Directors' Report

And Management Discussion and Analysis

To the Members,

Your Company's Directors are pleased to present the 77th Annual Report of the Company along with Audited Accounts for the financial year ended 31st March, 2010.

1. FINANCIAL PERFORMANCE

1.1 Results

Rs. Crores

	Twelve Months period ended 31st March, 2010	Fifteen Months period ended 31st March, 2009
Turnover, net of excise	17,523.80	20,239.33
Profit before tax	2,707.07	3,025.12
Net profit	2,202.03	2,496.45
Dividend (including tax on distributed profits)	(1,655.97)	(1,912.29)
Transfer to General Reserve	(220.20)	(250.00)
Profit & Loss Account balance carried forward	802.19	531.66

1.2 Category wise Turnover

Rs. Crores

	Twelve Months period ended 31st March, 2010		Fifteen Months period ended 31st March, 2009	
	Sales	Others*	Sales	Others*
Soaps and Detergents	8,180.29	85.35	9,770.26	114.37
Personal Products	4,969.36	78.54	5,272.31	112.22
Beverages	2,119.44	22.99	2,272.29	27.22
Foods	713.97	16.81	791.25	17.05
Ice creams	228.94	2.06	229.44	5.88
Exports	1,000.15	5.10	1,567.29	8.79
Others	315.50	31.22	344.41	14.13
Less : Inter segment revenue	(3.85)		(7.92)	
Total	**17,523.80**	**242.07**	**20,239.33**	**299.66**

* Other revenue represents service income from operations, relevant to the respective businesses.

Directors' Report

And Management Discussion and Analysis (Contd.)

1.3 Summarised Profit and Loss Account

Rs. Crores (except EPS)

	Twelve months period ended 31st March, 2010	Fifteen months period ended 31st March, 2009
Net sales	17,523.80	20,239.33
Other operational income	201.53	384.17
Total	17,725.33	20,623.50
Operating Costs and expenses	(14,975.36)	(17,583.31)
PBDIT	**2,749.97**	**3,040.19**
Depreciation	(184.03)	(195.30)
PBIT	**2,565.94**	**2,844.89**
Interest Income (net)	141.13	180.23
PBT	**2,707.07**	**3,025.12**
Taxation :	(604.39)	(524.41)
PAT (before exceptional items)	**2,102.68**	**2,500.71**
Exceptional items (net of tax)	99.35	(4.26)
Net profit	**2,202.03**	**2,496.45**
Basic EPS (Rs.)	**10.10**	**11.46**

On a like to like basis i.e. comparing the results for the financial year ended 31st March 2010 with the unaudited results for the 12 months period ended 31st March 2009, your Company registered an overall turnover growth of 6.4% and improved operating margin by 10 bps. Net Profit (after Exceptional Items) grew by 4.1%. Basic Earnings Per Share for the period 2009-10 was Rs. 10.10.

2. DIVIDEND

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, 2010. The interim dividend of Rs.3.00 per equity share was paid on 23rd November, 2009.

The final dividend, subject to approval at the AGM on 27th July, 2010, will be paid to the shareholders whose names appear in the Register of Members with reference to the book closure from Saturday, 10th July, 2010 to Monday, 26th July, 2010 (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. 1655.88 crores including Dividend Distribution Tax of Rs. 238.02 crores.

3. CORPORATE OFFICE & RESEARCH CENTRE

With the need to consolidate the multiple office locations burgeoned across Mumbai to accommodate growing teams and businesses of your Company and in order to drive synergies, the new Corporate Office of your Company was inaugurated in January, 2010.

The new Corporate Office named as 'Campus' is located at Andheri; and has marked the completion of the journey of bringing together your Company, physically and culturally under one roof. A journey which started with the Brookefields, Bangalore office merging into the office at Backbay Reclamation, Mumbai in the last quarter of 2006 and ending with five other locations in Mumbai coming together at Andheri in January, 2010.

The 'Campus' not only physically brought together different teams that were sitting apart, but also created an environment of oneness towards the goal of performing better and seeing the organisation soar to newer heights. The 'Campus' aims to create a flexible, open and vibrant work space, which enables every employee to perform better. It leverages technology and progressive workplace practices to meet the needs of today's business environment.

The new Campus is designed keeping in mind the new trends and emerging needs of today's talent and boosts the employer brand of your Company to attract and retain talent.

As an organisation committed towards sustainability, various energy saving systems and technologies have been incorporated in the design of the office to drive 100% recycling of water and save energy consumption. In design and spirit, the new Corporate Office truly symbolises Company's vision to work as one and leverages its collective strength to win in the market.

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 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 Director's 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

Over the last two years, India has limited the impact of the global slowdown on its growth. The GDP growth rate in the first three quarters of the financial year 2009-10 has been 6.7%. The downward pressure on GDP growth came in the form of poor monsoons which impacted the 'Kharif' (crops grown in June-September period) agricultural produce this year. While the services sector has been growing at a rate of over 7.9%, the industrial growth accelerated sharply from 2% to 11.6% over the last four quarters. Towards the end of the fiscal year, export growth has returned to positive territory on revival in global demand, after 13 consecutive months of de-growth.

Though the overall GDP growth rates are encouraging, food price inflation has been a major cause of worry for over a year. Food inflation, along with firming up of global commodity prices, has spilled over into prices of domestic commodities and services as well with the overall consumer inflation rate hovering at over 15% for several months. The wholesale price inflation touched 9.9% in February 2010, surpassing Reserve Bank's estimate of 8.5% by March end.

The FMCG markets in India continue to be attractive and have grown during the year under review. In the context of the global slowdown, the Indian market has become even more attractive and many new competitive entries have been witnessed leading to a significant increase in the overall competitive intensity. At the same time, the increased levels of inflation have had a somewhat dampening impact on the market growth of some of the categories, particularly in the second half of the year. Commodity prices have also been fairly volatile, particularly in the first half of the year.

Your Company's good performance in the year 2009-2010 has to be viewed in the context of the above 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. Increase/growth percentages refer to the comparison of the financial year ended 31st March, 2010 with the 12 months period ended 31st March, 2009.

5.2 Home & Personal Care Business (HPC)

The HPC Business consists of Fabric Wash, Household Care, Personal Wash and Personal Care categories which includes products such as toothpaste, shampoo, skin care, deodorants and colour cosmetics. During the year, the HPC business delivered sales growth of 6.6%. While the underlying volume growth was higher, aggressive price reductions were effected in the market place linked to significant reduction in commodity prices over the previous year. Further, competitive intensity increased substantially in most categories, especially in the second half of the year, evidenced by many new competitive entries as well as a step up in media spend levels. During the year, your Company introduced several innovations across the portfolio and stepped up the level of brand investments to drive growth. Your Company continued to receive significant technology and brand development inputs from Unilever which played a key role behind the various innovations launched during the year. As a result of these efforts, the growth momentum of the HPC business accelerated through the year with double digit volume growth in the last quarter of the year under review. This growth was broad based across categories and was delivered in the context of significant increase in competitive intensity, both from existing and new players.

Given the low levels of per capita consumption in India, there is potential for strong growth in all categories of the Home and Personal Care market. These favourable market conditions have attracted a host of international and domestic competitors to participate in the Indian market. Your Directors believe that making sustained investments behind the Company's brands, by way of technology led innovations, consumer communication and continued focus on developing the markets, will benefit the business in creating long term value.

