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Certain sections of the Unilever Annual Report and Accounts 2009 have been audited. These are on pages 79 to 128, 131 to 132 and those parts noted as audited within the Directors' Remuneration Report on pages 71 to 73.

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The information is given as of the dates specified, is not updated, and any forward-looking statements are made subject to the reservations specified on the final page of the Report.

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Our business

Our business

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

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 the companies included in our peer group in 2009 is set out on page 46.

Key indicators 2009 – performance and portfolio

During 2009, progress against our key financial performance indicators was as follows:

	2009	2008	2007
Underlying sales growth (%)	3.5	7.4	5.5
Underlying volume growth (%)	2.3	0.1	3.7
Operating margin (%)	12.6	17.7	13.1
Operating margin before RDIs (%)	14.8	14.6	14.5
Ungeared free cash flow (€ billion)	4.9	3.2	3.8
Return on invested capital (%)	11.2	15.7	12.7
Total shareholder return (ranking)	5	9	8

Underlying sales growth, underlying volume growth, operating margin before RDIs, ungeared free cash flow, return on invested capital and total shareholder return are not recognised measures under IFRS. Further information about our use of these measures, including definitions and, where appropriate, reconciliation to IFRS measures, can be found in our Financial Review starting on page 37.

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 2009, underlying sales growth was 3.5% compared with 7.4% in 2008. Underlying volume growth is underlying sales growth after excluding the impact of price changes.

Operating margin for 2009 was 12.6% compared with 17.7% in 2008, which benefited significantly from the net impact of profits on disposals, restructuring charges and other one-off items. Before these items the underlying improvement in operating margin in 2009 was 0.2 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 45. In 2009, UFCF was €4.9 billion, which was €1.7 billion higher than a year earlier.

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 45. In 2009, ROIC was 11.2% compared with 15.7% in 2008, which benefited from significant profits on business disposals. Excluding the impact of profits on sale of group companies, ROIC was at the same level as in 2008.

Within our peer group of 21 companies, our ranking for Total Shareholder Return over a three-year period was 5th in 2009. This measure forms part of the basis for the long-term remuneration of top management. Further information is given on page 46.

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:

	2009	2008	2007
Share of turnover in D&E markets (%)	49	47	44
Share of turnover in top 25 brands (%)	73	73	73

Our definition of D&E markets includes all countries in Latin America, Central & Eastern Europe, Africa and Asia, except Japan and Australia. In 2009, the turnover in D&E markets represented 49% 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, and our top 13 brands together accounting for sales of €23.5 billion.

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 27 we indicate the product areas in which we have leading or key strategic positions.

Our business (continued)

Key indicators 2010 – performance and portfolio

Throughout 2009 Unilever has consistently communicated to shareholders that its main business objective is to restore volume and underlying sales growth while steadily improving operating margins and cash flow. There are a number of strategic priorities which support this objective. It is this combination of top-line revenue growth and bottom-line profits growth that Unilever believes will build shareholder value over the longer term. It is our objective to be among the best performers in our peer group.

Going forward we will therefore report our financial performance against a revised set of key indicators, certain of which will also be reflected in targets for executive and management remuneration. Principal among these will be:

- Underlying sales growth (as previously reported);
- Underlying volume growth (sales growth excluding the impact of pricing changes);
- Improvement in underlying operating margin before RDIs (replacing reported operating margin); and
- Operating cash flow (replacing ungeared free cash flow).

Key indicators – people and sustainability

Identifying and addressing social and environmental concerns is essential to the long-term success of Unilever, as recognised in our new vision to double the size of the business, while reducing our environmental impact. Handling these aspects of our operations well not only represents sensible management of risk, but presents new opportunities for business growth. We have many indicators to measure our progress in these areas, however the ones we regard as key are people's safety and the three environmental measures below.

We take seriously our responsibility to provide a safe workplace. We aim to continuously improve 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 employee workplace accidents except those requiring only simple first aid treatment.

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. As a multinational business, it is essential that we exercise the same concern for the environment wherever we operate. The environmental measures that we regard as the most significant in relation to our business are those relating to the amounts of CO₂ 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 disposal. For further information please refer also to page 20.

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

	2009	2008	2007
Total recordable accident frequency rate (TRFR) per 1,000,000 hours ^(a)	1.91	2.10	2.60
CO ₂ from energy per tonne of production (kg)	141.61	145.92	149.18
Water per tonne of production (m ³)	2.80	2.97	3.05
Total waste per tonne of production (kg)	6.63	7.91	7.56

(a) As a consequence of improving our safety performance over many years, in 2009 Unilever decided to increase the denominator used to calculate TRFR from 100,000 to 1,000,000 hours. Using this new higher factor has the effect of increasing our current and historical TRFR data by a factor of ten, as shown in the table above.

Data for 2009 is preliminary. It will be independently assured and reported in our online Sustainable Development Report 2009 at www.unilever.com/sustainability. The data shown for 2008 and 2007 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 18 to 21 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. Our online Report will contain updated and independently assured results for 2009 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

Organisation

Unilever's organisation comprises regions, categories and functions.

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.

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. Such functions are organised around these same principles of business partners, shared services and centres of expertise.

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

Operating environment

In our markets, we compete with a diverse set of competitors. Some of these 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 will help them to feel good, look good and get more out of 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 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 170 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. For example 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 2009 or the two preceding years.

For more information about related party transactions please refer also to note 30 on page 128.

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 2009 eleven 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, Dove, Lux, Rexona (including Sure and Degree) and Axe/Lynx.

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

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, Wish-Bone, Amora, Ragú and Bertolli.

Our business (continued)

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 through our Slim-Fast range and nutritionally enhanced products sold in developing markets, including Annapurna and AdeS.

Within these groups, we also include sales by 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 8 to 21 where we give many examples of the ways in which our brand portfolio is being actively managed in support of our strategic objectives.

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 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.

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

Year end in thousands	2009	2008	2007	2006	2005
Asia Africa CEE	95	102	97	98	118
The Americas	40	42	43	45	47
Western Europe	28	30	34	36	41
Total	163	174	174	179	206

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 2009 by Chief Executive Officer Paul Polman.

Unilever is a very culturally diverse business, with 20 different nationalities represented among our top-tier management.

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. In addition the Global Diversity Board has agreed a number of actions which must be implemented by all of our business units to promote and support increased diversity. Our business units are required to report progress against each of these actions on a quarterly basis using the Diversity Scorecard, which is reviewed by the Global Diversity Board.

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 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.

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.

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 in all material respects 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. For information on current outstanding legal proceedings and ongoing regulatory investigations please refer to 'Legal proceedings' within note 25 on page 122.

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

Market conditions for our business were particularly challenging in 2009 and we do not expect this to change significantly in 2010. Economic pressures are likely to weigh heavily on consumer spending. This is especially the case in some of our developed markets where we expect unemployment to remain relatively high and disposable incomes to be adversely impacted by the combination of higher taxes and rising interest rates as fiscal stimulus packages start to be unwound. Under these conditions consumer confidence is not expected to rise significantly in the year ahead and the search for value in the shopping basket will continue.

