About Unilever

Description of business

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

Strategy and long-term financial targets

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

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

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

Key indicators – performance and portfolio

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

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

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

	€ million 2007	€ million 2006	€ million 2005
Turnover	**40 187**	39 642	38 401
Net profit	**4 136**	5 015	3 975
Cash flow from operating activities	**5 188**	5 574	5 924

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

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

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

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

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

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

In addition to these financial indicators, we track other measures in support of our strategic goals. We believe that the share of our business that is generated in developing and emerging (D&E) markets, and the proportion of our turnover that is generated by our top 25 brands are particularly relevant. In the latter context we group together brands that have a common consumer proposition and are supported by common innovation programmes, although in some cases the brand names may vary between countries. The results for these measures for the last three reporting years are as follows:

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