बढ़ेगा इंडिया'.

CORPORATE GOVERNANCE

A separate report on Corporate Governance along with the Auditors' Certificate on its compliance is annexed to this Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956 ("the Act"), with respect to Directors' Responsibility Statement, it is hereby confirmed:

- (i) that in the preparation of the annual accounts for the financial year ended June 30, 2010, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that were 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 profit or loss of the Company for the year under review;
- (iii) that the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- (iv) that the Directors had prepared the accounts for the financial year ended June 30, 2010, on "going concern" basis.

DIRECTORS

Mr. G. C. Das and Mr. C. R. Dua retire by rotation at the ensuing annual general meeting, and being eligible, offer themselves for re-appointment.

The brief resumes of Mr. Das and Mr. Dua and the details of the Directorships held by them in other companies are given in the "Corporate Governance" section of the Annual Report.

Appropriate resolutions for the re-appointment of the aforesaid Directors are being moved at the ensuing annual general meeting, which the Board recommends for your approval.

AUDITORS

The Auditors, M/s. Deloitte Haskins & Sells, Mumbai, Chartered Accountants (Registration No. 117366W) retire at the ensuing annual general meeting and offer themselves for re-appointment.

COST AUDITORS

The Company has appointed M/s. Ashwin Solanki & Associates, as the Cost Auditors for "Shaving

Systems" manufactured at Bhiwadi plant for the year ending June 30, 2011, for which necessary Central Government approval has been obtained.

CONSERVATION OF ENERGY & FOREIGN EXCHANGE

The information, in accordance with the provisions of section 217(i)(e) of the Act, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, regarding conservation of energy, technology absorption and foreign exchange earnings and outgoings, are attached as Annexure to this Report.

HUMAN RESOURCE DEVELOPMENT

Your Company has continued to focus on building employee capability and commitment, critical for sustaining business growth and profitability. Competence enhancement initiatives to lead and manage change, develop team and to coach individuals have led to higher levels of employee productivity. The culture of innovation has been strengthened by building innovation skills and processes to facilitate developments and successful implementation of new ideas.

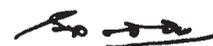
Your Directors wish to place on record their appreciation for the strong contribution made by employees who have through consistent and highly motivated performance enabled your Company to achieve these results.

The information as per section 217(2A) of the Act, read with the Companies (Particulars of Employees) Rules 1975 forms part of this Report. As per the provisions of section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the members of the Company excluding the statement of particulars of employees under section 217(2A) of the Act. Any shareholder interested in obtaining a copy of the said statement may write to the *Secretarial Officer* at the corporate office of the Company.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of the services rendered by its suppliers, distributors, wholesalers, retailers, clearing and forwarding agents and all other business associates and acknowledge their efficiency and continued support in producing such healthy growth in the Company's business.

For and on behalf of the Board



S. K. Poddar
Chairman

Mumbai
August 18, 2010



ANNEXURE TO THE DIRECTORS' REPORT

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

A. CONSERVATION OF ENERGY

The Company has an efficient energy conservation task force, which is actively involved in continuous monitoring of energy usage and its conservation.

1. Measures taken this year were-

Bhiwadi Plant

- (a) Significant power consumption reduction by aggressively working on compressed air leakages and optimizing compressor usage requirements;
- (b) Project of optimizing lighting loads to save energy has been completed;
- (c) Reduced power consumption by using localized air conditioning in production floor office area instead of central packaged AC unit after normal office hours;
- (d) Installation of capacitor banks to improve power factor and thereby reducing energy losses is in progress;

Baddi Plant

- (a) Use of HPSEB supply for lighting loads during peak hours;
- (b) Improved efficiency of diesel generators;
- (c) Additional investments / proposals –
 - a. Explore the possibility of using more energy efficient air compressors at Bhiwadi plant;

- b. Work on feasibility of using solar powered lighting for open areas at Bhiwadi plant;
- c. Optimization of lighting loads at Baddi plant;
- d. Improving power factor improvement and reducing energy losses at Baddi plant.

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 accepted in overseas markets. Efforts are on to further increase exports of personal grooming products to other countries.

2. The particulars of foreign exchange earned/utilized during the year are given in Schedule 17.B.9(h) and (j) to the Accounts, respectively.