5.2.1 Soaps & Detergents

Soaps and Detergents category recorded modest turnover growth of 1.5%. The growth of the Soaps and Detergents category needs to be viewed in the context of a very high base in the previous year which saw high price increases linked to commodity cost inflation. During the year under review, the prices of products, particularly in the Detergents segment, were reduced taking into account the reduction in commodity prices. The segmental margin of this category was lower by 100 bps linked to the volatility in commodity costs in the initial part of the year and the actions taken to defend the Company's leadership position in the face of heightened competitive intensity.

Fabric Wash category had a mixed performance. The first half of the year was impacted by the volatility in pricing linked to commodity costs while the second half of the year recorded good volume growth. The improved performance in the second half of the year, despite intense competitive activity, was driven by brand innovations (Wheel) and price corrections across the portfolio. The 'Surf' franchise continued to perform well. The pricing on 'Rin' Powder was strategically reduced to drive upgradation from the mass markets with encouraging initial response. 'Wheel' has been re-launched with better formulation, improved packaging and fresh communication; initial response has been very positive. The category witnessed significant competition and your Company responded in a determined manner to defend its market share. The media spend on the fabric segment was also augmented to communicate the value proposition to consumers more effectively. Cost effectiveness programs have been stepped up and have yielded good results.

Your Company continues to place particular focus on the Fabric Wash category as it constitutes a significant proportion of the business volumes, and has been and will be a significant value creator, despite the short term pressures arising from the intense competition in this category.

Household Care category performed well during the year recording double digit growth. After the re-launch in 2009, the dish washing product, 'Vim' liquid recorded another year of stellar growth. The 'Vim' bar variant continues to perform well, especially after making price corrections linked to falling input costs. The 'Domex' line continued on its journey to provide cleaner and germ free toilets to the Indian consumer. A first of its kind in India, the Company also successfully launched the cream variant of 'Cif' for surface cleaning. It has demonstrated a high degree of relevance and special appeal in the marketplace as the product experience has successfully demonstrated the product's strong ability to clean tough stains and grime.

Personal Wash category recorded good growth during the year with significant step-up in growth rates in the latter part of the year. While the competition from existing players continued to be strong, the Company deployed its full portfolio effectively with re-launch of most of the brands on the back of high quality innovations and intensive consumer activation. Growth was led by the premium segment brands, with 'Dove', 'Pears' and 'Liril' registering strong growth. The 'Lifebuoy' brand was re-invigorated through its re-launch, bolstering its health credentials with its strong ability to kill germs. The 'Lux' franchise was also re-launched with improved fragrance and beauty oils for soft and smooth skin. Furthermore, tactical activations and communications strategy have helped the brand improve its image within the target group. Your Company is also maintaining its focus on cherished regional brands such as 'Hamam' and 'Rexona' and will continue to promote them aggressively well into the future. While your Company is the undisputed market leader in this category, it continues to focus on the challenge of winning back its lost market share in this important category.

5.2.2 Personal Products

The Personal Products category of the Company comprise of Hair Care, Skin Care, Oral Care, Deodorants and Colour Cosmetics. The Personal Products category grew by 16.2% overall with good growth in profits.

Hair Care category continues to be an attractive category given the potential for increase in per capita consumption. Despite the significant increase in competitive heat in this category, your Company improved its leadership position during the year. Bolstered by additional variants introduced during 2009, the 'Dove' shampoo and conditioners range continued to deliver high growth momentum with a sizeable gain in market share. In addition to innovation, the growth was driven by a combination of high quality and compelling advertising and field activation during the year. During the year, 'Clinic Plus' was also successfully re-launched with good results by re-emphasising the value proposition of being ideal for long hair. 'Clinic Plus' continued to grow well and strengthened its position as the single largest shampoo brand. The 'Sunsilk' range was also re-launched in October 2009 with superior product quality and packaging with the proposition of a shampoo that is co-created by experts. The product credentials of 'Clinic All Clear' has been strengthened and was supported through a high decibel 'Zero Dandruff' campaign in the last quarter of the year. This is expected to reverse the trend of falling shares in this brand. The business also continued to grow in the nascent but emerging hair conditioners segment, which has a high growth potential as more and more consumers discover the value of using conditioners regularly.

Skin care category achieved double digit growth during 2009 despite strong competition and rapid market fragmentation of this category. In the mass skin lightening category, 'Fair & Lovely' continued to grow by increasing its relevance and consumption across a range of price points. 'Ponds White Beauty' witnessed robust growth through the year due to a highly successful media campaign on acquiring spot free fairness. 'Vaseline' also grew well on the back of increased traction in the Vaseline Body Lotion core as well as the introduction of a new 'Healthy White' variant that offers protection against skin darkening. Talcum powders saw good growth during the year and your Company continues to maintain its leadership position.

In Oral Category, your Company took actions to drive growth through highly attractive value offerings in the up-grader packs to bring quality oral care within the reach of the mass consumers. This strategy has started yielding positive results and the category has started to see increased volume growth in the latter part of the year. The germ kill credentials of 'Pepsodent' were further enhanced and the freshness credentials of 'Close up' continues to do well. Your Company has put in place robust plans to accelerate the growth of its oral care business in the coming periods through both of its flagship brands 'Close up' and 'Pepsodent'.

The 'Lakme' range of colour cosmetics achieved stable growth for the year. New innovations such as the 'lip duo' attractive summer collections coupled with high quality advertisement and trade and consumer activations helped in ensuring growth momentum. 'Lakme Fashion Week' saw another successful run and continues to be a signature campaign for the brand.

The Deodorant category continued to witness high growth momentum with its flagship brand of 'Axe'. This category has significant potential of future growth and your Company is well poised to capitalise on its existing strong presence in this emerging category.

Kimberly Clark Lever Private Limited (KCLL)

KCLL is a Joint Venture between your Company and Kimberly-Clark Corporation, USA. The Infant Care business of KCLL continued to grow solidly with double digit growth registered during the year. New packs were introduced across the portfolio as the business focused on driving affordability and building acceptability in this category. The re-launch of 'Huggies Care' and 'Huggies Dry Comfort', supported by a new mix during the year, met with good results and has been gaining momentum. In 'Feminine Care', the business rationalised a part of its portfolio and focused on building an innovation pipeline aligned to its long term strategic direction for this category. During the year, your Company received a dividend of Rs. 2.54 Crores from the Joint Venture.

5.3 Foods

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

The business has delivered strong double digit growth. This growth has been broad based across the portfolio and has been driven through a deep understanding of consumer and customer needs translated into relevant innovations. The growth in the Foods business has been achieved in the face of some key challenges :

- High competitive intensity from 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 in some categories as the year progressed. Your Company has responded to this challenge through a combination of consumer centric value packs and judicious price increases combined with aggressive cost saving programmes.

Product freshness continues to receive the highest attention with significant investments made over the years. This is now showing results and going forward the Company intends to sustain these investments.

Beverages such as Tea and Coffee are well entrenched habits amongst Indian consumers. Your Company is focusing on micro marketing initiatives to increase penetration and consumption and drive growth across the spectrum.

In addition, your Company is driving upgradation through the tea bags packaging concept. Further, your Company has expanded its portfolio in packet tea by launching a new brand to participate in the mass segment with differentiated offering.

Processed Foods, Ice Creams and Out of Home consumption offer huge potential for growth with LSM 5+ leading consumption in top 35 cities. This segment is being addressed through developing products which combine taste, nutrition and provide cooking convenience.

