your fund
your future

www.myupfpension.co.uk

summer 2002

Unilever

Contents of Your Fund

This edition of 'Your Fund' has been printed on environmentally friendly paper.

we're here to explain **what's going on with your pension**

Pensions are not all in extreme peril as the newspapers would have you believe.

They are simply shaping up for the future in response to mounting outside pressures including new legislation, demographic trends and changes in the political and global climate.

The Pension Fund Trustees are working hard to make sure that the very best decisions are made for the long term benefit of the fund's members. It may be that important decisions lie ahead but at the moment things remain unchanged at Unilever and it is hoped that this situation will remain as it stands for the foreseeable future.

In this issue, we aim to demystify the ongoing debates about final salary pensions versus money purchase schemes. Unilever is still operating a final salary pension but we look at why other top named companies have changed their pensions over to a new system.

We also tell you what the 2002 valuation means and what outcomes could result from it.

All this plus news about the Strategic Investment Review and an update on our website.

As always, our aim is to keep you informed of the very latest developments.

Unilever pensions

Your Fund - direct to You!

If you have any questions or views relating to this issue of Your Fund please contact Hannah Clarke on her email:
Hannah.Clarke@Unilever.com

You may have noticed that **Your Fund** is now delivered direct to your doorstep. This is in response to comments given in the customer survey that we carried out last year, where the majority of respondents expressed the wish for **Your Fund** and other communications from the UK Pensions Department (UKPD) to be sent to home addresses. We are glad to oblige!

what the papers say... and what it **really means**

A number of major employers in the UK have closed their final salary pension schemes as a direct result of some key issues now affecting the pensions industry. Several factors are making a difference and they include changes in the taxation of share dividends, changes in people's life expectancy and a new accountancy standard called FRS 17.

The national press has covered these stories extensively but it seems the more they report the more they actually confuse people.

Much has been made in the media about the impact of the new accountancy standard and its potential impact on pension schemes like ours. Indeed, at the end of March, an article appeared in a Sunday paper claiming that Unilever had a deficit in its pension scheme of £647 million.
We are pleased to advise you that the tone and content of this article was highly misleading and we thought it might be helpful to try to explain a little about FRS 17 and how its results have been misinterpreted. FRS 17 specifies an approach to measuring liabilities and costs for accounting purposes. It provides a snapshot on a particular day (the end of the company's accounting year) of the net liability of the company to its pension scheme on that day. This is after taking account of the market value of the scheme's investments at that given point in time.

The number quoted in relation to Unilever's accounts is the total for all Unilever's pension schemes around the world. Some of these schemes are, in line with common practice in those countries, unfunded. That is to say that there are no separately-held assets. Instead it is Unilever's practice to build up a provision in its accounts to cover the future benefits. The rest of the schemes are funded schemes, of which the Unilever Pension Fund (the UK scheme) is one, and have assets held separately from the Company's accounts.

The £647m is the net total of all these assets and liabilities around the world, but it ignores the provisions that had already been established in the Unilever accounts. These net

final salary v money purchase? **we stick with final salary**

provisions were about £1.7 billion at the end of 2001. This means that Unilever had provided, through assets in external funds and provisions in its accounts, about £1 billion more than its liabilities, as measured under FRS17, at the end of 2001.

There was no question that the Unilever Pension Fund in the UK was in surplus at the last valuation in 1999; in other words its assets at that time exceeded its future liabilities. However, as you may know, (see page 4) the Fund is currently undergoing its routine three-yearly valuation and until the results of the valuation are revealed, we do not know whether the Fund is now in surplus or deficit.

The reality is that the long-term financial position of a pension scheme changes only gradually, and certainly does not move up and down in line with market values from one day to the next.

For purposes other than accounting, the methods which Unilever's actuaries use for assessing the funding strength of the Unilever schemes around the world are based on more stable long-term views of costs and projections.

In a previous issue of **Your Fund** (Summer 2001), we considered the increasing trend among many large companies to change their **final salary scheme** (or defined benefit scheme) to a **money purchase scheme**; and were able to assure you that at that time there were no plans for Unilever to follow this move.

