Directors' Report

And Management Discussion and Analysis

To the Members,

Your Company's Directors are pleased to present the 78th Annual Report of the Company, along with Audited Accounts for the financial year ended 31st March, 2011.

1. FINANCIAL PERFORMANCE (STANDALONE)

1.1 Results

Rs. Crores

	For the year ended 31st March, 2011	For the year ended 31st March, 2010
Turnover, net of excise	19,401.11	17,523.80
Profit before tax	2,730.18	2,707.07
Net profit	2,305.97	2,202.03
Dividend (including tax on distributed profits)	(1641.96)	(1,655.97)
Transfer to General Reserve	(230.60)	(220.20)
Profit & Loss Account balance carried forward	1235.60	802.19

1.2 Category wise Turnover

Rs. Crores

	For the year ended 31st March, 2011		For the year ended 31st March, 2010	
	Sales	Others*	Sales	Others*
Soaps and Detergents	8,683.88	107.68	8,180.29	85.35
Personal Products	5,750.68	93.42	4,969.36	78.54
Beverages	2,309.23	34.74	2,119.44	22.99
Processed Foods	890.33	12.24	713.97	16.81
Ice creams	271.95	2.63	228.94	2.06
Exports	1093.12	6.53	1000.15	5.10
Others	401.92	36.11	315.50	31.22
Less: Inter segment revenue	–		(3.85)	
Total	**19,401.11**	**293.35**	**17,523.80**	**242.07**

* Others represent service income from operations, relevant to the respective businesses.

1.3 Summarised Profit and Loss Account

Rs. Crores

	For the year ended 31st March, 2011	For the year ended 31st March, 2010
Net sales	19,401.11	17,523.80
Other operational income	334.09	201.53
Total	**19,735.20**	**17,725.33**
Operating Costs and expenses	**(17,035.90)**	**(14,975.36)**
PBDIT	2,699.30	2,749.97
Depreciation	(220.83)	(184.03)
PBIT	**2,478.47**	**2,565.94**
Interest Income (net)	251.71	141.13
PBT	**2,730.18**	**2,707.07**
Taxation	(576.93)	(604.39)
PAT (before exceptional items)	**2153.25**	**2,102.68**
Exceptional/Extraordinary items (net of tax)	152.72	99.35
Net profit	**2,305.97**	**2,202.03**
Basic EPS (Rs.)	**10.58**	**10.10**

2. DIVIDEND

Your Directors are pleased to recommend a final dividend of Rs.3.50 per equity share of the face value of Re.1/- for the year ended 31st March,2011. The interim dividend of Rs.3.00 per equity share was paid on 15th November, 2010.

The final dividend, subject to approval at the AGM on 28th July, 2011, will be paid to the shareholders whose names appear in the Register of Members as on the date of book closure i.e. from Tuesday, 12th July, 2011 to Wednesday, 27th July, 2011 (inclusive of both dates).

The total dividend for the financial year including the proposed final dividend amounts to Rs. 6.50 per equity share and will absorb Rs. 1,641.80 Crores including Dividend Distribution Tax of Rs. 231.34 Crores.

3. BUY-BACK OF EQUITY SHARES

The Board of Directors in their meeting held on 11th June, 2010 approved the buy-back of Company's fully paid-up equity shares of Re. 1/- each, at a price not exceeding Rs. 280/- per equity share, up to an aggregate maximum amount of Rs. 630 Crores, i.e. within the limit of 25% of the total paid-up equity share capital and free reserves of the Company as on 31st March, 2010. The approval of the shareholders for the buy-back was obtained through postal ballot, the results of which were declared on 26th July, 2010.

The buy-back was made out of free reserves and the share premium account of the Company through open market purchases through the Bombay Stock Exchange Limited and National Stock Exchange of India Limited using their nationwide electronic trading facilities, as per the provisions contained in the SEBI (Buy Back of Securities) Regulations, 1998. The buy-back offer was open from 23rd August, 2010 to 28th March, 2011.

The cumulative number of Equity Shares bought back under the scheme is 2,28,83,204 equity shares for a total consideration of Rs. 625.30 Crores, at an average price of Rs. 273.26 per share. The paid-up capital of the Company after the extinguishment of shares bought back under the scheme stood at Rs. 215.94 Crores comprising of 2,15,94,36,598 equity shares of Re.1/- each.

4. RESPONSIBILITY STATEMENT

The Directors confirm 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;
- they have selected such accounting policies and applied them consistently and made judgments 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;
- 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; and

- they have prepared the annual accounts on a going concern basis.

5. MANAGEMENT DISCUSSION AND ANALYSIS

In order to avoid duplication between the Directors' Report and Management Discussion and Analysis, we present below a composite summary of performance of the various businesses and functions of the Company.

5.1 Economy and Markets

The world economy continues to face challenges on the road to sustained recovery, including the recent developments in the Middle East. In the context of the slow recovery in the developed markets, the focus of the world is on the developing and emerging economies, including India. According to the Economic Survey of the Government of India (2010-11), the Indian economy has recovered considerably and rapidly from the slowdown caused by the Global Financial Crisis in 2007-09. India was not as affected as some of the matured economies, owing to a robust regulatory system and a domestic demand driven economy. After a dip in 2008-09 with a lower GDP growth rate of 6.7%, the economy registered a V-shaped recovery, witnessing 8% growth (Quick Estimates) in 2009-10 and then 8.6% growth (Advanced Estimates) in 2010-11.

The economy experienced a more balanced and positive growth in 2010-11, aided by a solid recovery in agriculture and continued good performance of industry and services. There has, however, been a deceleration in industrial growth in the second half of the year and a further deceleration in the last quarter of 2010-11. This sluggishness is a matter of concern.

The inflation rate measured in terms of year-on-year change in the WPI is 8.31% for February 2011, compared to 8.23% in January 2011. This increase is attributed to a surge in the prices of non-food items, despite a moderation in the inflation of primary articles, particularly due to a decline in prices of food articles and minerals. In fact, inflation for non-food articles increased from 23.9% in January 2011 to 29.8% in February 2011.

The price of crude oil, which was hovering below USD 80 per barrel till September 2010, skyrocketed to over USD 100 per barrel in March 2011, and is expected to remain volatile.

The FMCG markets in India grew in low double digits during the last quarter of 2010-11. As the price increases take effect, mix of growth is being shifted from volume driven growth to balanced growth, driven by both price and volume. The competitive environment remains intense in the FMCG market. Input cost inflation continues to be high and volatile, despite recent corrections in crude and palm oil.

Your Company's performance for the year 2010-11 has to be viewed in the context of the aforesaid economic and market environment.

Performance of Businesses and Categories

Some highlights are given below in respect of each of the business categories of the Company.

5.2 Home & Personal Care Business (HPC)

The HPC business consists of Fabric Wash, Household Care, Personal Wash and Personal Care which includes categories like toothpaste, shampoo, skin care, deodorants and colour cosmetics. During the year, the HPC business saw double digit volume growth and a value growth of 9.8%.

The opportunity for growth in India continues to be immense across all HPC categories and your Company believes that market development is critical for sustained growth. The year was a landmark in terms of market development. In addition, there was acceleration in innovation, with almost 35% of turnover coming through innovations. As a result, growth was broad-based across core categories as well as new categories. This growth was delivered in the face of significantly enhanced competitive intensity, with marketing and trade investments also being maintained at competitive levels throughout the year.

Rural markets present a tremendous growth opportunity considering relatively lower penetration in these markets. Your Company rolled out one of the most ambitious cross-category rural marketing efforts through '*Khushiyon Ki Doli*' programme which touched almost 25 million consumers.

Volatile and rapidly changing commodity markets posed a major challenge in the latter half of 2010, where both vegetable oil and crude oil prices increased significantly. The impact of cost inflation was felt in inputs such as Palm oil, laundry chemicals, packaging and freight cost. The business was managed dynamically with increased frequency of cost and pricing review, and aggressive cost saving programmes, which helped to minimise price impact.