Against this background we expect continued deflationary pressure, exacerbated in the early part of the year by the continuing impact of lower commodity costs. However we anticipate commodity cost inflation to return around the middle of the year, albeit at more modest levels than in recent years, and that this will put limited upward pressure on prices in the second half of 2010.

The competitive environment for our business is likely to intensify further in 2010. Our key competitors, both global and local, will

be aiming to regain market share in many of our key markets and categories and will enhance their activity plans accordingly. We expect heightened levels of competitive challenge to our many leadership positions based on innovation and wide-ranging brand support. We are well prepared for such challenges.

Faced with these challenges we will continue to focus on our key strategic priorities for 2010 of driving volume growth whilst providing a steady improvement in operating margin before RDIs and strong cash flow. We believe that our outstanding and long-established presence in D&E markets is a key competitive strength that offers us opportunities for future growth. In these markets, per capita levels of consumption are much lower than in developed markets, and demographic trends suggest that over the next ten years many millions of consumers may be able to afford our products. At the same time we are determined to grow also in the developed world, which still represents around half of our business.

Principal risk factors

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.

Description of risk

Economic

- Decline in business during an economic downturn
- Avoiding customer and supplier default

Unilever's business is dependent on continuing consumer demand for our brands. Reduced consumer wealth driven by adverse economic conditions may result in our consumers becoming unwilling or unable to purchase our products, which could adversely affect our cash flow, turnover, profits and profit margins. For example, in 2008 the economic downturn adversely impacted our business by reducing the demand for some of our products. In addition we have a large number of global brands, some of which have a significant carrying value as intangible assets: adverse economic conditions may reduce the value of those brands which could require us to impair their balance sheet value.

During economic downturns access to credit could be constrained: this happened in 2008 and 2009. This could impact the viability of our suppliers and customers and could temporarily inhibit the flow of day-to-day cash transactions with suppliers and customers via the banks.

Adverse economic conditions may affect one or more countries within a region, or may extend globally. The impact on our overall portfolio will depend on the severity of the economic slowdown, the mix of countries affected and any government response to reduce the impact such as fiscal stimulus, changes to taxation and measures to minimise unemployment.

What we are doing to manage the risk

The breadth of Unilever's portfolio and our geographic reach help to mitigate local economic risks. We carefully monitor economic indicators and regularly model the impact of different economic scenarios. We monitor consumer behaviour through regular market research and adopt a flexible business model which allows us to adapt our portfolio and respond quickly to develop new offerings that suit consumers' and customers' changing needs during economic downturns. We regularly update our forecast of business results and cash flows and, where necessary, rebalance investment priorities. We undertake impairment testing reviews in accordance with the relevant accounting standards.

We regularly monitor and review the health of our customers and suppliers and implement credit limits and supply substitution arrangements. These reviews are undertaken more frequently during economic downturns.

Description of risk

Markets

- Managing the business across globally competitive markets
- Volatility of emerging markets
- Building strategic alliances and partnerships

Unilever operates globally in competitive markets where the activities of other multinational companies, local and regional companies and customers which have a significant private label business may adversely affect our market shares, cash flow, turnover, profits and/or profit margins.

49% of Unilever's turnover in 2009 came from D&E markets including Brazil, India, Indonesia, Turkey, South Africa, China, Mexico and Russia. These markets are typically more volatile than developed markets, so we are continually exposed to changing economic, political and social developments outside our control, any of which could adversely affect our business. Failure to understand and respond effectively to local market developments could put at risk our cash flow, turnover, profit and/or profit margins.

Brand

- Design, development and roll-out of consumer/customer relevant products and services

Unilever's vision is to help people feel good, look good and get more out of life with brands and services that are good for them and good for others. This is achieved by designing and delivering superior branded products/services at relevant price points to consumers across the globe. Failure to provide sufficient funding to develop new products, lack of technical capability in the R&D function, lack of prioritisation of projects and/or failure by operating management to successfully and quickly roll out the products may adversely impact our cash flow, turnover, profit and/or profit margins and may impact our reputation.

Customer

- Building long-term, mutually beneficial relationships with customers
- Customer consolidation and growth of discount sector

Maintaining successful relationships with our customers is key to ensuring our brands are successfully presented to our consumers and are available for purchase at all times. Any breakdown in the relationships with customers could reduce the availability to our consumers of existing products and new product launches and therefore impact our cashflow, turnover, profits and/or profit margins.

The retail industry continues to consolidate in many of our markets. Further consolidation and the continuing growth of discounters could increase the competitive retail environment by increasing customers' purchasing power, increasing the demand for competitive promotions and price discounts, increase cross-border sourcing to take advantage of pricing arbitrage and thus adversely impact our cash flow, turnover, profits and/or profit margins. Increased competition between retailers could place pressure on retailer margins and increase the counterparty risk to Unilever.

What we are doing to manage the risk

Our strategy focuses on investing in markets and segments which we identify as attractive, i.e. where we have or can build competitive advantage and where we can consistently grow sales and margins. Many years of exposure to D&E markets has given us the ability to be able to operate and develop our business successfully during periods of economic, political or social change.

We seek in-fill acquisitions to support our category and geographic ambitions and, through Unilever Corporate Ventures, invest in potential future businesses, new technologies and different business models.

We identify strategic partnerships with specialists that enable us to leverage external expertise to more efficiently and cost-effectively develop and manage our business.

We have processes to monitor external market trends and collate consumer, customer and shopper insight in order to develop long-term category and brand strategies. Our established innovation management process uses comprehensive marketing tools and techniques to convert category strategies into a series of projects, building on internally developed know-how and expertise. It further identifies, prioritises and allocates resources and develops relevant brand communications. We have well-established procedures to plan and execute roll-out of products to our customers.

We build and maintain trading relationships across a broad spectrum of channels ranging from centrally managed, multinational customers, to 'discount' chains and to the 'traditional' trade via distributors in many developing countries. We develop joint business plans with all our key customers, including detailed investment plans and customer service objectives, and regularly monitor progress.

Outlook and risks (continued)**Description of risk****Financial/Treasury**

- Funding the ongoing operation of the business
- Counterparty default in a financial institution
- Managing currency and interest rate differences and movements
- Efficiently meeting our pension fund and tax obligations

As a global organisation Unilever's asset values, earnings and cash flows are influenced by a wide variety of currencies, interest rates, tax jurisdictions and differing taxes. If we are unable to manage our exposures to any one, or a combination, of these factors, this could adversely impact our cash flow, profits and/or profit margins. A material and significant shortfall in net cash flow could undermine Unilever's 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. In times of financial market volatility, we are also potentially exposed to counterparty risks with banks.

We are exposed to market interest rate fluctuations on our floating rate debt. Increases in benchmark interest rates could increase the interest cost of our floating rate debt and increase the cost of future borrowings. Our inability to manage the interest cost effectively could have an adverse impact on our cash flow, profits and/or profit margins.

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 flow, turnover, profits and/or profit margins. Further, because Unilever consolidates its financial statements in euros it is subject to exchange risks associated with the translation of the underlying net assets of its foreign subsidiaries. We are also subject to the imposition of exchange controls by individual countries which could limit our ability to import materials paid by foreign currency or to remit dividends to the parent company.

