

UNILEVER N V  
Form 20-F  
March 27, 2008

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 20-F**

**(Mark one)**

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

**OR**

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

**OR**

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

**OR**

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

Date of event requiring this shell company report \_\_\_\_\_

**UNILEVER N.V.**

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(Exact name of Registrant as specified in its charter)

**The Netherlands**

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(Jurisdiction of incorporation or organization)

**Weena 455, 3013 AL, Rotterdam, The Netherlands**

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(Address of principal executive offices)

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

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

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

Title of each class

Name of each exchange on which registered

**N.V. New York registry shares each representing one ordinary share of the nominal amount of €0.16 each**

**New York Stock Exchange**

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

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

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

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

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

Yes No

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

Yes No

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

Yes No

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

Large Accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP

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

Other

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

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

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Yes

No

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## Annual Report on Form 20-F 2007





## The Unilever Group

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

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

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

### Basis of reporting

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

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

### Exchange rates

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

### Forward-looking statements

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

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## Highlights

### Highlights

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

### Notes

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

### Our mission and corporate purpose

Unilever's 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](#)

## Chairman's 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 Group's 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 lightly. However, 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 Group's 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.

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

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

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

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

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

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

**Michael Treschow**

Chairman

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Report of the Directors continued

## Group Chief Executive

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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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[Report of the Directors continued](#)

## Group Chief Executive continued

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

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

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

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

### Keeping sustainability at the heart of Unilever

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

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

We also set the ambitious target of a further 25% reduction in the business's CO<sub>2</sub> 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.

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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:

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

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

Cash flow from operating activities	<b>5 188</b>	5 574	5 924
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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:

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

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## About Unilever continued

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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<sub>2</sub> 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<sub>2</sub> 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<sub>2</sub> 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 Unilever's external auditors) data are available:

	2006	2005	2004
Total recordable accident frequency rate per 100 000 hours	0.33	0.39	0.46
CO <sub>2</sub> from energy per tonne of production (kg)	164.59	171.75	185.67
Water per tonne of production (m <sup>3</sup> )	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](http://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](http://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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Two category teams – Foods and Home and Personal Care – are responsible for the development of category and brand strategies, the development of brand communication, and the delivery of relevant innovation. Categories also lead the strategic direction of the supply chain and are accountable for long-term value creation in the business, as measured by longer-term market share development, category growth, innovation metrics and brand health.

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

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

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

### Operating environment

#### Competition

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

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

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

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

#### Distribution

Unilever's products are generally sold through our own sales force as well as through independent brokers, agents and distributors to chain, wholesale, co-operative and independent grocery accounts, food service distributors and institutions. Products are physically distributed through a network of distribution centres, satellite warehouses, company-operated and public storage facilities, depots and other facilities.

## Exports

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

## Seasonality

Certain of our businesses, such as ice cream, are subject to significant seasonal fluctuations in sales. However, Unilever operates globally in many different markets and product categories. No individual element of seasonality is likely to be material to the results of the Group as a whole.

## Related party transactions

Transactions with related parties are conducted in accordance with agreed transfer pricing policies and include sales to joint ventures and associates. Other than those disclosed in this report, there were no related party transactions that were material to the Group or to the related parties concerned that are required to be reported in 2007 or the two preceding years.

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

## Resources

### Our brands

We have a strong and well differentiated portfolio of global and regional brands, which are positioned to meet the needs and aspirations of our consumers across a variety of price points, segments and channels, allowing us to compete effectively in our key categories and countries.

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

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

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

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**Ice cream and beverages** includes ice cream sold under the international *Heart* brand, including *Cornetto*, *Magnum*, *Carte d'Or* and *Solero*, *Wall's*, *Kibon*, *Algida* and *Ola*. Our portfolio also includes *Ben & Jerry's*, *Breyers*, *Klondike* and *Popsicle*. This category also includes tea-based beverages, where our principal brands are *Lipton*, *Brooke Bond* and *PG Tips*. This group also includes weight management products, principally *Slim•Fast*, and nutritionally enhanced products sold in developing markets, including *Annapurna* and *AdeS/Adez*.

Within these groups, we also include sales of our Unilever Foodsolutions, which is a global food service business providing solutions for professional chefs and caterers.

In **Personal Care**, six global brands are the core of our business in the mass skin care, daily hair care and deodorants product areas – *Dove*, *Lux*, *Rexona* (including *Sure* and *Degree*), *Sunsilk* (including *Seda/Sedal*), *Axe* and *Pond's*. Other important brands include *Suave*, *Clear*, *Lifebuoy* and *Vaseline*, together with *Signal* and *Close Up* in oral care.

Our **Home Care** ranges include laundry products, such as tablets, traditional powders and liquids for washing of clothing by hand or machine. Tailored products including soap bars are available for lower-income consumers. Our brands include *Omo* (‘Dirt is Good’ platform), *Surf*, *Comfort*, *Radiant*, *Skip* and *Snuggle*. Our household care products include surface cleaners and bleach, sold under the *Cif*, *Domestos* and *Sun/Sunlight* brands.

### Corporate venture activities

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

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

### Our employees

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

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

The Senior Executive Seminar, our pioneering leadership development programme, was led this year by leading business academic C K Prahalad. The event brought together 28 of our top leaders to examine key business issues, with a particularly strong external focus. They concentrated on developing and emerging markets, visiting more than 50 companies and 20 NGOs to gain insights into global trends and practices for opening up opportunities at

the "bottom of the economic pyramid". The 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 Unilever's 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	<b>2007</b>	2006	2005	2004	2003
Europe	<b>43</b>	44	49	52	55
The Americas	<b>43</b>	45	47	47	50
Asia Africa	<b>88</b>	90	110	124	129
<b>Total</b>	<b>174</b>	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,



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race, creed, disability, style or sexuality. Diversity plays a vital role in ensuring we understand consumers' needs.

The commitment to diversity is set right at the top of our business. It is driven by the Global Diversity Board, chaired by Group Chief Executive Patrick Cescau, who has emphasised that 'diversity is critical to our business competitiveness and long-term sustainability'.

Unilever is one of the 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 132 and to details of property, plant and equipment in note 10 on page 88. We currently have no plans to construct new facilities or expand or improve our current facilities in a manner that is material to the Group.

### **Laws and regulation**

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

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

### **Legal proceedings**

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

### **Ice cream cases**

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

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

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

Since the ECJ ruling, Mars has nonetheless sought to bring claims against Unilever before authorities and courts in a number of countries. Mars's 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's 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, NV's 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 Board's decision to convert the preference shares and NV's 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 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 that they meet the independent organisation's strict sustainability criteria.

Another significant step was taken by our ice cream brand *Ben & Jerry's*, 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 & Mighty's* 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 world's 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](http://www.unilever.com)

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## Outlook and risks

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The following discussion about outlook and risk management activities includes "forward-looking" statements that involve risk and uncertainties. The actual results could differ materially from those projected. See the "Cautionary statement" on the inside back cover.

### Outlook

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

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

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

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

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

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

### Risk management

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

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

some or all of these mitigating actions, which may impair Unilever's profitability or adversely impact its reputation.

### **Sales and profit growth**

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

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

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

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



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[Report of the Directors continued](#)

## Outlook and risks continued

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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 Group's 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**

Unilever's 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 Group's 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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Report of the Directors continued

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

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.

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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 *Frusi* frozen yoghurt with wholegrain cereals and real fruit pieces and low calorie *Solero* smoothies. *Lipton Linea* slimming teas were launched in France, Switzerland and Portugal. Growth in *Hellmann's* was boosted by new extra light mayonnaise with citrus fibre technology.

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

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Report of the Directors continued

## Operating Review □ Regions continued

## Europe (continued)

## 2006 compared with 2005

	€ million 2006	€ million 2005
Turnover	15 000	14 940
Operating profit	1 903	2 064
Operating margin	12.7%	13.8%
Restructuring, business disposals, impairment charges and one-time gain (2006) on UK pension plans included in operating margin	(1.4)%	(0.9)%
	%	
Underlying sales growth at constant rates	1.0	
Effect of acquisitions	0.1	
Effect of disposals	(0.9)	
Effect of exchange rates	0.2	
Turnover growth at current rates	0.4	
	%	
Operating profit 2006 vs 2005		
Change at current rates	(7.7)	
Change at constant rates	(7.9)	

Turnover at current rates of exchange rose by 0.4%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 7.7%, after including a favourable currency movement of 0.2%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.

The UK, our largest European business, returned to growth in the year with good results across several foods and personal care ranges. Although laundry sales declined, there were promising signs of progress in market share with *Persil* regaining its position as the country's 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 children's mental development □ was launched in 2006.

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

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

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

### The Americas

#### 2007 compared with 2006

	€ million 2007	€ million 2006
Turnover	<b>13 442</b>	13 779
Operating profit	<b>1 971</b>	2 178
Operating margin	<b>14.7%</b>	15.8%
Restructuring, business disposals, impairment charges and one-time gain (2006) on US healthcare plans included in operating margin	<b>(0.7)%</b>	0.0%
	%	
Underlying sales growth at constant rates	<b>4.1</b>	
Effect of acquisitions	<b>0.1</b>	
Effect of disposals	<b>(0.6)</b>	
Effect of exchange rates	<b>(5.8)</b>	
Turnover growth at current rates	<b>(2.4)</b>	
	%	
Operating profit 2007 vs 2006		
Change at current rates	<b>(9.5)</b>	
Change at constant rates	<b>(3.4)</b>	

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

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### 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 Lawry's 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 brand's Vitality credentials. *Hellmann's* *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)%

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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

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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* brand share was at its highest level for many years.

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

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

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



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Report of the Directors continued

## Operating Review □ Regions continued

### The Americas (continued)

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

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

### Asia Africa

#### 2007 compared with 2006

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

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.

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

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

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

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

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

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

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

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

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Report of the Directors continued

Operating Review □ Regions continued

## Asia Africa (continued)

## 2006 compared with 2005

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

Turnover at current rates of exchange rose by 5.7%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange rose by 2.8%, after including an adverse currency movement of 1.2%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.

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

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

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Our brands are household names in many countries around the world. We create products that appeal to people's 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 world's 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](http://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, *Hellmann's 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 tea's 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 *Pond's* brand went from strength to strength in South East Asia, China and India, powered in part by the launch of a new anti-ageing range. *Vaseline* was our fastest-growing global skin brand, with underlying sales growth of more than 8%. *Vaseline Cocoa Butter* range was its most successful launch in the US in ten years. The brand also announced the *Vaseline Skin Fund*, which is expected to launch in the UK and the US in 2008 □ and give 1 million people better access to information about managing skin complaints.

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

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

### **Science and technology**

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

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

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## Operating Review □ Categories continued

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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 people's 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.



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## Operating Review □ Categories continued

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*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 brand's 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 *Hellmann's Light*, a variant of global leader *Hellmann's*. The campaign, aired in Argentina, Chile and Brazil, made consumers aware that three spoonfuls of *Hellmann's 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 people's 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 world's second-largest deodorant brand, made a triumphant entry into the Japanese market and quickly became the country's 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 brand's range was given a substantial makeover in 2007 to ensure packaging and formulations are consistent the world over.

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## Financial Review

### Basis of reporting

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

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

Foreign currency amounts for results and cash flows are translated from underlying local currencies into euros using annual average exchange rates; balance sheet amounts are translated at year-end rates except for the ordinary capital of the two parent companies. These are translated at the rate referred to in the Equalisation Agreement of 3 1 / 9 p = € 0.16 (see Corporate governance on page 40).

### Results and earnings per share

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

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

	€ million 2007	€ million 2006	€ million 2005
Continuing operations:			
Turnover	<b>40 187</b>	39 642	38 401
Operating profit	<b>5 245</b>	5 408	5 074
Net profit	<b>4 056</b>	3 685	3 335
Net profit from discontinued operations	<b>80</b>	1 330	640
Net profit □ total	<b>4 136</b>	5 015	3 975
	€ 2007	€ 2006	€ 2005
EPS □ continuing operations	<b>1.32</b>	1.19	1.07
EPS □ total	<b>1.35</b>	1.65	1.29

### Results for 2007 compared with 2006

Turnover for the period increased by 1.4% to €40 187 million. The increase was a consequence of USG of 5.5% in the year, offset by unfavourable currency movements of (3.1)% and the impact of disposals of (0.9)% . The USG

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

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

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

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

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

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

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

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

### **Results for 2006 compared with 2005**

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

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

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## Financial Review continued

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

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

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

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

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

### Acquisitions and disposals

#### 2007

During 2007, we reached agreement with our partners in South Africa and Israel to exchange respective shareholdings such that Unilever now own 74.25% of a newly combined South African entity and 100% of Unilever Israel. The share swaps were effected as at 1 October 2007 and as a result we recognised a gain on disposal of €214 million.

On 1 January 2007, Unilever completed the restructuring of its Portuguese businesses. The result of the reorganisation is that Unilever now has a 55% share of the combined Portuguese entity, called Unilever Jerónimo Martins. The combined business includes the foods and home and personal care businesses. The remaining 45% is held by Jerónimo Martins Group. The structure of the agreement is such that there is joint control of the newly formed entity and therefore it is accounted for by Unilever as a joint venture.

Other business disposals in 2007 involved the sale of local Brazilian margarine brands. To further develop our heart health brand margarine *Becel* in Brazil we have established a joint venture with Perdigão.

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

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

#### 2006

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

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

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

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

### **2005**

There were no material acquisitions during 2005.

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

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

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

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## Dividends and market capitalisation

## Dividends per share

	€ 2007	Per €0.16 NV ordinary share € 2006	pence 2007	Per 3 <sup>1</sup> / <sub>2</sub> p PLC ordinary share pence 2006
Interim	<b>0.25</b>	0.23	<b>17.00</b>	15.62
Final	□	0.47	□	32.04
Proposed final	<b>0.50</b>	□	<b>34.11</b>	□
One-off	□	0.26	□	17.66

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

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

## Balance sheet

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

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

increases in asset values. Inventories and trade receivables show little movement when compared with the prior year.

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

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

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

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

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

Unilever has committed credit facilities in place to support its commercial paper programmes and for general corporate purposes. The undrawn committed credit facilities in place at the end of 2007 were: bilateral committed credit facilities totalling US \$3.6 billion, bilateral notes commitments totalling US \$0.2 billion and bilateral money market commitments totalling US \$1.7 billion. Further details regarding these facilities are given in note 17 on page 97.

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

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

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

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

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### Contractual obligations at 31 December 2007

	€ million Total	€ million Due within one year	€ million Due in 1-3 years	€ million Due in 3-5 years	€ million Due in over 5 years
Long-term debt	<b>5 851</b>	<b>632</b>	<b>2 367</b>	<b>792</b>	<b>2 060</b>
Operating lease obligations	<b>1 663</b>	<b>363</b>	<b>527</b>	<b>332</b>	<b>441</b>
Purchase obligations <sup>(a)</sup>	<b>299</b>	<b>234</b>	<b>46</b>	<b>17</b>	<b>2</b>
Finance leases	<b>520</b>	<b>82</b>	<b>77</b>	<b>48</b>	<b>313</b>
Other long-term commitments	<b>1 454</b>	<b>412</b>	<b>488</b>	<b>404</b>	<b>150</b>

(a) Raw and packaging materials and finished goods.

#### Off-balance sheet arrangements

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

#### Cash flow

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

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

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

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



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

### **Finance and liquidity**

Unilever aims to be in the top third of a reference group including 20 other international consumer goods companies for Total Shareholder Return, as explained on page 32. The Group's financial strategy supports this objective and provides the financial flexibility to meet its strategic and day-to-day needs. The key elements of the financial strategy are:

- appropriate access to equity and debt capital;
- sufficient flexibility for acquisitions that we fund out of current cash flows;
- A1/P1 short-term credit rating;
- sufficient resilience against economic turmoil; and
- optimal weighted average cost of capital, given the constraints above.

Unilever aims to concentrate cash in the parent and finance companies in order to ensure maximum flexibility in meeting changing business needs. Operating subsidiaries are financed through the mix of retained earnings, third-party borrowings and loans from parent and group financing companies that is most appropriate to the particular country and business concerned. Unilever maintains access to global debt markets through an infrastructure of short-term debt programmes (principally US domestic and euro commercial paper programmes) and long-term debt programmes (principally a US Shelf registration and euromarket Debt Issuance Programme). Debt in the international markets is, in general, issued in the name of NV, PLC, Unilever Finance International BV or Unilever Capital Corporation. NV and PLC will normally guarantee such debt where they are not the issuer.

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

### **Treasury**

Unilever Treasury's role is to ensure that appropriate financing is available for all value-creating investments. Additionally, Treasury delivers financial services to allow operating companies to manage their financial transactions and exposures in an efficient, timely and low-cost manner.