'Annapurna' and 'Modern' range are uniquely positioned to capture the growing consumption in rural areas and capture the opportunity at the bottom of the pyramid.

5.3.1 Processed Foods

'Kissan' continues to remain one of the most trusted brands amongst Indian consumers and continues to register solid and sustained growth. Consumer friendly innovations such as Jams Squeezee tubes and Ketchup plastic bottles have been well received in the market and have enhanced the overall product experience.

Your Company is a clear value leader in the Soups segment. 'Knorr' was re-launched during the year with 100% real vegetables and without any MSG. The launch was supported through comprehensive communication and activation in both Modern and General Trade. This has lead to overall market growth and category expansion. The Ready to Cook range of 'Knorr' launched last year is seeing steady volumes with strong repeat purchases being experienced.

In February 2010, your Company has entered the high growth instant noodles category through its 'Soupy Noodles' portfolio which provides wholesome nutrition to children's snacking moments. The product was launched in the Modern Trade channel across the country and in all channels in South India, with excellent consumer response.

The staples business under the brand 'Annapurna' (iodised salt and wheat flour) posted good growth during the year with significant improvement in profitability.

Your Company continued its focus on foods sales to institutions such as restaurants and hotel chains. Although at its nascent stage, yet the business is making good progress by leveraging Supply Chain efficiencies and product development capabilities of the Foods Division.

5.3.2 Beverages

For three consecutive years, inflation in the Tea commodity continues unabated, driven by strong global demand and local crop shortages. This has resulted in down trading and the overall growth in the discounted segment of the market, becoming the major portion of the portfolio.

Notwithstanding such a competitive context, the business has registered strong turnover growth whilst maintaining satisfactory volumes. Increasing costs continued to put pressure on margins but these were mitigated through pricing and Supply Chain cost savings. Market shares during the year came under pressure due to lack of a strong presence at the discount end of the market. During the year, your Company has launched 'Brooke Bond Sehatmand' at the mass end of the market offering combined benefits of health with immunity. This Tea delivers 50% of RDA of Vitamin B through 3 cups a day to lower income families that are otherwise unable to afford such nutrition. The brand is poised for national roll out in 2010.

'3 Roses' continued to perform exceptionally well and has shown significant growth, maintaining its competitive standing in South India. 'Taaza' has gained market share, and the brand has strengthened its equity with consumers exceptionally well. 'Taaza' was the 'Global Brand of the Year Award for Beverages' within Unilever, which is another testimony to its success. 'Lipton Yellow Label' was re-launched with the 'Stay Sharp' proposition, with Theanine as the ingredient. 'Taj' delivered commendable results at the premium end and registered good growth in the tea bags segments. Tea bags consumption was encouraged through media campaigns and a large sampling initiative carried out with Jet Airways.

During the year under review, Coffee markets have decelerated significantly in comparison to earlier years due to adverse climatic and weather conditions. Through key innovations, your Company was able to register strong volume growth in the second half of the year. The re-launch of 'Bru' was amplified with the Aroma proposition (through aroma lock) and improved sensorials. This was backed by strong media campaigns and trade activation programs. Your Company continues to focus on driving growth in the instant coffee and premiumisation of the portfolio. In conventional coffee, your Company re-launched the product with benefits of second decoction, which received excellent response in markets such as Andhra Pradesh.

The Out of Home business was impacted by the economic slowdown experienced in the early part of the year but has since picked up pace as the year progressed. This channel continues to hold the promise of high growth and appropriate investments are being made to leverage this opportunity. 'Lipton' and 'Bru' Café models were tested during the year in key locations and results thus far have been encouraging.

5.3.3 Ice Creams

The year under review has been an excellent year, with strong growth in both the impulse and take home segments. Growth has been driven by the three key platforms 'Cornetto', 'Selection' and 'Paddle Pop'. Significant inflation in input prices put tremendous pressure on the margins of the business. Your Company has been able to maintain the margins by driving operational efficiencies, improved mix and leveraging economies of scale.

'Cornetto Black Forest Flirt' launch has been a resounding success, with the SKU becoming the largest selling 'Cornetto' in the first year itself. In 'Paddle Pop', your Company launched four exciting flavours, driving growth in the Kid's range. In the 'Selection' range, three new fruit flavours were launched in summer 2009 (Strawberry Currant, Choco Coconut and Litchi Bites), building on the theme of celebrating weekend family moments. The fact that a scoop of this Ice Cream is less than 99 cal was successfully communicated in this launch. The 'Selection' range was received exceedingly well in the market. Building Ice Cream consumption occasions is a key driver for growth. The Diwali activation on 'Viennetta' was implemented with great success. To further drive in-home consumption, the business also rolled out value offerings in the west region, producing results significantly ahead of previous action benchmarks.

Significant investments are being made by your Company in front end assets and for leveraging IT for enhanced scalability and asset productivity. Going forward these are expected to provide the Company a competitive advantage.

5.3.4 Bakery (Modern Foods)

Bakery (bread and cakes) sustained its growth momentum and continued to deliver strong underlying profits improved from enhanced scale and better operational efficiencies. New unified packaging was introduced during the year which was well received in the markets.

5.4 Exports Business

Following the global recession, international markets turned adverse during the year with reduced consumer demand. Despite this, your Company managed to achieve a turnover of Rs. 1,000 crores with good profits and strong cash delivery. The non-value adding commodity exports were rationalised resulting in improved Gross Margins. Cash generation was significantly enhanced by placing specific focus on the reduction of Working Capital through improved inventory management and debtors reduction, while simultaneously enhancing customer service.

In the Home & Personal Care exports segment, despite the difficult environment, the turnover in existing product-customer channels was maintained to previous year levels. The Pears franchise grew handsomely by double digits, notably in the United Kingdom and the Emirates.

The ongoing Foods & Beverages exports business delivered a growth of 6% in an environment with challenging market conditions. The packet tea business grew strongly by 48% in the US market; as did the bulk tea business by 6%. Instant tea sales to Europe registered a strong growth of 32% while Instant coffee sales, primarily to CIS countries, grew by 31% in the latter half of the year after overcoming initial concerns relating to payment security. The tea bags business presents promising prospects in the coming years.

The marine exports business remained profitable despite a tough external environment emanating out of global recessionary trends and the strengthening of the Indian Rupee. Due to high commodity prices and a poor fish catch, surimi sales were lower by 39%. This was made up by higher sales growth in the value added crabstick segment (+19%), which benefited from a regular flow of orders from a widened customer base. This resulted in attaining highest production of crabstick in our Chorwad factory since inception. Rice exports were impacted by lower customer demand. Significantly, both marine and rice businesses added value to the bottomline despite the challenging environment.

Leather (Pond's Exports Limited)

The Leather business returned to operating profitability during the year after a focused restructuring exercise, despite severe recessionary trends in the EU. China continues to attract large volumes from the EU and the USA due to its well developed components market and significant cost advantages compared to India's advantages of good quality leather and ability to service small/complex orders. In order to drive synergy, both upper and shoes divisions of the business were successfully combined to focus on cost competitiveness and provide better customer services.

5.5 Water

'Pureit' is a unique in-home drinking water purification solution that offers protection to children and families from waterborne diseases. 'Pureit' runs with a unique Germ Kill Kit that removes all harmful viruses, bacteria and parasites to give drinking water that is 'as safe as boiled water'. Leading national and international medical, scientific and public health institutions have tested Pureit's performance. Most notably, Pureit meets the Germ Kill criteria of the Environmental Protection

Agency (EPA), the key drinking water regulatory agency in the USA. It provides this protection without the need for boiling, and without electricity or continuous tap water supply. It has a unique 'End of battery life indicator' and 'Auto shut-off', which ensures that consumers do not get unsafe water.

