

UNILEVER N V  
Form 6-K  
March 06, 2009

**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, 2009.**

**Commission File Number 001-04547**

**UNILEVER N.V.**

(Translation of registrant's name into English)

**WEENA 455, 3013 AL, P.O. BOX 760, 3000 DK, ROTTERDAM, THE NETHERLANDS**

(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  Form 40-F

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): \_\_\_\_\_

**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): \_\_\_\_\_

**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  No

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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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNILEVER N.V.

/s/ S. H. M. A. Dumoulin

By S. H. M. A. DUMOULIN,  
Group Secretary  
Date: 6 March, 2009

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Annual Report and Accounts 2008  
Adding Vitality to Life

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### Adding Vitality to Life

Unilever's mission is to add Vitality to Life. We meet everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life.

#### The Unilever Group

Unilever N.V. (NV) is a public limited company registered in the Netherlands, which 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 which 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.

#### **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 the Performance Review on page 29 and the Financial Review on page 35.

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

#### **Exchange rates**

Details of key exchange rates used in preparation of these accounts are given on page 139, together with Noon Buying Rates in New York for the equivalent dates.

#### **Forward-looking statements**

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. For a description of factors that could affect future results, reference should be made to the full Cautionary statement on the inside back cover.

## Our highlights

### Financial

7.4%

#### underlying sales growth

Ungeared free cash flow of 3.2 billion

Profits on disposals of 2.2 billion pre-tax

Return on invested capital of 15.7%

Total shareholder return ranking 9<sup>th</sup> out of 21

Earnings per share of 1.79, including 0.36 net benefit from disposals and restructuring

Total dividend increased to 0.77 per Ordinary 0.16 share of NV and 60.74P per Ordinary 1/3<sup>rd</sup> share of PLC

### Social

22 000

#### products have had their nutritional profile assessed

Three quarters of the food products in our R&D pipeline bring specific nutritional or health benefits

16 million school meals delivered to 76 000 children in 2008 through our partnership with the World Food Programme

Four million children reached by Signal / Pepsodent / Close Up toothpaste brands through school-based oral health programmes in 2008

120 million people reached by Lifebuoy brand's handwashing programme in India since 2002

### Environmental

10 years

#### as sector leader of the Dow Jones Sustainability Indexes

2015: the year by which we are committed to sourcing all palm oil from certified sustainable sources

c. 50% of the tea we sell in Western Europe is grown on Rainforest Alliance Certified farms

39% reduction in CO<sup>2</sup> emissions per tonne of production over the period 1995-2008\*

\*2008 data is preliminary. It will be independently assured and reported in our online Sustainable Development Report 2008 at [www.unilever.com/sustainability](http://www.unilever.com/sustainability)



## Report of the Directors

### Our brands and operations

Our strong portfolio of foods, home and personal care brands is trusted by consumers the world over. 13 of our brands achieve annual sales of \$1 billion or more. Our top 25 brands account for over 70% of our sales.

### Operational achievements

Strong broad-based underlying sales growth of 7.4% across categories

More competitive cost base: \$1.1 billion savings from supply chain and organisational efficiencies

Increased investment behind our brands

Portfolio reshaped through disposals, including North American laundry, Boursin, Lawry's and Bertolli olive oil

Portfolio strengthened through the acquisition of Inmarko ice cream in Russia and the planned acquisition of the TIGI hair salon brands

Named International Supplier of the Year by Tesco for the third year running

### Regional highlights



\* Some of our brands may be marketed under alternative names in certain countries.

## Category highlights

### **Savoury, dressings and spreads**

Turnover of 14 232 million

Underlying sales growth of 7.6%

### **Ice cream and beverages**

Turnover of 7 694 million

Underlying sales growth of 5.9%

### **Personal care**

Turnover of 11 383 million

Underlying sales growth of 6.6%

### **Home care**

Turnover of 7 214 million

Underlying sales growth of 9.8%

## Key facts

174 000 employees at the end of 2008

20 nationalities among our top tier managers

Around 100 countries in which we operate

91m invested in community programmes worldwide

927m spent on R&D worldwide

purple 270 manufacturing sites worldwide

Report of the Directors  
Chairman's statement

Our strategy, in an unpredictable economic environment, is to maintain our growth momentum and deliver competitive levels of profitability.

2008 was a difficult and turbulent year generally for business all around the world. It was dominated by a banking crisis which started in the US sub-prime property market and which quickly spread to other asset classes and countries. These problems were exacerbated by the volatile price of mineral oil and, for companies like Unilever, record rises in the cost of vegetable oils like palm, soy and rapeseed.

Despite these unprecedented circumstances I am pleased to report that Unilever performed well in 2008 and emerged as a stronger, more competitive company. It delivered good results on both top and bottom line and its strong cash flows allowed it to produce substantial returns to shareholders in the form of both share buy-backs and dividends. Part of this was due to the inherent strength and stability of the company. Partly it was the result of a robust strategy, effectively implemented. But partly, too, it was due to the leadership of Patrick Cescau who retired from the business on 31 December (see panel opposite).

As a Board team, one of our most important tasks in 2008 was to manage Patrick's succession once he had signalled his intention to retire. The process, initiated and led by our Nomination Committee, was wide-ranging and thorough. It was as a result of this search that we were lucky enough to find Paul Polman.

We are delighted that Paul accepted our offer to become Chief Executive Officer. He has immense experience of the markets in which we operate, having spent 26 years in our industry. Paul brings with him a deep understanding of brands, consumers and customers. He also has an enthusiasm for consumer goods which is palpable and will bring new energy and ideas to Unilever.

The other change in personnel since our 2008 AGMs has been the transition of Geneviève Berger from Non-Executive Director to Chief R&D Officer on the Executive team. In this capacity she will be able to bring her great knowledge of science and technology to the service of the business. In an industry where innovation is such a critical success factor I believe that this is an important and far-sighted appointment.

At our 2008 AGMs Kees van der Graaf and Ralph Kugler stepped down from the Boards. They are currently composed of 12 members of whom two are Executives.

David Simon will be retiring as a Non-Executive Director at the end of our 2009 AGMs after three terms of three years. During that time he has served as our Vice Chairman, Senior Independent Director and Chairman of our Nomination and Remuneration Committees. On behalf of our Boards, I take this opportunity to thank him for his contribution, wise counsel and service since 2000. It is intended that David will be succeeded in those roles by Jeroen van der Veer, with effect from the 2009 AGMs.

As part of the time that the Boards spent with the business during the year, we visited our laboratories in Bangalore and our customer innovation centre in New Jersey. The Boards reviewed the strategy at a two-day meeting in October. One of the striking things to emerge from our strategy session was the consistency of Unilever's approach. While the strategy has evolved to take account of the changing external environment, its essential elements remain unchanged. The Group is still committed to growing competitively and will do so by developing its core assets of brands, technology, geographic spread and marketing excellence. Just as importantly its principles remain unchanged. The Group will deliver its results in a sustainable fashion – seeking to manage its social and environmental impacts in a manner which meets the needs of all its stakeholders.

We are proposing to change to a simpler and more transparent dividend practice for the Unilever group from 2010 onwards. These changes will result in more frequent dividend payments through the payment of quarterly dividends to shareholders. They will also better align dividend payouts with the cash flow generation of the business. Further details are included in the 2009 AGM Notices.

Looking forward, I remain confident. Unilever entered 2009 with a realistic assessment of the challenges which it would have to face. Its plans were built on the assumption of a deep and prolonged global economic downturn. We are determined to emerge from this in good shape.

Finally, on behalf of the Boards, I would like to extend my sincere thanks to all of Unilever's 174 000 employees. They have had to cope with, and manage, a huge amount of change. They have done this in an exemplary and responsible fashion.

**Michael Treschow**

Chairman

**Patrick Cescau**

On behalf of the Directors and everyone at Unilever, I want to express our appreciation to Patrick Cescau for his services to Unilever over the last 35 years. By any standards, Patrick's career has been a remarkable one, culminating with his appointment in 2005 as Unilever's first ever Chief Executive Officer.

Since that time he has helped to transform the company. Significant organisational – particularly the implementation of One Unilever – change has been accompanied by a consistent improvement in business results and overall performance. Patrick leaves the business stronger than he found it, well placed to meet the challenges that lie ahead.

Throughout his time in the business, Patrick also came to embody the qualities and values that help to make Unilever a special business: respect, humanity, integrity. It is for these reasons that he is liked and respected in equal measure, both inside the company and outside.

We all wish Patrick a long and happy retirement.

## Report of the Directors

### Chief Executive Officer's review

It is a great pleasure to report to you for the first time as Unilever's Chief Executive Officer. I am delighted to be a part of the team and to have the opportunity of leading this great company.

Taking this role is an honour and privilege, but equally a huge responsibility. These are tough times; and tough times demand the very best of all of us. That is the spirit in which I intend to take the business forward.

Despite the fact that I have joined the Group at a time of unprecedented economic turmoil, my first message to you is a positive and reassuring one: your company is in good shape. The scale and the extent of the changes over the last four years have been a positive surprise to me. They have made Unilever stronger and more confident, well placed to weather the storms currently blowing through all sectors of the economy.

I want first, therefore, to acknowledge the hard work and dedication of Unilever employees all around the world.

Thanks to their efforts, Unilever is a leaner, more focused business with a strong portfolio of leading brands. All this is vital given the intense nature of the competitive and economic environment.

The transformation was led with a mixture of skill and determination by my predecessor, Patrick Cescau, and I want to take this opportunity to recognise Patrick's accomplishments as Chief Executive. He leaves a remarkable legacy: a wide-ranging change programme combined with steadily improving results. In short, the engine was replaced while the car kept running. Quite an achievement and I am grateful to Patrick for what he hands over.

Last year saw an acceleration of Unilever's transformation agenda.

The rationalisation of our manufacturing base continued across all regions. During the last year we closed or sold a further 14 sites, bringing the total to 30 over the last two years. We are now on course to exceed our target set in 2007 of closing or streamlining 50 to 60 sites by 2010. All these projects are being handled with great sensitivity to the workforce. Together they are helping to provide Unilever with a modern, cost competitive supply chain, capable of meeting the demands of competing in the 21<sup>st</sup> century. To further aid speed and efficiency, we have brought all our logistical and supply chain operations in Europe together in one regional structure based in Switzerland. And we are currently embarked on a similar move in Asia by centralising our supply chain management for the region in Singapore.

The brand portfolio was further strengthened and sharpened. This included the sale of the North American laundry business. We also divested some smaller, non-strategic parts of our portfolio, including Boursin cheese, Lawry's seasonings and the Bertolli olive oil businesses. These deals were all done at good prices, achieving significant value for the company. At the same time, the acquisition in 2008 of the leading Russian ice cream maker, Inmarko, filled an important gap in a critical market for us. And we are in the process of obtaining a vital entry into the fast-growing salon sector of the hair care market with our planned acquisition of the TIGI hair product business. We are also alive to similar value-creating opportunities that may present themselves during the year.

The One Unilever programme under which multiple business units are integrated into a single operating structure became a reality across most of the Group's key markets, bringing greater speed and simplicity to all our operations.

Paul Polman

Chief Executive Officer

These changes contributed to a good set of business results in 2008. We achieved strong underlying sales growth of 7.4%, broadly based across all our major product categories. Growth was driven by increased pricing as the Group moved quickly and decisively to offset the unprecedented rise in commodity costs.

Supply chain and other organisational savings of more than 1 billion meant that we were also able to increase the level of investment behind our brands, while at the same time delivering an underlying improvement in operating margin. By any standards, this represents solid progress and a good set of results.

However, despite the positive changes to the business, there are still a number of areas in which we need to improve. Our market share positions suggest we are not yet winning in enough of the key categories and geographies in which we compete. Market positions and brand strength are two key determinants of long-term earnings capacity. So we need to do better.

Equally our costs are not yet at competitive levels. Huge progress has been made but again there is still work to do. In order to invest behind our brands and win the battles for the hearts and minds of an increasingly value conscious consumer, we must eliminate all the costs that consumers are unwilling to pay for.

Growing our volume base, while keeping closely focused on protecting our margins and cash flow, will be our priority in 2009. The economic environment is unprecedented and will require flexibility and fast action. But Unilever has long experience of operating in difficult markets and at times of great economic stress. It should be remembered that the Group was born in the era of the Great Depression of the 1930s. On each occasion since, it has learnt from the experience and emerged stronger and more resilient as a business. There are good reasons to believe we can do so again.

For one thing, we possess a highly relevant and inspiring mission. Vitality with its emphasis on helping people to feel good, look good and get more out of life resonates with the hopes and aspirations of consumers the world over. Vitality is even more valid today as consumers face increasingly tough economic challenges.

That is why we have made it the theme of this year's report and why we want to extend the concept of vitality right the way through our products, our organisation and our engagement with societies at large.

We have an excellent, balanced portfolio of strong brands fulfilling basic needs; 13 have an annual turnover of 1 billion or more and we are not overly exposed to the premium sector at a time when this segment of the market is under increasing pressure. We have strong, well-established businesses in many of the world's fastest growing markets and our global presence is building all the time. Add to this the Group's simplified organisation and a sound and healthy financial structure and you can see why, we believe, Unilever is so well placed to win.

Underpinning these strengths, Unilever exhibits a set of deeply ingrained values based on trust and integrity which date back to the days of its founders and which are so well captured in the concept of 'doing well by doing good'. These values will never be compromised, no matter how difficult the economic conditions become, and nor will the Group's commitment to help tackle deep-seated global issues in such areas as nutrition and hygiene. In pursuit of these objectives we continue to work closely alongside agencies like the World Food Programme (WFP) and UNICEF. In 2008, our partnership with the WFP extended its scope to six countries and delivered 16 million meals to 76 000 schoolchildren.

Given the increasing problems of resource scarcity around the world, it is also vital that we take a lead on the issue of sustainable consumption. That is why we have made a clear commitment to move to sustainable palm oil sourcing by 2015 and are working with Greenpeace and others to achieve this challenging objective.

It was heartening to see the Group's commitment to these issues publicly recognised and rewarded in 2008. For the tenth year running Unilever was named foods sector leader in the Dow Jones Sustainability Indexes the only company ever to achieve such an accolade. And the award of Platinum standard in the UK's Business in the Community Corporate Responsibility Index was further recognition of the Group's willingness to act as an agent for social and environmental improvement.

All these attributes, I believe, will not only help to sustain the Group during a period of economic difficulty, but are also the pillars of long-term competitive advantage and a high performing business.

However, there is no cause for complacency. We must not underestimate the challenges ahead. If we are to prosper, we will need to continue the programme of organisational change, further increasing our ability to move quickly and decisively in response to shifting market dynamics. But internal change must be accompanied by greater external focus: we have to put the consumer and the customer at the heart of everything we do. This external focus, coupled with speed and discipline, will be the key to success.

## Report of the Directors

Chief Executive Officer's review continued

These will be our guiding principles as we manage the business through a period of continuing turbulence and prepare for the future. We are also taking a number of additional steps:

We are driving brand innovation, the lifeblood of our business, to a new level. The move to a One Unilever R&D structure under the Group's Chief R&D Officer, Professor Geneviève Berger, will help us to win in the market place by focusing on fewer, bigger innovations and rolling them out more swiftly around the world.

We are also raising the bar when it comes to our supply chain. Through the appointment of a Global Supply Chain officer, we are looking for even better ways to leverage our scale in global buying and thereby reduce the overall cost of raw materials. In 2008 our supply chain savings were almost 100 million greater than the previous year. To drive the process even further we have appointed our first Chief Procurement Officer. We expect a continued strong programme in 2009 and beyond.

We are ensuring that our brands address the needs of value-conscious consumers everywhere. Our Bertolli restaurant-quality Italian dinners for two, for example, offer North American consumers an excellent alternative to eating out. And in South East Asia, our Knorr brand has been quick to introduce low-cost single units of stock and seasoning.

Finally, we are using the current economic environment to bring about a step change in our approach to costs and cash flow. Hence, we are accelerating our savings programmes and reducing many discretionary costs. We are also challenging ourselves to be ever more efficient and striving to be best-in-class in the management of working capital.

In conclusion, 2008 was a good year for Unilever. In volatile markets and in the face of a severe economic downturn the Group's performance stood up well.

Our priority in 2009 will be to get sales volumes growing again, both sustainably and profitably. That is why we are focused on driving our costs down faster, so that we can reinvest in the business and strengthen our brands. We are also focusing in 2009 on improving the size and quality of our innovations, and rolling them out further and faster around the world. In 2008, for example, we launched Dove Go fresh in January in two markets. Within just six months it was in eight markets, and by the end of the year in 55. We can do it. We just need to do it more often.

To re-ignite volume growth, we also need to concentrate on improving our capabilities in the marketplace from leveraging the global scale of our supply chain to sharpening the focus we give our more successful and fastest growing customers. And finally, we will continue to develop the organisation itself, building a strong performance culture around the principles of clear accountability, a bias for action, speed of delivery and external focus.

2009 will be a challenging year. The depth and uncertainty of the current recession means that we must be able to respond quickly to rapidly changing market conditions. I am confident that we have the tools and the organisation to do that. If we can, then we will emerge from the current difficulties stronger than ever, just as we have done many times before.

**Paul Polman**

Chief Executive Officer

Unilever Executive (UEX)

Responsible for the performance of  
the Group, guided by the

Chief Executive Officer

Left to right:

**Harish Manwani**

President, Asia, Africa and

Central & Eastern Europe

**Jim Lawrence**

Chief Financial Officer

**Sandy Ogg**

Chief HR Officer

**Michael Polk**

President, Americas

**Vindi Banga**

President, Foods,

Home & Personal Care

**Geneviève Berger**

Chief R&D Officer

**Doug Baillie**

President, Western Europe

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## Vitality through R&D

Unilever is a global leader in research and development, believing that powerful vitality-based innovations are crucial to delivering sustainable growth.

The year saw two important milestones. Firstly, Geneviève Berger was appointed Unilever's first Chief R&D Officer. Secondly, our 6 000 plus R&D professionals came together in one unified organisation.

With an integrated global research, product development and implementation programme, the new R&D structure aims to give us competitive advantage in the market through greater efficiency and focus. This R&D organisation is designed to accelerate the delivery of ground-breaking advances, increase the focus on big innovations and optimise the balance between short- and long-term projects.

### **Unique products with proven benefits**

Our R&D teams focus on creating distinctive new products with proven benefits that meet consumer needs and help add Vitality to Life.

Knorr Stockpot bouillon uses patented jelly technology. It looks natural, smells delicious, melts naturally into dishes and has a rich, authentic taste. Containing no preservatives or colourings, it was first launched in China and has recently been launched in Europe.

Our anti-dandruff shampoo Clear delivered steady market share gains compared to the previous year in markets from Brazil to the Philippines. Thanks to our superior technology, Clear's ability to destroy dandruff-causing microbes makes the scalp healthier and prevents dandruff from returning if the shampoo is used frequently.

And we put our nutritious Blue Band margarine within reach of low-income consumers in Africa by developing an affordable single-serve sachet that keeps the product fresh even at high ambient temperatures.

Innovation also makes a vital contribution to our sustainability agenda. For example, in 2008 we made important strides in establishing verifiable environmental metrics and reducing the weight of our packaging, helping to decrease the overall impact of our portfolio.

### **White teeth, White Now**

Our scientists share best practice and knowledge across product categories. The ground-breaking White Now toothpaste, launched under the Signal brand in seven European countries, is the first whitening toothpaste with an instant effect.

It transfers optical-effect technology developed by our laundry team to the field of oral care, using a blue pigment to make yellow teeth appear whiter. Signal White Now exceeded its sales targets and will be rolled out in a number of additional countries in 2009.

[www.unilever.com/signal](http://www.unilever.com/signal)

Report of the Directors

Vitality through our brands

**Every Child has the Right**

Unilever's laundry brands are making a positive social impact while continuing to grow sales.

Dirt is Good, the unifying campaign for leading brands such as Omo and Persil, promotes getting dirty as a natural and positive part of growing up - essential to a child's learning experience. Under the Omo brand, the campaign was taken in a fresh direction when it commissioned a unique study into child development. 1,500 mothers shared their hopes and concerns for their children, with 63% revealing they feared their youngsters were being deprived of their childhood. This insight inspired the Every Child has the Right campaign, focusing on giving children the freedom to experience, learn and develop. It has been launched in Latin America, Europe and Asia.

[www.unilever.com/omo](http://www.unilever.com/omo)

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Vitality is at the heart of everything we do. It defines the many ways our brands help people get more out of life and is core to our growth agenda.

Our Vitality mission reaches across our whole organisation and provides the basis for our category, regional and functional strategies. Central to the way we manage our brand portfolio is identifying how each brand can best bring Vitality to Life.

We do this through focusing on three areas: personal vitality, social value and environmental impact.

#### **More personal vitality**

Our nutrition, hygiene and wellness brands deliver personal benefits, both functional and emotional, to the millions of consumers who choose them.

For example, the new Flora/Becel pro.activ Blood Pressure range enriched with potassium offers a simple way to help manage blood pressure. Potassium helps maintain a healthy blood pressure eliminating excess sodium in the body. A healthy blood pressure is important for maintaining a healthy heart.

Another example of personal vitality is Hellmann's Light mayonnaise, which is rapidly becoming a consumer favourite around the world. In 2008, the brand launched its new Light and Extra Light formulations which incorporate Unilever's patented citrus fibre technology. This technology gives Hellmann's Light and Extra Light variants a smooth and creamy taste almost indistinguishable from the full fat variant, but with 60% to 90% less oil.

One of our key challenges is to ensure we make a positive impact on the world while continuing to grow sales. Our oral care team launched the next phase of Unilever's Night Brushing Campaign. This aims to reinforce the day and night brushing habit among four- to eight-year-old children and their parents. Brushing teeth twice daily leads to dramatic oral health improvements as well as increased toothpaste consumption.

#### **More social value**

We believe our brands can be a powerful means of improving the lives of large numbers of people, by championing social causes or prompting widespread changes in behaviour and attitudes.

For example, by the end of 2008, the Dove Self-Esteem Fund campaign had reached over 3.5 million young women around the globe, helping to improve their self-confidence by challenging conventional definitions of beauty. Such activities help build a strong connection with our consumers while underpinning the brand's successful advertising campaigns.

The Vaseline Skin Fund campaign aims to give at least three million people better access to information about managing a range of skin conditions such as eczema and ectodermal dysplasia. It was launched in the UK and the US in 2008, with more countries to follow in the coming years.

Meanwhile, Lipton continued its journey towards sourcing all the tea for its tea bags from Rainforest Alliance Certified farms, a goal the brand aims to achieve by 2015. In 2008, eight independent tea estates in South India became the latest of Unilever's suppliers to achieve Rainforest Alliance Certified status by reducing waste and pesticide use, conserving soil quality, protecting wildlife, and paying employees a fair wage. The benefits are being felt by thousands of employees and their families, to whom the estates provide free healthcare, housing, childcare and education.

And our Blue Band/Rama brand continued to raise funds as part of our three-year partnership with the World Food Programme (WFP). This partnership helped the WFP school feeding scheme provide 76 000 children in Indonesia, Pakistan, the Philippines, Colombia, Kenya and Ghana with a nutritious daily school meal throughout the year.

#### **Less environmental impact**

We aim to grow our business in a sustainable and environmentally responsible way through focusing on cutting water consumption and waste, reducing our carbon footprint and obtaining more raw materials from sustainable sources.

Our Small & Mighty concentrated liquid detergent is a shining example: it fits into a much smaller bottle, requiring half the packaging, water and lorries to transport it. First launched in the US, Small & Mighty is now available across Europe and has proved a huge hit with consumers.

Meanwhile, Rexona offers one of the most environmentally friendly 50ml roll-on deodorants available. This was due to new manufacturing and packaging processes that underscore how our R&D expertise in responsible packaging can lead to both environmental and business benefits (see page 17).



## Report of the Directors

Vitality through our customers and suppliers

We work hard to build strong, lasting relationships with our customers and suppliers around the world – essential in today's competitive marketplace.

### **Winning with customers**

We are always looking for new ways to work with customers to bring Vitality to Life in their stores. We do this through activities that help consumers better understand our brands' health, environmental and ethical benefits. For example, Unilever is participating in four of Wal-Mart's 13 sustainability networks which aim to bring its suppliers together to share best practice. Unilever is taking the lead in water by developing a reliable way to measure how efficiently its suppliers are using water in growing crops. Unilever ran an irrigation study among Californian tomato growers, the results of which will contribute to a sustainability scorecard for Wal-Mart suppliers.

In a further example of close co-operation with the Wal-Mart Group, in summer 2008 we set up sustainability kitchens at ASDA superstores around the UK. The objective was to encourage shoppers to make environmentally friendly changes (such as washing laundry at 30°C) that could also save them money. As part of this activity, ASDA ran a promotion on selected Unilever brands with strong Vitality credentials, such as Hellmann's, Persil and PG tips, resulting in a significant sales increase during the period.

### **Closer collaboration with suppliers**

Unilever's vitality commitment requires us constantly to make our food products healthier – for example by reducing salt, sugar and fat – without compromising on taste.

To speed up and improve flavour development for our food innovations, we created the Flavour Operating Framework (FLOF). This initiative provides a globally consistent way for our supply chain and R&D specialists to collaborate with three external suppliers – Flavour Houses – which compete to deliver new ingredients and technologies. FLOF has already supplied us with a number of solutions, for example to maintain the taste of Lipton ready-to-drink tea while reducing sugar content, and helping Knorr keep products flavours the same while cutting salt levels.

## Vitality through our people

Nothing embodies our business as much as our employees. We grow as a company by growing our people and are committed to their personal vitality.

Unilever is shaped and led by its people who operate within a framework of shared values and business goals. To attract and retain the best people, we aim to create an environment in which all employees can fulfil their potential. Personal vitality is integral to our vitality agenda. It is brought to life through many wide-ranging initiatives that promote the wellbeing of our employees.

### **Putting safety first**

We regard safety as an essential element of a successful and sustainable business and are committed to providing a safe workplace. We aim to improve continuously the health, safety and wellbeing of everyone working for or on behalf of Unilever. A key measure of our progress in this area is our total recordable accident frequency rate, which counts all workplace accidents except those requiring only simple first aid treatment. In 2008 the rate was 0.21 accidents per 100 000 hours worked, a decrease of 19% since 2007\*.

### **Feed the world**

Anne-Roos Carter, Field Sales Support Manager, Benelux, was one of ten Unilever managers to take a secondment to the World Food Programme (WFP) in 2008. She spent three months in Indonesia, working on the WFP's school feeding project, which aims to ensure pupils get at least one nutritious meal a day. Now in its second year, the employee secondment programme enables Unilever people to contribute their skills in placements lasting up to six months in Africa, Asia and South America. Participants get a life-changing opportunity to help fight child hunger while at the same time gaining valuable first-hand experience of living and working in developing and emerging markets.

### **Vital statistics**

We introduced a creative way to boost the energy and enthusiasm of people working in our offices around the world. In a joint move by our Occupational Health and Organisation Effectiveness departments, employees in 21 locations completed a survey to measure a range of factors that influence their vitality. The findings were passed to local managers who then tackled priority areas. For example, in Mexico, where it is usual to take an early breakfast and a late lunch, the company Board at the Boscas office observed that people often resort to unhealthy mid-morning snacks. As an alternative, they introduced healthy snacks stations, offering fresh water, soya drinks, fruit and nuts.

### **Continued focus on gender**

Our Global Diversity Board, led by the Chief Executive Officer, made steady progress in driving the diversity agenda throughout the business. Key milestones have been reached with critical appointments in senior roles including Geneviève Berger becoming Chief R&D Officer and joining the Unilever Executive (UEX) in July 2008. Enabling mechanisms include an expanded mentoring programme, new ways of working that promote life balance and fostering grassroots involvement through the Unilever Women's International Network (UWIN). Initiatives such as the One More programme focus on diversity in teams, where every team leader is responsible for increasing diversity through each new appointment. For the top 100 teams, this means looking for the opportunity to increase diversity in gender and/or nationality in every appointment they make.

### **Talent powerhouse in Argentina**

Unilever Argentina cemented its reputation as employer of choice with a hat-trick of industry awards. For the fourth consecutive year, it was voted Best Employer by leading business magazine Apertura, which also ranked it first as the company of dreams for students. The business also received the Carlos Pellegrini Award for best employer, presented by the National Industrial Association and the Argentine government. Unilever Argentina's reputation is largely thanks to a strategy which includes building long-term relationships with universities to share information about promising candidates and developing innovative recruitment processes to differentiate it from other trainee programmes. This strong position has helped Argentina become an important talent source for Unilever globally; currently over 80 employees from Argentina are on assignment overseas and many others occupy regional or global roles.

\* 2008 data is preliminary. It will be independently assured and reported in our online Sustainable Development Report 2008 at [www.unilever.com/sustainability](http://www.unilever.com/sustainability)

## Report of the Directors

### Making a difference in society

#### Improving nutrition and hygiene lies at the heart of our vitality agenda.

##### **Nutrition helping make the healthy choice**

Increasingly it is recognised that diet along with regular physical activity plays a major role in maintaining good health.

By developing brands that help consumers to enjoy a healthy diet we can sustain our business growth and help address the challenge of obesity and diet-related diseases. Our marketing can also encourage consumers to adopt healthier lifestyles.

We are improving the nutritional quality of our existing product portfolio.

In 2005 we began to assess our entire brand portfolio via our Nutrition Enhancement Programme. By the end of 2008 this showed that 43% of our products are in line with internationally accepted guidelines for saturated and trans fat, sugar and salt. We continue to keep more than 22 000 products under regular review.

Innovation is bringing new products that offer specific health and nutritional benefits.

In our R&D pipeline, around three quarters of food products have what we call vitality benefits specific nutritional or health benefits. Examples include our Moo/Milk Time range of ices made with milk, which provide around a third of the recommended daily intake of calcium, and Flora/Becel pro.activ Blood Pressure spreads and fruity shots developed to help manage blood pressure.

To increase consumer choice, we provide variants of many brands, with full and low fat, sweetened and unsweetened options, and different portion sizes.

Through on-pack labelling, we help consumers to make the right choices. We provide consumers with essential information, showing levels of key nutrients and guideline daily amounts. In addition, the Choices stamp helps consumers identify healthier choices. Our Food and Beverage Marketing Principles ensure a responsible approach worldwide.

In countries where there is malnutrition, Unilever brands can make an important contribution to people's diets. Our Blue Band/Rama spread are a good source of vitamins A, D and E. Amaze snacks have been developed to contain a third of the key nutrients children need daily for their mental development. Annapurna iodised salt helps prevent diseases caused by iodine deficiency.

##### **Spreading the word**

We believe Unilever can play an important role in promoting healthy food choices. For example, eating margarine and mayonnaise is a simple, tasty way to consume essential fats and fat-soluble vitamins yet many consumers see these products as unhealthy. During the year, we continued to rollout our Goodness of Margarine campaign to 12 countries to give consumers a more informed view of our products contribution to public health. For mayonnaise, we continued our global communication that Hellmann's mayonnaise is made with real, simple ingredients and is naturally rich in omega-3. Consumers responded well, with both margarine and mayonnaise showing strong growth in 2008.





### **Hygiene changing habits, helping save lives**

Globally, a lack of basic hygiene causes a wide range of illnesses. Incorporating simple habits into everyday routines such as washing hands with soap prevents life-threatening diseases, particularly diarrhoea and respiratory infections. And brushing teeth day and night can significantly contribute to the prevention of gum disease and infection.

Making good quality products such as soap and toothpaste affordable and widely available to consumers is a crucial starting point, but products alone are often not enough if people do not change their habits.

So Unilever's health and hygiene programmes harness the power of our marketing to change behaviour. By working with partners in government and non-government organisations we can extend our impact further.

In 2008 the Lifebuoy brand, together with the United Nations and other partners, launched the first ever Global Handwashing Day. Lifebuoy brand teams in 23 countries helped raise awareness about how handwashing with soap can help prevent diseases.

In India, the Lifebuoy hygiene education programme, Swasthya Chetna, has reached nearly 51 000 villages and made a difference to the lives of 120 million people in rural areas since 2002. Similar programmes in Bangladesh, Pakistan, Sri Lanka, South Africa, Vietnam and Indonesia reached a further 13 million.

Another common affliction is oral disease. Around the world, over 1 billion people do not brush their teeth with a fluoridated toothpaste at all, while over 2 billion do not brush twice a day. Here too, changing everyday habits is critical.

Our Signal, Pepsodent and Close Up brands are making a real difference. In 2008 we extended our long-standing partnership with the FDI World Dental Federation. It now covers 40 countries. The partnership is focusing on encouraging children and their families to brush day and night with fluoride toothpaste as this has the greatest impact on improving oral health around the world.

## Report of the Directors

### Working towards sustainability

Unilever depends on the natural environment for supplies of raw materials and water. Sustainability is a business issue.

Over two thirds of our raw materials come from agriculture. Changing weather patterns, water scarcity and unsustainable farming practices threaten the long-term viability of agricultural production. Packaging depends on supplies of paper and other materials. Water is essential for consumers when using many of our brands.

For more than a decade we have been working to reduce the environmental impact of our own operations. Now we are going further to look at indirect impacts, encompassing suppliers and consumers where possible. In 2008 we piloted a way to measure our product categories against four indicators covering water, waste, sustainable sourcing and greenhouse gas emissions. This data will inform future development and innovation across our categories.

### Sourcing sustainably

Unilever buys approximately 12% of the world's black tea, 7% of the world's tomatoes and 4% of its palm oil. We have developed detailed guidelines on what sustainable agriculture means for key crops, covering issues such as reducing pesticide use, conserving water and using less energy.

In 2007 we announced our commitment to source all our tea from certified sustainable sources. About half the Lipton Yellow Label and PG tips we sell in Western Europe is now grown on Rainforest Alliance Certified farms. This commitment was instrumental in winning a contract to supply tea for McDonald's in several European countries. Hellmann's mayonnaise is committed to sourcing cage free eggs for all products sold in Western Europe by 2010. Most of the world's oil palm is grown in SE Asia where the clearance and burning of forests contributes to global warming. Worldwide, deforestation releases nearly 20% of the world's greenhouse gases. Working with Greenpeace, we have built a global coalition of companies, banks and NGOs to break the link between deforestation and the cultivation of oil palm. In 2008, we announced our intention to have all our palm oil certified as sustainable by 2015.

### Addressing climate change

Changes in climatic conditions threaten the stability of the markets where we operate, as well as our agricultural supply chain. Developing countries, where we are growing strongly, are especially vulnerable to the effects of climate change.

We are committed to reducing carbon dioxide emissions from energy in our manufacturing operations by 25% by 2012 (measured by tonne of production against a baseline of 2004).

Since 1995 we have achieved a 39% reduction in CO<sub>2</sub> from energy per tonne of production. In 2008 we reduced our CO<sub>2</sub> emissions by 1.6% per tonne of production compared to 2007.

In fact most CO<sub>2</sub> emissions associated with our brands occur during consumer use since many of our products require energy to heat water for cooking and washing. Through the design and formulation of our products, we can make a difference. For example, by developing concentrated detergents that use fewer raw materials and less packaging, that are less energy intensive to manufacture, and that are effective at lower wash temperatures.

### Conserving water

Our brands rely on water at each stage of their life cycle – upstream in the supply chain, in our own manufacturing operations and in the hands of consumers.

Since 1995 we have reduced the amount of water we use per tonne of production by 63% by minimising water use and maximising water recycling. During 2008 we achieved a 3% reduction in water use compared to 2007 from 3.05m<sup>3</sup> to 2.96m<sup>3</sup> per tonne of production.\*

The most direct impact we can have on water conservation is by designing products that use less. Surf Excel Quick Wash laundry detergent, for example, saves two buckets of water per wash for consumers in India – a real benefit when water is scarce and costly. In 2008 sales increased by 20%. One Rinse Comfort fabric conditioner eliminates the need to rinse clothes before applying the conditioner.

\* Measured by tonne of production.  
2008 data is preliminary. It will

be independently assured and  
reported in our online Sustainable  
Development Report 2008 at  
[www.unilever.com/sustainability](http://www.unilever.com/sustainability)

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### **Reducing packaging and waste**

Packaging is essential to protect our brands, maintain hygiene and present them attractively to consumers. The more we reduce the impacts of our packaging, the greater the potential saving in materials, energy, transport and disposal costs for customers and consumers.

We have also been minimising waste from manufacturing as part of our eco-efficiency programme for more than a decade. Since 1995 we have cut total waste sent for disposal by 68% per tonne of production. During 2008 we saw an increase of 4.3% in total waste compared to 2007. This increase from 7.56kg/tonne to 7.89 kg/tonne has been driven by three factors: legislative changes which require different methods of disposal for non-hazardous waste; under-capacity in effluent treatment; and the planned disposal of accumulated and inherited hazardous waste.\*

### **Lighter, stronger, greener**

Unilever experts apply their skills to reducing our brands' impact on the environment, as well as making them perform better. Our Rexona 50ml roll-on deodorant is one of the most environmentally friendly on the market, thanks to a radical rethink of its design and manufacture. The moulding, assembly and packaging processes were streamlined and energy efficiency improved, with the resulting roll-on weighing on average 8% less and using 1 000 tonnes less plastic per year than previously. The time needed to make the cap was cut by 34% and the time to make the bottle was reduced by 8%, leading to significant energy savings. Rexona deodorants continued to do well, as sales grew rapidly in 2008.

[www.unilever.com/rexona](http://www.unilever.com/rexona)

Report of the Directors  
Board of Directors

**Chairman**

[Michael Treschow<sup>1,2</sup>](#)

Nationality: Swedish. Aged 65.

Chairman since May 2007. Chairman, Telefonaktiebolaget L M Ericsson. Non-Executive Director, ABB Group. Board member, Knut and Alice Wallenberg Foundation, Member of the European Advisory Board, Eli Lilly and Company. Chairman, AB Electrolux 1997-2007 and Confederation of Swedish Enterprise 2004-2007.

**Vice-Chairman**

[The Lord Simon of Highbury CBE<sup>3,4,5</sup>](#)

Nationality: British. Aged 69.

Appointed 2000. Non-Executive Director, Suez Group. Director, CEPS, Belgium. Member of the International Advisory Council, FITCH, France. Member of the International Advisory Board, Dana Gas Corporation. Member, Advisory Board, Montrose Associates Limited. Senior Advisor, Morgan Stanley International. UK Government Minister 1997-1999. Group Chief Executive, BP p.l.c. 1992-1995 and Chairman 1995-1997.

**Executive Directors**

[Paul Polman](#)

**Chief Executive Officer**

Nationality: Dutch. Aged 52.

Chief Executive Officer since January 2009. Appointed Director October 2008. President, Kilimanjaro Blindtrust. Patron, Leaders for Nature, an International Union for Conservation of Nature (IUCN) initiative. Various positions within Procter & Gamble Co. 1979-2001, Group President Europe and Officer, Procter & Gamble Co. 2001-2006. Chief Financial Officer, Nestlé S.A. 2006-2008. Executive Vice President and Zone Director for the Americas 2008.

[James Lawrence](#)

**Chief Financial Officer**

Nationality: American. Aged 56.

Appointed Director May 2008. Appointed Chief Financial Officer September 2007. Non-Executive Director, British Airways Plc. Various senior positions at General Mills, Inc. 1998-2007, including Vice Chairman 2006-2007, Executive Vice President-International 2000-2006 and Chief Financial Officer 1998-2007. Executive Vice President and CFO, Northwest Airlines 1996-1998, President and CEO, Pepsi-Cola International (Asia, Middle East, Africa) 1992-1996, and Chairman, LEK Partnership 1983-1992. Non-Executive Director, Avnet Inc. 1999-2008.

**Non-Executive Directors**

[The Rt Hon The Lord Brittan of Spennithorne QC, DL<sup>6</sup>](#)

Nationality: British. Aged 69.

Appointed 2000. Vice-Chairman, UBS Investment Bank and Chairman, UBS Limited. Director, UBS Securities Company Limited. Member, International Advisory Committee of Total. Member, European Commission and Vice-President 1989-1999. Member, UK Government 1979-1986. Home Secretary 1983-1985 and Secretary of State for Trade and Industry 1985-1986.

[Professor Wim Dik<sup>7</sup>](#)

Nationality: Dutch. Aged 70.

Appointed 2001. Professor at Delft University of Technology. Chairman, Supervisory Board of Zesko Holding B.V. and Chairman, Advisory Board of Spencer Stuart Netherlands. Non-Executive Director, Aviva plc, Logica plc and Stage Entertainment B.V. Chairman and CEO, Koninklijke PTT Nederland (KPN) 1988-1998 and Koninklijke KPN N.V. (Royal Dutch Telecom) 1998-2000. Minister for Foreign Trade, Netherlands 1981-1982.



**Left to right:**

Michael Treschow

The Lord Simon of Highbury

Paul Polman

James Lawrence

The Rt Hon The Lord Brittan of Spennithorne

Professor Wim Dik

Charles Golden

Byron Grote

Narayana Murthy

Hixonia Nyasulu

Kees Storm

Jeroen van der Veer

Charles Golden<sup>7</sup>

Nationality: American. Aged 62.

Appointed 2006. Non-Executive Director, Clarian Health Partners, Hill-Rom Holdings, Eaton Corporation and Lilly Endowment, Inc. Member of Finance Committee, Indianapolis Museum of Art. Executive Vice-President, Chief Financial Officer and Director, Eli Lilly and Company 1996-2006.

Byron Grote<sup>7</sup>

Nationality: American/British. Aged 60.

Appointed 2006. Chief Financial Officer, BP p.l.c.

Narayana Murthy<sup>8</sup>

Nationality: Indian. Aged 62.

Appointed 2007. Chairman, Asia Business Council, International Institute of Information Technology and Infosys Technologies Limited. Director, Infosys Consulting, Inc., Infosys Technologies (China) Company Limited, New Delhi Television Ltd. Non-Executive Director, HSBC Holdings plc.

Hixonia Nyasulu<sup>8</sup>

Nationality: South African. Aged 54.

Appointed 2007. Chairman, Sasol Ltd. Non-Executive Director, Barloworld Ltd and Tongaat-Hulett Group Ltd. Member, Advisory Board of JP Morgan SA. Director, Paton Tupper Associates (Pty) Ltd.

Kees Storm<sup>9</sup>

Nationality: Dutch. Aged 66.

Appointed 2006. Chairman, Supervisory Board and Member of the Audit Committee, KLM Royal Dutch Airlines N.V. Member, Supervisory Board, AEGON N.V. Board member and Chairman of Audit Committee, Anheuser-Busch InBev S.A. Board member and member of the Audit Committee, Baxter International, Inc. Vice-Chairman, Supervisory Board, Pon Holdings B.V. Chairman, Executive Board, AEGON N.V. 1993-2002.

Jeroen van der Veer<sup>1,2</sup>

Nationality: Dutch. Aged 61.

Appointed 2002. Chief Executive Royal Dutch Shell plc. Member, Supervisory Board of De Nederlandsche Bank N.V. 2000-2004.





Report of the Directors  
About Unilever

### Our business and our strategy

Unilever is one of the world's leading suppliers of fast moving consumer goods. We aim to add Vitality to Life through meeting everyday consumer needs for nutrition, hygiene and personal care with products that help people to feel good, look good and get more out of life. Unilever is a global business which achieves close to half of its turnover in developing and emerging markets in Asia, Africa, Central & Eastern Europe and Latin America. Unilever's portfolio includes such well-known brands as Knorr, Lipton, Hellmann's, Magnum, Omo, Dove, Lux and Axe/Lynx.

In 2008 we continued to focus on investing resources in markets that are attractive and where we have competitive advantage, notably Vitality (which we discuss in more detail on pages 9 to 17), Developing and Emerging (D&E) markets and personal care. These higher growth areas have offered excellent opportunities for us to develop our business performance and deliver more shareholder value. At the same time, we continue to seek to enhance our profitability and productivity through our transformation agenda, the key features of which are the simplification of our structure under the One Unilever programme, the strengthening of our brand portfolio through acquisitions and disposals, and the rationalisation of our supply chain.

Our long-term ambition is to be in the top third of a group of 21 fast moving consumer goods companies in terms of total shareholder return on a three-year basis. A list of companies included in our peer group is set out on page 43.

### Key indicators performance and portfolio

We have defined the following five key financial performance indicators for our business:

	<b>2008</b>	2007	2006
Underlying sales growth (%)	<b>7.4</b>	5.5	3.8
Operating margin (%)	<b>17.7</b>	13.1	13.6
Ungeared free cash flow ( billion)	<b>3.2</b>	3.8	4.2
Return on invested capital (%)	<b>15.7</b>	12.7	14.6
Total shareholder return (ranking)	<b>9</b>	8	13

Underlying sales growth (USG) is defined as the percentage increase in turnover, adjusted for the impact of acquisitions and disposals and exchange rate fluctuations. In 2008, underlying sales growth increased from 5.5% to 7.4%, driven by pricing action in response to unprecedented increases in commodity costs.

Operating margin for 2008 improved from 13.1% to 17.7%, boosted by the net impact of profits on disposals, restructuring charges and other one-off items. Before these items the underlying improvement in operating margin in 2008 was 0.1 percentage points.

Ungeared free cash flow (UFCF) is defined as the cash flow from operating activities less net capital expenditure, pension charges, share-based compensation costs and tax. A more comprehensive definition is given on page 41. In 2008, UFCF was 3.2 billion,

which was 0.6 billion lower than a year earlier, with the underlying growth in operating profit being offset by business disposals and adverse currency movements. It also reflected higher restructuring costs, additional investment in capital expenditure and higher tax rates. It included a working capital increase of only 0.2 billion, which we see as a good achievement in the light of the unprecedented commodity cost increases and related pricing actions.

Return on invested capital (ROIC) is defined as profit after tax (excluding finance and net impairment charges) divided by the average invested capital. A more comprehensive definition is given on page 42. In 2008, ROIC was 15.7%, boosted from 12.7% in 2007 by profits on business disposals. Excluding profits on disposals, ROIC was

11.2%, broadly in line with 2007 on a comparable basis.

Within our peer group of 21 companies, our relative Total Shareholder Return over a three-year period was 9th in 2008. This measure forms part of the basis for the long-term remuneration of top management.

Underlying sales growth, ungeared free cash flow and return on invested capital are not recognised measures under IFRS. The IFRS measure most comparable with USG is turnover. In our Financial Review on page 43 we reconcile USG with changes in turnover. There is no IFRS measure directly comparable with either UFCF or ROIC. In our Financial Review on pages 41 and 42 we reconcile ROIC to net profit, and UFCF to both net profit and cash flow from operations. The values of turnover, net profit and cash flow from operating activities for the last three reporting years are as follows:

	<b>million 2008</b>	million 2007	million 2006
Turnover	<b>40 523</b>	40 187	39 642
Net profit	<b>5 285</b>	4 136	5 015
Cash flow from operating activities	<b>5 326</b>	5 188	5 574

Further information about these measures, including definitions and, where appropriate, reconciliation to GAAP measures, can be found in our Financial Review starting on page 40.