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

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

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

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

### **Pensions investment strategy**

The Group's investment strategy in respect of its funded pension plans is implemented within the framework of the various statutory requirements of the territories where the plans are based. The Group has developed policy guidelines for the allocation of assets to different classes with the objective of controlling risk and maintaining the right balance between risk and long-term returns in order to limit the cost to the Group of the benefits provided. To achieve this, investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plans invest the largest proportion of the assets in equities, which the Group believes offer the best returns over the long term commensurate with an acceptable level of risk. The pension funds also have a proportion of assets invested in property, bonds, hedge funds and cash. The majority of the assets are managed by a number of external fund managers with a small proportion managed in-house. Unilever has a pooled investment vehicle (Uninvest) which it believes offers its pension plans around the world a simplified externally managed investment vehicle to implement their strategic asset allocation models currently for equities and hedge funds. The aim is to provide a high quality, well diversified risk controlled vehicle.

### **Significant events after the balance sheet date**

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

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

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

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

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

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

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

### **Critical accounting policies**

The accounts presented comply in all material respects with IFRS as adopted by the EU and with UK and Dutch law. They are also in accordance with IFRS as issued by the International Accounting Standards Board. To prepare these accounts, we are required to make estimates and assumptions, using judgement based on available information, including historical experience. These estimates and assumptions are reasonable and are re-evaluated on an ongoing basis. However, actual amounts and results could differ. Critical accounting policies are those which are most important to the portrayal of Unilever's financial position and results of operations. Some of these policies require difficult, subjective or complex judgements from management, the most important being:

### **Goodwill and intangible assets**

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

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## Financial Review continued

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

Please refer also to note 9 on page 86.

### Financial instruments

Financial instruments are classified according to the purpose for which the instruments were acquired. This gives rise to the following classes: held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. Please refer to note 1 on pages 73 and 74 for a description of each of these categories.

Derivative financial instruments are reported at fair value, with changes in fair values booked through profit or loss unless the derivatives are designated and effective as hedges of future cash flows, in which case the changes are recognised directly in equity. At the time the hedged cash flow results in the recognition of an asset or a liability, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedged items that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in fair value of net investment hedges in relation to foreign subsidiaries are recognised directly in equity.

### Pensions and similar obligations

The assets and liabilities of the plans are recognised at fair values in the balance sheet.

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

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

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

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

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

#### **Provisions**

Provision is made, amongst other reasons, for legal matters, disputed indirect taxes, employee termination costs and restructuring where a legal or constructive obligation exists at the balance sheet date and a reliable estimate can be made of the likely outcome.

#### **Advertising and promotion costs**

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

#### **Deferred tax**

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

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## Financial Review continued

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### Non-GAAP measures

Certain discussions and analyses set out in this Annual Report on Form 20-F include measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS. We believe this information, along with comparable GAAP measurements, is useful to investors because it provides a basis for measuring our operating performance, ability to retire debt and invest in new business opportunities. Our management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance and value creation. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Non-GAAP financial measures as reported by us may not be comparable to similarly titled amounts reported by other companies.

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

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

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

### Measures of long-term value creation

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

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

- The delivery, over time, of Ungeared Free Cash Flow (UFCF), which expresses the translation of profit into cash, and thus longer-term economic value; and
- The development, over time, of Return on Invested Capital (ROIC), which expresses the returns generated on capital invested in the Group.

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

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

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

As investor measures, we believe that there are no GAAP measures directly comparable with UFCF and ROIC. However, in the tables on pages 30 and 31, we reconcile each as follows: UFCF to cash flow from operating activities and also to net profit; ROIC to net profit.

**Caution**

Unilever cautions that, while UFCF and ROIC are widely used as tools for investment analysis, they are not defined terms under IFRS and therefore their definitions should be carefully reviewed and understood by investors. Investors should be aware that their application may vary in practice and therefore these measures may not be fully comparable between companies. In particular:

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

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## Financial Review continued

### Ungeared free cash flow (UFCF)

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

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

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

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

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





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## Financial Review continued

### Return on invested capital (ROIC)

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

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

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

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

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

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

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

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## Financial Review continued

### Underlying sales growth (USG)

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

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

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

### Net debt

Net debt is defined as the excess of total financial liabilities, excluding trade and other payables, over cash, cash equivalents and financial assets, excluding amounts held for sale. It is a measure that provides valuable additional information on the summary presentation of the Group's net financial liabilities and is a measure in common use elsewhere. The net debt definition in our 2007 reporting has not changed in substance from previous years, however, the terminology has been updated to correspond with that appearing on the balance sheet.

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

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

### Total Shareholder Return (TSR)

TSR measures the returns received by a shareholder, capturing both the increase in share price and the value of

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dividend income (assuming dividends are re-invested). Unilever's TSR performance is compared with a peer group of competitors over a three-year rolling performance period. This period is sensitive enough to reflect changes but long enough to smooth out short-term volatility. The return is expressed in US dollars, based on the equivalent US dollar share price for NV and PLC. US dollars were chosen to facilitate comparison with companies in Unilever's chosen reference group. The choice of currency affects the absolute TSR but not the relative ranking.

Unilever's TSR target is to be in the top third of a reference group including 20 other international consumer goods companies on a three-year rolling basis. At the end of 2006 we were positioned 13th, and at the end of 2007 the ranking was 8th. In 2007, the following companies formed the peer group of comparative companies:

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

### **Unilever's position relative to the TSR reference group**

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

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## Corporate governance

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### Introduction

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

### The Unilever Group

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

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

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

### Unilever policies

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

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

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

[www.unilever.com/investorcentre/corpgovernance](http://www.unilever.com/investorcentre/corpgovernance)

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

### **Developments in corporate governance**

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

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

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

### **The Boards**

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

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

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

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## Corporate governance continued

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### Appointment of Directors

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

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

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

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

### Board meetings

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

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

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

Name	Attendance <sup>(a)</sup>
Antony Burgmans (Chairman to 16 May 2007)	3 of 3
Michael Treschow (Chairman from 16 May 2007)	5 of 5



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

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

### **Board induction and training**

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

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### **Board evaluation**

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

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

### **Board support**

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

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

### **Board changes**

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

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

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

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

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

### **Chairman and Group Chief Executive**

Unilever has a separate independent Non-Executive Chairman and Group Chief Executive. There is a clear division

of responsibilities between their roles. The Chairman is primarily responsible for leadership of the Boards, ensuring their effectiveness and setting their agendas. He is also responsible for ensuring that the Boards receive accurate, timely and clear information.

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

### **Executive Directors**

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

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

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

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

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

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

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

### Outside Appointments

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

### Non-Executive Directors

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

### Role and Responsibility

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

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

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

[www.unilever.com/investorcentre/corpgovernance](http://www.unilever.com/investorcentre/corpgovernance)

### Meetings

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

### Senior Independent Director

Our Non-Executive Directors have appointed David Simon as Senior Independent Director. He acts as their

spokesman. The Senior Independent Director is consulted by the Chairman on the agenda and arrangements for Board meetings. He is also, in appropriate cases, a point of contact for shareholders and other stakeholders.

### **Tenure**

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

### **Remuneration**

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

### **Other appointments**

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

### **Independence**

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

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

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

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

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

### Committees

#### Board committees

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

#### Audit Committee

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

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

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

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

Name	Attendance <sup>(a)</sup>
Kees Storm (Chairman)	6 of 7

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

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

### Nomination Committee

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

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

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

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

### Remuneration Committee

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

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

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

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

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

### Corporate Responsibility and Reputation Committee

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

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

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

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

### Routine business committees

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

### Disclosure Committee

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



## Director matters

### Various formal matters

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

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

### Indemnification

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

### Conflicts of interest

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

## Shareholder matters

### Relations with shareholders and other investors

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

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

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

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

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

### General Meetings of Shareholders

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

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

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

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

### Electronic Communication

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

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

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

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

### Voting rights

To be entitled to attend and vote at NV General Meetings shareholders must hold their NV shares on the record date, which is set by the Board of NV at a date not more than thirty days before the meeting. Shareholders do not need to block their shares. NV shareholders can cast one vote for each €0.16 nominal capital that they hold. This

means that they can cast one vote for each NV ordinary share, or NV New York Registry Share. Shareholders can vote in person or by proxy. Similar arrangements apply to holders of depositary receipts issued for NV shares and the holders of NV preference shares (see pages 42 and 43).

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

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

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

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

#### **Shareholder proposed resolutions**

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

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

### Required majorities

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

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

### Right to hold shares

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

## Foundation Agreements

### Equalisation Agreement

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

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

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

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

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

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

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

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

- If the average annual sterling/euro exchange rate changed so substantially from one year to the next that to pay equal dividends at the current exchange rates, either NV or PLC would have to pay a dividend that was unreasonable (that is to say, substantially larger or smaller in its own currency than the dividend it paid in the previous year); or
- The governments of the Netherlands or the United Kingdom could in some circumstances place restrictions on the proportion of a company's profits which can be paid out as dividends. This could mean that in order to pay equal dividends one company would have to pay out an amount which would breach the limitations in place at the time, or that the other company would have to pay a smaller dividend.

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

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

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

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

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

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

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

A copy of the Equalisation Agreement can be found on our website at [www.unilever.com/investorcentre/corpgovernance](http://www.unilever.com/investorcentre/corpgovernance)

### **The Deed of Mutual Covenants**

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

### **The Agreement for Mutual Guarantees of Borrowing**

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

## Share capital matters

### Combined earnings per share

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

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

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

### Share capital

NV's issued share capital on 31 December 2007 was made up of:

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

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

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

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

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## Corporate governance continued

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

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

The above mentioned authorities are renewed annually.

PLC's issued share capital on 31 December 2007 was made up of:

- £40 760 420 split into 1 310 156 361 ordinary shares of 31/9p each; and
- £100 000 of deferred stock.

The total number of voting rights attached to PLC's outstanding shares are shown hereunder:

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

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

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

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

### Margarine Union (1930) Limited: Conversion Rights

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



When the will trusts were varied in 1983, the interests of the beneficiaries of his will were also preserved. Four classes of special shares were created in Margarine Union (1930) Limited, a subsidiary of PLC. One of these classes can be converted at the end of the year 2038 into 70 875 000 PLC ordinary shares of 3 <sup>1</sup>/<sub>9</sub> p each. This currently represents 5.4% of PLC's issued ordinary capital. These convertible shares replicate the rights which the descendants of the first Viscount would have had under his will. This class of the special shares only has a right to dividends in specified circumstances, and no dividends have yet been paid. PLC guarantees the dividend and conversion rights of the special shares.

#### **Foundation Unilever NV Trust Office**

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

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

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

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

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

#### **Voting by holders of depositary receipts**

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

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

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## Corporate governance continued

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### **Voting by the Foundation Unilever NV Trust Office**

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

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

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

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

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

### **Foundation Unilever NV Trust Office's shareholding**

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

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

Further information on the Foundation, its arrangements and its activities can be found on its website at [www.administratiekantoor-unilever.nl](http://www.administratiekantoor-unilever.nl)

### **Requirements and compliance - general**

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

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

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

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

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

### Requirements in the Netherlands

#### General

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

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### **Board and Committee structures**

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

### **Risk management and control**

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

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

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

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

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

- no material failings in the risk management and control systems were discovered in the year under review. This statement is not a statement in accordance with the requirements of Section 404 of the US Sarbanes-Oxley Act 2002.

### **Share options and awards**

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

### **Retention period of shares**

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

### **Severance pay**

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

### **Regulations for transactions in securities in other companies**

The Dutch Code recommends that a director shall give periodic notice of any changes in his holding of securities in other Dutch listed companies (bpp II.2.6 and bpp III.7.3). We are a multinational company operating all over the world and our Directors come from a wide variety of countries. We therefore have a broader more general requirement for our Directors, requiring them, upon request, to disclose to the compliance officer their holdings and transactions in securities in any listed company.

### **Conflicts of interest**

In the event of a (potential) conflict of interest, the provisions of the Dutch Code (P II.3 and III.6) are applied. Conflicts of interest are not understood to include transactions and other activities between companies in the Unilever Group.

### **Financing preference shares**

NV issued 4%, 6% and 7% cumulative preference shares between 1927 and 1970. Their voting rights are based on their nominal value, as prescribed by Dutch law. The Dutch Code recommends that the voting rights on such shares should, in any event when they are newly issued, be based on their economic value rather than on their nominal value (bpp IV.1.2). NV agrees with this principle but cannot unilaterally reduce voting rights of its outstanding preference shares.

### **Anti-takeover constructions and control over the company**

With reference to bpp IV.3.9, NV has no anti-takeover constructions, in the sense of constructions that are intended solely, or primarily, to block future hostile public offers for its shares. Nor does NV have any constructions whose specific purpose is to prevent a bidder, after acquiring 75% of the capital, from appointing or dismissing members of the Board and subsequently altering the Articles of Association. The acquisition through a public offer of a majority of the shares in a company does not under Dutch law preclude in all circumstances the continued right of the Board of the company to exercise its powers.

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## Corporate governance continued

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### Provision of information

We consider it important to comply with all applicable statutory regulations on the equal treatment of shareholders and provision of information and communication with shareholders and other parties (P IV.2 and P IV.3).

### Meetings of analysts and presentations to investors

We have extensive procedures for handling relations with and communicating with shareholders, investors, analysts and the media (see description on page 38). The important presentations and meetings are conducted as far as practicable in accordance with bpp IV.3.1. Due to their large number and overlap in information, some of the less important ones are not announced in advance, made accessible to everyone or put on our website.

### Requirements in the United Kingdom

PLC is required, as a company that is incorporated in the UK and listed on the London Stock Exchange, to state how it has applied the principles and how far it has complied with the provisions set out in Section 1 of the 2006 UK Combined Code on Corporate Governance (the Combined Code).

In the preceding pages we have described how we have applied the principles and the provisions in the Combined Code. In 2007, Unilever complied with the Combined Code except in the following areas:

- Since the 2007 AGMs, Michael Treschow has been Unilever's first independent Non-Executive Chairman. His predecessor, Antony Burgmans, was not considered to be independent during his period as Chairman of Unilever, as he was before May 2005 an Executive Director.
- The Remuneration Committee, following the stepping down from that committee by Jean-Cyril Spinetta upon his retirement as a Non-Executive Director of Unilever in September 2007, has had two independent Non-Executive Directors on its membership. Michael Treschow was appointed a member of the Remuneration Committee in February 2008. The Committee and the Board are currently working to replace Jean-Cyril Spinetta with a new Non-Executive Director.
- Due to the requirement for Unilever to hold two AGMs for its respective companies on consecutive days, it may not always be possible for all Directors, and possibly the Chairmen of the Audit, Remuneration and Nomination Committees, to be present at both meetings. The Chairman ensures that a majority of Directors attend both meetings and that at least one member of each Committee attends each AGM.

### Requirements in the United States

Both NV and PLC are listed on the New York Stock Exchange and must therefore comply with such of the requirements of US legislation, such as the Sarbanes-Oxley Act of 2002, regulations enacted under US securities laws and the Listing Standards of the New York Stock Exchange as are applicable to foreign private issuers. In some cases the requirements are mandatory and in other cases the obligation is to 'comply or explain'.

We have complied with the requirements concerning corporate governance that were in force during 2007. Attention is drawn in particular to the remit of the Audit Committee on page 37 and the Report of the Audit Committee on page 62.

Actions already taken to ensure compliance that are not specifically disclosed elsewhere or otherwise clear from reading this document include:

- the issuance of a Code of Ethics for senior financial officers;
- the issuance of instructions restricting the employment of former employees of the audit firm; and

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- the establishment of a policy on reporting requirements under the US Securities and Exchange Commission (SEC) relating to the standards of professional conduct for US attorneys.

In each of these cases, existing practices were revised and/or documented in such a way as to conform to the new requirements.

The Code of Ethics applies to the senior executive, financial and accounting officers and comprises the standards prescribed by the SEC, and a copy has been posted on our website at [www.unilever.com/investorcentre/corpgovernance](http://www.unilever.com/investorcentre/corpgovernance)

The Code of Ethics comprises an extract of the relevant provisions of Unilever's Code of Business Principles and the more detailed rules of conduct that implement it. The only amendment to these pre-existing provisions and rules that was made in preparing the Code of Ethics was made at the request of the Audit Committee and consisted of a strengthening of the explicit requirement to keep proper accounting records. No waiver from any provision of the Code of Ethics was granted to any of the persons falling within the scope of the SEC requirement in 2007.

We are required by US securities laws and the Listing Standards of the New York Stock Exchange to have an Audit Committee that satisfies Rule 10A-3 under the Exchange Act and the Listing Standards of the New York Stock Exchange (NYSE). We are fully compliant with these requirements. We are also required to disclose any significant ways in which our corporate governance practices differ from those typically followed by US companies listed on the NYSE. In addition to the information we have given you in this document about our corporate governance arrangements, further details are provided in "The Governance of Unilever", which is on our website at [www.unilever.com/investorcentre/corpgovernance](http://www.unilever.com/investorcentre/corpgovernance)

We are fully compliant with the Listing Standards of the New York Stock Exchange applicable to foreign private issuers. Our corporate governance practices do not significantly differ from those followed by US companies listed on the New York Stock Exchange.

We also confirm that our shareholders have the opportunity to vote on equity compensation plans.

