UNILEVER PLC
Form 6-K
March 05, 2010

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Form 6-K
REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
For the month of March, 2010.
Commission File Number 001-04546
UNILEVER PLC
(Translation of registrant s name into English)
Unilever House, Blackfriars, London, England
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant s home country), or under the rules of the home country exchange on which the registrant s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant s security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________.

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Cautionary statement

This document may contain forward-looking statements, including 'forward-looking statements' within the meaning of the United States Private Securities Litigation Reform Act of 1995. Words such as 'expects', 'anticipates', 'intends', 'believes' or the negative of these terms and other similar expressions of future performance or results, including any financial objectives, and their negatives are intended to identify such forward-looking statements. These forward-looking statements are based upon current expectations and assumptions regarding anticipated developments and other factors affecting the Group. They are not historical facts, nor are they guarantees of future performance. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including, among others, competitive pricing and activities, economic slowdown, industry consolidation, access to credit markets, recruitment levels, reputational risks, commodity prices, continued availability of raw materials, prioritisation of projects, consumption levels, costs, the ability to maintain and manage key customer relationships and supply chain sources, consumer demands, currency values, interest rates, the ability to integrate acquisitions and complete planned divestitures, the ability to complete planned restructuring activities, physical risks, environmental risks, the ability to manage regulatory, tax and legal matters and resolve pending matters within current estimates, legislative, fiscal and regulatory developments, political, economic and social conditions in the geographic markets where the Group operates and new or changed priorities of the Boards. Further details of potential risks and uncertainties affecting the Group are described in the Group's filings with the London Stock Exchange, Euronext Amsterdam and the US Securities and Exchange Commission, including the 20-F Report and the Annual Report and Accounts 2009. These forward-looking statements speak only as of the date of this announcement. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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Annual Report and Accounts 2009

Creating a better
future every day

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Report of the Directors

Financial statements

Basis of reporting

Our accounting policies are based on International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and on United Kingdom and Dutch law. They are also in accordance with IFRS as issued by the International Accounting Standards Board (IASB). Certain measures used in our reporting are not defined under IFRS or other generally accepted accounting principles. For further information about these measures, and the reasons why we believe they are important for an understanding of the performance of the business, please refer to our commentary on non-GAAP measures on pages 44 to 46 and the Financial Review on page 37.

Other information

The brand names shown in this report are trademarks owned by or licensed to companies within the Unilever Group.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements, including within the meaning of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ from those disclosed in our forward-looking statements. For a description of factors that could affect future results, reference should be made to the full Cautionary statement on the inside back cover and to the section entitled Outlook and risks on pages 30 to 36.

In our report we make reference to Unilever s website. Information on our website does not form part of this document.

This Annual Report comprises regulated information within the meaning of sections 1:1 and 5:25c of the Dutch Financial Markets Supervision Act.

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Our vision

We work to create a better future every day.
We help people feel good, look good and get more out of life
with brands and services that are good for them and good for others.
We will inspire people to take small, everyday actions that can
add up to a big difference for the world.
We will develop new ways of doing business with the aim of doubling
the size of our company while reducing our environmental impact.

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Report of the Directors **Overview**

Operational highlights

In 2009 we made good progress in challenging market conditions. Volumes picked up and market shares improved through the year. Our solid financial performance along with bigger innovations, better execution and a move to a stronger performance culture give us a firm foundation for the future.

Key facts

Leading global positions in 7 categories Products sold in more than 170 countries 891m spent on R&D worldwide 163,000 employees at the end of 2009 20 nationalities among our top tier managers 89m invested in community programmes worldwide

The Unilever Group

Unilever is one of the world s leading suppliers of fast moving consumer goods. We aim to meet everyday consumer needs for nutrition, hygiene and personal care with brands and services that help people to feel good, look good and get more out of life. Unilever is a global business which by the end of the year was generating more than half of its turnover in developing and emerging markets in Asia, Africa, Central & Eastern Europe and Latin America.

Unilever N.V. (NV) is a public limited company registered in the Netherlands. It has listings of shares and depositary receipts for shares on Euronext Amsterdam and of New York Registry Shares on the New York Stock Exchange.

