UNILEVER N V
Form 20-F
March 27, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark one)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report ___________________

UNILEVER N.V.

(Exact name of Registrant as specified in its charter)

The Netherlands

(Jurisdiction of incorporation or organization)

Weena 455, 3013 AL, Rotterdam, The Netherlands

(Address of principal executive offices)

S.H.M.A. Dumoulin, Group Secretary Tel: +31-(0)10-217 4999, Fax: +31 (0)10 217 4287, Unilever N.V. Weena 455, 3013 AL, Rotterdam, The Netherlands

(Name, telephone number, facsimile number and address of Company Contact)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
N.V. New York registry shares each representing one ordinary share of the nominal amount of €0.16 each	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The total number of outstanding shares of the issuer's capital stock at the close of the period covered by the annual report was: 1,714,727,700 ordinary shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If 'Other' has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes	No

Annual Report on Form 20-F 2007

The Unilever Group

Unilever N.V. (NV) is a public limited company registered in the Netherlands, which has listings of shares and depositary receipts for shares on Euronext Amsterdam and of New York Registry Shares on the New York Stock Exchange.

Unilever PLC (PLC) is a public limited company registered in England and Wales which has shares listed on the London Stock Exchange and, as American Depositary Receipts, on the New York Stock Exchange.

The two parent companies, NV and PLC, together with their group companies, operate as a single economic entity (the Unilever Group, also referred to as Unilever or the Group). NV and PLC and their group companies constitute a single reporting entity for the purposes of presenting consolidated accounts. Accordingly, the accounts of the Unilever Group are presented by both NV and PLC as their respective consolidated accounts.

Basis of reporting

Our accounting policies are based on International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and on United Kingdom and Dutch law. They are also in accordance with IFRS as issued by the International Accounting Standards Board (IASB). Certain measures used in our reporting are not defined under IFRS. For further information about these measures, and the reasons why we believe they are important for an understanding of the performance of the business, please refer to the Operating Review on page 15 and the Financial Review on page 29.

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

Exchange rates

Details of key exchange rates used in preparation of these accounts are given on page 131, together with Noon Buying Rates in New York for the equivalent dates.

Forward-looking statements

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements, including within the meaning of the United States Private Securities Litigation Reform Act of 1995. For a description of factors that could affect future results, reference should be made to the full Cautionary statement on the inside back cover.

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Highlights

Highlights

	2007	2006	2005
Turnover (€ million)	**40 187**	39 642	38 401
Underlying sales growth (%)	**5.5**	3.8	3.4
Operating profit (€ million)	**5 245**	5 408	5 074
Operating margin (%)	**13.1**	13.6	13.2
Earnings per share (euros)	**1.32**	1.19	1.07
Dividend per NV ordinary share (euros):			
Interim	**0.25**	0.23	0.22
Proposed final	**0.50**	0.47	0.44
Dividend per New York share of NV (US dollars):			
Interim	**0.36**	0.29	0.26
Proposed final	**0.73**	0.64	0.56
Dividend per PLC ordinary share (pence):			
Interim	**17.00**	15.62	15.04
Proposed final	**34.11**	32.04	30.09
Dividend per ADR of PLC (US dollars):			
Interim	**0.35**	0.30	0.27
Proposed final	**0.67**	0.64	0.56

Notes

Turnover, underlying sales growth, operating profit, operating margin and earnings per share are based on continuing operations. Underlying sales growth is not a GAAP measure. In our Financial Review on page 32 we reconcile underlying sales growth with changes in turnover. Dividend figures for each year comprise dividends declared or proposed for that year. Figures for US dividends are rounded to two decimal places and, in the case of the proposed final 2007 dividends, will be subject to exchange rates ruling at the time of the Annual General Meetings. Under International Financial Reporting Standards (IFRS) dividends are only recorded against the years in which they become payable. In addition to the dividends shown above, one-off dividends of €0.26 per NV share and 17.66p per PLC share were paid in December 2006. For further information and commentary on these measures please refer to the Directors Report and the Financial Statements within this Annual Report on Form 20-F.

Our mission and corporate purpose

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

Our deep roots in local cultures and markets around the world give us our strong relationship with consumers and are the foundation for our future growth. We will bring our wealth of knowledge and international expertise to the service of local consumers a truly multi-local multinational. Our long-term success requires a total commitment to exceptional standards of performance and productivity, to working together effectively, and to a willingness to embrace new ideas and learn continuously. To succeed also requires, we believe, the highest standards of corporate behaviour towards everyone we work with, the communities we touch, and the environment on which we have an impact. This is our road to sustainable, profitable growth, creating long-term value for our shareholders, our people, and our business partners.

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Report of the Directors

Chairmans statement

When I joined Unilever in May 2007 I was aware that the Unilever Executive led by Patrick Cescau was driving a process of sweeping change aimed at transforming the Group. Since then I have visited a number of Unilever operations in Asia and Europe. I have met with many employees and learned a great deal about the brands which the Group sells and the technology which underpins them. I have also spoken to investors to get their perceptions of the business.

All of these encounters have confirmed the preconceptions which I had before joining the Group: Unilever is a business with an extraordinary portfolio of brands, talented people, deep roots in developing and emerging markets, a strong commitment to sustainability and a distinctive corporate culture.

The Groups strong performance in 2007, with higher growth and an improvement in underlying margin, is something about which the entire business can feel proud. It is also further validation that the strategy being pursued by Patrick and his team is the right one, and that this strategy is being executed very effectively.

This strategy with its sharp focus on Vitality products, developing markets and faster growing product areas like personal care has dramatically changed the business. The structure is much leaner and simpler. It is enabling Unilever to maximise its considerable advantages of buying, manufacturing and marketing scale.

Some of the restructuring which has taken place has led to a reduction in employee numbers. Decisions which have an impact on employees lives and livelihoods are never taken lightlyHowever, I have been impressed and reassured by the caring and responsible way in which the Group has executed these changes.

The Boards in 2007

Corporate governance in Unilever has undergone radical change in the period since 2004. We continue to ensure that we meet the highest standards in all the markets in which we operate.

The composition of the Boards themselves has also evolved. We have enriched their diversity and experience with three new Non-Executive Directors: Narayana Murthy, Hixonia Nyasulu and Genevieve Berger.

Narayana, co-founder and Chairman of Infosys Technologies Limited, brings a deep knowledge of emerging markets and expertise in IT as well as impressive business leadership skills. Hixonia is a highly experienced Non-Executive Director with Sasol Ltd. She is also an Advisory Board Member of JP Morgan South Africa and brings first-hand experience of African markets.Genevieve contributes her impressive expertise in research and development; she is Professor of Biophysics and Medical Imaging at Paris University VI and Chairman of the Advisory Board Health for the EU Commission for Research.

All three joined our Corporate Responsibility and Reputation Committee when they took up their posts in May. Their appointment to this committee, now chaired by Lord Brittan, signals its growing importance and the Groups commitment to keeping sustainability at the heart of its activities.

Each of the newcomers was given an extensive programme of induction covering key issues facing the business.

In September 2007 we also welcomed Jim Lawrence as our new Chief Financial Officer; he will be proposed for election as an Executive Director at the AGMs in May 2008. Jim, who came from General Mills, is a Non-Executive Director of British Airways and Avnet. He replaced Rudy Markham who retired in 2007 after a distinguished career spanning four decades.

Whilst welcoming Jim, we will be saying goodbye to two Directors who are leaving. Kees van der Graaf after 32 years service in the business, most recently as President, Europe and Ralph Kugler, currently President, Home and Personal Care, who has served the business for 29 years. On behalf of the Boards I thank them both for the significant contribution they have made to our business throughout their careers.

During the year, we also said goodbye to Jean-Cyril Spinetta who stepped down as a member of the Boards and the Remuneration Committee. I would like to acknowledge his wise counsel and experience during his term as a Non-Executive Director.

In our Board meetings, we have discussed a wide range of topics including the Group's annual plan, performance in key markets such as Russia and China, organisation and talent, and the role of science and technology. We also reviewed and fully agreed the Unilever strategy and the new plans to accelerate change, including portfolio change and business restructuring.

An important part of my role is consistently to evaluate the effectiveness of the Boards. In 2007 our Senior Independent Director and I conducted a formal assessment, including performance-related interviews with each Board member. The findings were discussed by the Boards and will result in further improvements.

I am proud that we have Boards that are properly equipped to give Patrick and his team all the support that they need.

On a personal note, I find this an exciting time to work for Unilever. The business is doing well and, with its wealth of talented people, its great global brands and its ambitious business plans, is on track to do even better. On behalf of the Boards, I would like to thank all the Group's employees around the world for all that they have done in 2007. I look forward to serving the Unilever Group to the very best of my ability in the years ahead.

Michael Treschow
Chairman

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Report of the Directors continued

Group Chief Executive

I am pleased to report on a good year for Unilever — one in which we continued to grow competitively, consistently and profitably. With a clear growth strategy and an organisational structure to support it, there is growing evidence of improved momentum in our business.

In 2007 underlying sales grew by 5.5% — the third consecutive year of accelerating sales growth. At the same time, we achieved an underlying improvement in our operating margin, despite sharply rising commodity costs. Our growth was broad-based, across all our major regions and categories.

In Europe we achieved growth of nearly 3% — up from 1% the year before. The benefits of all the structural changes we have made in this region over the past three years are now coming through both in terms of growth and underlying margin.

Russia was the star performer — with growth in the high teens — but all our major European businesses grew in 2007.

In the Americas full year growth was 4%. Brazil and Mexico showed an improving performance during the year, while the US grew solidly at 3%.

In Asia Africa we recorded 11% growth. The performance reflects not just the vibrancy of these markets but also the high priority which we place on building our business in this part of the world. Once again, India and China were important contributors to our success.

The picture was equally strong across our categories driven by some great innovations.

Home care had a strong year, fuelled by an excellent performance from our laundry business where the Dirt is Good brands strengthened still further on the back of innovations like *Persil Small & Mighty*. We also had great success in household care with innovative new variants of brands like *Cif* and *Domestos*.

Our Foods category also did very well. Our largest brand *Knorr* came close to €4 billion in sales. *Lipton* tea prospered from a series of good innovations and so too did ice cream. Unilever Foodsolutions, our global food service business, also turned in another good performance, confirming the important opportunity that out-of-home consumption offers us.

An endorsement of our strategy

These results are testimony to the fact that our strategy of focusing resources on brands, categories and countries with the highest growth and profit potential is working.

One key area is developing and emerging markets. Over the next few years consumer spending in these markets will overtake developed countries in terms of purchasing power parity. Unilever has an unparalleled footprint in the developing world, as well as an extensive knowledge of local consumers, and a proven ability to deliver health, hygiene and nutrition products which meet the needs of populations which are growing in size, wealth and aspiration.

Personal care — another strategic priority — saw continued strong growth, at nearly 7%. It continues to be our fastest-growing business, with strong global brands like *Dove*, *Pond's*, *Lux* and *Rexona*.

Our Vitality mission to help people feel good, look good and get more out of life remains central to our strategy, inspiring products such as a very low-fat variant of *Hellmann's* mayonnaise; *Amaze* snacks, with nutrients to help support the mental development of school-aged children; *Lipton Linea* slimming teas; and the *Dove pro•age* range with benefits for mature women.

Of course, our brands must be constantly refreshed to retain their edge. In 2007, across each of our major categories, growth was driven by a combination of innovation new products and new mixes and renovation the strengthening of existing brands through new variants, new packaging or new marketing.

In 2007 we focused on bigger innovations and rolled them out faster around the world. *Clear*, a shampoo with superior anti-dandruff active delivery technology, was launched simultaneously in several countries, including three of the biggest hair care markets in the world China, Russia and Brazil. We also achieved a better transfer of mixes across continents and cultures, in some cases creating new markets. For example, we successfully launched our male deodorant brand *Axe* in Japan. After just six months it is the leader in its market.

A leaner, fitter business

During the year we made significant progress in reshaping the organisation to create a leaner, more flexible business structure.

Our One Unilever operating model is being implemented in every major country. We are now taking this a step further with the creation of new multi-country organisations clusters of neighbouring countries with one central management structure, leveraging regional scale through shared services for functions such as HR, IT and Finance. These changes are all part of our accelerated programme of restructuring announced last summer.

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Group Chief Executive continued

We further shaped our portfolio through disposals and acquisitions, including the announced sale of Boursin and Lawry’s – brands that offered limited growth potential for Unilever. We also announced agreements to acquire the *Buavita* vitality drinks brand in Indonesia and – only recently – Inmarko, the leading ice cream business in Russia. These transactions accelerate our strategy of building leadership positions in fast-growing markets.

This is the right strategy for Unilever but – like any strategy – it is only as good as the execution. That is why we also continue to build our strengths in critical areas such as consumer marketing and customer development. In both cases our progress was recognised externally. In marketing, we received a clutch of awards at the Cannes International Advertising Festival, with *Dove* and *Axe* achieving three ‘Grand Prix’ trophies. In customer development, Unilever was named International Supplier of the Year by Tesco for the second year running.

We are also raising our game in research and development (R&D), recognising the crucial role technology can play in the quality of our innovations. Underlining the importance of R&D, we appointed our first Chief Technology Officer, Neal Matheson, in 2007. Neal leads the development of world class capabilities in science and technology and champions excellence in all our innovation activity.

Of course, some changes required difficult decisions. In Europe, the restructuring is leading to significant job losses. But painful as these decisions have been, they are the right ones for the long-term health of the business.

Keeping sustainability at the heart of Unilever

We believe Unilever can only continue to thrive if we conduct our business in a sustainable manner.

Integrating social, economic and environmental considerations therefore sits at the heart of many of our brand strategies. A great demonstration of this was the decision to source all of our tea from sustainable, ethical sources. To support this significant change, we asked the Rainforest Alliance to start auditing our tea suppliers with immediate effect. The aim is to have all *Lipton Yellow Label* and *PG Tips* tea bags sold in Western Europe certified by 2010 and all *Lipton* tea bags sold globally by 2015.

We also set the ambitious target of a further 25% reduction in the business’s CO_2 emissions from energy sources used in production by 2012. And we continued to develop our partnerships with key retail customers, sharing our sustainability expertise to support them in achieving their goals. Wal-Mart responded by naming us 2007 Supplier of the Year for Sustainable Engagement.

The year ahead

Notwithstanding some economic uncertainty and the rising costs of many materials, we are confident that Unilever can grow consistently, profitably and competitively in 2008.

The changes we have made in recent years leave Unilever more resilient and better placed than ever before to meet challenges and respond to opportunities. We have a more flexible, dynamic structure, an increasingly powerful brand portfolio, an unparalleled footprint in the developing world and – in 2008 – we have another exciting programme of innovations and new product launches. Furthermore, we operate in sectors less susceptible than others to the effects of an economic downturn: people will always need to eat, wash and clean their homes.

For all these reasons we remain optimistic about the year ahead and confident of making further progress towards our longer-term financial objectives.

On a personal note I would like to thank two members of the Unilever Executive who will leave us in 2008 - Kees van der Graaf and Ralph Kugler. They have been valued colleagues over many years and I thank them for their contribution. Indeed, I would thank the whole of my Executive team, including two great additions during the year, Mike Polk and Jim Lawrence, the latter joining from outside as our new Chief Financial Officer. Thanks also to my colleagues on the Boards, under our new Chairman, Michael Treschow, and especially to every one of our employees around the world for their invaluable contribution to the business's progress in 2007.

Working together, as One Unilever, I am confident that we can look forward to delivering continued success in 2008.

Patrick Cescau
Group Chief Executive

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About Unilever

Description of business

Unilever is one of the worlds leading suppliers of fast moving consumer goods across Foods and Home and Personal Care categories. Unilevers portfolio includes some of the worlds best known and most loved brands.

Strategy and long-term financial targets

At the heart of Unilever's strategy is a concentration of resources on areas where we have leading category and brand positions and which offer excellent opportunities for profitable growth, especially in personal care, developing and emerging markets and Vitality. The focus is primarily on developing the business organically, but acquisitions and disposals can also play a role in accelerating the portfolio development.

To execute this strategy we have reorganised the business to simplify the organisation and management structure and to improve capabilities in marketing, customer management, and research and development. The result is better allocation of resources, faster decision-making and a lower cost level. This transformation, known as the One Unilever programme, allows us to leverage our scale both globally and locally.

Unilever's long-term ambition is to be in the top third of our peer group in terms of total shareholder return. We expect underlying sales growth of 3-5% per annum and an operating margin in excess of 15% by 2010 after a normal level of restructuring charges of 0.5 to 1 percent of turnover. Return on invested capital is targeted to increase over the 2004 base of 11%. Over the period 2005 2010, we aim to deliver ungeared free cash flow of €25-30 billion. It should be noted that previous and planned disposals and the additional restructuring plans will have reduced ungeared free cash flow by about €2.5 billion over this period, while enhancing the ongoing cash generating capacity of the business.