In addition to these financial indicators, we track other measures in support of our strategic goals. We believe that the share of our business that is generated in Developing and Emerging (D&E) markets, and the proportion of our turnover that is generated by our top 25 brands are particularly relevant. For the latter measure we group together brands that have common consumer profiles and are supported by common innovation programmes, although in some cases the brand names may vary between countries. The results for these measures for the last three reporting years are as follows:

	<b>2008</b>	2007	2006
Share of turnover in D&E markets (%)	<b>47</b>	44	42
Share of turnover in top 25 brands (%)	<b>73</b>	73	73

Report of the Directors  
About Unilever continued

Our definition of D&E markets includes all countries in Latin America, Central & Eastern Europe, Africa and Asia, except Japan, Korea, Australia and New Zealand. In 2008, the turnover in these markets represented 47% of the turnover of the Group. Our D&E strategy aims to increase the penetration and consumption of our categories with D&E consumers at all income levels and to trade consumers up to higher added value products as needs change with rising incomes. We have an outstanding geographic footprint in D&E markets. Our focus is to maintain and develop our leading category and brand positions in our D&E strongholds, such as Brazil, India, South Africa and Indonesia, whilst simultaneously investing aggressively for growth to build up new brand and category positions in countries that present important new growth opportunities, notably China and Russia.

In the last decade we have strengthened our brand portfolio, with the top 25 brands now collectively contributing 73% of our global turnover. We now have 13 brands with a turnover of 1 billion or more, as the Axe/Lynx men's care brand surpassed this milestone in 2008.

We also monitor the development of our brands through independent market information that gives us insights into our leading positions versus our direct competitors. In our section on Operating environment on page 22 we indicate the product areas in which we have leading or key strategic positions.

#### Key indicators people and sustainability

Unilever has for many years recognised the significance of social and environmental issues as a critical dimension of its operations, and has established many indicators to track its performance in these areas.

We regard safety as an essential element of a successful and sustainable business and take seriously our responsibility to provide a safe workplace. We aim to improve continuously the health, safety and well-being of everyone working for or on behalf of Unilever. A key measure of our progress in this area is our total recordable accident frequency rate, which counts all workplace accidents except those requiring only simple first aid treatment. For details please refer to page 13.

We are committed to meeting the needs of customers and consumers in an environmentally sound and sustainable manner, through continuous improvement in environmental performance in all our activities. We exercise the same concern for the environment wherever we operate and aim to reduce the environmental footprint of our business and brands.

The environmental measures that we regard as the most significant in relation to our business are those relating to the amounts of CO<sub>2</sub> from energy that we produce, the water that we consume as part of our production processes, and the amount of waste that we generate. For further details please refer to page 16.

The table below shows the results for the last three years.

	2008	2007	2006
Total recordable accident frequency rate per 100 000 hours	<b>0.21</b>	0.26	0.33
CO <sub>2</sub> from energy per tonne of production (kg)	<b>146.77</b>	149.18	164.59
Water per tonne of production (m <sup>3</sup> )	<b>2.96</b>	3.05	3.29
Total waste per tonne of production (kg)	<b>7.89</b>	7.56	7.46

Data for 2008 is preliminary. It will be independently assured and reported in our online Sustainable Development Report 2008 at [www.unilever.com/sustainability](http://www.unilever.com/sustainability) For previous years, the data has been assured. The type of assurance undertaken has been limited to enquiries of company personnel and analytical procedures together with review on a sample basis of the operation of processes relating to performance data noted in the table above. Assurance of this

nature is substantially less in scope than a financial audit and does not include detailed sample testing of source data, processes or internal controls. None of the assurance services in this area is provided by Unilever's external financial auditors.

On pages 9 to 11 of this report we give examples of the ways in which our brands are addressing consumers' social and environmental concerns. A comprehensive review of Unilever's social and environmental performance can be found in our annual Sustainable Development Report, available online at [www.unilever.com/sustainability](http://www.unilever.com/sustainability). Our online Report will contain updated and independently assured results for 2008 for the measures above, as well as trend information that demonstrates our performance over the longer term.

Ten-year trends in many of the measures described above, together with a range of other indicators, are included in the document entitled 'Unilever Charts' which can be found on our website at [www.unilever.com/investorrelations/annual\\_reports](http://www.unilever.com/investorrelations/annual_reports)

### **Organisation**

Unilever's organisation comprises regions, categories and functions.

During 2008, we reorganised the management of our regions so that our operations in Central & Eastern Europe were managed together with those in Asia and Africa, whereas they had previously been managed with those in Western Europe. This change reflects our strategic focus on the developing world and the fact that these markets share many common characteristics. Our regions have profit responsibility for the local go-to-market operations in their geographic territory. The focus is primarily to build and develop relationships with customers, to develop the regional supply chain to deliver customer service and asset productivity, and to deploy brands and innovations effectively, focused on excellent execution in the market place. The performance of the regions is measured in terms of in-year financial results, customer service levels and market positions.

Report of the Directors  
About Unilever continued

In 2008, we combined all global categories and brands across nutrition, hygiene and personal care into one global category organisation. The global category team aims to develop winning category and brand strategies, to create exciting new brand communication, product innovation and renovation, and to provide strategic direction for the supply chain. The category team is responsible for medium-term value creation, considering items such as market share, category growth, brand health and innovation.

Our functional teams, notably Finance and Human Resources, are responsible for providing business partnering, strategic support and competitive services across the global business. These functions are organised around the same principles of business partners, shared services and expertise teams.

The top management team, called the Unilever Executive (UEX), consists of the CEO with seven direct reports, including three regional Presidents for Western Europe, the Americas and Asia Africa CEE, one global President for the global categories, and three functional heads namely the CFO, Chief HR Officer and Chief R&D Officer.

During 2008, Paul Polman was appointed CEO, replacing Patrick Cescau with effect from 1 January 2009, and Geneviève Berger joined the UEX team as Chief R&D Officer, having previously been a Non-Executive Director.

### **Operating environment**

In our markets, we are competing with a diverse set of competitors. Some of these competitors operate on an international scale like ourselves, while others have a more regional or local focus.

We aim to focus on providing consumers with added-value products that bring Vitality to Life, in several important ways:

- creating and nurturing attractive brands that are trusted and preferred by consumers and which seek to address consumer needs and aspirations better than other brands;

- developing and rolling out new and better products and concepts across our regions and product categories, supported by innovative communication campaigns; and

- optimising and improving the productivity and efficiency of our cost and asset base whilst ensuring a consistent high quality of our products.

Around 70% of our turnover is in countries and categories where we have a leadership position, as measured by the value of turnover. We hold the global number 1 position in savoury, spreads, dressings, tea, ice cream, deodorants and mass skin care. We hold the global number 2 position in laundry detergents and daily hair care. We have strong local positions in household care and oral care.

Unilever's products are generally sold through our own sales force as well as through independent brokers, agents and distributors to chain, wholesale, co-operative and independent grocery accounts, food service distributors and institutions. Products are physically distributed through a network of distribution centres, satellite warehouses, company-operated and public storage facilities, depots and other facilities.

Our products are sold in over 150 countries around the world. In many countries we manufacture the products that we sell, while we also export products to countries where we do not have manufacturing operations. The manufacturing network is generally determined by an optimised regional sourcing strategy which takes account of requirements for innovation, quality, service, cost and flexibility. Certain of our businesses, such as ice cream, are subject to significant seasonal fluctuations in sales. However, Unilever operates globally in many different markets and product categories, and no individual element of seasonality is likely to be material to the results of the Group as a whole.

Our products use a wide variety of raw and packaging materials which we source internationally, and which may be subject to price volatility. In 2008 we saw unprecedented price increases in many of our materials, notably in edible oils, which are used in many food products as well as some personal care products, and of crude oil, which is relevant to our transport costs but also used as an input for certain petrochemicals and packaging materials.

Transactions with related parties are conducted in accordance with agreed transfer pricing policies and include sales to joint ventures and associates. Other than those disclosed in this report, there were no related party transactions that

were material to the Group or to the related parties concerned that are required to be reported in 2008 or the two preceding years.

For more information about related party transactions please refer also to note 30 on page 135.

## **Resources**

### **Our brands**

We have a strong and well differentiated portfolio of global and local brands, which are positioned to meet the needs and aspirations of our consumers across a variety of price points, segments and channels, allowing us to compete effectively in our key categories and countries.

In 2008 thirteen of our brands had global turnover of 1 billion or more. These were Knorr, Hellmann's, Lipton, Becel/Flora (Healthy Heart), Rama/Blue Band (Family Goodness), Wall's/Algida (Heartbrand), Omo, Surf, Dove, Lux, Rexona (including Sure and Degree), Axe/Lynx and Sunsilk (including Seda and Sedal).

We manage our brands under the following four category headings: savoury, dressings and spreads; ice cream and beverages; personal care; and home care.

Report of the Directors  
About Unilever continued

**Savoury, dressings and spreads** includes soups, bouillons, sauces, snacks, mayonnaise, salad dressings, margarines, spreads and cooking products such as liquid margarines, and some frozen foods. Our key brands here are Knorr, Hellmann's, Becel/Flora (Healthy Heart), Rama/Blue Band (Family Goodness), Calvé, WishBone, Amora, Ragú and Bertolli.

**Ice cream and beverages** includes ice cream sold under the international Heartbrand, including Cornetto, Magnum, Carte d'Or and Solero, Wall's, Kibon, Algida and Ola. Our portfolio also includes Ben & Jerry's, Breyers, Klondike and Popsicle. This category also includes tea-based beverages, where our principal brands are Lipton, Brooke Bond and PG tips, as well as weight management products, principally Slim•Fast, and nutritionally enhanced products sold in developing markets, including Annapurna and AdeS.

Within these groups, we also include sales of Unilever Foodsolutions, which is a global food service business providing solutions for professional chefs and caterers.

In **personal care**, six global brands are the core of our business in the mass skin care, daily hair care and deodorants product areas – Dove, Lux, Rexona (including Sure and Degree), Sunsilk (including Seda/Sedal), Axe/Lynx and Pond's. Other important brands include Suave, Clear, Lifebuoy and Vaseline, together with Signal and Close Up in oral care. Our **home care** ranges include laundry products, such as tablets, traditional powders and liquids for washing clothing by hand or machine. Tailored products including soap bars are available for lower-income consumers. Our brands include Omo (Dirt is Good platform), Surf, Comfort, Radiant and Skip. Our household care products include surface cleaners and bleach, sold under the Cif, Domestos and Sun/Sunlight brands.

Please refer also to pages 9 to 11 where we give many examples of the ways in which our brand portfolio is being actively managed in support of our Vitality agenda.

**Our employees**

We believe in providing an environment where individuals can achieve their goals, both professionally and personally. In order to attract and retain the best people, we recognise the need to offer them ways to take advantage of opportunities, room to succeed and grow, and more directions in which to pursue their careers.

Our success depends on innovation, so we do everything we can to ensure that the enterprising people we employ have the freedom to act. We give them all the support and encouragement they need. At the same time, we empower them to make tough decisions, implement new ideas and use their initiative. As a result our people have a passion for achievement, strive for outstanding results and are determined to get things done.

We believe in everyone's ability to develop and grow and that life at work should be a continuous learning journey and that we all have an equal right to take advantage of the opportunity to develop ourselves. In our view seizing the opportunity to make a difference is more important than simply progressing up the ladder.

Personal vitality is also something we feel strongly about and we have programmes and activities in place which are designed to help everyone in the business take care of themselves and encourage a better quality of life. By creating a vitalising work experience and environment for our people we help them feel energised and able to perform to the very best of their ability.

We have created an inclusive environment where people can bring their whole self to work; they do not have to change to fit in. We want people to be themselves. This drives a higher level of engagement and, as a direct result, improves all-round performance.

The fact that everyone is unique and has different interests outside of the office has a positive impact on the way we work and on our culture. Understanding other people's perspectives and learning from them adds variety and enriches what we do.

On page 13 we have given some examples of the ways in which we promote vitality in our people and in our ways of working.

Our total employee numbers over the last five years were as follows:

Year end in thousands	2008	2007	2006	2005	2004
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Western Europe	<b>30</b>	34	36	41	44
The Americas	<b>42</b>	43	45	47	47
Asia Africa CEE	<b>102</b>	97	98	118	132
Total	<b>174</b>	174	179	206	223

Numbers for prior years have been restated following the change in our regional organisation during 2008.

### **Diversity**

Diversity in Unilever is about inclusion, embracing differences, creating possibilities and growing together for better business performance. We embrace diversity in our workforce: this means giving full and fair consideration to all applicants and continuing development to all employees regardless of gender, nationality, race, creed, disability, style or sexuality. Diversity plays a vital role in ensuring we understand consumers' needs.

The commitment to diversity is set right at the top of our business. It is driven by the Global Diversity Board, chaired throughout 2008 by former Group Chief Executive Patrick Cescau, who has emphasised that diversity is critical to our business competitiveness and long-term sustainability .

Report of the Directors  
About Unilever continued

Unilever is a very culturally diverse business, with 20 different nationalities represented among our top-level group of 100 managers worldwide.

We have worked to embed diversity firmly into our day-to-day business decisions, via our talent management and people processes, from appointments to development. As part of the Human Resources planning process our business units are required to develop specific diversity plans that are aligned to the priorities and needs of their regions and categories. Progress on implementation of these plans is monitored closely.

We continue to carry out quarterly measurement and tracking of diversity against our objectives, using the HR Strategy in Action tool. Gender diversity remains an important priority.

**Information Technology**

Unilever IT is a global function headed by a Chief Information Officer, reporting to the Chief Financial Officer, with a strategy to deliver simple and competitive IT solutions in a cost-effective way to support the business agenda.

A common technology framework and common standards for architecture, key technologies, process, information and service allow Unilever to simplify its IT operations to better exploit global scale in IT. For example, this common approach facilitates the move towards regional supply chain organisations and the development of regional shared service centres, notably in Finance and Human Resources, which in some cases are outsourced.

The IT function is a key enabler for the One Unilever transformation towards a globally aligned business through:  
strategic alliances and partnerships with global suppliers;

improving IT infrastructure and service levels, whilst reducing costs;

building consistent IT capabilities, processes and databases; and

strategic outsourcing in selected key areas

The implementation of an integrated enterprise-wide information system in each region in support of the One Unilever transformation is firmly on track. The Western Europe region completed its phased implementation, with the last group of countries going live at the end of 2008. The Asia Africa CEE region made good progress as a number of countries were added in a phased implementation towards 2010. The Americas is already fully operational across the region.

Unilever partners with a selected group of leading suppliers to develop and maintain a limited number of complementary IT systems that collectively cover our business needs. This promotes radical simplification, increased flexibility and agility, faster implementation and reduced costs.

**Intellectual property**

We have a large portfolio of patents and trademarks, and we conduct some of our operations under licences that are based on patents or trademarks owned or controlled by others. We are not dependent on any one patent or group of patents. We use all appropriate efforts to protect our brands and technology.

**Property, plant and equipment**

We have interests in properties in most of the countries where there are Unilever operations. However, none is material in the context of the Group as a whole. The properties are used predominantly to house production and distribution activities and as offices. There is a mixture of leased and owned property throughout the Group. There are no environmental issues affecting the properties which would have a material impact upon the Group, and there are no material encumbrances on our properties. Any difference between the market value of properties held by the Group and the amount at which they are included in the balance sheet is not significant. Please refer also to the schedule of principal group companies and non-current investments on page 140 and to details of property, plant and equipment in note 10 on page 99. We believe our existing facilities are satisfactory for our current business and we currently have no plans to construct new facilities or expand or improve our current facilities in a manner that is material to the Group.

### **Laws and regulation**

Unilever businesses are governed by laws and regulations designed to ensure that products may be safely used for their intended purpose and that labelling and advertising are truthful and not misleading. Unilever businesses are further regulated by data protection and anti-trust legislation. Important regulatory bodies in respect of our businesses include the European Commission and the US Food and Drug Administration.

We have processes in place to ensure that products, ingredients, manufacturing processes, marketing materials and activities comply with the above-mentioned laws and regulations.

### **Legal proceedings**

We are involved from time to time in legal and arbitration proceedings arising in the ordinary course of business. However, although the outcome of legal proceedings are inherently difficult to predict, we are not currently involved in any legal or arbitration proceedings which may be expected to lead to material loss or expenditure in the context of the Group results. Similarly we do not have any material obligations under environmental legislation. None of our Directors or Officers is involved in any legal proceedings which are material as aforesaid. For further information on certain legal proceedings please refer to legal proceedings within note 25 on page 126.

Report of the Directors  
Outlook and risks

The following discussion about outlook and risk management activities includes forward-looking statements that involve risk and uncertainties. The actual results could differ materially from those projected. See the Cautionary statement on the inside back cover.

**Outlook**

The progress Unilever has made in recent years is clear and encouraging. We have great brands, an enviable geographic reach and around 70% of our turnover comes from categories in which we have leadership positions. We have an organisation which is able to act more decisively and with greater speed. We are also benefiting from cost reduction programmes which we established well ahead of the onset of the recession and which have much further to run.

The fact remains however that the global economic climate is more difficult than many of us have ever seen. The extent of the downturn, how deep and how prolonged, is difficult to predict.

As 2008 progressed we saw recessionary conditions in most developed markets and a slowdown in D&E markets. Consumer and customer de-stocking exacerbated already weakening demand, and volumes suffered as a result. In these circumstances it is important to focus on the things we can do in the short term to further strengthen our competitive position. So the priority for 2009 will be to re-ignite volume growth whilst protecting margins and the strong cash generating capacity of the business.

We have already announced a series of measures in support of these priorities; and have shortened the time horizon of our variable pay scheme to six months. This will ensure that we quickly align the organisation behind the new priorities.

We no longer wish to target the business to deliver an operating margin in excess of 15% in 2010. This target was set at a very different time and in very different circumstances. We need to ensure that we focus on creating long-term value for our shareholders in today's climate. Hence, the focus will be on volume growth and strengthening the competitive position of our brands.

We believe that the actions we are taking will further strengthen Unilever's competitive position. In time, we have no doubt we will be able to lift the growth profile of the business whilst steadily improving margins each year.

**Principal Risk Factors**

Unilever's system of risk management is outlined on page 28. Responsibility for establishing a coherent framework for the Group to manage risk resides with the Boards. The remit of the Boards is outlined on page 44.

Risks and uncertainties could cause actual results to vary from those described in forward-looking statements made within this document, or could impact on our ability to meet our targets or be detrimental to our profitability or reputation. The risks that we regard as the most relevant to our business are identified below. We have also commented on certain mitigating actions that we believe help us manage such risks; however, we may not be successful in deploying some or all of these mitigating actions.

**Global economic slowdown and changing consumer demand**

The unprecedented economic slowdown and turmoil in the global economy has adversely impacted consumer markets, including those in which Unilever operates. Unilever's business is dependent on continued consumer demand for our products, and reduced consumer wealth may result in our consumers becoming unwilling or unable to purchase our products, with clear implications for turnover and profitability.

Unilever's strategy is aimed at delivering superior value products to consumers, through strong brands, supported by differentiated innovation and continued product improvement, and driven to market through excellent execution. We seek to build mutually rewarding relationships with customers in order to make our products available across all relevant channels.

We have a significant number of global brands and any adverse event affecting consumer confidence or continuity of supply of such a brand could have an adverse impact in many of our markets, or in some cases affect intangible asset values. We support our brands and their growth through compelling and competitive levels of investment in advertising and promotions. The breadth of both our portfolio and our geographic reach also help us mitigate general

economic risks. We aim to protect the value of our brands through a rigorous approach to R&D and product quality, and by operating in accordance with relevant laws and regulations.

These measures are aimed at extending our consumer offerings, reducing the impact of falling consumer demand or of consumers switching to alternative products, and thus allowing us to compete effectively in our key categories and countries.

**Competitive markets and consolidation of customers**

We operate in competitive markets, and the actions of multinational, regional, and local customers or competitors may place our market shares or margins at risk.

Our strategy continues to focus on investing resources in markets and segments that are attractive, where we have competitive advantage, and where we can grow sales and margins competitively. Three priorities have been communicated: to invest in Vitality (expressed as offering consumers products that enable them to look good, feel good, and get more out of life); to grow the proportion of our total business that comes from Developing and Emerging (D&E) markets (currently nearly 50%); and to increase our presence in personal care markets.

Report of the Directors  
Outlook and risks continued

By concentrating our resources on areas where we have leading category and brand positions we seek to strengthen our overall competitive position. We also seek in-fill acquisitions to support our category and geographical ambitions. In the current climate, we also face counterparty risk with customers. The Group establishes limits for key customers, reviews these regularly and takes necessary action to manage this risk.

In respect of our route to market, further consolidation among retailers and the continued growth of discounters could adversely impact our rate of sales growth and our profit margins. Our success depends on our ability to manage successfully our trading relationships with our key customers. We tackle this by developing and adapting our customer-facing strategies and plans, by optimising the return on the investment we make in customers, and by continually improving our customer development capabilities. A specific focus for us at the moment is to improve our level of customer service.

**Financial risks liquidity, currency, interest, pensions, taxation**

Turbulence in the financial markets and the downturn in the economic environment have heightened financial risks. As Unilever operates on a global basis it is affected in a variety of ways by such instability.

Several factors could affect liquidity management. A material and significant shortfall in cash flow could undermine our credit rating, impair investor confidence and hinder our ability to raise funds, whether through access to credit markets, commercial paper programmes, long-term bond issuances or otherwise. During 2008, Unilever benefited from its strong single-A Balance sheet active financial management, and the coming year will see the continuation of the same policy. Maintaining our strong single-A rating will remain a key priority.

To manage financial risks, the Group aims to concentrate cash in the parent and finance companies in order to ensure maximum flexibility in meeting changing economic needs. We finance our operating subsidiaries through a mixture of retained earnings, third-party borrowing and loans from parent and group companies, with the mix determined by what is most appropriate to the country concerned. We seek to manage our liquidity requirements by maintaining access to global debt markets through an infrastructure of short-term and long-term debt programmes. In addition to this, Unilever has committed credit facilities in place to support its commercial paper programmes and for general corporate purpose. We plan on increasing liquidity by reducing the outstanding commercial paper through the issuance of long-term bonds, extending the maturity profile of the remaining commercial paper and through continued active management of our working capital positions.

Because of the breadth of our international operations, we are subject to risks from changes in the relative value of currencies. We intend to continue our policy whereby operating companies manage trading and financial foreign exchange exposures within prescribed exposure limits and the use of forward foreign exchange contracts. On a case-by-case basis, companies may decide whether or not to apply cash flow hedge accounting. Regional groups monitor compliance with this foreign exchange policy.

In addition, as Unilever conducts business in many foreign currencies but publishes its financial statements and measures its performance in euros, it is subject to exchange risks associated with the translation of the underlying net assets of its foreign subsidiaries. We aim to minimise our foreign exchange exposure in operating companies by borrowing in local currencies, except where inhibited by local regulations, lack of local liquidity or local market conditions. For those countries that in the view of management have a substantial retranslation risk, we may decide to hedge such net investment through the use of foreign currency borrowing or forward exchange contracts on which hedge accounting is applied.

Increases in benchmark interest rates could increase the interest cost of our debt and increase the cost of future borrowings. These rates are susceptible to market fluctuations and volatility, and any inability to manage this effectively could impact our cash flows and profits. Our interest rate management policy aims to achieve an optimal balance between fixed and floating rate interest exposures on expected net debt levels for the next five calendar years. The objective of the policy is to minimise annual interest costs and to reduce volatility. We achieve this through a combination of issuing fixed rate long-term debt and by modifying the interest rate exposure of debt and cash positions through the use of interest rate swaps.

In the current climate, we also face significant counterparty risk from banks. The Group regularly reviews these and where necessary tightens counterparty limits and reduces the maturity profile of deposits to provide for maximum flexibility. The Group actively manages its banking exposures on a daily basis.

Certain Unilever businesses have defined benefit pension plans. Falling interest rates and market values of investments coupled with increasing life expectancy could result in the cost of funding these schemes increasing substantially.

Our pension investment policies are such that investments are well diversified, and the failure of any single investment would not have a material impact on the overall level of assets. The plans seek to invest the largest proportion of the assets in equities, which the Group believes offer the best returns over the long term commensurate with an acceptable level of risk. The pension funds also have a proportion of assets invested in property, bonds, hedge funds and cash. The majority of assets are managed by a number of external fund managers, with a small proportion managed in-house. Unilever has a pooled investment vehicle (Uninvest) which it believes offers its pension plans around the world a simplified, externally managed investment vehicle to implement their strategic asset allocation models currently for equities and hedge funds.

In view of the current economic climate and deteriorating government deficit positions, tax legislation in the regions in which we operate may be subject to change, which may have an adverse effect on our profits and on our ability to remit dividends or service fees. We intend to continue with high quality tax compliance and documentation, to execute prudent tax planning strategies and to make proper provision for current and deferred taxation. Deferred tax assets are reviewed regularly for recoverability.

Report of the Directors  
Outlook and risks continued

Further information about these, including sensitivity analysis to changes in certain of the key measures, is given in note 17 on pages 108 and 110 and note 20 on page 115.

**Exposure to Developing and Emerging (D&E) markets**

Unilever has significant international operations, with close to half its business in D&E markets, and whilst its diverse geographical spread helps ensure it is not reliant on a single region or country, it is continually exposed to changing economic, political and social developments outside its control. D&E markets are typically more volatile than those in the developed world, and any broad-based downturn in these markets could reduce our sales and adversely affect our cash flow and profits. In mitigation, Unilever has long experience and understanding of D&E markets and how to manage effectively at times of economic turbulence.

**Input costs, supplier and supply chain reliance**

Manufacturing our products is dependent on obtaining adequate supplies of production materials in a timely and cost effective manner. The prices of these, which are significantly influenced by global economic conditions, can fluctuate and could have an impact on our margins and cash flows. Our management of these fluctuations is important in terms of our overall cost competitiveness and management of margins and cash flows.

We are also dependent on suppliers and global supply chains as a means of producing and supplying our products. As a result of our reliance on these global supply chains, we are exposed to business interruption from natural disasters or catastrophes and through additional risks of changes in local legal and regulatory schemes, labour shortages and disruptions from environmental and industrial incidents.

In the current climate we also face a counterparty risk from our suppliers. Active monitoring of our suppliers and supply chain is in place, and regular supplier counterparty risk analysis is carried out to assess exposure limits. We plan to continue to work closely with our key suppliers in mitigating the impact of the lack of liquidity in the market. We intend to continue to purchase forward contracts for raw materials and commodities as appropriate.

Unilever actively monitors its external environment, reviews and revisits its business continuity and disaster recovery plans, and continues to adapt its internal cost structures to deliver products at competitive costs. We continue to actively manage fluctuations in input costs and are accelerating our cost reduction programmes.

**Safety, sustainability and environment**

Unilever has created a strong corporate reputation over many years for its focus on social and environmental issues, including sustainable development and utilisation of renewable sources. The Unilever brand on our products increases our exposure, and should we fail to meet high product safety, social, environmental and ethical standards in all our operations and activities it could impact our reputation.

We seek to demonstrate our commitment to our people and the communities that we operate in through compliance with our Code of Business Principles and other operational and business policies.

We continue to recognise the importance of social and environmental issues in our operations, and have established indicators to track performance in these areas. We regard safety as an essential element of a successful and sustainable business and take seriously our responsibility to provide a safe workplace. We aim to improve continuously the health, safety and well-being of everyone working for, or on behalf of, Unilever.

We continue to be committed to meeting the needs of consumers in an environmentally sound and sustainable manner. The environmental measures that we regard as the most significant in relation to our business are those relating to the amounts of CO<sub>2</sub> emissions from energy that we consume for manufacturing, the water that we consume in our production processes, and the amount of waste that we generate.

The Corporate Responsibility and Reputation Committee oversees Unilever's conduct as a responsible corporate citizen. For the report of the committee please see page 75.

**Restructuring and changes to the way we operate**

Restructuring is an integral part of remaining competitive, and this can involve changes to internal structures, the rationalisation of the asset base, and the use of third parties to deliver business services.



Restructuring and outsourcing programmes have been particularly intense over the last few years, and the continuing implementation of these will require significant effort and attention in order to deliver the expected benefits on time and in full. Delays, ineffective management of third-party suppliers, or employee disruption of restructuring programmes could all lead to increased cost, a delay in realising benefits, and damage to corporate reputation. We continue to mitigate these risks through strong project management, clear governance mechanisms, an agreed approach to change management, and by ensuring we treat employees in line with our internal standards and in accordance with all legal and regulatory requirements.

**People and talent**

Attracting and retaining talented employees is essential to the successful delivery of our strategy and success in the marketplace. Shortfalls in recruitment or retention could adversely affect our ability to operate successfully, grow our business and win against competition.

To counter the risk, we believe in providing an environment where individuals can achieve their goals, both professionally and personally, and by seeking to ensure that Unilever has the right resources and capabilities to compete effectively. We have fully integrated processes of appraisal against skill profiles, capabilities, and achievement of business objectives, and we also make investments in training and development which are aimed at equipping our people for the challenges in their roles. We constantly review external candidates to ensure we enrich and augment our home-grown talent.

**Other risks**

In common with other businesses, the Group is exposed to a number of other risks, some of which may have a material impact on its turnover, operating profit, net assets and liquidity. It is not possible to identify or anticipate every risk that may affect the Group, some of which may currently not be known or may have been assessed as not material.

Report of the Directors  
Outlook and risks continued

### **Risk Management, Internal Controls and Disclosure Controls and Procedures**

The identification and management of risk is integral to Unilever's strategy and to achieving its long-term goals. The Boards have overall responsibility for the risk management process, which incorporates risk management, internal control procedures and disclosure controls and procedures (including the operation of the Audit Committee – see page 48 – and Disclosure Committee – see page 49).

Unilever's procedures, which are documented and regularly reviewed throughout the organisation, are designed to provide reasonable, but not absolute, assurance that our assets are safeguarded, the risks facing the business are being addressed, and all information required to be disclosed is reported to the Group's senior management, including where appropriate the Chief Executive Officer and Chief Financial Officer, within the required timeframe.

The Boards have established a clear organisational structure which includes a delegation of authorities. The day-to-day responsibility for implementation of our procedures (financial, operational, social, strategic and environmental risks and regulatory matters) and ongoing monitoring of risk and the effectiveness of controls rests with the Group's senior management at individual operating company and regional level. Regions review, on an ongoing basis, the risks faced by their group and the related internal control arrangements, and provide written reports to the Chief Executive Officer.

The Group's risk, control and disclosure procedures are supported through:

#### **Business Risk Assessment (BRA)**

The Audit Committee reviews the key risks affecting the business four times a year and the Boards review the risks as a part of the forecast and annual financial plan. The regions, category and functions provide inputs to this process and actions are put into place to mitigate the identified risks. Risk reporting covers the perceived risk, assessed impact and the effectiveness of controls to mitigate these risks.

#### **The Code of Business Principles (CoBP)**

The Code of Business Principles, which sets standards of professionalism and integrity for its operations worldwide, is Unilever's statement of values and represents the standard of conduct we require from all of our employees. Our Code of Ethics applies to the senior executive, financial and accounting officers, and comprises the standards prescribed by the US Securities and Exchange Commission (SEC). The CoBP Hotline is a confidential way for employees to submit concerns regarding accounting and auditing issues anonymously and handles all alleged violations of the CoBP.

Copies of the CoBP, the Code of Ethics and the Share Dealing Code are posted on our website at [www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

#### **Policy compliance**

The implementation of and compliance with our governance structure is facilitated through a business-orientated policy framework. Unilever policies are universally applicable within the Unilever Group. They are mandatory and have been developed to ensure consistency in all material respects amongst worldwide operations in key areas. They cover operational and functional matters, and govern how we run our business, to help ensure we comply with applicable laws and regulations. Key Unilever policies include the Compliance Manual for the Listing Rules and Disclosure and Transparency Rules (including the Unilever Share Dealing Code), the Risk Management Policy, the Corporate Pensions Policy and the Accounting and Reporting Policy.

#### **Operational Controls Assessment (OCA)**

Operational Controls Assessment requires the senior management in each business unit to assess the effectiveness of financial controls. At our major units, financial controls are subject to a comprehensive risk-based assessment annually, with controls in the remaining units being reviewed over a one-to three-year cycle.

#### **Annual Positive Assurance**

Senior management provides an annual Positive Assurance letter addressed to the Chief Executive Officer confirming compliance of their business unit with BRA, CoBP, Policy compliance and OCA. Exceptions, if any, together with remedial actions, form part of these written communications. A consolidated version is presented to the Disclosure Committee and the Board for their review.

**Internal audit**

The Corporate Audit function plays a key role in providing to both operating management and the Boards an objective view and reassurance of the effectiveness of the risk management and related control systems throughout Unilever. It is Unilever's practice to bring acquired companies within the Group's governance procedures as soon as is practicable and in any event by the end of the first full year of operation.

The Boards, through the Audit Committee (see page 74 for report of the Audit Committee), have reviewed the assessment of risks, internal controls and disclosure controls and procedures that operate in the Group and have considered the effectiveness and remedial actions where applicable for the year covered by this report and up to the date of its approval by the Board of Directors.

**Boards' assessment of compliance with the Risk Management frameworks**

Reference is made to the requirements sections in the Corporate governance statement for Unilever's compliance with the UK Combined Code, the Dutch Corporate Governance code and the US Securities Exchange Act 1934 and the US Sarbanes-Oxley Act 2002.

Report of the Directors  
Performance Review

**Basis of reporting**

Certain discussions within this Performance Review and in the Financial Review starting on page 35 include measures that are not defined by generally accepted accounting principles (GAAP) such as IFRS. These include Ungeared Free Cash Flow (UFCF), Return on Invested Capital (ROIC), Underlying Sales Growth (USG), and Net Debt. For further information please refer to page 40.

The accounting policies that are most significant in connection with our financial reporting are set out on pages 38 and 39.

Foreign currency amounts for results and cash flows are translated from underlying local currencies into euros using annual average exchange rates. Balance sheet amounts are translated at year-end rates, except for the ordinary capital of the two parent companies. These are translated at the rate referred to in the Equalisation Agreement of 31/12/08 = 0.16 (see Corporate governance on page 51).

During 2008 we have implemented changes in the regional organisation of our business reflecting our strategic focus on the developing world. Our revised structure for management and reporting of financial performance is across the following three regions:

Western Europe

The Americas

Asia, Africa and Central & Eastern Europe (AACEE)

Our segmental reporting information for prior years has therefore been restated so that the results for countries in Central & Eastern Europe are now reported under AACEE.

In this Performance Review we comment on changes in revenue on the basis of underlying sales growth (USG). This measure reflects the change in revenue at constant rates of exchange, (average exchange rates for the preceding year) excluding the effects of acquisitions and disposals. We believe it is a measure that provides valuable additional information on the underlying performance of the business. In particular, it presents the organic growth of our business year on year, and is used internally as a core measure of sales performance.

USG is not a measure which is defined under IFRS. It should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. This measure as reported by us may not be comparable with similarly titled measures reported by other companies.

The reconciliation of USG to changes in turnover for each of our reporting regions is given in the following sections, and for the Group in total on page 43.

We also make reference in our commentary to restructuring costs, profits and losses on business disposals, impairments and certain other one-off items, which we collectively term RDIs, and the impact of these on our operating margin. We give further information about these on the face of our income statement and in note 3 on page 93.

The reporting in this section is based on results for continuing operations. Information about discontinued operations is given in note 27 on page 130.

**Group results and earnings per share**

The following discussion summarises the results of the Group during the years 2008, 2007 and 2006. The figures quoted are in euros, at current rates of exchange, being the average or year-end rates of each period as applicable, unless otherwise stated. Information about exchange rates between the euro, pound sterling and US dollar is given on page 139.

In 2008 and 2007, no disposals qualified to be disclosed as discontinued operations for purposes of reporting. During 2006, we successfully completed the sale of the majority of our European frozen foods businesses. The results of the businesses disposed of have been presented as discontinued operations for 2006 for the period up to the date of sale.

There was also some impact on 2007 as a result of the outcome of agreements made in connection with the sale.

	<b>million 2008</b>	million 2007	million 2006
Continuing operations:			
Turnover	<b>40 523</b>	40 187	39 642
Operating profit	<b>7 167</b>	5 245	5 408
Net profit	<b>5 285</b>	4 056	3 685
Net profit from discontinued operations		80	1 330
Net profit total	<b>5 285</b>	4 136	5 015
	<b>2008</b>	2007	2006
EPS continuing operations	<b>1.79</b>	1.32	1.19
EPS total	<b>1.79</b>	1.35	1.65

#### **Group results for 2008 compared with 2007**

Underlying sales growth of 7.4% was broad-based across categories and in line with our markets overall. Growth was primarily driven by increased prices, with volumes essentially flat. Underlying sales growth was offset by movements of (4.8)% in exchange rates and a net impact of (1.4)% from disposals and acquisitions. Including these effects, turnover was 40 523 million for the full year, increasing by 0.8%.

During the year we continued to progress our One Unilever transformation agenda, contributing to an underlying improvement in operating margin. We integrated multiple countries into single multi-country operations in many of our key markets. We further shaped our portfolio through a number of disposals, including our North American laundry business, Boursin, Lawry's and the Bertolli olive oil business, as well as through the acquisition of Inmarko, the market leader in ice cream in Russia. We also made further progress in the simplification of our supply chain network in Europe with the establishment of a regional European supply chain company in Switzerland, and we initiated a move to a similar regional structure for Asia based in Singapore.

Operating profit increased by 1 922 million to 7 167 million, including a higher level of profits on business disposals. These generated a pre-tax profit of 2 190 million in 2008, compared with 297 million in 2007. Before the impact of RDIs (restructuring, disposals, impairments and other one-off items), operating profit grew by 1% at current exchange rates, or 6% at constant exchange rates, and there was an underlying improvement in operating margin of 0.1 percentage points.

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Costs of financing net borrowings were 1% lower than last year. The average interest rate was lower at 4.5%, offsetting the impact of a higher average level of net debt.

Share of net profit from joint ventures and associates and other income from non-current investments contributed 219 million. This included a gain of 61 million in non-current investments resulting from the disposal of our interests in plantations in Côte d'Ivoire.

The effective tax rate was 26.4% and the underlying tax rate, before RDIs, was 26.6% for the full year. This compared with an underlying rate of 24.5% in 2007, which included substantial benefits from the favourable settlement of prior year tax audits.

Net profit was 28% higher than in 2007, boosted by the profits on disposals. Earnings per share were 1.79, including a net gain of 0.36 from RDIs. This compared with 1.35 last year, which included a net loss of 0.07 from RDIs.

Return on invested capital was 15.7%, boosted by profits on business disposals. Excluding profits on disposals, ROIC was 11.2%, broadly in line with 2007 on a comparable basis.

**Group results for 2007 compared with 2006**

Turnover for the period increased by 1.4% to 40 187 million. The increase was a consequence of USG of 5.5% in the year, offset by unfavourable currency movements of (3.1)% and the impact of disposals of (0.9)%. The USG was a result of both price and volume increases, respectively contributing 1.8% and 3.7%. Operating profit for the year was 3% lower and the operating margin at 13.1% was 0.5 percentage points lower than the prior year. The lower operating profit and margin were due to a higher net charge for restructuring, disposals and one-off items. Before the impact of these items, the operating margin showed an underlying increase of 0.2 percentage points. Savings and price increases more than offset significant increases in product input costs. Advertising and promotions as a percentage of sales was in line with the previous year.

The net charge for restructuring, disposals and one-off items in 2007 was 569 million. This was made up of restructuring charges of 875 million, partly offset by disposal profits of 297 million and other items of 9 million. The disposal profits included 214 million arising from the reorganisation of our interests in South Africa and Israel, which was a fair value economic swap that resulted in an accounting profit. In comparison, the net charge for restructuring, disposals and one-off items in 2006 was 242 million.

Costs of financing net borrowings were 13% lower in the year, with the impact of movements in the US dollar exchange rate more than offsetting higher rates. The credit on pensions financing increased to 158 million, reflecting an improved funding position of our schemes in 2007 compared with 2006.

The tax rate was 22% for the year, compared with 24% in 2006, and benefited from the favourable settlement of prior year tax audits. We also benefited from a lower tax charge on disposals during 2007.

Our share in net profit from joint ventures increased by 31% in the year, mainly driven by continuing strong growth in the partnerships between Lipton and PepsiCo for ready-to-drink tea.

For the full year, net profit from continuing operations grew by 10%, while EPS on the same basis grew by 12%. Net profit, including discontinued operations, was 18% lower than in the prior year, which included the profit on disposal of European frozen foods businesses.

ROIC was 12.7% in 2007. This represented an improvement from 11.5% in 2006 when adjusted for business disposals.

**Western Europe**

**2008 compared with 2007**

million 2008	million 2007
-----------------	-----------------

Turnover	<b>12 853</b>	13 327
Operating profit	<b>2 521</b>	1 563
Operating margin	<b>19.6%</b>	11.7%
Restructuring, business disposals and impairment charges included in operating margin	<b>2.8%</b>	(4.4)%
	<b>%</b>	
Underlying sales growth at constant rates	<b>1.3</b>	
Effect of acquisitions	<b>(0.0)</b>	
Effect of disposals	<b>(2.1)</b>	
Effect of exchange rates	<b>(2.8)</b>	
Turnover growth at current rates	<b>(3.6)</b>	
	<b>%</b>	
Operating profit 2008 vs 2007		
Change at current rates	<b>61.3</b>	
Change at constant rates	<b>63.6</b>	

Turnover at current rates of exchange fell by 3.6%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange rose by 61%, after including an adverse currency movement of 2%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.

Underlying sales growth was 1.3% for the year with pricing contributing 3.8% and volume lower by 2.4%. Volume consumption in our markets has reduced and shoppers are increasingly looking to economise on their purchases.

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**Western Europe** (continued)

We made good progress in simplifying the business including the integration of the separate units in each country and the formation of multi-country organisations. This has enabled faster decision making and more efficient operations. The European supply chain transformation is progressing well; so far, we have announced restructuring plans at twenty factories together with additional capital investments to increase efficiency. The implementation of a harmonised IT system across the region is now complete. The portfolio has been further focused with the sale of the Boursin cheese and Bertolli olive oil businesses.

The UK and the Netherlands, where the change programme is most advanced, performed well during 2008. In France, Spain and Germany markets were difficult, with branded products losing ground to private label. Across the region there was strong innovation-led growth in deodorants and oral care and price-driven growth in spreads and dressings. The operating margin benefited from profits on disposals. On an underlying basis there was an improvement of 0.7 percentage points. Gross margins were lower as a result of the unprecedented increases in commodity costs, but this was more than offset by lower overhead costs and the benefits of spending efficiency programmes.

**2007 compared with 2006**

	million 2007	million 2006
Turnover	13 327	13 322
Operating profit	1 563	1 787
Operating margin	11.7%	13.4%
Restructuring, business disposals, impairment charges and one-time gain (2006) on UK pension plans included in operating margin	(4.4)%	(1.4)%
	%	
Underlying sales growth at constant rates	1.8	
Effect of acquisitions	0.0	
Effect of disposals	(1.7)	
Effect of exchange rates	(0.1)	
Turnover growth at current rates	0.0	
	%	
Operating profit 2007 vs 2006		
Change at current rates	(12.5)	
Change at constant rates	(12.2)	

Turnover at current rates of exchange was at a similar level to 2006, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 12.5%, after including an adverse currency movement of 0.3%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.



The region sustained its improving trend in 2007 with underlying sales growth of 1.8% for the year. The improvement was driven by relentless focus on better in-market execution, rejuvenation of the quality and value of our core products, and an introduction of new innovations. Consumer demand in our categories was steady throughout the year. Overall we saw improving trends almost everywhere. All major countries grew in the year, including the UK, Germany, Italy and the Netherlands. In France sales were slightly up in a challenging market.

The operating margin, at 11.7%, reflected a higher net charge for restructuring, disposals and one-off items compared with 2006. Before these items, the operating margin showed an underlying improvement of 1.3 percentage points, driven by lower overheads as a result of the One Unilever programme and reduced advertising and promotions costs.

We made substantial progress with portfolio development and restructuring.

We formed four new multi-country organisations and announced the streamlining or closure of ten factories.

We continued to target innovations mainly at Vitality opportunities. In ice cream, we introduced Frusì frozen yoghurt with wholegrain cereals and real fruit pieces and low calorie Solero smoothies. Lipton Linea slimming teas were launched in France, Switzerland and Portugal. Growth in Hellmann's was boosted by new extra light mayonnaise with citrus fibre technology.

The new Dove pro age range of products built well in Western Europe as well as elsewhere, and Dove Summer Glow self-tanning and body lotions became available in most countries. Small & Mighty concentrated liquid laundry detergents were launched in several countries.

### The Americas

#### 2008 compared with 2007

	<b>million 2008</b>	million 2007
Turnover	<b>13 199</b>	13 442
Operating profit	<b>2 945</b>	1 971
Operating margin	<b>22.3%</b>	14.7%
Restructuring, business disposals, and impairment charges included in operating margin	<b>6.9%</b>	(0.7)%
	<b>%</b>	
Underlying sales growth at constant rates	<b>6.5</b>	
Effect of acquisitions	<b>0.1</b>	
Effect of disposals	<b>(2.9)</b>	
Effect of exchange rates	<b>(5.1)</b>	
Turnover growth at current rates	<b>(1.8)</b>	
	<b>%</b>	
Operating profit 2008 vs 2007		
Change at current rates	<b>49.4</b>	
Change at constant rates	<b>58.5</b>	

Turnover at current rates of exchange fell by 1.8%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange rose by 49%, after including an adverse currency movement of 9%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.



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**The Americas** (continued)

Underlying sales grew by 6.5% for the year driven by pricing actions taken to recover commodity cost increases. Trading conditions deteriorated towards the end of the year, with a drop in consumer confidence and purchasing power and a reduction of trade inventories. Despite this more difficult environment consumers continued to spend on our brands and underlying sales growth was sustained, although volumes were lower.

Underlying sales growth in the US was 3.8% for the year. Our sales were very much in line with the markets. While there was some down-trading from branded products to private label brands our own market shares held up well. Growth in Latin America was around 12% for the year. All key countries contributed well to this growth as we benefited from our established brands and the breadth of our portfolio.