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## Corporate governance Biographical details

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### Chairman

#### **Michael Treschow**<sup>1,2</sup>

Nationality: Swedish. Aged 64. Chairman since May 2007. Chairman, Telefonaktiebolaget L M Ericsson. Non-Executive Director, ABB Group. Board member, Knut and Alice Wallenberg Foundation. Chairman, AB Electrolux 1997-2007 and Confederation of Swedish Enterprise 2004-2007.

### Vice-Chairman

#### **The Lord Simon of Highbury CBE**<sup>3,4,5</sup>

Nationality: British. Aged 68. Appointed 2000. Non-Executive Director, Suez Group. Director, CEPS, Belgium. Member of the International Advisory Council, FITCH, France. Member of the International Advisory Board, Dana Gas Corporation. Senior Advisor, Morgan Stanley International. UK Government Minister 1997-1999. Group Chief Executive, BP p.l.c. 1992-1995 and Chairman 1995-1997.

### Executive Directors

#### **Patrick Cescau**

##### [Group Chief Executive](#)

Nationality: French. Aged 59. Group Chief Executive since April 2005. Joined Unilever 1973. Appointed Director 4 May 1999. Previous posts include: Chairman, Unilever PLC and Vice-Chairman, Unilever N.V. 2004-2005. Foods Director 2001. Financial Director 1999. Controller and Deputy Financial Director 1998-1999. President, Lipton USA 1997-1998. President and CEO, Van den Bergh Foods USA 1995-1997. Chairman, Indonesia 1991-1995. External appointments include: Non-Executive Director, Pearson plc.

#### **Kees van der Graaf**

##### [President Europe](#)

Nationality: Dutch. Aged 57. President Europe since April 2005. Joined Unilever 1976. Appointed Director 12 May 2004. Previous posts include: Foods Director 2004, Business Group President, Ice Cream and Frozen Foods 2001. Executive Vice-President, Foods and Beverages Europe 1998. Senior Vice-President, Global Ice Cream category 1995. External appointments include: Board member, ECR (Efficient Consumer Response). Member, Supervisory Boards of ANWB Club (Algemene Nederlandse Wielrijdersbond) and ANWB B.V.

#### **Ralph Kugler**<sup>6</sup>

##### [President Home and Personal Care](#)

Nationality: British. Aged 52. President Home and Personal Care since April 2005. Joined Unilever 1979. Appointed Director 11 May 2005. Previous posts include: President Home and Personal Care Europe 2001. Business Group President, Latin America 1999. Chairman, Unilever Thai Holdings 1995. Chairman, Unilever Malaysia 1992. External appointments include: Non-Executive Director, InterContinental Hotels Group PLC.

### Non-Executive Directors

#### **Professor Genevieve Berger**<sup>6</sup>

Nationality: French. Aged 53. Appointed 2007. Professor, Medical University Teaching Hospital, Paris. Member, Technical Committee, Institute of Electrical and Electronics Engineers (IEEE). Chairman, Advisory Board, Health for the European Commission. Director, Biotech and Agri-Food Department 1998-2000 and Director of Technology



2000, the French Ministry for Education. Director General, National Centre for Scientific Research (CNRS), France 2000-2003.

**The Rt Hon The Lord Brittan of Spennithorne QC, DL<sup>7</sup>**

Nationality: British. Aged 68. Appointed 2000. Vice-Chairman, UBS Investment Bank and Chairman, UBS Limited. Director, UBS Securities Company Limited. Member, International Advisory Committee of Total. Member, European Commission and Vice-President 1989-1999. Member, UK Government 1979-1986. Home Secretary 1983-1985 and Secretary of State for Trade and Industry 1985-1986.

**Professor Wim Dik<sup>8</sup>**

Nationality: Dutch. Aged 69. Appointed 2001. Professor at Delft University of Technology. Chairman, Supervisory Boards of Tele Atlas N.V., Zesko Holding B.V. and Chairman, Advisory Board of Spencer Stuart Netherlands. Non-Executive Director, Aviva plc, LogicaCMG plc and Stage Entertainment B.V. Chairman and CEO, Koninklijke PTT Nederland (KPN) 1988-1998 and Koninklijke KPN N.V. (Royal Dutch Telecom) 1998-2000. Minister for Foreign Trade, Netherlands 1981-1982.

**Charles Golden<sup>8</sup>**

Nationality: American. Aged 61. Appointed 2006. Executive Vice-President, Chief Financial Officer and Director, Eli Lilly and Company 1996-2006. Non-Executive Director, Clarian Health Partners, Hillenbrand Industries, Inc. and Eaton Corporation. Member of Finance Committee, Indianapolis Museum of Art.

**Byron Grote<sup>8</sup>**

Nationality: American/British. Aged 60. Appointed 2006. Chief Financial Officer, BP p.l.c.

**Narayana Murthy<sup>6</sup>**

Nationality: Indian. Aged 61. Appointed 2007. Chairman, Asia Business Council, Indian Institute of Information Technology and Infosys Technologies Limited. Director, DBS Bank, DBS Group Holdings, Infosys Consulting, Inc., Infosys Technologies (China) Company Limited, New Delhi Television Ltd.

**Hixonia Nyasulu<sup>6</sup>**

Nationality: South African. Aged 53. Appointed 2007. Non-Executive Director, Barloworld Ltd, JP Morgan SA, Sasol Ltd and Tongaat-Hulett Group Ltd. Member, Banking Enquiry Panel, South African Competition Commission.

**Kees Storm<sup>9</sup>**

Nationality: Dutch. Aged 65. Appointed 2006. Chairman, Executive Board, AEGON N.V. 1993-2002. Chairman, Supervisory Board KLM Royal Dutch Airlines N.V. Board member and Chairman of Audit Committee, InBev S.A. Board member and Audit Committee member, Baxter International, Inc. Member, Supervisory Board, Pon Holdings B.V. Member, Supervisory Board, AEGON N.V.

**Jeroen van der Veer<sup>1,2</sup>**

Nationality: Dutch. Aged 60. Appointed 2002. Chief Executive Royal Dutch Shell plc. Former Member, Supervisory Board of De Nederlandsche Bank N.V. 2000-2004.

- |                                   |  |
|-----------------------------------|--|
| 1 Member Nomination Committee     | 6 Member Corporate Responsibility and Reputation Committee   |
| 2 Member Remuneration Committee   | 7 Chairman Corporate Responsibility and Reputation Committee |
| 3 Chairman Nomination Committee   | 8 Member Audit Committee                                     |
| 4 Chairman Remuneration Committee | 9 Chairman Audit Committee                                   |
| 5 Senior Independent Director     |  |



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### Unilever Executive (UEX)\*

#### **Patrick Cescau**

[Group Chief Executive](#)

(see previous details on page 46)

#### **Vindi Banga**

[President Foods](#)

Nationality: Indian. Aged 53. Appointed President Foods April 2005. Joined Unilever 1977. Previous posts include: Business Group President Home and Personal Care, Asia 2004 in addition to Non-Executive Chairman, Hindustan Lever 2004-2005. Chairman and Managing Director, Hindustan Lever 2000-2004.

#### **Kees van der Graaf**

[President Europe](#)

(see previous details on page 46)

#### **Ralph Kugler**

[President Home and Personal Care](#)

(see previous details on page 46)

#### **James Lawrence\*\***

[Chief Financial Officer](#)

Nationality: American. Aged 55. Appointed Chief Financial Officer 1 September 2007. External appointments include: Non-Executive Director, British Airways Plc and Avnet, Inc. Previous posts include: various senior positions at General Mills, Inc. 1998-2007, including Vice Chairman 2006-2007, Executive Vice President-International 2000-2006 and Chief Financial Officer 1998-2007, Executive Vice President and CFO, Northwest Airlines 1996-1998, President and CEO, Pepsi-Cola International (Asia, Middle East, Africa) 1992-1996, and Chairman, LEK Partnership 1983-1992.

#### **Harish Manwani**

[President Asia Africa](#)

Nationality: Indian. Aged 54. Appointed President Asia Africa April 2005. Joined Unilever 1976. He is also Non-Executive Chairman, Hindustan Lever. Previous posts include: Business Group President, Home and Personal Care, North America 2004. Business Group President, Home and Personal Care, Latin America 2001 and Senior Vice President, Hair Care and Oral Care 2000.

#### **Sandy Ogg**

[Chief Human Resources Officer](#)

Nationality: American. Aged 54. Appointed Chief HR Officer April 2005. Joined Unilever 2003. Previous posts include: SVP Human Resources, Foods 2003. Prior to joining Unilever he worked for Motorola as SVP, Leadership, Learning and Performance Management.

#### **Michael Polk**

[President Americas](#)

Nationality: American. Aged 47. Appointed March 2007. External appointments include: Director, Grocery

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Manufacturers of America and Food Products Association, GS1, Retail Industry Leaders Association, and Yellowstone National Park Foundation. Prior to joining Unilever he was at Kraft Foods as President, Biscuits and Snacks Sector and President, Asia Pacific Region.

\* UEx members are treated as executive officers and senior management for US purposes and key management personnel for IFRS purposes. All members of the UEx have existing agreements with varying terms, however, all agreements include a notice period of twelve months. Details of the remuneration paid and share awards are shown in aggregate in note 31 on page 120.

\*\* James Lawrence will be proposed for election as an Executive Director at the 2008 AGMs.

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## Report of the Nomination Committee

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### Terms of Reference

The Nomination Committee comprises two Independent Non-Executive Directors and the Chairman. It is chaired by David Simon, Vice Chairman and Senior Independent Director. Its other members are Michael Treschow and Jeroen van der Veer. The Group Secretary acts as secretary to the Committee.

The Committee is responsible for drawing up selection criteria and appointment procedures for Directors. Under Unilever's corporate governance arrangements all Executive and Non-Executive Directors offer themselves for election each year at the Annual General Meetings, unless they are retiring. The Nomination Committee is responsible for recommending candidates for nomination as Executive Directors, including Group Chief Executive, and Non-Executive Directors each year. The Committee does so on the basis of an evaluation of the Boards, its Committees and its individual members. The Committee periodically assesses the size and the composition of the Board, and makes proposals for the composition profile of the Board.

After Directors have been appointed by shareholders the Committee recommends to the Board candidates for election as Chairman and Vice-Chairman.

In addition to its responsibility for succession planning within and to the Board, under its Terms of Reference the Committee has responsibility for supervising the policy of the Group Chief Executive on the selection criteria and appointment procedures for senior management.

The Committee keeps oversight of all matters relating to corporate governance and brings any issues to the attention of the Boards. The Committee's full Terms of Reference and the information used by it for succession planning are available on our website [www.unilever.com/investorcentre/corpgovernance](http://www.unilever.com/investorcentre/corpgovernance)

### Process for the appointment of Directors

Unilever has formal procedures for evaluation of the Boards, the Board Committees and the individual Directors. The results of the evaluations are provided to the Committee when it discusses the nominations for election as Directors. All Directors offer themselves for re-election every year, unless they are retiring.

Where a vacancy arises on the Boards, the Committee seeks the services of specialist recruitment firms and other external experts to assist in finding individuals with the appropriate skills and expertise.

In nominating Directors to the Boards, the Committee follows the agreed Board Profile of potential Non-Executive Directors, which takes into account the roles of Non-Executive Directors set out in the Dutch Corporate Governance Code and the UK Combined Code on Corporate Governance. Under the terms of the Governance of Unilever the Boards should comprise a majority of Non-Executive Directors and the Profile provides that three of these have strong financial experience, and staff the Audit Committee. To represent Unilever's areas of interest, the Profile also indicates there should be a strong representation from Developing and Emerging markets as well as from Europe and North America. Non-Executives should be independent of Unilever and free from any conflicts of interest.

The Profile looks at diversity in terms of nationality, race, gender and relevant expertise and directs that, wherever possible, the Boards should reflect Unilever's consumer base. For more details see [www.unilever.com/investorcentre/corpgovernance](http://www.unilever.com/investorcentre/corpgovernance)

### Activities of the Committee during the year

The Committee met six times in 2007. David Simon and Jeroen van der Veer attended all meetings. The other Committee members attended all meetings that they were eligible to attend, except Jean-Cyril Spinetta who

attended three out of four meetings he was eligible to attend.

The Committee proposed the nomination of all Directors offering themselves for re-election at the 2007 AGMs. In 2007, the Committee also proposed the nomination of the new Chairman, and three new Non-Executive Directors. These were Michael Treschow, Genevieve Berger, Narayana Murthy and Hixonia Nyasulu respectively.

Michael Treschow is the first person from outside Unilever to hold the office of Chairman and, following the restructuring of the Boards in recent years, is the first independent, Non-Executive Chairman. Michael has been a member of the Nomination Committee since June 2007.

The three new Non-Executive Directors appointed in 2007 were chosen specifically to strengthen the Boards' knowledge in IT and science as well as to increase representation from the D&E markets and enhance diversity of both background and expertise. All three Non-Executive Directors are members of the Corporate Responsibility and Reputation Committee.

In 2007 an outside executive search firm was engaged to identify candidates for the role of Chief Financial Officer, following the retirement of Rudy Markham at the 2007 AGMs. Jim Lawrence was chosen by the Boards, through the selection process, to become Chief Financial Officer with effect from 1 September 2007, and he will be nominated for election as an Executive Director at the 2008 AGMs.

Following the appointment of an outside consultant to support the 2006 evaluation process, an internal review was undertaken during 2007 in relation to the evaluation of the Boards, the Chairman, the individual Directors and the Board Committees based on the completion of a questionnaire.

The Committee discussed general matters of succession planning and talent management with the Group Chief Executive. The Committee reviewed and agreed new the terms of appointment of Non-Executive Directors in line with best practice.

#### **Changes to composition**

Antony Burgmans left the Committee when stepping down as Chairman in May 2007 and Jean-Cyril Spinetta stepped down when he resigned as a Director in September 2007. Michael Treschow was appointed to the Committee on 27 June 2007. At all times, the majority of the Nomination Committee consisted of independent Non-Executive Directors.

The Board evaluated the performance of the Committee and the Committee carried out a self assessment of its performance.

**David Simon** Chairman of the Nomination Committee

**Michael Treschow**

**Jeroen van der Veer**

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## Report of the Remuneration Committee

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During 2007, the Committee continued to progress on the five strategic principles that serve as the platform for Unilever's approach to remuneration for the Unilever Executive. These principles not only pertain to our Executive Directors but to all Unilever's leadership levels. They provide the basis for our remuneration structure as explained in greater detail in the following pages, and direct that pay should be:

- aligned with shareholders' interests;
- robustly linked to performance;
- aligned with strategic priorities;
- market competitive; and
- easy to understand and communicate.

The overriding objective is to ensure that Unilever recruits and retains the best performers, and effectively incentivises them to achieve superior results. It is also our aim to manage the differing elements of total remuneration in a fully integrated manner.

During 2007 these five principles provided the foundation for important changes to the level and structure of Unilever's incentive plans. At our 2007 AGMs, shareholders approved the introduction of a new share-based incentive plan which appropriately aligned our programme with our peer company market. The Committee also increased the annual incentive opportunity for Executive Directors while leaving base salary levels unchanged. Together, these changes have placed a greater emphasis on performance-based rewards relative to fixed pay, and play a critical role in driving improved business results.

During the second half of 2007, Jim Lawrence was appointed as Chief Financial Officer of Unilever. Jim Lawrence's election to the Boards is subject to shareholders' approval at the AGMs in May 2008. However, in the interests of transparency and good governance, a summary of his remuneration arrangements has been included in this year's report.

The year 2007 marked a continuation of the Group's momentum of improved performance. The focus on growth priorities, together with stronger innovation, improved speed to market and better in-market execution, has delivered consistent, and we believe sustainable, growth. Underlying operating margins have improved and a strong start was made in implementing an acceleration to the implementation of the One Unilever reorganisation programme.

Based on the performance over 2007 the annual incentive awards were on average 128% of base salary across the Unilever Executive team. A Global Performance Share Plan (GPSP) long-term incentive award will vest in 2008 for 121% based on the performance period 2005 to 2007. The minimum vesting level for the performance period 2005 to 2007 was in 2005 set at 2% per annum average underlying sales growth (USG) and €12.2 billion ungeared free cash flow (UFCF), whereas up to 200% could vest for USG exceeding 4% per annum and with UFCF more than €13.2 billion. Targets were set before the disposal of European Frozen Foods and before the disposal of UCI. The targets have been adjusted by the impacts of these disposals. A total shareholder return (TSR) long-term incentive award will also vest in 2008. The vesting was 50% for the performance period 2005 to 2007. Unilever ranked 8th within the comparator group of peer companies (see page 51).

Over the three years to December 2007 Unilever has created more than €20 billion of shareholder value. Looking forward to 2008, we expect the Group leadership to deliver improvement against our longer-term objectives and, as a result, our shareholders and our executives will be duly rewarded.

In September 2007, Jean-Cyril Spinetta stepped down as a Non-Executive Director for personal reasons. We would like to take this opportunity to thank Jean-Cyril for his contributions to Unilever and our Committee. His wise

counsel and experience have been most helpful. We wish him all the best for the future. We are currently working to replace Jean-Cyril with a new recruit for our Committee during 2008.

