

UNILEVER PLC  
Form 20-F  
March 29, 2007

As filed with the Securities and Exchange Commission on March 29, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)  
OR 12(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 31 DECEMBER 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-4546

**UNILEVER PLC**

(Exact name of Registrant as specified in its charter)

**ENGLAND**

(Jurisdiction of incorporation or organization)

**UNILEVER HOUSE, BLACKFRIARS, LONDON, ENGLAND**

(Address of principal executive offices)

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

American shares (evidenced by Depositary Receipts)

New York Stock Exchange

each representing four Ordinary Shares of the nominal  
amount of 1.4p each

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

None

(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of class)

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The total number of outstanding shares of the Registrant's capital at the close of the period covered by the Annual Report was 2 911 458 580 ordinary shares

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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 such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17

Item 18

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## At a glance

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**Turnover** (€ million)  
Continuing operations

**Operating profit** (€ million)  
Continuing operations

**Operating margin** (%)  
Continuing operations

**Earnings per share** (€)  
Total operations

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### Dividends

Per Ordinary €0.16 share of  
Unilever N.V. (€)

Per Ordinary 3<sup>1</sup>/<sub>9</sub>p share of  
Unilever PLC (pence)

Per €0.16 New York Registry share of  
Unilever N.V. (\$)

Per 3<sup>1</sup>/<sub>9</sub>p American Depositary Receipt of  
Unilever PLC (\$)

In addition to the dividends shown above, one-off dividends of the following amounts per share were paid in December 2006: €0.26 per ordinary NV share; 17.66p per ordinary PLC share; \$0.3316 per NV New York Registry share; and \$0.3372 per PLC American Depositary Receipt.

The dividend and earnings per share information given above, including comparative amounts for prior years, is expressed in terms of the nominal share values which have applied since 22 May 2006, following the split of NV shares and the consolidation of PLC shares which were approved at the 2006 AGMs.

Dividend figures for each year comprise dividends declared or proposed for that year. Under International Financial Reporting Standards (IFRS), dividends are only recorded against the year in which they become payable.

Actual dividends payable for 2006 on Unilever N.V. New York Registry Shares and American Depositary Receipts of Unilever PLC may differ from those shown above, which include final dividend values calculated using the rates of exchange ruling on 7 February 2007 (€1.00 = \$1.2987, £1 = \$1.9718) .

The term "shares" as used in this document should, with respect to shares issued by Unilever N.V., be construed to include depositary receipts for shares issued by Foundation Unilever NV Trust Office, unless the context otherwise requires or unless it is clear from the context that this is not the case. For further information please refer to page 41.

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## The Unilever Group

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

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

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

### Basis of reporting

Our accounting policies are based on International Financial Reporting Standards (IFRS) as adopted by the EU and UK and Dutch law. These differ in certain respects from accounting principles generally accepted in the United States (US GAAP). Certain measures used in our reporting are not defined under either IFRS or US GAAP. 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 13 and the Financial review on page 23. Variations from United States generally accepted accounting principles (US GAAP) and Securities and Exchange Commission Financial Statement Requirements Regulation S-X are outlined in notes 34 and 35 on pages 124 to 140.

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

### Reporting currency and exchange rates

Details of key exchange rates used in preparation of these accounts are given on page 146, 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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## A changing Unilever

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Our 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.

Unilever is changing □ from the way we are structured and the way we operate, to the choices we make and the priorities we set.

We have a reformed governance, a new structure and a □One Unilever□ programme creating consistency, delivering cost savings and enabling us to leverage our global scale. We are developing and implementing brilliant consumer marketing. We are strengthening our relationships with retail customers. And we are outsourcing transactional operations in IT, finance and HR so we can focus on growing global brands.

In supporting our growth strategy, these changes are all making an impact on performance. 2006 was a year of progress, showing consistent broad-based growth, with all regions and all categories contributing, and savings programmes delivered ahead of plan, helping to offset higher input costs.

Our investment priorities □ personal care, developing and emerging markets, and Vitality □ are fuelling this growth. For example, our Vitality mission is shaping and directing our brand development, our partnerships and the way in which we operate around the world.

On the following pages you will recognise information about many of our world-famous brands and see how our values □ our desire to improve people□s lives, our commitment to the communities in which we operate □ are at the heart of our business. But you will also witness a new purpose, a new confidence and a new hunger to succeed.

Whether serving the world□s most affluent consumers or those with very limited disposable income, we always remember that respect and reputation have to be earned. And retaining the trust and credibility that Unilever has built up over many years is critical to our success in helping people □feel good, look good and get more out of life□.





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**Report of the Directors**

## Chairman's report

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In 2006 we regained the initiative in the marketplace resulting in top line growth of 3.8% and a stabilisation of our market shares.

Many initiatives such as "One Unilever" were accelerated and executed with great skill and discipline.

On behalf of the Boards I would like to thank Patrick and his team, as well as all our 179 000 employees around the world, for their hard work and commitment.

Although economic activity has been favourable, in other business areas (for example raw material prices) the going has been tough. Therefore the words of appreciation from the Boards are well deserved.

I would like to report back to you on a number of issues concerning the dual structure, Board composition and Board evaluation.

### Dual structure

In 2005 three proposals were put forward to change Unilever's constitutional arrangements. All were approved by shareholders at the two Annual General Meetings (AGMs) which were held in May 2006.

As a result, we now have greater flexibility to allocate assets between the two parent companies. In addition, there is full transparency between our share prices since there is one-to-one equivalence in their economic interests in the Unilever Group. Finally, our shareholders have the right to nominate candidates to the Boards.