In the course of the year, Pureit leveraged its safety credentials and launched the 'One Crore Safety Challenge' campaign which educated consumers on the safety features that they must consider before purchasing a water purifier. The brand developed new distribution capabilities and established a national level presence in the consumer durable outlets. A new model, 'Pureit Auto Fill' that connects directly with the tap and offers dual filling option (inline and manual) was launched towards in the second half of the year.

In line with Pureit's mission of protecting lives from waterborne diseases, your Company believes that drinking water with highest safety standard is the fundamental right of every individual. Pureit was launched nationally in 2008 at an extremely affordable price, so that access to safe water does not remain confined to the affluent sections of society. In the past few years, Pureit has helped in creating mass awareness about the need for safe drinking water. In January 2010, your Company achieved another milestone in its mission of making safe drinking water available to every Indian. Pureit Compact was launched at a price point of Rs. 1,000. This will enable your Company to protect lives in the segment of society with lower purchasing power, where incidence of waterborne disease is the highest.

'Pureit' has already protected more than three million homes covering 1500 towns and cities across India in just two years of its national launch. The business received a number of awards during the period, reflecting the continued high regard held by the scientific community and by the public at large. Key amongst these is the prestigious British Government award for Consumer Product Innovation 2009 - 2010. The business is making good progress in line with plan.

5.6 Hindustan Unilever Network

The strategy of the network was redefined in line with its vision of empowering modern Indian woman by serving her with superior beauty and health care products through customised and professional services.

In the last one year, your Company has successfully transformed the Network into a Premium Personal-Care and Health Care channel. However, the key challenge for the business remains scale which needs to be enhanced significantly in order to improve the profitability of the business. Your Company is evaluating appropriate plans in this regard.

5.7 Beauty & Wellness Division

The growing disposable income and changing lifestyles in urban India has led to a greater awareness about personal grooming, health and wellness. These trends augur well for the Beauty and Wellness services sector, presenting a large and exciting opportunity. The Company currently operates in the Beauty and Wellness services segment largely through a network of franchised 'Lakme Beauty Salons'. During the year, your Company's own 'Lakme Beauty Salons' were transferred to Lakme Lever Private Limited (LLPL), a subsidiary of your Company. LLPL commenced operations during the course of the year with the objective of achieving excellence in execution by a specialised and dedicated team, passionate about beauty services and with a view to create and nurture a 'service' mindset. The Company launched the 'Lakme Studio', a premium salon format commencing with Delhi which has shown early signs of success. Similarly, 'Lakme Studio' have also been recently rolled out in Mumbai, Chennai, Hyderabad and Bangalore.

6. CUSTOMER MANAGEMENT

The year under review has been a landmark year in terms of customer management across channels with the roll out of new-age “Go to Market” model in 32 cities across the country. This model was successfully piloted in the Mumbai metro area featuring an efficient back end; a world class front-end; delivering innovations and activation schemes at a much faster pace to the market. Coupled with the Zero Inventory Plan, the “Go to Market” model has yielded significant dividends in terms of customer service and satisfaction. Customers today handle your Company's consolidated general trade business, with the ability to leverage scale with high efficiencies.

Your Company has also made great strides in expanding its rural distribution network, with significant investment made in expanding the infrastructure. Across the country, rural markets were brought under direct coverage, enabling better servicing and control. The ability to reach out into the corners of the rural market gives your Company a distinct competitive advantage. This has allowed us to offer the right assortment of packs to rural consumers, keeping up with rapidly changing needs and wants. The number of distributors in rural markets has been scaled up and rural salesmen are now being equipped with Hand Held Terminals to facilitate the order taking process and billing.

The Company has also deployed next generation technology in urban markets, with analytics based recommendations making selling campaigns more intelligent, and through Hand Held Terminal based applications, making selling more scientific and assortments more relevant to an outlet. It is henceforth possible to customise the range and quantity sold to every outlet.

Apart from investing in infrastructure and setting up IT enabled processes, your Company has embarked upon an enormous coverage expansion project, in both the rural and urban businesses. This expansion has been a scientifically driven process, facilitated by know-how such as digital maps to identify potential markets to be brought under coverage. Commencing with this initiative from the end of 2009, the Company expects to triple its rural coverage and improve urban coverage by 15%.

6.1 Project Shakti

'Shakti' is an initiative which focuses on reaching out to consumers in very small villages that typically have a population of less than 5,000 individuals. It is a great example of 'Doing Well by Doing Good' as it serves two purposes simultaneously; it provides livelihood opportunities to women in rural areas and enhances the quality and depth of your Company's distribution.

The objectives of 'Shakti' as a program are:

- leading market development efforts through consumer education programmes
- establishing a suitable livelihood opportunity for women irrespective of their background
- creating a self sustaining business model
- accessing markets beyond the reach of traditional distribution models

The 'Shakti' programme is essentially built on two pillars: the 'Shakti Entrepreneurship' program and the 'Shakti Vani' program. The 'Shakti Entrepreneur' program is a classic case of a win-win model involving a variety of stakeholders - the Company, women seeking livelihoods, women from Self Help Groups, Micro Finance Institutions and NGO's. The win-win model comes alive when an investment results in a sustainable business opportunity with little requirement for advanced business skills. The strength of the model lies in its simplicity wherein any woman who is interested in earning a livelihood can participate in the programme. Linkages such as microfinance facilitates working capital to start such businesses. Your Company makes significant investments in capability building through on-the-job training and classroom training programmes through a large and dedicated field force exclusively for Shakti Entrepreneurs. This helps build confidence and develop the business acumen necessary to run a micro-enterprise. Rural consumers also benefit by having access to some of India's most trusted brands at their doorstep at affordable prices.

The Pureit pilot under the 'Shakti' programme, which was launched in Andhra Pradesh, has been further scaled up to Orissa and Maharashtra. The objective of this initiative was to enhance the income of the 'Shakti Ammas' enabling them to offer a high quality water purifying product to rural consumers at affordable prices. The Pureit addition is just the first step in increasing the bouquet of products which the 'Shakti Ammas' can offer to her customers.

The 'Shakti Vani' program focuses on building awareness about health and hygiene in the rural community. Vani's are trained communicators who target congregations such as village schools and *mohallas* and engage with key opinion leaders of villages like the *sarpanch* and the school teachers.

During the year, your Company piloted a new version of Vani where technology has been used to communicate with rural consumers. Animated films explaining the story of health and hygiene using the platform of our brands have been made accessible through hand held DVD players provided to the Vani's. Your Company is developing a model which can be scaled across larger geographies to impact a wider audience.

By the end of the year 2009, the Shakti network comprised 45,000 Shakti Ammas covering 1,00,000 plus villages across 15 states in the country and reaching over 3 million households every month.

7. SUPPLY CHAIN

Your Company has made significant progress in achieving the vision of delivering outstanding customer service while supporting sustainable growth for the Company. Improving service levels to ensure availability of products at all points in the Supply Chain was a key focus area during the year. Supply Chain service levels as measured by CCFOT (Customer Case Fill On Time) were the highest achieved in the recent past. IT solutions based on SAP application systems led to significant improvements in planning and logistics efficiencies.