The move to a single head office for the US in Englewood Cliffs was completed and the ice cream business was integrated. We set up a new multi-country organisation made up of the US, Canada, and the Caribbean. We believe this will enable us to build scale, drive efficiencies and enhance our capabilities across these countries during 2009. The reshaping of the portfolio continued with the disposals of Lawry's seasonings and spices and the North American laundry business. We signed agreements with Starbucks to include Tazo ready-to-drink tea in the Pepsi-Lipton joint venture and for the manufacture, marketing and distribution of Starbucks ice cream in the US and Canada.

The operating margin was boosted by profits on disposals. On an underlying basis the operating margin was in line with last year as overheads savings fully offset a lower gross margin from the sharp input cost increases.

**2007 compared with 2006**

	million 2007	million 2006
Turnover	13 442	13 779
Operating profit	1 971	2 178
Operating margin	14.7%	15.8%
Restructuring, business disposals, impairment charges and one-time gain (2006) on US healthcare plans included in operating margin	(0.7)%	0.0%
	%	
Underlying sales growth at constant rates	4.1	
Effect of acquisitions	0.1	
Effect of disposals	(0.6)	
Effect of exchange rates	(5.8)	
Turnover growth at current rates	(2.4)	
	%	
Operating profit 2007 vs 2006		
Change at current rates	(9.5)	
Change at constant rates	(3.4)	

Turnover at current rates of exchange fell by 2.4%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 9.5%, after including an

adverse currency

movement of 6.1%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.

Underlying sales grew by 4.1% in the year, with an increasing contribution from pricing which was up 2.6% for the year.

In the US, overall consumer demand held up well in our categories. Market growth in home care and personal care slowed somewhat in the second half of the year, but this was compensated for by robust demand in foods. Our own sales in the US grew solidly, up 3.2% for the year, despite lower sales of ice cream.

Our business in Mexico made good progress in the second half of the year and Brazil showed an improved performance in the fourth quarter. Argentina, Andina and Central America performed well throughout.

The operating margin, at 14.7% for the year, was 1.1 percentage points lower than the previous year. Before the impact of restructuring, disposals and one-off items, the margin was 0.4 percentage points lower than last year. This was due to an increase in advertising and promotions and the impact of substantial cost increases, which were not fully offset by price increases and savings programmes.

The One Unilever programme simplified operations throughout the region. Argentina, Mexico and Brazil all moved to single head offices. Sales force integration took place in a number of countries. A single SAP system was implemented in the US, with Latin America already on one system.

We set up a joint venture with Perdigão to develop our heart-health margarine Becel in Brazil and disposed of our local Brazilian margarine brands.

New varieties of Knorr bouillons and soups in Latin America further advanced the brand's Vitality credentials.

Hellmann's mayonnaise real campaign highlighted its simple ingredients which are naturally rich in omega-3, in both the US and Latin America. In the US, we introduced Promise Activ SuperShots, a Vitality shot with added natural plant sterols, ingredients that are clinically proven to help actively remove cholesterol as part of a diet low in saturated fat and cholesterol.

Innovation in personal care reflected the more global approach. Clear anti-dandruff shampoo was successfully launched in Brazil, while the Dove pro-age range of skin care, deodorants and shampoos was introduced in the US at the same time as in Europe. In laundry, the Dirt is Good platform continued to build across Latin America, including a variant with built-in fabric softener.

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**Asia, Africa and Central & Eastern Europe (AACEE)  
2008 compared with 2007**

	<b>million 2008</b>	million 2007
Turnover	<b>14 471</b>	13 418
Operating profit	<b>1 701</b>	1 711
Operating margin	<b>11.8%</b>	12.8%
Restructuring, business disposals and impairment charges included in operating margin	<b>0.1%</b>	0.9%
	<b>%</b>	
Underlying sales growth at constant rates	<b>14.2</b>	
Effect of acquisitions	<b>1.1</b>	
Effect of disposals	<b>(0.4)</b>	
Effect of exchange rates	<b>(6.2)</b>	
Turnover growth at current rates	<b>7.8</b>	
	<b>%</b>	
Operating profit 2008 vs 2007		
Change at current rates	<b>(0.6)</b>	
Change at constant rates	<b>8.3</b>	

Turnover at current rates of exchange rose by 7.8%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 0.6%, after including an adverse currency movement of 8.9%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.

Underlying sales growth of 14.2% in 2008 was broad-based across countries and categories. Our top five Developing and Emerging market countries in the region grew by around 20%, from a combination of increased prices and higher volumes. Towards the end of the year underlying sales growth remained strong but volumes were flat with some countries seeing signs of a slow-down in consumption and a reduction in inventories by retailers.

Throughout the year we saw continued strong growth in India and Indonesia, both countries where we have tremendous scale. In these countries we are benefiting from portfolios which span higher and lower price tiers and from extensive micro-marketing tailored to faster growing areas and channels. Our business in China also grew well throughout the year.

The One Unilever organisation is in place throughout the region and the move to a single SAP system is progressing to plan. Supply chain management is being centralised in Singapore.

In April we acquired Inmarko, the leading ice cream company in Russia, and it has performed strongly with both sales and profits ahead of plan. We reshaped our portfolio in Côte d'Ivoire with the completion of the disposal of our palm oil business and the acquisition of soap brands in the same country.

On an underlying basis the operating margin was 0.2 percentage points below last year reflecting increased investment in building capabilities to drive growth and the sharp increases in input costs partly offset by the benefits of savings

programmes.

**2007 compared with 2006**

	million 2007	million 2006
Turnover	13 418	12 541
Operating profit	1 711	1 443
Operating margin	12.8%	11.5%
Restructuring, business disposals and impairment charges included in operating margin	0.9%	(0.4)%
	%	
Underlying sales growth at constant rates	11.0	
Effect of acquisitions	0.1	
Effect of disposals	(0.4)	
Effect of exchange rates	(3.3)	
Turnover growth at current rates	7.0	
	%	
Operating profit 2007 vs 2006		
Change at current rates	18.5	
Change at constant rates	25.0	

Turnover at current rates of exchange rose by 7.0%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange rose by 18.5%, after including an adverse currency movement of 6.5%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates. The strong underlying growth of 11.0% for the year reflected both the vibrancy of these markets and the high priority we place on building our business in the region. It included a healthy balance of volume and price, up by over 7% and 3% respectively.

Growth was consistent throughout the year and was broad-based across categories and countries, including established markets such as India, Indonesia, the Philippines, South Africa and Turkey, which all grew in double digits; significant product areas such as laundry and personal wash; and emerging product areas like ice cream and deodorants. China grew strongly for the third consecutive year.

Report of the Directors  
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**Asia, Africa and Central & Eastern Europe (AACEE)**

(continued)

We drove growth across all income levels, from highly affordable packs to premium positions. This was supported by new brands and products and excellent in-market execution.

The operating margin, at 12.8%, was 1.3 percentage points higher than last year. This included the 214 million accounting profit resulting from the reorganisation of our shareholdings in South Africa. Before the effects of this transaction, disposals and restructuring charges, the operating margin was at a similar level to 2006.

We announced the acquisition of the Buavita brand of fruit-based vitality drinks in Indonesia, which was completed early in January 2008.

The new, more global, approach to innovation was evident in the 2007 programme. Clear anti-dandruff shampoo was launched in China, Arabia, Egypt, Pakistan, Philippines and Russia. In Japan, we launched the Axe brand and Dove pro-age skin care products. An improved range of Dove shower products was extended to North East Asia, while Lifebuoy soap was launched in South Africa and a new variant brought to India. In laundry, the Dirt is Good platform, packaging and communication were introduced to Thailand.

The Moo range of ice creams was extended throughout the region. Knorr seasonings were rejuvenated with premium ingredients, and in China we launched a new form of Knorr bouillons for preparing thick soups. At the same time new, more affordable, tubs and sachets attracted new users of spreads in several countries.

Report of the Directors  
Financial Review

**Finance and liquidity**

Unilever aims to be in the top third of a reference group including 20 other international consumer goods companies for Total Shareholder Return, as explained on page 43. The Group's financial strategy supports this objective and provides the financial flexibility to meet its strategic and day-to-day needs. The key elements of the financial strategy are:

- appropriate access to equity and debt capital;
- sufficient flexibility for acquisitions that we fund out of current cash flows;
- A+/A1 long-term credit rating;
- A1/P1 short-term credit rating;
- sufficient resilience against economic and financial turmoil; and

optimal weighted average cost of capital, given the constraints above.

Unilever aims to concentrate cash in the parent and finance companies in order to ensure maximum flexibility in meeting changing business needs. Operating subsidiaries are financed through a mixture of retained earnings, third-party borrowings and loans from parent and group financing companies that is most appropriate to the particular country and business concerned. Unilever maintains access to global debt markets through an infrastructure of short-term debt programmes (principally US domestic and euro commercial paper programmes) and long-term debt programmes (principally a US Shelf registration and euromarket Debt Issuance Programme). Debt in the international markets is, in general, issued in the name of NV, PLC, Unilever Finance International BV or Unilever Capital Corporation. NV and PLC will normally guarantee such debt where they are not the issuer.

Thanks to an active financial management, Unilever's financing position has not been materially affected by the unprecedented economic turmoil. We have tightened our counterparty limits and monitored closely all our exposures. During 2008 we did not suffer any material counterparty exposure loss. We have managed our commercial paper maturity in such a way as to reduce refinancing risks and to avoid potential liquidity issues. We have been able to raise debt at competitive rates.

Unilever has committed credit facilities in place to support its commercial paper programmes and for general corporate purposes. The undrawn committed credit facilities in place on 31 December 2008 were US \$6.205 billion, out of which bilateral committed credit facilities totalled US \$4.230 billion, bilateral money market commitments totalled US \$1.775 billion and bilateral notes commitments totalled US \$0.200 billion. Further details regarding these facilities are given in note 17 on page 109.

On 21 February 2008 we issued Swiss franc notes to the value of CHF 600 million (€ 360 million) in two tranches: CHF 250 million with an interest rate of 3.125% and maturing in January 2012, and CHF 350 million at 3.5% maturing in March 2015. On 21 May 2008 we issued € 750 million fixed-rate notes with a coupon rate of 4.875%, repayable in 2013. On 11 November 2008 we issued Swiss franc notes to the value of CHF 400 million with an interest rate of 3.625%, maturing in December 2011.

We made partial repayments of the US \$ Floating Rate extendible Notes due in 2009 amounting to US \$215 million (on 11 August 2008) and US \$105 million (on 11 September 2008). On 12 September 2008 we repaid South African 10.2% bonds of ZAR 1 billion. During the fourth quarter, we made a partial repayment of the US \$ Floating Rate extendible Notes due in 2009 amounting to US \$20 million (on 11 December 2008).

The main source of liquidity continues to be cash generated from operations. Unilever is satisfied that its financing arrangements are adequate to meet its working capital needs for the foreseeable future.



The currency distribution of total financial liabilities before the currency leg of currency derivatives relating to intra-group loans was as follows: 46% in US dollars (2007: 45%), and 27% in euros (2007: 27%), with the remainder spread across a number of countries.

Unilever manages interest rate and currency exposures based on the net debt position. Taking into account the various cross-currency swaps and other derivatives, 91% of Unilever's net debt was in US dollars (2007: 61%) and 18% in sterling (2007: (18%)) offset by (33)% of financial assets in euros (2007: 32%), with the remainder spread over a large number of other currencies.

### **Treasury**

Unilever Treasury's role is to ensure that appropriate financing is available for all value-creating investments. Additionally, Treasury delivers financial services to allow operating companies to manage their financial transactions and exposures in an efficient, timely and low-cost manner.

Unilever Treasury operates as a service centre and is governed by policies and plans approved by the Boards. In addition to policies, guidelines and exposure limits, a system of authorities and extensive independent reporting covers all major areas of activity. Performance is monitored closely. Reviews are undertaken by the corporate internal audit function.

The key financial instruments used by Unilever are short- and long-term borrowings, cash and cash equivalents, and certain straightforward derivative instruments, principally comprising interest rate swaps and foreign exchange contracts. The accounting for derivative instruments is discussed in note 17 on page 110. The use of leveraged instruments is not permitted.

Other relevant disclosures are given in notes 15, 16 and 17 on pages 103, 105 and 108.

Unilever Treasury manages a variety of market risks, including the effects of changes in foreign exchange rates, interest rates and liquidity. Further details of the management of these risks are given in note 17 on pages 108 to 110.

Report of the Directors  
Financial Review continued

**Balance sheet**

	<b>million</b> <b>2008</b>	million 2007
Goodwill and intangible assets	<b>16 091</b>	16 755
Other non-current assets	<b>8 876</b>	10 619
Current assets	<b>11 175</b>	9 928
Current liabilities	<b>(13 800)</b>	(13 559)
<b>Total assets less current liabilities</b>	<b>22 342</b>	23 743
Non-current liabilities	<b>11 970</b>	10 924
Shareholders' equity	<b>9 948</b>	12 387
Minority interest	<b>424</b>	432
<b>Total capital employed</b>	<b>22 342</b>	23 743

Goodwill and intangibles at 31 December 2008 were 0.7 billion lower than in 2007, as a result of currency movements and acquisition and disposal activity. Property, plant and equipment was slightly lower than last year at 6.0 billion. The decrease in other non-current assets is mainly due to a reduction in funded pension schemes in surplus.

The overall net liability for all pension arrangements was 3.4 billion at the end of 2008, up from 1.1 billion at the end of 2007. Funded schemes showed an aggregate deficit of 1.4 billion and unfunded arrangements a liability of

2.0 billion. The increase in the overall balance sheet liability was largely due to falls in asset values on world markets, partly offset by higher discount rates for liabilities.

Inventories were at a similar level to the end of 2007, and trade receivables were lower by around 0.4 billion. Cash and cash equivalents were 1.5 billion higher than the prior year, reflecting the decision to maintain strong liquidity and the proceeds of the sale of the Bertolli olive oil business.

Current liabilities rose slightly to 13.8 billion as a result of 0.6 billion higher financial liabilities partially offset by a decrease of 0.2 billion in trade payables and other current liabilities and 0.2 billion lower provisions.

Non-current liabilities rose by 1.0 billion compared with 2007. The increase in pension liabilities was partly offset by a reduction in deferred tax liabilities of 0.4 billion, while financial liabilities rose by 0.9 billion.

The increase in financial liabilities resulted from bonds issued during the year, partially offset by debt repayments, as detailed on page 35.

Total shareholders' equity fell by 2.4 billion in the year. Net profit added 5.3 billion, but was partly offset by currency and fair value/actuarial losses of 4.2 billion. Dividends paid in the year totalled 2.1 billion and there was a 1.4 billion movement in treasury stock, largely explained by the share buy-back programme of 1.5 billion.

Unilever's contractual obligations at the end of 2008 included capital expenditure commitments, borrowings, lease commitments and other commitments. A summary of certain contractual obligations at 31 December 2008 is provided in the table below. Further details are set out in the following notes to the accounts: note 10 on page 99, note 16 on page 105, note 17 on page 108 and note 25 on page 125.

**Contractual obligations at 31 December 2008**

	<b>million</b>	<b>million</b> Due within	<b>million</b> Due in 1-3 years	<b>million</b> Due in 3-5 years	<b>million</b> Due in over 5 years
	<b>Total</b>	<b>one year</b>			
Long-term debt	<b>7 289</b>	<b>1 110</b>	<b>2 080</b>	<b>1 763</b>	<b>2 336</b>
Operating lease obligations	<b>1 491</b>	<b>344</b>	<b>444</b>	<b>286</b>	<b>417</b>
Purchase obligations <sup>(a)</sup>	<b>344</b>	<b>263</b>	<b>69</b>	<b>12</b>	<b>-</b>
Finance leases	<b>381</b>	<b>37</b>	<b>62</b>	<b>40</b>	<b>242</b>
Other long-term commitments	<b>1 796</b>	<b>459</b>	<b>724</b>	<b>534</b>	<b>79</b>

(a) Raw and packaging materials and finished goods.

#### **Off-balance sheet arrangements**

SIC interpretation 12 Consolidation-Special Purpose Entities (SIC 12) requires that entities with which we have relationships are considered for consolidation in the consolidated accounts based on relative sharing of economic risks and rewards rather than based solely on share ownership and voting rights. We periodically review our contractual arrangements with potential special purpose entities (SPEs) as defined by SIC 12. The most recent review has concluded that there are no significant SPE relationships which are not already appropriately reflected in the accounts. Information concerning guarantees given by the Group is stated in note 25 on page 125.

#### **Cash flow**

	<b>million</b> <b>2008</b>	million 2007	million 2006
Net cash flow from operating activities	<b>3 871</b>	3 876	4 511
Net cash flow from/(used in) investing activities	<b>1 415</b>	(623)	1 155
Net cash flow from/(used in) financing activities	<b>(3 130)</b>	(3 009)	(6 572)
Net increase/(decrease) in cash and cash equivalents	<b>2 156</b>	244	(906)

Cash and cash equivalents increased by 2.2 billion when translated at average 2008 exchange rates. After recognising the changes in exchange rates, amounts in the balance sheet at 31 December 2008 were 1.5 billion higher than at 31 December 2007. Net cash flow from operating activities, at 3.9 billion, was at a similar level to 2007. Lower cash cost of pensions more than offset higher restructuring charges and a 0.2 billion increase in working capital. Tax paid was also 0.1 billion higher, resulting from additional one-off tax payments in 2008.

The increase of 2.0 billion in net cash flow from investing activities when compared with 2007 is explained by the significant level of completed disposal activity in the year.

Cash flows associated with financing activities included payment of dividends of 2.1 billion in 2008 and 2.2 billion in 2007. In addition, 1.5 billion was returned to shareholders in both 2007 and 2008 in the form of share buy-backs. At 31 December 2008, the net debt position was 8.0 billion, a decrease of 0.3 billion compared with 2007.

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Report of the Directors  
Financial Review continued

## Dividends and market capitalisation

### Dividends per share

	2008	Per 0.16 NV ordinary share 2007	pence 2008	Per 31/9p PLC ordinary share pence 2007
Interim	<b>0.26</b>	0.25	<b>20.55</b>	17.00
Final		0.50		34.11
Proposed final	<b>0.51</b>		<b>40.19</b>	

Final dividends for 2008 are subject to approval at the Annual General Meetings. If approved, this will bring the total regular dividend to 0.77 per share for NV, an increase of 3% and 60.74p for PLC, an increase of 19%. In accordance with IFRS, no provision for the amount of this dividend, estimated as 1.3 billion, has been recognised in the financial statements for the year ended 31 December 2008. Share buy-back programmes of 1.5 billion were completed in both 2007 and 2008.

Unilever's combined market capitalisation fell significantly from 72.5 billion at the end of 2007 to 46.9 billion at 31 December 2008, reflecting wider trends in stock market values arising from the economic turbulence that existed through much of 2008.

### Pensions investment strategy

The Group's investment strategy in respect of its funded pension plans is implemented within the framework of the various statutory requirements of the territories where the plans are based. The Group has developed policy guidelines for the allocation of assets to different classes with the objective of controlling risk and maintaining the right balance between risk and long-term returns in order to limit the cost to the Group of the benefits provided. To achieve this, investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plans invest the largest proportion of the assets in equities, which the Group believes offer the best returns over the long term commensurate with an acceptable level of risk. The pension funds also have a proportion of assets invested in property, bonds, hedge funds and cash. The majority of the assets are managed by a number of external fund managers with a small proportion managed in-house. Unilever has a pooled investment vehicle (Uninvest) which it believes offers its pension plans around the world a simplified externally managed investment vehicle to implement their strategic asset allocation models currently for equities and hedge funds. The aim is to provide a high quality, well diversified risk controlled vehicle.

Total cash costs of pensions are expected to be around 1.0 billion in 2009 (2008 actual: 0.8 billion). In 2009 the net financing costs for pensions and similar obligations is expected to be a charge of between 150 million and 200 million. This compares with a credit of 143 million in 2008.

### Acquisitions and disposals

#### 2008

With effect from 1 January 2008, we entered into an expanded international partnership with PepsiCo for the marketing and distribution of ready-to-drink tea products under the Lipton brand.

On 3 January 2008 we completed the sale of the Boursin brand to Le Groupe Bel for 400 million. The turnover of this brand in 2007 was approximately 100 million.

On 2 April 2008 we completed the acquisition of Inmarko, the leading Russian ice cream company. The company had a turnover in 2007 of approximately 115 million.

On 31 July 2008 we completed the sale of our Lawry's and Adolph's branded seasoning blends and marinades business in the US and Canada to McCormick & Company, Incorporated for 410 million. The combined annual turnover of the business in 2007 was approximately 100 million.

On 9 September 2008 we completed the sale of our North American laundry business in the US, Canada and Puerto Rico to Vestar Capital Partners, a leading global private equity firm, for consideration of approximately US \$1.45 billion, consisting mainly of cash along with preferred shares and warrants. These businesses had a combined turnover in 2007 of approximately US \$1.0 billion.

On 5 November 2008 we completed the sale of Komili, our olive oil brand in Turkey, to Ana Gida, part of the Anadolu Group.

On 4 December 2008 we completed the sale of our edible oil business in Côte d'Ivoire, together with our interests in local oil palm plantations Palmci and PHCI, to SIFCA, the parent company of an Ivorian agro-industry group, and to a 50:50 joint venture between two Singapore-based companies, Wilmar International Limited and Olam International Limited. At the same time we acquired the soap business of Cosmivoire, a subsidiary of SIFCA.

On 23 December 2008 we completed the disposal of our Bertolli olive oil and vinegar business to Grupo SOS for a consideration of 630 million. The transaction was structured as a worldwide perpetual licence by Unilever of the Bertolli brand in respect of olive oil and premium vinegar. The transaction included the sale of the Italian Maya, Dante and San Giorgio olive oil and seed oil businesses, as well as the factory at Inveruno, Italy.

#### **2007**

During 2007 we reached agreement with our partners in South Africa and Israel to exchange respective shareholdings such that Unilever now owns 74.25% of a newly combined South African entity and 100% of Unilever Israel. The share swaps were effected as at 1 October 2007 and as a result we recognised a gain on disposal of 214 million.

On 1 January 2007 Unilever completed the restructuring of its Portuguese businesses. The result of the reorganisation is that Unilever now has a 55% share of the combined Portuguese entity, called Unilever Jerónimo Martins. The combined business includes the foods and home and personal care businesses. The remaining 45% is held by Jerónimo Martins Group. The structure of the agreement is such that there is joint control of the newly formed entity and therefore it is accounted for by Unilever as a joint venture.

Other business disposals in 2007 involved the sale of local Brazilian margarine brands. To further develop our heart health brand margarine Becel in Brazil we established a joint venture with Perdigão.

In 2007 we purchased minority interests in several countries, including Greece and India.

Report of the Directors  
Financial Review continued

**2006**

On 4 September 2006 Unilever announced a public offer to purchase all ordinary shares of Elais-Unilever S.A. held by third party shareholders. Elais-Unilever S.A. was reported as a subsidiary and is Unilever's main foods business in Greece. The offer price was 24.50 per share, with the public offer closing on 25 October 2006. A total of 2 234 692 shares were purchased by the end of 2006, increasing Unilever's ownership of Elais-Unilever S.A. to 83.52%. This shareholding was increased to 99.2% as at 31 December 2007.

On 3 November 2006 we announced the completion of the sale of the majority of our frozen foods businesses in Europe to the Permira Funds. Unilever received proceeds of 1.7 billion, and recorded a profit on disposal of 1.2 billion. The businesses sold included operations in Austria, Belgium, France, Germany, Ireland, the Netherlands, Portugal and the United Kingdom.

In 2006 we disposed of various other businesses and brands with a combined turnover of around 280 million, including Mora in the Netherlands and Belgium, Finesse in North America and Nihar in India.

**Significant events after the balance sheet date**

On 26 January 2009 we announced that we had signed an agreement to acquire the global TIGI professional hair product business and its supporting advanced education academies for a cash consideration of US \$411.5 million. The deal is subject to regulatory approval and is expected to be completed by the end of March 2009.

On 12 February 2009 Unilever issued a bond composed of two senior notes: US \$750 million 3.65% fixed-rate note which will mature in five years and US \$750 million 4.80% fixed-rate note which will mature in ten years.

**Critical accounting policies**

The accounts presented comply in all material respects with IFRS as adopted by the EU and with UK and Dutch law. They are also in accordance with IFRS as issued by the International Accounting Standards Board. To prepare these accounts, we are required to make estimates and assumptions, using judgement based on available information, including historical experience. We believe these estimates and assumptions are reasonable and we re-evaluate them on an ongoing basis. However, actual amounts and results could differ. Critical accounting policies are those which are most important to the portrayal of Unilever's financial position and results of operations. Some of these policies require difficult, subjective or complex judgements from management, the most important being:

**Goodwill and intangible assets**

Impairment reviews in respect of goodwill and indefinite-lived intangible assets are performed at least annually. More regular reviews, and impairment reviews in respect of other assets, are performed if events indicate that this is necessary. Impairment reviews are performed by comparing the carrying value of the asset concerned to that asset's recoverable amount (being the higher of value in use and fair value less costs to sell). Value in use is a valuation derived from discounted future cash flows. The most important assumptions when preparing these forecast cash flows are long-term growth rates and discount rates. These are challenged at least annually and although these are believed to be appropriate, changes in these assumptions could change the outcomes of the impairment reviews.

The most significant balances of goodwill and intangible assets relate to the global savoury and dressings sub-product group. We have reviewed the carrying value of this cash generating unit by considering expected future cash flows based on historical experience and planned growth rates and margins for this product group.

Please refer also to note 9 on page 97.

**Financial instruments**

Financial instruments are classified according to the purpose for which the instruments were acquired. This gives rise to the following classes: held-to-maturity investments, loans and receivables, available-for-sale financial assets, and financial assets at fair value through profit or loss. Please refer to note 1 on pages 85 and 86 for a description of each of these categories.

Derivative financial instruments are reported at fair value, with changes in fair values booked through profit or loss unless the derivatives are designated and effective as hedges of future cash flows, in which case the changes are recognised directly in equity. At the time the hedged cash flow results in the recognition of an asset or a liability, the

associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedged items that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in fair value of net investment hedges in relation to foreign subsidiaries are recognised directly in equity.

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Report of the Directors  
Financial Review continued

### Pensions and similar obligations

The assets and liabilities of pension plans are recognised at fair values in the balance sheet.

Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement. These figures are particularly sensitive to assumptions for discount rates, inflation rates, mortality rates and expected long-term rates of return on assets. Information about sensitivity to certain of these assumptions is given in note 20 on page 115 and 116.

The following table sets out these assumptions (except for mortality rates), as at 31 December 2008, in respect of the four largest Unilever pension plans. Further details of assumptions (including mortality rates) made are given in note 20 on page 117.

	%	%	%	%
	UK	Nether- lands	United States	Germany
Discount rate	6.5	5.9	5.6	5.9
Inflation	2.8	2.0	2.1	2.0
Expected long-term rate of return:				
Equities	7.8	7.2	6.0	7.2
Bonds	5.0	5.0	5.1	4.2
Property	6.0	5.7	4.5	5.7
Others	5.6	5.6	1.2	4.4

These assumptions are set by reference to market conditions at the valuation date. Actual experience may differ from the assumptions made. The effects of such differences are recognised through the statement of recognised income and expense.

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy, plan experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension plans. Mortality assumptions for the four largest plans are given in more detail in note 20 on page 117.

### Provisions

Provision is made, amongst other reasons, for legal matters, disputed indirect taxes, employee termination costs and restructuring where a legal or constructive obligation exists at the balance sheet date and a reliable estimate can be made of the likely outcome.

### Taxation

Full provision is made for deferred and current taxation at the rates of tax prevailing at the year end unless future rates have been substantively enacted, as detailed in note 12 on page 102. Deferred tax assets are regularly reviewed for recoverability, and a valuation allowance is established to the extent that recoverability is not considered likely.

Report of the Directors  
Financial Review continued

**Non-GAAP measures**

Certain discussions and analyses set out in this Annual Report and Accounts include measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS. We believe this information, along with comparable GAAP measurements, is useful to investors because it provides a basis for measuring our operating performance, ability to retire debt and invest in new business opportunities. Our management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance and value creation. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Non-GAAP financial measures as reported by us may not be comparable with similarly titled amounts reported by other companies.

In the following sections we set out our definitions of the following non-GAAP measures and provide reconciliations to relevant GAAP measures:

Ungeared free cash flow;

Return on invested capital;

Underlying sales growth; and

Net debt.

We set out Measures of long-term value creation as an introduction to the following section, in order to explain the relevance of the above measures. At the end of this section we summarise the impact on Total Shareholder Return (TSR) which is a key metric.

**Measures of long-term value creation**

Unilever's ambition for the creation of value for shareholders is measured by Total Shareholder Return over a rolling three-year period compared with a peer group of 20 other international consumer goods companies.

Unilever believes that the contribution of the business to this objective can best be measured and communicated to investors through the following measures:

The delivery, over time, of Ungeared Free Cash Flow (UFCF), which expresses the translation of profit into cash, and thus longer-term economic value; and

The development, over time, of Return on Invested Capital (ROIC), which expresses the returns generated on capital invested in the Group.

Unilever communicates progress against these measures annually, and management remuneration is aligned with these objectives. The UFCF over a three-year period is incorporated as a performance element of Unilever's management incentive scheme.

UFCF and ROIC are non-GAAP measures. We comment on these in detail here since they are the way in which we communicate our ambition and monitor progress towards our longer-term value creation goals and in order to:

improve transparency for investors;

assist investors in their assessment of the long-term value of Unilever;

ensure that the measures are fully understood in the light of how Unilever reviews long-term value creation for shareholders;

properly define the metrics used and confirm their calculation;

share the metrics with all investors at the same time; and

disclose UFCF as it is one of the drivers of management remuneration and therefore management behaviour. As investor measures, we believe that there are no GAAP measures directly comparable with UFCF and ROIC. However, in the tables on pages 41 and 42, we reconcile each as follows: UFCF to cash flow from operating activities and also to net profit; ROIC to net profit.

**Caution**

Unilever cautions that, while UFCF and ROIC are widely used as tools for investment analysis, they are not defined terms under IFRS or other GAAP and therefore their definitions should be carefully reviewed and understood by investors. Investors should be aware that their application may vary in practice and therefore these measures may not be fully comparable between companies. In particular:

We recognise that the usefulness of UFCF and ROIC as indicators of investment value is limited, as such measures are based on historical information;

UFCF and ROIC measures are not intended to be a substitute for, or superior to, GAAP measures in the financial statements;

The fact that ROIC is a ratio inherently limits its use, and management uses ROIC only for the purposes discussed above. The relevance and use of net profit for the year (being the most relevant comparable GAAP measure) is clearly more pervasive; and

UFCF is not the residual cash available to pay dividends but represents cash generated by the business and broadly available to the providers of finance, both debt and equity.

Report of the Directors  
Financial Review continued

**Ungeared free cash flow (UFCF)**

UFCF expresses the generation of profit by the business and how this is translated into cash, and thus economic value. It is therefore not used as a liquidity measure within Unilever. The movement in UFCF is used by Unilever to measure progress against our longer-term value creation goals as outlined to investors.

UFCF is cash flow from group operating activities, less net capital expenditure, less charges to operating profit for share-based compensation and pensions, and less tax (adjusted to reflect an ungeared position) and for the impact on profit of material business disposals, but before the financing of pensions.

In 2008, UFCF was 3.2 billion (2007: 3.8 billion; 2006: 4.2 billion). The reconciliation of UFCF to the GAAP measures of net profit and cash flow from operating activities is shown below.

The tax charge used in determining UFCF can be either the income statement tax charge or the actual cash taxes paid. Our consistently applied definition uses the income statement tax charge in order to eliminate the impact of volatility due to the variable timing of payments around the year end. For 2006 the income statement tax charge on this basis was materially impacted by the tax effect of non-cash charges for the provision for preference shares and certain other non-cash items. UFCF for 2008 based on actual cash tax paid would have been 3.6 billion (2007: 3.6 billion; 2006: 4.5 billion).

<b>Ungeared free cash flow</b>	<b>million 2008</b>	million 2007	million 2006
Net profit	<b>5 285</b>	4 136	5 015
Taxation	<b>1 844</b>	1 137	1 332
Share of net profit of joint ventures/associates and other income from non-current investments	<b>(219)</b>	(191)	(144)
Net finance costs	<b>257</b>	252	725
Depreciation, amortisation and impairment	<b>1 003</b>	943	982
Changes in working capital	<b>(161)</b>	27	87
Pensions charges in operating profit less payments	<b>(502)</b>	(910)	(1 038)
Movements in provisions less payments	<b>(62)</b>	145	107
	<b>(2)</b>		
Elimination of profits on disposals	<b>259)</b>	(459)	(1 620)
Non-cash charge for share-based compensation	<b>125</b>	118	120
Other adjustments	<b>15</b>	(10)	8
Cash flow from operating activities	<b>5 326</b>	5 188	5 574
Less charge for share-based compensation	<b>(125)</b>	(118)	(120)
Add back pension charges less payments in operating profit	<b>502</b>	910	1 038
	<b>(1</b>		
Less net capital expenditure	<b>099)</b>	(983)	(934)
	<b>(1</b>		
Less tax charge adjusted to reflect an ungeared position	<b>368)</b>	(1 228)	(1 336)

	<b>(1</b>		
Taxation on profit	<b>844)</b>	(1 137)	(1 332)
Taxation on profit on material business disposals	<b>581</b>		159
Tax relief on net finance costs	<b>(105)</b>	(91)	(163)
Ungeared free cash flow	<b>3 236</b>	3 769	4 222

Report of the Directors  
Financial Review continued

### Return on invested capital (ROIC)

ROIC expresses the returns generated on capital invested in the Group. The progression of ROIC is used by Unilever to measure progress against our longer-term value creation goals outlined to investors.

ROIC is profit after tax but excluding net interest on net debt and impairment of goodwill and indefinite-lived intangible assets both net of tax, divided by average invested capital for the year. Invested capital is the sum of property, plant and equipment and other non-current investments, software and finite-lived intangible assets, working capital, goodwill and indefinite-lived intangible assets at gross book value and cumulative goodwill written off directly to reserves under an earlier accounting policy.

In 2008, ROIC was 15.7% (2007: 12.7%; 2006: 14.6%). The reconciliation of ROIC to the GAAP measure net profit is shown below.

ROIC is based on total business profit, including profit on business disposals. The impact of such disposals in 2008, 2007 and 2006 was 1.6 billion, 0.3 billion and 1.2 billion respectively. ROIC excluding this impact in 2008 was 11.2% (2007: 11.3%; 2006: 11.5%).

	<b>million</b> <b>2008</b>	million 2007	million 2006
<b>Return on invested capital</b>			
Net profit	<b>5 285</b>	4 136	5 015
Add back net interest expense net of tax	<b>294</b>	314	365
Add back impairment charges net of tax <sup>(a)</sup>	<b>38</b>	1	15
Profit after tax, before interest and impairment of goodwill and indefinite-lived intangible assets	<b>5 617</b>	4 451	5 395
Year-end positions for invested capital:			
Property, plant and equipment and other non-current investments	<b>7 024</b>	7 276	7 142
Software and finite-lived intangible assets	<b>540</b>	590	608
Inventories	<b>3 889</b>	3 894	3 796
Trade and other receivables	<b>5 002</b>	4 965	4 667
	<b>(8)</b>	(8)	(8)
Trade payables and other creditors due within one year	<b>449)</b>	545)	513)
Elements of invested capital included in assets and liabilities held for sale	<b>45</b>	150	15
	<b>20</b>	20	20
Goodwill and indefinite-lived intangible assets at gross book value	<b>892</b>	029	705
	<b>28</b>	28	28
Total	<b>943</b>	359	420
Add back cumulative goodwill written off directly to reserves	<b>6 343</b>	6 427	6 427

Year-end invested capital	<b>35</b> <b>286</b>	34 786	34 847
Average invested capital for the year	<b>35</b> <b>832</b>	35 122	36 850
Return on average invested capital	<b>15.7%</b>	12.7%	14.6%

(a) Excluding write-downs of goodwill and indefinite-lived intangible assets taken in connection with business disposals.

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Report of the Directors  
Financial Review continued

**Underlying sales growth (USG)**

USG reflects the change in revenue from continuing operations at constant rates of exchange, excluding the effects of acquisitions and disposals. It is a measure that provides valuable additional information on the underlying performance of the business. In particular, it presents the organic growth of our business year on year and is used internally as a core measure of sales performance.

The reconciliation of USG to changes in the GAAP measure turnover is as follows:

	<b>2008</b> vs <b>2007</b>	2007 vs 2006
Underlying sales growth (%)	<b>7.4</b>	5.5
Effect of acquisitions (%)	<b>0.4</b>	0.1
Effect of disposals (%)	<b>(1.8)</b>	(0.9)
Effect of exchange rates (%)	<b>(4.8)</b>	(3.1)
Turnover growth (%)	<b>0.8</b>	1.4

**Net debt**

Net debt is defined as the excess of total financial liabilities, excluding trade and other payables, over cash, cash equivalents and financial assets, excluding amounts held for sale. It is a measure that provides valuable additional information on the summary presentation of the Group's net financial liabilities and is a measure in common use elsewhere.

The reconciliation of net debt to the GAAP measure total financial liabilities is as follows:

	<b>million</b> <b>2008</b>	million 2007
Total financial liabilities	<b>(11 205)</b>	(9 649)
Financial liabilities due within one year	<b>(4 842)</b>	(4 166)
Financial liabilities due after one year	<b>(6 363)</b>	(5 483)
Cash and cash equivalents as per balance sheet	<b>2 561</b>	1 098
Cash and cash equivalents as per		
cash flow statement	<b>2 360</b>	901
Add bank overdrafts deducted therein	<b>201</b>	197



Financial assets	632	216
Net debt	(8 012)	(8 335)

### Total Shareholder Return (TSR)

TSR measures the returns received by a shareholder, capturing both the increase in share price and the value of dividend income (assuming dividends are re-invested). Unilever's TSR performance is compared with a peer group of competitors over a three-year rolling performance period. This period is sensitive enough to reflect changes but long enough to smooth out short-term volatility. The return is expressed in US dollars, based on the equivalent US dollar share price for NV and PLC. US dollars were chosen to facilitate comparison with companies in Unilever's chosen reference group. The choice of currency affects the absolute TSR but not the relative ranking.

Unilever's TSR target is to be in the top third of a reference group including 20 other international consumer goods companies on a three-year rolling basis. At the end of 2007 we were positioned 8th, and at the end of 2008 the ranking was 9th. In 2008, the following companies formed the peer group of comparator companies:

Avon	Kraft
Beiersdorf	Lion
Cadbury Schweppes	L Oréal
Clorox	Nestlé
Coca-Cola	Orkla
Colgate	PepsiCo
Danone	Procter & Gamble
Heinz	Reckitt Benckiser
Kao	Sara Lee
Kimberly-Clark	Shiseido

### Unilever's position relative to the TSR reference group

The reference group, including Unilever, consists of 21 companies. Unilever's position is based on TSR over a three-year rolling period.

### Restructuring costs, business disposals and other one-off items

In our commentary on results of operations in each of our regions and at group level, we make reference to the impact of restructuring costs, business disposals and other one-off items, which we refer to collectively as RDIs, on our operating profit and operating margins. We highlight these because we believe that giving this information allows readers of our financial statements to have a better understanding of underlying trends. There is no recognised GAAP measure that corresponds to the items that we report under this heading. For further information about these items please refer to note 3 on page 93.

Report of the Directors  
Corporate governance

## **Introduction**

Unilever aspires to high standards of corporate governance. We keep our corporate governance arrangements under constant review. NV and PLC are subject to various corporate governance requirements and best practice codes, the most relevant being those in the Netherlands, the United Kingdom and the United States. It is Unilever's practice to comply, where practicable, with the highest level of these codes and respond to developments appropriately.

### **The Unilever Group**

Unilever N.V. and Unilever PLC are the two parent companies of the Unilever Group. Together with their respective group companies, NV and PLC operate effectively as a single economic entity. This is achieved by a series of agreements between NV and PLC (the Foundation Agreements, see page 51), together with special provisions in the Articles of Association of NV and PLC. NV and PLC have the same Directors and adopt the same accounting principles. Shareholders of both companies receive dividends on an equalised basis. 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. NV and PLC have agreed to co-operate in all areas and ensure that all group companies act accordingly. NV and PLC are holding and service companies, and the business activity of Unilever is carried out by their subsidiaries around the world. Shares in group companies may ultimately be held wholly by either NV or PLC or by the two companies in varying proportions.

NV was incorporated under the name Naamlooze Vennootschap Margarine Unie in the Netherlands in 1927. Its objects and purposes are set out in Article 2 of its Articles of Association. PLC was incorporated under the name Lever Brothers Limited in England and Wales in 1894. Its objects and purposes can be found in Clause 3 of its Memorandum of Association.

Unilever PLC's Memorandum of Association and Unilever N.V.'s Articles of Association contain, among other things, the objects clause which sets out the scope of the activities that PLC and NV are authorised to undertake. The Memorandum of Association and Articles of Association are drafted to give a wide scope and provide that the primary objectives are: to carry on business as a holding company, to manage any companies in which it has an interest and to operate and carry into effect the Equalisation Agreement (see page 51).

The two companies have different shareholder constituencies and shareholders cannot convert or exchange the shares of one company for shares of the other. NV is listed in Amsterdam and New York. PLC is listed in London and New York.

### **Unilever policies**

The implementation of and compliance with our governance structure is facilitated through a business-orientated policy framework. Unilever policies are universally applicable within the Unilever Group. They are mandatory and have been developed to ensure consistency in all material respects amongst worldwide operations in key areas. They cover operational and functional matters, and govern how we run our business, in order to comply with applicable laws and regulations.

Our internal risk management and control systems are described on page 28.

### **Developments in corporate governance**

Patrick Cescau retired from Unilever at the end of 2008 and, following his appointment as a Director in October 2008, Paul Polman succeeded Patrick Cescau as Chief Executive Officer in January 2009. Paul Polman is the first Chief Executive Officer appointed from outside the Unilever Group.

The text that follows describes the corporate governance arrangements operating within Unilever and the changes anticipated in 2009. More information on our corporate governance arrangements is set out in the document entitled

The Governance of Unilever, the Boards' statement of their internal arrangements, which can be found at [www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

### **The Boards**

The Boards of NV and PLC comprise the same Directors and have the same Chairman. This ensures unity of

governance and management by ensuring that all matters are considered by the Boards as a single intellect, reaching the same conclusions on the same set of facts, save where specific local factors apply.

The Boards are one-tier boards, comprising Executive Directors and, in a majority, Non-Executive Directors. The Boards have ultimate responsibility for the management, general affairs, direction and performance of our business as a whole. The responsibility of the Directors is collective, taking into account their respective roles as Executive Directors and Non-Executive Directors. The Executive Directors have additional responsibilities for the operation of our business as determined by the Boards and the Chief Executive Officer.

Our Directors have set out a number of areas of responsibility which are reserved to the Boards and other areas for which matters are delegated to the Chief Executive Officer and committees whose actions are regularly reported to and monitored by the Boards. These are described on pages 48 and 49. Further details of how our Boards effectively operate as one board, govern themselves and delegate their authorities are set out in the document entitled *The Governance of Unilever* , which can be found at

[www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

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Report of the Directors  
Corporate governance continued

### **Appointment of Directors**

Directors are normally appointed by shareholders at the AGMs. In order to facilitate the transition from Patrick Cescau to Paul Polman, Paul was appointed as an Executive Director at separately convened shareholder meetings of PLC and NV held on 28 and 29 October 2008 respectively. All existing Directors, unless they are retiring, submit themselves for re-election every year and shareholders can remove any of them by a simple majority vote. For a list of our current Directors and the periods during which they have served as such, please see pages 18 and 19.

In order to seek to ensure that NV and PLC have the same Directors, the Articles of Association of NV and PLC contain provisions which are designed to ensure that both NV and PLC shareholders are presented with the same candidates for election as Directors. This is achieved through a nomination procedure operated by the Boards of NV and PLC through Unilever's Nomination Committee.

Based on the evaluation of the Boards, its Committees and its individual members, the Nomination Committee recommends to the Boards a list of candidates for nomination at the AGMs of both NV and PLC. In addition, since 2006 shareholders of the companies have been able to nominate Directors and to do so they must put a resolution to both meetings in line with local requirements. In order to ensure that the Boards remain identical, anyone being elected as a Director of NV must also be elected as a Director of PLC and vice versa. If an individual fails to be elected to both companies then he or she will be unable to take their place on the Boards.

The provisions in the Articles of Association for appointing Directors cannot be changed without the permission, in the case of NV, of the holders of the special ordinary shares numbered 1 - 2400 inclusive and, in the case of PLC, of the holders of PLC's deferred stock. The NV special ordinary shares may only be transferred to one or more other holders of such shares. The joint holders of both the NV special ordinary shares and the PLC deferred stock are N.V. Elma and United Holdings Limited, which are joint subsidiaries of NV and PLC. The boards of N.V. Elma and United Holdings Limited comprise the members of the Nomination Committee. The Nomination Committee comprises Non-Executive Directors of Unilever only.

### **Board meetings**

Our Boards meet at least seven times a year to consider important corporate events and actions, such as:

- approval of corporate strategy;
- approval of the corporate Annual Plan;
- oversight of the performance of the business;
- review of risks and controls;
- authorisation of major transactions;
- preparation of the Annual Report and Accounts;
- declaration of dividends;
- agreement of quarterly results announcements;
- convening of shareholders' meetings;
- nominations for Board appointments;
- approval of Board remuneration policy; and

review of the functioning of the Boards and their Committees.

The following table shows the attendance of Directors at Board meetings for the year ended 31 December 2008. If Directors are unable to attend a meeting, they have the opportunity before the meeting to discuss with the Chairman any agenda items or Board papers:

Name	Attendance
Michael Treschow	8 of 8
Patrick Cescau* (to 31 December 2008)	8 of 8
Paul Polman* (from 29 October 2008)	2 of 2
James Lawrence* (from 15 May 2008)	3 of 3
Kees van der Graaf* (to 15 May 2008)	3 of 3
Ralph Kugler* (to 15 May 2008)	3 of 3
Geneviève Berger (to 30 June 2008)	3 of 3
Leon Brittan	8 of 8
Wim Dik	8 of 8
Charles Golden	8 of 8
Byron Grote	8 of 8
Narayana Murthy	7 of 8
Hixonia Nyasulu	8 of 8
David Simon	8 of 8
Kees Storm	8 of 8
Jeroen van der Veer	6 of 8

Attendance is expressed as number of meetings attended out of number eligible to attend.

\* Executive Director

Board meetings are normally held either in London or Rotterdam, with one or two off site Board meetings a year. The Chairman is assisted by the Group Secretary, who ensures that the Boards are supplied with all the information necessary for their deliberations. The Chairman and the Group Secretary involve the Senior Independent Director (see page 47) in the arrangements for Board meetings.