All of this means we have simplified the relationship between our NV and PLC shares, and strengthened several elements of Unilever's corporate governance. At the same time, the Group continues to benefit from its dual structure.

I would like to remind you that the dual structure refers to the legal framework of Unilever. When it comes to the day-to-day management of Unilever's operations the Group is run on the principle of one operating unit and as such the vast majority of employees are, quite properly, unaware of our legal structure.

### Board succession

During 2006 we continued our search to identify candidates for the Boards who would strengthen its expertise and independence. We are very pleased that Genevieve Berger, Narayana Murthy and Hixonia Nyasulu have expressed their willingness to serve on Unilever's Boards; they will be proposed as Non-Executive Directors at the AGMs in May 2007. Genevieve is a Professor of Biophysics and Medical Imaging at Paris University VI and Chairman of the Advisory Board "Health" for the EU Commission for Research. Narayana is co-founder and Chairman of Infosys Technologies Limited. Hixonia is a Non-Executive Director of Sasol Limited and Anglo Platinum and an Advisory Board Member of JP Morgan South Africa. Their appointments will bring further diversity of background and experience to the Boards and we hope that their nominations will be approved by shareholders.

In addition to welcoming these new members to the Boards, we will be saying goodbye to two of the Directors. First, Rudy Markham. Rudy retires after 39 years of distinguished service with Unilever during which time he has successfully occupied a number of senior executive positions. In 1998 he joined the Boards as Strategy and Technology Director, being appointed Financial Director, now Chief Financial Officer, in 2000. On behalf of the Boards I would like to acknowledge his outstanding career and thank him for the significant contribution he has made to our business throughout that time.

Secondly, Lynda Chalker. Lynda retires as a Non-Executive Director after three terms of three years. She has served as Chair of the Corporate Responsibility and Reputation Committee and throughout her time on the Boards we have benefited from her wise counsel and expert knowledge of developing markets.

On your behalf I thank them both for their service.

In addition, the Nomination Committee led by its Chairman David Simon was given the task of searching for a new Chairman as my successor. We are delighted that Michael Treschow has agreed to succeed me as the first independent Chairman of the Boards of Unilever, subject to his appointment as a Non-Executive Director at the AGMs. Michael is a businessman with a formidable track record gained in some of the world's most competitive consumer industries. He has also proved himself an effective Chairman at both Ericsson and Electrolux, and we trust that his appointment will be approved by shareholders.

When these changes are implemented we will have finalised a complete restructuring of our corporate governance arrangements. This change process was initiated in 2004 and it involved the elimination of Advisory Directors, the phase-out of the dual leadership system, the adoption of a one-tier board structure and the appointment of a fully independent Chairman of the Boards. We feel we will have Boards in place which will measure favourably against the highest corporate governance standards.

#### **Board evaluation**

During 2006 a full and thorough evaluation of how the Boards functioned was conducted by a specialist outside firm. Taken as a whole, the outcome was positive as it confirmed that the changes we have made since 2004, the move from Advisory Directors to Non-Executive Directors and the splitting of the Chairman and Chief Executive roles, have strengthened our governance structure. In addition, the amount of time spent on Unilever Board matters compares very favourably with general practice.

These conclusions support our belief that all the alterations to our governance structure and proceedings have been beneficial to Unilever overall and that we meet the very high standards expected of a group of our size and complexity.

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**Report of the Directors**

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## Chairman's report (continued)

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### Conclusion

I realise I am writing to you for the last time after 35 years of service with Unilever.

The changes within Unilever over this period have been truly transformational both in terms of product portfolio and geographical spread. Our turnover in Western Europe has declined from 65% to 34% of Unilever sales. The expansion has been picked up by the developing countries which represent over 40% of our turnover.

Moreover, 35 years ago 25% of Unilever sales were outside the fast moving consumer goods sector. Spearheaded by disposals and acquisitions such as Chesebrough Pond's and Bestfoods, Unilever turnover is now focused on around 400 brands, all in consumer goods categories. Especially spectacular has been the rise of turnover of our personal care business from 4% of sales in 1972 to 28% of sales today.

Perhaps the most impressive change since the early seventies is the step-up of the quality and strength of our brand portfolio. We have come from a position of no brand achieving a turnover of over €1 billion, to today's position of twelve billion-euro brands, representing around 55% of Unilever's turnover.

All these changes together with the underpinning of our Vitality mission position our company favourably for future growth.

What has not changed over the last four decades is the way Unilever conducts its business: integrity first and foremost in all things we undertake together with a keen interest for the communities and environment in which we work.

It has been a privilege to serve in Unilever over the last 35 years.

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**Report of the Directors**  
(continued)

## About Unilever

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### 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 positions and on high growth spaces, especially in personal care, in developing and emerging markets and in Vitality. While the focus is on developing the business organically, acquisitions and disposals also have a role to play in accelerating the portfolio development.

To execute this strategy the business has been reorganised to simplify the management structure and to improve capabilities in marketing, customer management, and research and development. The result is better allocation of resources, better execution, faster decision-making and greater focus on efficiency. The new organisation, augmented by the successful 'One Unilever' project, allows us to leverage our scale both globally and locally.

Unilever's long-term ambition is to achieve top-third total shareholder return and our targets reflect this. Over the period 2005-2010 we target ungeared free cash flow of €25-30 billion. Disposals made in the past two years, with no significant acquisitions to date, have reduced the cash generation over the period by just over €1 billion. Return on invested capital is targeted to increase over the 2004 base of 11%. 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 of 0.5 to 1 percent of sales.