Michael Treschow was also appointed a member of our Committee on 6 February 2008.

**David Simon** Chairman of the Remuneration Committee  
**Jeroen van der Veer**

#### **Definition of auditable part of the Report of the Remuneration Committee**

In compliance with the UK Directors' Remuneration Report Regulation 2002, and under Title 9, Book 2 of the Civil Code in the Netherlands, the auditable part of the report of the Remuneration Committee comprises the 'Aggregate remuneration for Executive Directors' on page 53, the 'Remuneration for individual Executive Directors' on page 53, the 'Executive Directors' Global Share Incentive Plan and the 'Executive Directors' Global Performance Share Plan' on page 54, the 'Executive Directors' conditional share awards under the TSR Long-Term Incentive Plan' on page 55, the 'Executive Directors' Share Matching Plan' on page 55, 'Executive Directors' share options' on page 56, 'Executive Directors' pensions' on page 57, 'Executive Directors' interests in share capital' on page 58, 'Non-Executive Directors' remuneration' on page 59 and 'Non-Executive Directors' interests in share capital' on page 60.



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Report of the Directors continued

## Report of the Remuneration Committee continued

## Remuneration policy

## Unilever reward policy table 2007

Element	Payment vehicle	Value determination	Plan objectives/Key drivers
<b>FIXED</b>			
Base salary	Cash	Market median	Attraction and retention of high performing executives
Pension	Cash	Directors stay in their home country pension fund or an alternative of similar value Bonus not pensionable	Attraction and retention of high performing executives
<b>VARIABLE</b>		<b>Indicative levels at face value as % of base pay</b>	
Annual incentive	Cash (75%)	Executive Directors: target 87% (range 0% – 150%) Group Chief Executive: target 113%	Delivery of trading contribution (Unilever's primary internal measure of economic value added – see page 51) and top-line growth targets  Individual responsibility for key Unilever business objectives
	Shares (25%)	(range of 0% – 200%)	
Global Share Incentive Plan	Shares	Grant level for Executive Directors: up to 120% in 2007 (from 2008 onwards up to 180% is allowable)  Grant level for Group Chief Executive: up to 135% (from 2008 onwards up to 200% is allowable)  In exceptional circumstances the committee may exceed the limits Vesting level: 0% – 200% of grant	Shareholder return at upper half of peer group (see page 51)  Top-line revenue growth as essential to Unilever's long-term value creation  Ungeared Free Cash Flow as the basic driver of Unilever's shareholder returns
Share Matching Plan	Shares	25% of annual incentive is paid in shares, these shares are matched one for one	Alignment with shareholders' interests

A significant proportion of the Executive Directors' total reward is linked to a number of key measures of Group performance to create alignment with strategy, business priorities, and shareholder value.

The total remuneration package for Executive Directors is intended to be competitive in a global market, with a strong emphasis on performance related pay.

Internal and external comparisons are made with the reward arrangements for other senior executives within Unilever to support consistent application of Unilever's executive reward policies.

In setting targets for the performance measures, the Committee is guided by what would be required to deliver top third shareholder value. This is reflected in both the short-term and long-term performance targets.

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## Report of the Remuneration Committee continued

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### Base salary

The Remuneration Committee reviews base salary levels annually, taking into account external benchmarks within the context of Group and individual performance.

The Committee decided not to increase the salaries in 2007 in order to place more emphasis on performance related pay and less on fixed pay.

### Annual incentive

The annual incentive plan rewards Executive Directors for the delivery of trading contribution (Unilever's primary internal measure of economic value added) and top-line growth targets, as well as for their individual contribution to Unilever's business strategy.

In 2007 the Remuneration Committee reviewed annual incentive levels in light of the strategic remuneration principles. Given the desire to enhance the focus on performance-linked pay and to ensure arrangements are market competitive, the Committee decided to increase annual incentive opportunities. In 2007 the opportunity for Executive Directors was increased to a maximum of 150% of base salary and for the Group Chief Executive up to 200%. Up to 120% of salary will be based on Unilever's business results targets (133.3% for Group Chief Executive) and a maximum of 30% of salary will be based on individual business targets (66.7% for Group Chief Executive). The target levels are around 60% of maximum. Aggressive business targets mean that maximum levels are only payable for exceptional performance.

The performance criteria for the annual incentive are:

- trading contribution: Unilever's primary internal measure of economic value added. It is calculated from Trading Result after a deduction for tax and a charge for asset use. (Trading result is the internal management measure of profit that is the most consistent with operating profit). Increases in trading contribution reflect the combined impact of top-line growth, margin improvement and capital efficiency gains. It is well aligned with our objective of a progressive improvement in return on invested capital and with shareholder value creation;
- underlying sales growth: focus on the organic growth of Unilever's turnover; and
- individual business and leadership targets: tailored to each individual's responsibilities to deliver certain business objectives supporting the strategy. Individual contribution is assessed against robustly set measures and targets to ensure both objectivity and "stretch".

Achievement of targets is measured at the end of the year and the payment takes place the following March. 25% of the annual incentive is delivered to the Executive Directors in the form of shares in NV and PLC, which are matched by a conditional award of "matching shares", as further described under the section on long-term incentives below.

### Long-term incentives

At the 2007 AGM's, shareholders approved the new Unilever Global Share Incentive Plan (GSIP) for employees and Executive Directors.

The new plan supports the Committee's strategic remuneration principles for executives. The number of shares vesting is linked to improvements in Unilever's performance over a three-year period. The plan integrates and

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replaces two previous long-term plans, the Global Performance Share Plan and TSR Long-Term Incentive Plan, making Unilever's long-term arrangements simpler and easier to understand.

The long-term incentive for Executive Directors now consists of two elements, both of which are delivered in shares:

- Global Share Incentive Plan; and
- Share Matching Plan (linked to annual incentive).

Executive Directors are required to demonstrate a significant personal shareholding commitment to Unilever. Within five years of appointment, they are expected to hold shares worth 150% of their annual base salary. This reinforces the link between the executives and other shareholders.

### Global Share Incentive Plan (GSIP)

Under the GSIP, annual awards of shares in NV and PLC are granted to Executive Directors. The actual number of shares received at vesting after three years depends on the satisfaction of performance conditions.

For the 2007 awards, the vesting of shares is conditional on the achievement of three distinct performance conditions over the performance period. The performance period is the three-year period which began on 1 January 2007 and ends on 31 December 2009.

The vesting of 40% of the shares in the award is based on a condition measuring Unilever's relative total shareholder return (TSR) against a comparator group of 20 other companies over that three-year period. TSR measures the return received by a shareholder, capturing both the increase in share price and the value of dividend income (assuming dividends are reinvested). The TSR results are compared on a single reference currency basis. No shares (in the portion of the award subject to TSR) will vest if Unilever is ranked below position 11 of the TSR ranking table over the three-year period. 50% of the shares will vest if Unilever is ranked 11th among the peer group, 100% if ranked 7th, and 200% will vest if Unilever is ranked 3rd or above in the table. Straight-line vesting will occur between these points.

The TSR peer group is as follows:

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

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## Report of the Remuneration Committee continued

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The vesting of a further 30% of the shares in the award is conditional on achieving an underlying sales growth target.

The vesting of the final 30% of the shares in the award is conditional on achieving an ungeared free cash flow target which is the basic driver of the returns that Unilever is able to generate for shareholders.

Vesting of the business performance-focused parts of an award depends on meeting challenging objectives. There will be no vesting if performance is below the minimum of the range, 25% vesting for achieving minimum, and 200% vesting only at or substantially above the top end of the range.

Performance for each condition will be assessed independently from the other conditions over the performance period. Shares will only vest if and to the extent that the respective performance conditions are satisfied. There will be no re-testing.

Target and actual performance levels will be shown in the Remuneration Report detailing the number of awards that have actually vested.

**Share Matching Plan** (linked to the annual incentive) The Share Matching Plan enhances the alignment with shareholders' interests and supports the retention of key executives. In addition, the necessity to hold the shares for a minimum period of three years supports the shareholding requirements.

The Executive Directors receive 25% of their annual incentive in the form of NV and PLC shares. These are matched with an equivalent number of matching shares. The matching shares will vest after three years provided that the underlying shares have been retained during this period and the Executive Director has not resigned or been dismissed.

The Remuneration Committee considers that there is no need for further performance conditions on the vesting of the matching shares because the number of shares is directly linked to the annual incentive (which is itself subject to demanding performance conditions). In addition, during the three-year vesting period the share price of NV and PLC will be influenced by the performance of Unilever. This, in turn, will affect the ultimate value of the matching shares on vesting.

### **Executive Directors' pensions**

The policy beginning in 2007 is that new Executive Directors will be members of the all-employee pension arrangement in their home country (or an alternative of similar value) and will pay employee contributions at the same rate as other employees in that arrangement.

Executive Directors appointed prior to 2007 have a defined benefit pension of two-thirds of final salary, payable at retirement from age 60. Annual incentive is not pensionable except for Executive Directors appointed prior to the change of policy in 2005 (Patrick Cescau, Kees van der Graaf and Rudy Markham who retired in 2007) for whom annual incentive is pensionable up to a maximum of 20% of base salary.

### **Other benefits and allowances**

Executive Directors enjoy similar benefits to those enjoyed by many other employees of Unilever.

### **Serving as non-executive on the Board of another company**

Some of the Executive Directors serve as a non-executive on the Board of another company. In 2007 Unilever

required that all remuneration and fees earned from outside directorships are paid directly to Unilever.

This policy has been amended in 2008 (see Outside appointments on page 36).

### **Arrangements for Jim Lawrence**

Jim Lawrence joined Unilever in September 2007 as Chief Financial Officer. He will be proposed for election to the Boards of NV and PLC at the AGMs in May 2008. Given Unilever's objective of balancing remuneration more clearly towards performance linked variable pay the agreed package follows this policy direction. His salary in 2007 was set at US \$1 100 000 per annum; the maximum annual incentive in 2007 was 150% of salary and the grant under the GSIP in 2007 was 49 962 each of NV shares and PLC shares. He will be in a pension plan similar to that of Unilever in the USA, which is a defined contribution plan.

To compensate for the forfeiture of incentives from his former employer, a cash allowance was paid on appointment of US \$1 million (with a pro rata claw back over 3 years) and restricted shares of 35 565 each of NV and PLC were granted (at award value US \$2.5 million). These will vest one-third after one year of service, one-third after two years of service and one-third after 3 years of service.

Jim Lawrence has purchased 295 508 NV shares and 240 000 PLC ADRs.

### **Future developments**

The Remuneration Committee continues to monitor trends and changes in the market. It keeps a watching brief on the continuing alignment between Unilever's strategic objectives and the reward policy for Executive Directors.

From 1 January 2008, the UK all-employee pension plan benefit for new hires changed from final salary to a combination of career average earnings (up to a limit of £38 000) and defined contribution above the limit. Existing employees are being given the option to move to the new plan or to remain in the previous plan (subject to certain changes including paying higher individual contributions). The latter impacts the UK-based Executive Directors Patrick Cescau and Ralph Kugler.

The performance range for the GSIP (Global Share Incentive Plan) 2008 award (performance period 2008 - 2010) will be 4% - 6.4% per annum in respect of average underlying sales growth and €10.5 billion - €15.5 billion for cumulative ungeared free cash flow.

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## Report of the Remuneration Committee continued

### Remuneration information for 2007

The following section contains detailed information and commentary on the Executive Directors' annual remuneration, long-term incentives, pension benefits and share interests in respect of 2007.

#### Aggregate remuneration for Executive Directors

The following table gives details of the aggregate remuneration (including value of the vesting of matching shares and exercise of options) as a group.

	2007 € '000	2006 € '000
Annual emoluments		
Base salary	3 491	4 061
Allowances and other payments	221	913
Benefits	82	111
Performance-related payments (annual incentive)	4 865	2 409
Sub-total of annual emoluments	8 659	7 494
Other income arising from vesting/exercise of long-term incentives <sup>(a)</sup>		
Gains on exercise of share options	50	427
Vesting of matching shares	230	566
Vesting of awards under TSR Long-Term Incentive Plan	□	□
Total of annual emoluments and other income arising from long-term incentives	8 939	8 487

(a) Includes the gains realised in 2007 following the exercise of share options granted in earlier years and the value of matching shares vested in 2007.

#### Comments on base salary

In 2007, base salary levels were benchmarked against those paid in other major global companies based in Europe, excluding companies in the financial sector. The Committee decided not to increase base salaries for 2007 and to place greater emphasis on performance-based pay.

#### Comments on annual incentive

The annual incentive awards for 2007 were subject to achievement of underlying sales growth and trading contribution targets in combination with individual key strategic business targets. The Committee measured the results against the targets set and determined the annual incentive amounts for 2007.

#### Remuneration for individual Executive Directors

The following table gives details of the remuneration received in 2007 (including the value of vested share match and options exercised) by each Executive Director individually.

<b>Annual Emoluments 2007</b>	<b>Other income arising from long-term incentives and</b>
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Name and Base Country						exercise of options in 2007				Grand total 2007	Grand total 2006
	Base salary	Allowances and other payments <sup>(a)</sup>	Value of benefits <sup>(b)</sup>	Bonus <sup>(c)</sup>	Total 2007	Total 2006	Option gains	Share match	TSR/LTIP		
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Patrick Cescau (UK)(d)	1 426	129	47	2 346	<b>3</b> <b>948</b>	2 727	50	63	□	<b>4 061</b>	2 940
Kees van der Graaf (NL)	798	27	9	988	<b>1</b> <b>822</b>	1 202	□	60	□	<b>1 882</b>	1 287
Ralph Kugler (UK)	861	56	11	1 033	<b>1</b> <b>961</b>	1 313	□	53	□	<b>2 014</b>	1 414
Rudy Markham (UK)(e)	406	9	15	498	<b>928</b>	1 517	□	54	□	<b>982</b>	2 111

(a) Includes: allowance in lieu of company car; blind trust fees compensation; compensation for loss of net income because part of the salary was paid in the Netherlands; entertaining allowance and employers' cost for the all-employee savings plan in the Netherlands. All allowances are taxable in the country of residence apart from the entertaining allowance which is currently tax free in the Netherlands.

(b) Includes: benefits for company car; housing (for business use) instead of hotel; medical insurance and private use of chauffeur driven cars. Included are benefits that are taxable in the country of residence. In addition, Unilever provides support to Executive Directors in relation to spouse's travel expenses when travelling together on company business. This amount is capped at 5% of base salary and for 2007 totalled €168 559 (including related taxes payable).

(c) Bonus of the year 2007. Includes: the value of both the cash element and the element paid in shares of NV and PLC. In addition to the element of the bonus paid in shares each Executive Director is awarded, on a conditional basis, an equivalent number of matching shares.

(d) Group Chief Executive.

(e) Rudy Markham stepped down as a Director at the May 2007 AGMs. He retired from Unilever at 31 October 2007. In the table above are the emoluments for the period January – May 2007. His emoluments for the period June – October were in total: €1 140 000.

Figures have been translated into euros using the following exchange rate: €1 = £0.6822 (2006: €1 = £0.6818).



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## Report of the Remuneration Committee continued

### Comments on long-term incentive arrangements

- [Global Share Incentive Plan](#)

The first award was made in 2007 with a performance period 1 January 2007 to 31 December 2009. Vesting will be in May 2010 (three years after award)

- [Global Performance Share Plan](#)

The performance period for the first awards made under the plan ended on 31 December 2007. Vesting will be in May 2008 (three years after award).

- [TSR Plan](#)

In 2007 the conditional shares awarded in 2004 lapsed. Vesting was based on the TSR performance of Unilever (when ranked against its defined peer group with competitors) over the three-year performance period which ended 31 December 2006. For this period, Unilever ranked 13th in its peer group and therefore no vesting occurred for this award and the shares lapsed in March 2007.

- [Share Matching Plan](#)

In 2007 the matching shares originally granted in 2004 on a conditional basis vested, subject to fulfilment of the retention conditions.

- [Executive Share Options](#)

The grants of executive share options made in 2004 became exercisable as from 2007. As the 2004 grant was based on Unilever's EPS performance, the options at vesting were subject to no further conditions.

### Executive Directors' Global Share Incentive Plan

The Global Share Incentive Plan was approved by shareholders at the 2007 AGMs.

The following conditional shares were granted during 2007 and outstanding at 31 December 2007 under the Global Share Incentive Plan:

Share type	Conditional grant made 22 May 2007 (Performance period 1 January 2007 to 31 December 2009) <sup>(a)</sup>		Balance of conditional shares at 31 December 2007	
	No. of shares <sup>(a)</sup>	Price at award	No. of shares	
Patrick Cescau	NV	40 505	€22.20	40 505
	PLC	40 505	1 582.00p	40 505
Kees van der Graaf	NV	20 550	€22.20	20 550
	PLC	20 550	1 582.00p	20 550

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Ralph Kugler	NV	22 145	€22.20	22 145
	PLC	22 145	1 582.00p	22 145
<hr/>				
Rudy Markham <sup>(b)</sup>	NV	□		□
	PLC	□		□

(a) Each award of performance shares is conditional and vests subject to certain conditions three years after the date of the award.