Unilever PLC (PLC) is a public limited company registered in England and Wales. It has shares listed on the London Stock Exchange and, as American Depositary Receipts, on the New York Stock Exchange.

The two parent companies, NV and PLC, together with their group companies, operate as a single economic entity (the Unilever Group, also referred to as Unilever or the Group). NV and PLC and their group companies constitute a single reporting entity for the purposes of presenting consolidated accounts. Accordingly, the accounts of the Unilever Group are presented by both NV and PLC as their respective consolidated accounts.

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Report of the Directors **Overview**

Chairman s statement

I am delighted to be able to report that Unilever has had a good year. We have seen solid progress on our top line and an improvement in underlying operating margin.

This is particularly pleasing given the state of the global economy. A year ago when I was drafting my statement for our 2008 Annual Report there was little cause for business to be optimistic. The world was in one of the most serious economic downturns that had ever been experienced. Unemployment was high and rising, consumer confidence low.

Much of Unilever s ability to weather this storm so well is due to Paul Polman s leadership. He has sharpened the strategy, improved execution in the market place, sharpened the emphasis on innovation and injected a new sense of energy and urgency into the Group. Our investors have recognised this. Unilever was ranked fifth on total shareholder return in its peer group of 21 companies.

Paul Polman was not the only addition to the Boards in 2009. We also welcomed three new Non-Executive Directors Louise Fresco, Ann Fudge and Paul Walsh. Their arrival has strengthened both the breadth of experience and the diversity of the team.

Louise Fresco is Professor of International Development and Sustainability at the University of Amsterdam and a visiting Professor at Stanford University. Her deep knowledge of agriculture and sustainability will be of great value as we prepare ourselves to operate in a world where both food and water will become increasingly scarce.

Ann Fudge is a non-executive director at Novartis and at General Electric. Ann served as the chairman and chief executive officer of Young & Rubicam Brands from 2003 to 2006. Prior to joining Young & Rubicam, she worked at General Mills and at Kraft Foods. Ann has great knowledge and experience of branded consumer goods and, particularly, the food industry.

Paul Walsh is chief executive officer of Diageo and a non-executive director of FedEx Corporation. He is a member of the Business Council for Britain, and chairman of the Scotch Whisky Association. Paul is one of Britain s most respected business leaders.

Ann and Paul sit on the Remuneration Committee, bringing its composition in line with the UK Combined Code on Corporate Governance, which states that this committee should comprise at least three independent non-executives.

I am also delighted to announce that The Rt Hon Sir Malcolm Rifkind MP has agreed to be nominated for election as a Non-Executive Director at the 2010 AGMs. We believe that Sir Malcolm with his broad background in international affairs will be a valuable addition to the Boards.

Leon Brittan, Wim Dik and Narayana Murthy will be retiring as Non-Executive Directors at the end of our 2010 Annual General Meetings (AGMs). Narayana and Wim have served on our Corporate Responsibility and Reputation (CRRC) and Audit Committees respectively, and Leon as Chairman of the CRRC. On behalf of our Boards, I take this opportunity to thank them all for their individual contributions and service since their appointments.

At the AGMs in May 2010 we intend to propose Jean-Marc Huët for election to the Boards. Jean-Marc took over as Chief Financial Officer in February 2010 following the departure of Jim Lawrence.

The first quarterly dividend will be paid on 17 March. This change to quarterly dividends will result in more frequent payments to shareholders which I hope you will find helpful.

Finally, on behalf of the Boards, I would like to extend my sincere thanks to all of Unilever s 163,000 employees across the world. They have had to cope with difficult economic conditions externally and significant change internally. Yet they have still managed to deliver an excellent set of results.

Michael Treschow

Chairman

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Chief Executive Officer s review

Despite a challenging economic environment it has been a good year for Unilever. We exceeded objectives while at the same time taking action to ensure the future success of your company.

Delivering growth in a tough year

At the beginning of 2009 we took a long-term view, dropping guidance and setting the objective of restoring volume growth while protecting cash flow and underlying operating margin. As well as managing the short-term challenges, we increased support behind our brands and invested in R&D and people - the surest route to long-term shareholder value creation.

