December 2008 Unilever UK Pension Fund

Fund Focus

Your Unilever pension newsletter

Introducing Liz Airey

I am very pleased to introduce myself to members as the first independent Chair of the Trustees of the Fund. I was appointed to the board on 1 June this year.

The Trustees and Unilever decided to jointly appoint an independent Chair following a review of the governance of the Fund last year, and I am very proud to have been selected and entrusted with the role.

My own professional background is in both finance and industry: I spent the first ten years of my career in the City advising companies on issues such as raising capital, and the next ten years as the Group Finance Director of an international oil and gas exploration company. For the last eight years, I have been a non-executive director fulfilling a governance role with a number of companies listed on the London Stock Exchange. These include Tate & Lyle and Amec, both of which have substantial pension funds. I also became chair of two of these companies: Zetex and JP Morgan European Fledgeling.

Through my various roles – and in particular during my six years as chair of the main Amec pension funds - I developed a keen interest in the importance of occupational pension funds and a strong belief in the importance of trustees having the highest standards of governance. I am very pleased to have joined a board of dedicated and competent Trustees, with existing high standards of governance.

I join the Fund during interesting times in the world's economy. Stocks have fallen in value over the last year, and this has had an impact on the value of the assets held by the Fund. As you would expect, the Trustees monitor the Fund's investments and how changes in value impact on the funding level. In turn, the Trustees, at regular intervals, agree with Unilever changes in the rates of contributions payable by the Company to allow for how the Fund is developing financially. So, despite recent developments in the financial markets, the combination of the assets held by the Fund, and Unilever's commitment to the Fund means that you should be reassured of the strength of the Fund.

I am looking forward to contributing to the continuing development of the Trustee board and making sure we meet the challenges of the years ahead.

Unilever

Keeping up the good work

As Trustees, we are aware that many of you may not know what our role overseeing the Fund involves. With this in mind, we are moving 'upfront' for this year's newsletter and giving you a bit more detail about our work.

The job can be difficult – and it certainly takes up quite a lot of time. For that reason, the board is made up of dedicated and enthusiastic individuals who genuinely want the best for the Fund members – and this makes working as a Trustee stimulating and rewarding.

We have certain key 'objectives', or aims – which you can see below. As a group, we all share all of these aims, and take many decisions at 'board level' – that is, involving all the Trustees. But to spread the workload, we sometimes work as three committees (assisted by other Unilever staff), each focusing on a particular area of running the Fund.

- ✓ Make sure the Fund is run in line with its own rules and pensions law
- ✓ Act in the best interests of all the Fund members in line with the Fund rules and pensions law
- ✓ Invest the Fund's assets
- ✓ Oversee funding so that there are enough assets to pay members' benefits
- ✓ Make sure the Fund collects contributions and pays benefits correctly
- ✓ Support communication to members that allows them to make informed decisions

Governance and Funding

The role of the Governance and Finance Committee involves making sure the Fund keeps in line with the Fund rules, as well as pensions law.

It makes recommendations to the full board for the amount of contributions to be paid into the Fund by Unilever and then regularly reviews the funding level.

The Committee also now makes recommendations to the board regarding the level of risk inherent in the Fund's investment strategy taking account, amongst other things, of the financial strength of Unilever (which it also monitors on a regular basis).

Richard Clark | **James Barnes** | **Liz Airey** | **Roger Bevan** | **Mike Samuel**

Mike has now moved to the Investment Committee but continues to sit on the Governance and Funding Committee until early 2009.

Steve Cutting | **Jimmy McGovern** | **David Jones**

Steve has now moved to the Operations and Benefits Committee

Investment

The Investment Committee recommends an investment strategy to the main board.

Once the strategy is agreed, the Investment Committee puts an investment structure in place. Among other things it chooses the investment fund managers, and monitors their performance against the targets set for them.

Note: in addition to the three members of the Investment Committee shown on the left, there are three non-Trustee members who are all employees of Unilever – Wendy Mayall, Peter Zegger and Nigel Biggs.

Operations and Benefits

The Operations and Benefits Committee monitors all aspects of the Fund administration, including the Pensions Team and Hewitt (who carry out the benefits administration of the Fund).