### Key performance indicators

Underlying sales growth, operating margin, ungeared free cash flow, return on invested capital and total shareholder return are key performance indicators for the Group.

In the Operating review on pages 13 to 22 and the Financial review on pages 23 to 32 we explain why we regard these as important indicators of our progress against our strategic objectives, describe how we calculate them, and report on the results of these measures for the current and preceding years.

### Regions

Three regional teams are responsible for managing Unilever's business in the regions, and for market operations. They are primarily responsible for winning with customers and deploying brand events and innovations effectively. The regions are fully accountable for the profit performance of our business, as well as growth, short-term cash flows and the in-year development of market shares.

The Europe region includes our operations in Western Europe and in Central and Eastern Europe, and in 2006 accounted for approximately 38% of our business on a turnover basis. The Americas region includes our operations in North America and Latin America and represented around 35% of our business. Our Asia Africa region accounted for 27% of our business, and includes our operations in the Middle East, Turkey, Africa, Asia and Australasia.

### Categories

Two category teams cover Foods and Home and Personal Care, and are responsible for each category and the brands therein. They are fully responsible for brand development and innovation, including research and development. Categories also lead the strategic elements of the supply chain and are accountable for long-term value creation in the business, as measured by market share development, category growth, innovation metrics and brand health.

For more information about our two categories and their innovation activities during 2006 please refer to pages 20 to 22.

### **Functions**

Our five support functions (Finance, HR, IT, Communications and Legal) provide value-adding business partnership, strategic support and competitive services to the whole business (especially the regional and category organisations). They are organised around the model of business partners, shared services and expertise teams.

### **Operating environment**

#### **Competition**

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

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

- by continually developing new and improved products;
- by sharing our innovations and concepts with our businesses all around the world; and
- by striving to lower the cost of our sourcing, manufacturing and distribution processes while still maintaining, and improving, the quality of our products.

We support efforts to create a more open competitive environment through the liberalisation of international trade. We support the full implementation of the Single European Market and inclusion in the European Union of other countries that fulfil the agreed criteria for membership.

#### **Distribution**

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

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## Report of the Directors

(continued)

## About Unilever (continued)

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### Exports

We sell our products in nearly all countries throughout the world and manufacture in many of them. We export a wide range of products to countries where we do not make them. For example, inside the European Union we make many of our products in only a few member countries, for sale in all of them. The chosen manufacturing configuration 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 2006 or the two preceding years.

For more information about related party transactions please refer also to note 30 on page 122.

### Resources

#### Our brands – Foods

Our Foods category manages brands in two main groups:

**Savoury, dressings and spreads** includes sales of soups, bouillons, sauces, snacks, mayonnaise, salad dressings, olive oil, margarines, spreads and cooking products such as liquid margarines and the remaining frozen foods businesses. Among the leading brands are *Knorr*, *Hellmann's*, *Calvé*, *Wish-Bone*, *Amora*, *Bertolli*, our healthy heart *Becel* and *Flora* ranges, and our family brands including *Rama*, *Blue Band* and *Country Crock*.

**Ice cream and beverages** includes our sales of ice cream under the international *Heart* brand, including *Corretto*, *Magnum*, *Carte d'Or* and *Solero*, and also *Ben & Jerry's*, *Breyers*, *Klondike* and *Popsicle*. It also includes sales of tea, where our brands include *Lipton* and *Brooke Bond*, weight management products, principally *Slim•Fast*, and nutritionally enhanced staples sold in developing markets, including our *Annapurna* and *AdeS* ranges.

Within these groups, our Unilever *Foodsolutions* business is a global food service business providing solutions for professional chefs and caterers. Its results are reported within those for the groups above.

#### Our brands – Home and Personal Care

Our Home and Personal Care category manages brands in two main groups:

In **Personal Care**, six global brands are the core of our business in the deodorants, skin cleansing, daily hair care and mass-market skin care categories – *Axe*, *Dove*, *Lux*, *Pond's*, *Rexona* and *Sunsilk*. Other important brands include *Suave*, *Clear*, *Lifebuoy* and *Vaseline*, together with *Signal* and *Close Up* in oral care.

Our **Home Care** ranges include a series of laundry products, including tablets as well as traditional powders and liquids for washing by hand or machine. Tailored products including soap bars are available for lower-income consumers. Our brands include *Comfort*, *Omo*, *Radiant*, *Skip*, *Snuggle* and *Surf*. Our household care products are led by our *Cif* and *Domestos* brands.

### **Corporate venture activities**

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

- Unilever Technology Ventures, which invests in technology funds and start-up companies;
- Unilever Ventures, which is an early-stage business development fund for businesses from both inside and outside Unilever; and
- Langholm Capital, which is an independent fund investing in private European companies with above-average longer-term growth prospects.

### **Our employees**

We set great store by our people. No matter what their level or individual responsibilities, they all make an important contribution to our success.

The following examples outline some of the initiatives we have instigated to help our people develop their skills, broaden their experience and wherever they are in the world improve their chances of progressing within Unilever.

Talented people are given opportunities to develop at every level. However, our new senior leadership programme, launched in 2006, is aimed at those with potential to reach the top roles. The programme includes a bespoke business simulation, based on one of our skincare businesses. It provides an exceptional opportunity for senior managers rapidly to gain the breadth and depth of business and leadership understanding required for our business's most demanding roles.

We are always looking at new ways of working to drive business effectiveness. One example is in the area of business travel which can be time-consuming and tiring. Our current videoconferencing equipment is being upgraded to state-of-the-art facilities at five major Unilever sites worldwide and is expected to enable us to reduce travel. These facilities mean that complete teams can communicate effectively with one another across continents and time zones without anyone leaving the office – making better use of everyone's time and energy, and limiting time spent away from home.