Volume growth was 2.3%, with acceleration throughout the year. This was driven by sharper execution and strong innovations, supported by incremental investment behind our brands in advertising and, to a lesser extent, promotions. Underlying sales growth was 3.5%.

Growth was broad based across markets and categories. By the end of the year we were growing volume share in two thirds of our business, compared with only one third a year earlier. Our competitive position strengthened during the year. Our biggest brands are getting stronger - ten of the top 13 brands are gaining volume share.

Good cost discipline meant that underlying operating margin was up 0.2% to 14.8% and tight working capital control meant cash flow from operating activities increased by 1.4 billion.

How we delivered

Recognising the severity of the economic crisis early and responding quickly was key to our strong performance, even if it meant some tough choices. The focus on volume growth, combined with protecting margins and cash flow, proved to be the right drivers in the current environment.

We targeted four key areas of activity:

Bigger and better innovations, rolled out faster and to more markets

Our innovations are getting bigger and better. The One Unilever structure allows for faster roll-out across multiple geographies. Dove Minimising Deodorant, for example, was rolled out across 37 markets; Signal White Now to 21 markets and Knorr Stockpots to 12 markets; Clear shampoo is now in 35 markets; and following its launch at the end of 2009, Dove for Men will be rolled out across 50 markets. Our innovation pipeline is equally getting stronger. The number of innovations in the pipeline with an expected incremental turnover in excess of 50 million has doubled. The opening of a new research centre in Shanghai, our second in the emerging markets, reflects a long-term commitment to R&D. Innovation will continue to be the key growth driver for your company. The business publication Fast Company recently recognised us as the fourth most innovative company in advertising and marketing.

More discipline throughout the organisation

Serving the consumer and customer with increasing passion every day is critical to our success. To help develop categories and accelerate our growth with our customers we have created a new global customer supply structure and are rolling out state of the art customer innovation centres to all regions. Our progress was recognised: we gained supplier of the year awards from a number of top customers. In a performance culture, we are increasingly focused on disciplined execution.

A more competitive cost structure

Our emphasis on protecting short-term business fundamentals meant driving out costs that do not add value for consumers and customers. This included accelerating much needed restructuring projects, leveraging scale by moving to global procurement, establishing regional sourcing organisations across each of our geographies and simplifying and further streamlining our organisational structure. In total we achieved savings of over 1.4 billion, well ahead of target and which helped fuel investment behind our brands. By adopting best practices we also made significant improvements in working capital (1.9 billion).

Driving a performance culture

We start from a strong base of values and principles, which have served us well over the years: integrity, trust, investing in people, doing the right thing for the long term. In very competitive markets, we need to further increase consumer and customer focus, speed of action, and responsibility and accountability. To achieve this we have made the organisation flatter, simplified target setting and sharpened individual performance management.

The organisation rose to the challenge, showing its competitive strength in managing change. I am proud to work with a strong leadership team and a dedicated group of colleagues throughout the world. The results in 2009 are a testament to their passion, commitment, skill and hard work.

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Report of the Directors **Overview**

Chief Executive Officer s review (continued)

We equally made good progress in other areas to position us for future growth:

We sharpened the portfolio

The announced acquisition of Sara Lee s personal care brands, including Sanex, Radox and Duschdas, will significantly strengthen our European business. We made smaller, bolt-on acquisitions, such as the TIGI professional hair care brands, mainly in the US and the Baltimor ketchup business in Russia. We assumed total control of our business in Vietnam and continued to divest non-strategic assets, such as our remaining equity stake in JohnsonDiversey and plantations in Congo.

We strengthened our supply chain capability

The appointment from outside of our first Chief Global Supply Chain Officer reflects the importance we attach to strengthening our operations and to leveraging our scale right across the supply chain.

We began the move to global business services

We created Unilever Enterprise Services (UES) to bring together HR and Finance transactions, as well as IT and Information Management services. UES will enable us to leverage scale in order to deliver improved services at better value. At the same time it will free up capacity for our businesses to concentrate on supporting our brands in the market place.