(b) Was not awarded under this new Scheme as he stepped down as a Director at the May 2007 AGMs.

**Executive Directors □ Global Performance Share Plan**

The following conditional shares were outstanding from grants made in 2005 and 2006.

No new awards from 2007 onwards will be made under this Plan as a new plan was approved by shareholders at the 2007 AGMs and as from 2007 LTI awards will be made only under the new plan.

Share type		Balance of conditional shares at 1 January 2007	Balance of conditional shares at 31 December 2007
		No. of shares(a)	No. of shares (a)
Patrick Cescau	NV	18 000	18 000
	PLC	18 000	18 000
<hr/>			
Kees van der Graaf	NV	12 000	12 000
	PLC	12 150	12 150
<hr/>			
Ralph Kugler	NV	12 000	12 000
	PLC	12 150	12 150
<hr/>			
Rudy Markham	NV	12 000	12 000 <sup>(b)</sup>
	PLC	12 150	12 150 <sup>(b)</sup>

(a) Each award of performance shares is conditional and vests subject to performance conditions three years after the date of the award.

(b) Balance is at May 2007 when he stepped down as an Executive Director.

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## Report of the Remuneration Committee continued

### Executive Directors – conditional share awards under the TSR Long-Term Incentive Plan

The following conditional shares were outstanding from grants made in 2004 to 2006.

From 2007 onwards no new awards will be made under this Plan as a new plan was approved by shareholders at the 2007 AGMs. From 2007 LTI awards will be made only under the new plan.

	Share type	Balance of conditional shares at 1 January 2007	Conditional awards lapsed 24 March 2007 (Performance period 2004 to 2006) <sup>(a)</sup>	Original price at award	Balance of conditional shares at 31 December 2007
		No. of shares	No. of shares		No. of shares
Patrick Cescau	NV	58 476	(13 863)	€18.03	44 613
	PLC	60 449	(14 391)	1 154.00p	46 058
Kees van der Graaf	NV	36 201	(8 319)	€18.03	27 882
	PLC	37 422	(8 634)	1 154.00p	28 788
Ralph Kugler	NV	36 201	(8 319)	€18.03	27 882
	PLC	37 422	(8 634)	1 154.00p	28 788
Rudy Markham	NV	41 745	(13 863)	€18.03	27 882 <sup>(b)</sup>
	PLC	43 179	(14 391)	1 154.00p	28 788 <sup>(b)</sup>

(a) The conditional awards made in 2004 lapsed in 2007, based on the TSR performance of Unilever over the three-year performance period ending 31 December 2006. For this period, Unilever ranked 13th in its peer group and therefore no vesting occurred for this award.

(b) Balance is at May 2007 when he stepped down as an Executive Director.

### Unilever's position relative to the TSR reference group

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

### Executive Directors – Share Matching Plan

The following conditional shares were outstanding, awarded or vested during 2007 under the share matching plan:

Balance of conditional shares at 1 January	Conditional shares	Balance of conditional shares at 31 December
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	Share type	2007	awarded in 2007 <sup>(a)</sup>		Shares vested on 24 March 2007 <sup>(b)</sup>			2007
		No. of shares	No. of shares	Price at award	No. of shares	Market price at vesting	Original price at award	No. of shares
Patrick Cescau	NV	8 778	6 627	€21.33 1	(1 413)	€21.66 1	€18.03 1	13 992
	PLC	8 992	6 627	488.00p	(1 469)	505.11p	154.00p	14 150
Kees van der Graaf	NV	4 266	2 121 <sup>(c)</sup>	€21.33 1	(1 341)	€21.66 1	€18.03 1	2 925
	PLC	4 394	2 121 <sup>(c)</sup>	488.00p	(1 392)	505.11p	154.00p	3 002
Ralph Kugler	NV	3 831	2 402	€21.33 1	(1 191)	€21.66 1	€18.03 1	5 042
	PLC	3 936	2 402	488.00p	(1 238)	505.11p	154.00p	5 100
Rudy Markham	NV	4 932	2 830	€21.33 1	(1 209)	€21.66 1	€18.03 1	6 553 <sup>(d)</sup>
	PLC	5 071	2 830	488.00p	(1 257)	505.11p	154.00p	6 644 <sup>(d)</sup>

- (a) Each award of matching shares is conditional and vests three years after the date of the award subject to certain conditions. The 2007 award was made at grant date 21 March 2007.
- (b) The conditional shares awarded on 24 March 2004 (relating to the 2003 performance period) vested on 24 March 2007.
- (c) Kees van der Graaf (based in the Netherlands) was granted a conditional right to receive at the vesting date a cash amount equal to the value on that date of 2 121 NV shares and 2 121 PLC shares.
- (d) Balance is at May 2007 when he stepped down as an Executive Director.

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## Report of the Remuneration Committee continued

### Executive Directors' share options

Options to acquire NV ordinary shares of €0.16 each and options to acquire PLC ordinary shares of 3<sup>1</sup>/<sub>9</sub>p each were outstanding, were exercised or lapsed during 2007. No option awards were made in 2007.

	Share type	Balance of options at 1 January 2007	Number of options exercised/lapsed in 2007	Balance of options at 31 December 2007	Options outstanding below market price at 31 December 2007		Options outstanding above market price at 31 December 2007		First exercisable date	Final expiry date
					Number of options	Weighted average exercise price	Number of options	Weighted average exercise price		
<b>Patrick Cescau</b>										
Executive Plan	NV	269			242					
Executive Plan	NV	166	(27 000) <sup>(d)</sup>	242 166	166	€19.50			24/03/02	08/11/15
Executive Plan	PLC	272			245					
Executive Plan	PLC	967	(27 000) <sup>(d)</sup>	245 967	967	1 175p			24/03/02	08/11/15
<b>NL</b>										
All-Employee Plan	NV	750	(150) <sup>(d)</sup>	600	600	€17.53			02/06/03	17/05/11
<b>UK</b>										
ShareSave Plan	PLC	1 374		1 374	1 374	1 171p			01/10/11	31/03/12
<b>Kees van der Graaf</b>										
Executive Plan	NV	135			135					
Executive Plan	NV	450		135 450	450	€19.70			24/03/02	08/11/15
Executive Plan	PLC	135			135					
Executive Plan	PLC	450		135 450	450	1 203p			24/03/02	08/11/15
<b>NL</b>										
All-Employee Plan	NV	750	(150) <sup>(d)</sup>	600	600	€17.53			02/06/03	17/05/11
<b>UK</b>										
ShareSave Plan	PLC	1 374		1 374	1 374	1 202p			01/10/10	31/03/11
<b>Ralph Kugler</b>										
Executive Plan	NV	176			176					
Executive Plan	NV	625		176 625	625	€19.41			24/03/02	20/03/15
Executive Plan	PLC	176			176					
Executive Plan	PLC	625		176 625	625	1 163p			24/03/02	20/03/15
Executive Plan	NV	300		300	300	€17.59			18/05/05	17/05/11

NL All-Employee Plan UK ShareSave Plan	PLC	1 374	□	1 374	1 374	1 202p	□	□	01/10/10	31/03/11
<hr/>										
Rudy Markham Executive Plan	NV	237 150	□	237 150 <sup>(e)</sup>	237 150	€19.67	□	□	24/03/02	31/10/09
Executive Plan	PLC	237 150	□	237 150 <sup>(e)</sup>	237 150	1 212p	□	□	24/03/02	31/10/09
NL All-Employee Plan	NV	750	(150) <sup>(d)</sup>	600 <sup>(e)</sup>	600	€17.53	□	□	02/06/03	17/05/11
UK ShareSave Plan	PLC	1 373	□	1 373 <sup>(e)</sup>	1 373	1 190p	□	□	01/11/07	30/04/08

- (a) Options in respect of 27 000 shares exercised on 1 November 2007 at a market value of €23.24. The options would have expired 7 November 2007 if not exercised before. The options had originally been granted on 8 May 1998 at a price (after taking into account the share split in May 2006) of €23.10.
- (b) Options in respect of 5 355 shares exercised on 8 May 2007 at a market price of 1 658p. Further options in respect of 21 645 shares exercised on 26 September 2007 at a market price of 1 585p. The options would have expired 7 November 2007 if not exercised before. The options had originally been granted on 8 May 1998 at a price (after taking into account the share consolidation in May 2006) of 1 483p.
- (c) Options lapsed without value on 12 June 2007.
- (d) Options exercised on 8 May 2007 at a market value of €23.75. The options had originally been granted on 12 June 2002 at a price (after taking into account the share split in May 2006) of €22.63.
- (e) Balances are at May 2007 when he stepped down as a Director. On 2 November 2007, 33 750 options each of NV and PLC were exercised at €23.64 and 1 725p respectively. The original grant prices were €23.10 and 1 483p. On 27 December 2007, a further 96 750 NV and 164 250 PLC options were exercised at €25.32 and 1 902p. The original grant prices were on average €17.21 and 1 158p.

The term □Executive Plan□ refers to options granted under the PLC or NV Executive Option Plans.

The closing market prices of ordinary shares at 31 December 2007 were €25.15 (NV shares) and 1 890p (PLC shares). During 2007 the highest market prices were €25.72 and 1 924p respectively, and the lowest market prices were €18.89 and 1 320p respectively.

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## Report of the Remuneration Committee continued

### Comments on pensions

The Netherlands all-employee pension plan benefit basis was changed from final salary to career average earnings at 31 December 2006. This had a small impact on the accrued pension of the Netherlands-based Executive Director.

During 2007, individual contributions paid by Executive Directors in the UK were paid through a salary sacrifice arrangement.

### Executive Directors' pensions(a)

Pension values for the year ended 31 December 2007 are set out below.

Name and base country	Age at 31/12/07	Accrued pension at 31/12/06(b)	Movement in accrued pension during 2007(c)	Accrued pension at 31/12/07(b)	Transfer value of accrued pension at 31/12/06(d)	Movement in transfer value during 2007 (less individual contributions)(e)	Individual contributions made during 2007(f)	Transfer value of accrued pension at 31/12/07(d)
		€'000 pa	€'000 pa	€'000 pa	€'000	€'000	€'000	€'000
Patrick Cescau (UK)	59	1 000	29	<b>1 029</b>	18 662	1 951	4	<b>20 617</b>
Kees van der Graaf (g) (NL)	57	602	37	<b>639</b>	8 098	868	9	<b>8 975</b>
Ralph Kugler (UK)	51	441	(23)	<b>418</b>	6 283	219	□	<b>6 502</b>
Rudy Markham(h) (UK)	61	793	(68)	<b>725</b>	15 909	(1 928)	□	<b>13 981</b>

(a) Figures have been translated into euros where necessary using the following exchange rates: 31 December 2007 €1.00 = £0.7342; 31 December 2006 €1.00 = £0.6712; Average for the year ended 31 December 2007 €1.00 = £0.6822.

(b) Based on the Executive Directors' current pension letters and calculated on a deferred basis using the Executive Directors' service to 31 December 2006 and 31 December 2007 respectively on the basis that the Executive Directors remain in service until at least age 60 and that the pension payment commences at that time. It includes all pensions provided from Unilever pension plans. In the event that an Executive Director leaves service prior to age 60 and the payment of pension commences earlier than age 60, the pension payable would be on a reduced basis.

- (c) Includes the effect of inflation on the accrued pension at 31 December 2006.
- (d) For the Netherlands-based Executive Director the arrangement is calculated on the basis used by the Unilever Netherlands pension plan (‘Progress’), as prescribed by the Netherlands Ministry of Social Affairs and Employment. These prescriptions changed on 1 January 2008 as illustrated in footnote (g). For the UK-based Executive Directors the arrangement is calculated on the market related basis used by Unilever United Kingdom pension plan (UUKPF), in line with the GN11 guidance note published by the Board for Actuarial Standards in the United Kingdom.
- (e) The movement in transfer value during 2007 of market changes for the UK based Executive Directors together with additional service and the Executive Directors being one year closer to retirement and exchange rate movements (for pensions denominated in currency other than euros). There have been no salary increases in 2007.
- (f) Consistent with employees in the current Netherlands pension plan, the rate of individual contributions paid by Kees van der Graaf is 0.5% of pensionable salary between €11 872 and €56 990 and 1% on balance. Consistent with employees in the United Kingdom pension plan, Ralph Kugler’s and Rudy Markham’s contributions are paid through salary sacrifice and at a rate of 5% of pensionable salary (above the UK Lower Earnings Limit), and as such no individual contributions are shown above. Patrick Cescau’s contributions on the part of his salary paid in the Netherlands are paid based on the basis of the old Unilever Netherlands pension plan, at 1% above €56 990, and on the part of his salary paid in the UK are consistent with employees in the Unilever United Kingdom pension plan.
- (g) The increase in accrued pension and transfer value during 2007 includes the effect of revaluation on the accrued pension in the Unilever Netherlands pension plan at January 2008. The basis for calculation of the transfer value in the Netherlands as prescribed by the Netherlands Ministry of Social Affairs and Employment changed for accounting periods ending after 1 January 2008. Calculated on this new basis the transfer value at 31 December 2007 for Kees van der Graaf would be €7 951 000.
- (h) Attained age 60 in 2006 and accrued no additional pension. Stepped down as a Director at the 2007 AGMs. The values shown are at 31 May 2007, or the period ending on that date, as appropriate. Schedule 7A of the UK Companies Act requires the disclosure of pension values at retirement as he performed qualifying services during 2007. The accrued pension at 31 October 2007 (the date he retired from Unilever) is unchanged from that shown in the table. The transfer value of the accrued pension at 31 October 2007 was €14 055 000. The Listing Rules of the Financial Services Authority are different from the Directors’ Remuneration Report Regulations 2002 and require the following disclosures for defined benefit pension plans which are calculated on an alternative basis to those disclosed in the previous table.

The Dutch Corporate Governance Code requires the disclosure of pension service costs charged to operating profit:

	Listing rules of the Financial Services Authority		Dutch Corporate Governance Code
	€’000(a)	€’000(b)	€’000
Patrick Cescau (UK)	(9)	(192)	552
Kees van der Graaf (NL)	32	450	249
Ralph Kugler (UK)	(1)	(14)	294
Rudy Markham (UK)	(31)	(601)	50(c)

- (a) Movement in accrued pension during 2007 (excluding the effect of inflation on the accrued pension at 31 December 2006).
- (b) Transfer value at 31 December 2007 of the movement in accrued pension during 2007 (excluding the effect of inflation on the accrued pension at 31 December 2006 and less individual contributions).
- (c) This includes €28 000 that was incurred up to May 2007 when he left the Board and €22 000 that was incurred subsequently up to 31 October 2007.



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## Report of the Remuneration Committee continued

### Executive Directors' interests in share capital

The interests in the share capitals of NV and PLC and their group companies of those who were Executive Directors at 31 December 2007 and of their connected persons were as shown in the table below:

	Share type <sup>(a)</sup>	Shares held at 1 January 2007 <sup>(b)</sup>	Shares held at 31 December 2007 <sup>(b)</sup>
Patrick Cescau <sup>(c)</sup>	NV	85 059	93 099
	PLC	52 347	65 798
Kees van der Graaf	NV	23 157	32 499
	PLC	16 718	20 339
Ralph Kugler	NV	45 396	48 489
	PLC	20 124	23 366

(a) NV shares are ordinary €0.16 shares and PLC shares are ordinary 3<sup>1</sup>/<sub>9</sub>p shares.

(b) Numbers are excluding unvested matching shares.

(c) Balances include under NV 38 715 NV New York shares and under PLC 10 220 PLC ADRs.

The Executive Directors, in common with other employees of PLC and its United Kingdom subsidiaries, had beneficial interests in 16 678 871 PLC ordinary shares at 1 January 2007 and 10 920 385 PLC ordinary shares at 31 December 2007, acquired by the Unilever Employee Share Trust (Jersey) for the purpose of satisfying options and vesting of shares under various group share plans (including the PLC Executive Option Plans and the UK Employee ShareSave Plan). Further information, including details of the NV and PLC ordinary shares acquired by certain group companies in connection with other share-based compensation plans, is given in note 29 on pages 117 to 119.

The voting rights of the Directors who hold interests in the share capitals of NV and PLC are the same as for other holders of the class of shares indicated. None of the Directors' or other executive officers' shareholdings amounts to more than 1% of the issued shares in that class of share. Except as stated above, all shareholdings are beneficial.

The only changes in the interests of the Executive Directors and their connected persons in NV and PLC ordinary shares between 31 December 2007 and 1 March 2008 were that:

- The holding of the Unilever Employee Share Trust (Jersey) has reduced to 10 814 117 PLC ordinary shares; and
- Kees van der Graaf and Ralph Kugler each acquired an additional 14 PLC ordinary shares during January and February as a result of regular contributions to an employee share investment plan.