Key indicators performance and portfolio

These long-term financial targets determine the scope of our key financial performance indicators. The values for these indicators for the last three reporting years are as follows:

	2007	2006	2005
Underlying sales growth (%)	**5.5**	3.8	3.4
Operating margin (%)	**13.1**	13.6	13.2
Ungeared free cash flow (€ billion)	**3.8**	4.2	4.0
Return on invested capital (%)	**12.7**	14.6	12.5
Total shareholder return (ranking)	**8**	13	14

Underlying sales growth (USG), ungeared free cash flow (UFCF) and return on invested capital (ROIC) are not recognised measures under IFRS. The IFRS measure most comparable with USG is turnover. In our Financial Review on page 32 we reconcile USG with changes in turnover. There is no IFRS measure directly comparable with either UFCF or ROIC. In our Financial Review we reconcile ROIC to net profit, and UFCF to both net profit and cash flow from operations. The values of turnover, net profit and cash flow from operating activities for the last three reporting years are as follows:

	€ million 2007	€ million 2006	€ million 2005
Turnover	**40 187**	39 642	38 401
Net profit	**4 136**	5 015	3 975

Cash flow from operating activities	**5 188**	5 574	5 924

In 2007, we set out simultaneously to deliver a higher and more consistent level of underlying sales growth in combination with an underlying improvement in operating margin. Underlying sales growth has indeed shown a marked increase to 5.5% in 2007, driven by better innovation rolled out faster to more countries and better execution in local markets.

We also achieved an underlying improvement in operating margin of 0.2 percentage points in 2007, as the combination of volume leverage, higher prices, cost savings and mix improvement successfully offset a sharp rise in commodity costs and other inflation.

Our reported operating margin declined by 0.5 percentage points, due to a significantly higher level of restructuring charges related to our plans to accelerate change, which were announced in August 2007. These plans aim to deliver a reduction in our annual cost base by around €1.5 billion by the end of 2010, compared with our 2006 cost base, through the creation of multi-country organisations (MCOs), the closure or streamlining of 50-60 factories, and a further reduction in regional and global overheads.

Ungeared free cash flow was €3.8 billion, which was €0.4 billion lower than a year earlier, including the effect of the higher cash restructuring costs and increased capital expenditure. Return on invested capital was 12.7% in 2007. This represented an improvement from 11.5% in 2006, when adjusted for the profit on the disposal of frozen foods. Before allowing for this adjustment, return on invested capital in 2006 was 14.6% .

On our three-year average Total Shareholder Return key performance measure, which forms part of the basis for top management remuneration, we remained just outside the top third of our peer group, although we further improved our position to the 8th place out of 21 companies.

Further information about these measures, including definitions and, where appropriate, reconciliation to GAAP measures, can be found in our Financial Review starting on page 29.

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. In the latter context we group together brands that have a common consumer proposition 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:

	2007	2006	2005
Share of turnover in D&E markets (%)	**44**	42	40
Share of turnover in top 25 brands (%)	**73**	73	72

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Report of the Directors continued

About Unilever continued

Our D&E businesses continue to show strong growth, in Asia, Africa, Central and Eastern Europe and Latin America, and now make up 44% of our total turnover. Our D&E strategy is focused on leveraging and further strengthening our existing leading positions in many D&E markets, such as India and Brazil, as well as building our brands and business in countries where we currently have a relatively smaller presence, notably China and Russia. Our sustained growth is reflecting the strength of our D&E business model which is characterised by a differentiated portfolio of strong global and regional brands addressing the needs of the different income groups, high quality innovation and communication, scale and depth in distribution, and an excellent track record and reputation for developing management talent. Our focus on our best global and regional brands, with increased investment in advertising and faster roll-out of innovation, has resulted in a focused portfolio, with 12 brands having a worldwide turnover in excess of €1 billion and our top 25 brands collectively delivering 73% of our turnover in 2007.

We also monitor the development of our brands through market information that gives us insights into our leading positions versus our direct competitors. In our section on Operating environment on page 8 below we indicate the product areas in which we have leading or key strategic positions.

Key indicators people and sustainability

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

We regard safety as an essential element of a successful and sustainable business and take seriously our responsibility to provide a safe workplace. We aim to improve continuously the health, safety and well-being of everyone working for or on behalf of Unilever to a standard on a par with the very best of our peers. A key measure of our progress in this area is our total recordable accident frequency rate which counts all workplace accidents except those requiring only simple first aid treatment. In 2007 this decreased to 0.26 accidents per 100 000 hours worked, declining from 0.46 in 2004.

We are committed to meeting the needs of customers and consumers in an environmentally sound and sustainable manner, through continuous improvement in environmental performance in all our activities. We exercise the same concern for the environment wherever we operate and aim to reduce the environmental footprint of our business and brands. The environmental measures that we regard as the most significant in relation to our business are those relating to the amounts of CO_2 from energy that we produce, the water that we consume as part of our production processes, and the amount of waste that we generate. We continue to improve our performance across these measures, having reduced our CO_2 emissions from energy by 33.5%, our water use by 58.6% and our total waste by 69.3% per tonne of production over the period 1995 2006. In 2007 we set ourselves the further goal of achieving a 25% reduction in CO_2 emissions by 2012 (from a 2004 baseline), to give a total reduction of around 43% since 1995.

The table below shows the results for these indicators for the last three years for which independently assured (performed by firms other than Unilevers external auditors) data are available:

	2006	2005	2004
Total recordable accident frequency rate per 100 000 hours	0.33	0.39	0.46
CO_2 from energy per tonne of production (kg)	164.59	171.75	185.67
Water per tonne of production (m^3)	3.29	3.52	3.67
Total waste per tonne of production (kg)	7.46	8.74	9.79

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.

A comprehensive review of Unilevers social and environmental performance can be found in our annual Sustainable Development Report, available online at www.unilever.com Published in May 2008, our next Report will contain updated and independently assured results for 2007 for the measures above, as well as trend information that demonstrates our consistent performance over the longer term.

Please refer also to the Corporate responsibility and sustainability section on page 12 which highlights a number of key issues and activities in this area in 2007. Our Operating Review starting on page 15 also gives examples of the ways in which our brands are addressing consumers social and environmental concerns.

Ten-year trends in many of the measures described above, together with a range of other indicators, are included in the document Unilever Charts which can be found on our website at www.unilever.com/ourcompany/investorcentre/annual_reports

Organisation

The three building blocks of our organisation are regions, categories and functions.

Three regions Europe, the Americas and Asia Africa are responsible for managing Unilevers business and local market operations in their regions. They are primarily responsible for building relationships with customers, managing supply chain networks, and deploying brands and innovations effectively, focused on excellent execution in the marketplace. The regions are accountable for the delivery of in-year financial results including growth, profits and cash flow, and in-year development of market shares. The Europe region includes our operations in Western Europe and Central and Eastern Europe, and in 2007 accounted for approximately 38% of turnover. The Americas region includes our operations in North America and Latin America and represented around 33% of turnover. The Asia Africa region accounted for 29% of turnover, and includes our operations in the Middle East, Africa, South Asia, South East Asia, North East Asia and Australasia.

During 2008 changes will be made to the regional structures. Notably Central and Eastern Europe, will be managed as part of the Asia Africa region - further concentrating our focus on emerging markets.

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About Unilever continued

Two category teams Foods and Home and Personal Care are responsible for the development of category and brand strategies, the development of brand communication, and the delivery of relevant innovation. Categories also lead the strategic direction of the supply chain and are accountable for long-term value creation in the business, as measured by longer-term market share development, category growth, innovation metrics and brand health.

Building on the success of the One Unilever programme, Foods and Home and Personal Care will be brought together in 2008 in a single category structure.

Five functional teams Finance, HR, IT, Communications and Legal are responsible for providing value-adding business partnering, strategic support and competitive services to the whole business. They are each organised around the same basic principles of business partners, shared services and expertise teams.

Since 2005, the One Unilever programme has streamlined our business by creating a single operating company for each country combining previously separate Foods and Home and Personal Care operating units into a One Unilever company and by creating and outsourcing shared services centres for the back office operations of our Finance, HR and IT functions. In 2007, we announced new plans to accelerate change including the creation of multi-country organisations (MCOs) clusters of countries with a single centralised management and shared functions and further simplification of our regional supply chains.

Operating environment

Competition

We have a wide and diverse set of competitors in our categories. Many competitors also operate on an international scale, while others have a narrower regional or local focus.

Competition is a normal part of business. We aim to compete and provide added value to our consumers, customers and shareholders in three ways:

- by continually developing new and improved products that address relevant consumer needs and aspirations;
- by rolling out innovations and brand concepts across our businesses around the world; and
- by striving to lower the cost of our sourcing, manufacturing and distribution processes while ensuring the quality of our products.

Our businesses have established strong leadership positions typically number 1 or number 2 in the markets in which we are operating. In Foods, we hold the global number 1 position in savoury and dressings, spreads, tea-based beverages and ice cream. In home care, we hold the global number 2 position in laundry, with a number 1 position in many developing and emerging markets. In personal care, we hold the global number 1 position in mass skin care and deodorants, and the number 2 position in hair care. In oral care and household care, our strategy is focused on strong regional and local leadership positions in selected makets in Europe, Asia and Latin America.

Distribution

Unilevers 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.

Exports

We sell our products in over 150 countries around the world. In many countries we manufacture the products that we sell, while we also export products to countries where we do not have manufacturing operations. The chosen manufacturing network is generally determined by an optimised regional sourcing strategy which takes account of requirements for innovation, quality, service, cost and flexibility.

Seasonality

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. No individual element of seasonality is likely to be material to the results of the Group as a whole.

Related party transactions

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 2007 or the two preceding years.

For more information about related party transactions please refer also to note 30 on page 120.

Resources

Our brands

We have a strong and well differentiated portfolio of global and regional 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.

Twelve of our brands have global turnover in excess of €1 billion. These are *Knorr*, *Hellmann's, Lipton*, *Becel/Flora (Healthy Heart)*, *Rama/Blue Band (Family Goodness), Wall's/Algida (Heart brand), Omo, Surf, Dove, Lux, Rexona* (including *Sure* and *Degree*) and *Sunsilk* (including *Seda* and *Sedal*).

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

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

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Ice cream and beverages includes ice cream sold under the international *Heart* brand, 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.* This group also includes weight management products, principally *Slim•Fast*, and nutritionally enhanced products sold in developing markets, including *Annapurna* and *AdeS/Adez*.

Within these groups, we also include sales of our 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* 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 of 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*, *Skip* and *Snuggle*. Our household care products include surface cleaners and bleach, sold under the *Cif, Domestos* and *Sun/Sunlight* brands.

Corporate venture activities

Unilever has allocated €350 million to its venturing activities in order to create new business opportunities that have the potential to help build our core brands and business interests in Foods and Home and Personal Care. These activities include:

- Unilever Ventures, an early-stage business development fund for businesses from both inside and outside Unilever;
- Langholm Capital, an independent fund investing in private European companies with above-average longer-term growth prospects; and
- Physic Ventures, an early-stage venture capital fund investing in technology driven, consumer-directed health, wellness and sustainable living companies.

Our employees

Our One Unilever programme is already streamlining the business by creating single operating companies for each country and outsourcing parts of our IT, HR and Finance functions. In 2007 we announced plans to accelerate our change programme further by developing more multi-country organisations (MCOs) – clusters of countries with a single centralised management and shared functions. MCOs reduce duplication and free up resources to focus on customers and consumers. All regions announced or continued to implement MCOs in the year. The newly announced MCOs include Benelux; Germany, Austria and Switzerland; UK/Ireland; and Central Africa.

Our leaders make diversity a top business priority. Signalling this commitment, the Global Diversity Board draws together 15 leaders from all business functions and is chaired by Group Chief Executive Patrick Cescau. The board focuses on driving the diversity agenda into our business processes and tracking the progress of diversity initiatives. It also champions new ways of working to boost employees' personal vitality.

The Senior Executive Seminar, our pioneering leadership development programme, was led this year by leading business academic C K Prahalad. The event brought together 28 of our top leaders to examine key business issues, with a particularly strong external focus. They concentrated on developing and emerging markets, visiting more than 50 companies and 20 NGOs to gain insights into global trends and practices for opening up opportunities at the bottom of the economic pyramid. The groups findings have been shared with the Unilever Executive and Board of Directors, and are helping to shape further our approach in these markets.

Our Standards of Leadership programme is a set of behaviours aimed at ensuring that every manager takes personal responsibility for delivering Unilevers agenda through excellence in strategy execution. During the year, the framework was rolled out globally to an enthusiastic response. In Asia the process was particularly effective, with managers across 15 countries attending interactive workshops. Individuals made personal commitments to live the behaviours and to model them in their daily working lives.

We aim to offer our people stimulating ways to broaden their skills and experience while at the same time giving something back to the community. Salvatore Lucia, a Supply Chain Manager from Italy, was one of the Unilever specialists seconded to the World Food Programme (WFP) as part of their professional development. He is helping WFP Ghana deliver its school feeding and nutrition programme and learning valuable skills to bring back to the business.

We are committed to finding fresh ways of working that improve business effectiveness, enhance work-life balance and benefit the environment. We created four Telepresence video-conferencing rooms: in Englewood Cliffs, Rotterdam, London and Singapore. Telepresence uses high-definition video screens with life-size images around a single virtual table, to replicate as closely as possible a face-to-face meeting. It is also the first technology of its kind to be certified by the CarbonNeutral Company. A further eight rooms will be added in 2008.

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

Year end in thousands	**2007**	2006	2005	2004	2003
Europe	**43**	44	49	52	55
The Americas	**43**	45	47	47	50
Asia Africa	**88**	90	110	124	129
Total	**174**	179	206	223	234

The total reported numbers included approximately 26 000 part-time or seasonal employees in both 2007 and 2006.

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,

About Unilever continued

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 by Group Chief Executive Patrick Cescau, who has emphasised that diversity is critical to our business competitiveness and long-term sustainability.

Unilever is one of the worlds most culturally diverse companies, with 21 different nationalities represented among our top level group of 113 managers worldwide.

In 2007 we worked to embed diversity even more firmly into our day-to-day business decisions, via our talent management and people processes, from appointments to development. As part of the Human Resources planning process our businesses units are also developing specific diversity plans that are aligned to the priorities and needs of their regions and categories.

We continue to carry out quarterly measurement and tracking of diversity against our objectives, using the HR Strategy in Action tool. Gender remains an important priority and is reviewed by the Unilever Executive team (UEx).

Information technology

Unilever Information Technology is a global function, headed by a global Chief Information Officer, with a strategy to deliver competitive and cost effective IT solutions to support the business.

A common technology framework and standards for architecture, key technologies, processes, information and services allow Unilever to leverage its scale in IT. For example, this approach is supporting the setting up and the operation of regional shared services centres for back-office operations, notably in Finance and Human Resources, which in some cases are outsourced.

The IT function is a key enabler for the One Unilever change from a multi-local to a globally aligned business through:

- strategic alliances and partnerships with key global suppliers;
- improving IT capabilities and processes;
- improving overall IT infrastructure and service value; and
- strategic outsourcing in selected key areas.

The implementation across the Group of a world-class harmonised ERP system in each region in support of the One Unilever programme is progressing well. The Americas implementation has already been completed across the region, while two-thirds of our European business is now on a single instance ERP system with full implementation expected to be largely completed by the end of 2008. In Asia Africa, a phased implementation towards 2010 has seen the first four countries completed in 2007.

Unilever partners with a few major suppliers to develop the minimum number of non-overlapping IT systems needed to deliver the business objectives. This promotes radical simplification with 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 which 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 our best efforts to protect our brands and technology.

Property, plant and equipment

We have interests in properties in most of the countries where there are Unilever operations. However, none is material in the context of the Group as a whole. The properties are used predominantly to house production and distribution activities and as offices. There is a mixture of leased and owned property throughout the Group. There are no environmental issues affecting the properties which would have a material impact upon the Group, and there are no material encumbrances on our properties. Any difference between the market value of properties held by the Group and the amount at which they are included in the balance sheet is not significant. Please refer also to the schedule of principal group companies and non-current investments on page 132 and to details of property, plant and equipment in note 10 on page 88. We currently have no plans to construct new facilities or expand or improve our current facilities in a manner that is material to the Group.

Laws and regulation

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

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

Legal proceedings

We are not involved in any legal or arbitration proceedings which might lead to material loss or expenditure in the context of the Group results. Similarly we do not have any material obligations under environmental legislation. None of our Directors or Officers is involved in any legal proceedings which are material as aforesaid. Nonetheless, we comment on certain proceedings below:

Ice cream cases

Unilever has businesses in many countries and from time to time these are subject to investigation by competition and other regulatory authorities. One such matter under review is our ice cream distribution in Europe, specifically the exclusivity for the use of freezer cabinets provided to retailers free-on-loan for the sale of impulse ice cream. In September 2006 the European Court of Justice in Luxembourg (ECJ) dismissed the appeal by Unilevers Irish ice cream business, HB Ice Cream, of the 2003 Court of First Instance ('CFI') judgment that upheld the European Commissions 1998 decision to ban HB Ice Cream from imposing cabinet exclusivity in Ireland in circumstances where these were the only cabinets used by the retailer. The ECJ ruling is final as regards Ireland and ends 14 years of legal debate.

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Unilever has been fully compliant with the ruling in the Irish case since October 2003, when we lifted cabinet exclusivity from outlets that only have HB freezers (Unilever was not ordered to abandon cabinet exclusivity altogether). Parallel proceedings between HB Ice Cream and Masterfoods (re-named Mars) before the Irish High Court, which had been deferred pending the ECJ ruling, were reopened in 2007 at the request of Mars to claim damages from Unilever. We will resist any claim for compensation for losses that cannot be directly attributed to the practices prohibited by the European Commission's 1998 decision as regards Ireland.