During the year we also found solutions to concerns raised by stakeholders, including the settlement of long running labour disputes in Pakistan and India. We continued to take the lead in driving sustainability, especially in moving to sustainable palm oil, converting to environmentally-friendly (HC) refrigerants in our ice cream freezers and in supporting smallholder farming.

Where we could do better

Despite significant progress, we did not fully achieve all our goals.

In two key markets, India and Spain, we took longer to respond to changing market dynamics and to the intense level of competition, especially from low-cost local competitors. And in two of our biggest categories hair and spreads we still need to build share consistently everywhere.

Our brands have plenty of room for improvement. Product quality is getting better, but we need more of our products to show superiority, and there is ample scope to sharpen our communications and to set the innovation bar even higher.

We are getting better at serving our customers but again we still fall short of best in class, for example in customer service levels and the on-shelf availability of our products.

Faced with growing competitive pressures, especially from lower-cost producers, we must continue to drive out all non value-added costs, building on the progress we have made in the last year.

The organisation is working hard in all these areas and I am confident that we will see continuous improvements. This is important because 2010 promises to be every bit as challenging. We expect two of the major drivers of our business consumer spending and consumer confidence to remain low. We also expect competitors to accelerate their plans to regain lost ground. This requires the best of us and we are ready for it.

A new business model

With confidence in our ability to grow we launched a renewed, bold vision for the company to double our size while improving our environmental footprint. With our portfolio of brands, presence in emerging markets and long-standing commitment to shared value creation in which the long-term interests of the company, its communities and stakeholders are all directly linked we believe your company is well placed to deliver on this ambition.

When it comes to environmental impact, for example, we lead the industry in the move to sustainable sourcing of commodities such as palm oil and tea. In fact we have given a firm commitment that by 2015 all of our supplies of palm oil and tea will come from certified sustainable sources.

Consumers will also have to change their habits. Through the Cleaner Planet Plan our laundry brands are helping to educate people about the benefits of washing at lower temperatures and using shorter cycles. With our products used in 125 billion washes a year, small actions like this can make a big difference. Likewise, poor sanitation and lack of hygiene standards are still the root causes of millions of preventable deaths, especially amongst children. With our health and handwashing campaigns we have reached millions of people over the years. The Lifebuoy brand s

ambitious new target is to change the hygiene behaviour of 1 billion people by 2015.
Leadership like this explains why, for the 11th year running, Unilever was sector leader in the Dow Jones Sustainability Indexes a feat unmatched by any other company.

Looking ahead

2009 was a good year for Unilever despite the tough conditions. 2010 won t be any easier, but by embedding the changes we are already making and by fostering a sharper performance culture, there is no reason why we can t go on growing in line with our ambitions. And we will do it in a way that continues to make our consumers, customers, partners and employees proud to be associated with Unilever.
Thank you for your support over 2009.

Paul Polman
Chief Executive Officer

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Strategy

With confidence in our ability to grow we launched a renewed, bold vision for the company to double our size while improving our environmental footprint. With our portfolio of brands, presence in emerging markets and long-standing commitment to shared value creation, we believe your company is well placed to deliver on this ambition.

Where we will win

Growth priorities

Our ambition is to win share and grow volume profitably across our categories and countries and we believe we have the tools in place to do so. We have a portfolio fit for growth, with strong brands and many leading category positions. Geographically, our outstanding presence in the emerging markets leaves us well positioned to win where much of the future growth will be. Yet, we are also determined to grow in the developed world, which represents around half of our business and where the bulk of the world s wealth will remain for many years to come.

How we will win

Winning with brands and innovation

Brands and innovation are at the heart of our business model. We aim to offer a broad portfolio that appeals to consumers with different needs and budgets. Unilever brands must also offer product quality that is recognised as superior by our consumers and supported by excellent marketing. Meanwhile, our innovation programme is focused on being bigger, better, faster . This means leveraging technology to create bigger, better innovation platforms that are then rolled out faster to multiple markets.

More on p8

Winning in the market place

The biggest opportunity for Unilever and our customers lies in growing the size of our categories, which we will strive to achieve through innovation and market development. We will further enhance and broaden our relationship with customers working together on areas of mutual benefit such as consumer research, shopper behaviour and merchandising. To sustain winning customer relationships and to enable growth, we will also need to be consistently brilliant at customer service and in-store execution.