During 2006, as part of a graduate recruitment programme, Unilever Netherlands set an unusual work-experience challenge. Students spent two weeks in rural India on Hindustan Lever's Project Shakti, helping women in remote areas who have set up small businesses as direct-to-consumer retailers and measuring the project's success. By providing local women with training and business skills, Shakti creates a new distribution channel for our products while providing the women with opportunities to improve their income, standard of living and place in the community. It also helped open Dutch students' eyes to the wide variety of activities that take place across the Unilever world.

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**Report of the Directors**  
(continued)

## About Unilever (continued)

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Unilever employees whose skills are honed in developing and emerging (D&E) markets are reaching senior positions both at home and abroad, and 20% of our top 123 managers are from D&E regions. Andina/Central America, Argentina, Brazil, India, Indonesia, Japan, Mexico, Pakistan, the Philippines and South Africa all have either local nationals as their chairmen, or chairmen from within the D&E regions. Furthermore, 39% of all individuals on international secondment are from developing or emerging countries.

Hindustan Lever, Unilever's business in India, has a Personal Vitality Programme which assesses individual employees' body mass, blood pressure, cholesterol and blood sugar levels. And assistance is provided to those who have nutrition or health issues, or exercise requirements. Although voluntary, over 10 000 employees have taken part so far and each will be followed up annually to ensure they have every opportunity to improve their health.

Strong, effective leadership is at the heart of our transformation programme and is the key to sustaining high levels of business performance. Our new global Standards of Leadership framework clearly sets out the behaviours needed to align 'hearts and minds', inspire people to achieve excellence in strategy execution and develop the skills and capabilities we need for the future.

Maintaining health and fitness can be challenging for senior managers in demanding roles. During 2006, several senior leadership teams – including the Unilever Executive – took part in a well-being programme. Each received their own individual health and Vitality check, which was then used to design a personal plan to enhance their habits and practices in physical activity, nutrition and mental resilience. In 2007 a further ten leadership teams are expected to participate in a well-being programme.

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

Year end in thousands	2006	2005	2004	2003	2002
Europe	44	49	52	55	60
The Americas	45	47	47	50	53
Asia Africa	90	110	124	129	134
<b>Total</b>	<b>179</b>	206	223	234	247

Of the overall reduction in numbers during 2006 of 27 000, the sale of a plantations business in India accounted for a reduction of 18 000. A further 3 000 resulted from the sale of the majority of our European frozen foods businesses, with the remainder of the reduction arising from other business disposals and a range of restructuring projects.

Included in the total reported numbers for 2006 were 26 000 part-time or seasonal employees (2005: 33 000).

### Diversity

Diversity in Unilever is about inclusion, embracing differences, creating possibilities and growing together for better business performance. We embrace diversity in our workforce; this means giving full and fair consideration to all applicants and continuing development to all employees, regardless of gender, nationality, race, creed, disability, style or sexuality. Diversity plays a vital role in ensuring we understand consumers' needs.



The commitment to diversity is set right at the top of our business. An important legacy of our Chairman, Antony Burgmans, is that he is leaving the most diverse Unilever Board in our history. Going forward, Group Chief Executive Patrick Cescau will lead our global diversity board that will drive the diversity strategy within the business.

Unilever is one of the world's most culturally diverse companies with 24 different nationalities represented among our top 123 managers worldwide.

In 2006 we focused on practical diversity initiatives. These included the quarterly measurement and tracking of diversity against objectives and the integration of our diversity agenda into our people processes.

Gender continues to be the primary focus of our diversity strategy, as well as a way of improving business performance. Between 2000 and 2006, we have increased our female management profile from 25% to 33% and most of our senior leadership teams, such as Foods, Europe, The Americas and human resources include female leaders.

### **Information technology**

Unilever IT is a global function headed by the Global Chief Information Officer with a strategy to deliver simpler, more cost effective IT solutions to support the business. Common technology framework and standards for architecture, key technologies, process, information and services, allow Unilever to leverage its scale. For example, this approach is supporting the integration of our businesses in each country under the "One Unilever" programme, as well as the setting up of regional shared service centres for "back-office" operations, which in some cases are being outsourced.

The development of "destination IT architecture" is another example of simplifying and leveraging scale. The destination IT architecture is essentially a long-term view on the IT application and technology landscape for Unilever. This also fundamentally changes the way IT works with the business.

Unilever partners with a few major suppliers to develop the minimum number of non-overlapping 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.

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## Report of the Directors

(continued)

## About Unilever (continued)

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### 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 to the schedule of principal group companies and non-current investments on page 147 and 148 and details of property, plant and equipment in note 10 on page 90.

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.

### Preference shares

In 1999, NV issued 211 473 785 €0.05 (Fl.0.10) cumulative preference shares, with a notional value of €6.58 (Fl.14.50), as an alternative to a cash dividend. In 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. A number of holders of preference shares raised objections to the conversion, claiming that NV had created legitimate expectations that it would buy the preference shares back for an amount of €6.58, the amount of the cash dividend in 1999. A group of holders of preference shares requested the Enterprise Chamber of the Amsterdam Court of Appeal to conduct an inquiry into the course of affairs surrounding the preference shares. On 21 December 2004, the Enterprise Chamber ordered an inquiry; an additional request to forbid NV to convert the preference shares was rejected.

On 15 February 2005 NV converted part of the notional value of the preference shares into NV ordinary shares. The value, which the holders of the preference shares received upon conversion, was €4.55 for each preference share.