This year, the Committee played a particularly important role following the changes to the pension arrangements proposed by Unilever, which were agreed by the Trustees in August 2007. It gave its input on the communications about the new plans, so that members would understand what actions they needed to take. More recently, it focused on the impact the changes would have on administering the plans.

Richie Furlong

George Maddock

Chris Appleby

David Saunders

Trustee changes

This year, Unilever and the Trustees jointly decided to make changes to the structure of the Trustee board, which should result in strengthening its independence.

Previously, there were 14 Trustees, made up of seven member-nominated Trustee directors, or MNDs (including one pensioner), and seven Trustees appointed by Unilever. We have reduced the board to 13 Trustees, including one independent Trustee (our Chair, Liz Airey), six MNDs (now including two pensioners) and six Trustees appointed by Unilever.

During the year, four MNDs were re-elected to the board: David Saunders, Steve Cutting and Roger Bevan (by the delegates) and Richard Clark (by pensioners). Two new MNDs joined the board: David Jones (elected by pensioners) and George Maddock (elected by delegates).

Chris Appleby joined the board as a Company appointed Trustee. The Company is in the process of appointing a further Trustee to take the board to its full complement of 13.

We would like to thank the outgoing Trustees for their service and commitment to the Fund: David Ivison, David Jones (Colworth), Wendy Mayall, Robert Mickley, Mark Shadrack and Gavin Neath, our former Chair.

Finding out more

If you have a general query about your plan or individual benefits, your personal details change, or you need to update your nomination form (which tells the Trustees who you want to nominate to receive any benefits payable following your death), please contact:

Unilever Pensions Team
Hewitt Associates Outsourcing Limited
6 More London Place
London
SE1 2DA

Phone: 0800 028 0051
From overseas: +44 (0)20 7939 4909
Fax: +44 (0)1372 757953

E-mail: unileverpensionsteam@hewitt.com

Fund information

If you would like more information about the Fund, you can ask for copies of any of the following official documents by contacting the Fund Secretary at:

Unilever UK Pensions, Unilever House, Springfield Drive, Leatherhead, KT22 7GR

or e-mail: pensions.uk@unilever.com

Please note the change of address from Walton. Many of the Unilever teams based at Walton, Kingston and Crawley moved to one new office in Leatherhead in November.

The documents available are:

- the formal Fund annual report and accounts (containing the full details of the Fund's progress and the full, audited accounts);
- the latest report on the actuarial valuation of the Fund (we base the information in the summary funding statement on this report from the actuary);
- the statement of investment principles (where the Trustees outline their approach for investing the plans' assets); and
- the trust deed and rules, the document governing how the plans are run.

Don't forget to check the Fund website – you can download the latest annual report and accounts and any forms you might need, and find more background information about your plan. The website will be updated over the coming months. Keep an eye on www.uukpf.co.uk.

Retiring early?

In this section, we look at two features of the plan that will affect you if you are thinking of retiring – particularly if you will be finishing work before age 65.

What is early retirement?

As a deferred member, you would normally start to draw your Unilever pension at normal retirement age. But, you may be able to 'retire early' and start your deferred pension at any age from 50 (or 55 from 6 April 2010). (You need Trustee consent to do this in the Final salary plan, or Unilever's and the Trustees' consent in the Career average plan.)

Normally, the pension would be reduced to reflect its early payment. However, for certain deferred member groups, the reduction may be smaller, or zero.

Below, we outline the general situation that applies if you decide to take your Unilever benefits early. Please bear in mind that there are many different 'types' of deferred members in the Fund, and that your position may be different to that described below.

Final salary plan

The reduction for retiring early is currently 5% for each year you start the pension before age 65. However for some members the 5% per year reduction only applies for pensions drawn before age 60. For certain members this is a right, for all or part of their pension, and for certain other members it is at Unilever's discretion.

Unilever reviews its discretionary early retirement policy from time to time. In March 2007, following a change in practice, we wrote to certain deferred members who were affected by the change.

The current position is that Unilever will use its discretion to waive the reduction if you left Unilever (or a company sold or outsourced by Unilever) after 16 May 1990 and:

- you were over age 50 at that time; or
- you were made redundant (at any age).

To be clear, if you retire, and draw your Unilever pension early while still employed by a business that Unilever has sold or outsourced, then Unilever will normally reduce your pension by 5% for every year you draw your pension before age 65.