#### **Board induction and training**

Upon election, Directors receive a comprehensive Directors Manual and are briefed thoroughly on their responsibilities and our business. Updates on corporate governance developments and investor relations matters are frequent agenda items at Board meetings. Ongoing training is provided for Directors by way of site visits, presentations, circulated updates, teach-ins at Board or Board committee meetings on, among other things, Unilever's business, environmental, social and corporate governance, regulatory developments and investor relations matters. In 2008, Board meetings were held at the offices of Hindustan Unilever in Mumbai which included a visit to local retail outlets and the Bangalore Research and Development Centre and in Unilever's operations in New York which included trade visits and a visit to the New Jersey Customer Insight and Innovation Centre.

#### **Board evaluation**

The evaluation process of our Boards consists of an internal three-year cycle with an independent third-party evaluation carried out if the Boards consider appropriate. The last time an independent third-party evaluation was carried out was in 2006. In 2007 and



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2008 the Chairman, in conjunction with the Senior Independent Director, conducted the internal evaluation process. An extensive questionnaire for all Board members formed part of the evaluation process. In addition, the Chairman conducted a process of evaluating the performance of each individual Board member, including an interview with each. The evaluation of the performance of the Chairman was led by the Senior Independent Director. Committees of the Boards evaluate themselves under supervision of their respective chairmen taking into account the views of respective committee members and the Boards. The results of the various evaluations were discussed by the Boards and changes were made in respect of Board practices and processes where considered necessary.

**Board support**

The Group Secretary is available to advise all Directors and ensure that Board procedures are complied with. The Boards have the power to appoint and remove the Group Secretary.

A procedure is in place to enable Directors, if they so wish, to seek independent professional advice at Unilever's expense.

**Board changes**

The current Directors, with their biographies, are shown on pages 18 and 19.

Geneviève Berger, Leon Brittan, Wim Dik, Charles Golden, Byron Grote, Narayana Murthy, Hixonia Nyasulu, David Simon, Kees Storm, Michael Treschow and Jeroen van der Veer were re-elected as Non-Executive Directors of NV and PLC at the 2008 AGMs.

On 1 July 2008 Geneviève Berger stepped down from the Boards as a Non-Executive Director to join the Unilever Executive team as Chief Research and Development Officer. Paul Polman became an Executive Director on 29 October 2008 and, following an orderly transition, took over from Patrick Cescau on 1 January 2009 as Chief Executive Officer.

At the 2008 AGMs, Kees van der Graaf and Ralph Kugler stepped down from the Boards, and Jim Lawrence was appointed an Executive Director to those Boards following his appointment as Chief Financial Officer in September 2007.

At the 2009 AGMs all current Executive and Non-Executive Directors will be nominated for re-election, except David Simon who will be retiring as a Non-Executive Director at the end of our 2009 AGMs after three terms of three years. During that time he has served as our Vice Chairman, Senior Independent Director and Chairman of our Nomination and Remuneration Committees. It is intended that David will be succeeded in those roles by Jeroen van der Veer, with effect from the conclusion of the 2009 AGMs.

**Chairman and Chief Executive Officer**

Unilever has a separate independent Non-Executive Chairman and Chief Executive Officer. There is a clear division of responsibilities between their roles. The Chairman is primarily responsible for leadership of the Boards, ensuring their effectiveness and setting their agendas. He is also responsible for ensuring that the Boards receive accurate, timely and clear information.

The Chief Executive Officer has been entrusted, within the parameters set out in the Articles of Association of NV and PLC and in the document entitled 'The Governance of Unilever', with all the Boards' powers, authorities and discretions in relation to the operational management of Unilever. The Chief Executive Officer has the authority to determine which duties regarding the operational management of the companies and their business enterprises will be carried out under his responsibility by one or more Executive Directors or by one or more other persons. This provides a basis for the Unilever Executive team (UEX) that is chaired by and reports to the Chief Executive Officer. For UEX members' biographies see page 58. For our business structure, please refer to 'About Unilever' on pages 21 and 22.

**Executive Directors**

All Executive Directors are members of the UEX.

The Executive Directors are full-time employees of Unilever. Information about their remuneration can be found in the report of the Remuneration Committee on pages 60 to 73 and on our website at

[www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

The Remuneration Committee takes the view that the entitlement of the Executive Directors to the security of twelve months' notice of termination of employment is in line with both the practice of many comparable companies and the entitlement of other senior executives within Unilever. It is our policy to set the level of severance payments for Executive Directors at no more than one year's salary, unless the Boards, at the proposal of the Remuneration Committee, find this unreasonable given the circumstances or unless dictated by applicable law.

The Executive Directors submit themselves for re-election at the AGMs each year. The Nomination Committee carefully considers each nomination for reappointment.

Executive Directors stop holding executive office on ceasing to be Directors. Executive Directors retire between the ages of 60 and 65, as decided by either them or Unilever.

We do not grant our Executive Directors any personal loans or guarantees.

There are no family relationships between any of our Executive Directors, other key management personnel or Non-Executive Directors. None of our Executive Directors or other key management personnel are elected or appointed under any arrangement or understanding, either with any major shareholder, customer, supplier or otherwise.



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### **Outside Appointments**

Unilever recognises the benefit to the individual and to the Group of involvement by Unilever Executives acting as directors of other companies outside the Unilever Group, broadening their experience and knowledge. The number of outside directorships of listed companies is generally limited to one per individual. In the case of publicly listed companies approval is required from the Chairman. Outside directorships must not involve an excessive commitment or conflict of interest. Unilever Executives must at all times ensure that their time commitment to Unilever takes precedence over any outside directorship. Fees paid in connection with an outside directorship may be retained by the individual, reflecting that any outside directorship is for the responsibility of the individual and that Unilever takes no responsibility in this regard.

### **Non-Executive Directors**

The Non-Executive Directors share responsibility for the execution of the Boards' duties, taking into account their specific responsibilities, which are essentially supervisory. In particular, they comprise the principal external presence in the governance of Unilever, and provide a strong independent element. See pages 18 and 19 for their biographies.

### **Role and Responsibility**

The key elements of the role and responsibilities of our Non-Executive Directors are:

- supervision of and advice to the Chief Executive Officer;
- developing strategy with the Chief Executive Officer;
- scrutiny of performance of the business and Chief Executive Officer;
- oversight of risks and controls;
- reporting of performance;
- remuneration of and succession planning for Executive Directors; and
- governance and compliance.

Our Non-Executive Directors are chosen for their broad and relevant experience and international outlook, as well as their independence. They form the Audit Committee, the Nomination Committee, the Remuneration Committee and the Corporate Responsibility and Reputation Committee. The roles and membership of these key Board committees are described on pages 48 and 49. The profile set by the Boards for the Non-Executive Directors and the schedule used for orderly succession planning can be found on our website at

[www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

### **Meetings**

The Non-Executive Directors meet as a group, without the Executive Directors present, under the leadership of the Chairman. In 2008 they met five times. In addition, the Non-Executive Directors (including the Chairman) usually meet before each Board meeting with the Chief Executive Officer, the Chief Financial Officer, other senior executives and the Group Secretary.

### **Senior Independent Director**

Our Non-Executive Directors have appointed David Simon as Senior Independent Director. He acts as their spokesman. The Senior Independent Director is consulted by the Chairman on the agenda and arrangements for Board meetings. He is also, in appropriate cases, a point of contact for shareholders and other stakeholders. Upon David's retirement, it is intended that he will be succeeded by Jeroen van der Veer, with effect from the conclusion of the 2009 AGMs.

**Tenure**

Our Non-Executive Directors submit themselves for re-election each year at the AGMs. Their nomination for re-election is subject to continued good performance which is evaluated by the Boards, based on the recommendations of the Nomination Committee. The Nomination Committee carefully considers each nomination for reappointment. The Non-Executive Directors normally serve for a maximum of nine years.

**Remuneration**

The remuneration of the Non-Executive Directors is determined by the Boards, within the overall limit set by the shareholders at the AGMs in 2007, and it is reported on page 72. We do not grant our Non-Executive Directors any personal loans or guarantees nor are they entitled to any severance payments. Details of the engagement of our Non-Executive Directors can be seen on the Unilever website at [www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

**Other appointments**

Non-Executive Directors may serve on boards of other companies, provided such service does not involve a conflict of interest or restrict their ability to discharge their duties to Unilever.

**Independence**

Taking into account the role of Non-Executive Directors, which is essentially supervisory, and the fact that they make up the key Committees of the Boards, it is important that our Non-Executive Directors can be considered to be independent.

Our definition of independence for Directors is set out in the document entitled *The Governance of Unilever*. It is derived from the applicable definitions in use in the Netherlands, the UK and the US. All our current Non-Executive Directors are considered to be independent of Unilever. Our Boards reached this conclusion after conducting a thorough review of all relevant relationships of the Non-Executive Directors, and their related or connected persons. Leon Brittan has served on the Boards since 2000. The length of tenure under the Dutch Corporate Governance Code is set at a maximum of twelve years for non-executive directors.

However, the UK Combined Code on Corporate Governance suggests that length of tenure is a factor to consider when determining independence of a non-executive director. The UK Combined Code also provides that a non-executive director who serves more than nine years should be subject to annual re-election and subject to particularly rigorous review. It is our standard practice for all Directors to seek re-election annually. Moreover, our annual performance review has concluded that

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Leon Brittan continues to demonstrate the essential characteristics of independence expected by the Boards. His length of service, and his resulting experience and knowledge of Unilever, is viewed by the Boards as being especially valuable, particularly given the extent of the changes to the Boards in recent years.

A number of relationships, such as non-executive directorships, exist between various of our Non-Executive Directors and companies that provide banking, insurance or financial advisory services to Unilever. Our Boards considered in each case the number of other companies that also provide or could readily provide such services to Unilever, the significance to those companies of the services they provide to Unilever, the roles of the Non-Executive Directors within those companies and the significance of those roles to our Non-Executive Directors.

It concluded that none of these relationships impact the independence of the Non-Executive Directors concerned. The Boards have formed the view that the fact that David Simon is a senior adviser of Morgan Stanley International is not material. The Boards have satisfied themselves that the services provided by Paton Tupper Associates (Pty) Limited and Barloworld Limited, of which Hixonia Nyasulu is a director and shareholder and director respectively, to Unilever South Africa is not material. The Boards further concluded that Narayana Murthy's directorship of HSBC Holdings plc, one of Unilever's preferred banks, is not impacted by the banking relationship and therefore that he should be considered independent. The Boards have also satisfied themselves that Leon Brittan's position at UBS Investment Bank and UBS Securities Company Limited does not involve him in any way in its broking relationship with Unilever.

None of our Non-Executive Directors are elected or appointed under any arrangement or understanding, either with any major shareholder, customer, supplier or otherwise.

## **Committees**

### **Board Committees**

The Boards have established the committees described below, all formally set up by Board resolutions with carefully defined remits. They are made up solely of Non-Executive Directors and report regularly to the Boards. For all committees, if Directors are unable to attend a meeting, they are given the opportunity before the meeting to discuss with the Chairman of the committee any agenda items or committee papers. All committees are provided with sufficient resources to undertake their duties. The terms of reference for each committee can be found on our website at

[www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

### **Audit Committee**

The Audit Committee is comprised only of independent Non-Executive Directors with a minimum requirement of three such members. It is chaired by Kees Storm, and its other members are Wim Dik, Charles Golden and Byron Grote. The Boards have satisfied themselves that all the current members of the Audit Committee are competent in financial matters and have recent and relevant experience and that, for the purposes of the US Sarbanes-Oxley Act of 2002, Kees Storm is the Audit Committee's financial expert. The Audit Committee's meetings are attended, by invitation, by the Chief Financial Officer, the Chief Legal Officer, the Group Controller, the Chief Auditor and our external auditors.

The Audit Committee assists the Boards in fulfilling their oversight responsibilities in respect of the integrity of Unilever's financial statements; risk management and internal control arrangements; compliance with legal and regulatory requirements; the performance, qualifications and independence of the external auditors; and the performance of the internal audit function. The Audit Committee is directly responsible, subject to local laws regarding shareholder approval, for the nomination, compensation and oversight of the external auditors.

The Audit Committee is compliant with the rules regarding audit committees applicable in the Netherlands, the UK and the US. The Audit Committee is supplied with all information necessary for the performance of its duties by the Chief Auditor, Chief Financial Officer and Group Controller. Both the Chief Auditor and the external auditors have direct access to the Audit Committee separately from management.

The following table shows the attendance of Directors at Audit Committee meetings for the year ended 31 December 2008:

<b>Name</b>	<b>Attendance</b>
Kees Storm (Chairman)	6 of 6
Wim Dik	6 of 6
Charles Golden	6 of 6
Byron Grote	6 of 6

Attendance is expressed as number of meetings attended out of number eligible to attend.

See page 74 for the Report of the Audit Committee to the shareholders.

#### **Nomination Committee**

The Nomination Committee recommends to the Boards candidates for the positions of Director. It also has responsibilities for succession planning and oversight of corporate governance matters. It is supplied with information by the Group Secretary.

The document entitled 'The Governance of Unilever' sets out that the Nomination Committee comprises two independent Non-Executive Directors and the Chairman. The Nomination Committee is chaired by David Simon and its other members are Michael Treschow and Jeroen van der Veer. Following David's retirement at the end of the 2009 AGMs, it is intended that Jeroen van der Veer will succeed him as Chairman of the Nomination Committee.

The following table shows the attendance of Directors at Nomination Committee meetings for the year ended 31 December 2008:

<b>Name</b>	<b>Attendance</b>
David Simon (Chairman)	6 of 6
Michael Treschow (from 6 February 2008)	5 of 5
Jeroen van der Veer	4 of 6

Attendance is expressed as number of meetings attended out of number eligible to attend.

See page 59 for the Report of the Nomination Committee to the shareholders.

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### Remuneration Committee

The Remuneration Committee reviews Directors' remuneration and is responsible for the executive share-based incentive plans. It determines, within the parameters set by our shareholders, specific remuneration arrangements for each of the Executive Directors, the remuneration scales and arrangements for Non-Executive Directors and the policy for the remuneration of the tier of management directly below the Boards. The Committee is advised by the Group Secretary on matters of corporate governance.

The document entitled 'The Governance of Unilever' sets out that the Committee comprises a minimum of three independent Non-Executive Directors. The Remuneration Committee is chaired by David Simon and its other members are Jeroen van der Veer and Michael Treschow. Following David's retirement at the end of the 2009 AGMs, it is intended that Jeroen van der Veer will succeed him as Chairman of the Remuneration Committee.

The following table shows the attendance of Directors at Remuneration Committee meetings for the year ended 31 December 2008:

Name	Attendance
David Simon (Chairman)	5 of 5
Michael Treschow (from 6 February 2008)	4 of 4
Jeroen van der Veer	3 of 5

Attendance is expressed as number of meetings attended out of number eligible to attend.

The detailed report of the Remuneration Committee to the shareholders on Directors' remuneration is on pages 60 to 73.

### Corporate Responsibility and Reputation Committee

The Corporate Responsibility and Reputation Committee has responsibility for the oversight of Unilever's conduct with regard to its corporate and societal obligations and its reputation as a responsible corporate citizen. It comprises a minimum of three Non-Executive Directors. It is chaired by Leon Brittan and its other members are Narayana Murthy and Hixonia Nyasulu. Ralph Kugler and Geneviève Berger stepped down as members of the Committee on 15 May 2008 and 30 June 2008 respectively.

The following table shows the attendance of Directors at Corporate Responsibility and Reputation Committee meetings for the year ended 31 December 2008:

Name	Attendance
Leon Brittan (Chairman)	4 of 4
Geneviève Berger (to 30 June 2008)	2 of 2
Ralph Kugler (to 15 May 2008)	2 of 2
Narayana Murthy	2 of 4
Hixonia Nyasulu	4 of 4

Attendance is expressed as number of meetings attended out of number eligible to attend.  
See page 75 for the Report of the Corporate Responsibility and Reputation Committee to shareholders.

**Routine business committees**

Committees are also set up to conduct routine business as and when they are necessary. They comprise any two of the Directors and certain senior executives and officers. They administer or implement certain matters previously agreed by our Boards or the Chief Executive Officer. The Group Secretary is responsible for the operation of these committees.

**Disclosure Committee**

The Boards have set up a Disclosure Committee which is responsible for helping the Boards ensure that financial and other information required to be disclosed publicly is disclosed in a timely manner and that the information that is disclosed is complete and accurate in all material aspects. The Committee comprises the Group Controller, the Group Secretary, the Chief Legal Officer and the Group Treasurer.

**Director matters**

**Conflicts of interest**

We attach special importance to avoiding conflicts of interest between NV and PLC and their Directors. The Boards are responsible for ensuring that there are rules in place to avoid conflicts of interest by Board members. Conflicts of interest are understood not to include transactions and other activities between companies in the Unilever Group. At the 2008 AGM shareholders approved amendments to Unilever PLC's Articles of Association to reflect certain provisions of the UK Companies Act 2006 relating to conflicts of interest that came into force on 1 October 2008, enabling the Board to authorise conflicts or potential conflicts of interest. Following the change of law, the interests of Directors and their connected persons were reviewed by the Boards. Authorisation of situational conflicts was given by the Boards to the relevant Director in accordance with the Articles of Association of PLC. The authorisation included conditions relating to keeping Unilever information confidential and to the exclusion from receiving and discussing relevant information at Board meetings. Situational conflicts will be reviewed annually by the Boards as part of the determination of Director independence. In between those reviews Directors have a duty to inform the Boards of any relevant changes to the situation. The procedures that Unilever has put in place to deal with conflicts of interest have operated effectively.

**Various formal matters**

The borrowing powers of NV Directors on behalf of NV are not limited by the Articles of Association of NV. PLC Directors have the power to borrow on behalf of PLC up to three times the adjusted capital and reserves of PLC, as defined in its Articles of Association, without the approval of shareholders (any exceptions requiring an ordinary resolution).

The Articles of Association of NV and PLC do not require Directors of NV or Directors of PLC to hold shares in NV or PLC. However, the remuneration arrangements applicable to our Executive Directors require them to build and retain a personal shareholding in Unilever equal to at least 150% of their annual base pay.

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### **Indemnification**

Directors' indemnification, including the terms thereof, is provided for in Article 19 of NV's Articles of Association. The power to indemnify Directors is provided for in PLC's Articles of Association and deeds of indemnity have been issued to all PLC Directors. Appropriate Directors' and Officers' liability insurance is in place for all Unilever Directors.

### **Shareholder matters**

#### **Relations with shareholders and other investors**

We believe it is important both to explain our business developments and financial results to investors and to understand their objectives.

The Chief Financial Officer has lead responsibility for investor relations, with the active involvement of the Chief Executive Officer. They are supported by our Investor Relations department which organises presentations for analysts and investors. Such presentations are generally made available on our website. Briefings on quarterly results are given via teleconference and are accessible by telephone or via our website. For further information visit our website at [www.unilever.com/investorrelations](http://www.unilever.com/investorrelations)

The Boards are briefed on reactions to quarterly results announcements. They, or the relevant Board Committee, are briefed on any issues raised by shareholders that are relevant to their responsibilities.

Our shareholders can, and do, raise issues directly with the relevant Executive Director or the Chairman and, if appropriate, a relevant Non-Executive Director or the Senior Independent Director.

Both NV and PLC communicate with their respective shareholders at the AGMs as well as responding to their questions and enquiries during the course of the year. We take the views of our shareholders into account and, in accordance with all applicable legislation and regulations, may consult them in an appropriate way before putting proposals to our AGMs.

#### **General Meetings of shareholders**

The business to be conducted at the AGMs of NV and PLC is set out in the separate Notices of AGM for NV and PLC. It typically includes approval/consideration of the Annual Report and Accounts, appointment of Directors, remuneration framework, appointment of external auditors, approval of changes to the Articles of Association, and authorisation for the Boards to allot and repurchase shares, and to restrict pre-emptive rights of shareholders.

At the AGMs, a review is given of the progress of the business over the last year and there is a discussion of current issues. Shareholders are encouraged to attend the meetings and ask questions, and the question-and-answer sessions form an important part of the meetings.

General Meetings of shareholders of NV and PLC are held at times and places decided by our Boards. NV meetings are normally held in Rotterdam and PLC meetings are normally held in London, on consecutive days. The notices calling the meetings normally go out more than 30 days prior to the meetings and include further information on how to gain access to the AGMs and how to vote by proxy.

We welcome our external auditors to the AGMs and they are entitled to address the meetings.

#### **Electronic communication**

We are committed to efforts to continue more effective ways of communication with our shareholders around the AGMs. Electronic communication is already an important and established medium for shareholders, providing ready access to shareholder information and reports, and for voting purposes.

NV was one of the founders of the Dutch Shareholders' Communication Channel. NV shareholders participating in the Channel are able to appoint electronically a proxy to vote on their behalf at the NV AGM and NV shareholders who wish to participate should contact their bank or broker.

Shareholders of PLC can choose to receive electronic notification that the Annual Review, Annual Report and Accounts and Notice of AGMs have been published on our website, instead of receiving printed copies, and can also electronically appoint a proxy to vote on their behalf at the AGM.

Registration for electronic communication by shareholders of PLC can be made at [www.unilever.com/shareholderservices](http://www.unilever.com/shareholderservices) The UK Companies Act 2006 contains provisions facilitating communications between companies and their shareholders electronically and PLC has established such a facility after consulting with its shareholders in 2007 to offer them the opportunity to review their method of receiving shareholder communications in the future.

**Voting rights**

To be entitled to attend and vote at NV General Meetings shareholders must hold their NV shares on the record date, which is set by the Board of NV at a date not more than 30 days before the meeting. Shareholders do not need to block their shares. NV shareholders can cast one vote for each 0.16 nominal capital that they hold. This means that they can cast one vote for each NV ordinary share, or NV New York Registry Share. Shareholders can vote in person or by proxy. Similar arrangements apply to holders of depositary receipts issued for NV shares and the holders of NV preference shares (see page 54).

PLC shareholders can cast one vote for each 3<sup>1</sup>/<sub>9</sub>p nominal capital that they hold. This means shareholders can cast one vote for each PLC ordinary share, or PLC American Depositary Receipt of shares. Shareholders can vote in person at the meeting or by proxy. Proxies should be submitted at least 48 hours before the General Meeting to the Registrars, whose details can be found on page 159.



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More information on the exercise of voting rights can be found in NV's and PLC's Articles of Association and in the respective Notices of Meetings.

Holders of NV New York Registry Shares or PLC American Depositary Receipts of shares will receive a proxy form enabling them to authorise and instruct a notary public or Citibank, N.A. respectively to vote on their behalf at the General Meeting of NV or PLC.

N.V. Elma and United Holdings Limited (the holders of NV's special shares), other group companies of NV which hold ordinary or preference shares, and United Holdings Limited, which owns half of PLC's deferred stock, are not permitted to vote at General Meetings.

Voting on each of the resolutions contained in the Notice of AGMs is conducted by poll. The final vote is published at the meetings and the outcome of the votes, including the proxy votes, is put on Unilever's website.

**Shareholder proposed resolutions**

Shareholders of NV may propose resolutions if they individually or together hold 1% of NV's issued capital in the form of shares or depositary receipts for shares, or if they individually or together hold shares or depositary receipts worth or representing the market value in shares as set in respect thereto by or pursuant to the law (currently 50 million). They must submit these requests at least 60 days before the date of the General Meeting, and the request will be honoured unless, in the opinion of the Boards, it is against a substantive interest of the Company. Shareholders who together represent at least 10% of the issued capital of NV can also requisition Extraordinary General Meetings to deal with specific resolutions.

Shareholders who together hold shares representing at least 5% of the total voting rights of PLC, or 100 shareholders who hold on average £100 each in nominal value of PLC capital, can require PLC to propose a resolution at a general meeting. PLC shareholders holding in aggregate 10% of the issued PLC ordinary shares are able to convene a general meeting of PLC.

**Required majorities**

Resolutions are usually adopted at NV and PLC shareholder meetings by an absolute majority of votes cast, unless there are other requirements under the applicable laws or NV's or PLC's Articles of Association. For example, there are special requirements for resolutions relating to the alteration of the Articles of Association, the liquidation of NV or PLC and the alteration of the Equalisation Agreement (see below).

A proposal to alter the Articles of Association of NV can only be made by the Board of NV. A proposal to alter the Memorandum and Articles of Association of PLC can be made either by the Board of PLC or by shareholders in the manner permitted under the UK Companies Acts. Unless expressly specified to the contrary in the Articles of Association of PLC, PLC's Articles of Association may be amended by a special resolution. Proposals to alter the provisions in the Articles of Association of NV and PLC respectively relating to the unity of management require the prior approval of meetings of the holders of the NV special shares and the PLC deferred stock. The Articles of Association of NV and the Memorandum and Articles of Association of PLC can be found on our website at [www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

**Right to hold shares**

Unilever places no limitations on the right to hold NV and PLC shares.

**Foundation Agreements**

**Equalisation Agreement**

The Equalisation Agreement makes the economic position of the shareholders of NV and PLC, as far as possible, the same as if they held shares in a single company. The Equalisation Agreement regulates the mutual rights of the shareholders of NV and PLC. Under the Equalisation Agreement, NV and PLC must adopt the same financial periods and accounting policies. Dividends are paid in accordance with a formula relating to the nominal values of NV's and PLC's issued share capital.

Each NV ordinary share represents the same underlying economic interest in the Unilever Group as each PLC ordinary share.

We pay ordinary dividends for NV and PLC on the same day. NV and PLC allocate funds for the dividend from their parts of our current profits and free reserves. We pay the same amount on each NV share as on one PLC share calculated at the relevant exchange rate. For interim dividends this exchange rate is the average rate for the quarter before we declare the dividend. For final dividends it is the average rate for the year. In arriving at the equalised amount we include any tax payable by the Company in respect of the dividend, but calculate it before any tax deductible by the Company from the dividend.

The Equalisation Agreement provides that if one company had losses, or was unable to pay its preference dividends, the loss or shortfall would be made up out of:

the current profits of the other company (after it has paid its own preference shareholders);

then its own free reserves; and

then the free reserves of the other company.

If either company could not pay its ordinary dividends, we would follow the same procedure, except that the current profits of the other company would only be used after it had paid its own ordinary shareholders and if the Directors thought this more appropriate than, for example, using its own free reserves.

So far, NV and PLC have always been able to pay their own dividends, so we have never had to follow this procedure.

If we did, the payment from one company to the other would be subject to any United Kingdom and Dutch tax and exchange control laws applicable at that time.

Report of the Directors  
Corporate governance continued

Under the Equalisation Agreement, the two companies are permitted to pay different dividends in the following exceptional circumstances:

If the average annual sterling/euro exchange rate changed so substantially from one year to the next that to pay equal dividends at the current exchange rates, either NV or PLC would have to pay a dividend that was unreasonable (that is to say, substantially larger or smaller in its own currency than the dividend it paid in the previous year); or

The governments of the Netherlands or the United Kingdom could in some circumstances place restrictions on the proportion of a company's profits which can be paid out as dividends. This could mean that in order to pay equal dividends one company would have to pay out an amount which would breach the limitations in place at the time, or that the other company would have to pay a smaller dividend.

In either of these rare cases, NV and PLC could pay different amounts of dividend if the Boards thought it appropriate. The company paying less than the equalised dividend would put the difference between the dividends into a reserve: an equalisation reserve in the case of exchange rate fluctuations, or a dividend reserve in the case of a government restriction. The reserves would be paid out to its shareholders when it became possible or reasonable to do so, which would ensure that the shareholders of both companies would ultimately be treated the same.

If both companies were to go into liquidation, NV and PLC would each use any funds legally available to pay the prior claims of their own preference shareholders. Then they would use any surplus to pay each other's preference shareholders, if necessary. After these claims had been met, they would pay out any equalisation or dividend reserve to their own shareholders before pooling the remaining surplus. This would be distributed to the ordinary shareholders of both companies on an equal basis. If one company were to go into liquidation, we would apply the same principles as if both had gone into liquidation simultaneously.

In principle, issues of bonus shares and rights offerings can only be made in ordinary shares. Again, we would ensure that shareholders of NV and PLC received shares in equal proportions. The subscription price for one new NV share would have to be the same, at the prevailing exchange rate, as the price for one new PLC share. Neither company can issue or reduce capital without the consent of the other.

The Articles of Association of NV establish that any payment under the Equalisation Agreement will be credited or debited to the income statement for the financial year in question.

Under Article 2 of the Articles of Association of NV and Clause 3 of the Memorandum of Association of PLC, each company is required to carry out the Equalisation Agreement with the other. Both documents state that the Agreement cannot be changed or terminated without the approval of shareholders. For NV, the

General Meeting can decide to alter or terminate the Equalisation Agreement at the proposal of the Board. The necessary approval of the General Meeting is then that at least one half of the total issued ordinary capital must be represented at an ordinary shareholders' meeting, where the majority must vote in favour; and (if they would be disadvantaged or the agreement is to be terminated), at least two-thirds of the total issued preference share capital must be represented at a preference shareholders' meeting, where at least three-quarters of them must vote in favour. For PLC, the necessary approval must be given by the holders of a majority of all issued shares voting at a General Meeting and the holders of the ordinary shares, by a simple majority voting at a General Meeting where the majority of the ordinary shares in issue are represented.

In addition, Article 3 of the PLC Articles of Association states that PLC's Board must carry out the Equalisation Agreement and that the other provisions of the Articles of Association are subject to it.

We are advised by counsel that these provisions oblige our Boards to carry out the Equalisation Agreement, unless it is amended or terminated with the required approval of the shareholders of both companies. If the Boards fail to enforce the Agreement, shareholders can compel them to do so under Dutch and UK law.

As announced on 5 February 2009, at the 2009 AGMs and at separate Meetings of Ordinary Shareholders we will be proposing resolutions to authorise the Directors to modify the Equalisation Agreement to facilitate the payment of

quarterly dividends from 2010 onwards. This will allow us to change to a simpler and more transparent dividend practice for the Unilever group. These changes will result in more frequent payments to shareholders, and better align with the cash flow generation of the business.

The Equalisation Agreement can be found on our website at [www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

#### **The Deed of Mutual Covenants**

The Deed of Mutual Covenants provides that NV and PLC and their respective subsidiary companies shall co-operate in every way for the purpose of maintaining a common operating policy. They shall exchange all relevant information about their respective businesses the intention being to create and maintain a common operating platform for the Unilever Group throughout the world. The Deed illustrates some of the information which makes up this common platform, such as the mutual exchange and free use of know-how, patents, trade marks and all other commercially valuable information.

The Deed contains provisions which allow the Directors of NV and PLC to take any actions to ensure that the dividend-generating capacity of each of NV and PLC is aligned with the economic interests of their respective shareholders. These provisions also allow assets to be transferred between NV and PLC and their associated companies (as defined in the Deed) to ensure that assets are allocated in the most efficient manner. These arrangements are designed to create a balance between the two parent companies and the funds generated by them, for the benefit of their respective sets of shareholders.

Report of the Directors  
Corporate governance continued

### The Agreement for Mutual Guarantees of Borrowing

Under the Agreement for Mutual Guarantees of Borrowing between NV and PLC, each company will, if asked by the other, guarantee the borrowings of the other. The two companies also jointly guarantee the borrowings of their subsidiaries. These arrangements are used, as a matter of financial policy, for certain significant public borrowings. They enable lenders to rely on our combined financial strength.

### Share capital matters

#### Combined earnings per share

We calculate earnings per share on a combined basis. In our combined earnings per share calculation, we assume that both companies will be able to pay their dividends out of their part of our profits. This has always been the case in the past, but if we did have to make a payment from one to the other it could result in additional taxes, and reduce our combined earnings per share.

Further information about the calculation of earnings per share, including the calculation on a diluted basis, can be found in note 7 on page 96.

#### Share capital

NV's issued share capital on 31 December 2008 was made up of:

274 356 432 split into 1 714 727 700 ordinary shares of 0.16 each;

1 028 568 split into 2 400 ordinary shares numbered 1 to 2 400, known as special shares; and

113 599 014 split into several classes (4%, 6% and 7%) of cumulative preference shares ( financing preference shares ).

The voting rights attached to NV's outstanding shares are split as follows:

	Total number of votes	% of issued capital
1 714 727 700 ordinary shares	1 714 727 700 <sup>(a)</sup>	70.53
2 400 special shares	6 428 550 200 906	0.26
750 000 4% cumulative preference shares	250 431 409	8.26
161 060 6% cumulative preference shares	276 77 678	17.75
29 000 7% cumulative preference shares	312	3.20

(a) Of which 141  
560 629 shares  
were held in  
treasury and 35  
663 020 shares

were held in connection with share-based payments as at 31 December 2008. These shares are not voted on.

NV may issue shares not yet issued and grant rights to subscribe for shares only pursuant to a resolution of the General Meeting of Shareholders or of another corporate body designated for such purpose by a resolution of the General Meeting. At the AGM held on 15 May 2008 the Board was designated, in accordance with Articles 96 and 96a of Book 2 of the Netherlands Civil Code, as the corporate body authorised until 15 November 2009 to resolve on the issue of or on the granting of rights to subscribe for shares not yet issued and to restrict or exclude the statutory preemption rights that accrue to shareholders upon issue of shares, on the understanding that this authority is limited to 10% of the issued share capital of the Company, plus an additional 10% of the issued share capital of the Company in connection with or on the occasion of mergers and acquisitions.

At the 2008 AGM the Board of NV was authorised, in accordance with Article 98 of Book 2 of the Netherlands Civil Code, until 15 November 2009 to cause the Company to buy back its own shares and depositary receipts thereof, within the limits set by law, either through purchase on a stock exchange or otherwise, at a price, excluding expenses, not lower than the nominal value of the shares and not higher than 10% above the average of the closing price of the shares on Eurolist by Euronext Amsterdam for the five business days before the day on which the purchase is made. The Board agreed at the AGM that it would use the authority to purchase more than 10% of the Company's issued share capital.

The above mentioned authorities are renewed annually.

PLC's issued share capital on 31 December 2008 was made up of:

£40 760 420 split into 1 310 156 361 ordinary shares of 31<sup>1</sup>/<sub>9</sub>p each; and

£100 000 of deferred stock.

The total number of voting rights attached to PLC's outstanding shares are shown hereunder:

	Total number of votes	% of issued capital
1 310 156 361 ordinary shares	1 310 156 361 <sup>(a)</sup>	99.76
£100 000 deferred stock	3 214 285	0.24

(a) Of which 26 696 994 shares were held by PLC in treasury and 31 887 851 shares were held by NV group companies or by share trusts as at 31

December 2008.  
These shares are  
not voted on.

The Board of PLC under sections 80 and 89 of the UK Companies Act 1985 may, subject to the passing of the appropriate resolutions at a meeting of shareholders, issue shares within the limits prescribed within the resolutions. At the 2008 AGM the Directors were authorised to issue new shares pursuant to section 80 of that Act, limited to a maximum of £13 450 000 nominal value, which at the time represented approximately 33% of the Company's issued Ordinary share capital and pursuant to section 89 of that Act, to disapply pre-emption rights up to approximately 5% of PLC's issued ordinary share capital. These authorities are renewed annually.

At the 2008 AGM the Board of PLC was authorised in accordance with its Articles of Association to make market purchases of its ordinary shares representing just under 10% of the Company's issued capital and within the limits prescribed within the resolution until the earlier of the 15-month anniversary after the passing of the resolution or the conclusion of the 2009 AGM.

Report of the Directors  
Corporate governance continued

### **Margarine Union (1930) Limited: Conversion Rights**

The first Viscount Leverhulme was the founder of the company which became PLC. When he died in 1925, he left in his will a large number of PLC shares in various trusts.

When the will trusts were varied in 1983, the interests of the beneficiaries of his will were also preserved. Four classes of special shares were created in Margarine Union (1930) Limited, a subsidiary of PLC. One of these classes can be converted at the end of the year 2038 into 70 875 000 PLC ordinary shares of 3<sup>1</sup>/<sub>9</sub>p each. This currently represents 5.4% of PLC's issued ordinary capital. These convertible shares replicate the rights which the descendants of the first Viscount would have had under his will. This class of the special shares only has a right to dividends in specified circumstances, and no dividends have yet been paid. PLC guarantees the dividend and conversion rights of the special shares.

### **Foundation Unilever NV Trust Office**

As at 27 February 2009, around 73% of NV's ordinary shares and around 34% of NV's 7% cumulative preference shares were held by the Foundation Unilever NV Trust Office (Stichting Administratiekantoor Unilever N.V.), a trust office with a board independent of Unilever. As part of its corporate objects, the Foundation issues depositary receipts in exchange for these shares. These depositary receipts are listed on Euronext Amsterdam, as are the NV ordinary and 7% preference shares themselves.

Holders of depositary receipts can under all circumstances exchange their depositary receipts for the underlying shares (and vice versa).

Holders of depositary receipts are entitled to dividends and all economic benefits on the underlying shares held by the Foundation.

The members of the board at the foundation are Mr J H Schraven (chairman), Mr P P de Koning, Prof Dr L Koopmans and Mr A A Olijslager.

The Foundation reports periodically on its activities.

### **Voting by holders of depositary receipts**

Although the depositary receipts themselves do not formally have voting rights, holders of depositary receipts are in practice equated with shareholders. They can attend all NV's General Meetings, either personally or by proxy, and also have right of speech. The holders of the depositary receipts will then automatically, without limitation and under all circumstances, receive a voting proxy on behalf of the Foundation to vote on the underlying shares.

The Foundation is obliged to follow voting instructions of holders of depositary receipts. The same applies to the voting instructions of holders of depositary receipts not attending a shareholders' meeting and who issue voting instructions to the Foundation via the Dutch Shareholders' Communication Channel.

### **Voting by the Foundation Unilever NV Trust Office**

Shares for which the Foundation has not granted voting proxies or for which it has not received voting instructions are voted on by the Foundation in such a way as it deems to be in the interests of the holders of the depositary receipts.

This voting policy is laid down in the Conditions of Administration that apply to the depositary receipts.

Specific provisions apply in the event that a meeting of holders of NV 7% cumulative preference shares is convened.

If a change to shareholders' rights is proposed, the Foundation will let shareholders know if it intends to vote, at least 14 days in advance if possible.

Hitherto the majority of votes cast by ordinary shareholders at NV meetings have been cast by the Foundation.

Unilever and the Foundation have a policy of actively encouraging holders of depositary receipts to exercise their voting rights in NV meetings.

Unilever considers the arrangements of the Foundation appropriate and in the interest of NV and its shareholders given the size of the voting rights attached to the financing preference shares and the relatively low attendance of holders of ordinary shares in its AGMs.

### **Foundation Unilever NV Trust Office's shareholding**

Foundation NV Trust Office's shareholding fluctuates daily. Its holdings on 27 February 2009 were:



NV ordinary shares of 0.16: 1 247 992 862 (72.78%); and

NV 7% cumulative preference shares of 428.57: 9 776 (33.71%);

Further information on the Foundation, including its Articles of Association and Conditions of Administration, can be found on its website at [www.administratiekantoor-unilever.nl](http://www.administratiekantoor-unilever.nl)

#### **Requirements and compliance general**

Unilever is subject to corporate governance requirements in the Netherlands, the UK and as a foreign private issuer in the US. In this section we report on our compliance with the corporate governance regulations and best practice codes applicable in the Netherlands and the UK and we also describe compliance with corporate governance standards in the US.

Under the UK Companies Act 2006 and rules of the US Securities and Exchange Commission, we are required to provide information on contracts and other arrangements essential or material to the business of the Group. We believe we do not have any such contracts or arrangements.

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Report of the Directors  
Corporate governance continued

Our governance arrangements are designed and structured to promote and further the interests of our companies and their shareholders. The Boards reserve the right, in cases where they decide such to be conducive to the interests of the companies and the enterprise connected therewith or our shareholders, to depart from that which is set out in the present and previous sections in relation to our corporate governance. Further changes will be reported in future Annual Reports and Accounts and, when necessary, through changes to the relevant documents published on our website. As appropriate, proposals for change will be put to our shareholders for approval.

Further information can be found on our website and in the document entitled *The Governance of Unilever*. This describes the terms of reference of our Board Committees, including their full responsibilities. It will be kept up to date with changes in our internal constitutional arrangements that our Boards may make from time to time and it is available on our website at [www.unilever.com/Investorrelations/corp\\_governance](http://www.unilever.com/Investorrelations/corp_governance)

**Requirements European Union**

Following implementation of the EU Takeover Directive, certain information is required to be disclosed in relation to control and share structures and interests of NV and PLC. Such disclosures, which are not covered elsewhere in this Annual Report, include the following:

there are no requirements to obtain the approval of NV or PLC, or of other holders of securities in NV or PLC, for a transfer of such securities;

there are no arrangements by which, with NV or PLC's cooperation, financial rights carried by securities are held by a person other than the holder of such securities;

NV and PLC are not aware of any agreements between holders of securities which may result in restrictions on the transfer of such securities or on voting rights;

neither NV or PLC are parties to any significant agreement which include provisions that take effect, alter or terminate such agreement upon a change of control following a takeover bid;

NV and PLC do not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that most of Unilever's share schemes contain provisions which operate in the event of a takeover of Unilever, which provisions may for instance cause options or awards granted to employees under such schemes to vest after a takeover or be exchanged into new awards for shares in another entity; and

the Trustees of the PLC employee share trusts may vote or abstain in any way they think fit and in doing so may take into account both financial and non-financial interests of the beneficiaries of the employee share trusts or their dependents. Historically the Trustees tend not to exercise this right.

**Requirements the Netherlands**

**General**

NV is required to state in its Annual Report and Accounts whether it complies or will comply with the Principles ( P ) and best practice provisions ( bpp ) of the Dutch Corporate Governance Code (the Dutch Code) and, if it does not comply, to explain the reasons for this. As will be clear from the description of our governance arrangements, NV complies with almost all of the principles and best practice provisions of the Dutch Code, a copy of which is available at [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl) The text that follows sets out certain statements that the Dutch Code invites us to make to our shareholders that are not included elsewhere in this Annual Report and Accounts as well as areas of non-compliance.

On 10 December 2008 the Dutch Corporate Governance Code Compliance Committee published a revised version of the Code, which is intended to become applicable to our annual reporting over 2009 and we therefore intend to report

compliance under the revised Code in our Annual Report and Accounts 2009.

**Board and Committee structures**

NV has a one-tier board, consisting of both Executive and, as a majority, Non-Executive Directors. We achieve compliance of our board arrangements with the Dutch Code, which is for the most part based on the customary two-tier structure in the Netherlands, by, as far as is possible and practicable, applying the provisions of the Dutch Code relating to members of a management board to our Executive Directors and by applying the provisions relating to members of a supervisory board to our Non-Executive Directors. Management tasks not capable of delegation are performed by the Board as a whole. Reference is made to Ps II and III and corresponding bpps. Reference is also made to the UK Combined Code on Corporate Governance, which is fully tailored to the one-tier board model (see page 44).

**Risk management and control**

Reference is made to the description of Unilever's principal risks on page 25 to 27 and risk management, internal controls and disclosure controls and procedures on page 28.

The Board considers that the internal risk management and control systems are appropriate for our business and in compliance with best practice provision II.1.3.

In best practice provision II.1.4 the Dutch Code invites our Board to make a statement on our internal risk management and control systems. In its reports published in 2005 and 2007 the Dutch Corporate Governance Code Monitoring Committee has made recommendations concerning the application of this best practice provision. In accordance with its recommendations and in light of the above, the Board believes that as regards financial reporting risks:

- the risk management and control systems provide reasonable assurance that the financial statements do not contain any material inaccuracies;

- the risk management and control systems have worked properly in 2008;

- there are no indications that the risk management and control systems will not work properly in 2009;

Report of the Directors  
Corporate governance continued

no material failings in the risk management and control systems were discovered in the year under review or the current year up to the date of signing these accounts;  
and, as regards operational, strategic, legislative, financial and regulatory risks, no material failings in the risk management and control systems were discovered in the year under review.

The aforesaid statements are not statements in accordance with the requirements of Section 404 of the US Sarbanes-Oxley Act 2002.

**Retention period of shares**

The Dutch Code recommends that shares granted to executive directors must be retained for a period of at least five years (bpp II.2.3). Our shareholder approved remuneration policy requires Executive Directors to build and retain a personal shareholding in Unilever equal to at least 150% of their annual base pay. The Board believes that this is in line with the spirit of the Dutch Code.

**Severance pay**

It is our policy to set the level of severance payments for Directors at no more than one year's salary, unless the Board, at the proposal of the Remuneration Committee, finds this manifestly unreasonable given circumstances or unless otherwise dictated by applicable law (bpp II.2.7).

**Regulations for transactions in securities in other companies**

The Dutch Code recommends that a director shall give periodic notice of any changes in his holding of securities in other Dutch listed companies (bpp II.2.6 and bpp III.7.3). We are a multinational company operating all over the world and our Directors come from a wide variety of countries. We therefore have a broader and more general requirement for our Directors, requiring them, upon request, to disclose to the Group Secretary their holdings and transactions in securities in any listed company.

**Conflicts of interest**

In the event of a (potential) conflict of interest, the provisions of the Dutch Code (P II.3 and III.6) are applied. Conflicts of interest are not understood to include transactions and other activities between companies in the Unilever Group.

**Financing preference shares**

NV issued 4%, 6% and 7% cumulative preference shares between 1927 and 1970. Their voting rights are based on their nominal value, as prescribed by Dutch law. The Dutch Code recommends that the voting rights on such shares should, in any event when they are newly issued, be based on their economic value rather than on their nominal value (bpp IV.1.2). NV agrees with this principle but cannot unilaterally reduce voting rights of its outstanding preference shares.

**Anti-takeover constructions and control over the company**

With reference to bpp IV.3.9, NV confirms that it has no anti-takeover constructions, in the sense of constructions that are intended solely, or primarily, to block future hostile public offers for its shares. Nor does NV have any constructions whose specific purpose is to prevent a bidder, after acquiring 75% of the capital, from appointing or dismissing members of the Board and subsequently altering the Articles of Association. The acquisition through a public offer of a majority of the shares in a company does not under Dutch law preclude in all circumstances the continued right of the Board of the company to exercise its powers.

**Provision of information**

We consider it important to comply with all applicable statutory regulations on the equal treatment of shareholders and provision of information and communication with shareholders and other parties (P IV.2 and P IV.3).

**Meetings of analysts and presentations to investors**

We have extensive procedures for handling relations with and communicating with shareholders, investors, analysts and the media (also see page 50). The important presentations and meetings are conducted as far as practicable in accordance with bpp IV.3.1. Due to their large number and overlap in information, however, some of the less

important ones are not announced in advance, made accessible to everyone or put on our website.