Certain businesses have defined benefit pension plans, most now closed to new employees, which are exposed to movements in interest rates, fluctuating values of underlying investments and increased life expectancy. Changes in any or all of these inputs could potentially increase the cost to Unilever of funding the schemes and therefore have an adverse impact on profitability and cash flow.

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

What we are doing to manage the risk

A key target for the Group is to manage our financial affairs so as to maintain our A1/A+ credit rating, which gives us continued access to the global debt markets, even when the overall financial markets are under stress. We seek to manage our liquidity requirements by maintaining access to global debt markets through short-term and long-term debt programmes. In addition, we have committed credit facilities to underpin our commercial paper programme and for general corporate purposes. We regularly update our cashflow forecasts and assess the range of volatility due to pension asset values, interest rates and currencies. We concentrate cash in parent and finance companies to ensure maximum flexibility for meeting changing business needs. We finance our operating subsidiaries through a mixture of retained earnings, third-party borrowings and loans from parent and group companies. Group Treasury regularly monitors exposure to our third-party banks, tightening counterparty limits where appropriate. The Group actively manages its banking exposures on a daily basis.

In order to minimise interest costs and reduce volatility, our interest rate management policy aims to achieve an appropriate balance between fixed and floating rate interest exposures on forecast net debt levels for the next five years. 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 order to manage currency exposures we maintain a policy whereby operating companies manage trading and financial foreign exchange exposures within prescribed limits and by the use of forward foreign exchange contracts. Regional groups monitor compliance with this policy. Further, operating companies borrow in 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 we may decide to hedge such net investment through the use of foreign currency borrowing or forward exchange contracts.

Our pension investment policies require us to invest across a range of equities, bonds, property, hedge funds and cash such that the failure of any single investment will not have a material impact on the overall value of assets. The majority of assets, including those held in our 'pooled' investment vehicle, 'Univest', are managed by external fund managers and are regularly monitored by pension trustees and central pensions department.

On tax, we maintain high quality tax compliance procedures and documentation, execute prudent tax planning strategies and make proper provision for current and deferred taxation. Deferred tax assets are reviewed regularly for recoverability.

Description of risk

Consumer safety and environmental sustainability

- Maintaining high social and environmental standards
- Designing and producing products that are safe for consumers
- Building an environmentally sustainable business

Unilever has developed a strong corporate reputation over many years for its focus on social and environmental issues, including promoting sustainable development and utilisation of renewable resources. The Unilever brand logo, now displayed on all our products and advertising, increases our external exposure. Should we fail to meet high product safety, social, environmental and ethical standards across all our products and in all our operations and activities it could impact our reputation, leading to the rejection of products by consumers, damage to our brands including growth and profitability, and diversion of management time into rebuilding our reputation.

We aim to grow our business while reducing our environmental impact. The environmental measures that we regard as most significant are those relating to the amounts of CO₂ from energy that we use, the water we consume as part of our production processes and the amount of waste that we generate for disposal. Failure to design products with a lower environmental footprint could damage our reputation and hence long-term cash flow, turnover, profits and/or profit margins.

Operations

- Securing raw materials and key third-party services
- Maintaining safe, secure and operational production and distribution capability
- Maintaining a competitive cost structure
- Handling major incidents and crises

Our ability to make products is dependent on securing timely and cost-effective supplies of production materials, some of which are globally traded commodities. The price of commodities and other key materials, labour, warehousing and distribution fluctuates according to global economic conditions, which can have a significant impact on our product costs. For example, in 2008 we saw unprecedented increases in many of our commodity costs, including edible oils and crude oil. If we are unable to increase prices to compensate for higher input costs, this could reduce our cash flow, profits and/or profit margins. If we increase prices more than our competitors, this could undermine our competitiveness and hence market shares.

Further, two-thirds of the raw materials that we buy come from agriculture. Changing weather patterns, water scarcity and unsustainable farming practices threaten the long-term viability of agricultural production. A reduction in agricultural production may limit our ability to manufacture products in the long term.

We are dependent on regional and global supply chains for the supply of raw materials and services and for the manufacture, distribution and delivery of our products. We may be unable to respond to adverse events occurring in any part of this supply chain such as changes in local legal and regulatory schemes, labour shortages and disruptions, environmental and industrial accidents, bankruptcy of a key supplier or failure to deliver supplies on time and in full, which could impact our ability to deliver orders to our customers. Any of the foregoing could adversely impact our cash flow, turnover, profits and/or profit margins and harm our reputation and our brands.

What we are doing to manage the risk

Our Code of Business Principles and other operational and business policies are designed to ensure that we consistently maintain high social and environmental standards, and we have established processes to track performance in these areas. Our strategy benefits from the insights of the Unilever Sustainable Development Group, comprising five external specialists in corporate responsibility and sustainability, that guide and critique the development of our strategy.

Detailed operational policies and procedures ensure that quality and safety are built in to the design, manufacture and distribution of all of our products. Procedures are also in place to respond quickly to consumer safety and quality incidents including provision to initiate product recalls where necessary.

Our 'Brand Imprint' process ensures that the direct and indirect environmental impacts of our products and brands are assessed in a consistent way across the value chain. Specific targets have been set against our environmental impact ambitions, and progress is monitored and published in the annual Sustainable Development Report.

We have strategies and policies in place to monitor short- and long-term raw material demand forecasts. These are used to determine future production requirements and facilitate the forward-buying of traded commodities to reduce future volatility of commodity costs. We have contingency plans to enable us to secure alternative key material supplies at short notice, to transfer/share production between manufacturing sites and to use substitute materials in our product formulations and recipes.

We have programmes of regular preventative maintenance for key lines and production sites. We have in place mandatory occupational health and safety policies to ensure the well-being and safety of our employees, including procedures for regular self-certification.

We regularly undertake value improvement programmes to identify cost/value opportunities in direct and indirect costs. We benchmark internal product and service costs against external providers and we regularly model our production, distribution and warehousing capability to optimise capacity utilisation and cost.

We routinely assess potential threats to our operations that could, if they materialise, give rise to a major incident or crisis. We review the appropriateness of our incident response, business continuity and disaster recovery plans taking into account external developments.

Outlook and risks (continued)

Description of risk

People and talent

- Attracting, developing and retaining a skilled workforce to build and maintain a fit-for-purpose organisation

Attracting, developing and retaining talented employees is essential to the delivery of our strategy. If we fail to determine the appropriate mix of skills required to implement our strategy and subsequently fail to recruit or develop the right number of appropriately qualified people, or if there are high levels of staff turnover, this could adversely affect our ability to operate successfully, and hence grow our business and effectively compete in the marketplace.

Legal and regulatory

- Complying with and anticipating new legal and regulatory requirements

Unilever is subject to local, regional and global rules, laws and regulations, covering such diverse areas as product safety, product claims, trademarks, copyright, patents, employee health and safety, the environment, corporate governance, listing and disclosure, employment and taxes. Important regulatory bodies in respect of our business include the European Commission and the US Food and Drug Administration. Failure to comply with laws and regulations could leave Unilever open to civil and/or criminal legal challenge and, if upheld, fines or imprisonment imposed on us or our employees. Further, our reputation could be significantly damaged by adverse publicity relating to such a breach of laws or regulations and such damage could extend beyond a single geography.

