Operating Review – Regions

Basis of reporting

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

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

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

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

Europe

2007 compared with 2006

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

Turnover at current rates of exchange rose by 1.4%, after the impact of acquisitions, disposals and exchange rate changes as set out in the table above. Operating profit at current rates of exchange fell by 11.9%, after including an adverse currency movement of 0.2%. The underlying performance of the business after eliminating these exchange translation effects and the impact of acquisitions and disposals is discussed below at constant exchange rates.

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

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

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

We made substantial progress with portfolio development and restructuring.

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

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

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

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