The Commission decision applied only to Ireland. The relevance of its reasoning to other markets depends on a detailed factual assessment of the effects of cabinet exclusivity in each market. Unilever has given careful consideration to the potential application of the reasoning in the Irish case to its cabinet policies in other EU countries. The majority of markets are not affected by this development. However we have taken a number of commercial steps to avoid extending the debate further, in the interest of focusing on our day-to-day business.

Since the ECJ ruling, Mars has nonetheless sought to bring claims against Unilever before authorities and courts in a number of countries. Mars' allegations must be scrutinised in the light of prevailing national market conditions, this can be a complex and lengthy process. However by 26 October 2007 a civil claim by Mars in Germany had already been dismissed by the Hamburg Regional Court. Although Mars has appealed this decision, we will continue vigorously to resist Mars' claim.

Mars also brought a claim before the Swedish Market Court, which on 25 September 2007 issued an interim order that broadly reflects Unilever's current policy as regards the loan of freezer cabinets, namely that retail customers in Sweden must be free to decide what products to store in Unilever cabinets where these are the only cabinets used by the retailer. The Court's order did not require material changes beyond those already made by Unilever's Swedish business, GB Glace. The main proceedings remain ongoing but the Market Court does not have jurisdiction to make damages awards.

An investigation by the Portuguese competition authority is ongoing since March 2007. Portuguese law prevents us from disclosing details of this investigation. Unilever engages proactively with the authority.

In Italy the Consiglio di Stato overturned a 2003 decision by the Italian competition authority ('ICA') that responded positively to a notification by Unilever of its policy in relation to outlet exclusivity. The Consiglio di Stato made its decision on 24 July 2007 on the basis that Unilever's market position in Italy had not been sufficiently investigated by the ICA. Unilever has always engaged proactively with the ICA and continues to do so to secure a prompt resolution to the outstanding issues.

We cannot exclude that Mars may seek to bring claims in other jurisdictions, in which case Unilever can be expected to defend its position vigorously. We believe that our true strength lies in the appeal and quality of our ice cream brands. By way of illustration of the point, in the UK since 2000, when cabinet exclusivity was effectively abandoned by Unilever, there has not been any material change in Unilever's relevant market share.

Other competition issues

In 2006 the French competition authorities commenced an inquiry into potential competition law infringements in France involving a number of consumer goods companies in the home and personal care sector, including Unilever France and Lever Fabergé France, both subsidiaries of the Unilever Group. Interviews have been conducted with present and former members of our staff and documents have been supplied to the French authorities. No statement of objections or proposals for fines have yet been lodged against either Unilever France or Lever Fabergé France as the authorities' investigation has had to be restarted following procedural challenge. Accordingly, the potential financial implications, if any, of this investigation cannot yet be assessed. A statement of objections is however expected in the near future.

On 14 March 2007 representatives from the German Federal Cartel Office carried out an inspection at the offices of Unilever Deutschland GmbH in Hamburg. The inspection was in relation to the home and personal care market in Germany. Statements of objections have been received by and fines have been imposed on Unilever Deutschland, which currently intends to defend its position by way of appeal.

On 25 February 2008, a purported class action lawsuit was filed in the United States of America in the United States District Court for the Northern District of Illinois alleging, relying upon the German investigation described above, that Unilever N.V., Unilever PLC and Unilever United States, Inc. allegedly conspired with certain other companies to fix prices of oral, home and personal care products in the United States. The Unilever parties deny the claims and intend to defend the action.

Tax cases Brazil

During 2004 the Federal Supreme Court in Brazil (local acronym STF) announced a review of certain cases that it had previously decided in favour of taxpayers. Because of this action we established a provision in 2004 for the potential repayment of sales tax credits in the event that the cases establishing precedents in our favour are reversed. Since that time we have continued to monitor the situation and have made changes as appropriate to the amount provided.

In June 2007, the Supreme Court ruled against the taxpayers in one of these cases. Management believes that the amount provided in Unilever's accounts should be sufficient to cover the amount of the tax in question, but industry associations (of which Unilever is a member) are currently attempting to negotiate a settlement with the Federal Revenue Service to reduce or avoid the payment of interest and/or penalties on such amounts. Management is optimistic that such negotiations will lead to a settlement, but no assurance can be given that a settlement will be reached or that the amount of any interest or penalties will be covered by such provision.

Also during 2004 in Brazil, and in common with many other businesses operating in that country, one of our Brazilian subsidiaries received a notice of infringement from the Federal Revenue Service. The notice alleges that a 2001 reorganisation of our local corporate structure was undertaken without valid business purpose. If upheld, the notice could result in a tax claim in respect of prior years. The 2001 reorganisation was comparable with that used by many companies in Brazil and we believe that the likelihood of a successful challenge by the tax authorities is remote. While this view is supported by the opinion of outside counsel there can be no guarantee of success on the merits.

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About Unilever continued

Preference shares

In 1999, NV issued cumulative preference shares, with a notional value of €6.58 (Fl.14.50), as an alternative to a cash dividend. On 24 March 2004, NV announced its intention to convert part (€6.53 equivalent to Fl.14.40) of the notional value of the preference shares, in accordance with its Articles of Association, into NV ordinary shares in the first quarter of 2005. This conversion took place in February 2005 for a value of €4.55 for each preference share. In May 2005, NVs Annual General Meeting decided to cancel the preference shares and cancellation took effect in July 2005.

In November 2006 NV announced that it had agreed a settlement with the main parties in a legal dispute over the conversion of the preference shares. Former preference shareholders who held preference shares on 24 March 2004 were entitled to participate in the settlement. These shareholders could apply for the settlement from 20 January 2007 up to and including 30 June 2007. Unilever has paid €304 million in respect of the settlement (further information in note 19 on page 102).

A group of former preference shareholders who had bought their preference shares after 24 March 2004 and who are not entitled to the settlement, instituted claims with the Rotterdam District Court for nullification of the NV Boards decision to convert the preference shares and NVs Annual General Meeting decision to cancel the preference shares. The Rotterdam District Court has not yet decided on these claims. They also claim damages in the amount of approximately €81 million. These claims will be vigorously contested.

Corporate responsibility and sustainability

We aim to manage and grow our business around the world in a responsible and sustainable way, creating long-term value for all those with a stake in our business.

We believe our brands must be at the forefront of delivering our sustainability commitments. The successful brands of the future will be those that satisfy both the functional needs of consumers and address their concerns as citizens including concerns about the environment and social justice.

To enable our brands to integrate social and environmental drivers into their development plans in a structured way, we are rolling out a programme called Brand Imprint. This helps our managers to understand and assess the challenges and opportunities that sustainability presents for our business. An early example of the potential of Brand Imprint is our decision to put the sourcing of all our tea on to a sustainable, ethical basis and to work with the Rainforest Alliance to achieve certification for our tea estates. *Lipton* the worlds largest tea brand, and *PG Tips*, one of the UKs leading brands, became the first to carry the Rainforest Alliance logo, showing that they meet the independent organisations strict sustainability criteria.

Another significant step was taken by our ice cream brand *Ben & Jerrys*, which announced plans to invest €2.4 million over the five years 2007-2012 in reducing its impact on climate change through initiatives covering every stage of its European production process.

Our ambitions for our brands are underpinned by our Mission and Corporate Purpose and our Code of Business Principles. These encapsulate the values and standards by which we expect our employees and our business to be judged. We communicate and monitor these standards actively and any lapses are fully investigated: in 2007 we dismissed 54 people for conduct that breached our Code of Business Principles.

To reinforce this commitment and maintain our operational integrity, we seek to share these standards with our suppliers and contractors through our Business Partner Code. This sets out standards on ten key points of business ethics, labour standards, consumer safety and the environment.

In 2007 we reviewed our sustainability strategies for agriculture (from which about two-thirds of our raw materials come), packaging, water and greenhouse gases to connect them more closely to our business objectives.

Our targets in these areas will help us control costs, respond to our customers and consumers desire to reduce waste and open up avenues for innovation that benefit our consumers, for example concentrated laundry products such as *all Small & Mighty*. *Small & Mightys* consumer and environmental benefits were promoted by Wal-Mart, helping the brand to grow its sales in the US to US $140 million in 2007. *Small & Mighty*, which uses less water, less packaging and less fuel for transport, has now launched in Europe across the brand portfolio, for example *Persil*, *Surf* and *Omo*.

Many of our major retail customers are focusing on sustainability and, by sharing our expertise in this area, we are able to strengthen our relationships with them and grow our business. For example, the success of our ongoing partnership with Wal-Mart led the worlds largest retailer to name us 2007 Supplier of the Year for Sustainable Engagement.

We continue to work in partnership in fields where we can contribute our expertise. The breadth of our portfolio means we are uniquely placed to share our understanding of how to run effective programmes to improve both nutrition and hygiene. For example, through our partnership with the UN World Food Programme we are working to improve the health and nutrition of poor children through school feeding programmes, providing over 15 million school meals to 80 000 children in 2007. With the FDI World Dental Federation we are running projects to improve oral care in 38 countries. In 2007 we contributed €89 million to communities through corporate and brand initiatives.

In 2007 the strength of our commitment to sustainable development was recognised by our ranking as foods producers sector leader of the Dow Jones Sustainability Indexes for the ninth year running. We were also ranked best in class in the food products sector of the fifth Carbon Disclosure Project (a coalition of over 315 global investors with combined assets in excess of US $41 trillion) and named in its Climate Disclosure Leadership Index in recognition of our efforts to address the challenges of climate change.

Further details of the progress we are making to integrate sustainability into our day-to-day business operations can be found in our annual Sustainable Development Report, available at www.unilever.com

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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

Our strategy is to focus our resources on our priority areas of Vitality, personal care, and developing and emerging markets, where we are well placed to achieve sustainable profitable growth with our brands and strong value creation for our shareholders. This is the basis for our strategic plan which aims to deliver consistent and competitive underlying sales growth in the 3-5% growth range per annum and an operating margin improving to a level in excess of 15% by 2010. The underlying sales growth range is based on market growth of typically around 3-4%, and reflects our ambition to strengthen our leadership positions over time.

In August 2007, we announced new plans to accelerate change of Unilever, including a step-up in innovation, plans to shape our portfolio, and measures to improve our margins, to strengthen and further enhance Unilever's financial performance.

These plans include the creation of multi-country organisations in all regions, closure or streamlining of 50-60 factories and a further reduction in global and regional overheads. These changes aim to deliver a reduction in our annual cost base by around €1.5 billion by the end of 2010, compared with our 2006 cost base. The related restructuring charges are estimated to amount to about 2.5% of sales on average per annum in the period 2007–2009. For 2010 and beyond, we expect restructuring costs to come down to a 'normal' level of 0.5% to 1% of turnover per annum.

We also announced our intention to dispose of brands and businesses with a combined turnover in excess of €2 billion, including the sale of our North American laundry business. The focus is on brands that do not have a longer-term strategic fit with our strategy and business model or have a strategically disadvantaged position in their particular markets. These value-enhancing disposals are expected to collectively improve the underlying sales growth rate of our business by around 0.4 percentage points and will be neutral to operating margin, after removal of uncovered costs.

We also expect to improve our return on invested capital over time, above the base level of 11% in 2004, and to generate ungeared free cash flow of €25-30 billion over the period 2005–2010. It should be noted that previous and planned disposals and the additional restructuring plans will have reduced ungeared free cash flow by about €2.5 billion over this period, while enhancing the ongoing cash generating capacity of the business.

In February 2008 we indicated that in 2008 we expect underlying sales growth to be towards the upper end of our 3-5% target range, and to see a further underlying improvement in operating margin. In the three-year period 2005–2007, Unilever generated a cumulative ungeared free cash flow of €12 billion, towards the €25-30 billion target for the six-year period 2005–2010.

Risk management

Unilever's system of risk management is outlined on page 66. Responsibility for establishing a coherent framework for the Group to manage risk resides with the Boards. The remit of the Boards is outlined on page 33.

Particular risks and uncertainties that could cause actual results to vary from those described in forward-looking statements within this document, or which could impact on our ability to meet our published targets, have been identified. Unilever has described some mitigating actions it intends to take to address the risks set out below. These actions may not succeed in mitigating these risks. Additionally, Unilever may not be successful in deploying some or all of these mitigating actions, which may impair Unilever's profitability or adversely impact its reputation.

Sales and profit growth

The increasingly competitive environment, the further consolidation in the marketplace and continued growth of discounters could adversely impact our rate of sales growth and our profit margins. In the light of this, we will continue to invest in selected brands and high growth market areas in an effort to deliver profitable sales growth.

During 2007 we have reinforced our ability to deliver growth by continuing to dispose of low growth or non relevant components in the category portfolio (i.e. those that do not fit with the strategy). This we believe has the impact of concentrating brand strength and therefore reducing the risk of brand equity loss or impairment in our global brands. It also improves our overall competitive position on a global basis by shifting more turnover weight into high growth-high share business as a percentage of our total portfolio. We will continue to actively manage our portfolio with the goal of improving investor returns by strengthening the competitive position of our business. This, we believe, will also reduce business risk by minimising the weakness in our portfolio.

Our continued sales and profit growth depends in large part on our ability to generate and implement a stream of consumer-relevant improvements to our products. The contribution of innovation is affected by the level of funding that can be made available, the technical capability of the research and development functions, and the success of operating management in rolling out quickly the resulting improvements. Our focus will continue to be on developing our brands in ways that are distinctive and are relevant for our customers.

We have a number of large global brands, including 12 with an annual turnover greater than €1 billion, which often depend on global or regional development and supply chains. Any adverse event affecting consumer confidence or continuity of supply of such a brand could have an impact in many markets. The carrying value of intangible assets associated with our brands is significant, and depends on the future success of those brands. There remains a risk that events affecting one or more of our global brands could potentially impair the value of those brands.

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Outlook and risks continued

As the retail market place through which our products are distributed continues to evolve, our growth and profitability can be threatened if we do not adapt our strategies and enhance our operational capabilities. It is important that we continue to build and deepen relationships with our customers. Plans to raise our effectiveness in the trade, where necessary, receive increasing attention at all levels.

Change initiatives

The continuing restructuring of the business which is designed to simplify our operations and leverage our scale more effectively, includes outsourcing back office support operations, forming multi-country organisations and converging regional processes and systems. Building on the experiences of 2007, we will continue to manage the risks in this area diligently and develop clear action plans in an attempt to mitigate these risks. Key to this is the establishment and maintenance of project management processes to monitor progress against milestones and targets together with appropriate communication programmes.

People

Unilever's performance targets require it to have the right calibre of people at all levels. We must compete to obtain capable recruits for the business, and then train them in the skills and competencies that we need to deliver profitable growth. At a time of substantial change in the business there is a particular focus on creating alignment and energetic leadership.

Corporate reputation

Unilever has created a strong corporate reputation over many years, and many of our businesses have a high local profile. This reputation is underpinned by ensuring that all employees embrace the principles prescribed in our Code of Business Principles. Unilever products carrying our well-known brand names are sold in over 150 countries. Should we fail to meet high product safety, social, environmental and ethical standards in all our operations and activities, Unilever's corporate reputation could be damaged, leading to the rejection of our products by consumers, damage to our brands and diversion of management time into rebuilding our reputation.

Potential economic instability

Around 44% of Unilever's turnover comes from the developing and emerging economies. We have long experience in these markets, which are also an important source of our growth. These economies are typically more volatile than those in the developed world, and there is a risk of downturns in consumer demand that would reduce the sales of our products. We will continue to monitor closely performance in the most volatile markets and respond quickly in an effort to protect our business. In cases of extreme social disruption, protecting our people is always the priority.

Price and supply of raw materials and commodities contracts

We faced significant increases in the cost of various commodities and raw and packing materials throughout the year. We have been able to substantially mitigate these through a combination of price increases, supply chain savings and mix improvements. We see a trend of increasing commodity prices going into 2008. In addition to our ongoing actions to mitigate these risks, and where appropriate, we purchase forward contracts for raw materials and commodities. Where appropriate, we also use futures contracts to hedge future price movements, however, the amounts are not material.

Insurance of risks

As a multinational group with diverse product offerings and operations in around 100 countries, Unilever is subject to varying degrees of risk and uncertainty. It does not take out insurance against all risks and retains a significant element of exposure to those risks against which it does insure. However, it insures its business assets in each country against insurable risks as it deems appropriate.

Financial risks

In addition to the above, Unilever is exposed to various specific risks in connection with its financial operations and results. These include the following:

- the impact of movement in equity markets, interest rates and life expectancy on net pension liabilities;
- maintenance of group cash flows at an appropriate level;
- exposure of debt and cash positions to changes in interest rates;
- potential impact of changes in exchange rates on the Groups earnings and on the translation of its underlying net assets;
- market liquidity and counterparty risks; and
- risks associated with the holding of our own shares in connection with share-based remuneration schemes.

Further information about these, including sensitivity analysis to changes in certain of the key measures, is given in note 17 on pages 100 and 101 and note 20 on page 105.