More on p10

Winning through continuous improvement

We will aim to reinforce our continuous improvement philosophy by further developing a customer and consumer-led, agile value chain. Our focus will be in three areas. We will prioritise speed and flexibility in the supply chain to deliver growth. Secondly we will leverage our global network capabilities and scale more aggressively. Finally we will work to get a better return on our advertising and promotional expenditure one of our most significant areas of cost.

More on p12

Winning with people

It is vital that we have the talent and organisation in place to match our growth ambition. Across the business, we are therefore looking ahead at what we need to achieve, and aim to equip ourselves with the necessary people, skills and capabilities to get there. We also know that engagement and a culture based on living our values are essential for keeping the best people. We believe our operating framework allows us to balance scale and global expertise to develop successful products with the local consumer intimacy needed to market and sell them.

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Report of the Directors Our strategy

How we will win

Winning with brands and innovation

Brands and innovation are at the heart of everything we do. We develop our products to keep pace with changes in consumer lifestyles and to appeal to people at all income levels. Success means getting bigger and better innovations into the market faster, supported by the very best marketing.

Superior products

Our aim is to give people a great experience when they use our brands better than the competition. We are investing in improving product quality and making stronger functional claims. We are also focusing on design, packaging, marketing and advertising, in order to get our brand benefits across more persuasively.

Take Knorr Stockpot bouillon. Using a unique jelly technology that delivers homemade taste and quality, this product is helping people create a special meal at home instead of eating out. A major success in the UK where it enabled Knorr to become market leader in stocks, Stockpot (marketed under different names in different countries) is also performing well in Belgium, Greece, Ireland and Poland. It helped create the bouillon category in China and we are now rolling it out to other markets.

Widespread appeal

Product superiority is essential, but we also need to offer a broad range of choice which meets differing consumer needs and price points wherever we operate.

In the UK, understanding that consumers are looking for value without compromising on quality, and recognising the importance of fragrance in communicating a product s benefits, we developed a range of liquid concentrates for Surf detergent with added essential oils, resulting in 29% growth.

In Russia, despite a severe economic recession, we achieved growth of more than 20% in our tea sales by offering choice across multiple price points with three distinctive brands - Lipton, Brooke Bond and Beseda.

And in India, where water quality remains a major concern, the breakthrough technology of Pureit, our in-home purification system, is providing safe and affordable drinking water with complete protection from the water-borne germs that cause diseases. In 2009, Pureit provided safe drinking water for more than 15 million people in 3 million households in India.

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Bigger, better, faster innovations

Successful innovation is based on deep consumer insight. The balance we seek to achieve is to marry global strength in R&D with local knowledge of people s habits, tastes and behaviours.

To grow at the rate we want to, we focus investment on products that can work globally rather than on launches in just a few countries. We have also doubled the number of big projects we are working on. We are already seeing results. We have rolled out Axe Dark Temptation deodorant to 56 markets, Lipton Pyramid fruit tea bags to 38 markets and Clear shampoo to 35 markets.

For a product to work at a global level, it needs to address unmet needs with superior technology and a clear consumer concept. R&D must deliver breakthrough science in areas that really matter to consumers, with products that do what they claim. Success on this scale requires strict priorities and big ideas.

Within R&D, part of prioritising is getting the balance right between the short and the long term. With an eye to our future growth plans, during 2009 we developed a more robust process for fuelling our longer-term innovation pipeline. Called the Genesis Programme, it spans our foods and home and personal care categories and focuses on the breakthrough ideas that we expect will deliver the biggest wins. From 2011 we should begin to see some of these innovations in our products.

We continued to invest substantially in R&D, despite the economic environment. In 2009, we opened a new R&D centre in Shanghai. Located in a country which is increasingly recognised as a world leader in developing high-end innovations, the new centre further underscores our commitment to driving growth through R&D. We also started to leverage the power of our global network of R&D labs by getting them working interdependently on key projects. We put in place more rigorous planning processes to make sure that the right level and quality of resource is put behind the activities to ensure the projects succeed. And we have stepped up our focus on a number of areas identified as critical to success such as open innovation, clinicals and patents.