As a consequence of the conversion, the notional value of the preference shares was reduced to €0.05 (Fl.0.10) and pursuant to the Articles of Association of NV the preference shares could be cancelled upon repayment of this remaining notional value. On 4 May 2005, the Enterprise Chamber of the Amsterdam Court of Appeal rejected another request of a group of holders of preference shares who had bought their preference shares after 24 March 2004, which was aimed to prohibit NV from cancelling the preference shares. On 10 May 2005, NV's Annual General Meeting decided to cancel the preference shares and cancellation took effect on 13 July 2005.

On 8 September 2006, the investigators published a report. Criticisms made in this report related to how Unilever had communicated with the preference shareholders but the criticisms did not extend to NV's decision to convert part of the notional value of the preference shares into ordinary shares.

On 8 November 2006 NV announced that it had agreed a settlement with the main parties in the legal dispute over the preference shares. The settlement includes all former preference shareholders who had initiated the inquiry procedure. Unilever has provided €300 million in respect of the settlement. Further information is given in note 19 on page 102.

The group of former preference shareholders who had bought their preference shares after 24 March 2004 and who are not entitled to the settlement, have requested the Enterprise Chamber to rule that the report of the investigators demonstrates mismanagement of NV. They have requested an additional inquiry into the policy and affairs of NV in the period after 24 March 2004. This group of former preference shareholders has also 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 Enterprise Chamber and the Rotterdam District Court have not yet decided on these claims.

On the grounds of NV's alleged attributable failure to buy back the preference shares at €6.58, they also claim damages in the amount of approximately €81 million, which amount is based on the difference between €6.58 and €4.55, the value holders of the preference shares received upon conversion for each preference share. These claims will be vigorously contested.

#### **Other**

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 concerns ice cream distribution in Europe, notably the issues of outlet and cabinet exclusivity. In October 2003, the Court of First Instance in Luxembourg (CFI) ruled in favour of the European Commission's decision banning Unilever's Irish ice cream business, HB Ice Cream, from seeking freezer cabinet exclusivity for their products in the Irish market. HB Ice Cream submitted an appeal to the European Court of Justice in Luxembourg (ECJ) against the decision of the CFI. On 28 September 2006 the ECJ dismissed the appeal. Following the CFI decision freezer exclusivity in Ireland has not been enforceable from October 2003 onwards, in outlets which only have HB freezers. From 2003 Unilever Ireland has complied with the Commission decision. With the ECJ judgement this position has now become final. Similar consequences may apply in specific European markets with equivalent structures to those described in the Commission and CFI decisions. There is a

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**Report of the Directors**  
(continued)

## About Unilever (continued)

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possibility of claims for damages, in the event of which Unilever will defend its position vigorously. The case between HB Ice Cream and Masterfoods, which has been before the Irish Courts since 1990 and which had been deferred pending the final determination of the appeal against the Commission decision, has been reopened at the request of Masterfoods. It is noted that in the UK since 2000, when cabinet exclusivity was effectively abandoned following undertakings given by Unilever to the UK competition authorities, there has not been any material change in Unilever's relevant market share.

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 Faberge France, both subsidiaries of the Unilever Group. To date, no statement of objections has been lodged against either Unilever France or Lever Faberge France and accordingly the potential financial implications, if any, of this investigation for such companies cannot yet be assessed.

On 8 March 2007 representatives from the Portuguese Competition Authority carried out an inspection at the offices of Unilever Jeronimo Martins and such company's ice-cream factory in Portugal. The inspection was in relation to impulse ice-cream in Portugal. It is the policy of the Unilever Group to comply fully with the legal procedures involved in such inspections and any subsequent enquiry. It should be noted that no written statement of objections or other allegations has been received by Unilever Jeronimo Martins in respect of this matter and accordingly the potential financial implications, if any, of this inspection for such company cannot yet be assessed.

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 oral-care market in Germany. It is the policy of the Unilever Group to comply fully with the legal procedures involved in such inspections and any subsequent enquiry. It should be noted that no written statement of objections or other allegations has been received by Unilever Deutschland GmbH in respect of this matter and accordingly the potential financial implications, if any, of this inspection for such company cannot yet be assessed.

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 reductions as appropriate to the amount provided.

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. This view is supported by the opinion of outside counsel but there can be no guarantee of success on the merits.

### **Corporate responsibility**

We seek to manage and grow our business around the world in a responsible and sustainable way. The values and standards by which we expect to be judged are set out in our Code of Business Principles.

We aim to share these standards and values with our suppliers and contractors through our Business Partner Code, which sets out standards on ten key points of business integrity, labour standards, consumer safety and the environment.

The long-term success of our business is intimately linked with the vitality of the environment and communities in which we operate. Each year we report on our contribution to sustainable development. This is available online at the Environment & Society section of [www.unilever.com](http://www.unilever.com). Our report describes how we are working in partnership to address issues such as poor nutrition and hygiene, how we continue to work on reducing our environmental impacts, and our contributions of €78 million to communities. The strength of our commitment to sustainable development is reflected in our leadership of the food industry category of the Dow Jones Sustainability Indexes for the eighth year running.

In our Operating review on pages 13 to 22 we give a glimpse of the ways in which our brands are addressing consumers' social and environmental concerns.

### **Risk management**

The following discussion about 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.

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 34.

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. In this context the following specific risks have been identified as areas of focus in 2007.

### **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 to ensure that we deliver profitable sales growth. 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.

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## Report of the Directors

(continued)

### About Unilever (continued)

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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.