Over the year, more companies have taken this route, most recently high street names like Dixons and British Airways. Unilever's position, however, remains unchanged. As stated clearly at the Delegates Conference (see page 7) Unilever has no plans to take this route and continues to stand behind the UPF. There are various reasons for this:

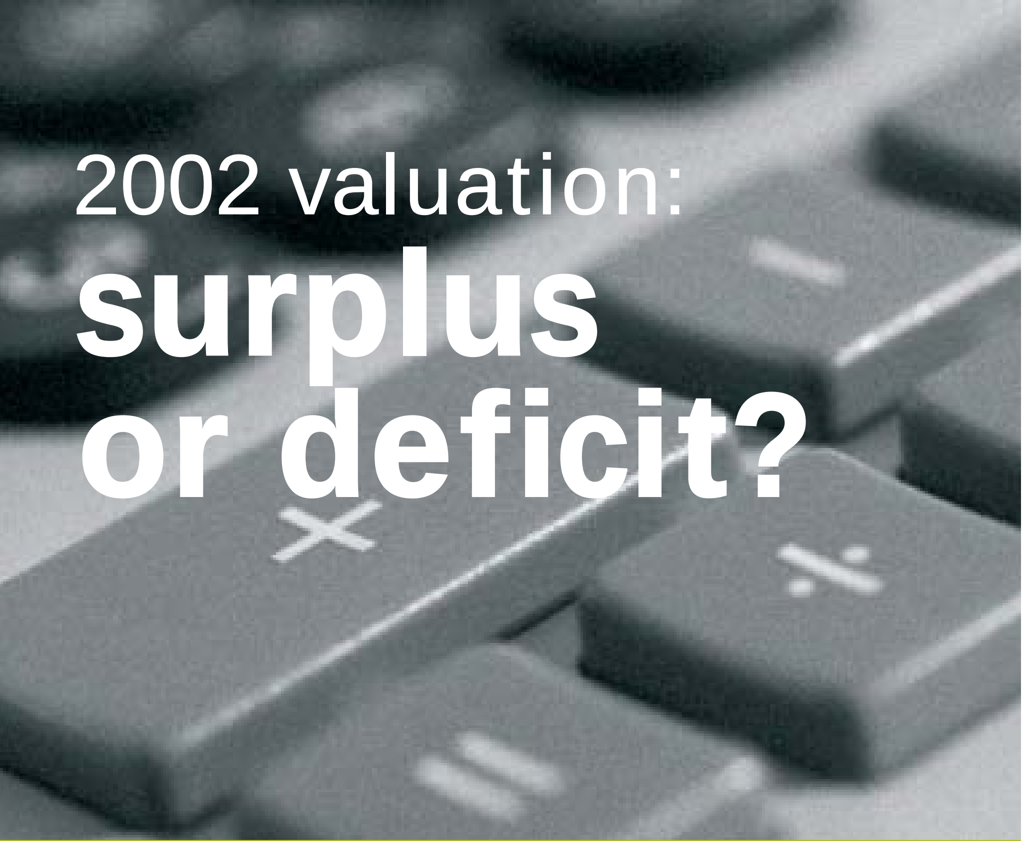
- **a final salary scheme best meets the needs of Unilever Employees in the UK, allowing them to concentrate on their work while knowing they have a guaranteed pension backed by the company**
- **as other "peer" companies give up their final salary scheme, our scheme helps to give Unilever a competitive edge in the recruitment market**
- **a final salary scheme, if investment returns are good, gives the company the flexibility to take a contribution holiday**

While it is undoubtedly true that a final salary scheme is currently best for Unilever and its employees for the above reasons, it must be said that pressures are increasing on final salary schemes and therefore no one knows what the longer-term future may hold.

However real confidence can be gained from the chairman, Niall FitzGerald, who once again confirmed the Company's continuing support of the Unilever Pension Fund at the May 2002 Company AGM. Noting that "every pensioner in this room and every potential pensioner in this room... should be reassured by the way in which the fund is run, the way in which the fund continues to guarantee the benefits, the way in which the Company stands behind that", the Chairman then stated that, "there is no danger to the Unilever Pension Fund, it will continue as a defined benefit scheme, and will continue as far forward into the future as any of us can see. That is due to the excellent management of that fund by those in charge of growth investment and by the trustees in their supervisory role. I say that with some conviction because I really, really do not like it being said publicly that there has been anything other than careful thought, consideration, to all of our employees, all of our pensioners and all future pensioners."

A pension is a lifetime's commitment and we at Unilever are doing everything possible to ensure that we keep the quality pension scheme that we have established over the years for the Company's employees, both past and present.

2002 valuation: surplus or deficit?



The Unilever Pension Fund (UPF) is currently undergoing its valuation for 2002.

Why have a valuation?
The main purpose of a fund's actuarial valuation is to make an assessment of its contribution requirements. The Scheme Actuary works out the cost of one year's accrual of benefits for the current employee members – this is the cost which normally has to be met by the company and the members each year (although currently there is a contribution holiday). He then looks to see if there is enough money in the fund to meet the cost of the benefits which have already accrued for past service. If not, the company may have to pay more into the fund over a period of years. If, however, there is too much money in the fund, ie a surplus, then this could be used to reduce or even eliminate the normal contributions over the next few years. Alternatively, if the company and the trustees both agree, a surplus could be used, at least in part, for benefit improvements. Another possibility could be for a surplus to be carried forward, unallocated, as a reserve against future contingencies.

Who is our Scheme Actuary?
Michael Pomery of Hewitt Bacon & Woodrow is the Scheme Actuary, and it is he who is responsible for the actuarial valuation.

When does the valuation take place?
The investigation is conducted every three years. The results of the last valuation (which took place in 1999) showed that there was a modest past service surplus which permitted certain benefit improvements including the millennium increase (a one off percentage increase of 2.5% which was applied to all the then existing pensioners and deferred pensioners). There was also a continuation of the contributions holiday, for employer and employee contributions, until September 2002.

What is the process?
To perform our valuation, the Scheme Actuary must gather the relevant facts. He obtains membership data from UKPD, which for current employees includes service details and the up-to-date rates of pay; and for former employees the amount of preserved benefits and the accrued levels of pension currently being paid. He also collects information on the Fund's assets held at the valuation date (31 March 2002).

Next, the Scheme Actuary makes various assumptions: e.g. what returns the Fund's investments may earn in future, how fast pensions and earnings may increase, how long people may live etc. An essential part of the process is the exercise of judgement by the Scheme Actuary in deciding the appropriate set of assumptions for use in the valuation.

Using this data combined with the assumptions, he conducts an assessment of the Fund's liabilities, assets and contribution requirements.

He then tests the results on alternative sets of these assumptions before reaching his conclusion on any contribution requirements for the Fund.

When are the results due?
Preliminary results should be made

In conjunction with the actuarial valuation the Trustees of the Unilever Pension Fund normally carry out a strategic investment review and this year is no exception. We asked Chris Lewin, who is a member of the Fund's Investment Committee as well as Head of UK Pensions, to explain the review and why investment results matter.

How often is a strategic investment review carried out?
Every three years.

How is the strategic investment review carried out?
The first step is to carry out an asset-liability modelling study, with the aid of external consultants. Using a mathematical model, the likely range of investment performance and fund solvency over the next ten years is forecast for several alternative investment strategies. The Trustees, after consulting the Company, then select the investment strategy which appears most likely to give acceptable results. The Fund's Investment Committee, which is

available to the Company and the Trustees in the third quarter of this year. The final position for members will be announced in the fourth quarter of this year.

Will contributions start again?
It may be concluded after the valuation that company and / or employee contributions should begin again.

The contributions payable by employees can be up to 5% of pensionable pay less a National Insurance adjustment. In a typical case the contributions could work out at around 4% of pensionable pay (on which full tax relief at the employee's top marginal rate of tax is granted in accordance with current tax law).

No decision has yet been taken in this area, however.

Example

Pensionable Pay	£20,000
less National Insurance adjustment	3,900
	16,100
x 5%	805
less tax relief at 23%	185
Net contribution	620

chaired by Rudy Markham (Unilever's Financial Director), is heavily involved in the process but the final decisions are taken by the full Trustee Board.

What is the current investment strategy, following the 1999 review?
We aim to have 74% in equities (half UK, half overseas), 14% in bonds, 7% in UK commercial property and 5% in private equity.

Haven't these investments gone down in value recently, in line with the stockmarket?
There has been a big drop in the current market value of the Fund, from £4.9bn at 31 March 2000 to £4.2bn at 31 March 2002. However, this followed a very large increase in 1999, due largely to the technology bubble which has now so spectacularly burst. The value of the Fund at 31 March 1999 (the date of the last actuarial valuation) was £4.2bn, so 3 years later the Fund value was back at the same level as it was then.

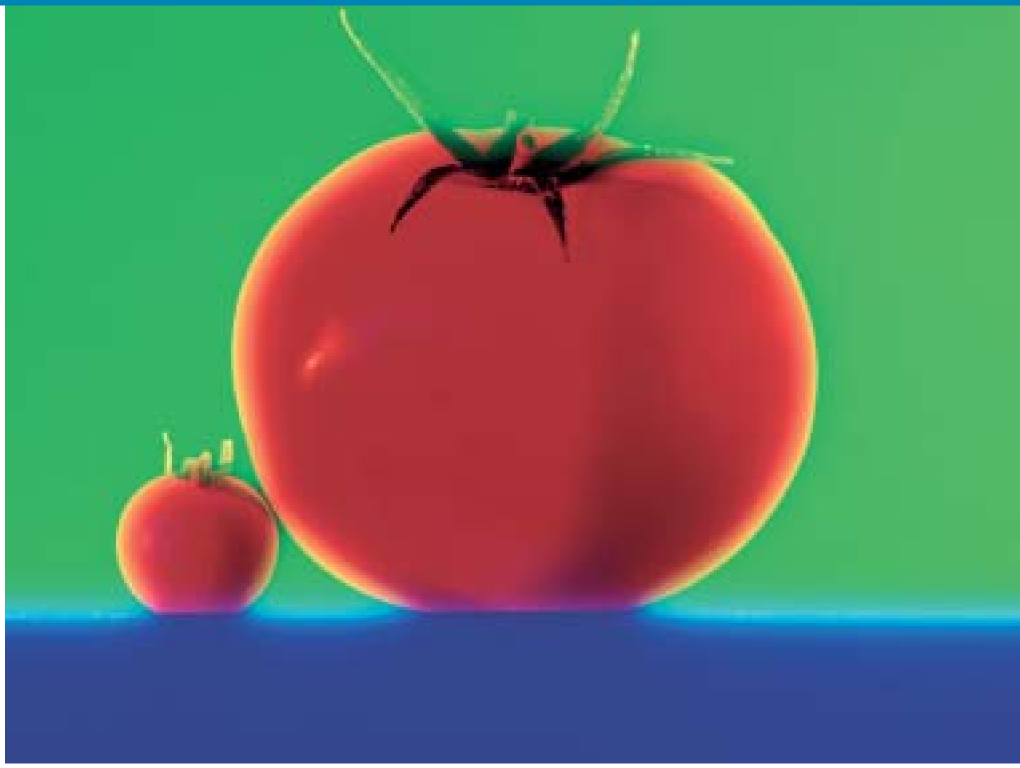
Does this mean that this year's actuarial valuation is likely to show a deficit?
It is too soon to say what the net effect of a number of factors will be. At the last actuarial valuation in 1999 the actuary wisely did not take full account of the rise in market values which had then recently occurred, and this will have provided a cushion against the subsequent falls. We have also had the MAM settlement.

Does the Fund just stick to its long-term investment policy for a three year period, whatever the stock market does?
That has been the policy to date, and in general it has served the Fund well for many years. However, as part of this year's strategic investment review, the Trustees will be considering whether modern conditions (and in particular increased volatility in stock markets) might make it sensible to build in a degree of flexibility for the future.

Boots the Chemist have switched the whole of their Fund to bonds and have abandoned equities entirely. Should we be doing the same?
While I cannot forecast the results of our investment review, the decisions made are likely to reflect the short-term risk tolerances of the Trustees and the Company. My guess is that we will probably wish to retain an equity component, on the basis that the Fund needs to invest for long-term growth. Also a drastic switch to bonds could worsen the results of the actuarial valuation. Finally investment in bonds is not necessarily free from risk anyway.

Do the results of the investment policy really matter to Fund members or do they only concern the Company, which has to pick up the bill at the end of the day if the investments do badly?
I believe that Fund members have a legitimate interest in seeing that the investments do well. Because the investments performed brilliantly in the late 1980s and the 1990s, the Company derived a benefit through having a contribution holiday, and so did the members. Moreover, it was possible to give current pensioners some modest improvements in their pensions, over and above what they had been promised. There are bound to be periods, such as the last two or three years, when investments go through a bad patch, but this should not deflect us from our longer-term objectives.

How does the UPF compare to similar funds?



A common question from members is … how do the Unilever Pension Fund benefits compare to the benefits offered by similar companies? It's a question members should ask and it deserves a clear answer.

The benefits under the Fund are regularly compared to the benefits under 'peer' group schemes, and this review is typically timed to coincide with the three-yearly actuarial valuation. Unilever's stated aim is for the benefits to be around the median of benefits under the peer group company schemes and to check this we commission a special survey among the companies against which the Company measures remuneration levels for managers.

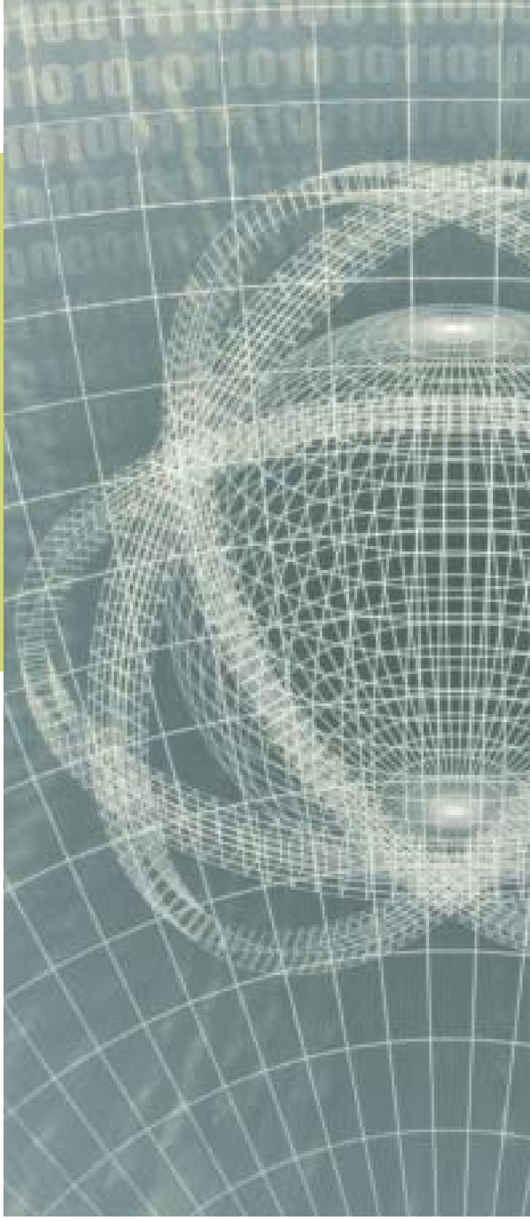
The results of this year's **Benchmarking Exercise**, as it is known, were revealed at the Delegates Conference at the end of March. The exercise, which is extremely thorough, is carried out by an independent firm of actuaries, who investigate the detail of the various benefits offered by the schemes, ranking the benefits in value terms. The results of the exercise showed that overall the UPF has preserved its position at the median of the companies.

It is worth noting that as the companies against which the Fund has been measured are among the best companies in the UK who offer quality schemes, our actual position in terms of the quality of the Fund benefits when compared against all companies in the UK would be very much at the top end.

And so the answer to the question, 'how does the UPF compare to other funds?' is (in very simple terms) 'very nicely indeed'.

shaping up for **the future...**

news from the 2002 Delegates Conference



Pensions are slowly changing due to global and political influences. Here's a report from the 2002 annual Delegates Conference that will tell you more of what you need to know.

Remember that a delegate is an employee member elected by other employee members to represent members in a particular region. Your Delegates were there representing you.

Just before Easter, around 60 Delegates assembled at the ICC, Birmingham, for the annual Delegates Conference, chaired by Richard Greenhalgh in his capacity as Chairman of the Board of Trustees, and with the rest of the Trustees and members of UKPD also in attendance.

The conference took place against a background of increasing concern in the media about the future of final salary schemes. It was therefore reassuring to note that one of the messages coming from the conference was the continued commitment of Unilever to the provision of a final salary scheme in the UK for the time being (see page 3 for further details).

Rudy Markham, Unilever's Financial Director and Chairman of the Investment Committee, was the first speaker and he set out the global financial background against which the UPF is operating.

Our outside speaker, John Monks, General Secretary to the TUC, then spoke about the political environment in the UK which also influences the working of the UPF.

Next Dick Aynsley-Smith (one of our member-nominated Trustees) conducted an in-depth interview with Chris Lewin, Head of UK Pensions. Among the topics discussed were:

- the future of final salary schemes
- the future of AVCs as a means for enhancing retirement income
- the possibility of later retirement ages being introduced at some future date for new entrants

The day ended with a brief presentation by Cynthia Elliott, Pensioners Liaison Manager, on "Uniforce". This is a project in which volunteer pensioners may be able to help with work currently carried out by external agencies.

The second day started with Delegates being asked to take on the role of Trustees of two schemes, one of which had a surplus, at an actuarial valuation, and one of which was in deficit. The purpose of this exercise was to get the Delegates to understand, in more detail, the decisions Trustees have to make.

Chris Tripp, Actuarial Manager, then revealed to the conference the results of the Benchmarking Survey, which is always performed before the Actuarial Valuation. This exercise ranks the Fund among its peer companies and showed that we are still where we want to be - around the median for this particular group of companies.

The first session of the morning ended with Mike Samuel, Finance Director UKNM, briefly taking the Delegates through the history of the MAM case.

After the Delegates had met in discussion groups, to consider the issues and prepare their reports, Kim Northwood and Hannah Clarke gave an update of UKPD's plans for customer service.

The conference ended with a final group session where other subjects were discussed including the impact of variable pay on pension provision and the move to shared services.

For further details on the conference, please contact your Delegates.

additional voluntary contributions - new provider

Additional Voluntary Contributions (or AVCs as they are more commonly known) have been the subject of much debate recently, especially in the light of the Equitable Life situation. However AVCs are still a very tax-effective method of boosting your pension. One of the guidelines for sensible investment is to spread your risk – another way of saying “Don’t put all your eggs in one basket”. Therefore the Trustees of the UPF are keen to ensure that you do have as wide a choice as is practicable.

However, given the current concern about the possibility that Equitable Life may not remain solvent, the Trustees recently decided to stop all future contributions to Equitable Life, both contributions to the With Profits Fund and to the Unit Linked Funds, (including the building society fund) unless a member specifically states that he or she wishes to continue.

The Trustees have now selected a further AVC provider who will make a variety of additional funds available. Subject to completion of the necessary contract and administrative arrangements, it is hoped that this new opportunity will be in place by the end of the year.

Watch this space!

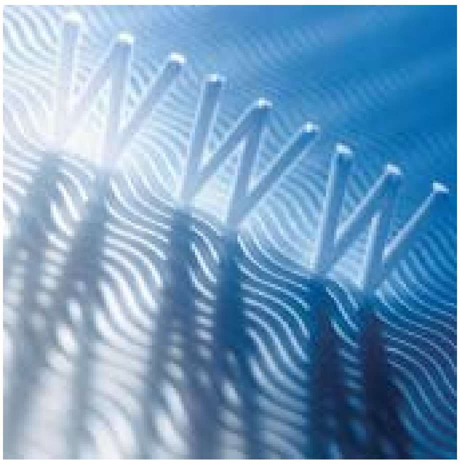
For full details about AVCs, why not check out the website, under FAQs, or contact UKPD for an information pack.

STOP PRESS - Rule Changes accepted

In the last issue of Your Fund we considered what would happen if you could no longer work, due to serious ill-health or permanent incapacity and talked about proposed changes to the rule concerned. Please note that the rule changes have now taken effect.

For further details, please see the Winter 2001/2 issue of “Your Fund” (available from the website under “Your Magazine”). If you then want to understand more about options under serious ill-health or permanent incapacity, please contact our helpline.

www.myupfpension.co.uk - new modeller almost ready



We are now in the final stages of the development of our exciting new modeller. This will enable you to obtain approximate estimates of your pension at different retirement dates. You can also vary the salary on which the figures are based. If you feed in your AVC balance, the modeller will take this and your future AVCs into account as well.

We are about to pilot the modeller with a test group of members and aim to go live by the end of September.

always at your service

As you will know, people*link* (the new shared services centre) is gradually taking over many of the roles previously carried out on sites by payroll or HR, including routine pension queries. Therefore the people*link* team should be your first point of contact if you have a question about your pension.

However, there may well be times when you would prefer to contact UKPD directly and with this in mind, (and in response to numerous requests from you, the members) UKPD has introduced a new way in which you can contact us.

You can now email us directly by sending your requests to London.UKPensions@unilever.com We will confirm receipt of your email and aim to reply to your query within 10 working days.

This is, of course, not the only channel available and you can also reach us by any of the following methods:

By Phone:
If you would like to ring us you can contact us on our helpline number 020 7822 6050 during office hours.

By Post:
Our address for written enquiries is:

UKPD
Unilever PLC
Unilever House
Blackfriars
London EC4P 4BQ

Internet:
The UPF website www.myupfpension.co.uk will enable you to keep up to the minute with news of the UPF, give you general information on your benefits or, if you would like more specific details, it also provides you with a facility to view your benefit statement electronically.

Please always remember to quote your RECORD NUMBER when contacting us.

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