Report of the Directors **Our strategy**

How we will win

Winning in the market place

Our biggest growth opportunity lies in expanding the markets in which we compete. In developing and emerging countries there is huge potential for future growth as more and more people start consuming personal and household products for the first time. To realise this potential, we will need to partner with our customers in both the developed and developing markets.

Lead market development

The world s population, currently 6.8 billion, is set to grow to 7.7 billion by 2020. Today, 5.9 billion live in developing and emerging markets countries such as Brazil, India and Indonesia where Unilever has deep roots and a wide presence. We already reach many more consumers than our competitors in these markets.

Market development is about developing and growing categories. There are three ways of doing this:

- more users (increasing market penetration);
- more usage (increasing consumption);
- more benefits (getting consumers to buy higher value products).

Take Axe. In recognising that fragrance is a major reason why people choose one brand over another, new fragrance launches are helping to increase market penetration, introduce new users to the brand and ensure our product mix remains up to date. This, in turn, has helped Axe become the world s leading male deodorant and shower gel.

Putting market development into practice requires a rigorous, consistent approach across all our categories. During 2009 our global category development teams produced market development models for every category. These models are now with our country teams who are using them as the basis of plans for their local markets. This approach has already shown excellent results in many of the markets in which we operate.

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Win with winning customers

There is a growing trend in the retail industry towards consolidation, with fewer but larger retailers. Thanks to our global scale and local knowledge, Unilever is ideally placed to help those customers achieve their own growth ambitions.

In 2008 we opened in New Jersey the first of a network of customer insight and innovation centres to work directly with retailers. The centre covers everything from merchandising and store layout, to displays and packaging. Through the centre, we work with customers to design and test concepts without going to the expense of real in-store pilots. Since opening, the centre has generated significant growth opportunities. Our London centre has since opened and we plan to open three more in 2010 in Paris, Shanghai and São Paulo.

Be an execution powerhouse

Market development and great relationships with customers will only be points of advantage if we execute with excellence. This is not a complicated concept. It is about the everyday disciplines of ensuring that we are delivering to our customers the products they want, in the quantities they ordered at the time they are needed. This involves having a customer-focused approach across our brand building, customer development and supply chain teams.

During 2009 we focused much more closely on sales fundamentals , a set of company-wide measures covering every aspect of our in-store presence. We have performed well against these measures, which have been one of the many drivers in improving customer service in most of our key countries.

The detail of what works in one type of store won t work for all, however. A superstore in the US is very different from a local retailer in a small town in China, both in terms of the products it carries and the way those products are sold. But for each type of store, by channel and geography, there is a perfect concept namely, what the shop would look like if it were the perfect sales vehicle for our categories and brands.

We developed the perfect store concept in the AAC region (Asia, Africa and Central & Eastern Europe) in early 2009. We began implementing it in modern trade outlets across the region, focusing on the region s largest four categories skin cleansing, hair, fabric cleaning and tea. In some smaller outlets, we even succeeded in executing the transformation overnight, taking the competition by surprise and maximising the impact of the change.

Over the next few years our aim is to continue implementing the perfect store concept across the AAC region, while in the coming year, the concept is being rolled out around the business.

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Report of the Directors **Our strategy**

How we will win

Winning through continuous improvement

Delivering sustained, profitable growth requires a philosophy of continuous improvement. This means being fast and flexible in the supply chain while keeping costs competitive. It will also require us to make the most of our scale and aim for the best return on every euro we spend on advertising and promotion.

Fast and flexible and increasingly competitive

Winning in the market is about being fast and agile to meet the changing needs of today s customers and consumers. Of course, being competitive on cost is vital, but rather than having a purely cost-based agenda for our supply chain, we have widened our focus to ensure that we are more responsive to the constantly changing needs of our customers.

Delivering significant value

During 2009 we launched a single strategy for the supply chain One Unilever Supply Chain putting customers and consumers at the heart of everything we do. The principal objectives for our supply chain are to deliver top-quality products with world-class service at a competitive cost. It s a big ambition that:

- supports top-line growth through speeding up the roll-out of global launches;
- ensures our products are constantly on the shelf;
- increases profits by simplifying our structure and reducing waste;
- improves cash flow by reducing stock and providing better payment terms.