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## Report of the Remuneration Committee continued

### Non-Executive Directors

The following section contains detailed information and commentary on the Non-Executive Directors' annual fees and share interests. The Non-Executive Directors receive fees from both NV and PLC. No other remuneration is given in respect of their non-executive duties from either NV or PLC, such as annual incentives, share-based incentives or pension benefits.

The level of their fees reflects their commitment and contribution to Unilever. The Chairman's levels were reviewed and increased with the appointment of Michael Treschow as Chairman in 2007. No other fee changes have been made since the 2006 AGMs.

### Non-Executive Directors' remuneration

The total fees payable to each Non-Executive Director in 2007 are set out below:

<a href="#">Current Non-Executive Directors</a>	<b>Total fees paid in 2007(a)</b> €'000	Total fees paid in 2006(a) €'000
Michael Treschow(b)(c)	<b>469</b>	n/a
Genevieve Berger(b)	<b>60</b>	n/a
Leon Brittan	<b>97</b>	83
Wim Dik	<b>92</b>	85
Charles Golden	<b>134</b>	89
Byron Grote	<b>90</b>	60
Narayana Murthy(b)	<b>97</b>	n/a
Hixonia Nyasulu(b)	<b>82</b>	n/a
David Simon	<b>131</b>	110
Kees Storm	<b>113</b>	75
Jeroen van der Veer	<b>90</b>	83

### Former Non-Executive Directors

Antony Burgmans(d)(e)	<b>246</b>	300
Lynda Chalker(d)(g)	<b>42</b>	94
Jean-Cyril Spinetta(f)	<b>68</b>	60

(a) Covers fees and allowances received from both NV and PLC. Includes fees for travel from outside Europe if applicable.

(b) Appointed at the 2007 AGMs.

(c) Chairman NV and PLC since the 2007 AGMs.

(d) Stepped down at the 2007 AGMs.

(e) Chairman until the 2007 AGMs. Total fees include some benefits that occurred after retirement.

(f) Stepped down in September 2007.

(g) Started to work for Unilever under a consultancy agreement as from 1 June 2007 to support Unilever in the African world. Total amount paid for period June 2007 □ December 2007 €85 508.

Please see page 46 for details on committee memberships.

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## Report of the Remuneration Committee continued

Prior to being a Non-Executive Director Mr Burgmans was awarded shares and options in his capacity as an Executive Director. Mr Burgmans received no further share-based awards in his capacity as Non-Executive Director.

Details of the balance and lapsing under the TSR Long-Term Incentive Plan:

	Balance 1 January 2007	Conditional award lapsed 24 March 2007	Balance May 2007
NV	22 182	(22 182)	□
PLC	23 024	(23 024)	□

Details of the balance and vesting under the Share Matching Plan:

	Balance 1 January 2007	Shares vested 27 March 2007	Balance May 2007
NV	4 569	(1 815)	2 754
PLC	4 712	(1 886)	2 826

Details of his outstanding options can be found below:

	Share type	Number of options granted in 2007	Number of options exercised/ lapsed in 2007	Balance of options at May 2007	Balance below market price	Weighted average exercise price	Balance above market price	Weighted average exercise price	First exercisable date	Final expiry date <sup>(a)</sup>
Executive Plan	NV	316	□	316	316	€19.10	□	□	24/03/02	01/06/09
Executive Plan	PLC	316	□	316	316	1 163p	□	□	24/03/02	01/06/09
NL All-Employee Plan	NV	450	(150)(a)	300	300	€17.47	□	□	02/06/03	12/05/09

(a) Exercised 8 May 2007 at market price of €23.75 (originally awarded 12 June 2002 at €22.63).

### Non-Executive Directors' interests in share capital

The interests in the share capitals of NV and PLC and their group companies of those who were Non-Executive Directors as at 31 December 2007 and had share holdings (including those of their connected persons) were as shown below:

	Shares held at	Shares held at
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	Share type <sup>(a)</sup>	1 January 2007 <sup>(a)</sup>	31 December 2007 <sup>(a)</sup>
Michael Treschow	NV	□(b)	15 000
	PLC	□(b)	15 000
Byron Grote	NV NY	3 000	3 000
	PLC ADRs	1 800	1 800
David Simon	NV	□	□
	PLC	1 492	1 536
Jeroen van der Veer	NV	16 800	16 800
	PLC	□	□

(a) NV shares are ordinary €0.16 shares and PLC shares are ordinary 3<sup>1</sup>/<sub>9</sub>p shares.

(b) Shareholding is as from date of appointment.

There were no changes in the interests of the Non-Executive Directors and their connected persons in NV and PLC ordinary shares between 31 December 2007 and 1 March 2008.

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## Report of the Remuneration Committee continued

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### Additional statutory and other disclosures

The Board evaluated the performance of the Committee and the Committee carried out a self assessment of its performance.

#### Unilever's share performance relative to broad-based equity indices

The UK Companies Act 1985 (schedule 7A) requires us to show Unilever's relative share performance, based on Total Shareholder Return, against a holding of shares in a broad-based equity index for the last five years. The Remuneration Committee has decided to show Unilever's performance against two indices, namely the FTSE 100 Index, London, and the Euronext AEX Index, Amsterdam as these are the most generally used indices in the UK and the Netherlands, where we have our principal listings.

#### Five-Year Historical TSR Performance

Growth in the value of a hypothetical £100 holding over five years FTSE 100 comparison based on 30 trading day average values

Growth in the value of a hypothetical investment over five years AEX comparison based on 30 day average values

#### Role and responsibilities

The Committee is responsible for making proposals to the Boards on the reward policy for Executive Directors. It is also responsible for setting individual reward packages for Executive Directors and for monitoring and approving all share-based incentive arrangements. The Committee meets at least three times a year and, during 2007, it met on five occasions.

#### Structure and role

During 2007 David Simon served as Chairman of the Committee with Jeroen van der Veer and Jean-Cyril Spinetta as Non-Executive members. Jean-Cyril Spinetta stepped down as a Director in September 2007. Michael Treschow was appointed a member of the Committee on 6 February 2008.

#### Advice and assistance

The Committee does not formally retain remuneration consultants. It seeks professional advice from external advisers as and when required. During 2007, the Committee sought advice from Towers Perrin (an independent firm of human resources specialists) on market data, reward trends and performance-related pay. Towers Perrin also provides general consultancy advice to Unilever group companies on employee rewards, pension, communications and other human resource matters.

The Group Secretary attends all Committee meetings and advises on matters of corporate governance.

The Group Chief Executive can be invited to attend Committee meetings to provide his own insights to the Committee on business objectives and the individual performance of his direct reports. Naturally, he does not attend when his own remuneration is being discussed.

During 2007, the Non-Executive Chairman could, in his role as Chairman of the Boards, also attend meetings.

The Report has been approved by the Boards. Signed on behalf of the Boards by Sven Dumoulin (Group Secretary).



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[Report of the Directors continued](#)

## Report of the Audit Committee

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The role of the Audit Committee is to assist the Unilever Boards in fulfilling their oversight responsibilities regarding the integrity of Unilever's financial statements, risk management and internal control, compliance with legal and regulatory requirements, the external auditors' performance, qualifications and independence, and the performance of the internal audit function. During the year ended 31 December 2007 the principal activities of the Committee were as follows:

### Financial statements

The Committee considered reports from the Chief Financial Officer on the quarterly and annual financial statements including other financial statements and disclosures prior to their publication, issues reviewed by the Disclosure Committee, and reviewed the Annual Report and Accounts and Annual Report on Form 20-F prior to publication.

### Audit of the Annual Accounts

PricewaterhouseCoopers, Unilever's external auditors, reported in depth to the Committee on the scope and outcome of the annual audit, including their audit of internal control over financial reporting as required by Section 404 of the US Sarbanes-Oxley Act of 2002. Their reports included accounting matters, governance and control, and accounting developments.

### Risk management and internal control arrangements

The Committee reviewed Unilever's overall approach to risk management and control, and its processes, outcomes and disclosure, including specifically:

- review of level of disclosure in quarterly financial results announcements;
- review of accounting principles and judgements with respect to financial statements, including the annual impairment review of goodwill and intangibles;
- Corporate Audit's interim and year-end reports on the Status of Risk Management and Control, and management's response;
- annual report from the Chief Financial Officer on business risks and positive assurance on operating controls and corporate policies; and a quarterly review of business risks and safeguards;
- the interim and year-end reports from the Code of Business Principles Compliance Committee;
- monitoring the resolution of complaints received through the global Ethics hotline including procedures for handling complaints and concerns relating to accounting, internal control and auditing matters;
- quarterly review of progress of the application of the requirements under Section 404 of the US Sarbanes-Oxley Act of 2002 with respect to internal controls over financial reporting;
- review of the application of information and communication technology;
- a review of the annual pension report and pensions related accounting and proposals;
- annual review of anti-fraud arrangements;
- a review of tax planning policy; and
- review of treasury policies, the annual financial plan and consideration of proposals relating to debt issuance, investment hedge, dividends and a review of the financial implications of acquisitions.

### External auditors

The Audit Committee conducted a formal evaluation of the effectiveness of the external audit process. The Committee has approved the extension of the current external audit contract by one year, and recommended to the Boards the reappointment of the external auditors. On the recommendation of the Audit Committee, the Directors will be proposing the reappointment of PricewaterhouseCoopers at the AGMs in May 2008.



Both Unilever and the auditors have for many years had safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. The Committee reviewed the report from PricewaterhouseCoopers on the actions they take to comply with the professional and regulatory requirements and best practice designed to ensure their independence from Unilever.

The Committee also reviewed the statutory audit, other audit, tax and other services provided by PricewaterhouseCoopers, and compliance with Unilever's policy, which prescribes in detail the types of engagements for which the external auditors can and cannot be used:

- statutory audit services – as detailed above, including audit of subsidiaries;
- other audit services – work which regulations or agreements with third parties require the auditors to undertake e.g. in connection with borrowings and shareholder services;
- other services – statutory auditors may carry out work that they are best placed to undertake, including internal control reviews;
- acquisition and disposal services – where the auditors are best placed to do this work;
- tax services – all significant tax consulting work is put to tender, except where the auditors are best placed to do this; and
- general consulting – external auditors may not tender for general consulting work.

All engagements over €100 000 require specific advance approval of the Audit Committee Chairman. The overall policy is regularly reviewed and, where necessary, updated in the light of internal developments, external developments and best practice.

The Committee held independent meetings with the external auditors during the year.

#### **Internal audit function**

The Committee engaged in discussion and review of the Corporate Audit Department's audit plan for the year, and approved its budget and resource requirements.

The Committee carried out a formal evaluation of the performance of the internal audit function and confirmed that they were satisfied with their relationship with the Chief Auditor.

The Committee held independent meetings with the Chief Auditor during the year.

#### **Audit Committee terms of reference**

The Audit Committee's terms of reference can be viewed on Unilever's website at [www.unilever.com](http://www.unilever.com) or supplied on request. In June 2007, the terms of reference were updated to include the review of – other financial statements and disclosures – prior to their publication.

#### **Board Assessment of the Audit Committee**

The Board evaluated the performance of the Committee and the Committee carried out a self assessment of its performance.

**Kees Storm** Chairman of the Audit Committee

**Wim Dik**

**Charles Golden**

**Byron Grote**

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## Report of the Corporate Responsibility and Reputation Committee

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### Terms of reference

The Corporate Responsibility and Reputation Committee (CRR) comprises four independent Non-Executive Directors and one Executive Director, the latter being the person who chairs Unilever's Corporate Responsibility Council.

In May 2007 three new independent members were appointed to the Committee – Genevieve Berger, Narayana Murthy and Hixonia Nyasulu. They replaced Antony Burgmans and Lynda Chalker who retired. Wim Dik stood down from the Committee in September 2007. Leon Brittan replaced Lynda Chalker as Chairman of the Committee and thanked departing members for their support and the valuable insights they had contributed to the Group's thinking.

The Committee has responsibility for overseeing Unilever's conduct as a responsible corporate citizen. It is also charged with ensuring that Unilever's reputation is protected and enhanced. Inherent in this is the need to identify any external developments which are likely to have an influence upon Unilever's standing in society and to bring these to the attention of the executive team.

One of the issues the Committee oversees is that of sustainable development. In this capacity the Committee is building links with the Unilever Sustainable Development Group (USDG) – a body of five eminent people who advise on Unilever's sustainability strategy. To facilitate greater synergy between the two groups, members of the CRR share the briefings of the USDG and are invited to join their meetings.

Full details of the Corporate Responsibility and Reputation Committee's terms of reference and details of the members of the Unilever Sustainable Development Group are available at [www.unilever.com/investorcentre/corpgovernance](http://www.unilever.com/investorcentre/corpgovernance)

### Meetings

Committee meetings are held quarterly. In 2007 the Committee discussed a range of topics including Unilever's Code of Business Principles, human rights, its Business Partner Code and supplier assurance, corporate responsibility strategy, reporting and measurement. Further details of these discussions are set out below.

### Code of Business Principles

At its April meeting in Durban, the Committee discussed the practices of Unilever South Africa in implementing and communicating the Code of Business Principles. Committee members commended Unilever on its thorough and rigorous approach to procedures for upholding the principles and its ongoing efforts to maintain awareness of the Code through diverse communications channels.

### Human rights

The Committee supported a review of Unilever's approach to human rights. The aim of the review was to ensure that Unilever continues to live up to its ethical standards, as defined in the Code of Business Principles, and that effective communications and compliance mechanisms are in place. It concluded that further training was needed and that clearer definition of the various elements of human rights was required in order to increase employee awareness and understanding.

Currently, compliance monitoring of Unilever's human rights obligations is delivered via the positive assurance process. The review proposed that this should be complemented by a system of continuous improvement (akin to the systems Unilever uses for safety, health and environment), based primarily on self-assessment at site level and supported by periodic external audits. The self-assessment methodology is designed to be consistent with that

used to monitor suppliers' compliance with our Business Partner Code.

### **Business Partner Code**

Unilever's Business Partner Code is based on its Code of Business Principles. It makes clear our expectations of suppliers in the areas of health and safety at work, business integrity, labour standards, consumer safety and the environment. Unilever's supply management is responsible for the roll-out of the Business Partner Code and for gaining supplier assurance.

As these areas are of increasing concern to both manufacturers and retailers, many companies are launching similar assurance initiatives, leading to multiple demands on suppliers to provide evidence of appropriate management policies and compliance with recognised social, environmental and labour standards.

As both a customer and a supplier, Unilever has a clear interest in avoiding this resource-intensive duplication of effort. To this end, Unilever initiated a collaborative forum with peer fast-moving consumer goods manufacturers to develop a common approach to supplier evaluation through self-assessment and shared audit. The Committee endorsed Unilever's commitment to responsible sourcing and offered suggestions to reinforce communication around the Business Partner Code.

### **Corporate responsibility strategy**

Committee members reviewed Unilever's updated corporate responsibility strategy, including its CO<sub>2</sub> reduction targets. The importance of pursuing clear and realistic targets was emphasised, along with the need to engage retail customers on this agenda, which is becoming an increasingly important part of their business activities. The Committee recommended that the elements of the strategy be reflected clearly in Unilever's next sustainable development report. Members also studied the metrics Unilever uses to measure progress in its corporate responsibility initiatives and suggested ways in which these should be reinforced.

As part of its watching brief on current issues of concern to society, the Committee also received and commented on updates on a range of issues, including Unilever's approach to biofuels as a source of renewable energy, carbon footprinting, marketing to children, the use of "size zero" models in advertising, sustainable sourcing of tea, packaging, and feedback on Unilever's participation in the World Economic Forum at Davos.

### **Board assessment of the Committee**

The Board evaluated the performance of the Committee and the Committee carried out a self assessment of its performance.

More information about Unilever's corporate responsibility initiatives is available at [www.unilever.com](http://www.unilever.com)

**Leon Brittan** Chairman of the Corporate Responsibility and Reputation Committee  
**Genevieve Berger**  
**Narayana Murthy**  
**Hixonia Nyasulu**  
**Ralph Kugler** Executive Director

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## Statement of Directors' responsibilities

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### Annual accounts

The Directors are required by Title 9, Book 2 of the Civil Code in the Netherlands and the United Kingdom Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Unilever Group, and the NV and PLC entities as at the end of the financial year and of the profit or loss and cash flows for that year.

The Directors consider that, in preparing the accounts, the Group and the NV and PLC entities have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards as adopted by the EU and as issued by the International Accounting Standards Board.

The Directors have responsibility for ensuring that NV and PLC keep accounting records which disclose with reasonable accuracy their financial position and which enable the Directors to ensure that the accounts comply with the relevant legislation. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

This statement, which should be read in conjunction with the Auditors' report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

A copy of the financial statements of the Unilever Group is placed on our website at [www.unilever.com/investorcentre](http://www.unilever.com/investorcentre). The maintenance and integrity of the website are the responsibility of the Directors, and the work carried out by the auditors does not involve consideration of these matters. Accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially placed on the website. Legislation in the United Kingdom and the Netherlands governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Going concern

The Directors continue to adopt the going concern basis in preparing the accounts. This is because the Directors, after making enquiries and following a review of the Group's budget for 2008 and 2009, including cash flows and borrowing facilities, consider that the Group has adequate resources to continue in operation for the foreseeable future.