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 and converging regional processes and systems, and requires continuing close management attention in 2007. Building on the experiences of 2006, we will continue to manage the risks in this area diligently and ensure that there are clear action plans to mitigate them. 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, evidenced by the senior leadership programme that was launched in 2006.

#### **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 100 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 40% 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 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**

Prices of raw materials and commodities increased significantly throughout 2006, adversely impacting margin where we were unable to pass on increased costs. To mitigate such risks, and where appropriate, we purchase forward contracts for raw materials and commodities, almost always for physical delivery. 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 more than 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;
- 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)

## Group Chief Executive

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We are grateful to those shareholders and other stakeholders who responded to our invitation on the Unilever website to post questions for Patrick Cescau. A number of their questions are reflected in the Q&A below.

### **How do you look back on 2006?**

We are on a journey to restore Unilever's competitiveness and growth potential. That journey is ongoing but I think we can look back on 2006 with some pride and satisfaction.

The improving top-line performance recorded during the year suggests that the wide-ranging changes we made to the business in 2004 and 2005 – both to our organisation and to our strategy – were the right ones for Unilever. They are putting us firmly on the road to sustained growth.

I also believe that we will look back on 2006 as the year when the business regained its confidence and self-belief after the setbacks of recent years. There is a new energy and optimism flowing through the Group.

### **What pleased you most about the Group's performance last year?**

The quality and the broad-based nature of our growth. All parts of the business – all regions and all categories – contributed to healthy underlying sales growth of 3.8%. Our cash flow position in 2006 was also strong, and it was a sign of the growing financial health of the business that we were able to return an additional €750 million to shareholders in the form of a one-off dividend.

Our performance was particularly strong in those areas we had identified as growth priorities and where we had invested accordingly – for example, in developing and emerging markets (D&E) and in our personal care business, which grew by an impressive 6.3%. This is particularly pleasing and encouraging because it suggests the strategy we are following – investing heavily in order to obtain leadership positions in high growth areas – is the right one to take us forward.

I would also highlight our performance in Europe, which has been a tough market for us in recent years. Last year we re-doubled our efforts and this was rewarded in steadily improving results and a return to modest growth levels.

### **Were there any areas where you had hoped to make greater progress during 2006?**

Restoring Unilever's competitiveness has involved making a lot of changes to the business. In order to deliver sustained growth and create value for shareholders, we have reformed our governance, overhauled our organisation and put in place a whole new strategy to take the business forward.

Inevitably, changes on this scale are going to proceed at differing speeds. Overall I am satisfied with where we are at this stage in the transformation of the Group. Equally, I know that we have some challenges ahead, in particular delivering more profitable growth. While our operating margin in 2006 was satisfactory, we must strive for a better performance in the year ahead. We weren't helped in 2006 by higher than expected costs resulting from sharp increases in commodity prices, but that has merely served to highlight the importance of the measures we are taking to simplify our business and to squeeze out unnecessary costs.

### **Since becoming Group Chief Executive you have embarked on a significant programme of organisational change and restructuring. Do you feel that you now have the right organisation in place to drive Unilever's growth?**

It is the nature of things today that you have to keep the workings of any organisation under constant review. As a business, that is the only way to ensure you are best serving the interests of shareholders and other stakeholders.



But yes, I do believe we are well advanced with the organisational changes needed to support the next stage of our development.

Indeed, we are already deriving significant benefits from the changes we have made, not least from our more streamlined governance and management structures. Furthermore, our "One Unilever" programme continues to deliver both greater clarity and significant savings as it is steadily rolled out across the whole business. These are all helping to deliver the speed and the scale we need to compete more effectively and could be seen reflected last year in more global brand platforms, the faster roll-out of products and the launch of bigger and better innovations.

But we are not complacent. We know that we will have to quicken the pace of change even further in the year ahead if we are to meet our goal of moving from competing to winning in the marketplace.

**You have put the concept of "Vitality" at the heart of the Group's mission. What evidence is there that it has had a direct impact on performance in 2006?**

Vitality is about directing our business towards the increasing desire and emphasis on the part of consumers the world over to feel good, look good and to get more out of life. As a business whose brands deliver health, hygiene and nutritional benefits, we are perhaps uniquely well placed to respond to these evolving consumer trends.

To that end, Vitality is already directly impacting our performance. It is a key element in guiding us to those high growth spaces we now regard as critical to Unilever's long-term success. It is also perhaps the single biggest factor driving our innovation programme. The successful launch in the UK last year of *AdeZ* – a soya-based fruit drink – is a good example, one that can be traced directly to our Vitality mission and our determination to continue developing products with proven nutritional benefits.

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**Report of the Directors**

(continued)

## Group Chief Executive (continued)

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### **What did you mean when you said last year that the successful brands of the future would be those that not only satisfied consumers' functional needs, but also addressed their concerns as citizens?**

We have always believed that the health and prosperity of our business is linked to the health of the communities we serve, which is why we contributed €78 million to communities last year. However, we also know that consumers increasingly expect companies and brands to play a role in responding to their concerns as citizens around issues such as climate change, or helping to address poor nutrition and disease in some of the most impoverished parts of the world.

Working in partnership with governments, international agencies and NGOs is often the most effective way to help address these major global threats, and Unilever has already embarked on a number of such partnerships, including for example with UNICEF and with the United Nations World Food Programme.

However, individual brands can and do make a difference. The remarkable success of *Surf Excel* in India, for example, which is helping to reduce the amount of water used in laundry in some of the country's most water-stressed regions, is a good case in point. So is our success in combating iodine deficiency in parts of Africa through our iodised salt brand *Annapurna*. These and other initiatives demonstrate that it is possible to do good and do well, and they have convinced us that this is the right direction for Unilever to take.