The rewards are significant. In 2009, as part of this, our One Unilever Supply Chain team contributed significantly to delivering 1.4 billion in savings.

The advantages of global scale

Unilever has a global reach wider than many of its competitors. This gives us a tremendous opportunity for improving efficiencies by leveraging our scale. We are doing this in three critical areas:

- procurement;
- manufacturing;
- back office services.

Single procurement strategy

Having a single, global procurement strategy means that where bigger is better, we are getting the benefits. For many items, buying globally gives us economies of scale. For example, significantly reducing the number of tomato ingredients that are used in our products from 300 to just 39 enhanced the consistency of product quality and, at the same time, substantially reduced costs.

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Regional sourcing operations
In manufacturing, we believe that most of the economies of scale are to be found at the regional level. To capture these, we are creating three regional sourcing companies. These are located in Singapore and Switzerland, where the Americas sourcing company will co-locate with the European company.

Internal services under one roof
Even with activities such as IT, travel, office services, accounts payable and accounts receivable, there are big opportunities to leverage global scale. So in 2009 we set up a new business unit, Unilever Enterprise Support (UES). It will be operational in April 2010 and will bring together many of these activities as a key part of our initiatives to drive down costs.

The best return on brand and customer investment
Unilever is the second biggest advertiser in the world. Improving the return on our brand and customer support is one of the biggest things we can do to achieve growth. There is a tendency to think that analysing this kind of return on investment is some form of mystery. We believe it is simply about being rigorous in applying our best evaluation and development techniques.

Everyday disciplines done brilliantly
First, we decide on the best ways of investing our spend. We do this on three levels:

- allocating investment across geographies, categories and brands;
- allocating investment across particular projects and product launches;
- allocating spend locally across marketing channels and promotions.

Before we invest, we use a number of tools to answer the questions: how much should we be investing; and how can we maximise its effectiveness? During and after the investment, we use other tools to look at whether it is working, how it could work better and what to do next. This is not about replacing creativity with analytics and measurement; it is about doing both brilliantly.

Through focusing on these basics, we are already seeing great improvements in return on investment in a number of areas. For example, our US foods business has increased returns by over 45% in six years, helped by its use of econometric modelling.

Future trends
Looking ahead, there are two big themes that will dominate our media planning: how we make best use of digital media and, given the rise in prominence of global retailers, how we can make the most of in-store investments.

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Report of the Directors **Our strategy**

How we will win

Winning
with people

Doubling in size is a challenging prospect. From a talent and organisational perspective, it cannot be business as usual. We will have to have in place the people and structures necessary to manage on a larger scale.

Our operating framework seeks to combine global scale, power and strength with local consumer intimacy. Taking advantage of this in all our chosen markets and categories as we are already doing in many areas will be critical in ensuring our success.

To do this we need to have a team capable of delivering, and to offer the career potential and working environment that make Unilever the best place to be.

Developing a team fit for growth

Some of our major markets are doubling in size every five to six years, while our own growth ambitions mean that having enough people with the right skills is a challenge in itself. Getting the right number and quality of people in the pipeline for the future does not happen by accident. It requires an understanding of what is already in the business that can be built upon, and what will be needed in the future as markets develop.

In 2009 we launched our talent and organisation readiness programme , which will do just what it says: make sure our organisation and our talent are ready for growth. We are assessing those areas of the business most crucial to our strategy to define their specific goals, and whether we have the structure and the talent to deliver them. Where we identify gaps, we focus on developing targeted solutions. This may involve one or more of the following:

- changing organisational structures;
- revising our recruitment strategy and approach;
- reviewing our retention schemes;
- improving core processes such as decision making;
- focusing on culture and employee engagement;
- using development and training programmes to build capability levels.

So far we have carried out four pilot programmes in China, Indonesia and Germany, and in our skin category. These have given us important new insights.

A diverse team for the widest range of consumers An important part of developing the Unilever workforce of the future is diversity. We need a diverse team across gender, nationality, race, creed, culture to be able to connect with the widest range of consumers and to take our performance to a higher level.