The factories made significant progress in increasing plant and operational efficiencies and helped deliver innovations on time while working on improving product quality. The Company's initiative 'Levercare', focusing on connecting with customers and consumers, gave valuable inputs on product performance which helped to understand consumer behaviour and to improve the quality of certain products in design and manufacturing.

Continued focus was maintained through cross functional teams to drive cost effectiveness throughout the Supply Chain by identifying opportunities for eliminating waste. This helped the business achieve significant Supply Chain savings. Energy conservation activities through all our manufacturing sites have helped reduce specific energy consumption. Use of sustainable alternative bio-fuels has become the norm at many of our major manufacturing sites which has helped reduce fuel costs and carbon emissions. We also executed appropriate capital expenditure investments in creating fresh capacity in all categories. These investments have facilitated growth and de-bottlenecked capacities of existing assets. The principles of Total Productive Maintenance were applied and progress tracked across all the manufacturing sites. This has resulted in an increase in asset productivity levels.

Our buying function also delivered improved efficiencies and reduction in procurement costs, fully leveraging benefits of scale and synergy through Unilever's global buying network.

8. RESEARCH AND DEVELOPMENT

This is the 51st year of Research and Development (R&D) of your Company. Your Company has continued to build on this heritage by further strengthening the R&D Units in Bangalore and Mumbai with stronger integration with Unilever Global R&D. The R&D programmes are geared towards delivering bigger, better and faster innovations with a robust pipeline of radically new technologies with innovative consumer propositions. R&D in India continues to focus on Water Treatment, Health and Hygiene, Laundry, Skin Care, Tea, Ice Cream and Ayurveda.

Your Company continues to benefit from the strong linkages with the Global R&D organization of Unilever. This has become even more critical in the context of entry of many global players in the attractive Indian FMCG market. These players are keen to get a slice of the large and fast growing FMCG market in India. With the strong support from Unilever R&D as well as the brand development capabilities, your Company is well placed to meet the challenges arising from the increased competition intensity.

Your Company had entered into a Technical Collaboration Agreement (TCA) in August 1999 with Unilever PLC, which provided a non-exclusive license to manufacture specified products in accordance with and using the Technical Documentation, Information and Know-how in consideration of payment of royalty at the rate of 1% (net of tax) both on domestic and export sales of the specified products. In December 2009, the Board of Directors of the Company have approved amendments to the said TCA to include additional product categories where technical inputs are provided by Unilever as well as products of specified categories manufactured by third party manufacturers where technical inputs developed by Unilever are made available to the third party manufacturer. In addition, the Board have approved a trademark license agreement with Unilever which provides for payment of trademark royalty at the rate of 1% of net sales on specific brands where Unilever owns the trade mark and your Company is the licensed user. Both these amendments are well within the Government of India Guidelines for payment of royalty.

On the back of strong R&D initiatives, a number of new products were launched successfully in the market. 'Pureit', a breakthrough innovation of your Company's R&D, was launched with additional technical features such as 'Auto Shut-Off' and 'Auto Fill' that enhance its safety and convenience. A winter variant of a skin lightening formulation was developed and launched as 'Fair & Lovely' Winter Fairness Cream. Also, during the year 'Lifebuoy' was re-launched with clinically proven hygiene benefits.

Foods R&D continue to focus on delivering healthy options with superior taste and flavours. In 2009, 'Knorr' soups were re-launched with new formulations without MSG and with 100% real vegetables. The Ice Cream business grew on the back of several successful innovations such as Cornetto variants - Strawberry Tease Cake and Black Forest. During the year, Beverages introduced a premium Green Tea, Lipton Clear Green and launched a new blend of Lipton Yellow Label with higher levels of Theanine. Your Company also re-launched a superior Bru Coffee with improved aroma.

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 your Company can attract and retain.

India continues to occupy a premier position in Unilever's R&D initiatives with a significant share of Global Programmes backed by strong in-house scientific expertise. Your Company has been working aggressively towards building these expertise bases further to address emerging needs of our consumers and to retain our 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, 2010 are as under :

- Capital Expenditure : Rs. 1.05 crores
- Revenue Expenditure : Rs. 27.55 crores

Report of the Auditors in this regard is annexed at page no. 104 of the Annual Report.

9. ENVIRONMENT, SAFETY AND HEALTH AND ENERGY CONSERVATION

Your Company continues another significant year with focus on the vision of an 'Injury Free' and 'Zero Environment Incidents' organisation. During the year, your Company followed a three pronged strategy to achieve the vision. While continuing the safety journey through behavioral safety initiative as per the DuPont model, we renewed our focus on safety systems and processes, and an extensive road safety programme covering all employees was carried out.

The behavioral safety programme has now been in place for more than five years and continues to deliver better safety statistics and the leading indicators are becoming more rooted than ever before. Several measures have been implemented to revitalise safety systems and processes especially across the extended Supply Chain operations - in co-packing locations and in distribution centres.

Road risk assessments were conducted in key units and Road safety was taken as key thrust area during the year. Employees across the Company were extensively trained and educated on defensive driving and road safety measures. These efforts have led to a substantial improvement in safety performance across the Company.

Our environment agenda is marked by taking a progressive stance on several environmental issues that include launching voluntary initiatives to reduce GHG emissions, waste optimisation, and water conservation. During the year, 5 sites recorded water positive status and 28 sites became zero discharge units by re-using the treated ETP water within the factory premises. This was achieved through a combination of water conservation through optimisation of usage, plugging the wastage source, rain water harvesting and water recycling. In reviewing the environmental strategy in 2009, it was determined to retain focus on the fundamental priorities of managing environmental impacts of the operations, with a particular focus on key issues; driving continuous improvement; and complying with applicable laws and regulations.

On the energy conservation front your Company achieved substantial savings by carrying out energy audits across most units and implementing key projects to save energy. The use of bio-mass fuel has now been adopted by four units and many additional units are now exploring this option as an alternate fuel.

10. HUMAN RESOURCES

The Human Resources (HR) agenda for the year focused on strengthening four key areas - completing the final phase of the HR Transformation (HRT) programme that had been initiated in 2007; building organisational and individual capabilities; significantly enhancing people productivity to drive sustainable business growth and driving harmonious employee relations through progressive people practices at the shop floors.

HRT has been a business change programme that has impacted how we work across the organisation. At the core of this programme was world class IT enabled processes to efficiently manage Human Resources transactions. The programme also aligned HR systems and processes in a similar way across Unilever. The technology applications have been made available on a self service portal which has increased the productivity of every line manager and HR manager by freeing up their time from managing routine and transactional workload. The year marked the completion of this exercise as the HR transactions were successfully transferred to Accenture with high standards of delivery and performance.

The belief that 'great people create great organisations' has been at the core of the Company's approach to its people. We continued to make significant investments for training in the areas of marketing excellence, customer service and building capabilities for organised retail trade. Many training programmes were delivered through classrooms, new capability building courses and external learning sessions. Our e-learning platform offers a bouquet of 3000+ courses via internet. Nearly 20,000 course registrations took place in 2009 providing access to learning anywhere, anytime.

Our ability to attract the best talent in the market has been a key factor of our success, thus the endeavour to sustain and fortify our employer brand. As per AC Neilsen study, the HUL employer brand made significant progress in 2009 and we continue to retain our top spot as the 'Dream Employer' on all top B-School campuses.