For and on behalf of the Board



S. K. Poddar
Chairman

Mumbai
August 18, 2010

MANAGEMENT DISCUSSION AND ANALYSIS REPORT, 2010

Review of Economic Scenario and impact of Union Budget '10

The Economic Survey 2009-2010 presented by *Hon'ble Finance Minister* to the Parliament has projected an economic growth of 8.75 per cent in 2010-11, and further states that India is on its way to becoming world's fastest growing economy in four years. The Survey further states that in 2011-12, the country's economy would bounce back to a high nine per cent growth. The Economic Survey not only suggested the continuation of stimulus for the export sector, but also suggested a further reduction in the excise duty for related industries.

The Union Budget for 2010-11 attempts to achieve a fine balance between sustainable development and fiscal prudence with growth. The Budget places a great thrust on technology to propagate climate resilient initiatives and ecological preservation. Public sentiments leading up to Budget 2010-11 have been understandably upbeat with signs of a revival within the economy indicating that India has successfully overcome the ills of the slowdown that assumed center stage during the previous fiscal year. The expectations from the Union Budget 2010-11 centered on how the economy would attain fiscal consolidation, meet the impending challenges of burgeoning inflation and the game plan to revitalize the waning agricultural sector in India. (source: *Deloitte: Gaining Insights Budget Analysis 2010*)

FMCG Sector and the Indian consumers

According to a FICCI-Technopak report, despite the economic slowdown, India's fast moving consumer goods (FMCG) sector is poised to reach US\$ 43 billion by 2013 and US\$ 74 billion by 2018. The report states that implementation of the proposed Goods and Services Tax (GST) and the opening of Foreign Direct Investment (FDI) are expected to fuel growth further and raise the industry's size to US\$ 47 billion by 2013 and US\$ 95 billion by 2018. A new study shows consumer sentiment is highest in India. The Indian consumer is the most confident. India ranks second in the Nielsen Global Consumer Confidence survey released on January 7, 2010 — an indication that recovery from the economic downturn is faster in India with consumers more willing to spend. The rural markets for the FMCG products are also fast developing. Rural India, mostly termed as “high opportunity” market, is no longer just an opportunity, but is now yielding results.

BUSINESS REVIEW:

PERSONAL GROOMING

Your Directors are of the view that the personal grooming sector represents a sizable business opportunity for your Company. According to market research data, the Blades and Razors market alone is estimated at over ₹1000 crores, and about 5 billion units by volume.

ORAL CARE

Manual toothbrushes continue to dominate the Oral Care market in India. According to market research data, the toothbrush market is estimated at over ₹800 crores and growing at a rate of 7% per year.

PORTABLE POWER

The growing usage in the high and mid-drain devices like toys and cameras and increased purchasing power in India indicate a huge potential in the coming years for alkaline batteries and thus for *Duracell*.

Outlook and Opportunities

The Government's continued focus on liberalization, trade friendly policies and improvement in infrastructure have resulted in a steady inflow of global investments into the Indian market. This, in turn, has translated into immense employment opportunities and a sustained economic boom. The disposable income has gone up and as a result people working in old manufacturing sector as well as new emerging sectors such as BPOs, IT, ITES, retail etc. are open to invest in their grooming needs. Organized retailing continues to make progress in India and we expect it to continue to strengthen in years to come, which in turn will benefit your Company.

Cable television has penetrated in to the smallest of Indian towns and has taken with it awareness of latest lifestyle trends and brands, which have become an aspiration for many consumers. This increased awareness coupled with the increase in disposable incomes has translated into a desire to upgrade lifestyles through owning and using better quality brands. All this has positively impacted the brands of your Company.

Threats, Risks & Concerns

One of the hurdles faced by your Company is that the market is largely price driven as consumers do not perceive any benefit in paying incremental price for a quality product.

Your Company has taken this as a challenge and has attempted to upgrade its consumers to better technology products through various campaigns which have been successful.

Some other barriers include low frequency of shaving, low attention to oral hygiene habits, low priced but unhygienic barbers and emergence of rechargeable batteries. The attempt to change lifestyles and spending pattern will be gradual, but your Company has achieved significant success in its endeavors in this direction and will continue to address and overcome these issues.

Risk Management

Business, Finance & Operational risks

The Company's risk management policy is in line with the parent company's global guidelines on risk management and as such adequate measures have been adopted by the Company to combat the various risks including business risks (competition, consumer preferences, technology changes), finance risks (cost, credit, liquidity, foreign exchange) and so on. The company has adopted a focused approach towards risk management in form of a Corporate Insurance Program which has the goal of optimizing the financing of insurable risks by using a combination of risk retention and risk transfer techniques. This Program duly covers any risks relating to business interruption resulting from property damage and legal liability resulting from property damage or personal injury.

The company has in place a very stringent and responsive system under which all its distributors and vendors are assessed before being selected. Further, there exists a system by which all distributors' and vendors' site and operations are periodically reviewed by the Company for managing risks, if any.

Regulatory and Compliance risks

Your Company operates within the letter and spirit of all applicable laws. General compliance with legal requirements is an important component of the *Worldwise Business Conduct Manual* and the same directs the following action from every employee:

- To obey all legal requirements at all times;
- To understand exactly what legal requirements apply to the work function;

- To consult the legal personnel if there are conflicting legal requirements in different jurisdictions;
- To strictly follow the directions from the legal personnel;
- To address and resolve, in a timely manner, any legal compliance issues that have been identified;
- Absolutely no violation of any law;
- To immediately report any instance of violations to the legal personnel.

Your Company has set in place the requisite mechanism for meeting with the compliance requirements, periodic monitoring of compliance to avoid any deviations and regular updations to keep pace with regulatory changes.

Security Risks

Your Company has installed comprehensive security programs to protect employees and assets at all its offices and plants. Security measures are overseen by a specially designated Global Security Manager – South Asia and a reputed security agency has been appointed to guard our premises, thorough screening of all visitors and items received inwards. There is also a system for continuous monitoring of security alerts across the country. Training is given regularly to all security guards who are on duty 24x7. Evacuation drills are conducted twice a year. A global policy is in place to issue travel advisories to all employees in case there is any adverse situation at any place in a world. If the situation warrants, travel bans are imposed.

HR Initiatives

The company operates in a highly competitive environment vis-à-vis attracting the best talent for its operations and therefore the human resources management has assumed vital importance in your company. Your Company focuses on attracting, motivating and retaining the best talent. Its people systems like recruiting, training, performance management and talent development are robust and competitive. As we have been growing we are putting in place new HR programs to ensure that the organization is geared up to deliver the future.

Attracting Talent: Recruiting continues to be a key focus – Your Company has a well established campus recruitment process that currently visits some of the top business schools and engineering campuses for both the summer internship and

final hiring cycles. Over the years we have partnered closely with the top institutes in India to establish P&G as a preferred employer. Your Company runs function-wise pre-placement talks and activities to help students gain an understanding of the roles, responsibilities and the organisation to enable them to make informed choices. Compensation and benefits is another key part to attracting the best talent. Your Company's benefit programs are best in class giving it a competitive advantage. As a result, we continue to be chosen ahead of competitors by students.

Motivating and Retaining Talent: Strong induction and training systems for new hires is a key part of retention program. Your company allows new hires to handle responsible and large roles consistent with their capability, thus allowing exposure to decision making and strategy. Clearly defined functional career paths helps employees to plan their career goals and understand the skills needed to be built. Your Company's annual performance management system is very robust and clearly assesses and differentiates amongst employees on the basis of performance and potential. Your Company leverages its size as a global organisation in giving employees the opportunity to work across regions and business units, as well as moving them to international assignments on a regular, planned basis. Your Company is committed to providing

meaningful, fast growing, international careers to employees and this is a key part of our retention efforts. This year we will focus on developing leadership capability at all levels to ensure that our people have all the skills needed to deliver business and organization growth

Your Company has been ranked among the "*Top 4 most preferred employer*" as per Nielsen Survey and has also improved its standing on a majority of campuses. In the internal P&G survey, we continue to see high employee engagement and scores on key indicators are among the highest in the P&G world. This year we will continue to focus on building capability in all areas of the organization, and continue to work on initiatives to strengthen our employee engagement both internally and externally.

Internal Controls & their adequacy

Internal control systems have been a core focus for the company. Internal audits and process checks are carried out regularly in important areas and are supplemental with checks by outside agencies.

The statements in the Management Discussion and Analysis Report may be seen as forward looking statements. The actual results may differ materially for those expressed or implied in the statement depending on circumstances.