Restructuring and change management

- Delivering major restructuring projects effectively

In recent years Unilever has launched global and regional restructuring programmes to help simplify our organisational structure, leverage common platforms, realise benefits from our regional and global scale and outsource business processes. Implementation of such programmes requires significant effort and attention from management and employees to complete to the agreed timescale and realise the anticipated benefits. In the event that we are unable to successfully implement these changes in a timely manner or at all, or effectively manage third-party relationships and/or outsourced processes, we may not be able to realise some or all of the anticipated expense reductions. In addition, because some of the restructuring changes involve important functions, any disruption could harm the operations of our business, our reputation and/or relationship with our employees.

Other risks

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 divestitures, terrorism and economic, political and social conditions in the environments where we operate and new or changed priorities of the Boards. All 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.

What we are doing to manage the risk

Resource Committees have been established and implemented throughout our business. These committees have responsibility for identifying future skills and capability needs, defining career paths and professional training programmes, benchmarking the elements of reward structures, both short- and long-term, and identifying the key talent and leaders of the future. Regular internal surveys are conducted to gauge employee views and obtain feedback.

We have an integrated management development process which includes regular performance review, underpinned by a common set of 'Standards of Leadership' behaviours, skills and competency profiling, mentoring, coaching and training.

Specialists or specialist teams at global, regional and local level are responsible for setting policies and ensuring that all employees are aware and comply with regulations and laws specific and relevant to their roles. Internal competition law compliance procedures and training are reinforced and enhanced on an ongoing basis. There is a Legal Policy which sets out the specific activities and processes for which employees must seek the agreement of internal legal counsel in advance of making a commitment.

All significant global and regional restructuring projects are approved by the Unilever Executive and sponsored by a Unilever Executive member. Regular updates are provided to the Unilever Executive.

Sound project disciplines are used in executing restructuring projects including: clearly articulated project objectives, scope and deliverables; an approved and properly authorised business case updated over time as necessary; detailed and up-to-date project planning; resourcing by appropriately qualified personnel; an effective communication and change management plan; and proper closure, where learnings are captured and disseminated.

Risk Management Approach

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 management of risk and for reviewing the effectiveness of the system of internal control and risk management approach.

We believe that good risk management is fundamental to good business management and that our success as an organisation depends on our ability to identify and then exploit the key risks and opportunities for the business. Successful businesses take/manage risks and opportunities in a considered, structured, controlled and effective way. Our risk management approach is embedded in the normal course of business and is summarised in the diagram below.

Our approach is 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.

Organisation

The Boards have established a clear organisational structure, including formally delegated authorities, that responds to the Principal Risk Factors that Unilever faces in the short, medium and longer term.

Foundation and Principles

Unilever's approach to doing business is framed by our Corporate Mission & Purpose. Our Code of Business Principles sets out the standards of behaviour that we expect all employees to adhere to. Day-to-day responsibility for ensuring these principles are applied throughout Unilever rests with senior management across regions, categories, functions and operating companies. A network of Code Officers and Committees support the responsible operational leaders with the activities necessary to communicate the Code, deliver training, maintain processes and procedures to report and respond to alleged breaches (including 'hotlines') and to capture and communicate learnings.

The implementation of and compliance with our Code and other critical areas of risk that Unilever faces, including legal and regulatory compliance, is facilitated through a business oriented policy network. Each policy defines mandatory standards that are applied consistently across the organisation. These policies are broad-ranging in their nature including such areas as employee health and safety, product safety and quality, the environment, ethical research, use of certain ingredients in our products, risk management, accounting and reporting, share dealing and corporate disclosure, pension fund management, treasury management, taxation and transfer pricing.

Processes

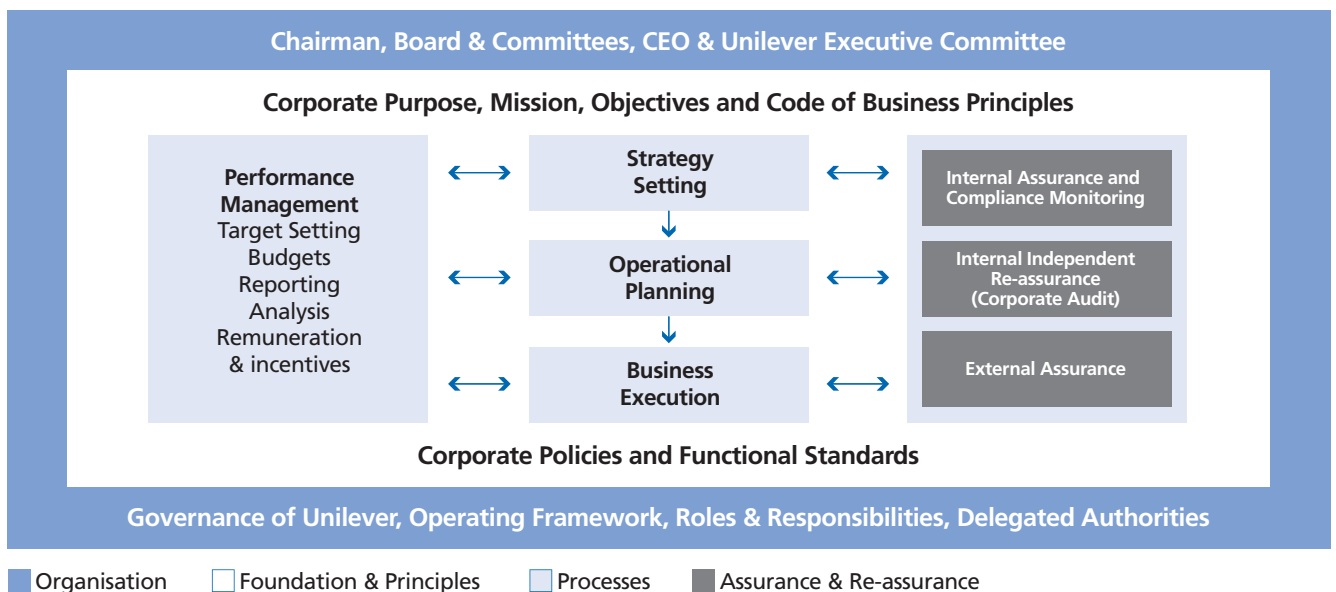
Unilever operates a wide range of processes and activities across all its operations covering strategy setting, planning, execution and performance management. These are formalised and documented as procedures at a global, regional or local level as appropriate. Increasingly, these procedures are being centralised globally and automated into transactional and other information technology systems.

Assurance and Re-Assurance

Senior management provides an annual Positive Assurance letter addressed to the Chief Executive Officer confirming compliance of their business unit with the Code of Business Principles and applicable policies. 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.

There are also specialist ongoing compliance programs that supplement the Positive Assurance exercise. Examples of these include Health, Safety & Environment, Product Safety and Quality, Information Technology, Finance and Pensions Management.

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 systems of internal control and risk management throughout Unilever.



Outlook and risks (continued)

Boards' assessment of compliance with the Risk Management frameworks

The Boards, through Committees where appropriate, regularly review significant risk areas and decisions that could have a material impact on Unilever. These reviews consider the risks that Unilever is prepared to accept or tolerate, and how to manage and control those risks.