If you are thinking of retiring early, please get in touch (the contact details are on page 3) so that we can confirm your individual situation.

You should also read the legal notes on the next page.

Career average plan

If you are a deferred member, and you want to draw your pension before normal retirement age (65) it will be reduced, currently by 4.5%, for each year before age 65. Unilever decides this reduction after taking professional advice, and may vary it (up or down) from time to time

Whichever plan you belong to, you may be able to retire early due to serious ill health or permanent incapacity, if the Trustees agree.

Taking tax-free cash

We would also like to remind you about the Fund commutation factors. 'Commutation' is the technical term for exchanging pension for cash at retirement, and the 'commutation factor' is the figure we use to work out how much cash the pension you give up will provide. Commutation factors may change from time to time.

Bear in mind that you need consent from Unilever and the Trustees (if you are a Final salary plan member) and consent from Unilever (if you are a Career average plan member) before exchanging pension for cash, and that HM Revenue & Customs rules may limit the amount of tax-free cash you can take.

Please note that if you left the plan between 1 April 1972 and 1 April 1997, you will automatically receive your benefits as a mix of pension and cash – so, you only need to read on if you think you might exchange some of the pension for extra cash when you retire.

Final salary plan

The commutation factors were reviewed in 2006 and were improved with effect from 1 October 2006. So, please bear in mind that if the Fund information you have dates from before then, the factors have changed. In general, this means that you get more cash for each £1 of pension you choose to give up at retirement.

The factors that apply to you will depend on a number of things, including your age at retirement, when you left the Fund and the rate of increase that applies to your pension once in payment.

Career average plan

Different factors will apply to take into account the different increases to pensions in payment from the Career average plan.

We will let you know the commutation factors that apply to your benefits as you near retirement.

Hang on to your paperwork

Please note – if you are (or were) made redundant from a company sold or outsourced by Unilever, it is important that you keep any relevant documents about this. If you decide to retire before normal retirement age, you must be able to provide evidence of your redundancy so that any discretionary waiver (if applicable) is applied to your benefits.

Legal notes

The actual Fund benefits you receive at retirement and the amount of pension you can exchange for tax-free cash, will depend on a number of factors, including the age at which you retire, the pension rights you have built up in the Fund, and pension law at that time.

Any discretionary practice described in this document, and any change to any such discretionary practice, in each case remains a discretionary practice which the Company retains the right to amend in the future.

Where any right to draw any pension early is subject to Trustee and/or Company consent, then nothing in this document shall be treated as giving Trustee and/or Company consent to the drawing of that benefit. Trustee and/or Company consent may only be given at the time when the benefit is proposed to come into payment.

If you were part of an acquisition, or have transferred-in benefits, different rules may apply to your benefits, including your early retirement terms or the commutation factors applying to your pension.

On the horizon

From 6 April 2010, the earliest age anyone can legally retire and begin to draw pension will go up from 50 to 55. This is an 'overnight' change, and there is no sliding scale to increase this minimum age gradually.

For some of you, the change will be straightforward:

- If you were born before 6 April 1955, you can already retire at any time. You have already reached age 50, and you will be 55 by 6 April 2010.
- If you were born after 5 April 1960, you can retire from age 55 – you do not reach 50 before the change on 6 April 2010.

However, if your date of birth falls between 6 April 1955 and 5 April 1960, the situation is not that simple:

- Currently, you can retire from age 50.
- At 6 April 2010, you will be unable to retire, because you will still be under 55.
- When you reach your 55th birthday, you will be able to retire.

Please bear these age changes in mind if you are thinking about retiring before age 55. Refer to your plan guide for more information on early retirement.

Please note: To retire early from the UUKPF you need the consent of the Trustees (for members of the Final Salary plan) or the Trustees and Unilever (for members of the Career average plan).

These changes do not affect retirement on serious ill health or permanent incapacity grounds.