### Internal and disclosure controls and procedures

Unilever has a well-established control framework, which is documented and regularly reviewed by the Boards. This incorporates risk management, internal control procedures and disclosure controls and procedures (including the operation of the Disclosure Committee – see page 38) which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded, the risks facing the business are being addressed and all information required to be disclosed is reported to the Group's senior management, including where appropriate the Group Chief Executive and Chief Financial Officer, within the required timeframe.

Our procedures cover financial, operational, social, strategic and environmental risks and regulatory matters. The Boards of NV and PLC have also established a clear organisational structure, including delegation of appropriate authorities. The Group's

control framework is supported through a Code of Business Principles, which sets standards of professionalism and integrity for its operations worldwide, and through an Operational Controls Assessment process, which requires the senior management in each business unit to assess the effectiveness of financial controls. In our major units

financial controls are subject to a comprehensive risk-based assessment annually with controls in the remaining units being reviewed over a one- to three-year cycle.

The Boards have overall responsibility for establishing key procedures designed to achieve systems of internal control and disclosure control and for reviewing and evaluating their effectiveness. The day-to-day responsibility for implementation of these procedures and ongoing monitoring of risk and the effectiveness of controls rests with the Group's senior management at individual operating company and regional level. Regions review, on an ongoing basis, the risks faced by their group and the related internal control arrangements, and provide written reports to the Group Chief Executive.

Unilever's corporate internal audit function plays a key role in providing an objective view and continuous reassurance of the effectiveness of the risk management and related control systems throughout Unilever to both operating management and the Boards. The Group has an independent Audit Committee, comprised entirely of independent Non-Executive Directors. This Committee meets regularly with the Chief Auditor and the external auditors.

Unilever has a comprehensive budgeting system with an annual budget approved by the Boards, which is regularly reviewed and updated. Performance is monitored against budget and the previous year through monthly and quarterly reporting routines. The Group reports to shareholders quarterly.

Unilever's system of risk management has been in place throughout 2007 and up to the date of this report, and complies with the recommendations of "Internal Control" Revised Guidance for Directors on the Combined Code, published by the Internal Control Working Party of the Institute of Chartered Accountants in England & Wales in October 2005. The Boards have carried out an annual review of the effectiveness of the systems of risk management and internal control during 2007 in accordance with this guidance, and have ensured that the necessary actions have been or are being taken to address any significant failings arising out of that review.

Based on an evaluation by the Boards, the Group Chief Executive and the Chief Financial Officer concluded that the design and operation of the Group's disclosure controls and procedures as at 31 December 2007 were effective, and that subsequently there have been no significant changes in the Group's internal controls, or in other factors that could significantly affect those controls.

It is Unilever's practice to bring acquired companies within the Group's governance procedures as soon as is practicable and in any event by the end of the first full year of operation.



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## Management's report on internal control over financial reporting

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In accordance with the requirements of Section 404 of the US Sarbanes-Oxley Act of 2002, the following report is provided by management in respect of the Company's internal control over financial reporting (as defined in rules 13a-15(f) or rule 15d-15(f) under the US Securities Exchange Act of 1934):

- Unilever's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group;
- Unilever's management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of our internal control over financial reporting. Management believes that the COSO framework is a suitable framework for its evaluation of our internal control over financial reporting because it is free from bias, permits reasonably consistent qualitative and quantitative measurements of internal controls, is sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of internal controls are not omitted, and is relevant to an evaluation of internal control over financial reporting;
- Management has assessed the effectiveness of internal control over financial reporting as of 31 December 2007, and has concluded that such internal control over financial reporting is effective; and
- PricewaterhouseCoopers LLP and PricewaterhouseCoopers Accountants N.V., who have audited the consolidated financial statements of the Group for the year ended 31 December 2007, have also audited the effectiveness of internal control over financial reporting as at 31 December 2007 and have issued an attestation report on internal control over financial reporting. For the Auditors' report please refer to page 68.

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## Auditors' report United States

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### **Report of the independent registered public accounting firms to the shareholders of Unilever N.V. and Unilever PLC**

In our opinion, the accompanying consolidated income statements and the related consolidated balance sheets, consolidated cash flow statements and consolidated statements of recognised income and expense present fairly, in all material respects, the financial position of the Unilever Group at 31 December 2007 and 2006 and the results of its operations and cash flows for each of the three years in the period ended 31 December 2007, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Also, in our opinion the Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's Directors and management are responsible for these consolidated accounts. The Group's management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's report on internal control over financial reporting" as set out on page 67. Our responsibility is to express opinions on these consolidated accounts and on the Group's internal control over financial reporting based on our audits which were integrated audits in 2007 and 2006. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated accounts are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated accounts included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated accounts, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated accounts presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated accounts for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated accounts in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated accounts.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Rotterdam, The Netherlands, 10 March 2008  
PricewaterhouseCoopers Accountants N.V.  
As auditors of Unilever N.V.

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PricewaterhouseCoopers LLP  
London, United Kingdom  
As auditors of Unilever PLC

Prof Dr J A van Manen RA

10 March 2008

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## Financial statements Unilever Group

### Consolidated income statement

for the year ended 31 December

	€ million 2007	€ million 2006	€ million 2005
<b>Continuing operations</b>			
<b>Turnover</b> 2	<b>40 187</b>	39 642	38 401
<b>Operating profit</b> 2	<b>5 245</b>	5 408	5 074
After (charging)/crediting:			
Restructuring 3	<b>(875)</b>	(704)	(328)
Business disposals, impairments and other 3	<b>306</b>	196	(249)
Gain on US healthcare and UK pensions 3	□	266	□
Net finance costs 5	<b>(252)</b>	(721)	(613)
Finance income	<b>147</b>	128	129
Finance costs	<b>(550)</b>	(590)	(689)
Preference shares provision	<b>(7)</b>	(300)	□
Pensions and similar obligations	<b>158</b>	41	(53)
Share of net profit/(loss) of joint ventures	<b>102</b>	78	47
Share of net profit/(loss) of associates	<b>50</b>	36	(25)
Other income from non-current investments 11	<b>39</b>	30	33
<b>Profit before taxation</b>	<b>5 184</b>	4 831	4 516
Taxation 6	<b>(1 128)</b>	(1 146)	(1 181)
<b>Net profit from continuing operations</b>	<b>4 056</b>	3 685	3 335
Net profit from discontinued operations 27	<b>80</b>	1 330	640
<b>Net profit</b>	<b>4 136</b>	5 015	3 975
Attributable to:			
Minority interests	<b>248</b>	270	209
Shareholders' equity	<b>3 888</b>	4 745	3 766

### Combined earnings per share

From continuing operations

Basic earnings per share	<b>€1.32</b>	€1.19	€1.07
Diluted earnings per share	<b>€1.28</b>	€1.15	€1.04

**From discontinued operations**

Basic earnings per share	<b>€0.03</b>	€0.46	€0.22
Diluted earnings per share	<b>€0.03</b>	€0.45	€0.21

**From total operations**

Basic earnings per share	<b>€1.35</b>	€1.65	€1.29
Diluted earnings per share	<b>€1.31</b>	€1.60	€1.25

References in the consolidated income statement, consolidated statement of recognised income and expense, consolidated cash flow statement and consolidated balance sheet relate to notes on pages 72 to 128, which form an integral part of the consolidated financial statements.

Accounting policies of the Unilever Group are set out in note 1 on pages 72 to 76.

**Consolidated statement of recognised income and expense**

for the year ended 31 December

	€ million 2007	€ million 2006	€ million 2005
Fair value gains/(losses) net of tax:			
On cash flow hedges	<b>84</b>	6	14
On available-for-sale financial assets	<b>2</b>	15	□
Actuarial gains/(losses) on pension schemes net of tax	<b>542</b>	853	(49)
Currency retranslation gains/(losses) net of tax <sup>(a)</sup>	<b>(413)</b>	(335)	513
<b>Net income/(expense) recognised directly in equity</b>	<b>215</b>	539	478
Net profit	<b>4 136</b>	5 015	3 975
<b>Total recognised income and expense 21</b>	<b>4 351</b>	5 554	4 453
Attributable to:			
Minority interests	<b>237</b>	242	249
Shareholders' equity	<b>4 114</b>	5 312	4 204

(a) Includes fair value gains/(losses) on net investment hedges of €(692) million (2006: €(779) million; 2005: €332 million).

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## Financial statements Unilever Group

### Consolidated balance sheet

as at 31 December

	€ million 2007	€ million 2006
Goodwill <a href="#">9</a>	12 244	12 425
Intangible assets <a href="#">9</a>	4 511	4 781
Property, plant and equipment <a href="#">10</a>	6 284	6 276
Pension asset for funded schemes in surplus <a href="#">20</a>	2 008	1 697
Deferred tax assets <a href="#">12</a>	1 003	1 266
Other non-current assets <a href="#">11</a>	1 324	1 126
<b>Total non-current assets</b>	<b>27 374</b>	27 571
Inventories <a href="#">13</a>	3 894	3 796
Trade and other current receivables <a href="#">14</a>	4 194	4 254
Current tax assets	367	125
Cash and cash equivalents <a href="#">15</a>	1 098	1 039
Other financial assets <a href="#">15</a>	216	273
Assets held for sale <a href="#">27</a>	159	14
<b>Total current assets</b>	<b>9 928</b>	9 501
Financial liabilities <a href="#">16</a>	(4 166)	(4 458)
Trade payables and other current liabilities <a href="#">18</a>	(8 017)	(7 838)
Current tax liabilities	(395)	(579)
Provisions <a href="#">19</a>	(968)	(1 009)
Liabilities associated with assets held for sale <a href="#">27</a>	(13)	□
<b>Total current liabilities</b>	<b>(13 559)</b>	(13 884)
<b>Net current assets/(liabilities)</b>	<b>(3 631)</b>	(4 383)
<b>Total assets less current liabilities</b>	<b>23 743</b>	23 188
Financial liabilities due after one year <a href="#">16</a>	5 483	4 377
Non-current tax liabilities	233	272
Pensions and post-retirement healthcare liabilities:		
Funded schemes in deficit <a href="#">20</a>	827	1 379
Unfunded schemes <a href="#">20</a>	2 270	3 398
Provisions <a href="#">19</a>	694	826

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Deferred tax liabilities 12	<b>1 213</b>	1 003
Other non-current liabilities	<b>204</b>	261
	<hr/>	
<b>Total non-current liabilities</b>	<b>10 924</b>	11 516
Called up share capital 21	<b>484</b>	484
Share premium account 21	<b>153</b>	165
Other reserves 21	<b>(3 412)</b>	(2 143)
Retained profit 21	<b>15 162</b>	12 724
	<hr/>	
<b>Shareholders' equity</b>	<b>12 387</b>	11 230
Minority interests 21	<b>432</b>	442
	<hr/>	
<b>Total equity</b>	<b>12 819</b>	11 672
	<hr/>	
<b>Total capital employed</b>	<b>23 743</b>	23 188
	<hr/>	

Commitments and contingent liabilities are shown in note 25 on page 112.

These financial statements, together with the Report of the Directors, were approved by the Directors on 10 March 2008.

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## Financial statements Unilever Group

### Consolidated cash flow statement

for the year ended 31 December

	€ million 2007	€ million 2006	€ million 2005
Cash flow from operating activities <a href="#">28</a>	<b>5 188</b>	5 574	5 924
Income tax paid	<b>(1 312)</b>	(1 063)	(1 571)
<b>Net cash flow from operating activities</b>	<b>3 876</b>	4 511	4 353
Interest received	<b>146</b>	125	130
Purchase of intangible assets	<b>(136)</b>	(113)	(92)
Purchase of property, plant and equipment	<b>(1 046)</b>	(1 013)	(914)
Disposal of property, plant and equipment	<b>163</b>	192	124
Sale and leaseback transactions resulting in operating leases	<b>36</b>	□	69
Acquisition of group companies, joint ventures and associates	<b>(214)</b>	(96)	(20)
Disposal of group companies, joint ventures and associates	<b>164</b>	1 873	804
Acquisition of other non-current investments	<b>(50)</b>	(90)	(50)
Disposal of other non-current investments	<b>33</b>	61	83
Dividends from joint ventures, associates and other non-current investments	<b>188</b>	120	65
(Purchase)/sale of financial assets	<b>93</b>	96	316
<b>Net cash flow from/(used in) investing activities</b>	<b>(623)</b>	1 155	515
Dividends paid on ordinary share capital	<b>(2 182)</b>	(2 602)	(1 804)
Interest and preference dividends paid	<b>(552)</b>	(605)	(643)
Additional financial liabilities	<b>4 283</b>	2 154	3 968
Repayment of financial liabilities	<b>(2 896)</b>	(5 364)	(4 795)
Sale and leaseback transactions resulting in finance leases	<b>25</b>	2	□
Capital element of finance lease rental payments	<b>(74)</b>	(73)	(53)
Share buy-back programme	<b>(1 500)</b>	□	(500)
Other movements on treasury stock	<b>442</b>	98	(776)
Other financing activities	<b>(555)</b>	(182)	(218)
<b>Net cash flow from/(used in) financing activities</b>	<b>(3 009)</b>	(6 572)	(4 821)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>244</b>	(906)	47
<b>Cash and cash equivalents at the beginning of the year</b>	<b>710</b>	1 265	1 406
Effect of foreign exchange rate changes	<b>(53)</b>	351	(188)



<b>Cash and cash equivalents at the end of the year 15</b>	<b>901</b>	710	1 265
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The cash flows of pension funds (other than contributions and other direct payments made by the Group in respect of pensions and similar obligations) are not included in the consolidated cash flow statement. Cash flows relating to discontinued operations included above are set out in note 27 on page 114.

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## Notes to the consolidated accounts Unilever Group

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### 1 Accounting information and policies

The accounting policies adopted are the same as those which applied for the previous financial year, except as set out below under the heading of [Companies legislation and accounting standards](#).

#### Unilever

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 have the same Directors and are linked by a series of agreements, including an Equalisation Agreement, which are designed so that the position of the shareholders of both companies is as nearly as possible the same as if they held shares in a single company.

The Equalisation Agreement provides that both companies adopt the same accounting principles and requires as a general rule the dividends and other rights and benefits (including rights on liquidation) attaching to each €0.16 nominal of ordinary share capital of NV to be equal in value at the relevant rate of exchange to the dividends and other rights and benefits attaching to each 3 1/9 p nominal of ordinary share capital of PLC, as if each such unit of capital formed part of the ordinary capital of one and the same company. For additional information please refer to [Corporate governance](#) on page 40.

#### Basis of consolidation

Due to the operational and contractual arrangements referred to above, NV and PLC form a single reporting entity for the purposes of presenting consolidated accounts. Accordingly, the accounts of Unilever are presented by both NV and PLC as their respective consolidated accounts. Group companies included in the consolidation are those companies controlled by NV or PLC. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The net assets and results of acquired businesses are included in the consolidated accounts from their respective dates of acquisition, being the date on which the Group obtains control. The results of disposed businesses are included in the consolidated accounts up to their date of disposal, being the date control ceases.

#### Companies legislation and accounting standards

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with Book 2 of the Civil Code in the Netherlands and the United Kingdom Companies Acts 1985 and 2006. They are also in accordance with IFRS as issued by the International Accounting Standards Board.

The accounts are prepared under the historical cost convention unless otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted International Financial Reporting Standard 7 [Financial Instruments: Disclosures](#) and the following IFRIC interpretations with effect from 1 January 2007: IFRIC 7, [Applying the Restatement Approach](#) under IAS 29 [Financial Reporting in Hyperinflationary Economies](#); IFRIC 9 [Reassessment of embedded derivatives](#); and IFRIC 10 [Interim Financial Reporting and Impairment](#). Adoption of IFRS 7 and these interpretations did not have a material effect on the financial statements of the Group.

The Group also applied the amendment to IAS 1 [Presentation of Financial Statements](#) which requires Unilever to make new disclosures to enable the users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

In addition, the Group has applied the following changes in presentation of the financial statements within the balance sheet:

- Finance lease creditors and funding-related derivatives have been reclassified in order to facilitate the presentation of net debt. Comparatives for 31 December 2006 have been restated accordingly; and
- Line items relating to borrowings have been renamed to financial liabilities to align with the requirements of IFRS 7.

#### **Foreign currencies**

Items included in the financial statements of group companies are measured using the currency of the primary economic environment in which each entity operates (its functional currency). The consolidated financial statements are presented in euros. The functional currencies of NV and PLC are euros and sterling respectively.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying hedges. Those arising on trading transactions are taken to operating profit; those arising on cash, financial assets and financial liabilities are classified as finance income or cost.

In preparing the consolidated financial statements, the income statement, the cash flow statement and all other movements in assets and liabilities are translated at annual average rates of exchange. The balance sheet, other than the ordinary share capital of NV and PLC, is translated at year-end rates of exchange. In the case of hyper-inflationary economies, which are those in which inflation exceeds 100% cumulatively over a three-year period, the accounts are adjusted to reflect current price levels and remove the influences of inflation before being translated.