### **How do you intend to position Unilever so that it can benefit most from the huge rise in markets like China and India?**

There is no doubt that the most significant growth opportunities for Unilever lie in the D&E economies, and not just in China and India. Already, D&E markets account for more than 40% of Unilever's turnover and that proportion is set to go on rising.

Our history in these countries, going back to the very origins of the Group, combined with our existing scale and reach across much of the developing world, means we are very well positioned to benefit from the shifts taking place in the global economy. Our performance in 2006 certainly gives grounds for optimism. Last year, we grew by nearly 8% in D&E markets. That included some spectacular performances, not least in China where growth of nearly 30% was powered directly by the changes we are making to the business.

### **Unilever's first independent Non-Executive Chairman takes up position in May. What are your expectations?**

I think it marks a significant stage in the life of the Group. It is the latest in a series of important governance reforms that are bringing us into line with best corporate practice. At the personal level, I am very much looking forward to working with Michael Treschow, who brings a wealth of relevant experience to bear. We are all excited by his appointment. At the same time, I would like to thank Antony Burgmans, our current Chairman, for his significant contribution to Unilever over the last 35 years. I would also like to thank two members of the Unilever Executive who have also made a significant contribution to Unilever over a long period who will leave us in 2007 – Rudy Markham and John Rice.

### **What are your ambitions for Unilever as you look ahead to 2007 and beyond and what do you think will present the biggest challenges?**

We have made clear that our long-term ambition is to be among the top third of our peer group in terms of total shareholder return (TSR). That is a stretching but achievable goal. In 2007 our aim is to continue delivering sustained underlying sales growth while at the same time improving our operating margin. We are all focused on that task.

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One of the other key challenges we face in 2007 will be to ensure that we obtain an even greater return on the significant investment we have made in upgrading our skills and capabilities in those areas identified as critical to the long-term success of the business — marketing, customer management, and research and development. We have made enormous strides in each of these areas in recent years, but really have the opportunity now in 2007 to accelerate the level of performance.

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**Report of the Directors**  
(continued)

## Operating review by region

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### **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 either IFRS or US GAAP. It should not be considered in isolation from, or as a substitute for, financial information presented in compliance with either IFRS or US GAAP. This measure as reported by us may not be comparable with similarly titled measures reported by other companies.

The reconciliation of USG to turnover for each of our reporting regions is given in the following section, and for the Group in total on page 25.

The reporting in this section is based on results for continuing operations. Following the disposal of the majority of our European frozen foods businesses during 2006, the operations which we classify under this heading are different from those which were included as continuing operations in our Report and Accounts 2005.

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## Report of the Directors (continued)

### Operating review by region Europe

#### Europe

**Turnover** (€ million)  
Continuing operations

**Operating profit** (€ million)  
Continuing operations

**Operating margin** (%)  
Continuing operations

	€ million	€ million	€ million	Year on year change at current exchange rates		Year on year change at constant exchange rates	
	2006	2005	2004	2006 vs 2005	2005 vs 2004	2006 vs 2005	2005 vs 2004
Continuing operations at current rates of exchange							
Turnover	<b>15 000</b>	14 940	15 252	<b>0.4%</b>	(2.0)%	<b>0.2%</b>	(2.4)%
Operating profit	<b>1 903</b>	2 064	2 045	<b>(7.7)%</b>	0.8%	<b>(7.9)%</b>	0.6%
Operating margin	<b>12.7%</b>	13.8%	13.4%				
Restructuring, business disposals, impairment charges and one-time gain on UK pension plans included in operating margin	<b>(1.4)%</b>	(0.9)%	(2.7)%				

	2006 vs 2005	2005 vs 2004
Turnover and underlying sales growth		
Underlying sales growth (%)	<b>1.0</b>	(0.4)
Effect of acquisitions (%)	<b>0.1</b>	0.0
Effect of disposals (%)	<b>(0.9)</b>	(2.1)
Effect of exchange rates (%)	<b>0.2</b>	0.4
Turnover growth (%)	<b>0.4</b>	(2.0)

#### 2006 compared with 2005

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

France remained a difficult market with sales lower in spreads, laundry and hair care. New management is now 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

discussed below at constant exchange rates.

We have done much work in Europe to make our business more competitive. In particular there has been a single-minded drive to improve the value we offer consumers, plus a strong innovation programme targeted at the core of our portfolio. Simultaneously, the implementation of our "One Unilever" programme, the building of capabilities and changes in leadership are all resulting in better execution.

These differences, combined with improved consumer demand, returned the region to modest growth. Underlying sales grew by 1% in the year – entirely from volume. Market shares were broadly stable with gains in ice cream, soups, deodorants and body care. However, there were losses in laundry, hair care and tea.

The UK, our largest European business, returned to growth in the year with good results across most Foods and personal care ranges. Although laundry sales declined, there have been promising signs of progress in recent market shares 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*.

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 have 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 and is being rapidly rolled out in 2007. Throughout 2007 cause-related promotional activities associated with these brands will support the United Nations World Food Programme, improving awareness of child hunger and raising funds to alleviate it.

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

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**Report of the  
Directors (continued)**

## Operating review by region Europe (continued)

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### 2006 compared with 2005 (continued)

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

The operating margin, at 12.7%, was 1.1 percentage points lower than a year ago, 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.

### 2005 compared with 2004

Turnover at current rates of exchange fell by 2.0%, mainly due to disposals, and including a positive impact from currency movements of 0.4%. Operating profit at current rates of exchange rose by 0.8%, including a favourable effect of currency movements 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.