Other risks

Unilevers businesses are exposed to varying degrees of risk and uncertainty related to other factors including competitive pricing, consumption levels, physical risks, legislative, fiscal, tax and regulatory developments, terrorism and economic, political, and social conditions in the environments where we operate. All of these risks could materially affect the Groups business, our turnover, operating profit, net profit, net assets and liquidity. There may be risks which are unknown to Unilever or which are currently believed to be immaterial.

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Operating Review Regions

Basis of reporting

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

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

The reconciliation of USG to changes in turnover for each of our reporting regions is given in the following section, and for the Group in total on page 32.

The reporting in this section is based on results for continuing operations. Information about discontinued operations is given in note 27 on page 114.

Europe

2007 compared with 2006

	€ million 2007	€ million 2006
Turnover	**15 205**	15 000
Operating profit	**1 678**	1 903
Operating margin	**11.0%**	12.7%
Restructuring, business disposals, impairment charges and one-time gain (2006) on UK pension plans included in operating margin	**(4.0)%**	(1.4)%
	%	
Underlying sales growth at constant rates	**2.8**	
Effect of acquisitions	**0.0**	
Effect of disposals	**(1.5)**	
Effect of exchange rates	**0.0**	
Turnover growth at current rates	**1.4**	
	%	
Operating profit 2007 vs 2006		
Change at current rates	**(11.9)**	
Change at constant rates	**(11.7)**	

Turnover at current rates of exchange rose by 1.4%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 11.9%, after including an adverse currency movement of 0.2%. 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.

The region sustained its improving trend in 2007 with underlying sales growth of 2.8% for the year. The improvement was driven by relentless focus on better in-market execution, rejuvenation of the quality and value of our core products, and an introduction of new innovations. Consumer demand in our categories was steady throughout the year.

Overall we saw improving trends almost everywhere. Russia was the outstanding performer, but all major countries grew in the year, including the UK, Germany, Italy and the Netherlands. In France sales were slightly up in a challenging market.

The operating margin, at 11.0% for the year, reflects a higher net charge for restructuring, disposals and one-off items compared with 2006. Before these items, the operating margin showed an underlying improvement of 0.9 percentage points, driven by lower overheads as a result of the One Unilever programme and reduced advertising and promotions costs.

We made substantial progress with portfolio development and restructuring.

At the start of 2008 we completed the expansion of the successful international partnership for *Lipton* ready-to-drink tea with PepsiCo to include all countries in Europe. We also completed the sale of Boursin, and announced the acquisition of the leading Russian ice cream company Inmarko.

We formed four new multi-country organisations and announced the streamlining or closure of ten factories. The roll-out of a single SAP system across the region continues, with two-thirds of turnover in the region now on stream and full implementation expected to be largely completed by the end of 2008.

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

The new *Dove pro•age* range of products is building well in Europe as well as elsewhere, and *Dove Summer Glow* self-tanning and body lotions are now available in most countries. *Clear* anti-dandruff shampoo was launched in Russia, with good consumer response. *Small & Mighty* concentrated liquid laundry detergents were launched in seven European countries.

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Report of the Directors continued

Operating Review Regions continued

Europe (continued)

2006 compared with 2005

	€ million 2006	€ million 2005
Turnover	15 000	14 940
Operating profit	1 903	2 064
Operating margin	12.7%	13.8%
Restructuring, business disposals, impairment charges and one-time gain (2006) on UK pension plans included in operating margin	(1.4)%	(0.9)%

	%
Underlying sales growth at constant rates	1.0
Effect of acquisitions	0.1
Effect of disposals	(0.9)
Effect of exchange rates	0.2
Turnover growth at current rates	0.4

	%
Operating profit 2006 vs 2005	
Change at current rates	(7.7)
Change at constant rates	(7.9)

Turnover at current rates of exchange rose by 0.4%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 7.7%, after including a favourable currency movement of 0.2% . 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.

The UK, our largest European business, returned to growth in the year with good results across several foods and personal care ranges. Although laundry sales declined, there were promising signs of progress in market share with *Persil* regaining its position as the countrys leading laundry brand. The Netherlands had a strong year. A pioneer of One Unilever, it benefited from operating as a single company. Highlights were rapid growth for *Lipton, Dove, Rexona* and *Axe*. France remained a difficult market with sales lower in spreads, laundry and hair care. New management was put in place and there was an improvement in the second half of the year. Sales in Germany held up better in 2006. There was good growth for personal care brands but some turnover in *Lipton* ice tea was lost following changes in rules for bottle returns. Central and Eastern Europe continued to do well, driven by double-digit growth in Russia.

The sale of the majority of our European frozen foods businesses to Permira was successfully completed during the year.

Our 2006 innovation programmes resulted in our Foods brands wholeheartedly embracing the concept of Vitality, with new products designed to deliver the health benefits that consumers seek. *Rama/Blue Band Idea!* spreads with added nutrients which are beneficial to childrens mental development was launched in 2006.

A range of *Knorr* bouillon cubes with selected natural ingredients and a better, richer taste was rolled out across the region, while *Knorr Vie* one-shot fruit and vegetable products became available in 12 countries. Meanwhile, Latin America's *AdeS* drink, a healthy blend of fruit juices and soya, was launched successfully in the UK as *AdeZ*.

Product launches with clear functional or emotional benefits in Home and Personal Care brands were rolled out rapidly across the region. A range of new *Dove* launches included the moisturising self-tan *Dove Summer Glow*. Meanwhile in household care, we introduced *Domestos 5x* which continues to kill germs even after several flushes and the cleaning power of *Cif* was applied to a series of power sprays.

The operating margin, at 12.7%, was 1.1 percentage points lower than in 2005, with higher net costs for restructuring, disposals and impairments, partially offset by a one-time gain of €120 million from changes to the UK pensions plan. Before these items, the operating margin would have been 0.6 percentage points lower than in 2005. Margins in Foods were lower than in 2005 as we absorbed significant increases in commodity costs which were only partly compensated by savings programmes.

The Americas

2007 compared with 2006

	€ million 2007	€ million 2006
Turnover	**13 442**	13 779
Operating profit	**1 971**	2 178
Operating margin	**14.7%**	15.8%
Restructuring, business disposals, impairment charges and one-time gain (2006) on US healthcare plans included in operating margin	**(0.7)%**	0.0%

	%
Underlying sales growth at constant rates	**4.1**
Effect of acquisitions	**0.1**
Effect of disposals	**(0.6)**
Effect of exchange rates	**(5.8)**
Turnover growth at current rates	**(2.4)**

	%
Operating profit 2007 vs 2006	
Change at current rates	**(9.5)**
Change at constant rates	**(3.4)**

Turnover at current rates of exchange fell by 2.4%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 9.5%, after including an adverse currency movement of 6.1%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.

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Report of the Directors continued

Operating Review Regions continued

The Americas (continued)

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

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

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

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

The One Unilever programme is simplifying operations throughout the region. Argentina, Mexico and Brazil all moved to single head offices in 2007, while the US will follow in early 2008. Sales force integration is under way in a number of countries. A single SAP system has been implemented in the US, with Latin America already on one system.

We set up a joint venture with Perdigão to develop our heart-health margarine *Becel* in Brazil and disposed of our local Brazilian margarine brands. We also announced an agreement for the disposal of Lawrys seasonings, while the sale process of the North American laundry business is under way.

New varieties of *Knorr* bouillons and soups in Latin America further advanced the brands Vitality credentials. *Hellmanns* real campaign highlights its simple ingredients which are naturally rich in Omega 3, in both the US and Latin America. In the US, we introduced *Promise Activ SuperShots*, a Vitality shot with added natural plant sterols, ingredients that are clinically proven to help actively remove cholesterol as part of a diet low in saturated fat and cholesterol.

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

2006 compared with 2005

	€ million 2006	€ million 2005
Turnover	13 779	13 179
Operating profit	2 178	1 719
Operating margin	15.8%	13.0%
	0.0%	(3.4)%

Restructuring, business disposals, impairment charges and one-time gain (2006)
on US healthcare plans included in operating margin

	%
Underlying sales growth at constant rates	3.7
Effect of acquisitions	0.1
Effect of disposals	(0.7)
Effect of exchange rates	1.4
Turnover growth at current rates	4.6

	%
Operating profit 2006 vs 2005	
Change at current rates	26.7
Change at constant rates	25.0

Turnover at current rates of exchange rose by 4.6%, 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 26.7%, after including a favourable currency movement of 1.4%. 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.

Sales in Brazil picked up well after a slow start, with very good innovation-driven performances in hair, deodorants and laundry. *Omo*s brand share was at its highest level for many years.

Sales in Mexico were lower for the year, affected by a combination of a decline in the traditional retail trade and local low-priced competition. In addition, there were several operational issues which have since been addressed. The business returned to growth in the fourth quarter. Elsewhere there was good growth in Argentina, Central America and Venezuela. Taken together, sales in Latin America were ahead by 5.8% with Home and Personal Care brands continuing to do well. However, there was more modest growth in Foods brands due to tough local competition.

New products introduced in the US included *Wish-Bone Salad Spritzers* with one calorie per spray, further development of the *Bertolli* premium frozen meal range, and *Lipton* pyramid tea bags. Across the region, new *Knorr* soups and bouillons catered for local tastes. The highly successful *AdeS* nutritional drink has been extended with a light variant, new fruit flavours and the launch of soymilk in Brazil and Mexico.

We strengthened our hair portfolio with the launch of *Sunsilk*, improved both the *Suave* and *Dove* haircare lines and sold the Aquanet and Finesse brands. We had a good sales response to

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Report of the Directors continued

Operating Review Regions continued

The Americas (continued)

all Small & Mighty concentrated liquid detergents. These use reduced-size packaging to save water, cardboard and energy in production, packaging and transport. They are also easier for consumers to carry, pour and store. We then applied *all Small & Mighty*s product technology to fabric conditioners, creating *Snuggle Exhilarations* a three-times more concentrated premium sub-range delivering superior fragrance. In Brazil, *Omo* has been further strengthened with a new top-performance product including baby and foam control variants.

The operating margin, at 15.8%, was 2.8 percentage points higher than in 2005. There were lower costs for restructuring, disposals and impairments, and a one-time benefit in 2006 of €146 million from changes to US healthcare plans. In 2005 there was a gain on the sale of an office. Before these items the operating margin would have been 0.3 percentage points lower than the previous year. Innovation-driven marketing mix, pricing and productivity offset high commodity costs. Advertising and promotions were increased to support major brand launches.

Asia Africa

2007 compared with 2006

	€ million 2007	€ million 2006
Turnover	**11 540**	10 863
Operating profit	**1 596**	1 327
Operating margin	**13.8%**	12.2%
Restructuring, business disposals and impairment charges included in operating margin	**1.1%**	(0.3)%
	%	
Underlying sales growth at constant rates	**11.1**	
Effect of acquisitions	**0.1**	
Effect of disposals	**(0.4)**	
Effect of exchange rates	**(4.0)**	
Turnover growth at current rates	**6.2**	
	%	
Operating profit 2007 vs 2006		
Change at current rates	**20.2**	
Change at constant rates	**27.6**	

Turnover at current rates of exchange rose by 6.2%, 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 20.2%, after including an adverse currency movement of 7.4%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.

The strong underlying growth of 11.1% for the year reflects both the vibrancy of these markets and the high priority we place on building our business in the region. It includes a healthy balance of volume and price, up by over 7% and 3% respectively.

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

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

The operating margin, at 13.8%, was 1.6 percentage points higher than last year. This included the €214 million accounting profit resulting from the reorganisation of our shareholdings in South Africa. Before the effects of this transaction, disposals and restructuring charges, the operating margin showed an underlying increase of 0.2 percentage points. The improvement was driven by volume growth, pricing actions and savings programmes which more than offset higher input costs and increased advertising and promotions.

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

As part of the One Unilever programme we now have a single SAP system in place in four countries as the basis for a common regional platform, while the reorganisation of our shareholdings in South Africa and Israel facilitates the new organisation.

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

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

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Report of the Directors continued

Operating Review Regions continued

Asia Africa (continued)

2006 compared with 2005

	€ million 2006	€ million 2005
Turnover	10 863	10 282
Operating profit	1 327	1 291
Operating margin	12.2%	12.6%
Restructuring, business disposals and impairment charges included in operating margin	(0.3)%	0.0%
	%	
Underlying sales growth at constant rates	7.7	
Effect of acquisitions	0.0	
Effect of disposals	(0.8)	
Effect of exchange rates	(1.1)	
Turnover growth at current rates	5.7	
	%	
Operating profit 2006 vs 2005		
Change at current rates	2.8	
Change at constant rates	4.0	

Turnover at current rates of exchange rose by 5.7%, 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 2.8%, after including an adverse currency movement of 1.2%. 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.

Markets remained buoyant in most of the key countries though there was a slowdown in consumer spending in Thailand. Underlying sales growth of 7.7% was broadly based and our aggregate market shares remained stable.

India grew well across major sectors. A mix of global, regional and local brands drove growth, notably *Wheel* and *Surf Excel* in laundry, and *Clinic* in haircare. A second year of excellent growth in China stemmed from a combination of market growth, better distribution and innovations behind global brands such as *Omo, Lux* and *Ps*, as well as the local toothpaste brand, *Zhonghua*.

Indonesia sustained good momentum, not only in the large Home and Personal Care ranges but also in Foods as a result of strong performances in ice cream and savoury. Thailand had a disappointing year through weak demand and intense competition. A major programme of activities was undertaken to correct this.

Australia experienced a much improved performance with share gains in a number of areas. In Japan, *Lux Super Rich* the leading brand performed well despite a major brand launch by a competitor. However, *Dove* and *Mods* lost share.

Savoury, ice cream, laundry and household care brands were the main drivers of strong growth in Turkey, while sales in Arabia were well ahead.

In South Africa, aggressive price promotions by a local competitor have reduced laundry sales, but there were strong growth and share gains in Foods.

Innovation was increasingly driven globally and regionally, rather than locally. The new *Sunsilk* range was introduced in most major markets, and in laundry the Dirt is Good positioning was established across the region. *Pond's Age Miracle*, incorporating unique technology and designed specifically for Asian skin, was launched in four countries. Meanwhile the latest global *Axe/Lynx* fragrance, *Click*, was introduced in Australia and New Zealand.

As in the rest of the world, the Foods innovation programme focused on Vitality. *Moo*, a wholesome children's ice cream range based on the goodness of milk, was very well received by mothers and children alike and proved successful in South East Asia. Healthy green tea innovations were rolled out extensively, while in South Africa marketing for *Rama* margarine now communicates the product's healthy oils. Addressing the needs of lower income consumers, low-priced *Knorr* stock cubes – already successful in Latin America – were also introduced in the region.

The operating margin at 12.2% was 0.4 percentage points lower than in 2005. Before the impact of restructuring, disposals and impairments, the operating margin would have been in line with the previous year. The benefits to margin of strong volume growth and savings programmes were fully offset by higher commodity costs and other cost inflation which could not be fully recovered in pricing.

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Operating Review Categories

Our brands are household names in many countries around the world. We create products that appeal to peoples different preferences, based on our deep understanding of consumers varied habits and lifestyles.

Food and nutrition

We aim to provide foods which both taste great and are good for you, and, in so doing, become the worlds leading food and nutrition business.

To fulfil our goal, we are systematically improving the nutritional profile of our product range through our Nutrition Enhancement Programme. By the end of 2007 we had assessed the nutritional composition of all our products totalling over 22 000 recipes and removed a further 2 750 tonnes of saturated fat, 170 tonnes of salt and 5 000 tonnes of sugar. This is in addition to the substantial reductions already made by 2006.

We are also committed to ensuring that consumers are able to make informed choices when buying our products. As well as listing nutritional information on the back of packaging, we are implementing the Choices programme, with a front-of-pack stamp that identifies products which meet internationally accepted dietary advice. In 2007 we continued rolling the programme out globally together with other food companies, under the auspices of the Choices International Foundation. This was launched during 2007 and is advised by an independent scientific committee. The stamp can now be found on products in more than 50 countries around the world. See www.choicesinternational.org for more information.

We focus on three key areas of consumer benefit when developing new products: functional foods, lighter options, and naturalness and authenticity. For example, in 2007 we developed *Promise Activ SuperShots*, a Vitality shot with added natural plant sterols, ingredients that are clinically proven to help actively remove cholesterol as part of a diet low in saturated fat and cholesterol.

Meanwhile, *Hellmanns Extra Light* uses citrus fibre to create a great tasting, very low-fat mayonnaise. Because of its low-fat content the product has a higher margin particularly valuable at a time of increasing edible oil costs.

Lipton Green Tea in the US, *Lipton Linea* slimming teas in Europe, and *Lipton Milk Teas* in Asia all flourished by exploiting teas credentials as a healthy beverage. And a new range of restaurant-quality frozen meals from *Bertolli*, which are packed with fresh vegetables and ready to eat in minutes, was a hit with North American consumers.

Health, hygiene and beauty

The desire to be clean and healthy and to look good is universal. Our home and personal care brands have promoted health, hygiene and beauty since the late 19th century and continue to play a vital role in millions of homes around the world today.

In 2007 our household cleaning business had a particularly successful year, with brands such as *Cif* and *Domestos* helping it grow by 9%. From simple soap bars to the most technically advanced concentrated liquids, our laundry brands are also growing fast.