Your Directors believe that sustained investments behind brands by way of technology, innovations, consumer communication and continued focus on market development will benefit the business in creating long-term value.

5.2.1 Soaps and Detergents

While there was strong volume growth in the Soaps and Detergents category, value grew by 6.1% due to price corrections taken in laundry business in the early part of 2010.

Fabric wash recorded its highest volume growth on the back of brand innovations (*Wheel*) and a significant strengthening of *Rin*. The category witnessed significant competitive action and your Company has responded strongly to defend and grow its market share in this critical portfolio. Particularly satisfying was the acceleration of *Rin* growth, a brand that plays in the crucial mid-market segment of the detergents market, which is poised to grow strongly as India becomes more affluent. During the year, the Company rolled out *Comfort*, the fabric conditioner, following its successful test market in the South.

Margins were under pressure due to rising input cost prices, and price increases were initiated in the latter part of the financial year. The Company's cost-effective programmes delivered exceptionally well to neutralise part of the impact.

Your Company will continue to focus on laundry driving innovation and relevant communication, even as costs are controlled across the value chain.

Household products recorded double digit volume growth during the period. *Vim* bar continues to perform well. *Domex* continued on its journey to provide better and germ free toilets to the Indian consumer. During the year, the Company launched *OK* bar in parts of India, where the penetration of dish wash bars is low.

Personal Wash category recorded good growth during the year. This was driven through innovations across the portfolio (Re-launch of *Lifebuoy* and *Hamam*, launch of *Lux* variants) backed by strong micro marketing and market development. Through strong use of market mix modeling and focus on cost-effectiveness, the Company was able to grow the category, despite stiff competition and volatile commodity costs. As a result, growth was broad-based across every segment of the category. Vegetable oil prices, which had dropped to extremely low levels in 2009, began rising in 2010 and increased steeply towards the end of 2010. During the period of falling commodity prices, your Company had passed on the lower vegetable oil prices as extra fill in the form of consumer promotion and higher grammage packs. However, towards the end of 2010, with the increase in material costs, these were discontinued, in line with the approach followed by rest of the industry.

5.2.2 Personal Products

Personal Products categories comprise Hair Care, Skin Care, Oral Care, Deodorants and Colour cosmetics. The Personal Products category grew by 15.7% during the year.

Hair Care continues to be an attractive category with high volume growth, driven through increased consumption and value growth through premiumisation. Your Company had a strong year, strengthening its position by gaining share across shampoos and conditioners. *Dove* led the premiumisation agenda with a comprehensive re-stage in the second half of the year. The brand continues to be the fastest growing brand in the category, thus gaining rapid market share. *Clinic Plus* strengthened its leadership position and continued to be the largest Shampoo brand in the category. The re-positioning of the brand on the platform of being ideal for strong and long hair platform has been received well for the brand. *Sunsilk* continued to grow with superior product quality and packaging backed by the distinctive proposition of 'co-created by experts'. Your Company continued its focus on market development by investing strongly behind the nascent but emerging high potential hair conditioners segment, thus driving aggressive growth.

The Skin Care category holds very strong potential as the country becomes more affluent. In this context, the category delivered strong double digit growth, led by a very powerful innovation programme and strong market development efforts. *Fair & Lovely* continued to grow well on the back of a re-launch of the brand. *Pond's White Beauty* continued its strong growth momentum in the year, growing well ahead of the market. *Vaseline* successfully entered many new Skin Care categories during the year including Skin creams, Male grooming, Premium jelly and Lip formats, apart from strengthening its core body lotions portfolio. *Pond's Talcum Powder* was re-launched in February 2011 and received good response.

Your Company embarked on a plan to accelerate Oral Care business growth and the planned actions were put into market during the financial year. *Pepsodent Germ Kill* credentials were further strengthened with the launch of a focused and engaging *'Pappu & Pappa'* campaign. *Closeup* continued to build its freshness credentials and grew in line with the market. The toothbrush market has witnessed intense competition during the year and your Company has put in place robust actions to compete in this fast growing market.

With key launches of 2010 continuing to perform as per business plans, the Colour Cosmetics category witnessed stable growth during the year. Some of the key forays have been the re-launch of *Elle 18* in the youth space and entry of *Lakmé* into the largest skin sub segment – 'Fairness' with the launch of *Perfect Radiance* Skin Lightening Compact and Foundation, combining skin benefit with fairness.

Deodorants business continued to witness growth. During the year, your Company strengthened its position in anti-perspirants category with the launch of *Sure* brand both in roll-on and aerosol spray format. Your Company continued to drive new innovations across *Dove* and *Axe* led by '*Go Fresh'* range of *Dove* and launch of *Axe Musicstar* Campaign. Your Company has leveraged digital media to build over a million fans for *Axe* on Facebook and has leveraged gaming and viral campaigns to drive high levels of interaction between the target audience and the brand. The category has significant potential for growth in future. Your Company is now poised to capitalise in this emerging category with its portfolio of *Axe*, *Dove* and *Sure*.

Kimberly Clark Lever Private Limited (KCLL)

KCLL is a Joint Venture between your Company and Kimberly-Clark Corporation, USA. The Infant Care business continued to grow strongly and registered high double-digit growth in the year. New packs were introduced across the portfolio as the business focused on driving affordability and building acceptability in this category. On Feminine Care, the joint venture is focused on building an innovation pipeline, aligned to its long-term strategic ambition for this category.

5.3 Foods

The Foods portfolio of your Company comprises Beverages (Tea and Coffee), Processed Foods (*Kissan*, *Knorr* and *Annapurna* range of products), Ice Creams and Bakery products (Modern Foods).

The Foods business has delivered strong double-digit growth across the portfolio during the year. Consumer and Customer needs have been translated into many relevant and successful innovations in beverages, ice creams and packaged foods segments. Your Company has continued its focus on micro-marketing initiatives in core categories to increase consumption and penetration. Packaged food represents a significant consumer and business opportunity, given changing demographic profiles, rapid urbanisation, dramatic shifts in income pyramid and need for products with health benefits. This segment is being developed through products, which combine taste and nutrition and also provide cooking convenience.

Your Company has proactively managed multiple challenges, which include:

- High competitive intensity from MNC, National as well as local players in many categories; your Company has responded through increased brand investments and value-enhancing innovations.
- Significant food inflation across the spectrum leading to market slowdown and downtrading; your Company has countered this challenge through consumer-centric value packs, judicious price increases and aggressive cost saving programmes.

5.3.1 Processed Foods

Kissan continues to remain one of the most trusted brands among Indian consumers. All the categories under *Kissan* registered strong growths. By the end of the year, *Kissan* achieved volume leadership in the Ketchups category by participating in multiple benefit and price segments.

Kissan also forayed into new market segments in three big categories and the initial response from the consumers is encouraging. Your Company has launched *Kissan Fruit & Soya*, a delicious blend of fruit juice and soya milk, which enjoys a differentiated proposition in this market. The brand has also entered into the Indian (non-sweet) spreads market with the launch of *Kissan Creamy Spread* across key towns. *Kissan Nutrismart* has also been launched in Tamil Nadu and Andhra Pradesh as a test market.

Your Company maintained its value leadership in the soups segment through *Knorr*. The segment has registered impressive growth in the year, backed by an increase in volume share across all the regions. *Knorr* soups continued its objective of positioning itself as a healthy evening snack to drive soup drinking habit and thus lead market growth and category expansion.

Knorr Soupy Noodles has been the highlight of the Packaged Foods business in 2010-11. The All India launch of this mix was completed in 2010 and the product has received good response from consumers across all the markets. Your Company will continue to invest in this category and focus on consumer relevant innovations in future.

The staples business, through *Annapurna*, has registered a modest performance during the year. Your Company will continue to focus on key geographies and optimising costs to further enhance the profitability of the portfolio.

Your Company continued its focus on institutional sales of the foods products to restaurants, hotel chains etc. Although nascent, the business is progressing well by leveraging the supply chain and product development capabilities of the Foods Division.