Plan round-up

Pension increases

Your deferred pension increases on 1 April each year to protect it against rising prices. Normally, the increase is based on the rate of inflation up to 5% a year. Here are the increases for the last five years:

2004	2005	2006	2007	2008
2.6%	3.2%	2.4%	4.2%	4.1%

The plan is 'contracted out' – which means that you and Unilever paid lower National Insurance, and the plan must meet certain requirements relating to the second level of State pension (S2P – previously known as SERPS). Between 6 April 1978 and 5 April 1997, the plan needed to provide a replacement benefit called the Guaranteed Minimum Pension, or GMP. If you were building up benefits in the plan between those dates, your pension will include some GMP. The GMP receives increases each year in line with current pension law, while any pension you have on top of your GMP receives the plan increases shown above.

Keep in touch

It is very important for you to stay in touch with us and let us know of any change in your personal circumstances. If you move house without telling us, for example, it means we will not have your address on file when the time comes to pay your benefits.

Please contact the Pensions Team if:

- you move to a new address;
- you marry or divorce (remember to tell us if your name changes);
- you start or end a civil partnership; or
- you need to update your nomination form (which tells the Trustees who you want to nominate to receive any benefits payable following your death).

Contact details are on page 3.

To help you read your statement

Your summary funding statement explains the funding that underpins your Unilever UK Pension Fund ('the Fund') benefits. As Trustees, we are required by law to send you a summary funding statement each year, either to report the results of the formal valuation (which takes place every three years), or to report the results of the annual funding update (which takes place in years when a formal valuation is not carried out). This summary funding statement reports the results of the funding update at 31 March 2008.

Funding target

The Fund is set up as a common pool of money into which current employee members and Unilever pay contributions and which we invest to help it grow. Benefits are paid out of this pool of money.

We work with Unilever to agree a 'funding target' which we aim to meet. The target, known as the 'technical provisions', is tailored to our Fund's circumstances and needs. It is based on assumptions about future events, the investment strategy adopted by the Trustees and the expected financial strength of Unilever. These assumptions include: that the Fund will continue in the future and that Unilever plc and the other employers will continue in business and support the Fund.

The assumptions satisfy the regulations in the Pensions Act 2004. Our actuary helps us look at how the outcome can change if any of the assumptions turn out to be too low, or too high. We then use our judgement to consider how confident or cautious we want to be when deciding on a safety margin to build into our funding target.

When carrying out valuations and funding updates, the actuary works out the amount of assets the Fund needs to cover its funding target. Then he takes the value of the Fund's assets from the accounts and compares the assets with the funding target. This gives the funding level. The table opposite shows the funding level according to this 'ongoing' valuation.

Providing for future benefits and a plan for recovery

The actuary estimates the level of contributions the Fund should receive to cover the cost of the benefits which are building up for the future and deal with any deficit.

Generally, the Fund relies on Unilever and its financial support to:

- pay regular contributions to cover its share of the cost of the benefits members are building up for the future;
- make extra contributions when there is a funding deficit;
- put in more money if the funding target turns out to be too low; and
- pay the future expenses of running the Fund each year.

Following the results of the 2007 valuation, we agreed with Unilever the level of contributions needed to maintain and improve the funding level. Other arrangements may apply in the event of a surplus.

The solvency position

The Pensions Act 2004 says we must also tell you what the funding position would be if the Fund wound up (came to an end) at the valuation date. (We have also included the position shown in the update at 31 March 2008.) This is known as the 'full solvency' position. It looks at whether the Fund has enough money in it to buy insurance policies to provide all the benefits promised to members.

Even if a pension scheme is fully funded under the ongoing valuation, the full solvency position is likely to be less than 100%. Reasons for this include:

- insurance companies have to invest in 'low risk' assets, which generally tend to give lower returns than the level of returns the Fund is targeting; and
- insurance companies' policy prices will include administration charges and a profit margin.

Your summary funding statement

At 31 March 2008 the Fund had a deficit of £830 million, which corresponds to a funding level of 86% (below left).

In the last statement (sent to you in February 2008), we gave you information based on the actuary's latest valuation at 31 March 2007. That showed that the Fund had a deficit of £360 million (below right).