In skin care, the *Ponds* brand went from strength to strength in South East Asia, China and India, powered in part by the launch of a new anti-ageing range. *Vaseline* was our fastest-growing global skin brand, with underlying sales growth of more than 8%. *Vaseline Cocoa Butter* range was its most successful launch in the US in ten years. The brand also announced the *Vaseline* Skin Fund, which is expected to launch in the UK and the US in 2008 and give 1 million people better access to information about managing skin complaints.

Our deodorant brands also made good progress in 2007, with *Axe* and *Rexona* both achieving double-digit growth. *Rexona* is the world's leading deodorant brand and *Axe* holds a leading position in male deodorants.

Oral Care returned to growth in Europe while continuing its robust performance in Indonesia, China and Africa – aided by innovations such as a combined toothpaste and mouthwash. During the year we announced the extension of our partnership with the FDI World Dental Federation, which represents more than 1 million dentists and we work together with the FDI in oral health promotion and education programmes.

Science and technology

We are proud of our reputation as a world leader in research and development (R&D). In 2007 we achieved growth across our categories both through innovation – new products and new mixes – and through renovation – the strengthening of existing brands with new variants, packaging or advertising.

We strive to bring innovations to market more swiftly than ever before. Following the completion of a major reorganisation of our R&D activities, we have concentrated research and development in global and regional centres in order to make the very best use of our resources and create centres which are innovation powerhouses. We are also increasingly working on fewer, larger scale projects, having carefully chosen those that we think will deliver the most value to the business either in terms of product sales or margin improvements.

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Operating Review Categories continued

Recent developments include *Amaze Brainfood* a range of nutritious snacks and drinks that are specifically designed to support mental development in children. The 2006 launch was the result of a €40 million, four-year R&D project. Already selling well in Turkey, *Amaze* is expected to launch in India in 2008.

We have also developed a breakthrough technology that includes the use of Ice Structuring Proteins (ISP) in ice cream. This enables a wide range of ice cream innovations, including significantly healthier options and better quality ice cream. Ice creams that contain ISP are available in a number of countries in the Americas and Asia Africa regions. For Europe, regulatory approval is being sought under the EC Novel Foods Regulation.

In the kitchen, new *Sunlight* hand dishwashing liquid keeps working on the sponge for longer because it turns to gel on contact with water. Its ultra-concentrated formula uses less water in the production process and less packaging. It is being rolled out in eight countries. And the environmentally friendly lightweight design and fast-drying formulation of our new roll-on deodorant, launched under the *Rexona*, *Axe* and *Dove* brands, also proved popular with consumers.

This year also saw the simultaneous launch in a number of countries of *Clear* anti-dandruff shampoo with superior anti-dandruff active delivery technology. Its formulation is based on one common chassis with add-on refinements for different scalp and hair types.

Brands with missions

Our brands have the power to change peoples lives for the better.

The second-biggest preventable killer of children in the world is diarrhoea, and yet simple hand-washing with soap can cut diarrhoeal diseases significantly. In 2007, in partnership with UNICEF, we piloted an education programme for schoolchildren in Uganda highlighting the importance of hand-washing with soap, underpinned by our soap brand *Lifebuoy*. Coupled with this, the Unilever Marketing Academy helped develop health promotion campaigns in Kenya, Tanzania and Uganda. During the year the brand grew by 9%.

Throughout the year, our Goodness of Margarine campaign spread the message in Europe that margarine contains essential fats and vitamins helpful in maintaining a healthy heart. The results were excellent and the campaign is rolling out further in 2008.

The *Family Goodness* spreads brand is raising funds as part of our three-year partnership with the World Food Programme (WFP) to provide nutritious school meals for children living in poverty. We are also sharing our nutrition and hygiene expertise and helping WFP develop a school education campaign as well as review the need for fortified foods.

Meanwhile, a major healthy eating campaign, *Knorr Eat Colour*, encouraged consumers to eat colourful vegetables, with the help of a range of new colour-themed products. The campaign was based on the insight that vegetables bright hues indicate the presence of different beneficial antioxidants.

The *Dove* Campaign for Real Beauty made strides in its mission to raise the self-esteem of women. By the end of 2008 the *Dove* Self-Esteem Fund aims to have reached 1 million young girls in 20 countries through partnerships with organisations such as the Eating Disorders Association and Girl Scouts of America. Sales of *Dove* products are growing rapidly.

Our Dirt is Good positioning which is used across countries on our main brands including *Persil*, *Omo* and *Skip* is also flourishing. It promotes childrens learning and development through physical activity while the brands innovative formulations mean parents dont need to worry about getting their childrens clothes clean after outdoor play.

Other highlights in 2007

Unilever took a historic step in 2007 when it committed to buying all its tea from sustainable, ethical sources transforming the tea industry and improving the crops, income and livelihood of 2 million people across three continents. *Lipton*, the worlds largest tea brand, and *PG Tips*, one of the UKs leading brands, became the first to carry the Rainforest Alliance logo, showing they meet the independent organisations strict sustainability criteria covering areas such as wildlife protection, water conservation and fair treatment of workers. The first certified tea was supplied to restaurants and the catering trade in Europe; all *Lipton* tea bags sold globally are expected to be certified by 2015.

One of our top priorities in 2007 was the simultaneous launch of *Clear* anti-dandruff shampoo in a number of countries China, Russia, Brazil (three of the biggest hair care markets in the world), the Philippines, Pakistan, Egypt and Arabia. The brand has an innovative formula with superior anti-dandruff active delivery technology and is our first major Asian hair brand mix to go global. Its success shows the power of a centralised, consistent global approach to packaging, formulation and marketing. *Clear* shampoo is now winning consumer preference in all its markets and there are plans to consolidate growth while continuing its global roll-out in 2008.

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Operating Review Categories continued

Magnum Temptation ice cream offered European consumers the ultimate indulgence: a sensual shape containing Madagascan vanilla ice cream, caramel sauce and almond pieces, wrapped in Belgian dark chocolate. It has the highest quantity of added extras ever contained in a *Magnum*, thanks to new technology which involves bringing together two mould halves around the stick. Launched in Italy, Spain, Switzerland and Portugal, *Magnum Temptation* is the first expression of the brands long-term super premium platform.

European consumers were given a powerful new weapon in the fight against limescale and germs, with the launch of *Domestos Zero Limescale* bleach. Its development was inspired by research showing that many more germs are present in toilets with limescale because germs cluster there, protecting themselves from being washed away. Its three-times-thicker formulation helps *Domestos Zero Limescale* bleach stick to and destroy limescale, even on vertical surfaces.

Mayonnaise lovers in Latin America responded enthusiastically to a campaign highlighting the health benefits of *Hellmanns Light,* a variant of global leader *Hellmanns*. The campaign, aired in Argentina, Chile and Brazil, made consumers aware that three spoonfuls of *Hellmanns Light* mayonnaise contain the same calories as one spoonful of olive oil. Underlying sales growth for the year was outstanding, particularly in Argentina and Brazil.

The newly launched *Dove pro•age* range proved popular among women aged 50 and over in North America and Europe. The multimedia campaign, shot by top celebrity photographer Annie Leibovitz, featured middle-aged women looking natural, gorgeous and completely naked. The *pro•age* range does not make unrealistic anti-ageing promises, but instead meets the specific hair and skin care needs of older consumers.

In Chinese households soup is a part of many peoples daily diet. *Knorr Bouillon Gel*, launched in China under the *Knorr Dense Soup Treasure* name, captured the imagination of consumers eager to replicate the nutritional benefits of home-boiled soup without the hassle. Made with high-quality fresh ingredients, the gel reverts to dense-textured soup when stirred into boiling water, into which consumers can add their own choice of fresh vegetables.

Axe/Lynx, the worlds second-largest deodorant brand, made a triumphant entry into the Japanese market and quickly became the countrys top-selling male deodorant. The launch followed an extensive study of the young Japanese male, examining his attitude towards dating, use of deodorants and purchasing habits. The brands range was given a substantial makeover in 2007 to ensure packaging and formulations are consistent the world over.

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Financial Review

Basis of reporting

Certain discussions within this Financial Review include measures that are not defined by generally accepted accounting principles (GAAP) such as IFRS. These include Ungeared Free Cash Flow (UFCF), Return on Invested Capital (ROIC), Underlying Sales Growth (USG), and Net Debt. For further information please refer to the section entitled Non-GAAP measures on page 29.

The accounting policies that are most significant in connection with our financial reporting are set out on pages 27 and 28.

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 3 $^{1}/_{9}$ p = € 0.16 (see Corporate governance on page 40).

Results and earnings per share

The following discussion summarises the results of the Group during the years 2007, 2006 and 2005. The figures quoted are in euros, at current rates of exchange, being the average or year-end rates of each period, unless otherwise stated. Information about exchange rates between the euro, pound sterling and US dollar is given on page 132.

The results reflected in the consolidated income statement and supporting notes arise from the Group's continuing operations. In 2007, no disposals qualified to be disclosed as discontinued operations. During 2006, we successfully completed the sale of the majority of our European frozen foods businesses. The results of the businesses disposed of have been presented as discontinued operations for 2005, and in 2006 for the period up to the date of sale. During 2005, we completed the sale of Unilever Cosmetics International (UCI) to Coty Inc., United States. The results of UCI are presented as discontinued operations for 2005 for the period up to the date of sale.

	€ million 2007	€ million 2006	€ million 2005
Continuing operations:			
Turnover	**40 187**	39 642	38 401
Operating profit	**5 245**	5 408	5 074
Net profit	**4 056**	3 685	3 335
Net profit from discontinued operations	**80**	1 330	640
Net profit total	**4 136**	5 015	3 975

	€ 2007	€ 2006	€ 2005
EPS continuing operations	**1.32**	1.19	1.07
EPS total	**1.35**	1.65	1.29

Results for 2007 compared with 2006

Turnover for the period increased by 1.4% to €40 187 million. The increase was a consequence of USG of 5.5% in the year, offset by unfavourable currency movements of (3.1)% and the impact of disposals of (0.9)% . The USG was a result of both price and volume increases, respectively contributing 1.8% and 3.7% . Operating profit for the year was 3% lower and the operating margin at 13.1% was 0.5 percentage points lower than a year ago. The lower margin and operating profit were due to a higher net charge for restructuring, disposals and one-off items. Before the impact of these items, the operating margin showed an underlying increase of 0.2 percentage points. Savings and price increases more than offset significant increases in product input costs. Advertising and promotions as a percentage of sales was in line with last year. An overview of performance by regions is included in the Operating Review on pages 15 to 19.

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

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

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

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

For the full year, net profit from continuing operations grew by 10%, while EPS on the same basis grew by 12%.

Net profit, including discontinued operations, was 18% lower than prior year, which included the profit on disposal of European frozen foods businesses in the fourth quarter.

ROIC was 12.7% in 2007. This represented an improvement from 11.5% in 2006, adjusted for the profit on disposal of European frozen foods businesses.

Results for 2006 compared with 2005

Turnover for the period increased by 3.2% to €39 642 million. The increase was driven by USG of 3.8%, with contributions from both volume and price, as well as favourable currency effects of 0.3%. Offsetting the increase was the impact of disposals of (0.8)% in the period.

Operating profit for the period increased by 7% to €5 408 million with operating margin increasing to 13.6%, up by 0.4 percentage points compared with 2005. This was after charging restructuring, disposals and impairments costs equivalent to 1.3 percentage points of sales (compared with 1.5 percentage points in 2005). It also included €266 million of one-off gains from changes to US healthcare and UK pension plans, equivalent to 0.7 percentage points of sales. Before these items, and the profit on the sale of an office in the US in 2005, the operating margin would have been 0.3 percentage points lower than the prior year. Gross margins held steady during the year, with supply chain savings programmes, pricing action and a positive mix fully offsetting around €600 million of higher input costs. Investment in advertising and promotions increased by nearly €300 million, from 12.8% to 13.1% of sales.

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Net finance costs were 18% higher in the year at €721 million. 2006 includes the provision of €300 million relating to preference shares. The costs of financing net borrowings were lower than prior year with the benefit of a lower level of debt. Pensions financing, which was a net expense of €53 million in 2005, showed a net income of €41 million in 2006, reflecting a lower gross pension fund deficit.

The tax rate for the year was 24%, compared with 26% in 2005, including the benefits of a better country mix.

Share of net profit from joint ventures was ahead of the prior year due to the continued growth in the partnerships between *Lipton* and PepsiCo for ready-to-drink tea. Share of net profit from associates increased significantly compared with the prior year, principally because of the placement of equity by one of our venture capital fund investments.

Net profit and earnings per share from continuing operations grew by 10% and 11% respectively in 2006. Including the profits of the discontinued operations, net profit and earnings per share increased by 26% and 27% respectively.

ROIC increased from 12.5% in 2005 to 14.6% in 2006. Both years included significant profits from the sale of discontinued operations. Excluding these, ROIC increased from 11.3% to 11.5%.

Acquisitions and disposals

2007

During 2007, we reached agreement with our partners in South Africa and Israel to exchange respective shareholdings such that Unilever now own 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 have established a joint venture with Perdigão.

During the year, we announced the disposal of Boursin to Le Groupe Bel for €400 million, and the disposal of Lawry's and Adolph's seasoning blends and marinades business to McCormick and Company for US $605 million. Both will be effective during 2008 (see note 33 on page 121 for further details). Furthermore, we announced plans to dispose of our North American laundry business, the process for which is ongoing.

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

2006

On 4 September 2006, Unilever announced a public offer to purchase all ordinary shares of Elais-Unilever S.A. held by third party shareholders. Elais-Unilever S.A. was reported as a subsidiary and is Unilever's main foods business in Greece. The offer price was €24.50 per share, with the public offer closing on 25 October 2006. A total of 2 234

692 shares were purchased by the end of 2006, increasing Unilever’s ownership of Elais-Unilever S.A. to 83.52%. This shareholding was increased to 99.2% as at 31 December 2007.

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

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

2005

There were no material acquisitions during 2005.

On 11 July 2005, we completed the sale of our Prestige fragrance business, UCI, to Coty Inc. of the United States. Unilever received US $800 million in cash, with the opportunity for further deferred payments contingent upon future sales. Additional payments have been made by Coty Inc. since the disposal, and during 2007 we recorded a receivable for the future payments expected.

Business disposals in 2005 included Stanton Oil in the UK and Ireland, Dextro in various countries in Europe, Opal in Peru, Karo and Knax in Mexico, spreads and cooking products in Australia and New Zealand, Crispa, Mentadent, Marmite, Bovril and Maizena in South Africa, frozen pizza in Austria, Biopon in Hungary and tea plantations in India. The combined annual turnover of these businesses was approximately €200 million.

In March 2005 Unilever carried out a previous phase of the restructuring of its Portuguese foods business. Before the restructuring Unilever Portugal held an interest in FIMA/VG – Distribuição de Produtos Alimentares, Lda. (FIMA) foods business, a joint venture with Jerónimo Martins Group – in addition to its wholly owned Bestfoods business acquired in 2000. As a result of the transaction the two foods businesses – FIMA and Unilever Bestfoods Portugal – were unified and the joint venture stakes were re-balanced so that Unilever held 49% of the combined foods business and Jerónimo Martins Group 51%.

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Dividends and market capitalisation

Dividends per share

		Per €0.16 NV ordinary share		Per $3^1/_9$p PLC ordinary share
	€ 2007	€ 2006	**pence 2007**	pence 2006
Interim	**0.25**	0.23	**17.00**	15.62
Final	–	0.47	–	32.04
Proposed final	**0.50**	–	**34.11**	–
One-off	–	0.26	–	17.66

Final dividends for 2007 are subject to approval at the Annual General Meetings. If approved, this will bring the total regular dividend to €0.75 per share for NV and 51.11p for PLC, an increase of 7% excluding the additional one-off payment of €751 million made in 2006. In accordance with IFRS, no provision for the amount of this dividend, estimated as €1 427 million, has been recognised in the financial statements for the year ended 31 December 2007. The €1.5 billion share buy-back programme announced in March 2007 was completed by the end of the year. A further programme of at least €1.5 billion is planned for 2008.

Unilever's combined market capitalisation at 31 December 2007 was €72.5 billion (2006: €60.5 billion).

Balance sheet

	€ million 2007	€ million 2006
Goodwill and intangible assets	**16 755**	17 206
Other non-current assets	**10 619**	10 365
Current assets	**9 928**	9 501
Current liabilities	**(13 559)**	(13 884)
	23 743	23 188
Non-current liabilities	**10 924**	11 516
Shareholders' equity	**12 387**	11 230
Minority interest	**432**	442
	23 743	23 188

Goodwill and intangibles at 31 December 2007 were €0.5 billion lower than in 2006. The movement was because of currency movements and acquisition and disposal activity. Property, plant and equipment was at a similar level to last year. The increase in other non-current assets of €0.2 billion is principally explained by the capital injection in the international Pepsi/Lipton partnership which is extended, effective 1 January 2008, and by the improved funding position of our pension funds. This improvement results from accelerated funding contributions and increases in asset values. Inventories and trade receivables show little movement when compared with the prior year.

Current liabilities decreased by €0.3 billion compared with 2006. This decrease is because of a €0.3 billion reduction in current financial liabilities, an increase of €0.2 billion in trade payables and other current liabilities and a decrease of €0.2 billion in current tax liabilities.