Bakery (Modern Foods)

Bakery (bread and cakes) sustained its growth momentum and continued to deliver strong underlying profits from enhanced scale and better operational efficiencies. The new products (Chapati and Cream Rolls), launched during the year, were well received in the market place.

5.3.2 Beverages

The market witnessed downtrading in Tea segment and the overall growth in the discounted segment of the market is becoming larger. Notwithstanding such a competitive context, the business has witnessed strong turnover growth, while maintaining satisfactory volumes. Commodity inflation continues unabated in the Tea segment, driven by both local as well as international factors. During the year, Coffee prices have also increased significantly (at 14 year high) and are rising further. Spiraling costs continued to exert pressure on margins, which were mitigated through pricing and supply chain cost savings.

In Tea, given the faster growth of the discount segment within the market, a strong participation at the bottom end of the pyramid was undertaken through *Brooke Bond Sehatmand* and *Ruby. 3 Roses* continued to perform exceptionally well and has demonstrated significant growth, strengthening its competitiveness in southern part of India. *Red Label* grew in volumes very strongly throughout the year. Both *3 Roses* and *Red Label* were re-launched with a new proposition of health benefits from flavonoid in tea.

Taj Mahal grew well in the premium end and also registered good growth in the tea bags segments. The consumption of tea bags was encouraged through media campaigns and a large sampling initiative carried out with leading airlines. *Taaza* sales picked up after a slow start with robust growth in the latter part of the year.

Despite commodity price pressure, your Company was able to register strong volume growth in Coffee. In Instant Coffee segment, *Bru* had a new thematic campaign on 'Discover something new' over conversations and coffee. This was backed by strong media campaigns and trade activation programmes. *Bru Lite* was introduced in few markets and the initial response has been encouraging. In conventional coffee, your Company has achieved good volume growth.

The ensuing year is expected to be very challenging for coffee business given the commodity price pressures. Your Company will take pro-active steps towards ensuring sustained growth.

The out-of-home business continues to have high growth potential and has made very good progress during the year. Investments are being stepped up in the business and the Company will be expanding the business into new geographies.

5.3.3 Ice Creams

The Kwality Walls business has had another good year, continuing its consistent growth trajectory. The three key platforms – *Cornetto, Paddle Pop* and *Selection Take Home Tubs*, which are popular with youth, children and families respectively – continued to drive growth for the catagory. *Cornetto Double Chocolate*, the mid price *Cornetto* launched this year, has been extremely well received by consumers. *Cornetto* also launched *Cornetto Luv Reels*, India's first internet and mobile based, crowd sourced movie talent hunt. The campaign has been voted amongst India's most successful Internet campaigns across all categories, winning three awards at the prestigious Goa Advertising Festival. In *Paddle Pop*, where it is critical to have a portfolio across all kid-friendly price points, your Company had four very successful launches - *Fun Mango*, *Strawberry Jelly Kick*, *Rainbow Punch* and *Twister Ninja*. *Paddle Pop Gaming League*, has become amongst the largest gaming leagues for children in the world. Your Company also launched two popular flavours in the premium *Selection range - Black Forest and Dutch Choco Nut* – continuing to strengthen the theme of the family weekend moment as an occasion for ice cream consumption.

Your Company is also expanding the *Swirl's* parlours, a well loved concept of creating and enjoying personalised ice cream. There were over 130 functional *Swirl's* parlours at the end of the year.

During the year, input costs have put a significant pressure on profitability. The robust and well rounded portfolio across Impulse and take-home packs, strong innovations and well known brands have helped the business to take prudent price increases and manage its profitability in an inflationary environment. Availability and visibility being the most important drivers of growth for the category, investments continue to be made to enhance availability through more freezer deployment, and using information technology and analytics to drive better asset utilisation.

5.4 Exports Business

The exports business continued to focus on growth of profitable turnover during the year. Despite a sluggish recovery in most overseas markets, turnover grew by 9.3%. A robust value analysis and cost savings programme enabled improve margins, thereby driving profit growth ahead of turnover growth. The business maintained high levels of customer service and product quality, and rationalised working capital levels, thereby improving cash generation.

The Home & Personal Care segment witnessed an outstanding year driven primarily by Skin Care and Hair Care categories. The Pears business continued its excellent growth after its re-launch last year while sales of *Lakmé* nearly doubled, albeit on a small base.

The Foods & Beverages segment witnessed an excellent year. The flagship Tea bags category grew with strong sales to Australia and Japan. Instant Tea also recorded a significant growth, riding on higher sales to Europe. Sales of Instant Coffee were steady, with tough market conditions in Russia. Profits for the overall segment grew significantly, with export incentives being extended to conventional Tea, Instant Tea and recently Instant Coffee.

The Marine exports segment reported a positive contribution in a year, which saw both significant appreciation of the Rupee against the Euro and increasing raw material prices. The Rice business also reported profits, despite lower turnover caused by sluggish demand in Gulf markets.

To fully exploit the opportunity in export markets and to provide necessary focus, flexibility and speed to the business, the Board of Directors has decided to demerge FMCG exports business of the Company into its wholly owned subsidiary Unilever India Exports Limited (UIEL). Your Company will continue to provide the necessary support to UIEL to drive the growth of exports business. The Demerger of the FMCG Exports Business shall be subject to necessary approvals of Shareholders, Statutory Authorities and Hon'ble High Court.

Leather (Pond's Exports Limited)

The Leather business performed well to maintain operating profitability, despite severe pressures on margins, consequent to a strong appreciation of the Rupee against the Euro for most part of the year. Turnover grew, riding on excellent customer service and flexibility to service small orders.

5.5 Water

Pureit is a unique in-home drinking water purification system that offers protection to children and families from waterborne diseases. *Pureit* has a special Germ Kill Kit that removes harmful viruses, bacteria and parasites to give drinking water that is 'as safe as boiled water'. Most notably, *Pureit* complies with 'virus kill' and 'bacteria kill' criteria of the Environmental Protection Agency (EPA), the regulatory agency in the USA. Leading national and international medical, scientific and public health institutions have tested *Pureit*'s performance. *Pureit* provides this high level of protection without the need for boiling and without electricity or continuous tap water supply. It also has an 'End-of-life' indicator and an 'Auto shut-off' system, which further ensures water safety for consumers.

In line with *Pureit*'s mission of protecting lives from waterborne diseases, the product was launched nationally in 2008 at a very affordable price. In January 2010, your Company achieved another milestone in its mission of making safe drinking water available to every Indian with the launch of *Pureit* Compact at a price of just Rs. 1,000. This has now enabled your Company to help safeguard lives in the segment of society with lower purchasing power, where the incidence of waterborne diseases is the highest. During the course of the year, *Pureit* highlighted its safe water credentials with a communication campaign highlighting the fact that *Pureit* is the only purifier that can kill one crore viruses in a litre of water, without needing electricity, pressurised water, and with an auto shut-off safety system. Also during the year, your Company launched a new model, *Pureit Marvella*. This is being marketed as India's first fully automatic purifier, as consumers do not need to start, stop, fill or wait to pour water out of it. These initiatives have led to sustained turnover growth with improved margins, in line with business plans.

Pureit has already protected more than four million homes across India in just three years of its national launch. During this period, *Pureit* has received multiple awards, which reflect the high regard in which the brand is held by the scientific community and by the public at large. Key amongst these are the prestigious British Government Award for Consumer Product Innovation, the Golden Peacock Award and the Product of the Year Award.

5.6 Hindustan Unilever Network

Your Company has accelerated the process of re-engineering the business from a mass market to a Premium Personal Care and Health Care Channel. In line with this strategy, the business has started inducting right profile business partners (who are capable of buying and selling premium products) into the business and launched new innovations which serve to differentiate the business in the premium Beauty & Wellness space, such as *Aviance Perfect Radiance* Beauty Capsules and Serums. This re-engineering should help in driving the top-line in a profitable manner, going forward.

5.7 Beauty & Wellness

Lakme Lever Private Limited (LLPL), a wholly owned subsidiary of HUL, expanded the network of *Lakmé Beauty Salons* during the year with the opening of 11 Company owned and managed salons, along with 18 franchisee salons. The expansion was focused on metros as well as tier I cities which offer a substantial potential for expert beauty services. Based on lessons learnt during the year, the business is now poised for an accelerated expansion in the coming year. In order to ensure adequate supply of quality talent of hairdressers and beauticians to meet its growth ambition, LLPL has entered into an agreement with Pivot Point, USA, a world leader in beauty education, to set up training academies.

6. CUSTOMER MANAGEMENT

The year 2010-11 has been a landmark in terms of customer management initiatives. During the year, your Company restructured the front-end selling system. The process commenced at the beginning of 2010 and has been fully executed through a number of carefully crafted steps by the end of the year. This helped streamline the footprint for the entire portfolio ensuring that all categories (excluding Colour Cosmetics) can be sold in every store that is on coverage and has led to a sharp increase in distribution for our brands, especially in Food and in niche categories.

Building further on customer initiatives, your Company launched Customer Differentiation Tool that measures a customer's performance on sales and execution parameters aligned to business objectives and reward them accordingly. This also provides a framework for the Company's personnel to review each customer's performance in a transparent manner, discuss future plans and guide them to perform better in the market place.The CEO personally felicitated the top 100 customers at a special function.

The next-generation technology deployed last year has improved execution significantly and translated into business benefits in urban markets. This capability has, therefore, been extended to rural markets as well. This technology is now supported with improved back-end analytical models for sharp recommendations and intelligent, scientific and outlet-specific execution that help improve on-shelf availability and hence 'throughputs' per outlet. The on-shelf availability was supported with an extensive merchandising and visibility programme. The programme has tripled the scale of operations, and is significantly more reliable, well-managed and measurable, thus improving the in-store presence of your Company's products.

Apart from investing in infrastructure and setting up cutting-edge processes, your Company had also embarked on an enormous coverage expansion project, in rural and urban businesses. With the help of geo-spatial analysis, potential markets were identified. The coverage expansion was well-supported by the required infrastructure and the project exceeded its ambition. The urban coverage was increased by 20%, while the rural coverage was tripled. Today, your Company has more than 1.5 million outlets under direct coverage, doubling the coverage in the last two years.

6.1 Project *Shakti*

During the year, your Company took the *Shakti* initiative to the next level by extending the relationship with *Shakti Amma* to her family, through project *Shaktimaan*. Project *Shaktimaan* enrols the un-employed/under-employed male member of the family to sell your Company's products into the satellite villages of *Shakti*. The initiative serves two convergent purposes – enhances the livelihood opportunity of the *Shakti* family and improves the quality and depth of your Company's distribution network. This initiative strengthens the philosophy behind *Shakti*, which comprise:

- Leading market development
- Establish a suitable livelihood for the underprivileged
- Creating a self-sustaining business model
- Accessing markets beyond the reach of traditional distribution models

By the end of 2010, there were more than 23,000 *Shaktimaan*, and the *Shakti* programme had spread to an astounding 5,00,000 outlets, adding another dimension to your Company's distribution and contributing to tripling the rural footprint.

7. SUPPLY CHAIN

Your Company has made further progress in creating value by delivering world-class service to our customers and superior quality products to our consumers in a responsive, cost competitive and sustainable manner. Supply Chain service levels as measured by CCFOT (Customer Case Fill on Time) were maintained at the high levels ensuring product availability. 'Speed' is the new currency and was strongly driven through SAP based IT solutions for logistics, planning and distribution. To improve customer centricity, the team is driving cost propositions for every category and product and has re-designed Sales and Operation Planning Process (S&OP) to drive a cross-functional and collaborative model aimed at delivering continuous improvement.

The factories have enhanced TPM (Total Productivity Management) capabilities and shown positive momentum and continuous improvement onthe journey of manufacturing excellence. 'Throughput' from existing assets has been improved through the use of TPM techniques, thus reducing costs.Your Company has developed long-term manufacturing strategy and a capacity augmentation plan aligned to the business growth. All capacity creation projects were completed on schedule with flawless ramp-up and smooth delivery during the year. The success of 'LeverCare' has enabled a world-class consumer connect system to help consumers reach the Company, and equally to help our brands reach out to consumers.

During the year, the Supply Chain team worked on a strong Cost Effectiveness Programme to deliver savings throughout the supply chain, by various means including identification of further opportunities for waste elimination.This has facilitated the business to achieve a significant cost reduction (around 6% of supply chain costs), the highest ever in the recent past.

The energy conservation measures across all manufacturing sites have helped to reduce specific energy consumption. In addition, sustainable alternative routes of Bio-fuels are being introduced. This has also helped reduce energy costs and carbon emissions. Your Company is committed to a new strategic approach that incorporates sustainability as an integral part of the business and a long-term plan has been drawn up for the purpose. The buying function of the Company has focused on reducing lead time, procurement cost and developing reliability in the supply of RM and PM by fully leveraging benefits of scale and synergy through Unilever's global buying network.

8. RESEARCH, DEVELOPMENT AND INNOVATIONS

The R&D Centre started in Mumbai in 1958 by your Company, continues to produce a stream of high value technologies which differentiate our brands with strong consumer propositions. The R&D Centre has now undergone significant expansion with more than 700 highly qualified scientists and technologists working at the R&D laboratories in Mumbai and Bangalore. The R&D programme in India is strongly aligned with Unilever's global R&D priorities and geared towards delivering bigger, better and faster innovations with a robust pipeline of radically new technologies with innovative consumer propositions in Health and Hygiene, Laundry, Skin Care, Water Purification, Tea, Ice Cream and Naturals segments.

On the back of strong R&D initiatives, a number of new products were launched successfully in the market in 2010-11. In Skin Care, *Vaseline Men* range with moisturising and skin lightening benefits was launched with distinctive packaging and formats. *Pond's Gold Radiance* range and *Lakmé Perfect Radiance* range of skin care products were introduced during the year. *Dove* and *Sunsilk* hair conditioners were launched to meet the needs of different segments of the market for hair care. *Lifebuoy* soap and *Close-Up* toothpaste were re-launched with new, distinctive benefits. During the year, *Rin* powder was re-launched with shading dye technology. *Surf* and *Wheel* range of detergents were re-launched with improved product propositions. New designs of *Pureit* were developed by the R&D to cater to needs of consumers at different segments. Variants of *Pureit* were launched for the mass market and premium consumers.

Foods R&D made significant contribution in 2010 to the Company's Foods & Beverages portfolio by delivering several innovations to the market. Among them was *Knorr Soupy Noodles*, which is not just a unique product with a differentiated taste, but also meets the healthy choice guidelines laid down by Choices International. The Foods R&D team continues to support the Company's vitality mission by providing a scientific and technological framework, leading to the launch of healthy beverages, such as *Brooke Bond Sehatmand* - a fortified tea for consumers at the bottom of the pyramid with 50% of RDA of B Vitamins being delivered through 3 cups of tea. In addition, the R&D team has provided the science behind the re-launch of *Brooke Bond Red Label*, which links the goodness of flavanoids to tea, for the first time in a branded tea. In the conventional coffee segment, *Bru Select* – a premium R&G coffee with 85% coffee and 15% chicory was launched with technology to deliver premium taste and packaging. In ice cream segment several new and innovative products were launched like the *Cornetto Choco Disc* and the *Badami* using a combination of innovative formulations and processing. R&D has further contributed to the sustainability agenda of the Company by enabling significant reduction in packaging material consumption through several material efficiency initiatives.

The continuous stream of innovative and technically advanced products launched in the market was a result of significant R&D investments and the scientific talent that the Company can attract and retain. With its strong scientific expertise and potential to deliver high-value technologies, India continues to occupy a premier position in Unilever R&D. With the strong support from R&D as well as the brand development capabilities, your Company is well placed to meet the challenges arising from the increased competition intensity and the opportunities to drive faster growth. Your Company is working towards further strengthening the in-house scientific capabilities of the Indian R&D function and building new expertise bases to retain the competitive edge in the market place.

The details of expenditure on Scientific Research and Development at the Company's in-house R&D facilities eligible for a weighted deduction under Section 35(2AB) of the Income Tax Act, 1961 for the year ended 31st March, 2011 are as under:

– Capital Expenditure : Rs. 1.84 Crores
– Revenue Expenditure : Rs. 26.44 Crores

9. ENVIRONMENT, SAFETY, HEALTH AND ENERGY CONSERVATION

Your Company continued to focus on the vision of being an 'Injury Free' and 'Zero Environment Incident' organisation. The behavioural safety programme has now been in place for more than six years and continues to deliver better safety statistics and leading indicators are becoming more rooted than ever before. During the year, the Company defined three key thrust areas for safety, namely; road safety, hand-in-machine and equipment engineering controls. These thrust areas have strengthened all safety systems and processes across the organisation. Safety monitoring and compliance audits were conducted in distribution centres and co-packers to ensure systems implementation and to raise the benchmarks. With all these initiatives, the Total Recordable Frequency Rate (TRFR) of your Company, in 2010, was significantly reduced by 27% from 2009 baseline.

Your Company has adopted a progressive and pro-active stance on environmental issues like education of Green House Gases (GHG), Water conservation and Waste reduction across the value chain. Your Company believes that the impact of the business goes beyond the factory gate and extends to sourcing of raw materials and the use of products by the consumer. These principles are clearly articulated in the Unilever Sustainable Living Plan (USLP), details of which are provided on page no.16 of this report.

Your Company has taken steps to reduce the CO_2 emission from its operations significantly. The CO_2 emissions were reduced by 1% from 2009 and 30% from 2004 baseline in our own factories on a per tonne basis. On the energy front, the Company's operations achieved 5% reduction from 2009 and 41% reduction from 2004 baseline. Your Company has also increased the use of renewable resources like bio-mass and spent coffee/tea and the renewable energy proportion has touched 9% of total energy consumption in 2010.

India accounts for only 4% of the world's water resources, which is utilised by a population estimated to be around 18% of the world's total. Access to potable water is a significant concern in large parts of the Country. Your Company has adopted 4R strategy (Reduce-Reuse-Recycle-Recharge) to contribute to water conservation. This multi-pronged approach guides in monitoring water consumption at all stages, benchmarking specific consumption, undertaking programmes to reduce water consumption across manufacturing units, maximising water recycle, recharging groundwater through Rainwater Harvesting and watershed projects in the communities. Fifty six percent of our own manufacturing sites already have rainwater harvesting facilities – to reuse/ recharge the rain water. These measures enabled your Company to conduct operations without increasing water consumption during the year, despite significant volume growth.

Your Company actively pursues a two-pronged approach to waste management. One is to reduce waste generation through technical interventions and optimisation of processes like CIP (cleaning in place), sludge digester and filter press at Effluent Treatment Plant. The second is to dispose waste in a sustainable manner. Over 96% of the waste generated during the year was liquidated through sustainable recycling. The vermi-composting project has been initiated at three sites to treat the Effluent Treatment Plant waste into manure, which is being used for gardening.

The information 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 with respect to energy conservation is appended hereto and forms part of this report.

10. HUMAN RESOURCES

Your Company's Human Resource agenda for the year focused on strengthening four key areas: building a robust talent pipeline, enhancing individual and organisational capabilities for future-readiness, driving greater employee engagement and strengthening employee relations further through progressive people practices at the shop floor.

In the first half of 2010, a comprehensive Talent and Organisation Assessment was undertaken to understand their readiness to partner the business ambition in the medium term and a holistic people strategy was drawn up, which was the basis of the work done in the key areas mentioned above. This Human Resource agenda not only looks at the current needs of the business, but also enhances the Company's preparedness for the future.

Your Company is widely acclaimed for its people development practices and has further reinforced its position in this area in 2010-11. Your Company's ability to attract the best talent gives a competitive edge to the organisation. Through 2010, the Company's Employer Brand, was further strengthened and it continued to retain the top spot as 'Dream Employer' for the top business schools, for the second successive year. The Company adopted an integrated performance management process that builds greater stretch and alignment in targets across the organisation with greater focus on development planning and performance-linked reward for employees.

Your Company has identified Beauty, Foods and Modern Trade as key capabilities in order to 'win' in the future and our investment in capability building is focused on these in addition to our 'core' capabilities in Marketing, Sales and Distribution. The Company under took intensive training programmes through a combination of face-to-face and virtual learning approaches and over 35,000 e-learning registrations took place, indicating that the spirit of 'learn where you are' is imbibed in employees of the Company.

The Company participates in a Global People Survey every 2 years, which is a leading indicator of employee morale and motivation, with Employee Engagement being one of the key dimensions measured. For the current year, the employee participation rate for this survey was over 99% (with an employee base of approximately 15000) and your Company were ranked among the top performing companies across Unilever globally in all dimensions. This was on account of a number of proactive and innovative initiatives to engage our employees, the most significant being continuous and consistent business linked engagement, a vision for the future of the business and clarity and transparency to individuals on their own careers. We also transitioned to a new head office campus in Mumbai in the first half of 2010. This change also brought an opportunity to create a workplace with a more vibrant and open culture that supports flexibility for employees.

The Company spearheaded a major change in practices for shop floor employees. The year saw 31 workers and staff being promoted to the supervisory cadres on merit. Significant training and development inputs, combined with a robust, standardised performance appraisal system and an IT enabled training and development system aimed exclusively at workmen across the Country, supported this process and strengthened our edge in people development processes and tools.

In line with the growth ambition, new units and capacities were added at Haridwar (Personal Products and Water), Rajpura (Foods) and Baddi (Soaps). The continued volume expansion witnessed a total of 673 new workers being recruited through a scientific recruitment process.

The focus on proactive and employee centric shop floor practices, quick grievance resolution mechanisms and alignment to overall business goals ensured that there was practically no loss of man days due to industrial issues in 2010 – the third successive year in a row for this record. Eleven productivity linked long-term settlements were signed through the process of collective bargaining involving over 2,200 employees. All these settlements were signed with zero disruption to business activity reflecting the collective maturity of our workforce.

While the Dharwad Tea Unit went through a process of restructuring, your Company focused on minimising disruption to employment. Most workmen in the unit were gainfully redeployed in four other locations. This process has been significant because the paradigm this time was very different from the earlier restructuring programmes. Your Company had worked on the basis that, to the maximum extent possible, there would be no separation of workmen; instead, the Company would encourage them to relocate to other sites requiring trained workforce. Business Linked Engagement and TPM Edge programmes continued with full focus and rigour during the year and delivered significant improvement in factory operations.

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, forms part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent excluding the statement containing the particulars to be provided under Section 217(2A) of the Act. Any member interested in obtaining such particulars may inspect the same at the Registered Office of the Company or write to the Company Secretary for a copy thereof.

11. INFORMATION TECHNOLOGY

Your Company continues to invest in Information Technology, leveraging it as a source of competitive advantage.

The enterprise-wide SAP platform forms the backbone of IT and encompasses all core business processes in the Company and for collaboration with our suppliers and customers. It provides a comprehensive data warehouse with analytics capability that helps in better and speedier decisions. Supply chain optimisation, enabled by the IT capability, remains a source of significant value.

Your Company has institutionalised an extensive IT capability for customer development function to support execution in the front-end. All distributors run a standard distributor management system. The distributors' salesmen use handheld devices for accepting retail orders which enable faster tracking and real-time sales information. Your Company has enhanced this capability for analytics and intelligent sales calls to improve front-end execution. In 2010, an extensive programme was undertaken to enhance direct distribution and coverage, especially in rural India. This significantly leverages IT capability for geo-spatial analysis and mobile-based solutions. Your Company has put in place an enabled consumer interaction centre for addressing complaints and suggestions from consumers, retailers and distributors.

Your Company continues to invest in IT infrastructure to support business applications, and has leveraged India's expanded telecom footprint to provide high bandwidth terrestrial links to all operating units. Your Company also used Software as a service to provide agile, cost-effective IT capabilities in select areas.

As the IT systems become more sophisticated and mission critical, there is a continuous focus on IT security and reliable disaster recovery management processes. These are periodically reviewed and tested for efficacy and adequacy.

12. FINANCE AND ACCOUNTS

Your Company's continued focus on cash generation resulted in a strong operating cash flow during the year; driven by good business performance, efficiencies and cost savings across the supply chain and greater focus on working capital management. Your Company managed investments prudently by deploying cash surplus in a balanced portfolio of safe and liquid instruments. Capital Expenditure during the year was at Rs. 311.31 Crores (during the year ended 31st March, 2010 - Rs. 572 Crores). This was primarily in the areas of capacity expansion, consolidation of operations, information technology, energy and other cost savings.

The Company has not accepted any fixed deposits during the year. There was no outstanding towards unclaimed deposit payable to depositors as on 31st March, 2011.

In terms of the provisions of Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001, Rs. 3.74 Crores of unpaid/unclaimed dividends, interest on debentures and deposits were transferred during the year to the Investor Education and Protection Fund.

Return on Net Worth, Return on Capital Employed and Earnings Per Share (EPS) for the last four years and for the year ended 31st March, 2011 are given below:

Particulars	2006	2007	Period ended 31st March, 2009	2009-10	2010-11
Return on Net Worth (%)	68.1	80.1	103.6 *	88.2	74.0
Return on Capital Employed (%)	67.0	78.0	107.5 *	103.7	87.5
Basic EPS (after exceptional items) (Rs.)	8.41	8.73	11.46 **	10.10	10.58

* Annualised numbers for proportionate period

** for fifteen month period

Segment-wise results

Your Company has identified seven business segments in line with the Accounting Standard on Segment Reporting (AS-17), which comprise: (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 Water. The audited financial results of these segments are given as part of financial statements.

13. 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.

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.

Pursuant to the approval of the Members at the Annual General Meeting held on 29th May, 2006, the Company adopted the '2006 HLL Performance Share Scheme'. The Scheme has been registered with the Income Tax authorities in compliance with the relevant provisions of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. As per the terms of the Performance Share Plan, employees are eligible for the award of conditional rights to receive equity shares of the Company at the face value of Re. 1/- per share. These awards will vest only on the achievement of certain performance criteria measured over a period of 3 years. 168 employees, including Whole-time Directors, were awarded conditional rights to receive a total of 3,08,455 equity shares at the face value of Re. 1/- each. The above mentioned comprises of conditional grants made to eligible managers covering performance period 2011-13.

14. CORPORATE GOVERNANCE

Your Company is renowned for exemplary governance standards since inception and continues to lay a strong emphasis on transparency, accountability and integrity.

A separate report on Corporate Governance is provided on page no. 48 of this report together with a Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchange(s). A certificate of the CEO and CFO of the Company in terms of sub-clause (v) of Clause 49 of Listing Agreement, inter alia, confirming the correctness of the financial statements, adequacy of the internal control measures and reporting of matters to the Audit Committee is also annexed.

The Ministry of Corporate Affairs, Government of India introduced the Corporate Governance Voluntary Guidelines, 2009. These guidelines have been issued with the view to provide Corporate India a framework to govern themselves voluntarily as per the highest standards of ethical and responsible conduct of business.

The recommendation of the Voluntary Guidelines pertaining to separation of offices of the Chairman and the CEO, constitution of Audit Committee and Remuneration Committee, Risk Management framework, are already practised by your Company. Your Company has been in substantial compliance of these guidelines. Some of these guidelines are in the process of being implemented. During the year a Secretarial Audit was carried out; the detailed report is given at page no. 66 of this report.

14.1 Risk and Internal Adequacy

Your Company manages cash and cash flow processes assiduously involving all parts of the business. There was a net cash surplus of Rs. 1640.01 Crores as on 31st March, 2011. The Company's debt equity ratio is very low which provides ample scope for gearing the Balance Sheet should that need arise. Foreign exchange transactions are fully covered with strict limits placed on the amount of uncovered exposure, if any, at any point in time. There are no materially significant uncovered exchange rate risks in the context of Company's imports and exports. Company accounts for 'mark-to-market' gains or losses at every quarter end in line with the requirements of AS-11.

The Company's internal control systems are commensurate with the nature of its business and the size and complexity of its operations. These are routinely tested and certified by Statutory as well as Internal Auditors and cover all offices, factories and key areas of business. Significant audit observations and follow up actions thereon are reported to the Audit Committee. The Audit Committee reviews adequacy and effectiveness of the Company's internal control environment and monitors the implementation of audit recommendations including those relating to strengthening of the Company's risk management policies and systems.

Your Company has an elaborate process for Risk Management. This rests on the three pillars of Business Risk Assessment, Operational Controls Assessment and Policy Compliance processes. Major risks identified by the businesses and functions are systematically addressed through mitigating actions on a continuing basis. These are discussed with both Management Committee and Audit Committee. Some of the risks relate to competitive intensity and costs' volatility.

14.2 Outlook

India's GDP growth for 2011-12 is projected at 8.5%. In Q1 and Q2 of 2011-12, the GDP growth is projected at 8.4 and 8.5% respectively, which is lower than the growth rate of 8.9% in the first two quarters of 2010-11. This is essentially due to the expected slowdown in industry and services. In the second half of 2011-12, however, the GDP growth rate is projected to touch 8.6%. The macroeconomic assessment places the overall GDP growth, in constant prices, at 8.5% in 2011-12. Wholesale Price Index (WPI) based inflation rate is projected at 6.8%, which is a slightly optimistic figure given the prevailing rate of inflation.

FMCG markets are expected to grow, though there would be change in the mix of volume and price. Input costs will continue to remain high, with the added challenge of volatility. The competitive environment is also expected to remain intense. Your Company's strategy and focus remains consistent to robustly defend and strengthen leadership positions, and concurrently lead market development of categories and channels of future. Your Company will ensure that it remains competitive, in market and in costs, and will manage the business even more dynamically.

14.3 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.

15. SUBSIDIARY COMPANIES

During the year, the Board of Directors agreed to divest 43.31% stake in Hindustan Field Services Private Limited (HFS) in favor of Smollan Group (the JV partner). Your Company will continue to hold 7.69% shareholding in HFS. HFS will, accordingly, cease to be a subsidiary of the Company post completion of the divestment.

A statement pursuant to Section 212 of the Companies Act, 1956 relating to Subsidiary Companies is attached to the accounts.

In terms of General Exemption under Section 212(8) of the Companies Act, 1956 granted by Ministry of Corporate Affairs vide its circular no. 02/2011 dated 8th February, 2011 and in compliance with the conditions enlisted therein, the Audited Statement of Accounts and the Auditors' Reports thereon for the financial year ended 31st March, 2011 along with the Reports of the Board of Directors of the Company's subsidiaries have not been annexed. The Annual Accounts and related documents of the Subsidiary Companies shall be kept for inspection at the Registered Office of the Company. The Company will also make available these documents upon request by any Member of the Company interested in obtaining the same. However, as directed by the said circular, the financial data of the Subsidiaries have been furnished under 'Subsidiary Companies Particulars' forming part of the Annual Report (Refer page no. 146). Further, pursuant to Accounting Standard AS-21 issued by the Institute of Chartered Accountants of India, Consolidated Financial Statements presented by the

Company in this Annual Report includes the financial information of its subsidiaries.

16. CORPORATE SOCIAL RESPONSIBILITY

Your Company's strategy is to integrate the social, economic and environmental agenda in the fabric of its business and operations. This requires the business, to identify the relevant impact areas and define strategies that drive consumer preference, and in parallel, address these issues i.e. strategies that do well by doing good. The reasons for growing the business sustainably are compelling and your Company sees no conflict between promoting sustainable development and business growth.

Your Company's vision is to increase the positive impact in the social agenda by improving health and well being, reduce the environmental impact from greenhouse gases, water and waste and work towards prosperity of India and business by enhancing livelihoods amongst farmers through sustainable sourcing and expanding our small distributor model.

During the year, Unilever launched the 'Unilever Sustainable Living Plan' globally. The Unilever Sustainable Living Plan (USLP) has three significant outcomes by 2020:

- Help more than a billion people take action to improve their health and well-being
- Halve the environmental impact of the making and use of Unilever products
- Enhance the livelihoods of thousands of people in Unilever's supply chain

The first outcome is to help more than a billion people to take action to improve their health and well-being. Our everyday use products like soap, spreads and toothpaste can make a meaningful difference to people's lives. The *Lifebuoy* handwashing education programme has already reached over 124.7 million people in India and South Asia. Clinical trials reveal that washing hands at key moments helps in significantly reducing the risk of diarrhoeal disease – one of the biggest reasons for fatalities among children.

Today, nearly 1 billion people do not have access to safe drinking water. The UN estimates that nearly one-and-a-half million children die each year from water related diseases. A few years ago your Company decided that there had to be a better, cheaper, more sustainable way to provide safe drinking water. The product developed to address this is *Pureit*, a water purification system. The water it produces is as safe to drink as boiled water, tastes a whole lot better than water purified with chlorine based sachets, and is a fraction of the price of bottled water. It is easy to operate and safe to use.

To make this product affordable to low income groups, your Company works with NGOs and Women's Self-Help Organisations to facilitate the availability of low-interest micro-loans. Today, *Pureit* is protecting around 20 million people with clean, safe drinking water. After the success of the product in India, Unilever has decided to introduce *Pureit* across other countries in South - East Asia, Latin America and sub-Saharan Africa.

The second outcome is to halve the environmental impact of the making and use of our products. This means halving water, waste and greenhouse gases across the lifecycle of the products. The Company has reduced water usage in manufacturing operations by 36% since 2004 (measured on per tonne basis). Fifty six percent of our own manufacturing sites now have rainwater harvesting facilities and five of the sites have potential to return more water to the ground than their consumption.

The products/business life cycle impact analysis shows that your Company's direct impact is relatively small; it is the sourcing of raw materials and usage of the products that accounts for a much larger impact. This means that the Company has to design products, which allow consumers to get better results with less energy and less water consumption.

The third outcome is to enhance the livelihoods of thousands of people in Unilever's supply chain. Your Company works with many small holding farmers, small-scale distributors and micro-entrepreneurs (for example Project *Shakti* in India) helping them improve their skills and increase productivity.

The outcomes that Unilever has committed to itself are ambitious and challenging and each person at Unilever is willing to stretch, given the excitement for and the belief that it is the right way to go; for our business, for the society and for the environment.

Our products touch the lives of 2 out of 3 Indians everyday, hence changes made to the way the products are designed, sourced and used will have a far reaching impact in making consumption sustainable.

Your Company released its first 'Sustainable Development Report' at the Annual General Meeting held on 27th July, 2010. Your Company's Sustainable Development Report presented the Company's Corporate Responsibility (CR) framework which integrates the social, economic and environmental agenda with business priorities. An update on progress on our commitments made under the CR strategy of the Company is provided at page no. 17 of the Annual Report.

17. BOARD OF DIRECTORS AND MANAGEMENT COMMITTEE

There are no changes in the Board of Directors and Management Committee of the Company during the year.

In accordance with the Articles of Association of the Company, all other Directors, except for Managing Director, will retire at the ensuing Annual General Meeting and being eligible offer themselves for re-election.

The day-to-day management affairs of the Company are vested with the Management Committee, which is subjected to the overall superintendence and control of the Board. The Management Committee is headed by Mr. Nitin Paranjpe, as the Chief Executive Officer, and has functional/business heads as its members.

18. 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.

19. APPRECIATIONS AND ACKNOWLEDGEMENTS

Your Directors place on record their deep 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.

Your Directors would also like to acknowledge the excellent contribution by Unilever to your Company in providing with the latest innovations, technological improvements and marketing inputs across almost all categories in which we operate. This has enabled the Company to provide higher levels of consumer delight through continuous improvement in existing products and introduction of new products.

The Board places on record their appreciation for the support and co-operation your Company has been receiving from its suppliers, redistribution stockists, retailers, business partners and others associated with the Company as its trading partners. Your Company looks upon them as partners in its progress and has shared with them the rewards of growth. It will be Company's endeavor to build and nurture strong links with the trade based on mutuality of benefits, respect to and co-operation with each other, consistent with consumer interests.

The Directors also take this opportunity to thank all investors, clients, vendors, banks, regulatory and government authorities and stock exchanges, for their continued support.

On behalf of the Board

Mumbai
9th May, 2011

Harish Manwani
Chairman

Annexure
To the Directors' Report

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

Canned and processed fruits and vegetables		For the year ended 31st March, 2011	For the year ended 31st March, 2010
A) POWER AND FUEL CONSUMPTION			
1) Electricity			
a) Purchased			
Unit	Lakh KWH	30.04	31.77
Total Amount	Rs. Lakhs	174.31	166.71
Rate / Unit	Rs.	5.80	5.25
b) Own Generation			
i) Through own generator			
Unit	Lakh KWH	0.82	1.17
Unit per ltr of diesel oil	KWH	2.75	3.11
Cost per unit	Rs.	14.79	10.84
ii) Through steam turbine / generator		NIL	NIL
2) Furnace oil			
Quantity	KL	747.32	791.49
Total Cost	Rs.Lakhs	255.80	219.64
Average Rate	Rs. / KL	34,228.21	27,749.83
B) CONSUMPTION PER UNIT OF PRODUCTION			
Electricity	Kwh/Tonne	222.12	245.24
Furnace Oil	Lts/Tonne	55.26	61.10

DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION

1. **Specific areas in which R&D carried out by the Company**
   - New product / process development
   - Quality enhancement to achieve International Standards.
   - Technology Upgradation
   - Speciality ingredients from natural sources
   - Development and evaluation of alternative raw materials
   - Project of Global relevance
2. **Benefits derived as a result of the above R&D and future plans of action:**
   The benefits and future plan of action have been discussed in details in the Director's report

Rs. Crores

3. Expenditure of R&D	For the year ended 31st March, 2011	For the year ended 31st March, 2010
a) Capital	5.79	8.04
b) Recurring	93.57	81.08
c) Total	99.36	89.12
d) Total R& D Expenditure as a percentage of total turnover	0.51%	0.51%

TECHNOLOGY ABSORPTION, ADOPTION AND INNOVATION

1. **Efforts, in brief, made towards technology absorption, adoption and innovation:**
   The Company maintains interaction with Unilever internationally.
   This is facilitated through a well co-ordinated management exchange programme.
2. **Benefits derived as a result of the above efforts:**
   The benefits have been covered in the Director's report.
3. **Imported Technology:**
   (a) Technology imported
   (b) Year of import
   (c) Has technology been fully absorbed
   } Continuous import from Unilever under technical collaboration agreement

Rs. Crores

FOREIGN EXCHANGE EARNINGS & OUTGO	For the year ended 31st March, 2011	For the year ended 31st March, 2010
Foreign Exchange Earnings	1,428.24	1,300.26
Foreign Exchange Outgo	2,424.60	2,101.13

Disclosure pursuant to the provisions of Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999

2001 HLL Stock Option Plan

	2001	2002	2003	2004	2005
a) Options granted	24,75,100 equity shares of Re. 1/- each valued at Rs. 53.82 crores	32,33,601 equity shares of Re. 1/- each valued at Rs. 68.02 crores	42,76,090 equity shares of Re. 1/- each valued at Rs. 58.16 crores	16,30,450 equity shares of Re. 1/- each valued at Rs. 20.95 crores	15,47,700 equity shares of Re. 1/- each valued at Rs. 20.44 crores
b) The pricing formula	Closing market price as on the date of option grant - 24.07.2001 Rs. 217.45	Closing market price as on the date of option grant - 23.04.2002 Rs. 210.35	Closing market price as on the date of option grant - 24.04.2003 Rs. 136.00	Average of highs and lows for two week period preceding the date of option grant-30.06.2004 Rs. 128.47	Closing market price, prior to the date of meeting of the Board of Directors in which the options were granted-26.05.2005 Rs. 132.05
c) Options vested	Options vested after three years from date of grant (24.07.2001)	Options vested after three years from date of grant (23.04.2002)	Options vested after three years from date of grant (24.04.2003)	Options vested after three years from date of grant (30.06.2004)	Options vested after three years from date of grant (27.05.2005)
d) Options exercised (as at March 31, 2011)	11,26,800 equity shares of Re. 1/- each	15,30,332 equity shares of Re. 1/- each	29,21,945 equity shares of Re. 1/- each	9,32,506 equity shares of Re. 1/- each	8,67,400 equity shares of Re. 1/- each
e) The total number of shares arising as a result of exercise of option	11,26,800 equity shares of Re. 1/- each	15,30,332 equity shares of Re. 1/- each	29,21,945 equity shares of Re. 1/- each	9,32,506 equity shares of Re. 1/- each	8,67,400 equity shares of Re. 1/- each
f) Options lapsed (as at March 31, 2011)	8,65,900 equity shares of Re. 1/- each	9,04,320 equity shares of Re. 1/- each	6,18,345 equity shares of Re. 1/- each	3,33,500 equity shares of Re. 1/- each	2,66,900 equity shares of Re. 1/- each
g) Variation of terms of options	Reduction in exercise price by Rs. 8.76 per share	Reduction in exercise price by Rs. 8.76 per share	Reduction in exercise price by Rs. 8.76 per share	NA	NA
h) Money realised by exercise of options during the year	Rs. 1.57 crores	Rs. 1.85 crores	Rs. 1.22 crores	Rs. 0.62 crores	Rs. 1.23 crores
i) Total number of options in force (as at March 31, 2011)	4,82,400 equity shares of Re. 1/- each	7,98,949 equity shares of Re. 1/- each	7,35,800 equity shares of Re. 1/- each	3,64,444 equity shares of Re. 1/- each	4,13,400 equity shares of Re. 1/- each

Disclosure pursuant to the provisions of Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999

2006 HLL Performance Share Scheme

	2006	2007	2008	2009	2010	2011
a) Options granted	Conditional grant of 3,49,750 equity shares of Re.1/- each valued at Rs. 3.49 lakhs	Conditional grant of 2,35,950 equity shares of Re.1/- each valued at Rs. 2.35 lakhs	Conditional grant of 2,06,250 equity shares of Re.1/- each valued at Rs.2.06 lakhs	Conditional grant of 3,33,811 equity shares of Re.1/- each valued at Rs.3.33 lakhs	Conditional grant of 2,82,310 equity shares of Re.1/- each valued at Rs.2.82 lakhs	Conditional grant of 3,08,455 equity shares of Re.1/- each valued at Rs.3.08 lakhs
b) The pricing formula	Book value of Re.1	Book value of Re.1	Book value of Re.1	Book value of Re.1	Book value of Re.1	Book value of Re.1
c) Options vested	2,55,166 options vested on 01.11.2009	2,66,180 options vested on 01.05.2010	1,57,455 options vested on 20.03.2011	Options will vest after 3 years from the date of grant (11.05.2009)	Options will vest after 3 years from the date of grant (29.03.2010)	Options will vest after 3 years from the date of grant (29.03.2011)
d) Options exercised (as at March 31, 2011)	2,55,166 equity shares of Re.1/ each	2,64,530 equity shares of Rs.1/ each	NIL	NIL	NIL	NIL
e) The total number of shares arising as a result of exercise of option	2,55,166 equity shares of Re.1/ each	2,64,530 equity shares of Rs.1/ each	NIL	NIL	NIL	NIL
f) Options lapsed (as at March 31, 2011)	NIL	1,650 equity shares of Re. 1.- each	48,805 equity shares of Re. 1.- each	NIL	NIL	NIL
g) Variation of terms of options	NA	NA	NA	NA	NA	NA
h) Money realised by exercise of options during the year	NIL	2.65 lakhs	NIL	NIL	NIL	NIL
i) Total number of options in force (as at March 31, 2011)	NIL	NIL	1,57,455 equity shares of Re. 1/- each	Conditional grant of 3,33,811 equity shares of Re.1/- each	Conditional grant of 2,82,310 equity shares of Re.1/- each	Conditional grant of 3,08,455 equity shares of Re.1/- each

Details of Options granted during the year ended 31st March, 2011 under Performance Share Plan 2011.

j)		Employee wise details of options granted to:	
	i)	Senior managerial personnel:	Refer Note iii
	ii)	any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year;	Under Performance Share Plan 2011, Nitin Paranjpe-Managing Director & CEO was awarded 27,140 shares (8.8%) and Sridhar Ramamurthy-Executive Director (Finance & IT) and CFO was awarded 16,380 shares (5.3%).
	iii)	Identified employees who were granted option during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	Nil
k)		Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share'.	Rs. 10.56
l)	i)	Method of calculation of employee compensation cost	The Company has calculated the employee compensation cost using the intrinsic value method of accounting to account for Options issued under the "2006 HLL Performance Share Scheme".
	ii)	Difference between the employee compensation cost so computed at (i) above and the employee compensation cost that shall have been recognised if it had used the fair value of the Options	Gain of Rs. 0.59 Crores
	iii)	The impact of this difference on profits and on EPS of the Company	The effect of adopting the fair value method on the net income and earnings per share of 2010-11 is presented below:

Net Income	Rs. Crores
As reported	2305.97
Add: Difference between Intrinsic value and Fair Value Calculation	0.59
Adjusted Net Income	2306.56

Earnings Per Share (Basic and Diluted) (Rs.)

	Basic EPS	Diluted EPS
As reported	10.58	10.56
As adjusted	10.58	10.57

Details of Options granted during the year ended 31st March, 2011 under Performance Share Plan 2011 (Contd.)

m) Weighted average exercise price and weighted average fair value — Exercise Price is Re. 1/-

n) Fair value of Options based on Black Scholes methodology

Assumptions

Risk free rate	6.68% for 2010 and 7.78% for 2011
Expected life of options	3.125 years for each plan
Volatility	33.89% for 2010 and 30.86% for 2011
Expected Dividends	Rs. 6.50 per share
Closing market price of share on date of option grant	Rs.238.50 for 2010 and Rs. 276.70 for 2011

Notes:

(i) Pursuant to approval of the Members at the Annual General Meeting of the Company held on 29th May, 2006, the Company had adopted a revised Scheme "2006 HLL Performance Share Scheme" in place of the existing "2001 HLL Stock Option Plan".

(ii) The Pricing Formula adopted by the Company for 'Employees Stock Option Plan' for the years 2001 to 2005, was based on the "Market Price" as defined in SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, and Maximum number of options to be issued per employee in a fiscal year did not exceed 0.01% of the outstanding issued share capital, as expressed in Clause 11 of the '2001 HLL STOCK OPTION PLAN' in the line with Clause 6.2(h) of SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guideline 1999.

(iii) Details of Options granted to senior managerial personnel.

Name	Performance shares awarded
Nitin Paranjpe	27,140
Sridhar Ramamurthy	16,380
Gopal Vittal	12,285
Shrijeet Mishra	7,807
Leena Nair	7,807
Pradeep Banerjee	4,461
Hemant Bakshi	7,807
Dev Bajpai	3,346