In our factories, the TPMedge programme continued in full focus during the year and delivered significant improvement in factory operations. Education and training are important components of our approach to people and in consonance a License to Operate programme was created for Supply Chain officers which resulted in every officer undergoing at least three e-learning courses during 2009.

Our focus on proactive and employee focused 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 2009. Seven 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 maturity of workmen collectively. The process of rehabilitation was undertaken with utmost concern for our people. One unit went through a process of consolidation and there were some separations in the field force and Head Office. The process of separations was handled with the utmost care and sensitivity to our people's needs.

An important development during the year was the resolution of the pending Sewree factory issue. Your Company signed an amicable settlement, with the Union representing erstwhile workers of the Sewree factory, with regard to all the pending issues and cases, including closure of the factory. The settlement, which benefited about 800 workers, was achieved by rebuilding high level of trust between the ex-employees, union and management, and was signed in the presence of the Labour Secretary, Government of Maharashtra. As per the settlement, the erstwhile workers will receive benefits of the VRS offered at the time of closure of the factory.

11. INFORMATION TECHNOLOGY

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

As part of the backbone IT capability for Sales and Customer Development, we successfully established a common transaction system that is used by all Redistribution Stockists and that is fully integrated with Company's systems. Distributor salesmen use a Hand Held Terminals as an aid for taking retail orders. In 2009, we have enhanced this capability for analytics and intelligent sales calls. As part of the thrust of further improving our direct coverage in rural areas, we are leveraging geospatial aids extensively. We have also established an IT enabled consumer interaction centre for addressing complaints and suggestions.

An enterprise wide SAP platform was a significant capability created over the last few years. This forms the foundation for all 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 this IT capability, is a source of significant value.

We continue to invest in IT infrastructure to support business applications. We have leveraged the expanded telecom footprint in the country to provide high bandwidth terrestrial links to all operating units. Video conferencing is extensively used to collaborate across locations while reducing travel costs.

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

12. FINANCE AND ACCOUNTS

Focus on cash generation continued and we delivered a strong operating cash flow during the year; this was driven by the business performance, efficiencies and cost savings across Supply Chain and greater focus on working capital management. Your Company managed the investments prudently by deployment of cash surplus in a balanced portfolio of safe and liquid instruments. Capital Expenditure during the year was at Rs. 572 crores (during the 15 months period ended 31st March, 2009 - Rs. 609 crores) and was 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, 2010.

In terms of the provisions of Investor Education and Protection Fund (awareness and protection of investors) Rules, 2001, Rs. 2.67 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, 2010 are given below:

For the year	2005	2006	2007	Period ended 31st March, 2009	2009 - 10
Return on Net Worth (%)	61.1	68.1	80.1	103.6*	88.2
Return on Capital Employed (%)	68.7	67.0	78.0	107.5*	103.7
Basic EPS (after exceptional items) (Rs.)	6.40	8.41	8.73	11.46**	10.10

*Annualised numbers for proportionate period
** for fifteen month period

Key figures for 12 months comparison

As indicated earlier, the full year audited results for the period ended 31st March, 2009 were for a 15 months period. Hence, these are not comparable with the full year audited results for the year ended 31st March, 2010. However, on a memorandum basis, for comparative purposes, the audited results for year ended 31st March, 2010 along with the un-audited results for the 12 months period ended 31st March, 2009 are given below:

- Net Sales for 2009-10 at Rs.17,523.80 crores (2008-09: Rs.16,476.75 crores) grew by 6.4%.
- Profit from Operations before Interest and Exceptional items for 2009-10 at Rs.2,565.94 crores (2008-09: Rs. 2,396.06 crores) grew by 7.1%.
- Profit after Tax from ordinary activities before exceptional items for 2009-10 at Rs.2,058.71 crores (2008-09:Rs. 2,065.20 crores) declined marginally by 0.3%.
- Net Profit for 2009-10 at Rs. 2,202.03 crores (2008-09: Rs. 2,115.50 crores) grew by 4.1%.

Segment-wise results

Your Company has identified seven business segments in line with the Accounting Standard on Segment Reporting (AS-17). These are: (i) Soaps and Detergents, (ii) Personal Products, (iii) Beverages, (iv) Foods, including culinary and branded staples, (v) Ice Creams, (vi) Exports, and (vii) Others, including Water. The audited financial results of these segments are given as part of financial statements.

13. MERGERS, ACQUISITIONS, JOINT VENTURES AND DISPOSALS

13.1 Divestment of 49% shareholding in Capgemini Business Services (India) Limited to Cap Gemini SA

In October 2006, your Company divested its 51% controlling stake in Unilever India Shared Services Limited, now known as Capgemini Business Services (India) Limited (CGSL) to Cap Gemini SA. Your Company believed that the business would benefit from the systems and processes brought in by a leading player in the BPO space. Cap Gemini SA had a call option for the balance 49% stake in CGSL.

Consequent to the exercise of the call option by Cap Gemini SA in March 2010, the balance stake of 49% in the business held by the Company has been sold to Cap Gemini SA for a consideration of Rs. 91.1 crores.

13.2 Merger of Bon Limited with the Company

Bon Limited a wholly owned subsidiary of your Company was not engaged in any significant business activity since 2003. During the year 2005, your Company's undertaking at Sewree (Mumbai) was transferred to Bon Limited pursuant to Section 293(1)(a) of the Companies Act, 1956 to facilitate transparent understanding and review of viability of the unit costs and productivity on a standalone basis.

Despite all efforts by your Company, the undertaking could not be revived and was eventually closed after following the due process of law in July 2006. All legal issues with relation to the undertaking have been settled and Bon Limited was not having any operations. Therefore, for the purpose of administrative simplification, the Board of Directors of your Company, subject to the necessary approvals, decided in January 2010 to merge Bon Limited with your Company with effect from 1st April, 2009.

The Hon'ble High Court of Bombay has, vide its order dated 16th April, 2010, approved the scheme of amalgamation of Bon Limited with the Company. The appointed date for the above mentioned scheme was 1st April, 2009 and the scheme has been made effective from 28th April, 2010 i.e. from the date of filing certified copy of order of Hon'ble High Court with the Registrar of Companies, Mumbai.

14. 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. 192 employees, including Wholetime Directors, were awarded conditional rights to receive a total of 6,16,121 equity shares at the face value of Re. 1/- each. The above mentioned comprises of conditional grants made to eligible managers for calender years 2009 and 2010 covering performance periods 2009-2012 and 2010-2013 respectively.

15. CORPORATE GOVERNANCE

Your Company has been practising the principles of good Corporate Governance over the years and lays strong emphasis on transparency, accountability and integrity. A separate section on Corporate Governance is given on page no. 44 of the Annual Report and 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) and a certificate of the CEO & CFO 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 annexed to the Corporate Governance Report.

The Ministry of Corporate Affairs, Government of India, during the year 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, while in substantial compliance of these guidelines, had initiated appropriate action for implementation of these guidelines.

15.1 Risk and Internal Adequacy

Your Company manages cash and cash flow processes assiduously involving all parts of the business. There was net cash surplus of Rs. 1,892.21 crores as on 31st March, 2010. The Company's debt equity ratio is very low which provides ample scope to gear up the Balance Sheet should that need arise. Foreign exchange transactions are always fully covered with strict limits placed on the amount of 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. These are being highlighted separately every quarter.