The Boards, through 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 Boards of Directors. Details of the activities of the Audit Committee in relation to this can be found in the Report of the Audit Committee on page 63.

Further statements on compliance with the specific risk management and control requirements in the Dutch Corporate Governance Code, the UK Combined Code and the US Securities Exchange (1934) & Sarbanes-Oxley (2002) Acts can be found on pages 60, 61 and 62 respectively.

Financial Review 2009

Basis of reporting

The accounting policies that are most significant in connection with our financial reporting are set out on pages 42 and 43.

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 56).

Certain discussions within this Financial Review 2009 and in the Financial Review 2008 starting on page 47 include measures that are not defined by generally accepted accounting principles (GAAP) such as IFRS. These include underlying sales growth (USG), underlying volume growth (UVG), operating margin before RDIs, ungeared free cash flow (UFCF), return on invested capital (ROIC), and net debt. Further information about these measures is given below or on pages 44 to 46.

Underlying sales growth 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 that this 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 turnover for each of our reporting regions is given on pages 38 to 39, and for the Group in total on page 46.

Operating margin before RDIs is a measure that allows us to comment on trends in operating profit after excluding the impact of restructuring costs, profits and losses on business disposals, impairments and certain other one-off items (which we collectively term RDIs). We give further information about these on the face of our income statement and in note 3 on page 89.

The reconciliation of operating margin before RDIs to reported operating margin for each of our reporting regions is given on pages 38 to 39, and for the Group in total on page 46.

USG, UVG and operating margin before RDIs are not measures which are defined under IFRS. They should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. These measures as reported by us may not be comparable with similarly titled measures reported by other companies.

Group results and earnings per share

The following discussion summarises the results of the Group during the years 2009 and 2008. The figures quoted are in euros, at current rates of exchange, being the average rates applying in each period as applicable, unless otherwise stated. Information about exchange rates between the euro, pound sterling and US dollar is given on page 130.

In 2009 and 2008, no disposals qualified to be disclosed as discontinued operations for purposes of reporting.

	€ million 2009	€ million 2008
Continuing operations:		
Turnover	39,823	40,523
Operating profit	5,020	7,167
Operating profit before RDIs	5,888	5,898
Net profit	3,659	5,285
	€ 2009	€ 2008
EPS – continuing operations	1.21	1.79
EPS – continuing operations before RDIs	1.33	1.43

Turnover in 2009 at €39,823 million was 1.7% lower than in 2008. Underlying sales growth, excluding the impact of acquisitions, disposals and currency impacts, was 3.5%, including underlying volume growth of 2.3%.

Reported operating profit was €5,020 million, compared with €7,167 million in 2008, which benefited significantly from one-off profits arising on the disposal of group companies. Underlying operating margin before the net impact of these and other RDI items was 14.8% compared with 14.6% in 2008. Reported operating margin for the year was 12.6% (2008: 17.7%).

The cost of financing net borrowings was €429 million, €29 million higher than last year. The interest rate on net borrowings was 4.9%, compared with 4.5% last year.

There was a net charge of €164 million for pensions financing compared with a credit of €143 million in the previous year. Expected returns on assets were much reduced in 2009 due to the fall in asset values caused by the credit crunch.

The tax rate before RDIs was 26.6%, in line with last year. The reported tax rate for the year was 26.2% compared with 26.4% for 2008.

Net profit from joint ventures and associates, together with other income from non-current investments, contributed €489 million, which included a gain of €327 million from the disposal of the majority of our equity interest in JohnsonDiversey. This compares with €219 million last year, which included a gain of €61 million on the disposal of our interests in plantations in Côte D'Ivoire.

Reported earnings per share of €1.21 were 33% lower than last year which was boosted by one-off profits on disposals of businesses. Earnings per share before RDIs at €1.33 for the year were 7% lower, principally due to the net charge for pensions financing, compared with a credit last year.

Financial Review 2009 (continued)**Asia, Africa and Central & Eastern Europe (AAC)**

	€ million 2009	€ million 2008
Turnover	14,897	14,471
Operating profit	1,927	1,701
Operating margin	12.9 %	11.8 %
Restructuring, business disposals and impairment charges included in operating margin	(1.0)%	0.1 %
Operating margin before RDIs	13.9 %	11.7 %
Underlying sales growth at constant rates	7.7 %	
Effect of acquisitions	0.5 %	
Effect of disposals	(0.9)%	
Effect of exchange rates	(4.0)%	
Turnover growth at current rates	2.9 %	
Operating profit 2009 vs 2008		
Change at current rates	13.3 %	
Change at constant rates	16.1 %	

Turnover at current rates of exchange grew by 2.9%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange grew by 13.3%, after including an adverse currency movement of 2.8%. The comments that follow reflect the underlying performance of the business, removing the impact of currency translation and all costs related to acquisitions and disposals, restructuring and impairment.

Despite market conditions being both challenging and volatile in most parts of the region, 2009 was a year of strong volume-led growth and significant improvement in operating margin. Underlying sales growth for the year was 7.7%, with a strong volume component of 4.1%. Volume growth accelerated through the year, reaching 9.4% in the fourth quarter. It was also broad-based with strong performances in particular from Indonesia, China, Turkey, Vietnam, Arabia and Australia.

Market shares also progressed positively through the year in most parts of the region, with the exception of India where competition intensified significantly, especially from lower-cost local players. Here, robust actions have been taken across the portfolio to strengthen market positions. We have continued to invest aggressively behind key fast-growing emerging markets including China and Russia. Business performance in China has been strong, and in Russia, despite a particularly difficult economic background encouraging progress was made over the year.

Underlying price growth was positive for the year as a whole but turned negative towards the end of the year in most markets. This downward trend reflects the passing back to consumers of the benefits from commodity cost reductions and selective price adjustments. Operating margin before RDIs grew by 2.2 percentage points reflecting the positive impact of operational leverage and the combined impact of higher prices and lower commodity costs.

Other key developments in the year included a significant and broad-based improvement in customer service, the acquisition of the Baltimor sauce business in Russia and the establishment of the regional supply chain centre in Singapore. With this in place and related IT systems development progressing well the region is increasingly well-placed to exploit benefits of speed, scale and simplification in many aspects of its operations.

The Americas

	€ million 2009	€ million 2008
Turnover	12,850	13,199
Operating profit	1,843	2,945
Operating margin	14.3 %	22.3 %
Restructuring, business disposals, and impairment charges included in operating margin	(1.8)%	6.9 %
Operating margin before RDIs	16.1 %	15.4 %
Underlying sales growth at constant rates	4.2 %	
Effect of acquisitions	0.7 %	
Effect of disposals	(6.0)%	
Effect of exchange rates	(1.2)%	
Turnover growth at current rates	(2.6)%	
Operating profit 2009 vs 2008		
Change at current rates	(37.4)%	
Change at constant rates	(36.6)%	

Turnover at current rates of exchange fell by 2.6%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 37.4%, after including a small adverse currency movement of 0.8%. This fall reflects the significant income received from business disposals in 2008. The comments below reflect the underlying performance of the business, removing the impact of currency translation and all costs related to acquisitions and disposals, restructuring and impairment.

