Outlook and risks continued

Risk Factors (continued)

Increasing competitive pressures and consolidation of customers could adversely impact our rate of sales growth and profit margins.
We face competition in each of the product segments that we operate in from other multinational companies, as well as from local and regional companies. Competitive forces may reduce our market shares or margins. The increasingly competitive environment, further consolidation among retailers and the continued growth of discounters could adversely impact our rate of sales growth and our profit margins.

Maintaining our competitive position against the backdrop of uncertain markets will require us to closely monitor prices and the value that we offer to our consumers. If we fail or are otherwise unable to adapt our strategies or reallocate our resources in a timely manner in response to any changes in our markets, our competitiveness and relationships with our customers may be adversely affected.

Our global operations expose us to changes in liquidity, interest rates, currency exchange rates, pensions, and taxation, which may have a negative impact on our business.
By virtue of its global operations, Unilever's asset values, earnings and cash flows are influenced by a wide variety of currencies, interest rates, tax jurisdictions and differing taxes.

Unilever may be unable to effectively manage its various exposures in the future, or provide sufficient liquidity for its operations on an ongoing basis, whether through access to credit markets, commercial paper programmes, long-term bond issuances or otherwise. A significant shortfall in cash flow could undermine our credit rating, impair investor confidence and limit our ability to raise funds.

We are exposed to interest rate fluctuations on our borrowings and need to achieve an optimal balance between fixed and floating rates. These rates are susceptible to market fluctuations and volatility and our inability to manage this effectively may impact our cash flows and profits. Increases in benchmark interest rates could increase the interest cost of our debt and increase the cost of future borrowings.

Because of the breadth of our international operations, we are subject to risks from changes to the relative value of currencies which can fluctuate widely and could have a significant impact on our assets, cash flows and profits.

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

In the current economic climate, we also face significant counterparty risk from suppliers, customers and banks.

In view of the current economic climate and deteriorating government deficit positions, tax legislation in the regions that we operate may be subject to change, which may have an adverse effect on our profits.

We derive significant revenues from Developing and Emerging (D&E) markets. These markets are typically more volatile than developed markets, and any adverse social, political or economic developments in these markets could adversely affect our business.
Unilever has significant international operations. As a result, it is continually exposed to changing economic, political, social developments outside its control, any of which could adversely affect Unilever's business. While Unilever's diverse geographical spread helps to ensure it is not reliant on a single country or region, it also simultaneously exposes it to the full range of risks related with international operations. During 2008, nearly half of our business came from D&E markets.

Input costs are subject to fluctuation, and we are reliant on suppliers and global supply chains as a means of producing and supplying our products.
Our ability to make our products is dependent on obtaining adequate supplies of our raw materials in a timely manner. The price of key raw materials and packaging goods fluctuate and are heavily impacted by global economic conditions. These prices could fluctuate significantly and have an impact on our cost competitiveness, turnover, margins and cash flows. Our business success depends in part on our ability to achieve such cost efficiencies.

Additionally, we are 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 additional risks of changes in local legal and regulatory schemes, labour shortages and disruptions and environmental and industrial incidents. If we fail to actively monitor our suppliers and supply chain or effectively perform supplier counter party risk analysis in a timely manner, we may be unable to effectively respond to adverse events occurring with respect to our suppliers and global supply chains. A failure in this regard could harm our reputation and brands as well as adversely affecting our revenues, profit margins and cash flow.

Outlook and risks continued

Risk Factors (continued)

Our industry is subject to focus on social and environmental issues, including sustainable development, product safety and renewable sources. If we fail to comply with applicable standards or meet expectations with respect to these issues, our reputation could be damaged and our businesses adversely affected.
Unilever operates in an industry in which there is focus over social and environmental issues, including sustainable development and utilisation of renewable sources. Additionally, 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, Unilever's corporate reputation could be damaged, leading to the rejection of our products by consumers, damage to our brands and diversion of management time into rebuilding our reputation.

Our recent restructuring initiative involves significant changes to our organisation. If we are unable to successfully implement these changes in a timely manner, we may not realise the expected benefits from the restructuring.
In recent years Unilever has launched Group-wide restructuring programs to help simplify our organisational structure, rationalise employee numbers, leverage common platforms and outsource business processes where appropriate. The continuing implementation of these programs will require significant effort and attention from our management and employees to complete it in the timeframe anticipated and to achieve the anticipated cost savings. In the event we are unable to successfully implement these changes in a timely manner or at all, or effectively manage our third party relationships and integrate outsourcing processes, we will be unable to realise the corporate and administrative expense reductions expected from these arrangements in the timeframe anticipated or at all. In addition, because some of these restructuring changes involve important functions at Unilever, any disruption could harm our relationship with our employees and our reputation.