### **Requirements the United Kingdom**

PLC is required, as a company that is incorporated in the UK and listed on the London Stock Exchange, to state how it has applied the principles and how far it has complied with the provisions set out in Section 1 of the 2006 UK Combined Code on Corporate Governance ( the Combined Code ), a copy of which is available at [www.frc.org.uk](http://www.frc.org.uk). In the preceding pages we have described how we have applied the principles and the provisions in the Combined Code. In 2008, Unilever complied with the Combined Code except in the following areas:

The Remuneration Committee currently has two independent Non-Executive Directors on its membership. Michael Treschow was appointed a member of the Remuneration Committee in February 2008. The Committee and the Board are working to seek a new Non-Executive Director appointment for that Committee and the membership of the Committee will be reviewed again in light of David Simon's forthcoming retirement.

Due to the requirement for Unilever to hold two AGMs for its respective companies on consecutive days, it may not always be possible for all Directors, and possibly the Chairmen of the Audit, Remuneration and Nomination Committees, to be present at both meetings. The Chairman ensures that a majority of Directors attend both meetings and that at least one member of each Committee attends each AGM.

### **Risk management and control**

Reference is made to the description of Unilever's principal risks on pages 25 to 27 and risk management, internal controls and disclosure controls and procedures on page 28.

Our procedures cover financial, operational, social, strategic and environmental risks and regulatory matters. They are in line with the recommendations of Internal Control Revised Guidance for Directors on the UK Combined Code, published by the Internal Control Working Party of the Institute of Chartered Accountants in England & Wales in October 2005 ( The Turnbull Guidance ).

Report of the Directors  
Corporate governance continued

### **Requirements the United States**

Both NV and PLC are listed on the New York Stock Exchange and must therefore comply with such of the requirements of US legislation, such as the Sarbanes-Oxley Act of 2002, regulations enacted under US securities laws and the Listing Standards of the New York Stock Exchange as are applicable to foreign private issuers. In some cases the requirements are mandatory and in other cases the obligation is to comply or explain.

We have complied with the requirements concerning corporate governance that were in force during 2008. Attention is drawn in particular to the remit of the Audit Committee on page 48 and the Report of the Audit Committee on page 74.

Actions already taken to ensure compliance that are not specifically disclosed elsewhere or otherwise clear from reading this document include:

- the issuance of a Code of Ethics for senior financial officers;

- the issuance of instructions restricting the employment of former employees of the audit firm; and

- the establishment of a policy on reporting requirements under SEC rules relating to standards of professional conduct for US attorneys.

In each of these cases, existing practices were revised and/or documented in such a way as to conform to the new requirements.

The Code of Ethics applies to the senior executive, financial and accounting officers and comprises the standards prescribed by the SEC, and a copy has been posted on our website at

[www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance) The Code of Ethics comprises an extract of the relevant provisions of Unilever's Code of Business Principles and the more detailed rules of conduct that implement it. The only amendment to these pre-existing provisions and rules that was made in preparing the Code of Ethics was made at the request of the Audit Committee and consisted of a strengthening of the explicit requirement to keep proper accounting records. No waiver from any provision of the Code of Ethics was granted to any of the persons falling within the scope of the SEC requirement in 2008.

We are required by US securities laws and the Listing Standards of the New York Stock Exchange to have an Audit Committee that satisfies Rule 10A-3 under the Exchange Act and the Listing Standards of the New York Stock Exchange (NYSE). We are compliant with these requirements. We are also required to disclose any significant ways in which our corporate governance practices differ from those typically followed by US companies listed on the NYSE. In addition to the information we have given you in this document about our corporate governance arrangements, further details are provided in the document entitled 'The Governance of Unilever', which is on our website at

[www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

We are compliant with the Listing Standards of the New York Stock Exchange applicable to foreign private issuers. Our corporate governance practices do not significantly differ from those required of US companies listed on the New York Stock Exchange.

We also confirm that our shareholders have the opportunity to vote on equity compensation plans.

### **Risk management and control**

Reference is made to the description of Unilever's risks on pages 25 to 27 and risk management, internal controls and disclosure controls and procedures on page 28.

Based on an evaluation by the Boards, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Group's disclosure controls and procedures, including those defined in United States Securities Exchange Act of 1934 - Rule 13a-15(e), as at 31 December 2008 were effective, and that subsequently until the date of the approval of the Annual Report by the Board, there have been no significant changes in the Group's internal controls, or in other factors that could significantly affect those controls.

Unilever is required by Section 404 of the US Sarbanes-Oxley Act of 2002 to report on the effectiveness of internal control over financial reporting. This requirement will be reported on separately and will form part of Unilever's Annual Report on Form 20-F.

Report of the Directors  
Corporate governance Biographical details

The Chairman, Vice-Chairman, Executive Directors and Non-Executive Directors of NV and PLC are shown below. Please refer to pages 18 and 19 for their biographical details and their responsibilities in connection with Board committees.

**Chairman**

Michael Treschow

**Vice-Chairman**

The Lord Simon of Highbury CBE

**Executive Directors**

Paul Polman (Chief Executive Officer)

James Lawrence (Chief Financial Officer)

**Non-Executive Directors**

The Rt Hon The Lord Brittan of Spennithorne QC DL

Professor Wim Dik

Charles Golden

Byron Grote

Narayana Murthy

Hixonia Nyasulu

Kees Storm

Jeroen van der Veer

**Unilever Executive (UEX)\***

**Paul Polman**

Chief Executive Officer

(see details on page 18)

**Doug Baillie**

President, Western Europe

Nationality: British. Aged 53. Appointed President of Western Europe in May 2008. Joined Unilever 1987. Previous posts include: CEO, Hindustan Unilever Limited and Group Vice President, South Asia 2006, Group Vice-President - Africa, Middle East & Turkey (AMET) 2005, President, Africa Regional Group 2004, National Manager, Unilever South Africa, 2000, Managing Director Lever Ponds South Africa 1997, Vice President, Home and Personal Care for the Africa Business Group 1994, Sales Director 1988.

**Vindi Banga**

President Foods, Home & Personal Care

Nationality: Indian. Aged 54. Appointed to UEx April 2005 as President Foods. Appointed President Foods, Home & Personal Care in May 2008. Joined Unilever 1977. Previous posts include: Business Group President Home and Personal Care, Asia 2004 in addition to Non-Executive Chairman, Hindustan Lever 2004-2005. Chairman and Managing Director, Hindustan Lever 2000-2004.

**Professor Geneviève Berger**

Chief Research and Development Officer

Nationality: French. Aged 54. Appointed to UEx July 2007. Professor and Hospital Practitioner, Medical University Teaching Hospital, Paris 2003-2008. Member, Technical Committee, Institute of Electrical and Electronics Engineers (IEEE). Chairman, Advisory Board, Health for the European Commission. Director, Biotech and Agri-Food Department 1998-2000 and Director of Technology 2000, the French Ministry for Education. Director General, National Centre for Scientific Research (CNRS), France 2000-2003. Previously Non-Executive Director of Unilever N.V. and Unilever PLC 2007-2008.

**James Lawrence**

Chief Financial Officer



(see details on page 18)

**Harish Manwani**

**President Asia, Africa, Central & Eastern Europe**

Nationality: Indian. Aged 55. Appointed to UEx April 2005 as President Asia Africa. Appointed President Asia, Africa, Central & Eastern Europe in May 2008. Joined Unilever 1976. He is also Non-Executive Chairman, Hindustan Lever. Previous posts include: Business Group President, Home and Personal Care, North America 2004. Business Group President, Home and Personal Care, Latin America 2001 and Senior Vice President, Hair Care and Oral Care 2000.

**Sandy Ogg**

**Chief Human Resources Officer**

Nationality: American. Aged 55. Appointed Chief HR Officer April 2005. Joined Unilever 2003. Previous posts include: SVP Human Resources, Foods 2003. Prior to joining Unilever he worked for Motorola as SVP, Leadership, Learning and Performance Management.

**Michael Polk**

**President Americas**

Nationality: American. Aged 48. Appointed President Americas March 2007. Joined Unilever 2003. Previous posts include: President Unilever USA. Prior to joining in Unilever, he held various senior positions at Kraft Foods including President, Biscuits and Snacks Sector and President, Asia Pacific Region. External appointments: Director, GS1 Global, Students in Free Enterprise, and Grocery Manufacturers of America.

\* UEx members are treated as executive officers and senior management for US purposes and key management personnel for IFRS purposes. All members of the UEx have existing agreements with varying terms, however, all agreements include a notice period of twelve months although local law and practice may sometimes impact these provisions. Details of the remuneration paid and share awards are shown in aggregate in note 31 on page 135.

Report of the Directors

Report of the Nomination Committee

### **Terms of Reference**

The Nomination Committee comprises two Independent Non-Executive Directors and the Chairman. It is chaired by David Simon, Vice Chairman and Senior Independent Director. Its other members are Michael Treschow and Jeroen van der Veer. The Group Secretary acts as secretary to the Committee.

The Nomination Committee is responsible for drawing up selection criteria and appointment procedures for Directors. Under Unilever's corporate governance arrangements Executive and Non-Executive Directors offer themselves for election each year at the Annual General Meetings. The Nomination Committee is responsible for recommending candidates for nomination as Executive Directors, including Chief Executive Officer, and Non-Executive Directors each year based on the process of evaluations referred to below. After Directors have been appointed by shareholders the Committee recommends to the Board candidates for election as Chairman and Vice-Chairman. The Committee also has responsibility for supervising the policy of the Chief Executive Officer on the selection criteria and appointment procedures for senior management and it keeps oversight of all matters relating to corporate governance, bringing any issues to the attention of the Boards. The Committee's Terms of Reference are available on our website [www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

### **Process for the appointment of Directors**

Unilever has formal procedures for evaluation of the Boards, the Board Committees and the individual Directors. The results of the evaluations are provided to the Committee when it discusses the nominations for re-election as Directors.

Where a vacancy arises on the Boards, the Committee seeks the services of specialist recruitment firms and other external experts to assist in finding individuals with the appropriate skills and expertise.

In nominating Directors, the Committee follows the agreed Board Profile of potential Non-Executive Directors, which takes into account the roles of Non-Executive Directors set out in the Dutch Corporate Governance Code and the UK Combined Code on Corporate Governance. Under the terms of the Governance of Unilever the Boards should comprise a majority of Non-Executive Directors and the profile provides that three of these have strong financial experience, and staff the Audit Committee. To represent Unilever's areas of interest, the profile also indicates there should be a strong representation from Developing and Emerging markets as well as from Europe and North America. Non-Executive Directors should be independent of Unilever and free from any conflicts of interest. The profile looks at diversity in terms of nationality, race, gender and relevant expertise and directs that, wherever possible, the Boards should reflect Unilever's consumer base.

### **Activities of the Committee during the year**

The Committee met six times in 2008. The meetings were fully attended by David Simon and Michael Treschow. Jeroen van der Veer attended four meetings. The members also regularly met outside of formal Committee meetings to discuss succession issues.

The Committee proposed the nomination of all Directors offering themselves for re-election at the 2008 AGMs. During 2008, the Committee also proposed the nominations of two new Executive Directors.

Jim Lawrence was appointed as an Executive Director at the AGMs in May 2008, following his appointment as Chief Financial Officer in September 2007.

During 2008 the Committee conducted an extensive search for a new Chief Executive Officer to succeed Patrick Cescau who retired on 31 December 2008. The Committee was supported by an outside executive search firm engaged to identify suitable candidates for the role. The process resulted in the Committee's recommendation to the Boards to nominate Paul Polman as Patrick Cescau's successor. The Committee is pleased to have identified an excellent candidate, whose competencies match the profile of role and task required. Paul Polman was nominated by the Committee for election as an Executive Director at shareholders' meetings held in October 2008. He became Chief Executive Officer with effect from 1 January 2009.

The Committee reviewed and agreed the terms of appointment of the new Executive Directors in line with best practice.

At the AGMs in May 2008, Kees van der Graaf and Ralph Kugler retired as Executive Directors. In June 2008 Professor Geneviève Berger resigned as a Non-Executive Director, to take up the position of Chief Research & Development Officer as a member of the Unilever Executive reporting to the Chief Executive Officer. The Committee, along with the Boards, reviewed the diversity within the Group and agreed with management that gender diversity is an opportunity, especially at the higher levels where female representation is relatively small. Following the appointment of an outside consultant to support the 2006 evaluation process, internal reviews were undertaken during 2007 and 2008 in relation to the evaluation of the Boards, the Chairman, the individual Directors and the Board Committees based on the completion of a questionnaire and interviews. The Committee has also carried out a self-assessment of its performance.

**David Simon** Chairman of the Nomination Committee

**Michael Treschow**

**Jeroen van der Veer**

Report of the Directors

Report of the Remuneration Committee

During 2008, the Committee's activities were greatly influenced by the Board and Executive Committee changes that the succession plan required.

In October 2008 Paul Polman was elected to the Board, becoming Chief Executive Officer on Patrick Cescau's retirement at the end of December. Jim Lawrence was elected to the Board at the 2008 AGMs following his appointment as Chief Financial Officer in the latter half of 2007. The 2008 AGMs also marked the retirement from the Board of Kees van der Graaf, President, Europe, and Ralph Kugler, President, Home & Personal Care, each with over 28 years of service.

Given our agreed policy framework, the Committee's aim has been to ensure that the remuneration arrangements for Paul Polman and Jim Lawrence, as Executive Directors, are fully in line with the five strategic principles that serve as the platform for Unilever's approach to remuneration for the Unilever Executive. These principles not only apply for our Executive Directors but to all Unilever's leadership levels. They provide the basis for our remuneration structure as explained in greater detail in the following pages, and direct that pay should be:

aligned with shareholders' interests;

robustly linked to performance;

aligned with strategic priorities;

market competitive; and

easy to understand and communicate.

The overriding objective is to ensure that Unilever recruits and retains the best performers, and effectively incentivises them to achieve superior results. It is also our aim to manage the differing elements of total remuneration in a fully integrated manner.

Shareholders were provided with summaries of the full remuneration arrangements for both Paul Polman and Jim Lawrence prior to

their elections to the Board. In addition, at the 2008 AGMs shareholders separately approved increased bonus and Global Share Incentive Plan award limits for Jim Lawrence, who joined us from the USA.

Reflecting the transformation that Patrick Cescau has led over the last four years, Unilever's performance continued to improve through 2008 despite the challenging environment. The focus on growth priorities coupled with timely pricing actions and savings from cost efficiency programmes meant that we were able to deliver underlying sales growth well above target levels and improved underlying operating margins.

The annual incentive awards paid to the Executive team in respect of 2008 (on average 120% of base salary) reflect Unilever's strong underlying sales growth, improved margin performance as well delivery on individual business objectives. Long-term incentive awards will vest in 2009 in respect of the performance period 2006 to 2008. 122% of awards made in 2006 under the Global Performance Share Plan (GPSP) will vest, reflecting strong annual average underlying sales growth (USG) over the three-year period to the end of 2008 and continued progress towards longer-term ungeared free cash flow (UFCF) targets. (The performance ranges for these awards set in 2006 were 3.2% - 5.2% per annum for USG and 12.5 - 13.7 billion for cumulative UFCF. Awards made in 2006 under the TSR long-term incentive plan will also vest in 2009. As Unilever's relative total shareholder return performance over the period 2006 to 2008 ranks 9th against a comparator group of peer companies (see page 62) 50% of the awards are due to vest.

Looking forward to 2009, we believe that Unilever remains well placed and we expect the new Group leadership team to pursue the opportunities present even in challenging times and that, as a result, our shareholders and our executives will be duly rewarded.

**David Simon** Chairman of the Remuneration Committee

**Michael Treschow**

**Jeroen van der Veer**

### **Definition of auditable part of the Report of the Remuneration Committee**

In compliance with the UK Directors Remuneration Report Regulation 2002, and under Title 9, Book 2 of the Civil Code in the Netherlands, the auditable part of the report of the Remuneration Committee comprises the Aggregate remuneration for Executive Directors on page 64, the Remuneration for individual Executive Directors on page 65, the Executive Directors Global Share Incentive Plan on page 66, the Executive Directors Global Performance Share Plan on page 67, the Executive Directors conditional share awards under the TSR Long-Term Incentive Plan on page 68, the Executive Directors Share Matching Plan on page 67, Executive Directors share options on page 69, Executive Directors pensions on page 70, Executive Directors interests share capital on page 71, Non-Executive Directors remuneration on page 72 and Non-Executive Directors interests share capital on page 73.

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Report of the Directors

Report of the Remuneration Committee continued

### **Role and responsibilities**

The Committee is responsible for making proposals to the Boards on the reward policy for Executive Directors and other Unilever Executive Team members, to ensure that the right incentives are provided to encourage managers to enhance the performance of the Group. The Committee is also responsible for setting individual reward packages for the Executive Directors and for monitoring and approving all share-based incentive arrangements. The Committee meets at least three times a year and during 2008 met on five occasions.

### **Structure and role**

During 2008 David Simon served as Chairman of the Committee with Jeroen van der Veer and Michael Treschow being members of the Committee. The Board evaluated the performance of the Committee and the Committee carried out a self-assessment of its performance.

### **Advice and assistance**

The Committee does not formally retain remuneration consultants. It seeks professional advice from external advisers as and when required. During 2008, the Committee sought advice from Towers Perrin (an independent firm of human resources specialists) on market data, reward trends and performance-related pay. Towers Perrin also provides general consultancy advice to Unilever group companies on employee rewards, pension, communications and other human resource matters.

The Group Secretary attends all Committee meetings and advises on matters of corporate governance.

The Chief Executive Officer is invited to attend Committee meetings to provide his own insights to the Committee on business objectives and the individual performance of his direct reports. Also, the Chief Human Resource Officer can be invited to provide his expertise to the Committee. Naturally, neither attends when their own remuneration is being discussed.

### **Remuneration policy**

#### **Unilever reward policy table 2008**

<b>Element</b>	<b>Payment vehicle</b>	<b>Value determination</b>	<b>Plan objectives/Key drivers</b>
<b>FIXED</b>			
Base salary	Cash	Market median	Attraction and retention of high performing executives
Pension	Cash	All-employee pension arrangement in home country Bonus not pensionable	Attraction and retention of high performing executives

<b>VARIABLE</b>		<b>Indicative levels at face value as % of base pay</b>	
Annual incentive	Cash (75%) Shares (25%)	Executive Directors: target 87% (range 0% - 150%) Chief Financial Officer: target 93% (range 0% - 160%) Chief Executive Officer: target 113.3% (range of 0% - 200%)	Delivery of trading contribution (Unilever's primary internal measure of economic value added - see page 62) and top-line growth targets  Individual responsibility for key Unilever business targets
Global Share Incentive Plan	Shares	Grant level in 2008 for: Chief Financial Officer 340% Chief Executive Officer around 170%  Vesting level: 0% - 200% of grant, at end of 3 year performance period subject to the satisfaction of the performance conditions.	Total shareholder return at upper half of peer group (see page 62)  Ungeared Free Cash Flow as the basic driver of Unilever's shareholder returns  Top-line revenue growth as essential to Unilever's long-term value creation
Share Matching Plan	Shares	25% of annual incentive is paid in shares, these shares are matched one for one	Alignment with shareholders' interests

Report of the Directors

Report of the Remuneration Committee continued

The total remuneration package for Executive Directors is intended to be competitive in a global market, with a strong emphasis on performance related pay. Internal and external comparisons are made with the reward arrangements for other senior executives within Unilever to support consistent application of Unilever's executive reward policies. A significant proportion of the Executive Directors' total reward is linked to a number of key measures of Group performance to create alignment with strategy, business priorities, and shareholder value. Approximately 70% of the total reward package is linked to performance.

In setting targets for the performance measures, the Committee is guided by what would be required to deliver top-third shareholder value. This is reflected in both the short-term and long-term performance targets.

**Base salary**

The Remuneration Committee reviews base salary levels annually, taking into account external benchmarks within the context of Group and individual performance.

**Annual incentive**

The annual incentive plan rewards Executive Directors for the delivery of trading contribution (Unilever's primary internal measure of economic value added) and top-line growth targets, as well as for their individual contribution to Unilever's business strategy.

The maximum opportunity for the Chief Executive Officer is 200% of salary, with two-thirds based on Unilever's business results and a third on individual business targets. The maximum opportunity for the Chief Financial Officer is 160% of salary, with up to 130% based on business results, the rest on individual business targets. Target annual incentive levels for both executives are around 60% of maximum. Aggressive business targets mean that maximum levels are only payable for exceptional performance.

The performance criteria for the annual incentive are:

Trading contribution: Unilever's primary internal measure of economic value added. It is calculated from trading result after a deduction for tax and a charge for asset use. (Trading result is the internal management measure of profit that is the most consistent with operating profit). Increases in trading contribution reflect the combined impact of top-line growth, margin improvement and capital efficiency gains. It is well aligned with our objective of a progressive improvement in return on invested capital and with shareholder value creation;

Underlying sales growth: focus on the organic growth of Unilever's turnover; and

Individual business and leadership targets: tailored to each individual's responsibilities to deliver certain business objectives supporting the strategy. Individual contribution is assessed against robustly set measures and targets to ensure both objectivity and stretch.

25% of the annual incentive is delivered to the Executive Directors in the form of shares in NV and PLC, which are matched by a conditional award of matching shares, as further described under the section on long-term incentives below.

**Long-term incentives**

The long-term incentive for Executive Directors consists of two elements, both of which are delivered in shares:

Global Share Incentive Plan; and

Share Matching Plan (linked to annual incentive).

Executive Directors are required to demonstrate a significant personal shareholding commitment to Unilever. Within five years of appointment, they are expected to hold shares worth at least 150% of their annual base salary. This reinforces the link between the executives and other shareholders.

**Global Share Incentive Plan (GSIP)**

Under the GSIP, annual awards of shares in NV and PLC are granted to Executive Directors along with other senior employees. The actual number of shares received at vesting after three years depends on the satisfaction of



performance conditions linked to improvements in Unilever's performance.

The vesting of shares will be conditional on the achievement of three distinct performance conditions over the performance period. The performance period is a 3-year calendar period.

The vesting of 40% of the shares in the award is based on a condition measuring Unilever's relative total shareholder return (TSR) against a comparator group of 20 other companies over that three-year period. TSR measures the return received by a shareholder, capturing both the increase in share price and the value of dividend income (assuming dividends are reinvested). The TSR results are compared on a single reference currency basis. No shares (in the portion of the award subject to TSR) will vest if Unilever is ranked below position 11 of the TSR ranking table over the three-year period. 50% of the shares will vest if Unilever is ranked 11th among the peer group, 100% if ranked 7th, and 200% will vest if Unilever is ranked 3rd or above in the table. Straight-line vesting will occur between these points.

The TSR peer group is as follows:

Avon	Kraft
Beiersdorf	Lion
Cadbury Schweppes	L'Oréal
Clorox	Nestlé
Coca-Cola	Orkla
Colgate	PepsiCo
Danone	Procter & Gamble
Heinz	Reckitt Benckiser
Kao	Sara Lee
Kimberly-Clark	Shiseido

The vesting of a further 30% of the shares in the award is conditional on average underlying sales growth performance over the three-year period.

Report of the Directors

Report of the Remuneration Committee continued

The vesting of the final 30% of the shares in the award is conditional on cumulative ungeared free cash flow performance which is the basic driver of the returns that Unilever is able to generate for shareholders.

For the business performance-focused parts of an award there will be no vesting if performance is below the minimum of the range, 25% vesting for achieving minimum, and 200% vesting only at or substantially above the top end of the range.

Performance for each condition will be assessed independently from the other conditions over the performance period. Shares will only vest if and to the extent that the respective performance conditions are satisfied. There will be no re-testing.

The grant level as a percentage of salary agreed by the shareholders for the Chief Executive Officer is a maximum of 200%, for the current Chief Financial Officer a maximum of 340% and for any other Executive Director a maximum of just below 180%. The vesting will range between 0% and 200% of grant level.

[Share Matching Plan](#) (linked to the annual incentive)

The Share Matching Plan enhances the alignment with shareholders' interests and supports the retention of key executives. In addition, the necessity to hold the shares for a minimum period of three years supports the shareholding requirements.

The Executive Directors receive 25% of their annual incentive in the form of NV and PLC shares. These are matched with an equivalent number of matching shares. The matching shares will vest after three years provided that the underlying shares have been retained during this period and the Executive Director has not resigned or been dismissed.

The Remuneration Committee considers that there is no need for further performance conditions on the vesting of the matching shares because the number of shares is directly linked to the annual incentive (which is itself subject to demanding performance conditions). In addition, during the three-year vesting period the share price of NV and PLC will be influenced by the performance of Unilever. This, in turn, will affect the ultimate value of the matching shares on vesting.

**Executive Directors' pensions**

The policy is that Executive Directors will be members of the all-employee pension arrangement in their home country (or an alternative of similar value) and will pay employee contributions at the same rate as other employees in that arrangement.

**Other benefits and allowances**

Executive Directors enjoy similar benefits to those enjoyed by many other employees of Unilever.

**Serving as non-executive on the Board of another company**

It is recognised that Executive Directors may be invited to become Non-Executive Directors of other companies and that these appointments, subject to the approval of the Chairman and the Chief Executive Officer, may broaden their knowledge and experience to the benefit of the Group (see page 18 for details in the biographies). From 2008, if Executive Directors are serving on the Board of other companies they have been permitted to retain all remuneration and fees earned from outside directorships subject to a maximum of one outside directorship. (see Other appointments on page 47 for further details). Patrick Cescau, who retired from Unilever on 31 December 2008, received an annual fee of £70 000 from Pearson plc as a non-executive director. Of that, 25% of the basic fee (totalling £15 000) was paid in Pearson plc shares. Jim Lawrence was a non-executive director of Avnet Inc up to 15 July 2008 in respect of which he received a fee of \$53 750 and a stock award in that company to the value of \$120 000. He is also a non-executive director of British Airways Plc and received an annual fee of £40 000.

**Future developments**

The Remuneration Committee continues to monitor trends and changes in the market. It keeps a watching brief on the continuing alignment between Unilever's strategic objectives and the reward policy for Executive Directors. Due to the unprecedented economic turmoil and the impact of the economic downturn the salaries for 2009 will be frozen at the 2008 level.



Report of the Directors

Report of the Remuneration Committee continued

### Remuneration information for 2008

The following section contains detailed information and commentary on the Executive Directors' annual remuneration, long-term incentives, pension benefits and share interests in respect of 2008.

#### Aggregate remuneration for Executive Directors

The following table gives details of the aggregate remuneration (including value of the vesting of matching shares, vesting of other long-term incentives and exercise of options) for the Executive Directors as a group.

	<b>2008</b>	2007
	<b>000</b>	000
Annual emoluments		
Base salary	<b>2 682</b>	3 491
Allowances and other payments	<b>1 154</b>	221
Benefits	<b>62</b>	82
Performance related payments (annual incentive)	<b>4 156</b>	4 865
Sub-total of annual emoluments	<b>8 054</b>	8 659
Other income arising from vesting/exercise of long-term incentives <sup>(a)</sup>		
Gains on exercise of share options	<b>140</b>	50
Vesting of matching shares	<b>86</b>	230
Vesting of awards under other Long-Term Incentive Plans	<b>2 704</b>	
Total of annual emoluments and other income arising from long-term incentives	<b>10 984</b>	8 939

(a) Includes the value of shares that vested under Long-term Incentive Plans and had been granted in earlier years and the gain realised in 2008 of share options granted in earlier years.

#### Comments on base salary 2008

For 2008, base salary levels were benchmarked against those paid in other major global companies based in Europe, excluding companies in the financial sector. The increases for 2008 reflect changes in market levels as well as

individual and Group performance.

**Comments on base salary 2009**

Due to the unprecedented economic turmoil and the impact of the economic downturn the salaries for 2009 will be frozen at the 2008 level.

**Comments on annual incentive 2008**

The annual incentive awards for 2008 were subject to achievement of underlying sales growth and trading contribution targets in combination with individual strategic business targets. The Committee measured the results against the targets set and determined the annual incentive amounts for 2008. The award levels reflect Unilever's strong underlying sales growth and improved margin performance as well as delivery on individual business targets.

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Report of the Directors  
Report of the Remuneration Committee continued

**Remuneration for individual Executive Directors**

The following table gives details of the remuneration received in 2008 by each Executive Director individually, including the value of vested share matching, vesting of other long-term incentives and options exercised.

Name and Base Country	Annual Emoluments 2008					Total 2008 000	Other income arising from long-term incentives and exercise of options in 2008				Grand	Grand
	Base salary 000	other payments 000	of benefits <sup>(b)</sup> 000	Bonus <sup>(c)</sup> 000	and Value of 000		Total 2007 000	Option gains 000	Share match 000	Other LTIP 000	total 2008 000	total 2007 000
Patrick Cescau (UK) <sup>(d)</sup>	1 296	149	50	2 073	3 568	3 948	139	35	980	4 722	4 061	
Jim Lawrence (UK) <sup>(e)</sup>	450	14	7	903	1 374	n/a			456	1 830	n/a	
Paul Polman (UK) <sup>(f)</sup>	292	970		438	1 700	n/a				1 700	n/a	
Kees van der Graaf (NL) <sup>(g)</sup>	333	13	1	385	732	1 822	1	31	634	1 398	1 882	
Ralph Kugler (UK) <sup>(h)</sup>	311	8	4	357	680	1 961		20	634	1 334	2 014	

(a) Includes allowance in lieu of company car; blind trust fees compensation; tax advice compensation; special one-off

award; compensation for loss of net income because part of the salary was paid in the Netherlands; entertaining allowance and employers' cost for the all-employee savings plan in the Netherlands. All allowances are taxable in the country of residence apart from the entertaining allowance which is currently tax free in the Netherlands.

- (b) Includes benefits for company car; housing (for business use) instead of hotel; medical insurance and private use of chauffeur-driven cars. Included are benefits that are taxable in the country of residence. In addition, Unilever provides support to Executive Directors in relation to spouses' travel expenses when travelling together on company business. This amount is capped at 5% of base salary and for 2008 totalled 210,076 (including related taxes payable).
- (c) Bonus for the year 2008. Includes the value of both the cash element and the element paid in shares of NV and PLC. In addition to the element of the

bonus paid in shares,  
each Executive  
Director is awarded  
an equivalent number  
of matching shares on  
a conditional basis.

- (d) Chief Executive  
Officer. Base salary  
set in sterling was £1  
021 125 per annum.
- (e) Period from  
May 2008 when he  
was appointed as a  
Director. Base salary  
set in US dollars was  
\$1 133 000 per  
annum. Bonus figures  
relates to the full  
calendar year.
- (f) Period from  
October 2008. Base  
salary set in sterling  
was £920 000 per  
annum.
- (g) Period to May 2008.  
The total emoluments  
for the period  
June-December 2008  
amounted to 623 000.  
Base salary set in  
euros was 798 000  
per annum.
- (h) Period to May 2008.  
The total emoluments  
for the period  
June-December 2008  
amounted to 599 000.  
Base salary set in  
sterling was £587 500  
per annum.

Figures for amounts in sterling have been translated into euros using the average exchange rate over the year: 1 =  
£0.7880 (2007: 1 = £0.6822).

#### **Comments on long-term incentive arrangements 2008**

##### [Global Share Incentive Plan](#)



Awards have been made under this plan since 2007. Vesting will start as from 2010 (three years after the first award). The performance period for the annual award that was made in 2008 is 1 January 2008 to 31 December 2010.

#### Share Matching Plan

In 2008 the matching shares originally granted in 2005 on a conditional basis vested, subject to fulfilment of the retention conditions.

No shares or options have been awarded since 2007 under the following Plans. Awards made before 2007 will vest at the normal (previously agreed) dates. Since 2007 share awards are only made under the Global Share Incentive Plan that was agreed by shareholders in 2007.

#### Global Performance Share Plan

Awards under this plan were made in 2005 and 2006. Vesting of the award made in 2005 was in May 2008 (performance period 1 January 2005 – 31 December 2007) and the 2006 award will vest in 2009 (performance period 1 January 2006 – 31 December 2008). Vesting of the 2005 award in 2008 was based on average annual underlying sales growth (50% of the award) and cumulative ungeared free cash flow (50% of the award) over the three-year period to 31 December 2007. The performance ranges, set in 2005, were 2-4% per annum average underlying sales growth (USG) and for ungeared free cash flow (UFCF) 12.2 billion – 13.2 billion. The targets were set before the disposals of the European frozen foods businesses and Unilever Cosmetics International. The targets have been adjusted by the impacts of these disposals. The vesting level for threshold performance was 25% of the relevant portion of the award and 200% for performance at or above the top of the range. The strong improvements in Unilever's performance over this period led to 121% of awards vesting.

## Report of the Directors

## Report of the Remuneration Committee continued

## TSR Plan

In 2008 the conditional shares awarded in 2005 vested for 50%. Vesting was based on the TSR performance of Unilever (when ranked against its defined peer group with competitors) over the three-year performance period which ended 31 December 2007. For this period, Unilever ranked 8th in its peer group and therefore 50% vesting occurred for this award in March 2008.

## Executive Share Options

The grants of executive share options made in 2005 became exercisable as from 2008. The 2005 award was a premium grant and therefore at vesting no further conditions applied.

**Executive Directors Global Share Incentive Plan**

The Global Share Incentive Plan was approved by shareholders at the 2007 AGMs.

The following conditional shares were granted during 2008 and outstanding at 31 December 2008 under the Global Share Incentive Plan:

	Share type	Balance of conditional shares at 1 January 2008 No. of shares	Conditional grant 2008 (Performance period 1 January 2008 to 31 December 2010) <sup>(a)</sup> No. of shares <sup>(a)</sup>	Price at award	Balance of conditional shares at 31 December 2008 No. of shares
Patrick Cescau	NV	40 505	44 597	21.30	85 102
	PLC	40 505	44 597	1 672.00p	85 102
Jim Lawrence	NV	80 462 <sup>(b)</sup>	26 485 <sup>(b)</sup>	21.73	106 947
	PLC	80 462 <sup>(b)</sup>	26 485 <sup>(b)</sup>	1 743.00p	106 947
Paul Polman <sup>(c)</sup>	NV		58 752	18.93	58 752
	PLC		58 752	1 439.00p	58 752

Kees van der Graaf	NV	20 550	20 550 <sub>(d)</sub>
	PLC	20 550	20 550 <sub>(d)</sub>
Ralph Kugler	NV	22 145	22 145 <sub>(d)</sub>
	PLC	22 145	22 145 <sub>(d)</sub>

(a) Each award of performance shares is conditional and vests subject to certain conditions three years after the date of the award.

(b) Joined Unilever in September 2007 as Chief Financial Officer. Was appointed a Director in May 2008. Opening balance is as at the date of appointment as a Director. Following approval by shareholders of an extension to his package, in November 2008 he was awarded an additional 26 485 of each of Unilever NV and PLC shares at 21.73 and 1 743p respectively.

(c)

Joined Unilever in October 2008 and was appointed a Director at the EGMs at the end of October 2008. Awards were made under the GSIP plan in November 2008.

- (d) Stepped down at the AGMs in May 2008. Balances are at that date.

Both Jim Lawrence and Paul Polman received a one-off restricted stock award on joining Unilever, under the Global Share Incentive Plan. Details of balances, grants and vesting in 2008 are shown below.

	Share type	Balance of shares at		Grant in 2008 Price at award	Vesting in 2008 Price at vesting		Balance of shares at 31 December 2008 No. of shares
		1 January 2008 No. of shares	No. of shares		No. of shares		
Jim Lawrence	NV	35 565 <sup>(a)</sup>	n/a		11 855	18.9 <sup>(a)</sup>	23 710
	PLC	35 565 <sup>(a)</sup>	n/a		11 855	1 498.00p <sup>(a)</sup>	23 710
Paul Polman	NV	0	67 653	18.9 <sup>(a)</sup>	n/a		67 653
	PLC	0	67 653	1 439.00p <sup>(b)</sup>	n/a		67 653

- (a) Awarded in 2007 on joining Unilever. The shares vest  $\frac{1}{3}$ ,  $\frac{1}{3}$ ,  $\frac{1}{3}$  after

respectively 1, 2  
and 3 years of  
service.

- (b) Award agreed  
on joining  
Unilever. Award  
was made 6  
November 2008  
and will vest  $\frac{1}{3}$ ,  
 $\frac{1}{3}$ ,  $\frac{1}{3}$  on  
respectively the  
first, second and  
third anniversary  
of the award.

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Report of the Directors  
Report of the Remuneration Committee continued

**Executive Directors Share Matching Plan**

The following conditional shares were outstanding, awarded or vested during 2008 under the share matching plan:

	Share type	Balance of conditional shares at 1 January 2008	Conditional shares awarded in 2008 <sup>(a)</sup>			Shares vested in 2008 <sup>(b)</sup>		Balance of conditional shares at 31 December 2008
		No. of shares	No. of shares	Price at award	No. of shares	Market price at vesting	Original price at award	No. of shares
Patrick Cescau	NV	13 992	12 025	21.30	(813)	21.30	16.90	25 204
	PLC	14 150	12 025	1 672.00p	(852)	1 672.00p	1 122.22p	25 323
Jim Lawrence <sup>(b)</sup>	NV		1 830	21.30	n/a			1 830
	PLC		1 830	1 672.00p	n/a			1 830
Kees van der Graaf	NV	2 925	5 770	21.30	(714)	21.30	16.90	7 981 <sup>(c)</sup>
	PLC	3 002	5 770	1 672.00p	(748)	1 672.00p	1 122.22p	8 024 <sup>(c)</sup>
Ralph Kugler	NV	5 042	5 292	21.30	(465)	21.30	16.90	9 869 <sup>(c)</sup>
	PLC	5 100	5 292	1 672.00p	(483)	1 672.00p	1 122.22p	9 909 <sup>(c)</sup>

(a) Each award of matching shares is conditional and vests three years after the date of the award subject to

certain conditions. The 2008 award was made at grant date 20 March 2008.

(b) The conditional shares awarded on 21 March 2005 (relating to the 2004 performance period) vested on 20 March 2008.

(c) Balance is at May 2008 when they stepped down as Executive Directors

#### Executive Directors Global Performance Share Plan

The following conditional shares, granted under the Global Performance Share Plan, were outstanding at 1 January 2008, vested during 2008 and were outstanding at 31 December 2008.

From 2007 onwards no new awards have been made under this Plan as the global share incentive plan was approved by shareholders at the 2007 AGMs and as from 2007 long-term incentive awards have been made only under that new plan.

	Share type	Balance of	Additional	Total	Conditional shares vested in 2008 <sup>(b)</sup>		Balance
		conditional shares at 1 January 2008			award on vesting	that vested	Share price at vesting
		No. of shares <sup>(a)</sup>	No. of shares	No. of shares			No. of shares <sup>(a)</sup>
Patrick Cescau	NV	18 000	1 890	(10 890)	20.99	17.66	9 000
	PLC	18 000	1 890	(10 890)	1 712.00p	1 196.67p	9 000
	NV	12 000	1 260	(7 260)	20.99	17.66	6 000 <sup>(c)</sup>

Kees van der Graaf	PLC	12 150	1 276	(7 351)	1 712.00p	1 196.67p	6 075 <sup>(c)</sup>
Ralph Kugler	NV	12 000	1 260	(7 260)	20.99	17.66	6 000 <sup>(c)</sup>
	PLC	12 150	1 276	(7 351)	1 712.00p	1 196.67p	6 075 <sup>(c)</sup>

(a) Each award of performance shares is conditional and vests subject to performance conditions three years after the date of the award. Shares may vest between 0 and 200% of the originally granted numbers.

(b) In 2008 the conditional award, originally awarded in 2005, vested for 121%.

(c) Total as at the end of May 2008. Both stepped down as Executive Directors at the 2008 AGMs.



## Report of the Directors

## Report of the Remuneration Committee continued

**Executive Directors conditional share awards under the TSR Long-Term Incentive Plan**

The following conditional shares were outstanding from grants made between 2004 and 2006.

From 2007 onwards no new awards have been made under this Plan as the Global Share Incentive Plan was approved by shareholders at the 2007 AGMs. From 2007 long-term incentive awards will be made only under that new plan.

	Share type	Balance of conditional shares at		Conditional awards lapsed			Balance of conditional shares at
		2008 No. of shares	Vested <sup>(a)</sup>	Lapsed <sup>(a)</sup> No. of shares	Price at vesting	Original price at award	31 December 2008 No. of shares
Patrick Cescau	NV	44 613	(11 835)	(11 835)	21.30	16.90	20 943
	PLC	46 058	(12 366)	(12 366)	1 672.00p	1 122.00p	21 326
Kees van der Graaf	NV	27 882	(7 397)	(7 396)	21.30	16.90	13 089 <sup>(b)</sup>
	PLC	28 788	(7 730)	(7 729)	1 672.00p	1 122.00p	13 329 <sup>(b)</sup>
Ralph Kugler	NV	27 882	(7 397)	(7 396)	21.30	16.90	13 089 <sup>(b)</sup>
	PLC	28 788	(7 730)	(7 729)	1 672.00p	1 122.00p	13 329 <sup>(b)</sup>

(a) The conditional awards made in 2005 vested in 2008 for 50%, as Unilever was ranked number 8

in the peer group  
based on  
performance  
over the three  
year period  
ending 31  
December 2007.

(b) Balance is at  
May 2008 when  
they stepped  
down as  
Executive  
Directors.

**Unilever's position relative to the TSR reference group**

The reference group, including Unilever, consists of 21 companies. Unilever's position is based on TSR over a three-year rolling period.

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## Report of the Directors

## Report of the Remuneration Committee continued

**Executive Directors share options**

No option awards were made in 2008. Options to acquire NV ordinary shares of 0.16 each and options to acquire PLC ordinary shares of 3<sup>1</sup>/<sub>9</sub>p each were outstanding, were exercised, lapsed or remained outstanding as shown in the following table.

From 2007 onwards no new awards have been made under this Plan as the Global Share Incentive Plan was approved by shareholders at the 2007 AGMs. From 2007 long-term incentive awards will be made only under that new plan.

Share type	Balance of options at 31 January 2008	Number of options exercised/lapsed in 2008	Balance of options at 31 December 2008	Options outstanding below market price at 31 December 2008		Options outstanding above market price at 31 December 2008		First exercisable date	Final expiry date
				Number of options	Weighted average exercise price	Number of options	Weighted average exercise price		

**Patrick Cescau**

Executive Plan	NV	242 166		242 166	27 000	14.72	215 166	20.10	24/03/02	31/12/10
Executive Plan	PLC	245 967	(33 750) <sup>(a)</sup>	212 217	212 217	1 166.00p			07/03/03	31/12/10
NL All-Employee Plan	NV	600	(150) <sup>(b)</sup>	450			450	17.70	13/05/04	17/05/11
UK ShareSave Plan	PLC	1 374		1 374	1 374	1 171.00p			01/01/09	30/06/09

**Kees van der Graaf<sup>(c)</sup>**

Executive Plan	NV	135 450		135 450	83 250	18.30	52 200	21.94	24/03/02	28/02/11
Executive Plan	PLC	135 450		135 450	135 450	1 080.00p			24/03/02	28/02/11
NL All-Employee Plan	NV	600	(150) <sup>(b)</sup>	450	450	17.70			13/05/04	17/05/11

Plan UK ShareSave Plan	PLC	1 374	1 374	1 374	1 202.00p		01/06/08	30/11/08
<a href="#">Ralph Kugler<sup>(c)</sup></a> Executive Plan	NV	176 625	176 625	120 600	18.19	56 025	22.04	24/03/02 28/02/11
Executive Plan	PLC	176 625	176 625	176 625	1 163.00p			24/03/02 28/02/11
NL All-Employee Plan	NV	300	300	300	17.59			18/05/05 17/05/11
UK ShareSave Plan	PLC	1 374	1 374	1 374	1 202.00p		01/06/08	30/11/08

(a) Options exercised 30 December 2008 at a market value of 1 557p. The options had originally been granted on 24 March 1999 at a price of 1 233p.

(b) Options exercised 30 May 2008 at a market value of 21.01. The options had originally been granted on 2 June 2003 at a price of 17.

(c) Closing balances shown for Kees van der Graaf and Ralph Kugler are as at date of stepping down as a Director in

May 2008. The closing market prices of ordinary shares at that date were 21.16 and 1686p.

The term Executive Plan refers to options granted under the PLC or NV Executive Option Plans. The closing market prices of ordinary shares at 31 December 2008 were 17.34 (NV shares) and 15.97pp (PLC shares). During 2008 the highest market prices were 25.61 and 1947p respectively, and the lowest market prices were 16.20 and 1249p respectively.

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## Report of the Directors

## Report of the Remuneration Committee continued

**Comments on pensions**

Jim Lawrence is a member of the Unilever International Pension Plan (IPP), a defined contribution arrangement. In line with current policy, the contribution structure is equivalent in value to the all-employee plan in the USA, his home country. The current rate of company contributions is 9% of base salary and he makes a personal contribution of 5% of base salary (by individual salary sacrifice). The company contributions paid in 2008 cover the period from September 2007, his date of hire.

Paul Polman will be offered membership of a defined contribution pension plan. In line with current policy, the contribution structure will be broadly equivalent in value to the all-employee plan in the Netherlands, his home country. The company will contribute 15% of his base salary and he will make a personal contribution similar to other managers in the Netherlands. To compensate for the forfeiture of pension from his previous employer, additional company contributions of 12% of base salary with investment returns in line with his defined contribution pension account will vest at age 60 or later at actual retirement.

Three Executive Directors retired from Unilever during 2008. Patrick Cescau stepped down from the Boards and retired at year end aged 60 and 3 months. His pension is payable from 31 December 2008. Kees van der Graaf stepped down from the Boards at the AGMs in May 2008 and retired on 31 May 2008. His pension is payable from 1 March 2009. His retirement terms were in line with Unilever's normal practice for long-serving senior executives in the Netherlands. Ralph Kugler stepped down from the Boards at the AGMs and left the company on 31 May 2008. His pension is payable from 1 March 2009. His retirement terms were in line with Unilever's normal practice for long-serving senior executives in the UK.

**Executive Directors' pensions<sup>(a)</sup>**

Pension values for the year ended 31 December 2008 are set out below.

Name and base country	Age at 31/12/08	Movement in accrued pension		Accrued pension at 31/12/08 <sup>(c)</sup>	Transfer value of accrued pension at 31/12/08 <sup>(d)</sup>	Movement in transfer value during 2008 (less contributions) <sup>(e)</sup>	Individual contributions made during 2008 <sup>(f)</sup>	Transfer value of accrued pension at 31/12/08 <sup>(d)</sup>
		at 31/12/07	2008 <sup>(b)</sup>					
Patrick Cescau (UK) <sup>(g)</sup>	60	1 029	59	<b>1 088</b>	23 937	(131)	4	<b>23 810</b>
Kees van der Graaf (NL) <sup>(h)</sup>	58	639	(16)	<b>623</b>	7 951	948	4	<b>8 903</b>

Ralph Kugler (UK) <sup>(h)</sup>	52	418	(111)	<b>307</b>	7 800	428	<b>8 228</b>
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- (a) Figures have been translated into euros where necessary using the following exchange rates: 31 December 2007  
1.00 = £0.7342,  
\$1.471 31  
December 2008  
1.00 = £0.9773,  
\$1,471; average for the year ended 31 December 2008  
1.00 = £0.7880,  
\$1.468.
- (b) Includes the effect of inflation on the accrued pension at 31 December 2007 and the impact on the accrued pension of changes to the payment dates of the pensions during the year. In the case of Patrick Cescau no pension accrued after age 60 and in the case of Kees van der Graaf and Ralph Kugler the pensions were recalculated for early retirement. See note (c) for details.
- (c) Based on the Executive Directors pension benefits that have now crystallised

and become payable from 31 December 2008 in the case of Patrick Cescau and 1 March 2009 in the cases of Kees van der Graaf and Ralph Kugler (rather than the normal retirement date). It includes all pensions provided from Unilever pension plans.

- (d) The Netherlands-based Executive Director s arrangement is calculated on the basis used by the Unilever Netherlands pension plan (Progress), as prescribed by the Netherlands Ministry of Social Affairs and Employment. This basis changed for accounting periods ending after 1 January 2008. Calculated on the old basis the transfer value at 31 December 2007 was 8 975 000. The UK-based Executive Directors arrangement is calculated on the market-related basis used by the Unilever United Kingdom Pension



Fund (UUKPF).

This basis has changed during 2008. Calculated on the old basis, the transfer values at 31 December 2007 for Patrick Cescau and Ralph Kugler were 20 617 000 and 6 502 000. The transfer values at 31 December 2008 were calculated using market conditions at December 2008 for Patrick Cescau and May 2008 for Ralph Kugler.

- (e) The movement in transfer values during 2008 includes market changes, together with additional service, the Executive Directors being one year closer to retirement and exchange rate movements (for pensions denominated in currencies other than euros). For Patrick Cescau also includes the impact of his salary increase effective from 1 January 2008. For Kees van der Graaf and Ralph Kugler includes the enhancement for early retirement of 542 000 and 2 515

000 respectively.

- (f) Consistent with employees in the current Unilever Netherlands pension plan, the rate of individual contributions paid by Kees van der Graaf is 0.5% of pensionable salary between 12 209 and 58 993 and 1% on the balance. Consistent with employees in the Unilever United Kingdom pension plan, Ralph Kugler's contributions are paid through salary sacrifice at 7% of pensionable salary (5% of pensionable salary from January to March) above the UK Lower Earnings Limit, and as such no individual contributions are shown above. Patrick Cescau's contributions on the part of his salary paid in the Netherlands are paid on the basis of the old Unilever Netherlands pension plan, at 1% above 58 993. His contribution on the part of his salary paid in the UK are consistent with employees in the Unilever United Kingdom

pension plan, paid through salary sacrifice at 7% of pensionable salary (5% of pensionable salary from January to March) above the UK Lower Earnings Limit.

(g) Stepped down from the Boards and retired on 31 December 2008. Attained age 60 on 27 September 2008, accrued no additional pension for service thereafter.

(h) Stepped down from the Boards at the AGMs in May 2008 with pension payable from 1 March 2009. The values shown in the table are at 31 May 2008, or the period ending on that date, as appropriate, and include the enhancement for early retirement. Life cover benefits continued to be payable as if still in employment up to 1 March 2009.

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Report of the Directors  
Report of the Remuneration Committee continued

The Listing Rules of the UK Financial Services Authority are different from the Directors Remuneration Report Regulations 2002 and require certain disclosures for defined benefit pension plans to be calculated on an alternative basis to those disclosed in the preceding table. Also, the Dutch Corporate Governance Code requires the disclosure of pension service costs charged to operating profit. These additional disclosures are set out in the table below, with further explanatory information given in the footnotes.

	Listing rules of the Financial Services Authority		Dutch Corporate Governance Code
	(a)	(b)	(c)
	000	000	000
Patrick Cescau (UK)	8	170	414
Kees van der Graaf (NL) <sup>(d)</sup>	3	25	785
Ralph Kugler (UK) <sup>(d)</sup>	(2)	(31)	2 976

(a) Increase in accrued pension during 2008 (excluding the effect of inflation on the accrued pension at 31 December 2007). Excludes the impact of early retirement.

(b) Transfer value at 31 December 2008 of the increase in accrued pension during 2008

(excluding the effect of inflation on the accrued pension at 31 December 2007 and less individual contributions).

(c) Pension service costs charged to operating profit.

(d) Values shown are as at 31 May 2008, or the period ending at that date, as appropriate.

Jim Lawrence is a member of Unilever's International Pension Plan (IPP), a defined contribution arrangement. The company contribution paid during the period was 61 000 of which 49 000 was in respect of service in 2008. In addition he made a personal contribution of 16 000 by individual salary sacrifice. The pension service cost for the period since he joined the Board in May 2008 was 63 000. Paul Polman will be offered membership of a defined contribution pension plan and the Company contribution accrued for the period was 79 000. The pension service cost accrued against operating profit for the period after he joined the Board in October 2008 was 53 000.

#### **Executive Directors interests share capital**

The interests in the share capitals of NV and PLC and their group companies of those who were Executive Directors at 31 December 2008 and of their connected persons were as shown in the table below:

	Share type <sup>(a)</sup>	Shares held at 1 January 2008 <sup>(b)</sup>	Shares held at 31 December 2008 <sup>(b)</sup>
Patrick Cescau <sup>(c)</sup>	NV	93 099	119 403
	PLC	65 798	96 434
Jim Lawrence <sup>(d)(e)</sup>	NV	297 338	309 193
	PLC	241 830	323 435
Paul Polman	NV		
	PLC		

- (a) NV shares are ordinary 0.16 shares and PLC shares are ordinary 3<sup>1/9</sup>p shares.
- (b) Numbers are excluding unvested matching shares.
- (c) Balances include under NV 38 715 NV New York shares and under PLC 10 220 PLC ADRs.
- (d) Opening balance is at date of appointment as a Director in May 2008.
- (e) Balances held at date of appointment as a Director include under PLC 240 000 PLC ADRs and balance held at 31 December 2008 include under PLC 309 750 ADRs

The Executive Directors, in common with other employees of PLC and its United Kingdom subsidiaries, had beneficial interests in 10 920 385 PLC ordinary shares at 1 January 2008 and 9 450 493 PLC ordinary shares at 31 December 2008, acquired by the Unilever Employee Share Trust (Jersey) for the purpose of satisfying options and vesting of shares under various group share plans (including the PLC Executive Option Plans and the UK Employee ShareSave Plan). Further information, including details of the NV and PLC ordinary shares acquired by certain group companies in connection with other share-based compensation plans, is given in note 29 on pages 133 and 134. The voting rights of the Directors who hold interests in the share capitals of NV and PLC are the same as for other holders of the class of shares indicated. None of the Directors or other executive officers shareholdings amounts to more than 1% of the issued shares in that class of share. Except as stated above, all shareholdings are beneficial.

The only changes in the interests of the Executive Directors and their connected persons in NV and PLC ordinary shares between 31 December 2008 and 27 February 2009 were that the holding of the Unilever Employee Share Trust (Jersey) has reduced to 9 306 937 PLC ordinary shares.

Report of the Directors

Report of the Remuneration Committee continued

### Non-Executive Directors

The following section contains detailed information and commentary on the Non-Executive Directors' annual fees and share interests. The Non-Executive Directors receive fees from both NV and PLC. No other remuneration is given in respect of their non-executive duties from either NV or PLC, such as annual incentives, share-based incentives or pension benefits.

The fee levels are benchmarked against those paid in other global companies based in Europe, excluding companies in the financial sector. The level of their fees reflects their commitment and contribution to Unilever.

In 2007 the shareholders agreed to a total maximum limit of £2 000 000 ( 3 000 000).

### Non-Executive Directors' remuneration

The total fees payable to each Non-Executive Director in 2008 are set out below:

Non-Executive Directors	<b>Total fees paid in 2008<sup>(a)</sup> 000</b>	Total fees paid in 2007 <sup>(a)</sup> 000
Michael Treschow <sup>(b)</sup>	<b>663</b>	469 <sup>(c)</sup>
Geneviève Berger	<b>42<sup>(d)</sup></b>	60 <sup>(e)</sup>
Leon Brittan	<b>101</b>	97
Wim Dik	<b>93</b>	92
Charles Golden	<b>118</b>	134
Byron Grote	<b>91</b>	90
Narayana Murthy	<b>98</b>	97 <sup>(e)</sup>



Hixonia Nyasulu	<b>118</b>	82 <sup>(e)</sup>
David Simon	<b>129</b>	131
Kees Storm	<b>112</b>	113
Jeroen van der Veer	<b>87</b>	90

(a) Covers fees and allowances received from both NV in euros (50%) and PLC in Sterling (50%). Includes fees for intercontinental travel if applicable.

(b) Chairman NV and PLC since the 2007 AGMs.

(c) Appointed in 2007. The 2007 fee therefore only represents the period June December 2007.

(d) Stepped down as Non-Executive Director on becoming a member of the Unilever Executive Team as from 1 July 2008. The fees paid in 2008 reflect the period

January

May 2008.

Please see pages 18 and 19 for details of committee memberships.

Figures for amounts in sterling have been translated into euros using the average exchange rate over the year

1=£0.7880 (2007: 1=£0.6822).

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Report of the Directors

Report of the Remuneration Committee continued

**Non-Executive Directors interests share capital**

The interests in the share capitals of NV and PLC and their group companies of those who were Non-Executive Directors as at 31 December 2008 and had share holdings (including those of their connected persons) were as shown below:

	Share type <sup>(a)</sup>	Shares held at 1 January 2008 <sup>(a)</sup>	Shares held at 31 December 2008 <sup>(a)</sup>
Michael Treschow	NV	15 000	15 000
	PLC	15 000	15 000
Byron Grote	NV NY	3 000	3 000
	PLC		
	ADRs	1 800	1 800
David Simon	NV		
	PLC	1 536	1 569
Jeroen van der Veer	NV	16 800	16 800
	PLC		

(a) NV shares are ordinary 0.16 shares and PLC shares are ordinary 3<sup>1</sup>/<sub>9</sub>p shares.

The only change in the interests of the Non-Executive Directors and their connected persons in NV and PLC shares between 31 December 2008 and 27 February 2009 was that Byron Grote acquired further interests in 1 300 NV NY shares and 1 700 PLC ADRs during February 2009.

**Additional statutory and other disclosures****Unilever's share performance relative to broad-based equity indices**

The UK Companies Act 1985 (schedule 7A) requires us to show Unilever's relative share performance, based on Total Shareholder Return, against a holding of shares in a broad-based equity index for the last five years. The Remuneration Committee has decided to show Unilever's performance against two indices, namely the FTSE 100 Index, London, and the Euronext, Amsterdam, as these are the most generally used indices in the UK and the Netherlands, where we have our principal listings.

**Five-Year Historical TSR Performance**

Growth in the value of a hypothetical £100 holding over five years FTSE 100 comparison based on 30-trading-day average values

Growth in the value of a hypothetical 100 investment over five years AEX comparison based on 30-trading-day average values

The Report has been approved by the Boards. Signed on behalf of the Boards by Sven Dumoulin (Group Secretary).

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Report of the Directors  
Report of the Audit Committee

The role of the Audit Committee is to assist the Unilever Boards in fulfilling their oversight responsibilities regarding the integrity of Unilever's financial statements, risk management and internal control, compliance with legal and regulatory requirements, the external auditors' performance, qualifications and independence, and the performance of the internal audit function. During the year ended 31 December 2008 the principal activities of the Committee were as follows:

**Financial statements**

The Committee considered reports from the Chief Financial Officer on the quarterly and annual financial statements, including other financial statements and disclosures prior to their publication and issues reviewed by the Disclosure Committee. They also reviewed the Annual Report and Accounts and Annual Report on Form 20-F prior to publication.

**Audit of the Annual Accounts**

PricewaterhouseCoopers, Unilever's external auditors, reported in depth to the Committee on the scope and outcome of the annual audit, including their audit of internal control over financial reporting as required by Section 404 of the US Sarbanes-Oxley Act of 2002. Their reports included accounting matters, governance and control, and accounting developments.

**Risk management and internal control arrangements**

The Committee reviewed Unilever's overall approach to risk management and control, and its processes, outcomes and disclosure, including specifically:

- review of level of disclosure in quarterly financial results announcements;

- review of accounting principles and judgements with respect to financial statements, including the annual impairment review of goodwill and intangibles;

- review of the analysis supporting the going concern judgement of the 2008 Annual Report and Accounts;

- Corporate Audit's interim and year-end reports on the Status of Risk Management and Control, and management's response;

- annual report from the Chief Financial Officer on business risks and positive assurance on operating controls and corporate policies; and a quarterly review of business risks and safeguards;

- the interim and year-end reports from the Code of Business Principles Compliance Committee;

- monitoring the resolution of complaints received through the global Ethics hotline including procedures for handling complaints and concerns relating to accounting, internal control and auditing matters;

- quarterly review of progress of the application of the requirements under Section 404 of the US Sarbanes-Oxley Act of 2002 with respect to internal controls over financial reporting;

- review of the application of information and communication technology;

- a review of the annual pension report and the impact of financial volatility on pensions;

- annual review of anti-fraud arrangements;

- a review of tax planning policy;

review of treasury policies, including debt issuance and hedging;

review of the annual financial plan; and

review of the revised dividend policy

#### **External auditors**

The Audit Committee conducted a formal evaluation of the effectiveness of the external audit process. The Committee has approved the extension of the current external audit contract by one year, and recommended to the Boards the reappointment of the external auditors. On the recommendation of the Audit Committee, the Directors will be proposing the reappointment of PricewaterhouseCoopers at the AGMs in May 2009 (see pages 146 and 151).

Both Unilever and the auditors have for many years had safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. The Committee reviewed the report from PricewaterhouseCoopers on the actions they take to comply with the professional and regulatory requirements and best practice designed to ensure their independence from Unilever.

The Committee also reviewed the statutory audit, other audit, tax and other services provided by PricewaterhouseCoopers, and compliance with Unilever's policy, which prescribes in detail the types of engagements for which the external auditors can and cannot be used:

statutory audit services as detailed above, including audit of subsidiaries;

other audit services work which regulations or agreements with third parties require the auditors to undertake e.g. in connection with borrowings and shareholder services;

other services statutory auditors may carry out work that they are best placed to undertake, including internal control reviews;

acquisition and disposal services where the auditors are best placed to do this work;

tax services all significant tax consulting work is put to tender, except where the auditors are best placed to do this; and

general consulting external auditors may not tender for general consulting work.

All engagements over 100 000 require specific advance approval of the Audit Committee Chairman. The overall policy is regularly reviewed and, where necessary, updated in the light of internal developments, external developments and best practice.

The Committee held independent meetings with the external auditors during the year.

#### **Internal audit function**

The Committee reviewed the Corporate Audit department's audit plan for the year, and agreed its budget and resource requirements. The Committee carried out a formal evaluation of the performance of the internal audit function which included a review of a report by an external assessor and confirmed that they were satisfied with the effectiveness of the function. The Committee held independent meetings with the Chief Auditor during the year.

#### **Audit Committee terms of reference**

The Audit Committee's terms of reference are reviewed annually by the Committee taking into account relevant legislation and recommended good practice. The terms of reference can be viewed on Unilever's website at [www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance) or supplied on request.

#### **Board Assessment of the Audit Committee**

The Board evaluated the performance of the Committee and the Committee carried out a self-assessment of its performance.

**Kees Storm** Chairman of the Audit Committee

**Wim Dik**

**Charles Golden**  
**Byron Grote**

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Report of the Directors

Report of the Corporate Responsibility and Reputation Committee

### **Terms of reference**

The Corporate Responsibility and Reputation Committee oversees Unilever's conduct as a responsible multinational business. It is also charged with ensuring that Unilever's reputation is protected and enhanced. Inherent in this is the need to identify any external developments which are likely to have an influence upon Unilever's standing in society and to bring these to the attention of the UEx.

The Committee comprises three independent Non-Executive Directors: Leon Brittan (Chairman), Hixonia Nyasulu and Narayana Murthy. In 2008 two members of the Committee stood down: Executive Director Ralph Kugler, who retired from Unilever in May, and Geneviève Berger, who stepped down as a Non-Executive Director to join the Unilever Executive in July.

To ensure it maintains a strategic overview of current and emerging sustainability issues, the Committee benefits from the insights of the Unilever Sustainable Development Group (USDG) – a body of five experts who advise on Unilever's sustainability strategy. A multi-functional group of senior leaders from across the business (the Corporate Responsibility, Issues, Sustainability and Partnerships group – CRISP) also provides input to the Committee's discussions. Both groups are chaired by the President Foods, Home and Personal Care and member of the Unilever Executive, Vindi Banga.

The Corporate Responsibility and Reputation Committee's terms of reference and details of the Unilever Sustainable Development Group are available on our website at [www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance)

### **Meetings**

As part of its watching brief on current issues of concern to society, the Committee reviewed a range of topics in 2008. Amongst these were: Unilever's approach to animal testing; the emerging science of nanotechnology; sustainable farming; melamine contamination in products containing Chinese milk; the Group's operations in Zimbabwe and the Occupied Territories; and competition-related issues. Subjects that received particular scrutiny are listed below.

### **Business risk**

Committee members reviewed Unilever's process for assessing business risk, focusing on how current and future risks are identified and fed into management and business planning.

### **Code of Business Principles**

Unilever's Code of Business Principles sets out the standards of conduct to which we expect our employees to adhere. In 2008 Unilever strengthened its management of the Code by appointing a new full-time Global Code Officer. Priorities for the new role include building a network of country code officers, improving training and developing and sharing best practice. A new online training module on the Code was piloted in 2008. The Committee endorsed these actions as they are key in ensuring that Unilever's standards of conduct are well understood and enforced effectively. The new Global Code Officer attended a meeting of the Committee shortly after taking up his appointment and reported on his plans and initial impressions.

### **Business Partner Code**

Unilever's Business Partner Code sets the standards that we expect of suppliers in areas such as health and safety at work, business integrity, respect for labour standards, consumer safety and safeguarding the environment. Unilever's supply management function is responsible for the roll-out of the Business Partner Code and for gaining supplier assurance.

As this is an important area of risk and reputation management, the Committee emphasised the need for detailed standards and strong governance. In 2008, a programme of audits was piloted to assess compliance with the Code. These pilots were used to inform the development of a new supplier assurance policy setting out operational practices and standards to deliver the Code's commitments. Governance is via the Corporate Code Committee which oversees the operation of both the Business Partner Code and the Code of Business Principles.

See [www.unilever.com/investorrelations/corp\\_governance](http://www.unilever.com/investorrelations/corp_governance) for the full text of the Code of Business Principles and Business Partner Code.



**Labour standards**

Between 2006 and 2008, four complaints have been brought to Unilever's attention by the International Union of Food Workers (IUF) and the transport union TUMTIS. These concern site closure, freedom of association, collective bargaining and the use of temporary and contracted labour at our factories in India and Pakistan and a supplier's factory in Turkey. Under the terms of the OECD's Guidelines for Multinational Enterprises, the unions have referred their complaints to the OECD's national contact points in the UK and Turkey for investigation. Unilever is seeking local resolution to these issues as well as co-operating fully with the OECD process.

Committee members stressed the need for active management of these matters. The UEx has agreed a set of procedures and the appointment of a senior manager to address these complaints more rapidly. Unilever is also reviewing its policies and practices to ensure that it continues to act within the law, as well as upholding the UN Global Compact's principles on human and labour rights and following the OECD Guidelines for Multinational Enterprises. The Committee decided to give high priority to the monitoring of these developments.

Report of the Directors

Report of the Corporate Responsibility and Reputation Committee continued

**Sustainable sourcing of palm oil**

Unilever buys around 4% of world palm oil production for use across its portfolio, from soaps to spreads. In May 2008 Unilever announced its intention to source all its palm oil from certified sustainable sources by 2015. This is a major step that reflects our concern that the palm oil industry in Indonesia and Malaysia contributes to the destruction of the world's rainforests.

Unilever has taken the lead in setting up a coalition of like-minded companies, banks and NGOs. This seeks to break the link between the cultivation of oil palm and deforestation by accelerating the move towards certified sustainable palm oil. Unilever is working with Greenpeace to promote this aim.

The Committee emphasised the need for robust sustainability certification standards as the credibility of the initiative depends heavily on such third-party certification. Unilever continues to work via the Roundtable on Sustainable Palm Oil to refine these sustainability criteria and standards.

More information about Unilever's corporate responsibility initiatives is available in our Sustainable Development Report 2008 at [www.unilever.com/sustainability](http://www.unilever.com/sustainability)

**Leon Brittan** Chairman of the Corporate Responsibility and Reputation Committee

**Narayana Murthy**

**Hixonia Nyasulu**

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Financial statements  
Statement of Directors responsibilities

### **Annual accounts**

The Directors are required by Title 9, Book 2 of the Civil Code in the Netherlands and the United Kingdom Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Unilever Group, and the NV and PLC entities as at the end of the financial year and of the profit or loss and cash flows for that year.

The Directors consider that, in preparing the accounts, the Group and the NV and PLC entities have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards as adopted by the EU and as issued by the International Accounting Standards Board (in the case of the consolidated accounts) and United Kingdom accounting standards (in the case of the parent company accounts) which they consider to be applicable have been followed. The Directors have responsibility for ensuring that NV and PLC keep accounting records which disclose with reasonable accuracy their financial position and which enable the Directors to ensure that the accounts comply with the relevant legislation. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

This statement, which should be read in conjunction with the Auditors report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

A copy of the financial statements of the Unilever Group is placed on our website at [www.unilever.com/investorrelations](http://www.unilever.com/investorrelations) The maintenance and integrity of the website are the responsibility of the Directors, and the work carried out by the auditors does not involve consideration of these matters. Accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially placed on the website. Legislation in the United Kingdom and the Netherlands governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

UK law sets out additional responsibilities for the Directors of PLC regarding disclosure of information to auditors. Disclosure in respect of these responsibilities is made on page 151.

### **Directors responsibility statement**

Each of the Directors confirms that, to the best of his or her knowledge:

the financial statements which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and as issued by the International Accounting Standards Board (in the case of the consolidated accounts) and United Kingdom accounting standards (in the case of the PLC parent company accounts) and United Kingdom accounting standards and Part 9 of Book 2 of the Dutch Civil Code (in the case of the NV parent company accounts), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the NV and PLC entities taken as a whole; and

the Report of the Directors includes a fair review of the development and performance of the business and the position of the Group and the NV and the PLC entities taken as a whole, together with a description of the principal risks and uncertainties they face.

The Directors and their functions are listed on pages 18 and 19.

### **Going concern**

The activities of the Group, together with the factors likely to affect its future development, performance and position are set out on pages 1 to 17 and 20 to 34. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 35 to 43. In addition, we describe in note 17 on pages 108 to 113 the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk. The Group has considerable financial resources together with established business relationships with many customers and suppliers in countries throughout the world. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain outlook.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

**Internal and disclosure controls and procedures**

Please refer to pages 25 to 27 for a discussion of Unilever's principal risk factors and to page 28 for commentary on the Group's approach to risk management and control.

Financial statements  
Auditor's report Netherlands

**Independent auditor's report to the shareholders of Unilever N.V.**

**Report on the consolidated accounts**

We have audited the consolidated accounts which are part of the Annual Report 2008 of the Unilever Group for the year ended 31 December 2008 which comprise the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of recognised income and expense and a summary of significant accounting policies and other explanatory notes on pages 81 to 136 and 140 to 141.

We have reported separately on the company accounts of Unilever N.V. for the year ended 31 December 2008.

**Directors' responsibility**

The Directors are responsible for the preparation and fair presentation of the consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union and as issued by the International Accounting Standards Board and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of the Directors in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on the consolidated accounts based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated accounts give a true and fair view of the financial position of the Unilever Group as at 31 December 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and as issued by the International Accounting Standards Board and with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Report of the Directors is consistent with the consolidated accounts as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, The Netherlands, 3 March 2009

PricewaterhouseCoopers Accountants N.V.

**Drs R A J Swaak RA**





Financial statements

Auditors report [United Kingdom](#)

**Independent auditors report to the shareholders of Unilever PLC on the consolidated accounts**

We have audited the consolidated accounts of the Unilever Group for the year ended 31 December 2008 which comprise the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of recognised income and expense, the related notes on pages 81 to 136, and principal group companies and non-current investments on pages 140 and 141. These consolidated accounts have been prepared under the accounting policies set out in note 1 on pages 84 to 88.

We have reported separately on the parent company accounts of Unilever PLC for the year ended 31 December 2008 and on the information in the Report of the Remuneration Committee that is described as having been audited.

**Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual Report and consolidated accounts in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and as issued by the International Accounting Standards Board are set out in the Statement of Directors' Responsibilities on page 78, and on page 152.

Our responsibility is to audit the consolidated accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the shareholders of Unilever PLC as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the consolidated accounts give a true and fair view and whether the consolidated accounts have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors (excluding the audited part of the Report of the Remuneration Committee) is consistent with the consolidated accounts.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the United Kingdom Financial Services Authority, and we report if it does not. We are not required to consider whether the Directors' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated accounts. The other information comprises only the Report of the Directors (excluding the audited part of the Report of the Remuneration Committee), the Shareholder information, the Statement of Directors' responsibilities and the Financial record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated accounts. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the consolidated accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated accounts

are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated accounts.

**Opinion**

In our opinion:

the consolidated accounts give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;

the consolidated accounts have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and

the information given in the Report of the Directors is consistent with the consolidated accounts.

Separate opinion in relation to IFRS

As explained in note 1 to the consolidated accounts, the Group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union has also complied with IFRS as issued by the International Accounting Standards Board.

In our opinion the consolidated accounts give a true and fair view, in accordance with IFRS as issued by the International Accounting Standards Board, of the state of the Group's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London, United Kingdom

3 March 2009

Financial statements

Financial statements [Unilever Group](#)**Consolidated income statement**

for the year ended 31 December

	<b>million 2008</b>	million 2007	million 2006
<b>Continuing operations</b>			
	<b>40</b>	40	39
<b>Turnover 2</b>	<b>523</b>	187	642
<b>Operating profit 2</b>	<b>7 167</b>	5 245	5 408
After (charging)/crediting:			
Restructuring 3	<b>(868)</b>	(875)	(704)
Business disposals, impairments and other 3	<b>2 137</b>	306	196
Gain on US healthcare and UK pensions 3			266
Net finance costs 5	<b>(257)</b>	(252)	(721)
Finance income	<b>106</b>	147	128
Finance costs	<b>(506)</b>	(550)	(590)
Preference shares provision		(7)	(300)
Pensions and similar obligations	<b>143</b>	158	41
Share of net profit/(loss) of joint ventures 11	<b>125</b>	102	78
Share of net profit/(loss) of associates 11	<b>6</b>	50	36
Other income from non-current investments 11	<b>88</b>	39	30
<b>Profit before taxation</b>	<b>7 129</b>	5 184	4 831
	<b>(1</b>		
Taxation 6	<b>844)</b>	(1 128)	(1 146)
<b>Net profit from continuing operations</b>	<b>5 285</b>	4 056	3 685
Profit for the year from discontinued operations 27		80	1 330
<b>Net profit</b>	<b>5 285</b>	4 136	5 015
Attributable to:			
Minority interests	<b>258</b>	248	270
Shareholders' equity	<b>5 027</b>	3 888	4 745

**Combined earnings per share 7****From continuing operations**

Basic earnings per share	<b>1.79</b>	1.32	1.19
Diluted earnings per share	<b>1.73</b>	1.28	1.15

**From discontinued operations**

Basic earnings per share		0.03	0.46
Diluted earnings per share		0.03	0.45

**From total operations**

Basic earnings per share	<b>1.79</b>	1.35	1.65
Diluted earnings per share	<b>1.73</b>	1.31	1.60

References in the consolidated income statement, consolidated statement of recognised income and expense, consolidated cash flow statement and consolidated balance sheet relate to notes on pages 84 to 136, which form an integral part of the consolidated financial statements.

Accounting policies of the Unilever Group are set out in note 1 on pages 84 to 88.

**Consolidated statement of recognised income and expense**

for the year ended 31 December

	<b>million 2008</b>	million 2007	million 2006
Fair value gains/(losses) net of tax:			
On cash flow hedges	<b>(118)</b>	84	6
On available-for-sale financial assets	<b>(46)</b>	2	15
	<b>(2)</b>		
Actuarial gains/(losses) on pension schemes net of tax	<b>293)</b>	542	853
	<b>(1)</b>		
Currency retranslation gains/(losses) net of tax <sup>(a)</sup>	<b>688)</b>	(413)	(335)
	<b>(4)</b>		
<b>Net income/(expense) recognised directly in equity</b>	<b>145)</b>	215	539
Net profit	<b>5 285</b>	4 136	5 015
<b>Total recognised income and expense 21</b>	<b>1 140</b>	4 351	5 554
Attributable to:			
Minority interests	<b>205</b>	237	242
Shareholders' equity	<b>935</b>	4 114	5 312

(a) Includes fair value

gains/(losses) on  
net investment  
hedges of  
(560) million  
(2007: (692)  
million; 2006:  
(779) million).

Financial statements

Financial statements [Unilever Group](#)**Consolidated balance sheet**

as at 31 December

	<b>million</b> <b>2008</b>	million 2007
	<b>11</b>	12
Goodwill 9	<b>665</b>	244
Intangible assets 9	<b>4 426</b>	4 511
Property, plant and equipment 10	<b>5 957</b>	6 284
Pension asset for funded schemes in surplus 20	<b>425</b>	2 008
Deferred tax assets 12	<b>1 068</b>	1 003
Other non-current assets 11	<b>1 426</b>	1 324
	<b>24</b>	27
<b>Total non-current assets</b>	<b>967</b>	374
Inventories 13	<b>3 889</b>	3 894
Trade and other current receivables 14	<b>3 823</b>	4 194
Current tax assets	<b>234</b>	367
Cash and cash equivalents 15	<b>2 561</b>	1 098
Other financial assets 15	<b>632</b>	216
Non-current assets held for sale 27	<b>36</b>	159
	<b>11</b>	
<b>Total current assets</b>	<b>175</b>	9 928
	<b>(4</b>	
Financial liabilities 16	<b>842)</b>	(4 166)
	<b>(7</b>	
Trade payables and other current liabilities 18	<b>824)</b>	(8 017)
Current tax liabilities	<b>(377)</b>	(395)
Provisions 19	<b>(757)</b>	(968)
Liabilities associated with non-current assets held for sale 27		(13)
	<b>(13</b>	
<b>Total current liabilities</b>	<b>800)</b>	559)
	<b>(2</b>	
<b>Net current assets/(liabilities)</b>	<b>625)</b>	(3 631)
	<b>22</b>	23
<b>Total assets less current liabilities</b>	<b>342</b>	743

Financial liabilities due after one year 16	<b>6 363</b>	5 483
Non-current tax liabilities	<b>189</b>	233
Pensions and post-retirement healthcare liabilities:		
Funded schemes in deficit 20	<b>1 820</b>	827
Unfunded schemes 20	<b>1 987</b>	2 270
Provisions 19	<b>646</b>	694
Deferred tax liabilities 12	<b>790</b>	1 213
Other non-current liabilities	<b>175</b>	204
	<b>11</b>	10
<b>Total non-current liabilities</b>	<b>970</b>	924
Share capital 21	<b>484</b>	484
Share premium 21	<b>121</b>	153
	<b>(6</b>	
Other reserves 21	<b>469)</b>	(3 412)
	<b>15</b>	15
Retained profit 21	<b>812</b>	162
		12
<b>Shareholders equity</b>	<b>9 948</b>	387
Minority interests 21	<b>424</b>	432
	<b>10</b>	12
<b>Total equity</b>	<b>372</b>	819
	<b>22</b>	23
<b>Total capital employed</b>	<b>342</b>	743

Commitments and contingent liabilities are shown in note 25 on page 125.

These financial statements, together with the Report of the Directors, have been approved by the Directors.

**The Board of Directors**

3 March 2009

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Financial statements

Financial statements [Unilever Group](#)**Consolidated cash flow statement**  
for the year ended 31 December

	million 2008	million 2007	million 2006
Cash flow from operating activities 28	<b>5 326</b>	5 188	5 574
Income tax paid	<b>(1 455)</b>	(1 312)	(1 063)
<b>Net cash flow from operating activities</b>	<b>3 871</b>	3 876	4 511
Interest received	<b>105</b>	146	125
Purchase of intangible assets	<b>(147)</b>	(136)	(113)
Purchase of property, plant and equipment	<b>142</b>	(1 046)	(1 013)
Disposal of property, plant and equipment	<b>190</b>	163	192
Sale and leaseback transactions resulting in operating leases		36	
Acquisition of group companies, joint ventures and associates	<b>(211)</b>	(214)	(96)
Disposal of group companies, joint ventures and associates	<b>2 476</b>	164	1 873
Acquisition of other non-current investments	<b>(126)</b>	(50)	(90)
Disposal of other non-current investments	<b>47</b>	33	61
Dividends from joint ventures, associates and other non-current investments	<b>132</b>	188	120
(Purchase)/sale of financial assets	<b>91</b>	93	96
<b>Net cash flow from/(used in) investing activities</b>	<b>1 415</b>	(623)	1 155
Dividends paid on ordinary share capital	<b>(2 086)</b>	(2 182)	(2 602)
Interest and preference dividends paid	<b>(487)</b>	(552)	(605)
Additional financial liabilities	<b>4 544</b>	4 283	2 154
Repayment of financial liabilities	<b>(3 427)</b>	(2 896)	(5 364)
Sale and leaseback transactions resulting in finance leases	<b>(1)</b>	25	2
Capital element of finance lease rental payments	<b>(66)</b>	(74)	(73)
Share buy-back programme	<b>(1 503)</b>	(1 500)	
Other movements on treasury stock	<b>103</b>	442	98
Other financing activities	<b>(207)</b>	(555)	(182)
<b>Net cash flow from/(used in) financing activities</b>	<b>(3 130)</b>	(3 009)	(6 572)



<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2 156</b>	244	(906)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>901</b>	710	1 265
Effect of foreign exchange rate changes	<b>(697)</b>	(53)	351
<b>Cash and cash equivalents at the end of the year 15</b>	<b>2 360</b>	901	710

The cash flow statement has been prepared in accordance with IAS 7. The cash flows of pension funds (other than contributions and other direct payments made by the Group in respect of pensions and similar obligations) are not included in the consolidated cash flow statement. Cash flows relating to discontinued operations included above are set out in note 27 on page 130.

Financial statements

Notes to the consolidated accounts [Unilever Group](#)

## **1 Accounting information and policies**

The accounting policies adopted are the same as those which applied for the previous financial year, except as set out below under the heading of Companies legislation and accounting standards .

### **Unilever**

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 have the same Directors and are linked by a series of agreements, including an Equalisation Agreement, which are designed so that the position of the shareholders of both companies is as nearly as possible the same as if they held shares in a single company.

The Equalisation Agreement provides that both companies adopt the same accounting principles and requires as a general rule the dividends and other rights and benefits (including rights on liquidation) attaching to each 0.16 nominal of ordinary share capital of NV to be equal in value at the relevant rate of exchange to the dividends and other rights and benefits attaching to each 31/9p nominal of ordinary share capital of PLC, as if each such unit of capital formed part of the ordinary capital of one and the same company. For additional information please refer to Corporate governance on page 51.

### **Basis of consolidation**

Due to the operational and contractual arrangements referred to above, NV and PLC form a single reporting entity for the purposes of presenting consolidated accounts. Accordingly, the accounts of Unilever are presented by both NV and PLC as their respective consolidated accounts. Group companies included in the consolidation are those companies controlled by NV or PLC. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The net assets and results of acquired businesses are included in the consolidated accounts from their respective dates of acquisition, being the date on which the Group obtains control. The results of disposed businesses are included in the consolidated accounts up to their date of disposal, being the date control ceases.

### **Companies legislation and accounting standards**

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with Book 2 of the Civil Code in the Netherlands and the United Kingdom Companies Acts 1985 and 2006. They are also in compliance with IFRS as issued by the International Accounting Standards Board.

The accounts are prepared under the historical cost convention unless otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures with effect from 1 July 2008, with no effect, and IFRIC Interpretation 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction with effect from 1 January 2008, with no material effect on the financial statements of the Group.

### **Foreign currencies**

Items included in the financial statements of group companies are measured using the currency of the primary economic environment in which each entity operates (its functional currency). The consolidated financial statements are presented in euros. The functional currencies of NV and PLC are euros and sterling respectively.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying hedges. Those arising on trading transactions are taken to operating profit; those arising on cash, financial assets and financial liabilities are classified as finance income or cost.

In preparing the consolidated financial statements, the income statement, the cash flow statement and all other movements in assets and liabilities are translated at annual average rates of exchange. The balance sheet, other than

the ordinary share capital of NV and PLC, is translated at year-end rates of exchange. In the case of hyper-inflationary economies, which are those in which inflation exceeds 100% cumulatively over a three-year period, the accounts are adjusted to reflect current price levels and remove the influences of inflation before being translated.

The ordinary share capital of NV and PLC is translated in accordance with the Equalisation Agreement. The difference between the resulting value for PLC and the value derived by applying the year-end rate of exchange is taken to other reserves (see note 23 on page 123).

The effects of exchange rate changes during the year on net assets at the beginning of the year are recorded as a movement in shareholders' equity, as is the difference between profit of the year retained at average rates of exchange and at year-end rates of exchange. For these purposes net assets include loans between group companies and related foreign exchange contracts, if any, for which settlement is neither planned nor likely to occur in the foreseeable future. Exchange gains/losses on hedges of net assets are also recorded as a movement in equity.

Cumulative exchange differences arising since the date of transition to IFRS of 1 January 2004 are reported as a separate component of other reserves (see note 23 on page 123). In the event of disposal or part disposal of an interest in a group company either through sale or as a result of a repayment of capital, the cumulative exchange difference is recognised in the income statement as part of the profit or loss on disposal of group companies.

#### **Business combinations**

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets and liabilities of the acquired business at fair value as at the date of acquisition.

Acquisitions of minority interests are accounted for using the parent entity method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

#### **Goodwill**

Goodwill (being the difference between the fair value of consideration paid for new interests in group companies and the fair value of the Group's share of their net identifiable assets and contingent liabilities at the date of acquisition) is capitalised. Goodwill is not amortised, but is subject to an annual review for impairment (or more frequently if necessary). Any impairment is charged to the income statement as it arises.

Financial statements

Notes to the consolidated accounts [Unilever Group](#)

### 1 Accounting information and policies (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired business are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than a segment based on either the Group's primary or the Group's secondary reporting format.

#### Intangible assets

On acquisition of group companies, Unilever recognises any specifically identifiable intangible assets separately from goodwill, initially measuring the intangible assets at fair value as at the date of acquisition. Separately purchased intangible assets are initially measured at cost. Finite-lived intangible assets mainly comprise patented and non-patented technology, know-how and software. These assets are capitalised and amortised on a straight-line basis in the income statement over the period of their expected useful lives, or the period of legal rights if shorter, none of which exceeds ten years. Periods in excess of five years are used only where the Directors are satisfied that the life of these assets will clearly exceed that period.

Indefinite-lived intangibles are not amortised, but are subject to an annual review for impairment (or more frequently if necessary). Any impairment is charged to the income statement as it arises.

Unilever monitors the level of product development costs against all the criteria set out in IAS 38. These include the requirement to establish that a flow of economic benefits is probable before costs are capitalised. For Unilever this is evident only shortly before a product is launched into the market. The level of costs incurred after these criteria have been met is currently insignificant.

#### Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and impairment. Depreciation is provided on a straight-line basis at percentages of cost based on the expected average useful lives of the assets and their residual values which are reviewed periodically. Estimated useful lives by major class of assets are as follows:

Freehold buildings	40 years
(no depreciation on freehold land)	
Leasehold buildings	40 years*
Plant and equipment	2 – 20 years

\* or life of lease if  
less than  
40 years

Property, plant and equipment is subject to review for impairment if triggering events or circumstances indicate that this is necessary. Any impairment is charged to the income statement as it arises.

#### Other non-current assets

Joint ventures are undertakings in which the Group has an interest and which are jointly controlled by the Group and one or more other parties. Associates are undertakings in which the Group has an investment and can exercise significant influence.

Interests in joint ventures and associates are accounted for using the equity method and are stated in the consolidated balance sheet at cost, adjusted for the movement in the Group's share of their net assets and liabilities. The Group's share of the profit or loss after tax of joint ventures and associates is included in the Group's consolidated profit before taxation.

Biological assets are stated at fair value less estimated point-of-sale costs.

## **Financial instruments**

Financial instruments are recognised when the Group becomes party to the contract. They are initially measured at fair value (the transaction price) adjusted, in the case of instruments not classified as fair value through profit or loss, by directly attributable transaction costs.

### **Financial assets**

Market purchases and sales of financial assets are recognised using value date accounting. Financial assets, other than those which are financial assets at fair value through profit or loss, are initially recognised at fair value plus directly attributable transaction costs. Any impairment of a financial asset is charged to the income statement as it arises.

Financial assets are classified according to the purpose for which they were acquired. This gives rise to the following categories: held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. Unilever determines the classification of its investments at initial recognition.

#### **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. They are included in non-current investments at amortised cost using the effective interest method, less any amounts written off to reflect impairment. Any impairment is charged to the income statement as it arises.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a counterparty with no intention of trading the receivable. Loans and receivables are included in trade and other receivables in the balance sheet at amortised cost.

Short-term loans and receivables are initially measured at original invoice amount and subsequently measured after deducting any provision for impairment. Any impairment is charged to the income statement as it arises.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement within other income. Dividends on available-for-sale equity instruments are recognised in the income statement within other income when the Group's right to receive payment is established.

#### **Financial assets at fair value through profit or loss**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated. Derivatives are also classified in this category unless they are designated as hedges. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the balance sheet date. Directly attributable transaction costs related to the purchase of the assets are expensed as incurred. Gains and losses arising from changes in fair value are included in the income statement.

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Notes to the consolidated accounts [Unilever Group](#)

## **1 Accounting information and policies (continued)**

### **Financial liabilities**

Financial liabilities are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost unless they are part of a fair value hedge accounting relationship; any difference between the amount on initial recognition and the redemption value is recognised in the income statement over the period of the financial liabilities using the effective interest method. Those financial liabilities that are part of a fair value hedge accounting relationship are also recorded on an amortised cost basis, plus or minus the fair value attributable to the risk being hedged with a corresponding entry in the income statement.

Short-term financial liabilities are measured at original invoice amount. Borrowing costs are not capitalised as part of property, plant and equipment.

### **Derivative financial instruments**

Derivatives are measured on the balance sheet at fair value as at the balance sheet date. The activities of the Group expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts, interest rate swap contracts and forward rate agreements to hedge these exposures. The Group also uses commodity contracts to hedge future requirements for certain raw materials, almost always for physical delivery. Those contracts that can also be settled in cash are treated as a financial instrument. The Group does not use derivative financial instruments for speculative purposes. The use of leveraged instruments is not permitted.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are carried at fair value with unrealised gains or losses reported in the income statement.

### **Cash flow hedges**

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity, and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction subsequently results in the recognition of a non-financial asset or a liability, then, at the time the non-financial asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the non-financial asset or liability. For hedged items that do not result in the recognition of a non-financial asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects profit or loss.

Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

### **Fair value hedges**

For an effective hedge of an exposure to changes in the fair value of recognised assets and liabilities, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in the income statement.

### **Net investment hedges**

Changes in fair value of net investment hedges in relation to foreign subsidiaries are recognised directly in equity. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

### **Valuation principles**

The fair values of quoted investments are based on current bid prices. For unlisted and for listed securities where the market for a financial asset is not active the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

### **Impairment of financial instruments**

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

### **Inventories**

Inventories are valued at the lower of weighted average cost and net realisable value. Cost comprises direct costs and, where appropriate, a proportion of attributable production overheads.

### **Cash and cash equivalents**

For the purpose of preparation of the cash flow statement, cash and cash equivalents includes cash at bank and in hand, highly liquid interest bearing securities with original maturities of three months or less, and bank overdrafts.

### **Pensions and similar obligations**

The operating and financing costs of defined benefit plans are recognised separately in the income statement. Service costs are systematically allocated over the service lives of employees, and financing costs are recognised in the periods in which they arise. The costs of individual events such as past service benefit enhancements, settlements and curtailments are recognised immediately in the income statement. Variations from expected costs, arising from the experience of the plans or changes in actuarial assumptions, are recognised immediately in the statement of recognised income and expense. The assets and liabilities of defined benefit plans are recognised in the balance sheet at fair value as at the balance sheet date.

The charges to the income statement for defined contribution plans are the company contributions payable, and the assets and liabilities of such plans are not included in the balance sheet of the Group.

All defined benefit plans are subject to regular actuarial review using the projected unit method, either by external consultants or by actuaries employed by Unilever. Group policy is that the most important plans, representing approximately 80% of the defined benefit liabilities, are formally valued every year; other principal plans, accounting for approximately a further 15% of liabilities, have their liabilities updated each year. Group policy for the remaining plans requires a full actuarial valuation at least every three years. Asset values for all plans are updated every year.

Financial statements

Notes to the consolidated accounts [Unilever Group](#)

## **1 Accounting information and policies (continued)**

### **Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxation is recognised using the liability method on taxable temporary differences between the tax base and the accounting base of items included in the balance sheet of the Group. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates prevailing at the year end unless future rates have been enacted or substantively enacted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **Provisions**

Provisions are recognised when either a legal or constructive obligation, as a result of a past event, exists at the balance sheet date and where the amount of the obligation can be reliably estimated.

### **Segment information**

Segment information is provided on the basis of geographical regions and product categories. The primary format, geographical regions, is based on the management structure of the Group, which operates in three geographical regions.

### **Revenue recognition**

Turnover comprises sales of goods and services after deduction of discounts and sales taxes. It does not include sales between group companies. Discounts given by Unilever include rebates, price reductions and incentives given to customers, promotional couponing and trade communication costs.

Turnover is recognised when the risks and rewards of the underlying products and services have been substantially transferred to the customer. Revenue from services is recognised as the services are performed. Interest income is recognised as interest accrues using the effective interest method.

### **Research and market support costs**

Expenditure on research and market support, such as advertising, is charged to the income statement when incurred.

### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Group at their fair value at the date of commencement of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

A profit or loss is recognised on a sale and leaseback transaction based on the difference between sales proceeds and the carrying amount of the asset. Where the transaction results in a finance lease, the profit or loss is deferred and amortised over the lease term. Where the transaction results in an operating lease, any profit or loss is recognised immediately with reference to the proceeds of sale and the fair value of the asset.

Lease payments relating to operating leases are charged to the income statement on a straight-line basis over the lease term.



### **Share-based payments**

The economic cost of awarding shares and share options to employees is reflected by recording a charge in the income statement equivalent to the fair value of the benefit awarded over the vesting period. The fair value is determined with reference to option pricing models, principally adjusted Black-Scholes models or a multinomial pricing model.

### **Shares held by employee share trusts**

The assets and liabilities of certain PLC trusts, NV and group companies which purchase and hold NV and PLC shares to satisfy options granted are included in the consolidated accounts. The book value of shares held is deducted from other reserves, and trusts borrowings are included in the Group's liabilities. The costs of the trusts are included in the results of the Group. These shares are excluded from the calculation of earnings per share.

### **Assets held for sale**

Assets and groups of assets and liabilities which comprise disposal groups are classified as held for sale when all of the following criteria are met: a decision has been made to sell, the assets are available for sale immediately, the assets are being actively marketed, and a sale has been or is expected to be concluded within twelve months of the balance sheet date. Assets and disposal groups held for sale are valued at the lower of book value or fair value less disposal costs. Assets held for sale are not depreciated.

### **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements requires management to make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **Income statement presentation**

On the face of the income statement, costs and revenues relating to restructuring, business disposals and impairments are disclosed. In addition, individual items judged to be significant are disclosed separately. These are material in terms of nature and amount. These disclosures are given in order to provide additional information to help users better understand financial performance.

### **Impairment of goodwill and indefinite-lived intangible assets**

Impairment reviews in respect of goodwill and intangible assets are performed at least annually. More regular reviews are performed if events indicate that this is necessary. Examples of such triggering events would include a significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses, or negative cash flows.

The recoverable amounts of cash-generating units are determined based on the higher of fair value less costs to sell and value-in-use calculations. These calculations require the use of estimates. Details of key assumptions made are set out in note 9 on page 98.

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Notes to the consolidated accounts [Unilever Group](#)

## **1 Accounting information and policies (continued)**

### **Retirement benefits**

Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement. These figures are particularly sensitive to assumptions for discount rates, mortality, inflation rates and expected long-term rates of return on assets. Details of assumptions made are given in note 20 on pages 115 to 117.

### **Taxation**

The Group is subject to taxes in numerous jurisdictions. Significant judgement is required in determining worldwide provision for taxes. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### **Provisions**

Provision is made, among other reasons, for legal matters, disputed indirect taxes, employee termination costs and restructuring where a legal or constructive obligation exists at the balance sheet date and a reliable estimate can be made of the likely outcome. The nature of these costs is such that judgement has to be applied to estimate the timing and amount of cash outflows.

### **Recent accounting developments**

We are currently assessing the impact of the following revised standard or interpretation. These changes are not expected to have a material impact on the Group's results of operations, financial position or disclosures.

Amendments in IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009) requiring information in financial statements to be aggregated on the basis of shared characteristics and introducing a statement of comprehensive income.

Amendments in IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009) removing the option for expensing borrowing costs and requiring mandatory capitalisation of qualifying borrowing costs.

IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009) introduces a management reporting approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. It replaces disclosure requirements in IAS 14 *Segment Reporting*.

Amendments in IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009) changing and updating the existing requirements or practice on accounting for partial acquisitions, step acquisitions, acquisition-related costs, contingent consideration and transactions with non-controlling interests.

Amendment to IAS 38 *Intangible Assets* (effective for annual periods beginning on or after 1 January 2009) clarifies the accounting for advertising expenditure.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2009).

IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009).

IFRIC 18 *Transfers of Assets from Customers* (effective for annual periods beginning on or after 1 July 2009).



## Financial statements

Notes to the consolidated accounts [Unilever Group](#)**2 Segment information**

Our primary reporting segments are geographic. During 2008 we reorganised the management of our regions so that our operations in Central & Eastern Europe were managed together with those in Asia and Africa, whereas they had previously been managed together with those in Western Europe. This change reflects our strategic focus on the developing world and the fact that these markets share many common characteristics. As at the end of 2008 our revised structure comprises the three operating regions of Western Europe, The Americas, and Asia, Africa and Central & Eastern Europe (AACEE). We are therefore now reporting segmentally on this revised basis and have restated prior year amounts accordingly. The home countries of the Unilever Group are the Netherlands and the United Kingdom. Turnover for these two countries combined in 2008 was 3 543 million (2007: 3 768 million; 2006: 3 710 million). The combined operating profit in 2008 was 754 million (2007: 444 million; 2006: 555 million). Turnover for the United States for 2008 was 6 606 million (2007: 7 120 million; 2006: 7 627 million). No other country had turnover of more than 10% of the Group total.

The analysis of turnover by geographical area is stated on the basis of origin. Turnover on a destination basis would not be materially different. Inter-segment sales between geographical areas and between product areas as on page 91 are not material. Total assets and capital expenditure are based on the location of the assets. Segment results are presented on the basis of operating profit. Segment assets consist primarily of property, plant and equipment, goodwill and other intangible assets, inventories and receivables. Corporate assets consist of current and deferred tax and pension assets, cash and cash equivalents, and other current or non-current financial assets. Segment liabilities consist primarily of trade payables and other liabilities. Corporate liabilities include financial liabilities, tax balances payable, provisions and pension and deferred tax liabilities. Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions. Other non-cash charges include charges to the income statement during the year in respect of share-based compensation, restructuring and other provisions.

	million	million	million	million
	Western Europe	The Americas	Asia Africa CEE	Total
<b>2008</b>				
Turnover	<b>12</b>	<b>13</b>		<b>40</b>
Operating profit	<b>853</b>	<b>199</b>	<b>14 471</b>	<b>523</b>
Net finance costs	<b>2 521</b>	<b>2 945</b>	<b>1 701</b>	<b>7 167</b>
Share of net profit/(loss) of joint ventures				<b>(257)</b>
Share of net profit/(loss) of associates	<b>60</b>	<b>63</b>	<b>2</b>	<b>125</b>
Other income from non-current investments	<b>6</b>			<b>6</b>
				<b>88</b>
Profit before taxation				<b>7 129</b>
Taxation				<b>(1 844)</b>
Net profit from continuing operations				<b>5 285</b>
Net profit from discontinued operations				

Net profit				<b>5 285</b>
<b>2007</b>				
	13	13		40
Turnover	327	442	13 418	187
Operating profit	1 563	1 971	1 711	5 245
Net finance costs				(252)
Share of net profit/(loss) of joint ventures	26	74	2	102
Share of net profit/(loss) of associates	50			50
Other income from non-current investments				39
Profit before taxation				5 184
				(1)
Taxation				128)
Net profit from continuing operations				4 056
Net profit from discontinued operations				80
Net profit				4 136
<b>2006</b>				
	13	13		39
Turnover	322	779	12 541	642
Operating profit	1 787	2 178	1 443	5 408
Net finance costs				(721)
Share of net profit/(loss) of joint ventures	17	60	1	78
Share of net profit/(loss) of associates	36			36
Other income from non-current investments				30
Profit before taxation				4 831
				(1)
Taxation				146)
Net profit from continuing operations				3 685
Net profit from discontinued operations				1 330
Net profit				5 015

Amounts for 2007 and 2006 have been restated in line with the changes in regional organisation.

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Notes to the consolidated accounts [Unilever Group](#)**2 Segment information** (continued)

	million	million	million	million
<b>Analysis by geographical segment</b>	Western Europe	The Americas	Asia Africa CEE	Total
<b>Assets</b>				
<b>2008</b>				
Segment assets	11			30
Joint ventures/associates	976	9 988	8 213	177
	118	9	13	140
	12			30
Total assets by geographical segment	094	9 997	8 226	317
Corporate assets				5 825
				36
Total assets				142
<b>2007</b>				
Segment assets	12			31
Joint ventures/associates	759	10 867	8 022	648
	201	11	12	224
	12			31
Total assets by geographical segment	960	10 878	8 034	872
Corporate assets				5 430
				37
Total assets				302
<b>Liabilities</b>				
<b>2008</b>				
Segment liabilities	3 297	1 724	2 978	7 999
Joint ventures/associates	13	9	9	31
Total liabilities by geographical segment	3 310	1 733	2 987	8 030
Corporate liabilities				17
				740
				190

Total liabilities				<b>25</b> <b>770</b>
<b>2007</b>				
Segment liabilities	3 584	1 702	2 948	8 234
Joint ventures/associates	12	10	8	30
Total liabilities by geographical segment	3 596	1 712	2 956	8 264
Corporate liabilities				16
				219
Total liabilities				24
				483
<b>Capital expenditure</b>				
<b>2008</b>	<b>428</b>	<b>397</b>	<b>655</b>	<b>1 480</b>
2007	586	342	497	1 425
<b>Depreciation of property, plant and equipment</b>				
<b>2008</b>	<b>(332)</b>	<b>(234)</b>	<b>(222)</b>	<b>(788)</b>
2007	(345)	(249)	(210)	(804)
2006	(324)	(239)	(224)	(787)
<b>Amortisation of finite-lived intangible assets and software</b>				
<b>2008</b>	<b>(94)</b>	<b>(49)</b>	<b>(25)</b>	<b>(168)</b>
2007	(71)	(48)	(21)	(140)
2006	(59)	(76)	(22)	(157)

Amounts for 2007 and 2006 have been restated in line with the changes in regional organisation.

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Financial statements

Notes to the consolidated accounts [Unilever Group](#)**2 Segment information** (continued)

	million	million	million	million
<b>Analysis by geographical segment</b>	Western Europe	The Americas	Asia Africa CEE	Total
<b>Impairment charges</b>				
<b>2008</b>				
Goodwill				
Intangible assets		(38)		(38)
Other		(30)	15 <sup>(a)</sup>	(15)
Total impairment charge		(68)	15	(53)
<b>2007</b>				
Goodwill				
Intangible assets				
Total impairment charge				
<b>2006</b>				
Goodwill	(12)			(12)
Intangible assets		(2)		(2)
Total impairment charge	(12)	(2)		(14)
<b>Other non-cash charges</b>				
<b>2008</b>	<b>(293)</b>	<b>(168)</b>	<b>(42)</b>	<b>(503)</b>
2007	(341)	(216)	(91)	(648)
2006	(681)	(231)	(50)	(962)

(a) Reversal of  
provisions  
following sale of



edible oil  
business in Côte  
d'Ivoire (see note  
26 on page 128).

Amounts for 2007 and 2006 have been restated in line with the changes in regional organisation.

### Analysis by product area

Although the Group's operations are managed on a geographical basis, our category team manages brands which we group into four principal product areas; these are secondary reporting segments and are listed below.

**Savoury, dressings and spreads** including sales of soups, bouillons, sauces, snacks, mayonnaise, salad dressings, margarines and spreads, and cooking products such as liquid margarines.

**Ice cream and beverages** including sales of ice cream, tea-based beverages, weight management products, and nutritionally enhanced staples sold in developing markets.

**Personal care** including sales of skin care and hair care products, deodorants and anti-perspirants, and oral care products.

**Home care and other operations** including sales of home care products, such as laundry tablets, powders and liquids, soap bars and a wide range of cleaning products. To support our consumer brands, we own tea plantations, the results of which are reported within this segment.

	million	million	million	million	million
		Ice cream and beverages	Personal care	Home care and other	Total
<b>Analysis by product area</b>					
<b>2008</b>					
Turnover	14 232	7 694	383	7 214	523
Operating profit	3 216	915	1 824	1 212	7 167
Net finance costs					(257)
Share of net profit/(loss) of joint ventures	15	98	5	7	125
Share of net profit/(loss) of associates				6	6
Other income from non-current investments					88
Profit before taxation					7 129
Taxation					(1 844)
Net profit from continuing operations					5 285
Net profit from discontinued operations					
Net profit					5 285
<b>2007</b>					
Turnover	13 988	7 600		7 297	

			11		40
			302		187
Operating profit	2 059	809	1 786	591	5 245
Net finance costs					(252)
Share of net profit/(loss) of joint ventures	15	85	1	1	102
Share of net profit/(loss) of associates				50	50
Other income from non-current investments					39
Profit before taxation					5 184
Taxation					(1 128)
Net profit from continuing operations					4 056
Net profit from discontinued operations					80
Net profit					4 136

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Notes to the consolidated accounts [Unilever Group](#)**2 Segment information** (continued)

	million	million	million	million	million
	Savoury, dressings and spreads	Ice cream and beverages	Personal care	Home care and other	Total
<b>Analysis by product area</b>					
<b>2006</b>					
Turnover	13		11		39
Operating profit	767	7 578	122	7 175	642
Net finance costs	1 993	900	1 913	602	5 408
Share of net profit/(loss) of joint ventures					(721)
Share of net profit/(loss) of associates	13	64	1		78
Other income from non-current investments				36	36
Profit before taxation					30
Taxation					4 831
Net profit from continuing operations					(1)
Net profit from discontinued operations					146
Net profit					3 685
					1 330
					5 015
<b>Assets</b>					
<b>2008</b>					
Segment assets	18				30
Joint ventures/associates	577	4 375	3 857	3 368	177
	21	46	15	58	140
Total assets by product area	18				30
Corporate assets	598	4 421	3 872	3 426	317
					5 825
Total assets					36
					142

**2007**

	19				31
Segment assets	794	4 434	3 752	3 668	648
Joint ventures/associates	19	134	12	59	224
	19				31
Total assets by product area	813	4 568	3 764	3 727	872
Corporate assets					5 430
					37
Total assets					302

**Capital expenditure**

<b>2008</b>	<b>452</b>	<b>426</b>	<b>360</b>	<b>242</b>	<b>1 480</b>
2007	451	350	383	241	1 425

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Notes to the consolidated accounts [Unilever Group](#)**3 Gross profit and operating costs**

	<b>million 2008</b>	million 2007	million 2006
Turnover	<b>40</b> <b>523</b>	40 187	39 642
Cost of sales	<b>(21)</b> <b>342)</b>	(20) 558)	(20) 093)
Gross profit	<b>19</b> <b>181</b>	19 629	19 549
Distribution and selling costs	<b>(9)</b> <b>309)</b>	(9 489)	(9 486)
Administrative expenses <sup>(a)</sup>	<b>(2)</b> <b>705)</b>	(4 895)	(4 655)
Operating profit	<b>7 167</b>	5 245	5 408

(a) Includes gain on disposals of group companies, amortisation of finite-lived intangible assets and impairment of goodwill and intangible assets.

The following items are disclosed on the face of the income statement to provide additional information to users to help them better understand underlying business performance.

	<b>million 2008</b>	million 2007	million 2006
Restructuring	<b>(868)</b>	(875)	(704)
Business disposals, impairments and other:			
Gain/(loss) on disposals of group companies	<b>2 190</b>	297	179
Impairments	<b>(53)</b>		(14)
			197

(Provision for)/release of Brazilian sales tax	9	31
Gains on US healthcare and UK pensions		266

Restructuring costs are incurred as Unilever continues to simplify the organisation, reorganise operations and support functions and redevelop the portfolio. They primarily relate to redundancy and retirement costs. Business disposals generate both costs and revenues which are not reflective of underlying performance. Impairment charges are primarily recognised for goodwill other than where included in restructuring or as part of business disposals. The gains on US healthcare arose from the introduction of an annual cap on the benefits which each participant can claim. The gain in the UK resulted from reducing deferred pensions where they are taken early. Other items within operating costs include:

	<b>million</b> <b>2008</b>	million 2007	million 2006
	<b>(5</b>		
Staff costs	<b>274)</b>	(5 537)	(5 355)
	<b>(16</b>	(15	(15
Raw and packaging materials and goods purchased for resale	<b>489)</b>	588)	655)
Amortisation of finite-lived intangible assets and software	<b>(168)</b>	(140)	(157)
Depreciation of property, plant and equipment	<b>(788)</b>	(804)	(787)
	<b>(5</b>		
Advertising and promotions	<b>055)</b>	(5 289)	(5 203)
Exchange gains/(losses):	<b>108</b>	(15)	(25)
On underlying transactions	<b>77</b>	(10)	(10)
On covering forward contracts	<b>31</b>	(5)	(15)
Lease rentals:	<b>(487)</b>	(477)	(451)
Minimum operating lease payments	<b>(495)</b>	(488)	(455)
Contingent operating lease payments			(3)
Less: Sub-lease income relating to operating lease agreements	<b>8</b>	11	7

Total expenditure on research and development in 2008, including costs incurred under some of the headings reported above, was 927 million (2007: 868 million; 2006: 906 million).

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Notes to the consolidated accounts [Unilever Group](#)**4 Staff costs**

<b>Staff costs</b>	<b>million 2008</b>	million 2007	million 2006
	<b>(4</b>		
Remuneration of employees	<b>182)</b>	(4 409)	(4 377)
Emoluments of Executive Directors	<b>(11)</b>	(9)	(8)
Pensions and other post-employment benefits <sup>(a)</sup>	<b>(329)</b>	(321)	(132)
Social security costs	<b>(627)</b>	(646)	(718)
Share-based compensation costs	<b>(125)</b>	(152)	(120)
	<b>(5</b>		
	<b>274)</b>	(5 537)	(5 355)

(a) In 2006 includes gains of 266 million arising from changes in US post-retirement healthcare plans and UK pension plans.

<b>Average number of employees during the year</b>	<b>000 2008</b>	000 2007	000 2006
Western Europe	<b>32</b>	35	38
The Americas	<b>42</b>	44	46
Asia, Africa and Central & Eastern Europe	<b>100</b>	96	105
	<b>174</b>	175	189

Employee numbers for prior years have been restated following the change in our regional organisation.

**5 Net finance costs**

<b>Finance costs</b>	<b>million 2008</b>	million 2007	million 2006
Finance costs	<b>(506)</b>	(550)	(590)
Bank loans and overdrafts	<b>(73)</b>	(62)	(93)
Bonds and other loans	<b>(429)</b>	(493)	(499)
Dividends paid on preference shares	<b>(7)</b>	(7)	(6)
Net gain/(loss) on natural hedges <sup>(a)</sup>	<b>3</b>	12	8
On interest rate swaps		(1)	(6)
On foreign exchange derivatives	<b>(221)</b>	538	1 035
Exchange difference on underlying items	<b>224</b>	(525)	(1 021)
Preference shares provision <sup>(b)</sup>		(7)	(300)
Finance income	<b>106</b>	147	128
Pensions and similar obligations <sup>(c)</sup>	<b>143</b>	158	41
	<b>(257)</b>	(252)	(721)

(a) For further details on natural hedges please refer to note 17 on page 111.

(b) For further information please refer to note 19 on page 114.

(c) Net finance costs in respect of pensions and similar obligations are analysed in note 20 on page 118.



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Notes to the consolidated accounts [Unilever Group](#)**6 Taxation**

	<b>million</b>	million	million
<b>Tax charge in income statement</b>	<b>2008</b>	2007	2006
<b>Current tax</b>			
	<b>(1</b>		
Current year	<b>650)</b>	(1 118)	(1 171)
Over/(under) provided in prior years <sup>(a)</sup>	<b>80</b>	226	206
	<b>(1</b>		
	<b>570)</b>	(892)	(965)
<b>Deferred tax</b>			
Origination and reversal of temporary differences	<b>(271)</b>	(261)	(171)
Changes in tax rates	<b>(3)</b>	21	(15)
Utilisation of unrecognised losses brought forward		4	5
	<b>(274)</b>	(236)	(181)
	<b>(1</b>		
	<b>844)</b>	(1 128)	(1 146)

(a) Provisions have been released following the favourable settlement of prior year tax audits in a number of countries, none of which is individually material.

The reconciliation between the computed weighted average rate of income tax expense, which is generally applicable to Unilever companies, and the actual rate of taxation charged is as follows:

	%	%	%
<b>Reconciliation of effective tax rate</b>	<b>2008</b>	2007	2006

Computed rate of tax <sup>(b)</sup>	<b>30</b>	29	31
Differences due to:			
Incentive tax credits	<b>(5)</b>	(6)	(7)
Withholding tax on dividends	<b>2</b>	2	1
Adjustments to previous years	<b>(2)</b>	(5)	(4)
Expenses not deductible for tax purposes	<b>1</b>	2	2
Other			1
Effective tax rate	<b>26</b>	22	24

(b) The computed tax rate used is the average of the standard rate of tax applicable in the countries in which Unilever operates, weighted by the amount of profit before taxation generated in each of those countries. For this reason the rate may vary from year to year according to the mix of profit and related tax rates.

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## 7 Combined earnings per share

Combined earnings per share	2008	2007	2006
<b>From continuing operations</b>			
Basic earnings per share	<b>1.79</b>	1.32	1.19
Diluted earnings per share	<b>1.73</b>	1.28	1.15
<b>From discontinued operations</b>			
Basic earnings per share		0.03	0.46
Diluted earnings per share		0.03	0.45
<b>From total operations</b>			
Basic earnings per share	<b>1.79</b>	1.35	1.65
Diluted earnings per share	<b>1.73</b>	1.31	1.60

### Basis of calculation

The calculations of combined earnings per share are based on the net profit attributable to ordinary capital divided by the average number of share units representing the combined ordinary share capital of NV and PLC in issue during the year, after deducting shares held as treasury stock. Earnings per share are calculated on the basis of the revised nominal share values which have been applied since 22 May 2006 and which resulted in a one-to-one equivalence of ordinary shares of NV and PLC as regards their economic interest in the Group. For further information please refer to note 22 on page 122.

The calculations of diluted earnings per share are based on: (i) conversion into PLC ordinary shares of the shares in a group company which are convertible in the year 2038, as described in Corporate governance on page 54; and (ii) the effect of share-based compensation plans, details of which are set out in note 29 on pages 133 to 134.

Calculation of average number of share units	2008	Millions of share units	
		2007	2006
Average number of shares: NV	<b>1 714.7</b>	1 714.7	1 714.7
PLC	<b>1 310.2</b>	1 310.2	1 310.2
Less shares held by employee share trusts and companies	<b>(215.3)</b>	(150.3)	(141.6)
Combined average number of share units for all bases except diluted earnings per share	<b>2 809.6</b>	2 874.6	2 883.3
Add shares issuable in 2038	<b>70.9</b>	70.9	70.9
Add dilutive effect of share-based compensation plans and forward equity contract	<b>25.4</b>	30.6	18.3

Adjusted combined average number of share units for diluted earnings per share basis	<b>2 905.9</b>	2 976.1	2 972.5
	<b>million</b>	million	million
<b>Calculation of earnings</b>	<b>2008</b>	2007	2006
For earnings per share from total operations:			
Net profit attributable to ordinary capital for total operations	<b>5 027</b>	3 888	4 745
For earnings per share from continuing operations:			
Net profit from continuing operations	<b>5 285</b>	4 056	3 685
Minority interest in continuing operations	<b>(258)</b>	(248)	(266)
Net profit attributable to ordinary capital for continuing operations	<b>5 027</b>	3 808	3 419

The numbers of shares included in the calculation of earnings per share is an average for the period. These numbers are influenced by the share buy-back programmes that we undertook during 2007 and 2008. During those periods the following movements in shares took place:

	Millions of share units	
	<b>2008</b>	2007
	<b>2</b>	2
Number of shares at 1 January (net of treasury stock)	<b>853.1</b>	889.9
Net movements in shares under incentive schemes	<b>11.4</b>	29.7
Share buy-back	<b>(75.4)</b>	(66.5)
	<b>2</b>	2
Number of shares at 31 December	<b>789.1</b>	853.1

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Notes to the consolidated accounts [Unilever Group](#)**8 Dividends on ordinary capital**

	<b>million 2008</b>	million 2007	million 2006
<b>Dividends paid on ordinary capital during the year</b>			
Final NV dividend for the prior year of 0.50 per share (2007: 0.47; 2006: 0.44)	<b>(779)</b>	(767)	(722)
Final PLC dividend for the prior year of 34.11p per share (2007: 32.04p; 2006: 30.09p)	<b>(548)</b>	(589)	(547)
Interim NV dividend for the year of 0.26 per share (2007: 0.25; 2006: 0.23)	<b>(397)</b>	(400)	(379)
Interim PLC dividend for the year of 20.55p per share (2007: 17.00p; 2006: 15.62p)	<b>(328)</b>	(314)	(285)
One-off NV dividend of 0.26 per share in 2006			(428)
One-off PLC dividend of 17.66p per share in 2006			(323)
	<b>(2 052)</b>	(2 070)	(2 684)
Of which:			
NV dividends	<b>(1 176)</b>	(1 167)	(1 529)
PLC dividends	<b>(876)</b>	(903)	(1 155)

The proposed final dividends on ordinary capital for the year 2008 have to be approved by shareholders at the Annual General Meetings. In accordance with IFRS, no provision for the amount of this dividend, estimated at 1 300 million, has been recognised in the financial statements for the year ended 31 December 2008.

Full details of dividends per share for the years 2004 to 2008 are given on page 157.

**9 Goodwill and intangible assets**

Indefinite-lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. These are considered to have an indefinite life, given the strength and durability of our brands and the level of marketing support. Brands that are classified as indefinite have been in the market for many years, and the nature of the industry we operate in is such that brand obsolescence is not common, if appropriately supported by advertising and marketing spend. Finite-lived intangible assets, which primarily comprise patented and non-patented technology, know-how, and software, are capitalised and amortised in operating profit on a straight-line basis over the period of their expected useful lives, none of which exceeds ten years. The level of amortisation for finite-lived intangible assets is not expected to change materially over the next five years.

	<b>million 2008</b>	million 2007
<b>At cost less amortisation and impairment</b>		

	<b>11</b>	12
Goodwill	<b>665</b>	244
Intangible assets:	<b>4 426</b>	4 511
Indefinite-lived intangible assets	<b>3 886</b>	3 921
Finite-lived intangible assets	<b>206</b>	273
Software	<b>334</b>	317

<b>16</b>	16
<b>091</b>	755

	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>
<b>Movements during 2008</b>	Goodwill	Indefinite-lived intangible assets	Finite-lived intangible assets	Software	Total
<b>Cost</b>					
	<b>13</b>				<b>18</b>
1 January 2008	<b>182</b>	<b>4 134</b>	<b>621</b>	<b>501</b>	<b>438</b>
Acquisitions of group companies	<b>60</b>	<b>90</b>	<b>1</b>		<b>151</b>
Disposals of group companies	<b>(129)</b>				<b>(129)</b>
Additions		<b>1</b>		<b>146</b>	<b>147</b>
Disposals			<b>(3)</b>	<b>(33)</b>	<b>(36)</b>
Currency retranslation	<b>(496)</b>	<b>(81)</b>	<b>(20)</b>	<b>(34)</b>	<b>(631)</b>
Reclassification as held for sale		<b>(37)</b>	<b>(1)</b>		<b>(38)</b>
	<b>12</b>				<b>17</b>
31 December 2008	<b>617</b>	<b>4 107</b>	<b>598</b>	<b>580</b>	<b>902</b>
<b>Amortisation and impairment</b>					
					<b>(1</b>
1 January 2008	<b>(938)</b>	<b>(213)</b>	<b>(348)</b>	<b>(184)</b>	<b>683)</b>
Disposal of group companies	<b>12</b>				<b>12</b>
Amortisation for the year			<b>(59)</b>	<b>(109)</b>	<b>(168)</b>
Impairment		<b>(37)</b>	<b>(1)</b>		<b>(38)</b>
Disposals			<b>2</b>	<b>33</b>	<b>35</b>
Currency retranslation	<b>(26)</b>	<b>(8)</b>	<b>13</b>	<b>14</b>	<b>(7)</b>
Reclassification as held for sale		<b>37</b>	<b>1</b>		<b>38</b>
31 December 2008	<b>(952)</b>	<b>(221)</b>	<b>(392)</b>	<b>(246)</b>	<b>)</b>

					(1 811
	11				16
Net book value 31 December 2008	665	3 886	206	334	091

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Notes to the consolidated accounts [Unilever Group](#)**9 Goodwill and intangible assets** (continued)

	million	million	million	million	million
	Goodwill	Indefinite- lived intangible assets	Finite- lived intangible assets	Software	Total
<b>Movements during 2007</b>					
<b>Cost</b>					
	13				18
1 January 2007	454	4 409	642	392	897
Acquisitions of group companies	334				334
Disposals of group companies	(4)	(1)			(5)
Change in useful life assumptions		(2)	2		
Additions			3	133	136
Disposals				(16)	(16)
Currency retranslation	(602)	(272)	(26)	(8)	(908)
	13				18
31 December 2007	182	4 134	621	501	438
<b>Amortisation and impairment</b>					
	(1				(1
1 January 2007	029)	(235)	(299)	(128)	691)
Amortisation for the year			(64)	(76)	(140)
Disposals				16	16
Currency retranslation	91	22	15	4	132
					(1
31 December 2007	(938)	(213)	(348)	(184)	683)
	12				16
Net book value 31 December 2007	244	3 921	273	317	755

There are no significant carrying amounts of goodwill and intangible assets that are allocated across multiple cash generating units (CGUs).

**Impairments charge in the year**

The impairments charged in 2008 principally related to a non-core savoury business in the Americas which was subsequently classified as held for sale. There were no impairments in 2007.

**Significant CGUs**

The goodwill and indefinite-lived intangible assets (predominantly Knorr and Hellmann's) held in the global savoury and dressings CGU, comprising 10.6 billion (2007: 11.1 billion) and 3.1 billion (2007: 3.2 billion) respectively, are considered significant in comparison to the total carrying amounts of goodwill and indefinite-lived intangible assets at



31 December 2008. No other CGUs are considered significant in this respect.

During 2008, we conducted an impairment review of the carrying value of these assets. Value in use of the global savoury and dressings CGU has been calculated as the present value of projected future cash flows. A pre-tax discount rate of 10% was used.

The following key assumptions were used in the discounted cash flow projections for the savoury and dressings CGU: a longer-term sustainable growth rate of 4%, adjusted for market fade, used to determine an appropriate terminal value multiple;

average near-term nominal growth for the major product groups within the CGU of 6%; and

average operating margins for the major product groups within the CGU ranging from 15% to 19%.

The growth rates and margins used to estimate future performance are based on past performance and our experience of growth rates and margins achievable in our key markets as a guide. We believe that the assumptions used in estimating the future performance of the savoury and dressings CGU are consistent with past performance.

The projections covered a period of ten years as we believe this to be a suitable timescale over which to review and consider annual performance before applying a fixed terminal value multiple to the final year cash flows of the detailed projection. Stopping the detailed projections after five years and applying a terminal value multiple thereafter would not result in a value in use that would cause impairment.

The growth rates used to estimate future performance beyond the periods covered by our annual planning and strategic planning processes do not exceed the long-term average rates of growth for similar products.

We have performed sensitivity analysis around the base case assumptions and have concluded that no reasonably possible changes in key assumptions would cause the recoverable amount of the global savoury and dressings CGU to be less than the carrying amount.

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Notes to the consolidated accounts [Unilever Group](#)**10 Property, plant and equipment**

	<b>million</b> <b>2008</b>	million 2007
<b>At cost less depreciation and impairment</b>		
Land and buildings	<b>1 859</b>	1 989
Plant and equipment	<b>4 098</b>	4 295
	<b>5 957</b>	6 284
Includes freehold land	<b>154</b>	207
Commitments for capital expenditure at 31 December	<b>286</b>	321

	<b>million</b> Land and buildings	<b>million</b> Plant and equipment	<b>million</b> Total
<b>Movements during 2008</b>			
<b>Gross</b>			<b>13</b>
1 January 2008	<b>3 019</b>	<b>10 254</b>	<b>273</b>
Acquisition of group companies	<b>24</b>	<b>48</b>	<b>72</b>
Disposals of group companies	<b>(61)</b>	<b>(116)</b>	<b>(177)</b>
Additions	<b>154</b>	<b>1 016</b>	<b>1 170</b>
Disposals	<b>(84)</b>	<b>(773)</b>	<b>(857)</b>
Currency retranslation	<b>(227)</b>	<b>(823)</b>	<b>(1 050)</b>
Reclassification as held for sale	<b>(25)</b>	<b>(29)</b>	<b>(54)</b>
Other adjustments	<b>40</b>	<b>(58)</b>	<b>(18)</b>
			<b>12</b>
31 December 2008	<b>2 840</b>	<b>9 519</b>	<b>359</b>
<b>Depreciation</b>			
1 January 2008	<b>(1 030)</b>	<b>(5 959)</b>	<b>(6 989)</b>
Disposals of group companies	<b>22</b>	<b>63</b>	<b>85</b>
Depreciation charge for the year	<b>(107)</b>	<b>(681)</b>	<b>(788)</b>
Disposals	<b>65</b>	<b>681</b>	<b>746</b>

Currency Retranslation	<b>66</b>	<b>413</b>	<b>479</b>
Reclassification as held for sale	<b>14</b>	<b>35</b>	<b>49</b>
Other adjustments	<b>(11)</b>	<b>27</b>	<b>16</b>
31 December 2008	<b>(981)</b>	<b>(5 421)</b>	<b>(6 402)</b>
Net book value 31 December 2008	<b>1 859</b>	<b>4 098</b>	<b>5 957</b>
Includes payments on account and assets in course of construction	<b>92</b>	<b>526</b>	<b>618</b>

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Notes to the consolidated accounts [Unilever Group](#)**10 Property, plant and equipment (continued)**

	<b>million</b> Land and buildings	<b>million</b> Plant and equipment	<b>million</b> Total
<b>Movements during 2007</b>			
<b>Gross</b>			
1 January 2007	2 992	10 371	13 363
Disposals of group companies	(12)	(142)	(154)
Additions	346	943	1 289
Disposals	(98)	(429)	(527)
Currency retranslation	(116)	(333)	(449)
Reclassification as held for sale	(41)	(165)	(206)
Other adjustments	(52)	9	(43)
31 December 2007	3 019	10 254	13 273
<b>Depreciation</b>			
1 January 2007	(1 048)	(6 039)	(7 087)
Disposals of group companies	8	102	110
Depreciation charge for the year	(106)	(698)	(804)
Disposals	37	372	409
Currency retranslation	36	186	222
Reclassification as held for sale	24	114	138
Other adjustments	19	4	23
31 December 2007	(1 030)	(5 959)	(6 989)
Net book value 31 December 2007	1 989	4 295	6 284
Includes payments on account and assets in course of construction	80	542	622

Included in the above is property, plant and equipment under a number of finance lease agreements, for which the book values are as follows:

<b>million</b>	<b>million</b>	<b>million</b>
		212

<b>Net book value</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Total</b>
Gross book value	<b>177</b>	<b>243</b>	<b>420</b>
Depreciation	<b>(25)</b>	<b>(146)</b>	<b>(171)</b>
31 December 2008	<b>152</b>	<b>97</b>	<b>249</b>
Gross book value	223	342	565
Depreciation	(16)	(204)	(220)
31 December 2007	207	138	345

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Notes to the consolidated accounts [Unilever Group](#)**11 Other non-current assets**

	<b>million 2008</b>	million 2007
Interest in net assets of joint ventures	<b>73</b>	150
Interest in net assets of associates	<b>67</b>	74
Other non-current financial assets <sup>(a)</sup> :	<b>904</b>	738
Held-to-maturity investments	<b>472</b>	473
Loans and receivables	<b>9</b>	13
Available-for-sale financial assets <sup>(b)</sup>	<b>370</b>	201
Financial assets at fair value through profit or loss	<b>53</b>	51
Long-term trade and other receivables <sup>(c)</sup>	<b>171</b>	187
Fair value of biological assets	<b>31</b>	37
Other non-financial assets	<b>180</b>	138
	<b>1 426</b>	1 324

(a) Predominantly consist of investments in a number of companies and financial institutions in India, Europe and the US, including 146 million (2007: 162 million) of assets in a trust to fund benefit obligations in the US (see also note 20 on page 118).

(b) 2008 includes unlisted preferred shares arising in connection with US laundry

disposal (see note 26 on page 128).

- (c) Classified as loans and receivables.

	<b>million 2008</b>	million 2007
<b>Movements during 2008 and 2007</b>		
<b>Joint ventures<sup>(d)</sup></b>		
1 January	<b>150</b>	57
Additions <sup>(e)</sup>		115
Dividends received/reductions <sup>(f)</sup>	<b>(202)</b>	(122)
Share in net profit	<b>125</b>	102
Currency retranslation		(2)
31 December	<b>73</b>	150
<b>Associates<sup>(g)</sup></b>		
1 January	<b>44</b>	12
Acquisitions/(disposals)	<b>22</b>	31
Dividends received/reductions	<b>(22)</b>	(48)
Share in net profit	<b>6</b>	50
Currency retranslation	<b>(14)</b>	(1)
	<b>36</b>	44
Of which: Net liabilities of JohnsonDiversey reclassified to provisions	<b>31</b>	30
31 December	<b>67</b>	74

- (d) Our principal joint ventures are Unilever Jerónimo Martins in Portugal, Pepsi/Lipton International and the Pepsi/Lipton Partnership in the US.

- (e) In January 2007, the reorganisation of our Portuguese businesses was completed,

whereby Unilever now has a 55% share of the combined Portuguese entity, called Unilever Jerónimo Martins. The structure of the newly formed entity is such that there is joint control and it is therefore accounted for by Unilever as a joint venture. In December 2007 a capital contribution of 103 million was made to Pepsi/Lipton International.

(f) In relation to the extension of the Pepsi/Lipton joint venture for ready-to-drink tea in January 2008, a reduction of 110 million in carrying value of Pepsi/Lipton International was recorded.

(g) Associates primarily comprise our investments in JohnsonDiversey Holdings Inc., Langholm Capital Partners and Physic Ventures. Other Unilever Ventures assets (excluding Langholm) are included under



Other non-current  
financial assets  
above.

	<b>million 2008</b>	million 2007
<b>Analysis of listed and unlisted investments</b>		
Investments listed on a recognised stock exchange	<b>344</b>	388
Unlisted investments	<b>560</b>	350
	<b>904</b>	738

	<b>million 2008</b>	million 2007	million 2006
<b>Other income from non-current investments</b>			
Income from other non-current investments	<b>19</b>	19	21
Profit/(loss) on disposal <sup>(h)</sup>	<b>69</b>	20	9
	<b>88</b>	39	30

(h) Includes disposal of Palmci plantations (see note 26 on page 128).

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed, and the Group has no significant contingent liabilities in relation to its interest in the joint ventures and associates.

The Group has no outstanding capital commitments to joint ventures.

Outstanding balances with joint ventures and associates are shown in note 30 on page 135.

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Notes to the consolidated accounts [Unilever Group](#)**12 Deferred taxation**

	million As at 1 January 2008	million Income statement	million Equity <sup>(a)</sup>	million As at 31 December 2008
<b>Movements during the year</b>				
Pensions and similar obligations	200	(177)	786	<b>809</b>
Provisions	786	(103)	(71)	<b>612</b>
Goodwill and intangible assets	(780)	(34)	(9)	<b>(823)</b>
Accelerated tax depreciation	(598)	(2)	45	<b>(555)</b>
Tax losses	84	(7)	28	<b>105</b>
Fair value gains	(8)	(5)	7	<b>(6)</b>
Fair value losses	8	(3)	35	<b>40</b>
Share-based payments	101	57	(58)	<b>100</b>
Other	(3)		(1)	<b>(4)</b>
	(210)	(274)	762	<b>278</b>

(a) Of the total movement in equity of 762 million, 87 million arises as a result of currency retranslation and 8 million as a result of acquisitions and disposals.

At the balance sheet date, the Group has unused tax losses of 1 369 million and tax credits amounting to 307 million available for offset against future taxable profits. Deferred tax assets have not been recognised in respect of unused tax losses of 1 019 million and tax credits of 307 million, as it is not probable that there will be future taxable profits within the entities against which the losses can be utilised. The majority of these tax losses and credits arise in tax jurisdictions where they do not expire with the exception of 457 million of state and federal tax losses in the US which expire between now and 2028.

Other deductible temporary differences of 133 million have not been recognised as a deferred tax asset. There is no expiry date for these differences.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was 967 million (2007: 1 059 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	<b>million</b> <b>Assets</b> <b>2008</b>	million Assets 2007	<b>million</b> <b>Liabilities</b> <b>2008</b>	million Liabilities 2007	<b>million</b> <b>Total</b> <b>2008</b>	million Total 2007
<b>Deferred tax assets and liabilities</b>						
Pensions and similar obligations	<b>887</b>	514	<b>(78)</b>	(314)	<b>809</b>	200
Provisions	<b>619</b>	750	<b>(7)</b>	36	<b>612</b>	786
Goodwill and intangible assets	<b>(345)</b>	(223)	<b>(478)</b>	(557)	<b>(823)</b>	(780)
Accelerated tax depreciation	<b>(368)</b>	(234)	<b>(187)</b>	(364)	<b>(555)</b>	(598)
Tax losses	<b>103</b>	85	<b>2</b>	(1)	<b>105</b>	84
Fair value gains		(3)	<b>(6)</b>	(5)	<b>(6)</b>	(8)
Fair value losses	<b>43</b>	8	<b>(3)</b>		<b>40</b>	8
Share-based payments	<b>100</b>	101			<b>100</b>	101
Other	<b>29</b>	5	<b>(33)</b>	(8)	<b>(4)</b>	(3)
	<b>1 068</b>	1 003	<b>(790)</b>	(1 213)	<b>278</b>	(210)
Of which deferred tax to be recovered/(settled) after more than 12 months	<b>736</b>	484	<b>(717)</b>	(1 111)	<b>19</b>	(627)

### 13 Inventories

	<b>million</b> <b>2008</b>	million 2007
<b>Inventories</b>		
Raw materials and consumables	<b>1 437</b>	1 406
Finished goods and goods for resale	<b>2 452</b>	2 488
	<b>3 889</b>	3 894

Inventories with a value of 134 million (2007: 101 million) are carried at net realisable value, this being lower than cost. During 2008, 246 million (2007: 177 million) was charged to the income statement for damaged, obsolete and lost inventories. In 2008, 23 million (2007: 25 million) was utilised or released to the income statement from inventory provisions taken in earlier years.

In 2008, inventories with a carrying amount of 34 million were pledged as security for certain of the Group's borrowings (2007: 4 million).

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Notes to the consolidated accounts [Unilever Group](#)**14 Trade and other receivables**

	<b>million</b>	million
<b>Trade and other receivables</b>	<b>2008</b>	2007
<b>Due within one year</b>		
Trade receivables	<b>2 788</b>	2 965
Prepayments and accrued income	<b>380</b>	467
Other receivables	<b>655</b>	762
	<b>3 823</b>	4 194

Credit terms for customers are determined in individual territories. Concentrations of credit risk with respect to trade receivables are limited, due to the Group's customer base being large and diverse. Our historical experience of collecting receivables, supported by the level of default, is that credit risk is low across territories and so trade receivables are considered to be a single class of financial assets. Other receivables comprise loans and receivables of 258 million (2007: 362 million) and other non-financial assets of 397 million (2007: 400 million). We do not consider the fair values of trade and other receivables to be significantly different from their carrying values. Balances are considered for impairment on an individual basis rather than by reference to the extent that they become overdue.

	<b>million</b>	million
<b>Ageing of trade receivables</b>	<b>2008</b>	2007
Total trade receivables	<b>2 908</b>	3 112
Less impairment provision for trade receivables	<b>(120)</b>	(147)
	<b>2 788</b>	2 965
Of which:		
Not overdue	<b>2 182</b>	2 240
Past due less than three months	<b>499</b>	649
Past due more than three months but less than six months	<b>100</b>	85
Past due more than six months but less than one year	<b>52</b>	57
Past due more than one year	<b>75</b>	81
Impairment provision for trade receivables	<b>(120)</b>	(147)
	<b>2 788</b>	2 965

<b>Impairment provision for trade and other receivables</b>	<b>movements during the year</b>	<b>million 2008</b>	<b>million 2007</b>
1 January		<b>176</b>	180
Charged to current year income statement		<b>36</b>	39
Reductions/releases		<b>(37)</b>	(40)
Currency retranslation		<b>(10)</b>	(3)
31 December		<b>165</b>	176

Other classes of assets in trade and other receivables do not include any impaired assets.

### **15 Cash and cash equivalents and other financial assets**

<b>Cash and cash equivalents and other financial assets</b>	<b>million 2008</b>	<b>million 2007</b>
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	<b>587</b>	507
Short-term deposits with maturity of less than three months	<b>1 974</b>	500
Other cash equivalents <sup>(a)</sup> :		91
	<b>2 561</b>	1 098
<b>Other financial assets<sup>(b)</sup></b>		
Held-to-maturity investments	<b>13</b>	15
Loans and receivables		2
Available-for-sale financial assets		91
Financial assets at fair value through profit or loss <sup>(c)</sup>	<b>619</b>	108
	<b>632</b>	216
Of which:		
Listed	<b>31</b>	41
Unlisted	<b>601</b>	175
	<b>632</b>	216

(a) Other cash equivalents are wholly comprised of

available-for-sale  
financial assets.

- (b) Other financial assets include government securities, A minus or higher rated money and capital market instruments and derivatives.
- (c) Financial assets at fair value through profit and loss include derivatives amounting to 597 million (2007: 78 million).

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Notes to the consolidated accounts [Unilever Group](#)**15 Cash and cash equivalents and other financial assets** (continued)

	<b>million</b> <b>2008</b>	million 2007	million 2006
<b>Cash and cash equivalents included in the cash flow statement</b>			
Cash and cash equivalents as per balance sheet	<b>2 561</b>	1 098	1 039
Bank overdrafts	<b>(201)</b>	(197)	(329)
	<b>2 360</b>	901	710

**Interest rate profile and currency analysis of financial assets**

The table set out below takes into account the various interest rate swaps and forward foreign currency contracts entered into by the Group, details of which are set out in note 17 on pages 108 to 113.