Consumer confidence in the region was fragile throughout 2009, particularly in the USA. Against this backdrop, underlying sales growth for the year of 4.2% and volume growth of 2.5% represent a highly competitive performance. The volume trend showed improved momentum through the year with growth reaching 5.5% in the fourth quarter.

All major units in the region contributed positive volume growth, with strong performances in particular from Brazil, Chile and the USA. Pricing was positive for the year as a whole, but turned negative in the fourth quarter, particularly in the US and Brazilian markets. Partly this reflected the lapping of increases taken late in 2008, but it was also driven by a more intensive competitive pricing environment, especially in key home and personal care categories.

Operating margin before RDIs grew by 0.7 percentage points despite the impact of overhead dilution from the major business disposals completed in 2008. This was driven by improvements in gross margin from mix, lower commodity costs and pricing, allowing an increase in advertising and promotional investment in addition to the improvement in underlying margin.

Other key developments in the year included the leveraging of the 'Customer Insight and Innovation Centre' in New Jersey, enabling us to provide a range of solutions to help our customers grow faster, and the acquisition of TIGI hair care business. There were also significant improvements in customer services and in-store presence throughout the region.

Western Europe

	€ million 2009	€ million 2008
Turnover	12,076	12,853
Operating profit	1,250	2,521
Operating margin	10.4 %	19.6 %
Restructuring, business disposals and impairment charges included in operating margin	(4.0)%	2.8 %
Operating margin before RDIs	14.4 %	16.8 %
Underlying sales growth at constant rates	(1.9)%	
Effect of acquisitions	0.5 %	
Effect of disposals	(2.2)%	
Effect of exchange rates	(2.5)%	
Turnover growth at current rates	(6.0)%	
Operating profit 2009 vs 2008		
Change at current rates	(50.4)%	
Change at constant rates	(49.9)%	

Turnover at current rates of exchange fell by 6.0%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 50.4%, after including a small adverse currency movement of 0.5%. This fall reflects in part the significant income received from business disposals in 2008. The comments below reflect the underlying performance of the business, removing the impact of currency translation and all costs related to acquisitions and disposals, restructuring and impairment.

Consumer confidence in Western Europe remained low throughout 2009 with unemployment rising and varying degrees of economic difficulty in many countries. Against this background an underlying volume decline of 0.1% was encouraging, and performance showed steadily improving momentum through the year. Volume growth in the UK was particularly strong, and France and Belgium also achieved positive volume growth for the year overall. Conditions were most challenging in Southern Europe, with Spain and Greece in particular experiencing difficult years.

Underlying sales growth was negative 1.9%, reflecting a price decline of 1.8%. This downward trend was experienced in nearly all major countries. This again reflected falling commodity costs. We also corrected prices in categories or markets where consumer value propositions were out of line.

Market share performance was however encouraging, with differing performances by category but a slight increase overall in volume share for the year as a whole and more significant gains in the last quarter. Operating margin before RDIs for the year was down by 2.4 percentage points. Significant drivers of this were a substantial increase in marketing investment and the negative impact of sterling weakness on the UK business.

Other key developments in 2009 included the region beginning to fully leverage the power of a single IT system to improve operational execution and drive efficiencies. We also announced the acquisition of the personal care business of Sara Lee.

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 46. The Group's financial strategy supports this objective and provides the financial flexibility to meet 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 the 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 active financial management, Unilever's financing position has not been materially affected by the recent unprecedented economic turmoil. We have tightened our counterparty limits and monitored closely all our exposures. During 2009 we did not suffer any material counterparty exposure loss. We have been proactive in managing our liquidity in a manner appropriate to the recent environment and 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 2009 were US \$6,050 million, out of which bilateral committed credit facilities totalled US \$5,285 million and bilateral money market commitments totalled US \$765 million. Further details regarding these facilities are given in note 15 on page 105.

On 12 February 2009 we issued a bond comprising two senior notes: (a) US \$750 million at 3.65% maturing in 5 years and (b) US \$750 million at 4.80% maturing in 10 years. On 19 March 2009 we issued senior notes of £350 million at 4.0% maturing in December 2014. On 29 May 2009 we redeemed floating rate notes of €750 million. On 11 June 2009 we issued fixed rate notes on the Eurodollar market for US \$450 million at 3.125%, maturing in 2013. On 17 June 2009 we issued senior fixed rate notes for £400 million at 4.75%, maturing in 2017.

Financial Review 2009 (continued)

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 (excluding the currency leg of currency derivatives relating to intra-group loans) at the end of 2009 was as follows: 36% in US dollars (2008: 46%), and 28% in euros (2008: 27%), with the remainder spread across a number of countries.

Unilever manages interest rate and currency exposures of its net debt position. Taking into account the various cross-currency swaps and other derivatives, 89% of Unilever's net debt was in US dollars (2008: 91%) and 44% in sterling (2008: 18%), partly offset by financial asset balances in euros amounting to 59% of net debt (2008: 33%), and 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 periodically 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 15 on page 106. The use of leveraged instruments is not permitted.

Other relevant disclosures are given in notes 14 and 15 on pages 99 to 110, which are incorporated and repeated here by reference.

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 15 on page 104 to 106, which are incorporated and repeated here by reference.

Balance sheet

	€ million 2009	€ million 2008
Goodwill and intangible assets	17,047	16,091
Other non-current assets	9,158	8,876
Current assets	10,811	11,175
Current liabilities	(11,599)	(13,800)
Total assets less current liabilities	25,417	22,342
Non-current liabilities	12,881	11,970
Shareholders' equity	12,065	9,948
Minority interest	471	424
Total capital employed	25,417	22,342

Goodwill and intangibles at 31 December 2009 were €1.0 billion higher than in 2008, as a result of currency movements and acquisition activity. The increase in other non-current assets is mainly due to an increase in property, plant and equipment to €6.6 billion compared with €6.0 billion in 2008.

Inventories were lower by €0.3 billion and trade receivables were lower by around €0.4 billion. Cash and cash equivalents were slightly higher at €2.6 billion.

Current liabilities were €2.2 billion lower at €11.6 billion following short-term borrowing repayments during the year. There was a significant reduction of €2.6 billion in financial liabilities due within one year, and an increase of €0.6 billion in trade payables and other current liabilities. Provisions were €0.3 billion lower at €0.4 billion.

Non-current liabilities rose by €0.9 billion compared with 2008. Financial liabilities due after one year were €1.3 billion higher at €7.7 billion due to bonds issued during 2009. Pension liabilities were €0.5 billion lower than in 2008.

The overall net liability for all pension arrangements was €2.6 billion at the end of 2009, down from €3.4 billion at the end of 2008. Funded schemes showed an aggregate deficit of €0.8 billion and unfunded arrangements a liability of €1.8 billion. The reduction in the overall balance sheet liability was largely due to increased asset values, partly offset by lower discount rates for liabilities as well as one-off contributions.

Total shareholders' equity rose by €2.1 billion in the year. Net profit added €3.4 billion, with currency, fair value and actuarial gains and other movements adding a further €0.8 billion. Dividends paid in the year totalled €2.1 billion.

Unilever's contractual obligations at the end of 2009 included capital expenditure commitments, borrowings, lease commitments and other commitments. A summary of certain contractual obligations at 31 December 2009 is provided in the table below. Further details are set out in the following notes to the accounts: note 10 on page 95, note 14 on page 100 to and note 25 on page 121.

Contractual obligations at 31 December 2009

	€ 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	8,823	1,334	2,129	2,066	3,294
Interest on financial liabilities	3,143	411	614	449	1,669
Operating lease obligations	1,488	301	462	320	405
Purchase obligations ^(a)	403	270	89	21	23
Finance leases	369	34	50	41	244
Other long-term commitments	1,973	614	826	392	141

(a) For 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 15 on page 105.

Cash flow

	€ million 2009	€ million 2008	€ million 2007
Net cash flow from operating activities	5,774	3,871	3,876
Net cash flow from/(used in) investing activities	(1,263)	1,415	(623)
Net cash flow from/(used in) financing activities	(4,301)	(3,130)	(3,009)
Net increase/(decrease) in cash and cash equivalents	210	2,156	244

Cash and cash equivalents increased by €0.2 billion when translated at average 2009 exchange rates. After recognising the changes in exchange rates, amounts in the balance sheet at 31 December 2009 were slightly higher at €2.6 billion.

Net cash flow from operating activities of €5.8 billion was €1.9 billion higher than in 2008, benefiting from active management of working capital, net of one-off contributions to several pension funds. Tax paid was €0.5 billion lower, mainly resulting from tax on disposals in 2008. Under investing activities, net capital expenditure was €0.2 billion higher than in 2008. Several group companies were sold in 2008, generating significant cash inflows. Acquisitions included Inmarko in 2008 and TIGI and Baltmor in 2009. Unilever bought back shares during 2008 for €1.5 billion, which largely accounts for the movement in financing activities.

At 31 December 2009, the net debt position was €6.4 billion, a decrease of €1.6 billion compared with 2008.

Dividends and market capitalisation

Dividends per share

Interim dividends in respect of 2008 of €0.2600 per NV ordinary share and £0.2055 per PLC ordinary share were declared and paid in 2008. Final dividends in respect of 2008 of €0.5100 per NV ordinary share and £0.4019 per PLC ordinary share and interim dividends in respect of 2009 of €0.2700 per NV ordinary share and £0.2422 per PLC ordinary share were declared and paid in 2009.

As agreed at the AGMs and at meetings of ordinary shareholders in May 2009 Unilever has with effect from 1 January 2010 moved to an arrangement of paying quarterly dividends. The first quarterly interim dividends of €0.1950 per NV ordinary share and £0.1704 per PLC ordinary share were declared on 4 February 2010, to be payable in March 2010.

Unilever's combined market capitalisation rose from €46.9 billion at the end of 2008 to €63.4 billion at 31 December 2009.

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.

Financial Review 2009 (continued)**Acquisitions and disposals****2009**

On 2 April 2009 we announced the completion of our purchase of the global TIGI professional hair product business and its supporting advanced education academies. TIGI's major brands include Bed Head, Catwalk and S-Factor. Turnover of the business worldwide in 2008 was around US \$250 million. The cash consideration of US \$411.5 million was made on a cash and debt-free basis. In addition, further limited payments related to future growth may be made contingent upon meeting certain thresholds.

On 23 June 2009 we announced that we had increased our holding in our business in Vietnam to 100%, following an agreement with Vinachem who previously owned 33.3% of the business.

On 3 July 2009 we completed the acquisition of Baltimor Holding ZAO's sauces business in Russia. The acquisition includes ketchup, mayonnaise and tomato paste business under the Baltimor, Pomo d'Oro and Vostochniy Gourmand brands – accounting for turnover of around €70 million in 2008 – and a production facility at Kolpino, near St Petersburg.

On 3 September 2009 we announced the sale of our oil palm plantation business in the Democratic Republic of Congo to Feronia Inc, for an undisclosed sum.

On 25 September 2009 we announced a binding offer to acquire the personal care business of the Sara Lee Corporation for €1.275 billion in cash. The Sara Lee brands involved, including Sanex, Radox and Duschdas, generated annual sales in excess of €750 million in the year ending June 2009. The transaction is subject to regulatory approval and consultation with European Works Councils, and is expected to be completed by the third quarter of 2010.

On 24 November 2009 we completed the sale of our interest in JohnsonDiversey. The cash consideration received was US \$390 million, which included both the originally announced cash consideration of US \$158 million plus the proceeds of the sale of the 10.5% senior notes in JohnsonDiversey Holdings, Inc. We retain a 4% interest in JohnsonDiversey in the form of warrants. See also note 11 on page 97.

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 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.

Significant events after the balance sheet date

As agreed at the AGMs and at meetings of ordinary shareholders in May 2009 Unilever has with effect from 1 January 2010 moved to an arrangement of paying quarterly dividends. The first quarterly interim dividends of €0.1950 per NV ordinary share and £0.1704 per PLC ordinary share were declared on 4 February 2010.

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 are set out below.

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 regional savoury and dressings sub-product groups. We have reviewed the carrying value of these cash generating units by considering expected future cash flows based on historical experience and planned growth rates and margins for the product groups.

Please refer also to note 9 on page 93.

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, financial assets at fair value through profit or loss, and available-for-sale financial assets. Please refer to note 1 on page 84 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.

Pensions and similar obligations

The defined benefit plan surplus or deficit in the balance sheet comprises the total for each plan of the fair value of plan assets less the present value of the defined benefit obligation (using a discount rate based on high-quality corporate bonds).

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 19 on page 113 and 114.

The following table sets out these assumptions (except for mortality rates), as at 31 December 2009, in respect of the four largest Unilever pension plans. Further details of assumptions (including mortality rates) made are given in note 19 on pages 114 and 115.

	% UK	% Nether- lands	% United States	% Germany
Discount rate	5.7	5.1	5.6	5.1
Inflation	3.1	1.9	2.4	1.9
Expected long-term rate of return:				
Equities	8.0	7.7	7.8	7.7
Bonds	4.9	4.6	5.0	4.6
Property	6.5	6.2	6.3	6.2
Others	6.7	5.3	2.0	5.5

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 comprehensive income.

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 19 on page 115.

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. See also note 18 on page 112.

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 17 on page 111. 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 2009 (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:

- Ungearing free cash flow;
- Return on invested capital;
- Underlying sales growth;
- Underlying volume growth;
- Operating margin before RDIs; and
- Net debt.

At the end of this section we summarise the impact on Total Shareholder Return (TSR) which is a further 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.

We communicate the contribution of the business to this objective through the following measures:

- The delivery, over time, of Ungearing 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.

We communicate 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 page 45 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.

Ung geared 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 2009, UFCF was €4.9 billion (2008: €3.2 billion; 2007: €3.8 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. UFCF for 2009 based on actual cash tax paid would have been €5.2 billion (2008: €3.6 billion; 2007: €3.6 billion).