Non-current liabilities have decreased by €0.6 billion compared with 2006. The movement is explained by an increase of €1.1 billion in financial liabilities due after more than one year, offset by a decrease in pensions and post-retirement healthcare liabilities of €1.7 billion.

The increase in financial liabilities is because of the refinancing activity during 2007, offset to some extent by the appreciation of the euro against the US dollar, as a significant portion of our financial liabilities are US dollar denominated. The currency distribution of total financial liabilities was as follows: 53% in US dollars (2006: 69%), and 32% in euros (2006: 24%), the remainder spread across a number of countries.

The funding position of the Groups main pension arrangements has improved since the end of 2006 due largely to accelerated funding contributions and reduced liabilities from higher discount rates, net of slightly increased inflation and life expectancy assumptions. The overall net liability for all arrangements was €1.1 billion at the end of 2007, a reduction from €3.1 billion at 31 December 2006. Funded schemes show an aggregate surplus of €1.2 billion, while unfunded arrangements show a liability of €2.3 billion. During 2007, some previously unfunded arrangements were partially funded with €0.3 billion reported as part of contributions paid. The movement of the Groups pension funding position has resulted in a release of €0.5 billion of related deferred tax asset.

Unilever manages interest rate and currency exposures based on the net debt position. Taking into account the various cross currency swaps and other derivatives, 61% of Unilevers net debt was in US dollars (2006: 81%) and 32% in euros (2006: 25%) and ((18)% financial assets) in sterling (2006: (33)%), with the remainder spread over a large number of other currencies.

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 at the end of 2007 were: bilateral committed credit facilities totalling US $3.6 billion, bilateral notes commitments totalling US $0.2 billion and bilateral money market commitments totalling US $1.7 billion. Further details regarding these facilities are given in note 17 on page 97.

During 2007, a €750 million floating rate bond was issued with a maturity date of 29 May 2009, a US $500 million extendible floating rate bond was issued having an initial maturity date of 11 July 2008 and a final maturity date of 11 June 2012 and a €750 million fixed rate 4.625% Eurobond was issued with a maturity of five years. During 2007 Unilever repaid amongst others the 4.25% €1 000 million euro bonds and the 5% US $650 million bonds.

Total shareholders equity has increased by €1.2 billion in the year. Net profit added €3.9 billion and currency and fair value/actuarial gains added €0.2 billion. Dividends paid in the year totalled €2.1 billion and there was an adverse effect of €1.1 billion as a result of higher treasury stock, explained by the share buy-back programme of €1.5 billion and the €(0.4) billion effect of the exercise of share options.

Unilever is satisfied that its financing arrangements are adequate to meet its working capital needs for the foreseeable future.

Unilevers contractual obligations at the end of 2007 included capital expenditure commitments, borrowings, lease commitments and other commitments. A summary of certain contractual obligations at 31 December 2007 is provided in the table below. Further details are set out in the following notes to the accounts: note 10 on page 88, note 16 on page 94, note 17 on pages 97 to 101 and note 25 on page 112.

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Contractual obligations at 31 December 2007

	€ 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	**5 851**	**632**	**2 367**	**792**	**2 060**
Operating lease obligations	**1 663**	**363**	**527**	**332**	**441**
Purchase obligations[a]	**299**	**234**	**46**	**17**	**2**
Finance leases	**520**	**82**	**77**	**48**	**313**
Other long-term commitments	**1 454**	**412**	**488**	**404**	**150**

(a) Raw and packaging materials and finished goods.

Off-balance sheet arrangements

IFRS interpretation SIC 12 requires that entities with which we have relationships are considered for consolidation in the consolidated accounts based on relative sharing of economic risks and rewards rather than based solely on share ownership and voting rights. We periodically review our contractual arrangements with potential special purpose entities (SPEs) as defined by SIC 12. The most recent review has concluded that that there are no significant SPE relationships which are not already appropriately reflected in the accounts. Information concerning guarantees given by the Group is stated in note 25 on page 112.

Cash flow

	€ million 2007	€ million 2006	€ million 2005
Net cash flow from operating activities	**3 876**	4 511	4 353
Net cash flow from/(used in) investing activities	**(623)**	1 155	515
Net cash flow from/(used in) financing activities	**(3 009)**	(6 572)	(4 821)
Net increase/(decrease) in cash and cash equivalents	**244**	(906)	47

Cash and cash equivalents at 31 December 2007 were €0.2 billion higher than at 31 December 2006. Net cash flow from operating activities, at €3.9 billion, was €0.6 billion lower than in 2006 because of higher cash costs of restructuring and increased income tax payments. Income tax paid was €0.2 billion higher than in 2006 because of the timing of payments. Taking the last two years together, cash tax paid was at a similar level to the tax charges in the income statement. There was a further small improvement in working capital.

The movement of €1.8 billion in net cash flow used in investing activities when compared with 2006 is explained by the decrease in completed disposal activity in the year and a small increase in net capital expenditure. The increase in net capital expenditure was entirely in Asia Africa, supporting the priority for growth in the region.

The decrease of €3.6 billion cash used in financing activities from 2006 is a consequence of the changes in financial liabilities of €4.6 billion, offset by the impact of the treasury stock movement. The net €1.1 billion movement in treasury stocks reflects the net effect of share buy-backs of €1.5 billion and the exercise of share options of €(0.4) billion.

At 31 December 2007, the net debt position was €8.3 billion, an increase of €0.8 billion compared with 2006. The increase is due to the fact that cash generation was more than offset by the outflows relating to dividends, share buy-backs and additional pension funding. We also benefited from the appreciation of the euro against the US dollar.

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 32. The Group's financial strategy supports this objective and provides the financial flexibility to meet its strategic and day-to-day needs. The key elements of the financial strategy are:

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

Unilever has been unaffected by the credit issues prevalent in some financial markets and we have been able to raise debt as required to fulfil our capital requirements.

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.

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

The key financial instruments used by Unilever are short- and long-term borrowings, cash and cash equivalents and certain straightforward derivative instruments, principally comprising interest rate swaps and foreign exchange contracts. The accounting for derivative instruments is discussed in note 1 on page 74. The use of leveraged instruments is not permitted.

Other relevant disclosures are given in notes 15, 16 and 17 on pages 92, 94 and 97.

Unilever Treasury manages a variety of market risks, including the effects of changes in foreign exchange rates, interest rates and liquidity. Further details of the management of these risks are given in note 17 on page 97.

Pensions investment strategy

The Groups 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.

Significant events after the balance sheet date

Effective 1 January 2008, Unilever and PepsiCo have entered into an expanded international partnership for the marketing and distribution of ready-to-drink tea products under the *Lipton* brand. The new agreement adds 11 counties to the partnerships existing Lipton ready-to-drink tea business eight in Europe (Germany, Italy, France, Netherlands, Switzerland, Austria, Belgium and Portugal) as well as Korea, Taiwan and South Africa.

On 5 November 2007, Unilever announced the disposal of Boursin to Le Groupe Bel for €400 million. The sale was effective on 3 January 2008.

On 4 February 2008, we announced that we had reached an agreement to acquire the leading Russian ice cream business Inmarko, for an undisclosed amount. The deal is subject to regulatory approval and is expected to be completed in the first half of 2008.

On 11 February 2008, Unilever announced a share buy-back programme of at least €1.5 billion for 2008.

On 21 February 2008, Unilever launched a bond composed of two tranches; i) CHF 250 million fixed rate bond which will mature in four years, and ii) CHF 350 million fixed rate bond which will mature in seven years. Completion is expected in late March 2008.

On 28 February 2008 Unilever announced a number of changes affecting its organisation. As a further extension of the One Unilever programme, Foods and Home and Personal Care will be combined into a single category structure. To reflect our strategic focus on growth in developing markets, operations in Central and Eastern Europe will be managed as part of an enlarged region comprising Asia, Africa and Central and Eastern Europe, with Western Europe becoming a separate region.

A number of Board and senior executive changes were announced simultaneously. Kees van der Graaf will step down from the Boards of Unilever and from his role as President Europe at the AGMs on 14 and 15 May 2008. Ralph Kugler, President Home and Personal Care, will similarly step down at the AGMs. Harish Manwani, currently President Asia Africa, will lead the new expanded region. Doug Baillie, previously Chief Executive Officer of Hindustan Unilever, will join the Unilever Executive as President Western Europe. The roles of President Home and Personal Care and President Foods will be merged under the leadership of Vindi Banga, currently President Foods.

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. These estimates and assumptions are reasonable and are re-evaluated on an ongoing basis. However, actual amounts and results could differ. Critical accounting policies are those which are most important to the portrayal of Unilever's financial position and results of operations. Some of these policies require difficult, subjective or complex judgements from management, the most important being:

Goodwill and intangible assets

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

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The most significant balances of goodwill and intangible assets relate to the global savoury and dressings sub-product group. We have reviewed the carrying value of this cash generating unit by considering expected future cash flows based on historical experience and planned growth rates and margins for this product group. No significant impairment losses have been identified in 2007.

Please refer also to note 9 on page 86.

Financial instruments

Financial instruments are classified according to the purpose for which the instruments were acquired. This gives rise to the following classes: held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. Please refer to note 1 on pages 73 and 74 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 assets and liabilities of the plans are recognised at fair values in the balance sheet.

Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement. These figures are particularly sensitive to assumptions for discount rates, inflation rates, mortality rates and expected long-term rates of return on assets. Information about sensitivity to certain of these assumptions is given in note 20 on page 103 and 104.

The following table sets out these assumptions (except for mortality rates), as at 31 December 2007, in respect of the four largest Unilever pension plans. Further details of assumptions (including mortality rates) made are given in note 20 on pages 103 and 104.

	%	%	%	%
	UK	Nether-lands	United States	Germany
Discount rate	5.8	5.5	5.9	5.5
Inflation	3.0	1.9	2.3	1.9
Expected long-term rate of return:				
Equities	8.0	8.1	7.8	8.1
Bonds	5.0	4.7	4.5	4.7
Property	6.5	6.6	6.3	6.6
Others	6.3	4.1	3.7	5.8

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

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy, plan experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension plans. Mortality assumptions for the four largest plans are given in more detail in note 20 on page 104.

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.

Advertising and promotion costs

Expenditure on items such as consumer promotions and trade advertising is charged against profit in the year in which it is incurred. At each balance sheet date, we are required to estimate the part of expenditure incurred but not yet invoiced based on our knowledge of customer, consumer and promotional activity.

Deferred tax

Full provision is made for deferred taxation at the rates of tax prevailing at the year end unless future rates have been substantively enacted, as detailed in note 12 on page 91. Deferred tax assets are regularly reviewed for recoverability, and a valuation allowance is established to the extent that recoverability is not considered likely.

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Non-GAAP measures

Certain discussions and analyses set out in this Annual Report on Form 20-F 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 to similarly titled amounts reported by other companies.

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

- Ungeared free cash flow;
- Return on invested capital;
- Underlying sales growth; and
- Net debt.

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

Measures of long-term value creation

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

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

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

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

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

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

- improve transparency for investors;
- assist investors in their assessment of the long-term value of Unilever;
- ensure that the measures are fully understood in the light of how Unilever reviews long-term value creation for shareholders;
- properly define the metrics used and confirm their calculation;
- share the metrics with all investors at the same time; and
- disclose UFCF as it is one of the drivers of management remuneration and therefore management behaviour.

As investor measures, we believe that there are no GAAP measures directly comparable with UFCF and ROIC. However, in the tables on pages 30 and 31, 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 and therefore their definitions should be carefully reviewed and understood by investors. Investors should be aware that their application may vary in practice and therefore these measures may not be fully comparable between companies. In particular:

- We recognise that the usefulness of UFCF and ROIC as indicators of investment value is limited, as such measures are based on historical information;
- UFCF and ROIC measures are not intended to be a substitute for, or superior to, GAAP measures in the financial statements;
- The fact that ROIC is a ratio inherently limits its use, and management uses ROIC only for the purposes discussed above. The relevance and use of net profit for the year (being the most relevant comparable GAAP measure) is clearly more pervasive; and
- UFCF is not the residual cash available to pay dividends but represents cash generated by the business and broadly available to the providers of finance, both debt and equity.

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Financial Review continued

Ungeared free cash flow (UFCF)

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

UFCF is cash flow from group operating activities, less net capital expenditure, less charges to operating profit for share-based compensation and pensions, and less tax (adjusted to reflect an ungeared position and, in 2006, for the impact on profit on sales of frozen foods businesses), but before the financing of pensions.

In 2007, UFCF was €3.8 billion (2006: €4.2 billion; 2005: €4.0 billion). The reconciliation of UFCF to the GAAP measures net profit and cash flow from operating activities is shown below.

The tax charge used in determining UFCF can be either the income statement tax charge or the actual cash taxes paid. Our consistently applied definition uses the income statement tax charge in order to eliminate the impact of volatility due to the variable timing of payments around the year end. For 2006 the income statement tax charge on this basis was materially impacted by the tax effect of non-cash charges for the provision for preference shares and certain other non-cash items. UFCF for 2007 based on actual cash tax paid would have been €3.6 billion (2006: €4.5 billion; 2005: €3.7 billion).

Ungeared free cash flow	**€ million 2007**	€ million 2006	€ million 2005
Net profit	**4 136**	5 015	3 975
Taxation	**1 137**	1 332	1 301
Share of net profit of joint ventures/associates and other income from non-current investments	**(191)**	(144)	(55)
Net finance costs	**252**	725	618
Depreciation, amortisation and impairment	**943**	982	1 274
Changes in working capital	**27**	87	193
Pensions charges in operating profit less payments	**(910)**	(1 038)	(532)
Movements in provisions less payments	**145**	107	(230)
Elimination of profits on disposals	**(459)**	(1 620)	(789)
Non-cash charge for share-based compensation	**118**	120	192
Other adjustments	**(10)**	8	(23)
Cash flow from operating activities	**5 188**	5 574	5 924
Less charge for share-based compensation	**(118)**	(120)	(192)
Add back pension payments less pension charges in operating profit	**910**	1 038	532
Less net capital expenditure	**(983)**	(934)	(813)
Less tax charge adjusted to reflect an ungeared position	**(1 228)**	(1 336)	(1 440)
Taxation on profit	**(1 137)**	(1 332)	(1 301)
Taxation on profit on sales of frozen foods businesses	**—**	159	—
Tax relief on net finance costs	**(91)**	(163)	(139)
Ungeared free cash flow	**3 769**	4 222	4 011

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Financial Review continued

Return on invested capital (ROIC)

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

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

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

There were no disposals of discontinued operations in 2007; the impact of such disposals in 2006 and 2005 was €1.2 billion and €0.5 billion respectively. ROIC is based on total business profit, including profit on such disposals. ROIC excluding this impact in 2007 is 12.7% (2006: 11.5%; 2005: 11.3%).

Return on invested capital	**€ million 2007**	€ million 2006	€ million 2005
Net profit	**4 136**	5 015	3 975
Add back net interest expense net of tax	**314**	365	424
Add back impairment charges net of tax[a]	**1**	15	245
Profit after tax, before interest and impairment of goodwill and indefinite-lived intangible assets	**4 451**	5 395	4 644
Year-end positions for invested capital:			
Property, plant and equipment and other non-current investments	**7 276**	7 142	7 333
Software and finite-lived intangible assets	**590**	608	642
Inventories	**3 894**	3 796	4 107
Trade and other receivables	**4 965**	4 667	5 185
Trade payables and other creditors due within one year	**(8 545)**	(8 513)	(8 782)
Elements of invested capital included in assets and liabilities held for sale	**150**	15	200
Goodwill and indefinite-lived intangible assets at gross book value	**20 029**	20 705	21 621
Total	**28 359**	28 420	30 306
Add back cumulative goodwill written off directly to reserves	**6 427**	6 427	6 870
Year-end invested capital	**34 786**	34 847	37 176
Average invested capital for the year	**35 122**	36 850	37 012
Return on average invested capital	**12.7%**	14.6%	12.5%
	12.7%	11.5%	11.3%

Return on average invested capital excluding profit on disposal of discontinued operations

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

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Financial Review continued

Underlying sales growth (USG)

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

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

	2007 vs 2006	2006 vs 2005
Underlying sales growth (%)	**5.5**	3.8
Effect of acquisitions (%)	**0.1**	0.1
Effect of disposals (%)	**(0.9)**	(0.8)
Effect of exchange rates (%)	**(3.1)**	0.3
Turnover growth (%)	**1.4**	3.2

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 Groups net financial liabilities and is a measure in common use elsewhere. The net debt definition in our 2007 reporting has not changed in substance from previous years, however, the terminology has been updated to correspond with that appearing on the balance sheet.