The interest rate profiles of the Group's financial assets analysed by principal currency are set out in the table below:

	<b>million</b>			<b>million</b>		<b>million</b>
	Fixed rate	Fixed rate	Fixed rate	Floating rate	Floating rate	Total
	Amount of fixing for following year	Average interest rate for following year	Weighted average fixing period		Interest rate for following year	
<b>Assets 2008</b>						
Euro	<b>142</b>	5.9%	0.6 years	<b>6 882</b>	2.3%	<b>7 024<sup>(a)</sup></b>
Sterling	<b>1</b>	4.5%	0.1 years	<b>26</b>	1.7%	<b>27</b>
US dollar				<b>29</b>	1.3%	<b>29</b>
Indian rupee				<b>187</b>	11.4%	<b>187</b>
Brazilian real				<b>40</b>	13.7%	<b>40</b>
Other				<b>563</b>	7.1%	<b>563</b>
	<b>143</b>			<b>7 727</b>		<b>7 870</b>
Euro leg of currency derivatives mainly relating to intra-group loans <sup>(a)</sup>						<b>(4 677)</b>



Total						<b>3 193</b> <sup>(c)</sup>
<b>Assets 2007</b>						
Euro	12	4.6%	0.5 years	358	4.5%	370
Sterling	541	6.2%	0.7 years	1 250	5.3%	1 791 <sup>(b)</sup>
US dollar				4	3.4%	4
Indian rupee				205	9.0%	205
Brazilian real				151	11.2%	151
Other				577	7.5%	577
	553			2 545		3 098
Sterling leg of currency derivatives mainly relating to intra-group loans <sup>(b)</sup>						(1 784)
Total						1 314 <sup>(c)</sup>

(a) Includes the euro leg of the currency derivatives relating to intra-group loans, amounting to 4 677 million for 2008. These derivatives create a euro interest rate exposure. However, to reconcile the total assets with the balance sheet, the total value is eliminated again. The other leg of the currency derivatives is shown in note 16 on page 107 as part of the

interest rate  
profile of  
financial  
liabilities.

- (b) Includes the sterling leg of the currency derivatives mainly relating to intra-group loans, amounting to 1 784 million for 2007. These derivatives create a sterling interest rate exposure. However to reconcile the total assets with the balance sheet, the total value is eliminated again. The other leg of the currency is shown in note 16 on page 107 as part of the interest rate profile of financial liabilities.
- (c) Includes fair value of financial liability-related derivatives amounting to 597 million (2007: 78 million).

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## 16 Financial liabilities

<b>Financial liabilities</b>	<b>million 2008</b>	million 2007
Preference shares	124	124
Bank loans and overdrafts	1 377	1 212
Bonds and other loans		
At amortised cost	8 477	7 907
Subject to fair value hedge accounting	801	
Finance lease creditors	207	311
Derivatives	219	95
	11	
	205	9 649

All the preference shares and the bank loans and overdrafts are valued at amortised cost.

<b>Financial liabilities additional details</b>	<b>million 2008</b>	million 2007
<b>The repayments fall due as follows</b>		
Within one year:		
Bank loans and overdrafts	746	785
Bonds and other loans	3 853	3 239
Finance lease creditors	24	65
Derivatives	219	77
Total due within one year	4 842	4 166
After one year but within two years	1 364	1 087
After two years but within three years	751	1 325
After three years but within four years	948	34
After four years but within five years	830	797
After five years	2 470	2 240
Total due after more than one year	6 363	5 483
Secured financial liabilities	34	5

Of which secured against property, plant and equipment

		million			million	million	million
	Number		Nominal	Number	Issued, called up and fully paid	Statutory Reserve	Total
	of shares authorised	Authorised	value per share	of shares issued			
<b>Preference shares NV as at 31 December 2008</b>							
7% Cumulative Preference	75 000	32	428.57	29 000	12	1	13
6% Cumulative Preference <sup>(a)</sup>	200 000	86	428.57	161 060	69	4	73
4% Cumulative Preference	750 000	32	42.86	750 000	32	2	34
Share premium					4		4
		<b>150</b>			<b>117</b>	<b>7</b>	<b>124</b>
<b>Preference shares NV as at 31 December 2007</b>							
7% Cumulative Preference	75 000	32	428.57	29 000	12	1	13
6% Cumulative Preference <sup>(a)</sup>	200 000	86	428.57	161 060	69	4	73
4% Cumulative Preference	750 000	32	42.86	750 000	32	2	34
Share premium					4		4
		<b>150</b>			<b>117</b>	<b>7</b>	<b>124</b>

(a) The 6% cumulative preference shares are traded in the market in units of one tenth of their nominal value.

The 4%, 6% and 7% cumulative preference shares of NV are entitled to dividends at the rates indicated. The 4% preference capital of NV is redeemable at par at the company's option either wholly or in part. The other classes of preferential share capital of NV are not unilaterally redeemable by the company.

At the Annual General Meeting of NV held on 8 May 2006 it was agreed to convert the nominal value of all classes of shares from guilders into euros. The 7% and 6% preference shares with a nominal value of Fl.1 000 each, were converted into shares with a nominal value of 428.57 each, and the 4% preference shares with a nominal value of Fl.100 each, were converted into shares with a nominal value of 42.86 each. The effect of this conversion was to adjust their reported value, with the difference being held as a statutory reserve. In order to maintain the same economic rights for the preference shares as before the euro conversion, it was decided that their entitlement to dividend and liquidation proceeds remains linked, using the official euro conversion rate, to the amount in Dutch guilders originally paid up on these shares. The euro conversion did not alter the dividend entitlements of the cumulative preference shares.

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Notes to the consolidated accounts [Unilever Group](#)**16 Financial liabilities** (continued)**Additional details**

Details of specific bonds and other loans are given below:

	million Amortised cost 2008	million Fair value 2008 <sup>(a)</sup>	million Amortised cost 2007	million Fair value 2007 <sup>(a)</sup>
<b>Unilever N.V.</b>				
Floating rate note 2009 ( )	750		750	
3.625% notes 2011 (Swiss francs)	267			
3.125% notes 2012 (Swiss francs)	167			
4.625% Bonds 2012 ( )	747		747	
4.875% Bonds 2013 ( )		801		
3.500% notes 2015 (Swiss francs)	232			
3.375% Bonds 2015 ( )	747		747	
Other	22			
Total Unilever N.V.	2 932	801	2 244	
<b>Other group companies</b>				
<b>Netherlands</b>				
Commercial paper ( )	811		1 526	
Commercial paper (£)			45	
Commercial paper (US \$)	308		487	
Commercial paper (Swiss francs)	20		29	
Commercial paper (Canadian \$)			12	
Commercial paper (Japanese yen)	12			
Other	115			
<b>United States</b>				
Floating rate extendible note 2009 (US \$) <sup>(b)</sup>	49		340	
7.125% Bonds 2010 (US \$)	1 230		1 184	
7.000% Bonds 2017 (US \$)	103		99	
7.250% Bonds 2026 (US \$)	202		195	
6.625% Bonds 2028 (US \$)	155		149	
5.900% Bonds 2032 (US \$)	693		668	
5.600% Bonds 2097 (US \$)	64		62	
Commercial paper (US \$)	1 705		732	
Other	9		8	

**South Africa**

10.200% Bonds 2008 (South African rand)			100
Commercial paper (South African rand)	<b>55</b>		

<b>Other countries</b>	<b>14</b>		<b>27</b>
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Total other group companies	<b>5 545</b>		<b>5 663</b>
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Total bonds and other loans	<b>8 477</b>	<b>801</b>	<b>7 907</b>
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(a) As required by fair value hedge accounting, the fair value of the bonds and other loans is based on their amortised cost adjusted for the market value of the related derivative.

(b) Wholly repayable in 2009.

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Notes to the consolidated accounts [Unilever Group](#)**16 Financial liabilities** (continued)**Interest rate**

The average interest rate on short-term borrowings in 2008 was 4.2% (2007: 4.5%).

**Interest rate profile and currency analysis of financial liabilities**

The table set out below takes into account the various interest rate swaps and forward foreign currency contracts entered into by the Group, details of which are set out in note 17 on pages 108 to 113. The interest rate profiles of the Group's financial liabilities analysed by principal currency are set out in the table below:

	<b>million</b>			<b>million</b>		<b>million</b>
	Fixed rate Amount of fixing for following year	Fixed rate Average interest rate for following year	Fixed rate Weighted average fixing period	Floating rate	Floating rate Interest rate for following year	Total
<b>Liabilities 2008</b>						
Euro <sup>(c)</sup>	<b>1 794</b>	4.3%	4.8 years 18.8	<b>2 551</b>	2.3%	<b>4 345</b>
Sterling	<b>124</b>	6.4%	years 12.8	<b>1 305</b>	1.7%	<b>1 429</b>
US dollar	<b>2 608</b>	6.8%	years	<b>4 693</b>	1.3%	<b>7 301</b>
Swedish krona				<b>654</b>	2.6%	<b>654</b>
Swiss francs	<b>668</b>	3.6%	4.1 years	<b>(56)</b>	1.1%	<b>612</b>
Japanese yen	<b>147</b>	1.0%	0.5 years	<b>264</b>	1.1%	<b>411</b>
Thai baht				<b>196</b>	2.3%	<b>196</b>
Australian dollar	<b>4</b>	6.4%	6.6 years	<b>162</b>	4.5%	<b>166</b>
Other	<b>66</b>	13.0%	2.2 years	<b>702</b>	7.1%	<b>768</b>
	<b>5 411</b>			<b>10 471</b>		<b>15 882 (4 677)</b>
Foreign currency leg of currency derivatives relating to intra-group loans <sup>(d)</sup>						
Total						<b>11 205<sup>(f)</sup></b>
<b>Liabilities 2007</b>						
Euro <sup>(c)</sup>	2 073	4.3%	5.0 years	980	4.5%	3 053
Sterling	168	6.4%		98	5.3%	266



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			19.8 years			
			10.9 years			
US dollar	3 259	6.2%		1 853	3.4%	5 112
Swedish krona				741	4.9%	741
Swiss francs				699	3.1%	699
Japanese yen	240	1.0%	1.5 years	99	1.1%	339
Thai baht	139	3.5%	0.9 years	43	4.2%	182
			12.0 years			
Australian dollar	3	5.3%		192	7.7%	195
Other	90	11.8%	2.5 years	756	6.7%	846
	5 972			5 461		11 433
Euro leg of currency derivatives mainly relating to intra-group loans <sup>(e)</sup>						(1 784)
Total						9 649 <sup>(f)</sup>

(c) Euro financial liabilities include 124 million preference shares that provide for a fixed preference dividend.

(d) Includes the foreign currency leg of the currency derivatives relating to our intra-group loans, amounting to 4 677 million for 2008. These derivatives create an interest rate exposure in mainly sterling and US dollar. However to reconcile the total liability

with the balance sheet, the total value is eliminated again. The other leg of the currency derivatives is shown in note 15 on page 104 as part of the interest rate profile of financial assets.

- (e) Includes the euro leg of the currency derivatives mainly relating to our intra-group loans, amounting to 1 784 million for 2007. These derivatives create an interest rate exposure in euro. However, to reconcile the total liability with the balance sheet, the total value is eliminated again. The other leg of the currency derivatives is shown in note 15 on page 104 as part of the interest rate profile of financial assets.

- (f) Includes finance lease creditors amounting to

207 million  
(2007:  
311 million) and  
fair value of  
financial  
liability-related  
derivatives  
amounting to  
219 million  
(2007:  
95 million).

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## **17 Financial instruments and treasury risk management**

### **Turmoil in financial markets: impact on Treasury**

We believe our strong single-A rating and active financial management have served us well in the current financial turmoil. Maintaining our strong single-A rating has been and will remain a key priority.

To cope with the impact of the financial crisis, we undertook, amongst others, the following actions:

**Liquidity management:**

In order to reduce our refinance risk, we actively structured out our commercial paper maturity profile;

Throughout the year we had good access to commercial paper markets (particularly in the US at significant discounts to Libor);

During the calendar year we completed three bond issues, for a total amount of 1.4 billion, all at competitive rates; and

As the business successfully managed year-end working capital positions, Unilever closed the year with a cash balance of around 2.6 billion, including 0.6 billion from proceeds of disposal of the Bertolli olive oil business received at the year end.

**Counterparty exposures:**

We regularly reviewed and tightened counterparty limits. Banking exposures were actively monitored on a daily basis. During the year we reduced the maturity profile of our deposits to an overnight basis providing maximum flexibility. Unilever benefits from collateral agreements with our principal banks (see also page 110) based on which banks need to deposit securities and/or cash as collateral for their obligations in respect of derivative financial instruments. Unilever did not encounter any material counterparty exposure loss from financial institutions during 2008.

**Funding costs:**

In general, credit spreads have increased significantly and are very volatile. This over time will lead to increased funding costs. During 2008 we were able to issue commercial paper and bonds at competitive rates.

**Bank facility renewal:**

Our bank facilities are renewed annually. On 31 December 2008 we had US \$6 205 million of undrawn committed facilities. As at 1 January 2009 the amount of undrawn committed facilities will be US \$5 950 million, to be renewed in October 2009. For further details, see [Liquidity risk](#) section below.

### **Treasury Risk Management**

Unilever manages a variety of market risks, including the effects of changes in foreign exchange rates, interest rates, liquidity and counterparty risks.

#### **Currency risks**

Because of Unilever's broad operational reach, it is subject to risks from changes in foreign currency values that could affect earnings. As a practical matter, it is not feasible to fully hedge these fluctuations. Unilever does have a foreign exchange policy that requires operating companies to manage trading and financial foreign exchange exposures within prescribed limits. This is achieved primarily through the use of forward foreign exchange contracts. On a case-by-case basis, depending on potential income statement volatility that can be caused by the fair value movement of the derivative, companies decide whether or not to apply cash flow hedge accounting. Regional groups monitor compliance with this foreign exchange policy. At the end of 2008, there was no material exposure from companies holding assets and liabilities other than in their functional currency.

In addition, as Unilever conducts business in many foreign currencies but publishes its financial statements and measures its performance in euros, it is subject to exchange risk due to the effects that exchange rate movements have on the translation of the underlying net assets of its foreign subsidiaries. Unilever aims to minimise its foreign exchange exposure in operating companies by borrowing in the local currency, except where inhibited by local

regulations, lack of local liquidity or local market conditions. For those countries that in the view of management have a substantial retranslation risk, Unilever may decide on a case-by-case basis, taking into account amongst other factors the impact on the income statement, to hedge such net investment. This is achieved through the use of forward foreign exchange contracts on which hedge accounting is applied. Nevertheless, from time to time, currency revaluations on unhedged investments will trigger exchange translation movements in the balance sheet.

**Interest rate risks**

Unilever has an interest rate management policy aimed at achieving an optimal balance between fixed and floating rate interest rate exposures on expected net debt (gross borrowings minus cash and cash equivalents) levels for the next five calendar years. The objective of the policy is to minimise annual interest costs and to reduce volatility. This is achieved by issuing fixed rate long-term debt and by modifying the interest rate exposure of debt and cash positions through the use of interest rate swaps. The fixing levels per calendar year are determined by fixing bands, with minimum and maximum fixing level percentages, decreasing by 10 percentage points per calendar year. The minimum level in the first year amounts to 50% and the maximum level amounts to 90%. The minimum level is set to avoid unacceptable interest cost volatility and the maximum level is set to prevent over-fixing, recognising that future debt levels can be volatile.

At the end of 2008, interest rates were fixed on approximately 56% of the projected net of cash and financial liability positions for 2009 and 51% for 2010 (compared with 68% for 2008 and 53% for 2009 at the end of 2007).

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Notes to the consolidated accounts [Unilever Group](#)**17 Financial instruments and treasury risk management** (continued)**Liquidity risk**

A material and sustained shortfall in our cash flow could undermine our credit rating and overall investor confidence and could restrict the Group's ability to raise funds.

Operational cash flow provides the funds to service the financing of financial liabilities and enhance shareholder return. Unilever manages the liquidity requirements by the use of short-term and long-term cash flow forecasts.

Unilever maintains access to global debt markets through an infrastructure of short-term and long-term debt programmes. In addition to this, Unilever has committed credit facilities in place to support its commercial paper programmes and for general corporate purposes. During 2008 we made no use of the committed facilities.

Unilever had US \$6 205 million of undrawn committed facilities on 31 December 2008 as follows;

revolving 364-day bilateral credit facilities of in aggregate US \$4 230 million (2007: US \$3 630 million) out of which US \$3 675 million (2007: US \$3 630 million) with a 364-day term out;

revolving 364-day notes commitments of US \$200 million (2007: US \$200 million) with the ability to issue notes with a maturity up to 364 days; and

364-day bilateral money market commitments of in aggregate US \$1 775 million (2007: US \$1 720 million), under which the underwriting banks agree, subject to certain conditions, to subscribe for notes with maturities of up to three years.

As from 1 January 2009 the amount of undrawn committed facilities will be US \$5 950 million.

As part of the regular annual process these facilities will be renewed in October 2009.

The financial market turbulence and associated illiquidity in credit markets during the second half of 2007 and throughout 2008 did not impact Unilever's ability to meet its financing requirements.

The following table shows Unilever's contractually agreed (undiscounted) cash flows payable under financial liabilities and derivative assets and liabilities as at the balance sheet date:

	million	million	million	million	million	million	million	million
		Due	Due	Due	Due	Due		Net
	Due	between	between	between	between	Due	Total	carrying
	within	1 and	2 and	3 and	4 and	after		amount
	1 year	2 years	3 years	4 years	5 years	5 years		as
								shown
								in
<b>Undiscounted cash flows</b>								balance
								sheet

**2008****Non-derivative financial liabilities:**

Financial liabilities excluding related

derivatives and finance

lease creditors

	(4)	(1)				(2)	(10)	(10)
	653)	532)	(577)	(940)	(750)	387)	839)	779)
	(343)	(313)	(210)	(197)	(157)	)	)	

Interest on financial liabilities						(1 608)	(2 828)	
Finance lease creditors including related finance cost	(37)	(36)	(26)	(21)	(19)	(242)	(381)	(207)
Trade payables and other liabilities excluding social security and sundry taxes <sup>(a)</sup>	(7 483)	(175)					(7 658)	(7 658)
	(12 516)	(2 056)	(813)	(1 158)	(926)	(4 237)	(21 706)	
<b>Derivative financial liabilities:</b>								
Interest rate derivatives:								
Derivative contracts receipts		4					4	
Derivative contracts payments		(4)					(4)	
Foreign exchange derivatives:								
Derivative contracts receipts	3 510						3 510	
Derivative contracts payments	(3 772)						(3 772)	
	(262)						(262)	(262) <sup>(b)</sup>
31 December	(12 778)	(2 056)	(813)	(1 158)	(926)	(4 237)	(21 968)	

(a) See note 18 on page 114.

(b) Includes financial liability-related derivatives amounting to (219) million (2007: (95) million).

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Notes to the consolidated accounts [Unilever Group](#)**17 Financial instruments and treasury risk management** (continued)

	million	million	million	million	million	million	million	million	million
		Due	Due	Due	Due				Net carrying amount as shown in balance sheet
<b>Undiscounted cash flows</b>	Due within 1 year	between 1 and 2 years	between 2 and 3 years	between 3 and 4 years	between 4 and 5 years	Due after 5 years	Total		
<b>2007</b>									
<b>Non derivative financial liabilities:</b>									
Financial liabilities excluding related derivatives and finance lease creditors	(4 101)	(1 060)	(1 314)		(750)	(2 127)	(9 352)		(9 243)
Interest on financial liabilities	(304)	(270)	(236)	(109)	(109)	698	726		
Finance lease creditors including related finance cost	(81)	(41)	(36)	(27)	(21)	(314)	(520)		(311)
Trade payables and other liabilities excluding social security and sundry taxes <sup>(a)</sup>	(7 643)	(204)					(7 847)		(7 847)
	(12 129)	(1 575)	(1 586)	(136)	(880)	(4 139)	(20 445)		
<b>Derivative financial liabilities:</b>									
Interest rate derivatives:									
Derivative contracts receipts	6	4	3	2			15		
Derivative contracts payments	(9)	(4)	(3)	(2)			(18)		
Foreign exchange derivatives:									
Derivative contracts receipts	5 315	22	22	22	23		5 404		



Derivative contracts	(5					(5	
payments	411)	(26)	(26)	(26)	(26)	515)	
	(99)	(4)	(4)	(4)	(3)	(114)	(116) <sup>(b)</sup>
31 December	(12	(1	(1			(4	(20
	228)	579)	590)	(140)	(883)	139)	559)

(a) See note 18 on page 114.

(b) Includes financial liability-related derivatives amounting to (219) million (2007: (95) million).

#### **Credit risk on banks and received collateral**

Credit risk related to the use of treasury instruments is managed on a group basis. This risk arises from transactions with banks like cash and cash equivalents, deposits and derivative financial instruments. To reduce the credit risk, Unilever has concentrated its main activities with a limited group of banks that have secure credit ratings. Per bank, individual risk limits are set based on its financial position, credit ratings, past experience and other factors. The utilisation of credit limits is regularly monitored. To reduce the credit exposures, netting agreements are in place with Unilever's principal banks that allow Unilever, in case of a default, to net assets and liabilities across transactions. To further reduce Unilever's credit exposures, Unilever has collateral agreements with Unilever's principal banks based on which they need to deposit securities and/or cash as a collateral for their obligations in respect of derivative financial instruments. At 31 December 2008 the collateral received by Unilever amounted to 369 million (2007: nil), of which 112 million was cash and the fair value of the bond securities amounted to 257 million. Although contractually Unilever has the right to sell or repledge the collateral, it has no intention to do so. As a consequence, the non-cash collateral has not been recognised as an asset in our balance sheet.

#### **Derivative financial instruments**

The Group has comprehensive policies in place, approved by the Boards, covering the use of derivative financial instruments. These instruments are used for hedging purposes. The Group has an established system of control in place covering all financial instruments; including policies, guidelines, exposure limits, a system of authorities and independent reporting, that is subject to periodic review by internal audit. Hedge accounting principles are described in note 1 on page 86. The use of leveraged instruments is not permitted. In the assessment of hedge effectiveness the credit risk element on the underlying hedged item has been excluded. Hedge ineffectiveness is immaterial.

The Group uses the following types of hedges:

cash flow hedges used to hedge the risk on future foreign currency cash flows, floating interest rate cash flows, and the price risk on future purchases of raw materials;

fair value hedges used to convert the fixed interest rate on financial liabilities into a floating interest rate;

net investment hedges used to hedge the investment value of our foreign subsidiaries; and

natural hedges used to hedge the risk on exposures that are on the balance sheet. No hedge accounting is applied.

Details of the various types of hedges are given below.

The fair values of forward foreign exchange contracts represent the gain or loss on revaluation of the contracts at the year-end forward exchange rates. The fair values of interest rate derivatives are based on the net present value of the anticipated future cash flows.

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Notes to the consolidated accounts [Unilever Group](#)**17 Financial instruments and treasury risk management** (continued)**Cash flow hedges**

The fair values of derivatives hedging the risk on future foreign currency cash flows, floating interest rate cash flows and the price risk on future purchases of raw materials amount to (14) million (2007: 85 million) of which (21) million relates to commodity contracts (2007: 88 million), 7 million to foreign exchange contracts (2007: (10) million) and nil to interest rate derivatives (2007: 7 million). Of the total fair value of (14) million, (14) million is due within one year (2007: 82 million).

The following table shows the amounts of cash outflows that are designated as hedged items in the cash flow hedge relations (no cash inflows are designated as hedged items):

	million Due within 1 year	million Due between 1-2 years	million Due between 2-3 years	million Due between 3-4 years	million Due between 4-5 years	million Due after 5 years	million Total
<b>2008</b>							
Foreign exchange cash flows	(200)						(200)
Interest rate cash flows							
Commodity contracts cash flows	(121)						(121)
<b>2007</b>							
Foreign exchange cash flows	(235)						(235)
Interest rate cash flows	(18)	(19)	(21)				(58)
Commodity contracts cash flows	(310)	(1)					(311)

**Fair Value hedges**

The fair values of derivatives hedging the fair value interest rate risk on fixed rate debt at 31 December 2008 amounted to 68 million (2007: nil) which is included under other financial assets.

**Net investment hedges**

The following table shows the fair values of derivatives outstanding at year end designated as hedging instruments in hedges of net investments in foreign operations:

million Assets	million Assets	million Liabilities	million Liabilities
-------------------	-------------------	------------------------	------------------------

<b>Fair values of derivatives used as hedges of net investments in foreign entities</b>	<b>2008</b>	2007	<b>2008</b>	2007
<b>Current</b>				
Foreign exchange derivatives	<b>28</b>		<b>257</b>	337

Of the above mentioned fair values, an amount of 28 million (2007: nil) is included under other financial assets and (257) million (2007: (337) million) is included under financial liabilities.

The impact of exchange rate movements on the fair value of forward exchange contracts used to hedge net investments is recognised in reserves.

#### **Natural hedges**

A natural hedge sometimes known as an economic hedge is where exposure to a risk is offset, or partly offset, by an opposite exposure to that same risk. Hedge accounting is not applied to these relationships.

The following table shows the fair value of derivatives outstanding at year end that are natural hedges.

<b>Fair values of natural hedges</b>	<b>million Assets 2008</b>	million Assets 2007	<b>million Liabilities 2008</b>	million Liabilities 2007
<b>Current</b>				
Interest rate derivatives	<b>1</b>	1		3
Cross-currency swaps	<b>9</b>			
Foreign exchange derivatives	<b>648</b>	377	<b>115</b>	41
	<b>658</b>	378	<b>115</b>	44
<b>Non-current</b>				
Interest rate derivatives				18
Cross-currency swaps				18
	<b>658</b>	378	<b>115</b>	62

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Notes to the consolidated accounts [Unilever Group](#)**17 Financial instruments and treasury risk management** (continued)

Of the fair values disclosed above, the fair value of financial liability-related derivatives at 31 December 2008 amounted to 539 million (2007: 320 million) of which 501 million (2007: 78 million) is included under other financial assets and 38 million (2007: 242 million) is included under financial liabilities as a positive amount partly offsetting the (257) million (2007: (337) million) included under financial liabilities relating to the fair values of derivatives used as net investment hedges. The remaining balances are shown under trade and other receivables and other liabilities.

**Sensitivity to not applying hedge accounting**

Derivatives have to be reported at fair value. Those derivatives used for cash flow hedging and net investment hedging for which we do not apply hedge accounting will cause volatility in the income statement. Such derivatives did not have a material impact on the 2008 income statement.

**Embedded derivatives**

In accordance with IAS 39, Financial instruments: Recognition and Measurement, Unilever has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet specific requirements set out in the standard; no material embedded derivatives have been identified.

**Fair values of financial assets and financial liabilities**

The following table summarises the fair values and carrying amounts of the various classes of financial assets and financial liabilities. All trade and other receivables and trade payables and other liabilities have been excluded from the analysis below and from the interest rate and currency profiles in note 15 on page 104 and note 16 on page 107, as their carrying amounts are a reasonable approximation of their fair value, because of their short-term nature.

	<b>million</b> <b>Fair</b> <b>value</b> <b>2008</b>	million Fair value 2007	<b>million</b> <b>Carrying</b> <b>amount</b> <b>2008</b>	million Carrying amount 2007
<b>Financial assets</b>				
Other non-current assets	<b>891</b>	733	<b>904</b>	738
Cash and cash equivalents	<b>2 561</b>	1 098	<b>2 561</b>	1 098
Other financial assets	<b>35</b>	138	<b>35</b>	138
Derivatives related to financial liabilities	<b>597</b>	78	<b>597</b>	78
	<b>4 084</b>	2 047	<b>4 097</b>	2 052
<b>Financial liabilities</b>				
Bank loans and overdrafts	<b>(1 377)</b>	(1 212)	<b>(1 377)</b>	(1 212)
	<b>(9 488)</b>	(8 073)	<b>(9 278)</b>	(7 907)
Bonds and other loans	<b>(222)</b>	(313)	<b>(207)</b>	(311)
Finance lease creditors	<b>(102)</b>	(114)	<b>(124)</b>	(124)
Preference shares	<b>(219)</b>	(95)	<b>(219)</b>	(95)
Derivatives related to financial liabilities	<b>(11 408)</b>	(9 807)	<b>(11 205)</b>	(9 649)

The fair values and the carrying amount of listed investments included in financial assets and preference shares included in financial liabilities are based on their market values. Cash and cash equivalents, other financial assets, bank loans and overdrafts have fair values that approximate to their carrying amounts because of their short-term nature. The fair values of listed bonds are based on their market value; non-listed bonds and other loans are based on the net present value of the anticipated future cash flows associated with these instruments. Fair values for finance lease creditors have been assessed by reference to current market rates for comparable leasing arrangements.

**Commodity contracts**

The Group uses commodity forward contracts and futures to hedge against price risk in certain commodities. All commodity forward contracts and futures hedge future purchases of raw materials. Settlement of these contracts will be in cash or by physical delivery. Those contracts that will be settled in cash are reported in the balance sheet at fair value and, to the extent that they are considered as an effective hedge under IAS 39, fair value movements are recognised in the cash flow reserve.

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Notes to the consolidated accounts [Unilever Group](#)

## **17 Financial instruments and treasury risk management** (continued)

### **Capital management**

The Group's financial strategy supports Unilever's aim to be in the top third of a reference group including 20 other international consumer goods companies for Total Shareholder Return, as explained on page 43. The key elements of the financial strategy are:

appropriate access to equity and debt markets;

sufficient flexibility for acquisitions that we fund out of current cash flows;

A+/A1 long-term credit rating;

A1/P1 short-term credit rating;

sufficient resilience against economic and financial turmoil; and

optimal weighted average cost of capital, given the constraints above.

For the A1/P1 short-term credit rating the company monitors the qualitative and quantitative factors utilised by the rating agencies. This information is publicly available and is updated by the credit rating agencies on a regular basis. The capital structure of Unilever is based on management's judgement of the appropriate balancing of all key elements of its financial strategy in order to meet its strategic and day-to-day needs. We consider the amount of capital in proportion to risk and manage the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. Unilever will take appropriate steps in order to maintain, or if necessary adjust, the capital structure. Annually the overall funding plan is presented to the Board for approval.

Return on Invested Capital continues to be one of Unilever's key performance measures. Within this definition we have defined the components of our Invested Capital. See page 42 for the details of this definition and the calculation of Unilever's Return on Invested Capital.

Unilever is not subject to covenants in any of its significant financing agreements.

### **Income statement sensitivity to changes in foreign exchange rates**

The values of debt, investments and related hedging instruments, denominated in currencies other than the functional currency of the entities holding them, are subject to exchange rate movements. The translation risk on the foreign exchange debtors and creditors is excluded from this sensitivity analysis as the risk is considered to be immaterial because positions will remain within prescribed limits (see currency risks on page 108).

The remaining foreign exchange positions at 31 December 2008 mainly relate to unhedged US \$ loans (total amount at 31 December 2008 US \$65 million). A reasonably possible 10% change in rates would lead to a 5 million movement in the income statement (2007: 7 million), based on a linear calculation of our exposure.

### **Income statement sensitivity to changes in interest rate**

Interest rate risks are presented by way of sensitivity analysis. As described on page 108, Unilever has an interest rate management policy aimed at optimising net interest cost and reducing volatility in the income statement. As part of this policy, part of the funds/debt have fixed interest rates and are no longer exposed to changes in the floating rates. The remaining floating part of our funds/debt (see interest rate profile tables on pages 104 for the assets and 107 for the liabilities) is exposed to changes in the floating interest rates.

The analysis below shows the sensitivity of the income statement to a reasonably possible one percentage point change in floating interest rates on a full-year basis.

	Sensitivity to a reasonably possible one percentage point change in floating rates as at 31 December	
	million 2008	million 2007
Funds	77	25
Debt	(105)	(55)

**Net investment hedges: sensitivity relating to changes in foreign exchange rates**

To reduce the retranslation risk of Unilever's investments in foreign subsidiaries, Unilever uses net investment hedges. The fair values of these net investment hedges are subject to exchange rate movements and changes in these fair values are recognised directly in equity and will offset the retranslation impact of the related subsidiary.

At 31 December 2008 the nominal value of these net investment hedges amounts to 5.1 billion (2007: 7.5 billion) mainly consisting of US\$/ contracts. A reasonably possible 10% change in rates would lead to a fair value movement of 513 million (2007: 750 million). This movement would be fully offset by an opposite movement on the retranslation of the book equity of the foreign subsidiary.

**Cash flow hedges: sensitivity relating to changes in interest rates and foreign exchange rates**

Unilever uses on a limited scale both interest rate and forex cash flow hedges. The fair values of these instruments are subject to changes in interest rates and exchange rates. Because of the limited use of these instruments and the amount of Unilever's equity, possible changes in interest rates and exchange rates will not lead to fair value movements that will have a material impact on Unilever's equity.



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Notes to the consolidated accounts [Unilever Group](#)**18 Trade payables and other liabilities**

	<b>million</b>	million
<b>Trade and other payables</b>	<b>2008</b>	2007
<b>Due within one year</b>		
Trade payables	<b>3 873</b>	3 690
Accruals	<b>2 720</b>	2 970
Social security and sundry taxes	<b>341</b>	374
Others	<b>890</b>	983
	<b>7 824</b>	8 017
<b>Due after more than one year</b>		
Accruals	<b>102</b>	138
Others	<b>73</b>	66
	<b>175</b>	204
Total trade payables and other liabilities	<b>7 999</b>	8 221

The amounts shown above do not include any creditors due after more than five years. Trade payables and other liabilities are valued at historic cost, which where appropriate approximates their amortised cost.

**19 Provisions**

	<b>million</b>	million
<b>Provisions</b>	<b>2008</b>	2007
<b>Due within one year</b>		
Restructuring provisions	<b>413</b>	518
Preference shares provision		3
Disputed indirect taxes	<b>232</b>	269
Other provisions	<b>112</b>	178
	<b>757</b>	968
<b>Due after one year</b>		
Restructuring provisions	<b>91</b>	63
Legal provisions	<b>60</b>	55
Disputed indirect taxes	<b>312</b>	422
		249

Net liability of associate	<b>31</b>	30
Other provisions	<b>152</b>	124
	<b>646</b>	694
Total restructuring and other provisions	<b>1 403</b>	1 662

	million	million	million	million	million	million	million
	Restructuring	Legal	Preference shares	Disputed indirect taxes	Net liability of associate	Other provisions	Total
<b>Movements during 2008</b>	provisions	provisions	provision				
1 January 2008	<b>581</b>	<b>55</b>	<b>3</b>	<b>691</b>	<b>30</b>	<b>302</b>	<b>1 662</b>
Disposal of group companies	<b>1</b>					<b>7</b>	<b>8</b>
Income statement:							
New charges	<b>343</b>	<b>61</b>		<b>136</b>		<b>31</b>	<b>571</b>
Releases	<b>(54)</b>	<b>(5)</b>	<b>(3)</b>	<b>(94)</b>		<b>(37)</b>	<b>(193)</b>
Utilisation	<b>(343)</b>	<b>(51)</b>		<b>(38)</b>		<b>(35)</b>	<b>(467)</b>
Currency retranslation	<b>(24)</b>			<b>(151)</b>	<b>1</b>	<b>(4)</b>	<b>(178)</b>
31 December 2008	<b>504</b>	<b>60</b>		<b>544</b>	<b>31</b>	<b>264</b>	<b>1 403</b>

Restructuring provisions primarily relate to early retirement and redundancy costs, the most significant of which relate to the formation of new multi-country organisations and several factory closures; no projects are individually material. Legal provisions are comprised of many claims, of which none is individually material. Further information is given in note 25 on page 126.

The provision for disputed indirect taxes is comprised of a number of small disputed items. The largest elements of the provision relate to disputes with the Brazilian authorities. Because of the nature of the disputes, the timing of the utilisation of the provisions, and any associated cash outflows, is uncertain. The majority of the disputed items attract an interest charge. For further information please refer Note 25 on to page 127.

No individual item within the other provisions balance is significant. Unilever expects that the issues relating to these restructuring, legal and other provisions will be substantively resolved over the next five years.

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Notes to the consolidated accounts [Unilever Group](#)**20 Pensions and similar obligations****Description of plans**

In many countries the Group operates defined benefit pension plans based on employee pensionable remuneration and length of service. The majority of these plans are externally funded. The Group also provides other post-employment benefits, mainly post-employment healthcare plans in the United States. These plans are predominantly unfunded. The Group also operates a number of defined contribution plans, the assets of which are held in external funds.

The majority of the Group's externally funded plans are established as trusts, foundations or similar entities. The operation of these entities is governed by local regulations and practice in each country, as is the nature of the relationship between the Group and the trustees (or equivalent) and their composition.

**Exposure to risks**

Pension assets and liabilities (pre-tax) of 11 719 million and 15 101 million respectively are held on the Group's balance sheet as at 31 December 2008. Movements in equity markets, interest rates, inflation and life expectancy could materially affect the level of surpluses and deficits in these schemes, and could prompt the need for the Group to make additional pension contributions, or to reduce pension contributions, in the future. The key assumptions used to value our pension liabilities are set out below and on pages 116 and 117.

**Investment strategy**

The Group's investment strategy in respect of its funded pension plans is implemented within the framework of the various statutory requirements of the territories where the plans are based. The Group has developed policy guidelines for the allocation of assets to different classes with the objective of controlling risk and maintaining the right balance between risk and long-term returns in order to limit the cost to the Group of the benefits provided. To achieve this, investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plans invest the largest proportion of the assets in equities which the Group believes offer the best returns over the long term commensurate with an acceptable level of risk. The pension funds also have a proportion of assets invested in property, bonds, hedge funds and cash. The majority of assets are managed by a number of external fund managers with a small proportion managed in-house. Unilever has a pooled investment vehicle (Univest) which it believes offers its pension plans around the world a simplified externally managed investment vehicle to implement their strategic asset allocation models, currently for equities and hedge funds. The aim is to provide a high quality, well diversified, risk-controlled vehicle.

**Assumptions**

With the objective of presenting the assets and liabilities of the pensions and other post-employment benefit plans at their fair value on the balance sheet, assumptions under IAS 19 are set by reference to market conditions at the valuation date. The actuarial assumptions used to calculate the benefit obligations vary according to the country in which the plan is situated. The following table shows the assumptions, weighted by liabilities, used to value the principal defined benefit pension plans (which cover approximately 95% of total pension liabilities and plans providing other post-employment benefits) and in addition the expected long-term rates of return on assets, weighted by asset value.

	<b>31 December 2008</b>		31 December 2007		31 December 2006		31 December 2005	
	<b>Principal defined benefit pension plans</b>	<b>Other post-employment benefit plans</b>	Principal defined benefit pension plans	Other post-employment benefit plans	Principal defined benefit pension plans	Other post-employment benefit plans	Principal defined benefit pension plans	Other post-employment benefit plans
Discount rate	<b>6.1%</b>	<b>5.8%</b>	5.8%	6.1%	5.1%	5.9%	4.6%	5.5%

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Inflation	<b>2.4%</b>	<b>n/a</b>	2.6%	n/a	2.5%	n/a	2.4%	n/a
Rate of increase in salaries	<b>3.5%</b>	<b>4.0%</b>	3.8%	4.0%	3.7%	4.0%	3.5%	4.0%
Rate of increase for pensions in payment	<b>2.4%</b>	<b>n/a</b>	2.5%	n/a	2.3%	n/a	2.1%	n/a
Rate of increase for pensions in deferment (where provided)	<b>2.6%</b>	<b>n/a</b>	2.7%	n/a	2.7%	n/a	2.5%	n/a
Long-term medical cost inflation	<b>n/a</b>	<b>5.0%</b>	n/a	5.0%	n/a	5.0%	n/a	4.8%
Expected long-term rates of return:								
Equities	<b>7.4%</b>		8.0%		7.8%		7.4%	
Bonds	<b>4.7%</b>		4.9%		4.9%		4.2%	
Property	<b>5.8%</b>		6.6%		6.3%		5.8%	
Others	<b>5.4%</b>		6.3%		6.3%		6.1%	
Weighted average asset return	<b>6.3%</b>		7.0%		6.9%		6.4%	

## Financial statements

Notes to the consolidated accounts [Unilever Group](#)**20 Pensions and similar obligations** (continued)

The valuations of other post-employment benefit plans generally assume a higher initial level of medical cost inflation, which falls from 8.8% to the long-term rate within the next five years. Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effect:

	<b>million</b> 1% point increase	<b>million</b> 1% point decrease
Effect on total of service and interest cost components	2	(2)
Effect on total benefit obligation	18	(17)

The expected rates of return on plan assets were determined, based on actuarial advice, by a process that takes the long-term rates of return on government bonds available at the balance sheet date and applies to these rates suitable risk premiums that take account of historic market returns and current market long-term expectations for each asset class.

For the most important pension plans, representing approximately 80% of all defined benefit plans by liabilities, the assumptions used at 31 December 2008, 2007, 2006 and 2005 were:

Assumptions	2008	2007	United Kingdom		2008	2007	Netherlands	
			2006	2005			2006	2005
Discount rate	<b>6.5%</b>	5.8%	5.1%	4.7%	<b>5.9%</b>	5.5%	4.6%	4.0%
Inflation	<b>2.8%</b>	3.0%	2.9%	2.7%	<b>2.0%</b>	1.9%	1.9%	1.8%
Rate of increase in salaries	<b>4.3%</b>	4.5%	4.4%	4.2%	<b>2.4%</b>	2.4%	2.4%	2.3%
Rate of increase for pensions in payment	<b>2.8%</b>	3.0%	2.9%	2.7%	<b>2.0%</b>	1.9%	1.9%	1.8%
Rate of increase for pensions in deferment (where provided)	<b>2.8%</b>	3.0%	2.9%	2.7%	<b>2.0%</b>	1.9%	1.9%	1.8%
Expected long-term rates of return:								
Equities	<b>7.8%</b>	8.0%	8.0%	7.6%	<b>7.2%</b>	8.1%	7.6%	7.0%
Bonds	<b>5.0%</b>	5.0%	5.2%	4.5%	<b>5.0%</b>	4.7%	4.4%	3.7%
Property	<b>6.0%</b>	6.5%	6.5%	6.1%	<b>5.7%</b>	6.6%	6.1%	5.5%
Others	<b>5.6%</b>	6.3%	7.2%	6.7%	<b>5.6%</b>	4.1%	4.0%	3.7%
Weighted average asset return	<b>7.0%</b>	7.2%	7.3%	6.9%	<b>6.2%</b>	6.8%	6.6%	6.0%

			United States					Germany
	<b>2008</b>	2007	2006	2005	<b>2008</b>	2007	2006	2005
Discount rate	<b>5.6%</b>	5.9%	5.8%	5.5%	<b>5.9%</b>	5.5%	4.6%	4.0%
Inflation	<b>2.1%</b>	2.3%	2.5%	2.4%	<b>2.0%</b>	1.9%	1.9%	1.8%
Rate of increase in salaries	<b>4.0%</b>	4.0%	4.0%	4.0%	<b>2.8%</b>	2.8%	2.6%	2.5%
Rate of increase for pensions in payment	<b>0.0%</b>	0.0%	0.0%	0.0%	<b>2.0%</b>	1.9%	1.9%	1.8%
Rate of increase for pensions in deferment (where provided)	<b>0.0%</b>	0.0%	0.0%	0.0%	<b>0.0%</b>	0.0%	0.0%	0.0%
Expected long-term rates of return:								
Equities	<b>6.0%</b>	7.8%	8.3%	8.0%	<b>7.2%</b>	8.1%	7.6%	7.0%
Bonds	<b>5.1%</b>	4.5%	5.2%	4.8%	<b>4.2%</b>	4.7%	4.4%	3.7%
Property	<b>4.5%</b>	6.3%	6.8%	6.5%	<b>5.7%</b>	6.6%	6.1%	5.5%
Others	<b>1.2%</b>	3.7%	4.8%	4.2%	<b>4.4%</b>	5.8%	3.0%	3.7%
Weighted average asset return	<b>5.7%</b>	6.8%	7.4%	7.0%	<b>5.3%</b>	6.5%	5.8%	5.3%

## Financial statements

Notes to the consolidated accounts [Unilever Group](#)**20 Pensions and similar obligations** (continued)

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy (including expectations for future improvements), plan experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension plans. The assumptions made in 2008 are consistent with those applied in 2007.

Mortality assumptions for the most important countries are based on the following post-retirement mortality tables:

(i) United Kingdom: PNMA 00 and PNFA 00 with medium cohort adjustment subject to a minimum annual improvement of 1% and scaling factors of 110% for current male pensioners, 125% for current female pensioners and 105% for future male and female pensioners; (ii) the Netherlands: GBMV (2000-2005) with age set back of four years for males and two years for females; (iii) United States: RP2000 with a projection period of 10-15 years; and (iv) Germany: Heubeck 1998 (Periodentafel) with a scaling factor of 85%. These tables translate into the following years of life expectancy for current pensioners aged 65:

	United Kingdom	Netherlands	United States	Germany
Males	21	20	19	18
Females	23	22	22	21

With regard to future improvements in life expectancy, in the UK for example, males and females currently aged 45 are assumed to have a life expectancy of 24 years and 26 years respectively on retirement at age 65.

Assumptions for the remaining defined benefit plans vary considerably, depending on the economic conditions of the countries where they are situated.

**Balance sheet**

The assets, liabilities and surplus/(deficit) position of the pension and other post-employment benefit plans and the expected rates of return on the plan assets at the balance sheet date were:

	million	million	%	million	million	%	million	million	%
	31 December 2008			31 December 2007			31 December 2006		
	Pension plans	Other post- employment benefit plans	Long-term rates of return expected	Pension plans	Other post- employment benefit plans	Long-term rates of return expected	Pension plans	Other post- employment benefit plans	Long-term rates of return expected

Assets of  
principal plans:

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Equities	<b>6 044</b>		<b>7.4%</b>	9			10		
				957		8.0%	274		7.8%
Bonds	<b>3 244</b>		<b>4.7%</b>	4			3		
				278		4.9%	946		4.9%
Property	<b>1 053</b>		<b>5.8%</b>	1			1		
				381		6.6%	421		6.3%
Other	<b>1 069</b>		<b>5.4%</b>	1			1		
Assets of other plans	<b>303</b>	<b>6</b>	<b>8.3%</b>	220		6.3%	221		6.3%
				404	13	7.5%	403	13	7.3%
				17			17		
<b>11 713</b>	<b>6</b>			240	13		265	13	
Present value of liabilities:									
Principal plans	<b>(13 682)</b>			(16			(18		
Other plans	<b>(682)</b>	<b>(737)</b>		798)			711)		
				(748)	(796)		(722)	(925)	
				(17			(19		
<b>(14 364)</b>	<b>(737)</b>			546)	(796)		433)	(925)	
Aggregate net deficit of the plans	<b>(2 651)</b>	<b>(731)</b>		(306)	(783)		(2		
Irrecoverable surplus <sup>(a)</sup>				(306)	(783)		168)	(912)	
Pension liability net of assets	<b>(2 651)</b>	<b>(731)</b>		(306)	(783)		(2		
				(306)	(783)		168)	(912)	