Our success depends on attracting and retaining talented people within our business. Any shortfall in recruitment or retention could adversely affect our ability to deliver our strategy and compete in our markets.
Attracting and retaining talented employees is essential to the successful delivery of our strategy and success in the marketplace. However, we cannot be certain that we will be able to attract and retain such employees in the future. Any shortfalls in recruitment or retention could adversely affect our ability to operate successfully, grow our business and effectively compete with our competitors.

We are subject to other risks which may adversely affect our business.
Unilever is exposed to varying degrees of risk and uncertainty related to other factors including physical risks, legislative, environmental, fiscal, tax and regulatory developments, legal matters, insurance and resolution of such pending matters within current estimates, our ability to integrate acquisitions and complete planned divestures, terrorism and economic, political and social conditions in the environments where we operate and new or changed priorities of the Boards. All of these risks could materially affect the Group's business, our turnover, operating profits, net profits, net assets and liquidity. There may be risks which are unknown to Unilever or which are currently believed to be immaterial.

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

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.

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 3¹/₉p = €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.

	€ million 2008	€ million 2007	€ million 2006
Continuing operations:			
Turnover	**40 523**	40 187	39 642
Operating profit	**7 167**	5 245	5 408
Net profit	**5 285**	4 056	3 685
Net profit from discontinued operations	**–**	80	1 330
Net profit – total	**5 285**	4 136	5 015

	€ 2008	€ 2007	€ 2006
EPS – continuing operations	**1.79**	1.32	1.19
EPS – total	**1.79**	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.

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

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.

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

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

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.

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.

Performance Review continued

Asia, Africa and Central & Eastern Europe (AACEE)

2008 compared with 2007

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

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.

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.

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.

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Balance sheet

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

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

(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 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

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

Financial Review continued

Dividends and market capitalisation

Dividends per share

	€ 2008	Per €0.16 NV ordinary share € 2007	pence 2008	Per 3 1/9p PLC ordinary share pence 2007
Interim	**0.26**	0.25	**20.55**	17.00
Final	**–**	0.50	**–**	34.11
Proposed final	**0.51**	–	**40.19**	–

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 (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.

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.

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 reevaluate 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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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	% Netherlands	% 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.

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.

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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).

Ungeared free cash flow	€ million 2008	€ million 2007	€ million 2006
Net profit	**5 285**	4 136	5 015
Taxation	**1 844**	1 137	1 332
Share of net profit of joint ventures/associates and other income from non-current investments	**(219)**	(191)	(144)
Net finance costs	**257**	252	725
Depreciation, amortisation and impairment	**1 003**	943	982
Changes in working capital	**(161)**	27	87
Pensions charges in operating profit less payments	**(502)**	(910)	(1 038)
Movements in provisions less payments	**(62)**	145	107
Elimination of profits on disposals	**(2 259)**	(459)	(1 620)
Non-cash charge for share-based compensation	**125**	118	120
Other adjustments	**15**	(10)	8
Cash flow from operating activities	**5 326**	5 188	5 574
Less charge for share-based compensation	**(125)**	(118)	(120)
Add back pension charges less payments in operating profit	**502**	910	1 038
Less net capital expenditure	**(1 099)**	(983)	(934)
Less tax charge adjusted to reflect an ungeared position	**(1 368)**	(1 228)	(1 336)
Taxation on profit	**(1 844)**	(1 137)	(1 332)
Taxation on profit on material business disposals	**581**	–	159
Tax relief on net finance costs	**(105)**	(91)	(163)
Ungeared free cash flow	**3 236**	3 769	4 222

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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%).

Return on invested capital	€ million 2008	€ million 2007	€ million 2006
Net profit	**5 285**	4 136	5 015
Add back net interest expense net of tax	**294**	314	365
Add back impairment charges net of tax[a]	**38**	1	15
Profit after tax, before interest and impairment of goodwill and indefinite-lived intangible assets	**5 617**	4 451	5 395
Year-end positions for invested capital:			
Property, plant and equipment and other non-current investments	**7 024**	7 276	7 142
Software and finite-lived intangible assets	**540**	590	608
Inventories	**3 889**	3 894	3 796
Trade and other receivables	**5 002**	4 965	4 667
Trade payables and other creditors due within one year	**(8 449)**	(8 545)	(8 513)
Elements of invested capital included in assets and liabilities held for sale	**45**	150	15
Goodwill and indefinite-lived intangible assets at gross book value	**20 892**	20 029	20 705
Total	**28 943**	28 359	28 420
Add back cumulative goodwill written off directly to reserves	**6 343**	6 427	6 427
Year-end invested capital	**35 286**	34 786	34 847
Average invested capital for the year	**35 832**	35 122	36 850
Return on average invested capital	**15.7%**	12.7%	14.6%

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