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

	€ million 2007	€ million 2006
Total financial liabilities	**(9 649)**	(8 835)
Financial liabilities due within one year	**(4 166)**	(4 458)
Financial liabilities due after one year	**(5 483)**	(4 377)
Cash and cash equivalents as per balance sheet	**1 098**	1 039
Cash and cash equivalents as per cash flow statement	**901**	710
Add bank overdrafts deducted therein	**197**	329
Financial assets	**216**	273
Net debt	**(8 335)**	(7 523)

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 2006 we were positioned 13th, and at the end of 2007 the ranking was 8th. In 2007, the following companies formed the peer group of comparative companies:

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

Unilever’s position relative to the TSR reference group

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

Corporate governance

Introduction

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

The Unilever Group

Unilever N.V. and Unilever PLC are the two parent companies of the Unilever Group. Together with the group companies, NV and PLC operate effectively as a single economic entity. This is achieved by a series of agreements between NV and PLC (the Foundation Agreements, see page 40), together with special provisions in the Articles of Association of NV and PLC. NV and PLC have the same Directors and adopt the same accounting principles. Shareholders of both companies receive dividends on an equalised basis. NV and PLC and their group companies constitute a single reporting entity for the purposes of presenting consolidated accounts. Accordingly, the accounts of the Unilever Group are presented by both NV and PLC as their respective consolidated accounts.

NV and PLC have agreed to co-operate in all areas and ensure that all group companies act accordingly. NV and PLC are holding and service companies, and the business activity of Unilever is carried out by their subsidiaries around the world. Shares in group companies may ultimately be held wholly by either NV or PLC, or jointly by the two companies, in varying proportions.

NV was incorporated under the name Naamlooze Vennootschap Margarine Unie in the Netherlands in 1927. Its objects and purposes are set out in Article 2 of its Articles of Association. PLC was incorporated under the name Lever Brothers Limited in England and Wales in 1894. Its objects and purposes can be found in Clause 3 of its Memorandum of Association. The two companies have different shareholder constituencies and shareholders cannot convert or exchange the shares of one company for shares of the other. NV is listed in Amsterdam and New York. PLC is listed in London and New York.

Unilever policies

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

Unilever policies include: the Code of Business Principles, the Code of Ethics for Senior Financial Officers, the Compliance Manual for the Listing Rules and Disclosure and Transparency Rules (including the Unilever Share Dealing Code), the Risk Management Policy, the Corporate Pensions Policy and the Accounting and Reporting Policy.

The Code of Business Principles is Unilever's statement of values and represents the standard of conduct we require from all of our employees. Our Code of Ethics applies to the senior executive, financial and accounting officers and comprises the standards prescribed by the US Securities and Exchange Commission (SEC). The Code of Business Principles Hotline is a confidential way for employees to submit concerns regarding accounting and auditing issues anonymously and handles all alleged violations of the Code of Business Principles. Copies of the Code of Business Principles, the Code of Ethics and the Share Dealing Code are posted on our website at www.unilever.com/investorcentre/corpgovernance

Our internal risk management and control systems are described on pages 13 and 14.

Developments in corporate governance

Following his appointment as a Non-Executive Director at the AGMs in May 2007, Unilever appointed its first independent Non-Executive Chairman, Michael Treschow, in succession to Antony Burgmans who retired as Chairman at those meetings.

In September 2007, the offices of the Joint Secretaries came to an end, and the position of a single Group Secretary was introduced and adopted by the Boards.

The text that follows describes the corporate governance arrangements operating within Unilever and the changes anticipated in 2008. More information on our corporate governance arrangements is set out in The Governance of Unilever, the Boards statement of their internal arrangements, which can be found at www.unilever.com/investorcentre/corpgovernance

The Boards

The Boards of NV and PLC comprise the same Directors and have the same Chairman. This ensures unity of governance and management by ensuring that all matters are considered by the Boards as a single intellect, reaching the same conclusions on the same set of facts (save where specific local factors apply).

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

Our Directors have set out a number of areas of responsibility which are reserved to themselves and other areas for which matters are delegated to the Group Chief Executive and committees whose actions are regularly reported to and monitored by the Boards. These are described on pages 35 to 38. Further details of how our Boards effectively operate as one board, govern themselves and delegate their authorities are set out in The Governance of Unilever, which can be found at www.unilever.com/investorcentre/corpgovernance

Corporate governance continued

Appointment of Directors

Directors are appointed by shareholders at the AGMs. All existing Directors, unless they are retiring, submit themselves for election every year and shareholders can remove any of them by a simple majority vote.

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

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

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

Board meetings

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

- approval of corporate strategy;
- approval of the corporate Annual Plan;
- review of risks and controls;
- authorisation of major transactions;
- preparation of the Annual Report and Accounts and Form 20-F;
- declaration of dividends;
- agreement of quarterly results announcements;
- convening of shareholders' meetings;
- nominations for Board appointments;
- approval of Board remuneration policy; and
- review of the functioning of the Boards and their Committees.

The following table shows the attendance of Directors at Board meetings for the year ended 31 December 2007. If Directors are unable to attend a meeting, they have the opportunity before the meeting to discuss with the Chairman any agenda items or Board papers:

Name	Attendance[a]
Antony Burgmans (Chairman to 16 May 2007)	3 of 3
Michael Treschow (Chairman from 16 May 2007)	5 of 5

Patrick Cescau	8 of 8
Kees van der Graaf	7 of 8
Ralph Kugler	7 of 8
Rudy Markham (to 16 May 2007)	3 of 3
Genevieve Berger (from 16 May 2007)	5 of 5
Leon Brittan	7 of 8
Lynda Chalker (to 16 May 2007)	2 of 3
Wim Dik	8 of 8
Charles Golden	8 of 8
Byron Grote	8 of 8
Narayana Murthy (from 16 May 2007)	4 of 5
Hixonia Nyasulu (from 16 May 2007)	5 of 5
David Simon	8 of 8
Jean-Cyril Spinetta (to 14 September 2007)	1 of 6
Kees Storm	7 of 8
Jeroen van der Veer	6 of 8

(a) Attendance is expressed as number of meetings attended out of number eligible to attend.
Board meetings are normally held either in London or Rotterdam, with at least one off site Board meeting a year. The Chairman is assisted by the Group Secretary, who ensures that the Boards are supplied with all the information necessary for their deliberations. The Chairman and the Group Secretary involve the Senior Independent Director (see page 36) in the arrangements for Board meetings.

Board induction and training

Upon election, Directors receive a comprehensive Directors Manual and are briefed thoroughly on their responsibilities and our business. Updates on corporate governance developments and investor relations matters are frequent items at Board meetings. Ongoing training is provided for Directors by way of site visits, presentations, circulated updates, teach-ins and agenda items at Board or Board committee meetings on, among other things, Unilevers business, corporate governance, regulatory developments, and investor relations matters. In particular, during 2007 the Boards were given a presentation by our external legal advisers on the new directors duties under the UK Companies Act 2006, which came into force on 1 October 2007. In 2007, a Board meeting was held in Durban, South Africa which included a visit to our factory operations, certain retail outlets and charitable organisations supported by Unilever in South Africa.

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Corporate governance continued

Board evaluation

The evaluation process of our Boards consists of a three-year cycle with an independent third party evaluation carried out once every three years and internal evaluations in each of the two years in between. The internal evaluations are based on the independent third party evaluation materials. An independent third party evaluation was last carried out in 2006. In 2007 our Chairman, in conjunction with the Senior Independent Director, conducted the internal evaluation process. An extensive questionnaire for all Board members formed part of the evaluation process. In addition, our Chairman conducted a process of evaluating the performance of each individual Board member, including an interview with each. A similar process with respect to the performance of the Chairman was conducted by the Senior Independent Director after consulting Board members.

Committees of the Boards evaluate themselves under supervision of their respective chairmen taking into account the views of respective committee members. The results of the evaluations were discussed by the Boards.

Board support

The Group Secretary is available to advise all Directors and ensure that Board procedures are complied with. The position is appointed and can be removed by the Boards.

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

Board changes

The current Directors, with their biographies, are shown on page 46. All the current Executive Directors held office throughout the year.

Leon Brittan, Wim Dik, Charles Golden, Byron Grote, David Simon, Jean-Cyril Spinetta, Kees Storm and Jeroen van der Veer were re-elected as Non-Executive Directors of NV and PLC at the 2007 AGMs. In addition, Genevieve Berger, Narayana Murthy and Hixonia Nyasulu were appointed as Non-Executive Directors, and Michael Treschow became our first independent Non-Executive Chairman. Michael Treschow was appointed a member of the Nomination Committee in 2007 and, following a change in the UK Combined Code on Corporate Governance, a member of the Remuneration Committee in February 2008.

In 2007, Genevieve Berger, Narayana Murthy and Hixonia Nyasulu became members of the Corporate Responsibility and Reputation Committee.

At the 2007 AGMs, Rudy Markham retired as an Executive Director but remained as Chief Financial Officer until his successor, Jim Lawrence, was appointed on 1 September 2007. Lynda Chalker also retired as a Non-Executive Director at the 2007 AGMs, and in September 2007 Jean-Cyril Spinetta stepped down as Non-Executive Director due to personal reasons.

At the 2008 AGMs all of the Executive Directors and the Non-Executive Directors will be nominated for re-election, with the exception of Kees van der Graaf and Ralph Kugler, who will be stepping down at the meetings. In addition, Jim Lawrence will be proposed for election as an Executive Director at the 2008 AGMs following his appointment as Chief Financial Officer in September 2007. Biographical details for Mr Lawrence are contained in the 2008 AGM Notices, and on our website at www.unilever.com/ourcompany/investorcentre

Chairman and Group Chief Executive

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

The Group Chief Executive has been entrusted, within the parameters set out in the Articles of Association of NV and PLC and The Governance of Unilever, with all the Boards powers, authorities and discretions in relation to the operational management of Unilever. The Group Chief Executive has the authority to determine which duties regarding the operational management of the companies and their business enterprises will be carried out under his responsibility by one or more Executive Directors or by one or more other persons. This provides a basis for the Unilever Executive team (UEx) that is chaired by and reports to the Group Chief Executive. For UEx members biographies see page 47. For our business structure, please refer to About Unilever on pages 7 and 8.

Executive Directors

All Executive Directors are members of the UEx: Patrick Cescau and, currently, Kees van der Graaf and Ralph Kugler, who will both be leaving the Boards at the 2008 AGMs. Jim Lawrence will be proposed for election as an Executive Director at those AGMs. He is currently a member of UEx in his capacity as Chief Financial Officer.

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

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

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

The Directors stop holding executive office on ceasing to be Directors. Those appointed prior to 2004 retire at the latest by the age of 62. Appointees from 2004 onwards retire at an age between 60 and 65, as decided by either them or Unilever.

Corporate governance continued

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

There are no family relationships between any of our Executive Directors, other key management personnel or Non-Executive Directors. None of our Executive Directors are elected or appointed under any arrangement or understanding.

Outside Appointments

Unilever recognises the benefit to the individual and to the Group of involvement by Unilever Executives acting as directors of other companies outside the Unilever Group, broadening their experience and knowledge. The number of outside directorships of listed companies is generally limited to one per individual. In the case of publicly listed companies approval is required from the Chairman. Outside directorships must not involve an excessive commitment or conflict of interest. Unilever Executives must at all times ensure that their time commitment to Unilever takes precedence over any outside directorship. As of 2008 fees paid in connection with an outside directorship may be retained by the individual. This reflects that any outside directorship is for the sole responsibility of the individual and that Unilever takes no responsibility in this regard. For Executive Directors biographies see page 46.

Non-Executive Directors

The Non-Executive Directors share responsibility for the execution of the Boards duties, taking into account their specific responsibilities, which are essentially supervisory. In particular, they comprise the principal external presence in the governance of Unilever, and provide a strong independent element. See page 46 for their biographies.

Role and Responsibility

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

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

Our Non-Executive Directors are chosen for their broad and relevant experience and international outlook, as well as their independence. They form the Audit Committee, the Nomination Committee, the Remuneration Committee and in majority the Corporate Responsibility and Reputation Committee. The roles and membership of these key Board committees are described on pages 37 and 38. The profile set by the Boards for the Non-Executive Directors and the chart used for orderly succession planning can be seen on our website at www.unilever.com/investorcentre/corpgovernance

Meetings

The Non-Executive Directors meet as a group, without the Executive Directors present, under the chairmanship of Mr Treschow. In 2007 they met three times as a group. In addition, the Non-Executive Directors (including the Chairman) usually meet before each Board meeting with the Group Chief Executive and the Group Secretary.

Senior Independent Director

Our Non-Executive Directors have appointed David Simon as Senior Independent Director. He acts as their spokesman. The Senior Independent Director is consulted by the Chairman on the agenda and arrangements for Board meetings. He is also, in appropriate cases, a point of contact for shareholders and other stakeholders.

Tenure

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

Remuneration

The remuneration of the Non-Executive Directors is determined by the Boards, within the overall limit set by the shareholders at the AGMs in 2007, and it is reported on page 59. Details of the engagement of our Non-Executive Directors can be seen on the Unilever website.

Other appointments

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

Independence

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

Our definition of independence for Directors is set out in The Governance of Unilever. It is derived from the applicable definitions in use in the Netherlands, UK and US. Our current Non-Executive Directors are considered to be independent of Unilever. Our Boards reached this conclusion after conducting a thorough review of all relevant relationships of the Non-Executive Directors, and their related or connected persons.

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

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Corporate governance continued

It concluded that none of these relationships threaten the independence of the Non-Executive Directors concerned. For example, the Boards have satisfied themselves that Leon Brittans position at UBS Investment Bank and UBS Securities Company Limited does not involve him in any way in its broking relationship with Unilever. The Boards have also formed the view that the fact that David Simon is a senior adviser of Morgan Stanley International is not material. The Boards have also satisfied themselves that the services provided by Paton Tupper Associates (Pty) Limited and Barloworld Limited, of which Hixonia Nyasulu is a director and 12.5% shareholder and director respectively, to Unilever South Africa is not material.

None of our Non-Executive Directors are elected or appointed under any arrangement or understanding.

Committees

Board committees

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

Audit Committee

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

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

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

The following table shows the attendance of Directors at Audit Committee meetings for the year ended 31 December 2007:

Name	Attendance[a]
Kees Storm (Chairman)	6 of 7

Wim Dik	7 of 7
Charles Golden	7 of 7
Byron Grote	7 of 7

(a) Attendance is expressed as number of meetings attended out of number eligible to attend.
See page 62 for the Report of the Audit Committee to the shareholders.

Nomination Committee

Our Nomination Committee comprises a minimum of three independent Non-Executive Directors. It is chaired by David Simon and its other members are Michael Treschow and Jeroen van der Veer. Jean-Cyril Spinetta stepped down from the Committee following his retirement as a Non-Executive Director in September 2007. The Committee recommends to the Boards candidates for the positions of Director. It also has responsibilities for succession planning and oversight of corporate governance matters. It is supplied with information by the Group Secretary.

The following table shows the attendance of Directors at Nomination Committee meetings for the year ended 31 December 2007:

Name	Attendance[a]
David Simon (Chairman)	6 of 6
Antony Burgmans (to 16 May 2007)	3 of 3
Jean-Cyril Spinetta (to 14 September 2007)	3 of 4
Michael Treschow (from 27 June 2007)	3 of 3
Jeroen van der Veer	6 of 6

(a) Attendance is expressed as number of meetings attended out of number eligible to attend.
See page 48 for the Report of the Nomination Committee to shareholders.

Remuneration Committee

On 31 December 2007, our Remuneration Committee comprised two independent Non-Executive Directors following Jean-Cyril Spinetta stepping down from the Committee following his retirement as a Non-Executive Director in September 2007. It is chaired by David Simon and its other member is Jeroen van der Veer. Michael Treschow was appointed as an additional member of the Committee in February 2008.

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

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Corporate governance continued

The following table shows the attendance of Directors at Remuneration Committee meetings for the year ended 31 December 2007:

Name	Attendance[(a)]
David Simon (Chairman)	5 of 5
Jean-Cyril Spinetta (to 14 September 2007)	1 of 3
Jeroen van der Veer	5 of 5

(a) Attendance is expressed as number of meetings attended out of number eligible to attend.
The detailed report of the Remuneration Committee to shareholders on Directors remuneration is on pages 49 to 61.

Corporate Responsibility and Reputation Committee

The Corporate Responsibility and Reputation Committee currently comprises four Non-Executive Directors and one Executive Director. It is chaired by Leon Brittan and its other members are Genevieve Berger, Narayana Murthy, Hixonia Nyasulu and Ralph Kugler. The Committee has responsibility for the oversight of Unilevers conduct with regard to its corporate and societal obligations and its reputation as a responsible corporate citizen.

The following table shows the attendance of Directors at Corporate Responsibility and Reputation Committee meetings for the year ended 31 December 2007:

Name	Attendance[(a)]
Leon Brittan (Chairman from 16 May 2007)	3 of 4
Lynda Chalker (Chair to 16 May 2007)	2 of 2
Genevieve Berger (from 16 May 2007)	2 of 2
Antony Burgmans (to 16 May 2007)	0 of 2
Wim Dik (to 13 September 2007)	2 of 3
Ralph Kugler	4 of 4
Narayana Murthy (from 16 May 2007)	2 of 2
Hixonia Nyasulu (from 16 May 2007)	2 of 2

(a) Attendance is expressed as number of meetings attended out of number eligible to attend.
See page 63 for the Report of the Corporate Responsibility and Reputation Committee to shareholders.

Routine business committees

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

Disclosure Committee

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

Director matters

Various formal matters

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

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

Indemnification

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

Conflicts of interest

We attach special importance to avoiding conflicts of interest between on the one hand NV and PLC and on the other hand their Directors. The Boards are responsible for ensuring that there are rules in place to avoid conflicts of interest by Board members. Conflicts of interest are not understood to include transactions and other activities between companies in the Unilever Group.