Company's internal control systems are well 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 the offices, factories and key areas of business. Significant audit observations and follow up actions thereon are reported to the Audit Committee. Audit Committee reviews the 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 at all levels through a 'Positive Assurance Process'. 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, pressure on margins and slower market growth and/ or downtrading.

15.2 Outlook

It is believed that India's GDP will continue to witness strong growth in the future. However, managing growth and inflation will be a key challenge for India in the near term. The agricultural growth is expected to pick up in the last quarter of the fiscal year 2009-10 on account of a good 'Rabi' crop. As global trade continues its recovery, Indian industry is expected to continue its strong growth, since over 1/3rd of India's manufacturing output is exported. Export growth has been positive since November 2009, which is an encouraging sign for the manufacturing sector.

India's improving growth prospects, augurs well for the economy as a whole and for the FMCG sector in particular. The FMCG categories in which your Company operates have significant growth potential given the low per capita consumption levels relative to many other asian economies. This growth opportunity will attract more competitors and your Company will defend its market leadership positions in a determined manner. In the long run, the increased competition is good for all players since it will accelerate the growth of the market.

Your Company will continue to focus on driving underlying volume growth by improving its market positions in existing categories while also leading market development efforts to build categories and segments for the future.

15.3 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.

16. SUBSIDIARY COMPANIES

During the year, the Company has divested its entire shareholding in Shamnagar Estates Private Limited and consequently Shamnagar Estates Private Limited ceased to be a subsidiary of the Company effective 13th May, 2009. Bon Limited ceased to be the subsidiary of the Company consequent to its amalgamation with the Company with effect from 1st April, 2009.

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

In terms of approval granted by the Central Government under Section 212(8) of the Companies Act, 1956, the Audited Statement of Accounts and the Auditors' Reports thereon for the financial year ended 31st March, 2010 along with the Reports of the Board of Directors of the Company's subsidiaries have not been annexed. The Company will make available these documents upon request by any Member of the Company interested in obtaining the same. However, as directed by the Central Government, the financial data of the Subsidiaries have been furnished under 'Subsidiary Companies Particulars' forming part of the Annual Report (Refer page no. 138). 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.

17. CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) in your Company is rooted in its Corporate Purpose - the belief that "to succeed requires the highest standards of corporate behaviour towards our employees, consumers and the societies and world in which we live". The strong 75 year plus legacy of the Company has seen us evolve with India as much in Corporate Social Responsibility as in business. The CSR philosophy of the Company is embedded in its commitment to all stakeholders-consumers, employees, the environment and the society. Your Company believes that it is this commitment which will deliver competitive, profitable and sustainable growth.

Your Company has made significant progress on the environment front over the past few years. The water usage per tonne has been reduced by more than 32% in its own manufacturing operations against a baseline of 2004. There has been a good improvement with many more units adopting rain water harvesting as a way of life. More than 50% of our own manufacturing units have a rain water harvesting facility. As on date, five Company units return more water to ground than being consumed by them.

The energy consumption and CO_2 per unit of production since 2004 has also come down by 38% and 28% respectively. We have exceeded the target of 25% reduction by 2012 in CO_2 (Green House gases) in manufacturing operations per tonne of production against a baseline of 2004.

Your Company has initiated works in the area of sustainable agriculture sourcing for Tea, Fruits & Vegetables and Palm oil. This is part of the Global initiative, where your Company is leveraging Unilever global expertise in this area. In tea, we are working closely with key producers (in both North and South India) and Rainforest Alliance, an international certification body in the area of sustainable agriculture. Nine tea estates in the Niligiris, Tamil Nadu and ten tea estates in Assam were certified Sustainable Estates by Rainforest Alliance in 2008 and 2009. Work is currently on in another 52 tea estates located in Assam and Darjeeling and these estates will undergo certification audits in 2010. In 2009, we sourced 5,000 tonnes of Tea from Rainforest Alliance in India.

The Company has started developing Indian producers for Tomato paste. We are working closely with key producers and the initiatives include water conservation, use of authorised pesticides, land conservation and improvement of farmer income.

In the area of Health and Hygiene, during the Swine Flu epidemic, 'Lifebuoy' undertook rallies in key effected cities, where the message of the importance of hand washing was emphasised, in preventing Swine Flu. 'Lifebuoy' also distributed leaflets in schools, explaining the importance of hand washing, and the different occasions where hands must be washed with soap, so as to prevent infection. The Brand partnered with the Government of Tamil Nadu and organised a massive event on Global Hand Washing Day (15th October, 2009) wherein out of 47,000 children that washed their hands on that day, 15,000 washed their hands in perfect harmony to stake claim to the Guinness record for the most people washing their hands simultaneously. Additionally, more than 3,00,000 Swine flu leaflets were distributed in schools.

Your Company started the Sankalp initiative of employee volunteering in the 75th year of its existence in India. In 2008 our employees undertook volunteering and community service totaling more than 48,000 hours against a target of 27,375 hours. In 2009 we have achieved more than 1,15,000 hours of volunteering.

Your Company has been undertaking CSR activities in Dadra and Nagar Haveli since 2004. Vanarai started work in Dadra Nagar Haveli area in April 2004 initially in village Karchond with financial support and active involvement of Company's personnel and subsequently in Dapada, Pati, Sindoni at Silvassa.

The impact of the programme was:

- 6,76,40,990 litres of water has been harvested since 2004
- Additional income worth Rs. 1,67,34,854 accrued to villagers during the project period
- 60 families, which used to seasonally migrate to nearby towns, have stabilised
- 325 families have been benefited under various programmes of the project
- 130 families use public toilet facility
- 20 families have their own toilets
- Soil conservation treatment on 282 hectares of land
- 12,000 mango seedlings have been planted. Survival percentage is 85% and 25% plants have started fruiting
- 22 bore wells and 20 open wells were recharged by using water from Vanarai Bunds

Sanitation, malnutrition, water scarcity and lack of health education are just some of the challenges that plague Developing & Emerging (D&E) markets like India. This needs to be addressed by Corporate, Government and Civil Bodies collectively. There are increasing expectations of corporations from stakeholders-public, society, NGOs, customers, investors, employees and governments, regulators to contribute to sustainable development. A proactive CSR strategy allows companies to understand stakeholder expectations, shape the agenda and build a response into business planning and strategy. Without it, companies risk 'fighting fires' in ad hoc and costly manners. Evidence across the world shows a strong correlation between socially responsible business practices and business success; access to markets and capital, cost savings, risk management, quality workforce, brand value and reputation. This is increasingly being reflected in the value associated by investors. Since inception the corporate purpose and the Code of Business Principles of your Company have set ground for corporate responsibility.

As a part of the Company's initiatives in the area of Corporate Social Responsibility, your Company has promoted a new Section 25 Company 'Hindustan Unilever Vitality Foundation' to work in the areas of social, economic and environment development.

Your Company will be releasing its first 'Sustainable Development Report' this year, which will articulate Company's governance on Environment and Social development. The 'Sustainable Development Report' will share your Company's long term commitments on sustainable development with measurable goals and governance structures.

18. BOARD OF DIRECTORS

Prof. C. K. Prahalad, an Independent Director of the Company passed away after a brief illness on 17th April, 2010. Prof. Prahalad was an invaluable member of the Board of the Company for last 10 years and your Directors express a deep sense of grief at this untimely loss. Your Directors place on record the significant contribution made by Prof. Prahalad to the business and strategy of the Company.