We are already making progress. Our Board of Directors comprises six nationalities and the nine members of the Unilever Executive team come from six different countries. This combination delivers a wealth of experience in emerging markets which is critical to our future business success.

In terms of gender, the number of women in senior positions has increased. For example, the proportion of women now at vice president level has gone up by around one third since 2007. For more on diversity, see page 28.

A place to succeed

As important as development programmes and organisational structures is having a performance culture that rewards people and teams who deliver. Only by inspiring our people and motivating them to succeed will we deliver our growth ambition.

People, integrity and values have always been central to Unilever, and will continue to be so. But within that context we are determined to become faster, more focused and more competitive. In 2009 we updated some of our performance management tools, for example introducing a global performance and talent management system.

Measuring cultural change is an inexact science, but we put great effort into engaging with employees to find out whether they understand the company s vision and their role within it, what their views are about Unilever, and what they believe needs to change for us to achieve our ambitions. In 2009 we began an employee engagement programme that will ensure employees are involved in Unilever s vision and plans for the future.

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Report of the Directors **Performance 2009**

Financial overview
In 2009 our growth momentum was strong despite a challenging environment. Our market share is improving and our brands are stronger. Our leading positions in developing and emerging markets were strengthened and we made encouraging progress in re-establishing volume growth in Western Europe. We are faster and more agile and focused on serving over 2 billion consumers every day.

Consolidated income statement
(highlights) for the year ended 31 December

million	**2009**	2008
Turnover	**39,823**	40,523
Operating profit	**5,020**	7,167
Operating profit before RDIs†	**5,888**	5,898
Profit before taxation	**4,916**	7,129
Taxation	**(1,257)**	(1,844)
Net profit	**3,659**	5,285
Combined earnings per share	**1.21**	1.79
Combined earnings per share before RDIs†	**1.33**	1.43

Consolidated balance sheet
as at 31 December

million	**2009**	2008
Non-current assets	**26,205**	24,967
Current assets	**10,811**	11,175
Current liabilities	**(11,599)**	(13,800)
Total assets less current liabilities	**25,417**	22,342
Non-current liabilities	**12,881**	11,970
Shareholders equity	**12,065**	9,948
Minority interests	**471**	424
Total capital employed	**25,417**	22,342

Consolidated cash flow statement
for the year ended 31 December

million	**2009**	2008
Net cash flow from operating activities	**5,774**	3,871
Net cash flow from/(used in) investing activities	**(1,263)**	1,415
Net cash flow from/(used in) financing activities	**(4,301)**	(3,130)
Net increase/(decrease) in cash and cash equivalents	**210**	2,156
Cash and cash equivalents at 1 January	**2,360**	901
Effect of foreign exchange rate changes	**(173)**	(697)
Cash and cash equivalents at 31 December	**2,397**	2,360

Underlying sales growth for the year was 3.5%. Underlying volume growth at 2.3% accelerated through the year, reaching 5.0% in the fourth quarter. The increase in volume growth was widespread across most of our key categories and countries and translated into improving market share performance in all regions as the year progressed.
Operating margin before restructuring, disposals and other one-off items rose to 14.8%. Advertising and promotional expenditure increased by around 250 million. The margin development was underpinned by volume efficiencies and savings of 1.4 billion from lower supply chain costs and a leaner organisational structure.
Cash flow from operating activities increased by 1.4 billion in comparison with 2008, driven by a significant improvement in working capital, and after a 0.5 billion increase in cash contributions to pension funds.
Despite some of the most difficult trading conditions in recent memory, all regions delivered an improving trend in volumes and market share, driven by stronger innovation and advertising and promotional support. Discipline in execution is also improving. We have improved customer service levels and are starting to see progress in on-shelf availability. We have taken decisive action to ensure that our prices stay competitive and, where appropriate, we have adjusted prices to reflect easing commodity costs, just as we took necessary increases in 2008. Cost saving programmes continued to deliver significant benefits across the business.

	AAC			The Americas			Western Europe	
at current rates of exchange	**2009**	2008	change	**2009**	2008	change	**2009**	2008 &n