Shareholder matters

Relations with shareholders and other investors

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

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

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

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

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Corporate governance continued

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

General Meetings of Shareholders

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

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

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

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

Electronic Communication

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

NV was one of the founders of the Dutch Shareholders Communication Channel. NV shareholders participating in the Dutch Shareholders Communication Channel are able to appoint electronically a proxy to vote on their behalf at the NV AGM and NV shareholders who wish to participate should contact their bank or broker. Shareholders of PLC in the UK can choose to receive electronic notification that the Annual Review, Annual Report and Accounts and Notice of AGMs have been published on our website, instead of receiving printed copies, and can also electronically appoint a proxy to vote on their behalf at the AGM.

Registration for electronic communication by shareholders of PLC can be made at www.unilever.com/shareholderservices The UK Companies Act 2006 contains provisions facilitating communications between companies and their shareholders electronically. PLC consulted with its shareholders in 2007 to offer them the opportunity to review their method of receiving shareholder communications in the future.

At the 2007 NV AGM shareholders voted for an amendment to the NV Articles of Association allowing Unilever to implement the opportunity of electronic communication. Accordingly, the Board of Directors is now authorised to decide upon the use of this means of communication.

Voting rights

To be entitled to attend and vote at NV General Meetings shareholders must hold their NV shares on the record date, which is set by the Board of NV at a date not more than thirty days before the meeting. Shareholders do not need to block their shares. NV shareholders can cast one vote for each €0.16 nominal capital that they hold. This means that they can cast one vote for each NV ordinary share, or NV New York Registry Share. Shareholders can vote in person or by proxy. Similar arrangements apply to holders of depositary receipts issued for NV shares and the holders of NV preference shares (see pages 42 and 43).

PLC shareholders can cast one vote for each $3\,^{1}/_{9}$ p nominal capital that they hold. Shareholders can vote in person at the meeting or by proxy. This means shareholders can cast one vote for each PLC ordinary share, or PLC American Depositary Receipts of shares. Proxies should be submitted at least 48 hours before the General Meeting to the Registrars, whose details can be found on page 144.

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

Holders of NV New York Registry Shares or PLC American Depositary Receipts of shares will receive a proxy form enabling them to authorise and instruct ABN AMRO N.V. or Citibank, N.A. respectively to vote on their behalf at the General Meeting of NV or PLC. N.V. Elma and United Holdings Limited (the holders of NV's special shares), other group companies of NV which hold ordinary or preference shares, and United Holdings Limited, which owns half of PLC's deferred stock, are not permitted to vote at General Meetings.

Voting on each of the resolutions contained in the Notice of AGMs is conducted by poll. The final vote is published at the meetings and the outcome of the votes, including the proxy votes, is put on Unilever's website. For each resolution, proxy appointment forms in 2007 provided shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. Proxy forms and voting result announcements make it clear that a vote withheld is not a vote in law, and will not be counted in the calculation of the proportion of votes for and against the resolution voted on.

Shareholder proposed resolutions

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

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Corporate governance continued

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

Required majorities

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

A proposal to alter the Articles of Association of NV can only be made by the Board. A proposal to alter the Memorandum and Articles of Association of PLC can be made either by the Board or by shareholders in the manner permitted under the UK Companies Acts. Proposals to alter the provisions in the Articles of Association of NV and PLC respectively relating to the unity of management require the prior approval of meetings of the holders of the NV special shares and the PLC deferred stock. The Articles of Association of NV and the Memorandum and Articles of Association of PLC can be found on our website.

Right to hold shares

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

Foundation Agreements

Equalisation Agreement

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

Since the AGMs in 2006 which agreed to split the NV ordinary shares and to consolidate the PLC ordinary shares, each NV ordinary share represents the same underlying economic interest in the Unilever Group as each PLC ordinary share.

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

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

- the current profits of the other company (after it has paid its own preference shareholders);
- then its own free reserves; and
- then the free reserves of the other company.

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

So far, NV and PLC have always been able to pay their own dividends, so we have never had to follow this procedure. If we did, the payment from one company to the other would be subject to any United Kingdom and Dutch tax and exchange control laws applicable at that time.

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

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

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

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

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

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Corporate governance continued

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

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

Under Article 2 of the Articles of Association of NV and Clause 3 of the Memorandum of Association of PLC, each company is required to carry out the Equalisation Agreement with the other. Both documents state that the Agreement cannot be changed or terminated without the approval of shareholders. For NV, the General Meeting can decide to alter or terminate the Equalisation Agreement at the proposal of the Board. The necessary approval of the General Meeting is then that at least one half of the total issued ordinary capital must be represented at an ordinary shareholders meeting, where the majority must vote in favour; and (if they would be disadvantaged or the agreement is to be terminated), at least two-thirds of the total issued preference share capital must be represented at a preference shareholders meeting, where at least three-quarters of them must vote in favour. For PLC, the necessary approval must be given by the holders of a majority of all issued shares voting at a General Meeting and the holders of the ordinary shares, by a simple majority voting at a General Meeting where the majority of the ordinary shares in issue are represented.

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

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

A copy of the Equalisation Agreement can be found on our website at www.unilever.com/investorcentre/corpgovernance

The Deed of Mutual Covenants

The Deed of Mutual Covenants provides that NV and PLC and their respective subsidiary companies shall co-operate in every way for the purpose of maintaining a common operating policy. They shall exchange all relevant information about their respective businesses the intention being to create and maintain a common operating platform for the Unilever Group throughout the world. The Deed illustrates some of the information which makes up this common platform, such as the mutual exchange and free use of know-how, patents, trade marks and all other commercially valuable information. The Deed contains provisions which allow the Directors of NV and PLC to take any actions to ensure that the dividend-generating capacity of each of NV and PLC is aligned with the economic interests of their respective shareholders. These provisions also allow assets to be transferred between NV and PLC and their associated companies (as defined in the Deed) to ensure that assets are allocated in the most efficient manner. These arrangements are designed to create a balance between the two parent companies and the funds generated by them, for the benefit of their respective sets of shareholders.

The Agreement for Mutual Guarantees of Borrowing

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

Share capital matters

Combined earnings per share

We calculate earnings per share on a combined basis. The calculation is based on the average amount of NVs and PLCs ordinary share capital in issue during the year.

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

Further information about the calculation of earnings per share, including the calculation on a diluted basis, can be found in note 7 on page 85.

Share capital

NVs issued share capital on 31 December 2007 was made up of:

- €274 356 432 split into 1 714 727 700 ordinary shares of €0.16 each;
- €1 028 568 split into 2 400 ordinary shares numbered 1 to 2 400, known as special shares; and
- €113 599 014 split into several classes (4%, 6% and 7%) of cumulative preference shares (financing preference shares).

The total number of voting rights attached to NV's outstanding shares is shown hereunder:

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

(a) Of which 81 337 992 shares were held in treasury and 40 958 255 shares were held in connection with share-based payments as at 31 December 2007.

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Corporate governance continued

NV may issue shares not yet issued and grant rights to subscribe for shares only pursuant to a resolution of the General Meeting of Shareholders or of another corporate body designated for such purpose by a resolution of the General Meeting. At the AGM held on 15 May 2007 the Board of Directors was designated, in accordance with Articles 96 and 96a of Book 2 of the Netherlands Civil Code, as the corporate body which is authorised until 15 November 2008 to resolve on the issue of or on the granting of rights to subscribe for shares not yet issued and to restrict or exclude the statutory pre-emption rights that accrue to shareholders upon issue of shares, on the understanding that this authority is limited to 10% of the issued share capital of the Company, plus an additional 10% of the issued share capital of the Company in connection with or on the occasion of mergers and acquisitions.

At the 2007 AGM the Board of Directors of NV was authorised, in accordance with Article 98 of Book 2 of the Netherlands Civil Code, until 15 November 2008 to cause the Company to buy in its own shares and depositary receipts therefor, within the limits set by law (10% of the issued share capital), either through purchase on a stock exchange or otherwise, at a price, excluding expenses, not lower than the nominal value of the shares and not higher than 10% above the average of the closing price of the shares on Eurolist by Euronext Amsterdam for the five business days before the day on which the purchase is made.

The above mentioned authorities are renewed annually.

PLCs issued share capital on 31 December 2007 was made up of:

- £40 760 420 split into 1 310 156 361 ordinary shares of $3\frac{1}{9}$p each; and
- £100 000 of deferred stock.

The total number of voting rights attached to PLCs outstanding shares are shown hereunder:

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

(a) Of which 11 556 216 shares were held by PLC in treasury and 37 973 522 shares were held by NV group companies or by share trusts as at 31 December 2007.

The Board of Directors of PLC under sections 80 and 89 of the UK Companies Act 1985 may, subject to the passing of the appropriate resolutions at a meeting of shareholders, issue shares within the limits prescribed within the resolutions. At the 2007 AGM the Directors were authorised to issue new shares pursuant to section 80 of that Act, limited to a maximum of £13 450 000 nominal value, and pursuant to section 89 of that Act, to disapply pre-emption rights up to approximately 5% of PLCs issued ordinary share capital. These authorities are renewed annually.

At the 2007 AGM the Board of Directors of PLC was authorised in accordance with its Articles of Association to make market purchases of its ordinary shares within the limits prescribed within the resolution until the earlier of the 15 month anniversary after the passing of the resolution or the conclusion of the 2008 AGM.

Margarine Union (1930) Limited: Conversion Rights

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

When the will trusts were varied in 1983, the interests of the beneficiaries of his will were also preserved. Four classes of special shares were created in Margarine Union (1930) Limited, a subsidiary of PLC. One of these classes can be converted at the end of the year 2038 into 70 875 000 PLC ordinary shares of $3\,^1/_9$ p each. This currently represents 5.4% of PLCs issued ordinary capital. These convertible shares replicate the rights which the descendants of the first Viscount would have had under his will. This class of the special shares only has a right to dividends in specified circumstances, and no dividends have yet been paid. PLC guarantees the dividend and conversion rights of the special shares.

Foundation Unilever NV Trust Office

As at 1 March 2008, around 74.48% of NVs ordinary shares and around 33.71% of NVs 7% cumulative preference shares were held by the Foundation Unilever NV Trust Office (Stichting Administratiekantoor Unilever N.V.), a trust office with a board independent from Unilever. As part of its corporate objects, the Foundation issues depositary receipts in exchange for these shares. These depositary receipts are listed on Euronext Amsterdam, as are the NV ordinary and 7% preference shares themselves.

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

Holders of depositary receipts are entitled to dividends that are paid on the underlying shares held by the Foundation.

The members of the board are Mr J H Schraven (Chairman), Mr P P de Koning, Prof Dr L Koopmans and Mr A A Olijslager. Their biographies can be found on the website of the Foundation www.administratiekantoor-unilever.nl

The Foundation reports periodically, but at least once a year, on its activities.

Voting by holders of depositary receipts

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

Holders of depositary receipts not attending a shareholders meeting and who participate in the Dutch Shareholders Communication Channel can also issue binding voting instructions to the Foundation. The Foundation is obliged to follow these instructions. The same applies to all holders of depositary receipts who instruct the Foundation outside the Shareholders Communication Channel.

Corporate governance continued

Voting by the Foundation Unilever NV Trust Office
Shares for which the Foundation has not granted voting proxies or for which it has not received voting instructions are voted on by the Foundation in such a way as it deems to be in the interests of the holders of the depositary receipts. This voting policy is laid down in the Conditions of Administration that apply to the depositary receipts. Both the Articles of Association and the Conditions of Administration can be found on the Foundation's website.

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

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

Hitherto the majority of votes cast by ordinary shareholders at NV meetings have been cast by the Foundation. Unilever and the Foundation have a policy of actively encouraging holders of depositary receipts to exercise their voting rights in NV meetings.

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

Foundation Unilever NV Trust Office's shareholding
Foundation NV Trust Office's shareholding fluctuates daily – its holdings on 1 March 2008 were:

- NV ordinary shares of €0.16: 1 277 186 652 (74.48%);
- NV 7% cumulative preference shares of €428.57: 9 776 (33.71%);
- NV 6% cumulative preference shares of €428.57: 5 (0.00%); and
- NV 4% cumulative preference shares of €42.86: 23 (0.00%).

Further information on the Foundation, its arrangements and its activities can be found on its website at www.administratiekantoor-unilever.nl

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

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

Further information can be found on our website and in 'The Governance of Unilever', the Boards' own constitutional document. This describes the terms of reference of our Board Committees, including their full responsibilities. It will be kept up to date with changes in our internal constitutional arrangements that our Boards may make from time to time and it is available on our website at www.unilever.com/Investorcentre/corpgovernance

Following implementation of the EU Takeover Directive, certain information is required to be disclosed in relation to control and share structures and interests of NV and PLC. Such disclosures, which are not covered elsewhere in this Annual Report on Form 20-F, include the following:

- there are no requirements to obtain the approval of NV or PLC, or of other holders of securities in NV or PLC, for a transfer of securities;
- the Trustees of the PLC employee share trusts may vote or abstain in any way they think fit and in doing so may take into account both financial and non-financial interests of the beneficiaries of the employee share trusts or their dependents;
- there are no arrangements by which, with NV or PLC's co- operation, financial rights carried by securities are held by a person other than the holder of securities;
- NV and PLC are not aware of any agreements between holders of securities which may result in restrictions on the transfer of securities or on voting rights;
- neither NV or PLC are parties to any significant agreement which include provisions that take effect, alter or terminate such an agreement upon a change of control following a takeover bid; and
- NV and PLC do not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that most of Unilever's share schemes contain provisions which operate in the event of a takeover of Unilever, which provisions may for instance cause options or awards granted to employees under such schemes to vest after a takeover or be exchanged into new awards for shares in another entity.

Requirements the Netherlands

General

NV is required to state in its Annual Report and Accounts whether it complies or will comply with the Principles (P) and best practice provisions (bpp) of the Dutch Corporate Governance Code (the Dutch Code) and, if it does not comply, to explain the reasons for this. As will be clear from the preceding description of our governance arrangements, NV complies with almost all of the principles and best practice provisions of the Dutch Code. The text that follows sets out areas of non-compliance, as well as certain statements that the Dutch Code invites us to make to our shareholders that are not included elsewhere in this Annual Report on Form 20-F.

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Corporate governance continued

Board and Committee structures

NV is a multinational company with activities and shareholders located all over the world. It has a one-tier board, consisting of both Executive and, as a majority, Non-Executive Directors. We achieve compliance of our board arrangements with the Dutch Code, which is for the most part based on the customary two-tier structure in the Netherlands, by, as far as is possible and practicable, applying the provisions of the Dutch Code relating to members of a management board to our Executive Directors and the provisions relating to members of a supervisory board to our Non-Executive Directors. Management tasks not capable of delegation are performed by the Board. Reference is made to Ps II and III and corresponding bpps. Reference is also made to the UK Combined Code on Corporate Governance, which is fully tailored to the one-tier board model (see page 33).

Risk management and control

Reference is made to pages 13 and 14 where Unilever's control framework is described. This incorporates risk management, internal control procedures and disclosure controls and procedures. Our procedures cover financial, operational, social, strategic and environmental risks and regulatory matters. They are in line with the latest recommendations of 'Internal Control – Revised Guidance for Directors on the Combined Code' published by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales in October 2005 ('The Turnbull Guidance') and in line with the Recommendations of the Dutch Monitoring Committee. On pages 13 and 14 we have identified certain specific risks that are areas of focus in 2008. Unilever has designed its internal risk management and control systems to provide reasonable (not absolute) assurance to ensure compliance with regulatory matters and to safeguard reliability of the financial reporting and its disclosures.

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

In bpp II.1.4 the Dutch Code invites our Board to make a statement on our internal risk management and control systems. In its reports, published on 20 December 2005 and 19 December 2007, the Dutch Corporate Governance Code Monitoring Committee has made recommendations concerning the application of this best practice provision. In accordance with its recommendation and in the light of the above, the Board believes that, as regards financial reporting risks:

- the risk management and control systems provide reasonable assurance that the Annual Report does not contain any material inaccuracies;
- the risk management and control systems have worked properly in 2007;
- there are no indications that the risk management and control systems will not work properly in 2008;
- no material failings in the risk management and control systems were discovered in the year under review or the current year up to the date of signing of these accounts;

and, as regards operational, strategic, legislative and regulatory risks:

- no material failings in the risk management and control systems were discovered in the year under review.

This statement is not a statement in accordance with the requirements of Section 404 of the US Sarbanes-Oxley Act 2002.

Share options and awards

In line with bpp II.2.2, the awards and grants of shares and options to our Executive Directors are in the material cases subject to performance criteria, as referred to on pages 51 and 52 of the Report of the Remuneration Committee.

Retention period of shares

The Dutch Code recommends that shares granted to executive directors without a financial consideration must be retained for a period of at least five years (bpp II.2.3). In 2001 we introduced a new remuneration policy with shareholder approval which requires our Executive Directors to build and retain a personal shareholding in Unilever equal to at least 150% of their annual base pay. We believe that this is in line with the spirit of the Dutch Code.

Severance pay

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

Regulations for transactions in securities in other companies

The Dutch Code recommends that a director shall give periodic notice of any changes in his holding of securities in other Dutch listed companies (bpp II.2.6 and bpp III.7.3). We are a multin