At 31 March 2008		At 31 March 2007	
Value of assets	£5,040 million	Value of assets	£5,060 million
Estimated amount needed to cover funding target (technical provisions)	£5,870 million	Amount needed to cover funding target (technical provisions)	£5,420 million
Deficit	£830 million	Deficit	£360 million
Funding level (after allowing for the audited asset value)	86%	Funding level	93%

Future benefits and a plan for recovery

For active Final salary plan members, Unilever currently pays regular contributions equal to 24.1% of pensionable pay, less members' normal level of contributions. Unilever's contributions for Career average plan members are currently 20.5% of pensionable earnings (between the two levels), less members' contributions. These are the main contribution rates, full details are in the schedule of contributions.

Unilever paid additional contributions of around £400 million into the Fund between the 2005 and 2007 valuations. Following the 2007 valuation, Unilever paid a total of £230 million in additional contributions between 1 April and 31 December 2007. At the 2007 valuation date, the agreed recovery plan aimed for a funding level of 100% by 31 March 2010. This plan allowed for a less cautious investment return assumption on the assets than that used on the technical provisions.

There have been no changes to Unilever's contributions this year. We have agreed with Unilever to review the situation at 31 March 2009, and that Unilever will vary its contributions depending on the financial position of the Fund.

The Fund's solvency position

If the Fund had started winding up at 31 March 2008, our actuary estimates that the amount the Fund would have needed to ensure that benefits were secured in full was £7,600 million. On this basis the Fund's deficit was £2,560 million, equal to a funding level of 66%. (At 31 March 2007, the date of the latest valuation, the funding level on this basis was 73%.)

Pensions law says we must give you this information, and we need to work out this figure to get a complete picture of the Fund's financial health. But it does not mean that Unilever is thinking of closing the Fund.

Changes since the previous statement

While the value of the assets of the Fund decreased slightly from 31 March 2007 to 31 March 2008, the amount needed to cover the funding target increased significantly during the same period. This is largely due to changes in market conditions – in particular, assumptions about the future rate of inflation and pension increases. These changes have affected the funding target at 31 March 2008 (as you can see in the table above).

Other things we must tell you

As part of this statement, we must tell you if there have been any payments to Unilever out of the Fund since the last summary funding statement. There have not.

The Pensions Regulator can change the Fund benefits, give directions about working out its technical provisions or impose a schedule of contributions. We are pleased to say that it has not needed to use its powers in this way for our Fund.

Other pension arrangements

This statement explains the funding that supports your pension in the Unilever UK Pension Fund. If you have any benefits in other Unilever schemes or the schemes of former employers, you may receive summary funding statements from them. (As a general rule, you will only receive funding statements if your other schemes are 'defined benefit', which normally means that benefits are based on a formula including your salary and years of service.)

Help at hand

If you have questions about your plan, or your benefits in particular, you should get in touch using the contact details under ‘Finding out more’ on page 3. However, no-one involved in running the plan – which includes Unilever, the Trustees and the Pensions Team – is allowed to give you advice about your financial planning or decisions.

If you are uncertain about anything to do with your savings or pension, think about taking independent financial advice. IFA Promotion can help you find an adviser in your area – you can carry out a search on their website, **www.unbiased.co.uk**.

You can also take questions or problems to The Pensions Advisory Service (TPAS), which runs a query helpline **0845 6012923** and mailbox **enquiries@pensionsadvisoryservice.org.uk**.

The Pensions Regulator oversees the running of UK pension schemes. It has more information about valuations and funding statements on its website, **www.thepensionsregulator.gov.uk**, or call **0870 606 3636**.

The Government set up the Pension Protection Fund to compensate members of occupational schemes if their employer becomes insolvent and cannot cover the cost of providing the scheme benefits. You can find more information on its website, **www.ppf.gov.uk**, or call **0845 600 2541**.

If you need information about the benefits you might expect to receive from the State, try The Pension Service website, **www.thepensionservice.gov.uk**, which also includes background information about financial planning. If you are not yet receiving your State pension, you can also get a forecast of the amount you are due to receive. The helpline number is **0845 606 0265**.

Unilever UK Insurance Scheme

Unilever gives you access to a wide range of personal insurance products. The Scheme is open to retirees, current and former employees and now also extends to include any family members.

For further information, or to request a quotation on home, travel, motor or healthcare insurance, please refer to the leaflet we have enclosed, or visit the new website, **www.unilever-insurance.co.uk**

As with all financial products, it is important to shop around to find the right product to suit your needs.

Who's in the Fund?

At 31 March 2008: