UNILEVER PLC
Form 6-K
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934

For the month of March, 2008

UNILEVER PLC
(Translation of registrant's name into English)

UNILEVER HOUSE, BLACKFRIARS, LONDON, ENGLAND
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):_______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):_______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_______

Cautionary statement

This document may contain forward-looking statements, including ‘forward-looking statements’ within the meaning of the United States Private Securities Litigation Reform Act of 1995. Words such as ‘expects’, ‘anticipates’, ‘intends’ or the negative of these terms and other similar expressions of future performance or results, including financial objectives to 2010, and their negatives, are intended to identify such forward-looking statements. These forward-looking statements are based upon current expectations and assumptions regarding anticipated developments and other factors affecting the Group. They are not historical facts, nor are they guarantees of future performance. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including, among others, competitive pricing and activities, consumption levels, costs, the ability to maintain and manage key customer relationships and supply chain sources, currency values, interest rates, the ability to integrate acquisitions and complete planned divestitures, the ability to complete planned restructuring activities, physical risks, environmental risks, the ability to manage regulatory, tax and legal matters and resolve pending matters within current estimates, legislative, fiscal and regulatory developments, political, economic and social conditions in the geographic markets where the Group operates and new or changed priorities of the Boards. Further details of potential risks and uncertainties affecting the Group are described in the Group's filings with the London Stock Exchange, Euronext Amsterdam and the US Securities and Exchange Commission, including the Annual Report and Accounts on Form 20-F. These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forwardlooking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Annual Report and Accounts 2007

Adding Vitality to life

The Unilever Group

Contents

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 124, 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 PLC ordinary share (pence):			
Interim	**17.00**	15.62	15.04
Proposed final	**34.11**	32.04	30.09

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. 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 and Accounts.

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 Groups 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 Groups 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 Lawrys 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 businesss 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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Report of the Directors continued

About Unilever

Description of business

Unilever is one of the world[]s leading suppliers of fast moving consumer goods across Foods and Home and Personal Care categories. Unilever[]s portfolio includes some of the world[]s 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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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 (m3)	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 Unilever's 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 Unilever's 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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Report of the Directors continued

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

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.

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.

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.

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.

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*.

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*.

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Report of the Directors continued

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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

group's 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, 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.

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About Unilever continued

Unilever is one of the world's 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 125 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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About Unilever continued

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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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 Unilevers 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 20072009. 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 20052010. 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 20052007, Unilever generated a cumulative ungeared free cash flow of €12 billion, towards the €25-30 billion target for the six-year period 20052010.

Risk management

Unilevers 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.

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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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 Americas *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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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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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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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 *Pond's*, 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 *Mod's* 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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Report of the Directors continued

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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Report of the Directors continued

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 children’s learning and development through physical activity — while the brands’ innovative formulations mean parents don’t need to worry about getting their children’s 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 world’s largest tea brand, and *PG Tips*, one of the UK’s leading brands, became the first to carry the Rainforest Alliance logo, showing they meet the independent organisation’s 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.

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 124.

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

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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.

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 ahea