Mr. Dhaval Buch stepped down as an Executive Director, Supply Chain of the Company with effect from 1st March, 2010, consequent to his appointment as Senior Vice President- Strategic Projects Supply Chain, Unilever Global. The Board places on record their appreciation for the valuable contribution made by Mr. Dhaval Buch while leading the Supply Chain function of the Company.

Mr. Pradeep Banerjee was appointed as an Additional Director and Executive Director - Supply Chain on the Board with effect from 1st March, 2010, in accordance with Section 269 and Article 111 of the Articles of Association of the Company. Notices have been received from members pursuant to Section 257 of the Companies Act,1956 together with necessary deposits proposing the appointment of Mr. Pradeep Banerjee as Wholetime Director on the Board of the Company.

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.

Directors' Report

And Management Discussion and Analysis (Contd.)

19. MANAGEMENT COMMITTEE

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.

Mr. Pradeep Banerjee was appointed as the member of the Management Committee after he moved from his role as Vice President, Supply Chain Management - Packaging, Unilever, to take over from Mr. Dhaval Buch as the Executive Director, Supply Chain, with effect from 1st February, 2010.

Mr. Ashok Gupta, Executive Director-Legal and Company Secretary ceased to be a member of the Management Committee post his resignation with effect from 1st April, 2010. The Board place on record the contribution made by Mr. Ashok Gupta during his tenure as Executive Director-Legal and Company Secretary of the Company.

The Board of Directors has approved the appointment of Mr. Dev Bajpai as Company Secretary of the Company with effect from 1st June, 2010. Mr. Dev Bajpai will succeed Mr. Ashok Gupta in the Management Committee as Executive Director - Legal and Company Secretary. Mr. Dev Bajpai is a qualified law professional and Company Secretary with over 22 years of rich and diverse legal experience in various corporates.

20. 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.

21. APPRECIATIONS AND ACKNOWLEDGEMENTS

Directors wish to 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.

Directors also like to acknowledge the excellent contribution by Unilever to your Company in providing with the latest innovations, technological improvements and marketing inputs in respect of almost all the 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.

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
25th May, 2010

Harish Manwani
Chairman

Annexure

To the Directors' Report

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

Canned and processed fruits and vegetables		12 Months Ended 31st March, 2010	15 Months Ended 31st March, 2009
A POWER AND FUEL CONSUMPTION			
1 Electricity			
(a) Purchased			
Unit	Lakh KWH	31.77	40.48
Total Amount	Rs. Lakhs	166.71	210.73
Rate / Unit	Rs.	5.25	5.21
(b) Own Generation			
(i) Through own generator			
Unit	Lakh KWH	1.17	1.82
Unit per ltr of diesel oil	KWH	3.11	2.50
Cost per unit	Rs.	10.84	15.50
(ii) Through steam turbine / generator		Nil	Nil
2 Furnace Oil			
Quantity	KL	791.49	1,000.34
Total Cost	Rs.Lakhs	219.64	307.46
Average Rate	Rs. / KL	27,749.83	30,735.96
B CONSUMPTION PER UNIT OF PRODUCTION			
Electricity	KWH/Tonne	245.24	249.62
Furnace Oil	Lts/Tonne	61.10	61.69

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	12 Months Ended 31st March, 2010	15 Months Ended 31st March, 2009
(a) Capital	8.04	14.80
(b) Recurring	81.08	74.47
(c) Total	89.12	89.27
(d) Total R& D Expenditure as a percentage of total turnover	0.51%	0.44%

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	12 Months Ended 31st March, 2010	15 Months Ended 31st March, 2009
Foreign Exchange Earnings	1,300.26	1,941.89
Foreign Exchange Outgo	2,101.13	2,731.91

Annexure

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, 2010)	10,51,795 equity shares of Re 1/- each	14,38,576 equity shares of Re 1/- each	28,26,145 equity shares of Re 1/- each	8,84,406 equity shares of Re 1/- each	7,74,200 equity shares of Re 1/- each
e) The total number of shares arising as a result of exercise of option	10,51,795 equity shares of Re 1/- each	14,38,576 equity shares of Re 1/- each	28,26,145 equity shares of Re 1/- each	8,84,406 equity shares of Re 1/- each	7,74,200 equity shares of Re 1/- each
f) Options lapsed (as at March 31, 2010)	8,78,300 equity shares of Re 1/- each	9,20,428 equity shares of Re 1/- each	6,39,785 equity shares of Re 1/- each	3,42,300 equity shares of Re 1/- each	2,71,700 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	Rs 5.54 crores	Rs 6.09 crores	Rs 6.00 crores	Rs 2.76 crores	Rs 3.97 crores
i) Total number of options in force (as at March 31, 2010)	5,45,005 equity shares of Re 1/- each	8,74,597 equity shares of Re 1/- each	8,10,160 equity shares of Re 1/- each	4,03,744 equity shares of Re 1/- each	5,01,800 equity shares of Re 1/- each

Annexure

To the Directors' Report (Contd.)

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
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.2.06 lakhs	Conditional grant of 2,82,310 equity shares of Re.1/- each valued at Rs.2.06 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
c) Options vested	2,55,166 options vested on 01.11.2009	2,46,658 options vested on 01.05.2010	Options will vest after 3 years from the date of grant (20.03.2008)	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)
d) Options exercised (as at March 31, 2010)	2,55,166 equity shares of Re.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	NIL	NIL	NIL	NIL
f) Options lapsed (as at March 31, 2010)	NIL	NIL	NIL	NIL	NIL
g) Variation of terms of options	NA	NA	NA	NA	NA
h) Money realised by exercise of options	Rs. 2.55 lakhs	NIL	NIL	NIL	NIL
i) Total number of options in force (as at March 31, 2010)	NIL	Conditional grant of 2,35,950 equity shares of Re.1/- each	Conditional grant of 2,06,250 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

Annexure

To the Directors' Report (Contd.)

Details of Options granted during the year ended 31st March, 2010 under Performance Share Plan 2009 & Performance Share Plan 2010

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 2010, Nitin Paranjpe-Managing Director & CEO was awarded 20,355 shares (7.2%) and Sridhar Ramamurthy-CFO & Company Secretary was awarded 16,380 shares (5.8%).
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. 10.08
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 recognized if it had used the fair value of the Options	Gain of Rs. 0.66 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 2009-10 is presented below:

Net Income		**Rs.Crores**
As reported		2,202.03
Add: Difference between Intrinsic value and Fair Value Calculation		0.66
Adjusted Net Income		2,202.69
Earnings Per Share (Basic and Diluted)		**(Rs.)**
	Basic EPS	Diluted EPS
-As reported	10.10	10.08
-As adjusted	10.10	10.09

Annexure

To the Directors' Report (Contd.)

Details of Options granted during the year ended 31st March, 2010 under Performance Share Plan 2009 & Performance Share Plan 2010 (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	5.58% for 2009 and 6.68% for 2010
Expected life of options	3.125 years for each plan
Volatility	35.89% for 2009 and 33.89% for 2010
Expected Dividends	Rs. 6.50 per share
Closing market price of share on date of option grant	Rs.233.05 for 2009 and Rs. 238.50 for 2010

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 of the Manager	Performance shares awarded in 2009-10
Dhaval Buch	4,350
Shrijeet Mishra	9,927
Ashok Gupta	8,261
Leena Nair	12,157
Hemant Bakshi	11,592
Nitin Paranjpe	30,261
Gopal Vittal	16,685
Sridhar Ramamurthy	20,950