	€ million 2009	€ million 2008	€ million 2007
Ung geared free cash flow			
Net profit	3,659	5,285	4,136
Taxation	1,257	1,844	1,137
Share of net profit of joint ventures/ associates and other income from non-current investments	(489)	(219)	(191)
Net finance costs	593	257	252
Depreciation, amortisation and impairment	1,032	1,003	943
Changes in working capital	1,701	(161)	27
Pensions charges in operating profit less payments	(1,028)	(502)	(910)
Movements in provisions less payments	(258)	(62)	145
Elimination of (profits)/losses on disposals	13	(2,259)	(459)
Non-cash charge for share-based compensation	195	125	118
Other adjustments	58	15	(10)
Cash flow from operating activities	6,733	5,326	5,188
Less charge for share-based compensation	(195)	(125)	(118)
Add back pension charges less payments in operating profit	1,028	502	910
Less net capital expenditure	(1,258)	(1,099)	(983)
Less tax charge adjusted to reflect an ungeared position	(1,367)	(1,368)	(1,228)
Taxation on profit	(1,257)	(1,844)	(1,137)
Taxation on profit on material business disposals	-	581	-
Tax relief on net finance costs	(110)	(105)	(91)
Ung geared free cash flow	4,941	3,236	3,769

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 2009, ROIC was 11.2% (2008: 15.7%; 2007: 12.7%). 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 and 2007 was €1.6 billion and €0.3 billion respectively. ROIC excluding this impact was 11.2% in 2008 and 11.3% in 2007. The above includes gains and losses on the sale of non-current assets. In 2008 it included €61 million on the sale of our interest in Palmci and in 2009 €327 million from the sale of our interest in JohnsonDiversey, with a net impact on the ROIC of 0.75 percentage points. The change in the pension finance charge of €307 million accounted for a reduction of 0.85 percentage points in ROIC.

	€ million 2009	€ million 2008	€ million 2007
Return on invested capital			
Net profit	3,659	5,285	4,136
Add back net interest expense net of tax	317	294	314
Add back impairment charges net of tax ^(a)	(3)	38	1
Profit after tax, before interest and impairment of goodwill and indefinite-lived intangible assets	3,973	5,617	4,451
Year-end positions for invested capital:			
Property, plant and equipment and other non-current investments	7,263	7,024	7,276
Software and finite-lived intangible assets	533	540	590
Inventories	3,578	3,889	3,894
Trade and other receivables	4,001	5,002	4,965
Trade payables and other creditors due within one year	(8,900)	(8,449)	(8,545)
Elements of invested capital included in assets and liabilities held for sale	17	45	150
Goodwill and indefinite-lived intangible assets at gross book value	21,814	20,892	20,029
Total	28,306	28,943	28,359
Add back cumulative goodwill written off directly to reserves	6,343	6,343	6,427
Year-end invested capital	34,649	35,286	34,786
Average invested capital for the year	35,587	35,832	35,122
Return on average invested capital	11.2%	15.7%	12.7%

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

Financial Review 2009 (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:

	2009 vs 2008	2008 vs 2007
Underlying sales growth (%)	3.5	7.4
Effect of acquisitions (%)	0.6	0.4
Effect of disposals (%)	(3.0)	(1.8)
Effect of exchange rates (%)	(2.7)	(4.8)
Turnover growth (%)	(1.7)	0.8

Underlying volume growth (UVG)

Underlying volume growth is underlying sales growth after eliminating the impact of price changes. The relationship between the two measures is set out below:

	2009 vs 2008	2008 vs 2007
Underlying volume growth (%)	2.3	0.1
Effect of price changes (%)	1.2	7.2
Underlying sales growth (%)	3.5	7.4

Operating margin before RDIs

In our commentary on results of operations in each of our regions and at group level, we discuss trends in underlying operating margins, by which we mean operating margin before the impact of restructuring costs, business disposals and other one-off items, which we refer to collectively as RDIs. 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 this measure.

The reconciliation of underlying operating profit and underlying operating margin to the reported measures is as follows:

	€ million 2009	€ million 2008
Operating profit	5,020	7,167
Restructuring costs	897	868
Business disposals	(4)	(2,190)
Other one-off items	(25)	53
Operating profit before RDIs	5,888	5,898
Turnover	39,823	40,523
Operating margin	12.6%	17.7%
Operating margin before RDIs	14.8%	14.6%

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:

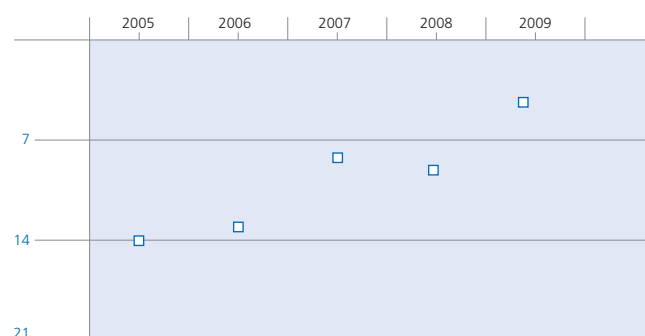
	€ million 2009	€ million 2008
Total financial liabilities	(9,971)	(11,205)
Financial liabilities due within one year	(2,279)	(4,842)
Financial liabilities due after one year	(7,692)	(6,363)
Cash and cash equivalents as per balance sheet	2,642	2,561
Cash and cash equivalents as per cash flow statement	2,397	2,360
Add bank overdrafts deducted therein	245	201
Financial assets	972	632
Net debt	(6,357)	(8,012)

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 2008 we were positioned 9th, and at the end of 2009 the ranking was 5th. In 2009, the following companies formed the peer group of comparator companies:

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

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.

Financial Review 2008

Group results and earnings per share

The following discussion summarises the results of the Group during the years 2008 and 2007. 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 130.

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

	€ million 2008	€ million 2007
Continuing operations:		
Turnover	40,523	40,187
Operating profit	7,167	5,245
Operating profit before RDIs	5,898	5,814
Net profit	5,285	4,056
Net profit from discontinued operations	–	80
Net profit – total	5,285	4,136
	€ 2008	€ 2007
EPS – continuing operations	1.79	1.32
EPS – total operations	1.79	1.35
EPS – total operations before RDIs	1.43	1.42

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 in the previous 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 in the prior 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.

Asia, Africa and Central & Eastern Europe (AAC)

	€ 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 %
Operating margin before RDIs	11.7 %	11.9 %
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.

Financial Review 2008 (continued)

Throughout the year we saw continued strong growth in India and Indonesia, both countries where we have tremendous scale. In these countries we benefited 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.

In April we acquired Inmarko, the leading ice cream company in Russia, and it 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 the prior 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.

The Americas

	€ 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)%
Operating margin before RDIs	15.4 %	15.4 %
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.

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. 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 the prior year as overheads savings fully offset a lower gross margin from the sharp input cost increases.

Western Europe

	€ 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)%
Operating margin before RDIs	16.8 %	16.1 %
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 was lower.

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', enabling faster decision making and more efficient operations. The European supply chain transformation included the announcement of restructuring plans at twenty factories together with additional capital investments to increase efficiency. The implementation of a harmonised IT system across the region was completed. The portfolio was further focused with the sale of the Boursin cheese and Bertolli olive oil businesses.

The UK and the Netherlands 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.

Acquisitions and disposals

Details of acquisitions and disposals during 2008 are given on page 42.

During 2007 we reached agreement with our partners in South Africa and Israel to exchange respective shareholdings with the result 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.

Also in the year we purchased minority interests in several countries, including Greece and India.