The ordinary share capital of NV and PLC is translated in accordance with the Equalisation Agreement. The difference between the resulting value for PLC and the value derived by applying the year-end rate of exchange is taken to other reserves (see note 23 on page 110).

The effects of exchange rate changes during the year on net assets at the beginning of the year are recorded as a movement in shareholders' equity, as is the difference between profit of the year retained at average rates of exchange and at year-end rates of exchange. For these purposes net assets include loans between group companies and related foreign exchange contracts, if any, for which settlement is neither planned nor likely to occur in the foreseeable future. Exchange gains/losses on hedges of net assets are also recorded as a movement in equity.

Cumulative exchange differences arising since the transition date of 1 January 2004 are reported as a separate component of other reserves (see note 23 on page 110). In the event of disposal or part disposal of an interest in a group company either through sale or as a result of a repayment of capital, the cumulative exchange difference is recognised in the income statement as part of the profit or loss on disposal of group companies.

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Financial statements continued

## Notes to the consolidated accounts Unilever Group

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### 1 Accounting information and policies (continued)

#### Business combinations

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets and liabilities of the acquired business at fair value.

Acquisitions of minority interests are accounted for using the parent entity method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

#### Goodwill

Goodwill (being the difference between the fair value of consideration paid for new interests in group companies, joint ventures and associates and the fair value of the Group's share of their net identifiable assets and contingent liabilities at the date of acquisition) is capitalised. Goodwill is not amortised, but is subject to an annual review for impairment (or more frequently if necessary). Any impairment is charged to the income statement as it arises.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired business are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than a segment based on either the Group's primary or the Group's secondary reporting format.

#### Intangible assets

On acquisition of group companies, Unilever recognises any specifically identifiable intangible assets separately from goodwill, initially measuring the intangible assets at fair value. Separately purchased intangible assets are initially measured at cost. Finite-lived intangible assets mainly comprise patented and non-patented technology, know-how and software. These assets are capitalised and amortised on a straight-line basis in the income statement over the period of their expected useful lives, or the period of legal rights if shorter, none of which exceeds ten years. Periods in excess of five years are used only where the Directors are satisfied that the life of these assets will clearly exceed that period.

Indefinite-lived intangibles are not amortised, but are subject to an annual review for impairment (or more frequently if necessary).

Unilever monitors the level of product development costs against all the criteria set out in IAS 38. These include the requirement to establish that a flow of economic benefits is probable before costs are capitalised. For Unilever this is evident only shortly before a product is launched into the market. The level of costs incurred after these criteria have been met is currently insignificant.

#### Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and impairment. Depreciation is provided on a straight-line basis at percentages of cost based on the expected average useful lives of the assets and their residual values which are reviewed periodically.

Estimated useful lives by major class of assets are as follows:

Freehold buildings (no depreciation on freehold land)	40 years
Leasehold buildings	40 years*
Plant and equipment	2–20 years

\*or life of lease if less than 40 years

Property, plant and equipment is subject to review for impairment if triggering events or circumstances indicate that this is necessary. Any impairment is charged to the income statement as it arises.

### Other non-current assets

Joint ventures are undertakings in which the Group has an interest and which are jointly controlled by the Group and one or more other parties. Associates are undertakings in which the Group has an investment and can exercise significant influence.

Interests in joint ventures and associates are accounted for using the equity method and are stated in the consolidated balance sheet at cost, adjusted for the movement in the Group's share of their net assets and liabilities. The Group's share of the profit or loss after tax of joint ventures and associates is included in the Group's consolidated profit before taxation.

Biological assets are stated at fair value less estimated point-of-sale costs.

### Financial instruments

Financial instruments are recognised when the Group becomes party to the contract. They are initially measured at fair value (the transaction price) adjusted, in the case of instruments not classified as fair value through profit or loss, by directly attributable transaction costs.

#### Financial assets

Market purchases and sales of financial assets are recognised using value date accounting. Financial assets, other than those which are financial assets at fair value through profit or loss, are initially recognised at fair value plus directly attributable transaction costs. Any impairment of a financial asset is charged to the income statement as it arises.

Financial assets are classified according to the purpose for which the investments were acquired. This gives rise to the following categories: held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. Unilever determines the classification of its investments at initial recognition.

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. They are included in non-current investments at amortised cost using the effective interest method, less any amounts written off to reflect impairment.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a counterparty with no intention of trading the receivable. Loans and receivables are included in trade and other receivables in the balance sheet at amortised cost.

Short-term loans and receivables are initially measured at original invoice amount and subsequently measured after deducting any provision for impairment.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in

the income statement. Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payment is established.

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## Notes to the consolidated accounts Unilever Group

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### 1 Accounting information and policies (continued)

#### Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated. Derivatives are also classified in this category unless they are designated as hedges. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the balance sheet date. Directly attributable transaction costs related to the purchase of the assets are expensed as incurred. Gains and losses arising from changes in fair value are included in the income statement.

#### Financial liabilities

Financial liabilities are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost unless they are part of a fair value hedge accounting relationship; any difference between the amount on initial recognition and the redemption value is recognised in the income statement over the period of the financial liabilities using the effective interest method. Those financial liabilities that are part of a fair value hedge accounting relationship are also recorded on an amortised cost basis, plus or minus the fair value attributable to the risk being hedged with a corresponding entry in the income statement.

Short-term financial liabilities are measured at original invoice amount. Borrowing costs are not capitalised as part of property, plant and equipment.

#### Derivative financial instruments

Derivatives are measured on the balance sheet at fair value. The activities of the Group expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts, interest rate swap contracts and forward rate agreements to hedge these exposures. The Group also uses commodity contracts to hedge future requirements for certain raw materials, almost always for physical delivery. Those contracts that can also be settled in cash are treated as a financial instrument. The Group does not use derivative financial instruments for speculative purposes. The use of leveraged instruments is not permitted.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity, and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction subsequently results in the recognition of a non-financial asset or a liability, then, at the time the non-financial asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the non-financial asset or liability. For hedged items that do not result in the recognition of a non-financial asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

For an effective hedge of an exposure to changes in the fair value of recognised assets and liabilities, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in the income statement.

Changes in fair value of net investment hedges in relation to foreign subsidiaries are recognised directly in equity. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are carried at fair value with unrealised gains or losses reported in the income statement.

The Group also uses commodity contracts to hedge future requirements. Those contracts that can also be settled in cash are treated as financial instruments.

### **Valuation principles**

The fair values of quoted investments are based on current bid prices. For unlisted and for listed securities where the market for a financial asset is not active the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

### **Impairment of financial instruments**

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

### **Inventories**

Inventories are valued at the lower of weighted average cost and net realisable value. Cost comprises direct costs and, where appropriate, a proportion of attributable production overheads.

### **Cash and cash equivalents**

For the purpose of preparation of the cash flow statement, cash and cash equivalents includes cash at bank and in hand, highly liquid interest bearing securities with original maturities of three months or less, and bank overdrafts.

### **Pensions and similar obligations**

The operating and financing costs of defined benefit plans are recognised separately in the income statement. Service costs are systematically allocated over the service lives of employees, and financing costs are recognised in the periods in which they arise. The costs of individual events such as past service benefit enhancements, settlements and curtailments are recognised immediately in the income statement. Variations from expected costs, arising from the experience of the plans or changes in actuarial assumptions, are recognised immediately in the statement of recognised income and expense. The assets and liabilities of defined benefit plans are recognised at fair value in the balance sheet.

The charges to the income statement for defined contribution plans are the company contributions payable, and the assets and liabilities of such plans are not included in the balance sheet of the Group.

All defined benefit plans are subject to regular actuarial review using the projected unit method, either by external consultants or by actuaries employed by Unilever. Group policy is that the most important plans, representing approximately 80% of the defined benefit liabilities, are formally valued every year; other principal plans, accounting for approximately a further 15% of liabilities, have their liabilities updated each year. Group policy for the remaining plans requires a full actuarial valuation at least every three years. Asset values for all plans are updated every year.





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Financial statements continued

## Notes to the consolidated accounts Unilever Group

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### 1 Accounting information and policies (continued)

#### Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxation is recognised using the liability method on taxable temporary differences between the tax base and the accounting base of items included in the balance sheet of the Group. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates prevailing at the year end unless future rates have been enacted or substantively enacted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### Provisions

Provisions are recognised when either a legal or constructive obligation, as a result of a past event, exists at the balance sheet date and where the amount of the obligation can be reliably estimated.

#### Segment information

Segmental information is provided on the basis of geographical segments and product categories. The primary format, geographic regions, is based on the management structure of the Group, which operates in three geographical regions.

#### Revenue recognition

Turnover comprises sales of goods and services after deduction of discounts and sales taxes. It does not include sales between group companies. Discounts given by Unilever include rebates, price reductions and incentives given to customers, promotional couponing and trade communication costs.

Turnover is recognised when the risks and rewards of the underlying products and services have been substantially transferred to the customer. Revenue from services is recognised as the services are performed. Interest revenue is recognised as interest accrues using the effective interest method.

#### Research and market support costs

Expenditure on research and market support, such as advertising, is charged to the income statement when incurred.

#### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and

rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Group at their fair value at the date of commencement of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

A profit or loss is recognised on a sale and leaseback transaction based on the difference between sales proceeds and the carrying amount of the asset. Where the transaction results in a finance lease, the profit or loss is deferred and amortised over the lease term. Where the transaction results in an operating lease, any profit or loss is recognised immediately with reference to the proceeds of sale and the fair value of the asset.

Lease payments relating to operating leases are charged to the income statement on a straight-line basis over the lease term.

### **Share-based payments**

The economic cost of awarding shares and share options to employees is reflected by recording a charge in the income statement equivalent to the fair value of the benefit awarded over the vesting period. The fair value is determined with reference to option pricing models, principally adjusted Black-Scholes models or a multinomial pricing model.

### **Shares held by employee share trusts**

The assets and liabilities of certain PLC trusts, NV and group companies which purchase and hold NV and PLC shares to satisfy options granted are included in the consolidated accounts. The book value of shares held is deducted from other reserves, and trusts' borrowings are included in the Group's liabilities. The costs of the trusts are included in the results of the Group. These shares are excluded from the calculation of earnings per share.

### **Assets held for sale**

Assets and groups of assets and liabilities which comprise disposal groups are classified as "held for sale" when all of the following criteria are met: a decision has been made to sell, the assets are available for sale immediately, the assets are being actively marketed, and a sale has been or is expected to be concluded within twelve months of the balance sheet date. Assets and disposal groups held for sale are valued at the lower of book value or fair value less disposal costs. Assets held for sale are not depreciated.

### **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements requires management to make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **Income statement presentation**

On the face of the income statement, costs and revenues relating to restructuring, business disposals and impairments are disclosed. In addition, individual items judged to be significant are disclosed separately. These are material in terms of nature and amount. These disclosures are given in order to provide additional information to help users better understand financial performance.

### **Impairment of goodwill and indefinite-lived intangible assets**

Impairment reviews in respect of goodwill and intangible assets are performed at least annually. More regular reviews are performed if events indicate that this is necessary. Examples of such triggering events would include a significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses, or negative cash flows.

The recoverable amounts of cash-generating units are determined based on the higher of fair value less costs to sell and value-in-use calculations. These calculations require the use of estimates. Details of key assumptions made are set out in note 9 on page 86.

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## Notes to the consolidated accounts Unilever Group

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### 1 Accounting information and policies (continued)

#### Retirement benefits

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

#### Taxation

The Group is subject to taxes in numerous jurisdictions. Significant judgement is required in determining worldwide provision for taxes. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### Provisions

Provision is made, among other reasons, for legal matters, disputed indirect taxes, employee termination costs and restructuring where a legal or constructive obligation exists at the balance sheet date and a reliable estimate can be made of the likely outcome. The nature of these costs is such that judgement has to be applied to estimate the timing and amount of cash outflows.

#### Recent accounting developments

We are currently assessing the impact of the following revised standards or interpretations. These changes are not expected to have a material impact on the Group's results of operations, financial position or disclosures.

- Amendments in IAS 1 'Presentation of Financial Statements' (effective from 1 January 2009) requiring information in financial statements to be aggregated on the basis of shared characteristics and introducing a statement of comprehensive income.
- Amendments in IAS 23 'Borrowing Costs' (effective from 1 January 2009) removing the option for expensing borrowing costs and requiring mandatory capitalisation of qualifying borrowing costs.
- IFRS 8 'Operating Segments' (effective from 1 January 2009) introduces a management reporting approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. It replaces disclosure requirements in IAS 14 'Segment Reporting'.
- IFRIC 14 'Limit on a defined benefit asset minimum funding requirement and their interaction' (effective from 1 January 2008) clarifies that a pension plan surplus can be recognised only when a company has the unconditional right to receive the benefits of it, regardless of whether the surplus is immediately available.

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- Amendments in IFRS 3 [Business Combinations] and IAS 27 [Consolidated and Separate Financial Statements] (effective from 1 July 2009) changing and updating the existing requirements or practice on accounting for partial acquisitions, step acquisitions, acquisition-related costs, contingent consideration and transactions with non-controlling interests.

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## Notes to the consolidated accounts Unilever Group

### 2 Segment information

Our primary reporting segments are geographic, comprising our three operating regions of Europe, The Americas and Asia Africa. The home countries of the Unilever Group are the Netherlands and the United Kingdom. Turnover for these two countries combined in 2007 was €3 768 million (2006: €3 710 million; 2005: €3 679 million). The combined operating profit in 2007 was €444 million (2006: €555 million; 2005: €648 million). Turnover for the United States for 2007 was €7 120 million (2006: €7 627 million; 2005: €7 550 million). No other country had turnover of more than 10% of the Group total.

The analysis of turnover by geographical area is stated on the basis of origin. Turnover on a destination basis would not be materially different. Inter-segment sales between geographical areas and between product areas as on page 79 are not material. Total assets and capital expenditure are based on the location of the assets. Segment results are presented on the basis of operating profit. Segment assets consist primarily of property, plant and equipment, goodwill and other intangible assets, inventories and receivables. Corporate assets consist of current and deferred tax and pension assets, cash and cash equivalents, and other current or non-current financial assets. Segment liabilities consist primarily of trade payables and other liabilities. Corporate liabilities include financial liabilities, tax balances payable, provisions and pension and deferred tax liabilities. Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions. Other non-cash charges include charges to the income statement during the year in respect of share-based compensation, restructuring and other provisions.

	€ million	€ million	€ million	€ million
	Europe	The Americas	Asia Africa	Total
<b>Analysis by geographical segment</b>				
<b>2007</b>				
Turnover	15 205	13 442	11 540	40 187
Operating profit	1 678	1 971	1 596	5 245
Net finance costs				(252)
Share of net profit/(loss) of joint ventures	26	74	2	102
Share of net profit/(loss) of associates	50	□	□	50
Other income from non-current investments				39
				5 184
Profit before taxation				5 184
Taxation				(1 128)
				4 056
Net profit from continuing operations				4 056
Net profit from discontinued operations				80
				4 136
Net profit				4 136
<b>2006</b>				
Turnover	15 000	13 779	10 863	39 642
Operating profit	1 903	2 178	1 327	5 408
Net finance costs				(721)

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Share of net profit/(loss) of joint ventures	17	60	1	78
Share of net profit/(loss) of associates	36	□	□	36
Other income from non-current investments				30
				<hr/>
Profit before taxation				4 831
Taxation				(1 146)
				<hr/>
Net profit from continuing operations				3 685
Net profit from discontinued operations				1 330
				<hr/>
Net profit				5 015
<hr/>				
<b>2005</b>				
Turnover	14 940	13 179	10 282	38 401
Operating profit	2 064	1 719	1 291	5 074
Net finance costs				(613)
Share of net profit/(loss) of joint ventures	11	36	□	47
Share of net profit/(loss) of associates	(25)	1	(1)	(25)
Other income from non-current investments				33
				<hr/>
Profit before taxation				4 516
Taxation				(1 181)
				<hr/>
Net profit from continuing operations				3 335
Net profit from discontinued operations				640
				<hr/>
Net profit				3 975
<hr/>				



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## Notes to the consolidated accounts Unilever Group

**2 Segment information** (continued)

	€ million	€ million	€ million	€ million
<b>Analysis by geographical segment</b>	Europe	The Americas	Asia Africa	Total
<b>Assets</b>				
<b>2007</b>				
Segment assets	<b>14 502</b>	<b>10 867</b>	<b>6 279</b>	<b>31 648</b>
Joint ventures/associates	<b>201</b>	<b>11</b>	<b>12</b>	<b>224</b>
Total assets by geographical segment	<b>14 703</b>	<b>10 878</b>	<b>6 291</b>	<b>31 872</b>
Corporate assets				<b>5 430</b>
Total assets				<b>37 302</b>
<b>2006</b>				
Segment assets	14 411	11 548	5 875	31 834
Joint ventures/associates	78	16	9	103
Total assets by geographical segment	14 489	11 564		