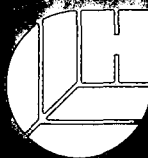


| | | | |
|-----|---|----|---|
| MD | ✓ | RC | ✓ |
| US | ✓ | Y | ✓ |
| RO | ✓ | | ✓ |
| TRA | ✓ | | ✓ |
| ACM | ✓ | HI | ✓ |
| YR | ✓ | | ✓ |



Reaching villages - changing lives



HINDUSTAN LEVER LIMITED
REPORT AND ACCOUNTS 1998

Operation Bharat is helping to build user ship of HLL's products even in the remotest villages.



India. A nation of 950 million people of which about 700 million live in rural India.

Spread across 627,000 villages.

Hindustan Lever. A company that has, for over sixty years, kept the needs of these people close to its heart.

*Growing with them, understanding them, making available a range of brands
for a better standard of living.*

*Today, as India moves towards the next millennium, it is the people who live in the heartland,
in villages with population of sometimes less than a thousand, that make up the real fabric of the nation.*

As a nation, our progress depends on the progress of the rural economy.

As a business, our growth is increasingly dependant on the progress of people in rural India.

In line with our corporate purpose of meeting the everyday needs of people everywhere,

Hindustan Lever seeks to meet the needs of the large rural population.


By innovating. By reaching out. By making a difference to lives - in every corner of India.

Report  junction.com

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Our Corporate Purpose



Our purpose in Hindustan Lever is to meet the everyday needs of people everywhere - to anticipate the aspirations of our consumers and customers and to respond creatively and competitively with branded products and services which raise the quality of life.

Our deep roots in local cultures and markets are our unparalleled inheritance and the foundation of our future growth. We will bring our wealth of knowledge and international expertise to the service of local consumers.

Our long-term success requires a total commitment to exceptional standards of performance and productivity, to working together effectively and to a willingness to embrace new ideas and learn continuously.

We believe that to succeed requires the highest standards of corporate behaviour towards our employees, consumers and the societies and world in which we live.

This is Hindustan Lever's road to sustainable, profitable growth for our business and long-term value creation for our shareholders and employees.

Our Business



- Personal Wash ◦ Fabric Wash
- Household Care ◦ Oral Care ◦ Skin Care
- Hair Care ◦ Deodorants ◦ Perfumery
- Colour Cosmetics ◦ Baby Care ◦ Adult Care
- Feminine Hygiene Care

Home & Personal Care



- Tea ◦ Coffee ◦ Cooking Fats & Oils
- Dairy Products ◦ Ice Creams
- Tomato Products
- Fruit & Vegetable Products
- Staples - Rice, Salt, Atta and Rava
- Marine Products

Foods & Beverages



- Speciality Chemicals ◦ Bulk Chemicals
- Fertilisers ◦ Animal Feeds ◦ Seeds
- Plant Growth Nutrients
- Processed Tri-glycerides ◦ Agri Commodities
- Leather, Footwear & Carpets ◦ Thermometers
- Plantations

Industrial, Agricultural & Others

HINDUSTAN LEVER LIMITED

| | | |
|------------------|--|-----------------|
| DIRECTORS | K.B. DADISETH V. BALARAMAN D.M. BUCKLE S. KHOSLA H. MANWANI V. NARAYANAN C.V. NATRAJ D.S. PAREKH K.P. PONNAPA M.K. SHARMA G. SINGH D. SUNDARAM A. WEIJBURG | <i>Chairman</i> |
|------------------|--|-----------------|

COMPANY SECRETARY O.P. AGARWAL

AUDITORS A.F. FERGUSON & CO.
LOVELOCK & LEWES

BANKERS STATE BANK OF INDIA
ANZ GRINDLAYS BANK PLC
CITIBANK N.A.
HONGKONG & SHANGHAI BANKING CORPORATION
BANK OF AMERICA
DEUTSCHE BANK
ABN-AMRO BANK
PUNJAB NATIONAL BANK
CORPORATION BANK
INDIAN BANK

SOLICITORS CRAWFORD BAYLEY & CO.

REGISTERED OFFICE HINDUSTAN LEVER HOUSE
165/166, BACKBAY RECLAMATION
MUMBAI 400 020.

REPORT OF THE DIRECTORS

1. 1998 IN RETROSPECT

Economic growth was lower than anticipated with agriculture declining by 1.8%; this had a significant impact on rural spending. Thus your Company's business saw growth rates decelerating as the year progressed.

Fortunately, the consensus amongst all political parties on the need for economic reforms continued.

Pond's (India) Limited was amalgamated with your Company with effect from January 1, 1998. The balance equity in Lakme Lever Limited together with the relevant manufacturing facilities was acquired, thus creating a cohesive and integrated Personal Products business. The Beverages business was significantly impacted by the differential excise duty of 8%. However, the Government has now corrected this anomaly, and the business will therefore get back to the growth path.

With agricultural value added expected to be at record levels in 1999, rural incomes should increase significantly. This should stimulate demand for our type of products, particularly in the second half of the year.

2. PERFORMANCE OF THE COMPANY

2.1 Results

Your Company's performance during 1998 is summarised below :

| | <u>1998</u> | <u>1997</u> | <u>(Rs. Lakhs)</u> <u>Growth%</u> |
|--|-------------|-------------|--------------------------------------|
| Gross turnover | 10215,24 | 8342,75 | 22.4 |
| Turnover, net of excise | 9481,85 | 7819,71 | 21.3 |
| Profit before tax and exceptional items | 1130,44 | 850,25 | 33.0 |
| Net profit after tax and exceptional items | 805,71 | 560,37 | 43.8 |
| Dividends (including tax on distributed profits) | (531,35) | (372,44) | |
| Transfer to General Reserve | (230,00) | (180,00) | |
| Profit & Loss Account balance carried forward | 97,55 | 53,60 | |

The figures for the year ending December 31, 1998, include those of Pond's (India) Limited consequent to its amalgamation with the Company with retrospective effect from January 1, 1998, and hence are not comparable with those of the previous year.

2.2 Key Ratios

However, the underlying performance on a comparable basis can be ascertained from the following key ratios :

| | <u>1998</u> | <u>1997</u> |
|--------------------------|-------------|-------------|
| Earnings per share (Rs.) | 36.70 | 28.14 |
| Dividend per share (Rs.) | 22.00 | 17.00 |
| Return on Net Worth (%) | 48.89 | 46.00 |

2.3 Turnover

Turnover for the year increased by 22.4% gross and 21.3% net. The sales of products in different categories, net of excise, appears below:

| | <u>1998</u> | <u>1997</u> |
|--|----------------|----------------|
| (Rs. Lakhs) | | |
| Soaps, Detergents and Scourers | 3695,69 | 3480,51 |
| Beverages (Tea & Coffee/Instant Tea) | 1798,66 | 1544,30 |
| Personal Products | 1526,28 | 884,37 |
| Oils, Fats and Dairy Products | 731,17 | 628,75 |
| Animal Feeding Stuffs | 278,16 | 272,28 |
| Speciality Chemicals | 226,61 | 155,43 |
| Frozen Desserts and Ice Creams | 155,41 | 152,63 |
| Branded Staple Foods (Salt, Atta, Rice, etc.) | 160,20 | 111,85 |
| Canned and Processed Fruits and Vegetables (Culinary Products) | 118,92 | 97,29 |
| Others (Seeds, Marine products, Agri commodities, Leather, Footwear, Garments, Carpets etc.) | 790,75 | 492,30 |
| Total | 9481,85 | 7819,71 |



3. EXPORTS

International trading conditions were difficult, and several countries recorded negative growths. The Russian difficulties, coming in the wake of the South East Asian crisis, led to a global economic slowdown. In Japan, a major export market, the recession deepened. The problems in Russia caused a significant decline of exports from India.

Despite these difficulties, group exports increased by 44% to Rs. 1664 Crores. Emphasis on value addition through quality control, branding and packing were the main drivers for this achievement. Your company (including subsidiaries) also showed a positive foreign exchange surplus of Rs. 282 Crores.

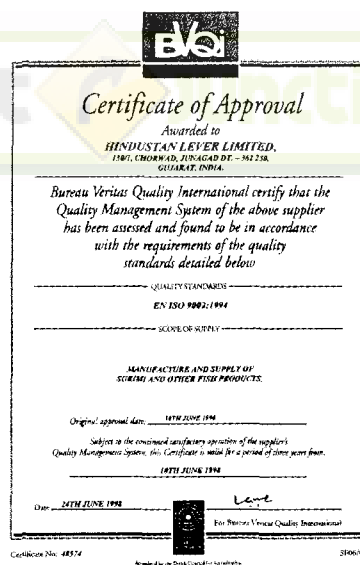
The Company continued to hold the highest export recognition status of Super Star Trading House and also received the Government of India's Award for Outstanding Export Performance and the Chemexil Top Exporter Award in the Cosmetics and Toiletries categories.

Exports of products with Country advantage has been a major focus area; thus Beverages continued to be a priority. Your Company retained its position as India's

largest tea exporter accounting for about 30% of the Country's exports by value. Sales increased by 40% largely from branded packet tea, tea bags, speciality tea blends and instant tea concentrates. Your Company's strong relationship with Unilever helped.

Tea bags constitute a new growth area. To ensure cutting edge technology and quality, additional investments have been made by Lipton India Exports Limited, a 100% subsidiary of your Company, to set up state-of-the-art tea bag facilities in the export oriented unit in Pune.

In Home and Personal Care Products, several new initiatives have started yielding results. Toothpaste grew by 60%. Low unit price sachets in the face cream and dental categories made important inroads in various price sensitive markets.



The ISO 9002 Certificate

With the merger of Pond's (India) Ltd., business synergies are being leveraged to maximise returns for the entire portfolio, particularly the common categories.

The fish paste (Surimi) plant in Chorwad (Gujarat) has been awarded ISO 9002 certification, and also approved by the European Union Commission for supplies to quality conscious continental customers.

With continuing focus on value addition, relevant innovation, modern technology, branding, superior customer service, and new market penetration, your Company firmly believes that it is well poised to meet the challenges of the international market place, and capture new opportunities.

4. RESEARCH & DEVELOPMENT

4.1 Research & Development and Technology

The Hindustan Lever Research Centre (HLRC), which completed 40 years, continued to make a valuable contribution to meet emerging consumer needs by developing innovative processes and products, with technologically sustainable and clearly perceived benefits.

The highlight of work in Detergents has been developing novel solutions to the problem of tough dirt removal. Considerable progress has been made in understanding the problem, and prototypes are at an advanced stage of testing. Understanding the microstructure of soaps is enabling your Company to develop soaps with greatly improved user properties. New options for the business have become available by enhancing the delivery of functional ingredients. Research in soap manufacturing technology has increased formulation flexibility.

Research in Skin and Hair has focused on pigmentation mechanisms. New product concepts have tested successfully in consumer research and are being further progressed for test market.

In Beverages, understanding the biochemical changes during tea processing has helped tailor technology to meet consumer-preferred end-cup liquor and appearance attributes. A predominantly tea based beverage, Lipton Tiger, is being extended to other regions, following successful test market.

Research work on the Cold Chain is yielding excellent results. Your Company is moving towards environment-

friendly, lower-cost options for subambient temperature distribution of foods.

Research work on understanding wheat varieties and their impact on chapati characteristics made good progress. Research support to the Culinary and Edible Fats businesses led to the introduction of several new products.

Chemicals research contributed significantly to the growth of the Speciality Chemicals business.

The HLRC continues to foster strong linkages with scientific and academic institutions in India and abroad. The projects with the Central Leather Research Institute (Chennai), Indian Institute of Science (Bangalore), Centre for Cellular and Molecular Biology (Hyderabad), the All India Institute of Medical Sciences (New Delhi), IIT (Mumbai), the Central Food Technological Research Institute (Mysore), Central Salt and Marine Chemicals Research Institute (Bhavnagar), Regional Research Laboratory (Jammu) and National Chemical Laboratories (Pune) have all made satisfactory progress. Networking with Unilever Research Laboratories continues to be strengthened.

4.2 Hindustan Lever Research Foundation (HLRF)

Two projects funded by the Hindustan Lever Research Foundation with the Jawaharlal Nehru University and the MS Swaminathan Research Foundation have made excellent progress. The PhD programme is progressing apace with all scholars close to completing their assignments.

4.3 Technology Collaboration with Unilever

Your Company is at an advanced stage of formalising a technology and know-how collaboration arrangement with Unilever PLC under which your Company will have complete access to global research & development and innovations of the Unilever Group worldwide in a seamless manner; this will be on terms and conditions which are extremely attractive from your Company's and

the Country's perspective. The arrangement which will be valid for a period of 24 years envisages that your Company will pay to Unilever PLC, both in respect of domestic and export production, a royalty of 1% (net of taxes) as per the standard basis of computation prescribed by the Reserve Bank of India; this is linked with the ex-factory value of production for those products covered by the proposed agreement.

The necessary permission/approvals from the Reserve Bank of India/Central Government are in place, and this arrangement will become effective shortly. Compared to the widely prevalent model in India for such technical collaboration agreements, of 5% royalty on domestic sales and 8% on exports for a period of 7 years, the arrangements negotiated by your Company are ex facie, extremely attractive and advantageous.

The Board of your Company believes that the proposed arrangement is in the best interest of your Company and represents a fine and pragmatic balance between compensation to Unilever for making its global R&D available to your Company and the interests of other shareholders; such royalty payments for technology are not expected to have a significant impact on the profits and profitability of your Company.

Your Board believes that the proposed arrangement will significantly strengthen and securitise the technology base of your Company, but have no material adverse effect on the profits and profitability of your Company. Above all else, this arrangement enables your Company to access technology on principles of mutuality of interests, rather than on a gratuitous basis as was the case in the past. It is also expected that with the proposed arrangement, your Company will now be able to further influence Unilever's global R&D programmes, such that they give greater emphasis and importance to the technology needs of developing and emerging markets like India.

5. NOTES ON PRODUCT GROUPS

5.1 Soaps & Detergents

Despite difficult trading conditions and slowing rural markets, your Company's Soaps, Detergents and Household Care businesses continued to grow ahead of the market.

In Laundry Detergents, the business has now established a clear volume and image leadership in the Concentrates segment at the top end of the market with International Surf Excel. The product was relaunched during the year with an improved formulation to remove even dried in stains. Your Company's leadership in the mid-price segment of Detergents was further strengthened with excellent growth of Rin Shakti Powder and Bar.

During the year, growth in the Personal Wash market decelerated significantly. In a difficult market, where consumers downtraded, there were some significant achievements, like the relaunch of Lifebuoy Carbolic, the world's largest volume soap brand in any single country. At the top end of the market, Dove witnessed good growth. In the Discount segment, Breeze and Jai continued to gain shares in the face of strong competition. Lux International, Liril, Rexona, Lux Toilet, Lifebuoy Gold and Lifebuoy Plus were all relaunched with improved formulations, packaging and new advertising.

In Household Care, Vim Dishwash Bar, relaunched with a superior formulation, demonstrated excellent growth despite aggressive competition from low-priced dishwash bars.

The business led an initiative to further increase rural reach. Distribution at present goes only as far as villages with population of atleast 2000 people. With this new initiative, distribution will be extended through rural stockists to even smaller villages, doubling rural reach by the year 2000.