Our priority in Europe was to regain momentum and improve competitiveness. The focus was on enhancing the value to consumers of our products through keener pricing, improved quality and more and better innovation.

Marketing support was raised to a more competitive level with additional spend deployed against our best opportunities, and the organisation was streamlined.

We made progress during the year. Volume was slightly positive, but investment in pricing meant that underlying sales declined by 0.4% in the year.

Central and Eastern Europe performed well in buoyant markets, notably in Russia which was ahead by nearly 20%.

Western Europe was challenging, with continued weak consumer demand. Our businesses grew in the Netherlands and Spain, but declined in France, Germany and the UK.

In Foods, we have held overall market share through the course of the year, with growth across all key categories apart from frozen foods.

In Home and Personal Care we had a disappointing year and we have lost market share, particularly in the UK.

New product launches in 2005 included *Knorr Vie* mini shots, extensions of the *Becel/Flora pro-activ* heart health range, soups fortified with vitamins and low-fat soups.

We introduced a *Rexona Sport* variant in deodorants, *Axe* shower gel and *Sunsilk* hair styling products. We further improved our home care product range with launches that address specific consumer needs, such as □no-need-to-pre-treat□ laundry detergents, *Sun 4-in-1* dishwasher and *Domestos* sink and drain unblocker.

The operating margin, at 13.8%, was 0.4 percentage points higher than in 2004. Increased advertising and promotions and pricing investment together with higher input costs were partly offset by productivity gains. Net restructuring, disposal and impairment costs, at 0.9% were 1.8 percentage points lower than in 2004.

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## Report of the Directors (continued)

### Operating review by region The Americas

#### The Americas

**Turnover** (€ million)  
Continuing operations

**Operating profit** (€ million)  
Continuing operations

**Operating margin** (%)  
Continuing operations

	€ million	€ million	€ million	Year on year change at current exchange rates		Year on year change at constant exchange rates	
	2006	2005	2004	2006 vs 2005	2005 vs 2004	2006 vs 2005	2005 vs 2004
<b>Continuing operations at current rates of exchange</b>							
Turnover	<b>13 779</b>	13 179	12 296	<b>4.6%</b>	7.2%	<b>3.1%</b>	3.4%
Operating profit	<b>2 178</b>	1 719	896	<b>26.7%</b>	91.9%	<b>25.0%</b>	83.6%
Operating margin	<b>15.8%</b>	13.0%	7.3%				
Restructuring, business disposals, impairment charges and one-time gain on US healthcare plans included in operating margin	<b>0.0%</b>	(3.4)%	(9.2)%				

	2006 vs 2005	2005 vs 2004
<b>Turnover and underlying sales growth</b>		
Underlying sales growth (%)	<b>3.7</b>	4.1
Effect of acquisitions (%)	<b>0.1</b>	0.0
Effect of disposals (%)	<b>(0.7)</b>	(0.7)
Effect of exchange rates (%)	<b>1.4</b>	3.6
Turnover growth (%)	<b>4.6</b>	7.2

#### 2006 compared with 2005

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

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



rates.

Overall, we have maintained share in the US in markets which are growing at around 3%. Underlying sales growth in the US was 2.4%, partly reflecting the effect of trade de-stocking in personal care brands during the first half of the year and in ice cream in the second half. *Degree*, *Dove* and *Axe* – our three main deodorants brands – all gained share. The launch of *Sunsilk* drove growth in haircare. In laundry we initiated the move to concentrated liquids but have lost further share in conventional detergents.

*Bertolli* frozen meals, Lipton ready-to-drink tea, in our joint venture with Pepsi, and *Slim•Fast* all gained share in the US with the latter making weight loss accessible, affordable and achievable for consumers everywhere. Our share for the year as a whole was also up in ice cream, although sales were down. The sector has been heavily promoted in recent years but in 2006 the level of promotional intensity reduced. As a result, the trade used up stocks and bought less.

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

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 cater 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 *all Small & Mighty* concentrated liquid detergents. These use reduced-size packaging to save water, cardboard and energy use 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.

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**Report of the  
Directors (continued)**

## Operating review by region The Americas (continued)

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### 2006 compared with 2005 (continued)

The operating margin, at 15.8%, was 2.8 percentage points higher than a year ago. 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 last year. Innovation-driven marketing mix, pricing and productivity offset high commodity costs. Advertising and promotions were increased to support major brand launches.

### 2005 compared with 2004

Turnover at current rates of exchange rose by 7.2%, including a positive impact from currency movements of 3.6%. Operating profit at current rates of exchange was 92% higher than in 2004, including a favourable impact from currency movements of 8.3%. The underlying performance of the business after eliminating these exchange translation effects and the impact of disposals is discussed below at constant exchange rates.

Underlying sales grew by 4%, all coming from volume gains, broadly based across the region, underpinned by a successful innovation programme.

Consumer demand in the US showed a sustained recovery. Our sales in the US grew by 3.2%, accelerating through the year, and we gained market share in aggregate.

In Brazil and Mexico, a strong first half was followed by relatively weaker demand in the second half of the year. We grew in line with our markets in Home and Personal Care, but saw some share loss in Foods.

Growth in Personal Care across the region was driven by good consumer response to our initiatives, including Vitality innovation and consistent support. This was particularly evident in the deodorants and personal wash categories, with strong double-digit growth for Axe, now the number one deodorant in the US, and for the Dove and Rexona brands.

Another strong Foods performance in the US was driven by further share gains in ice cream, continued good results from the extension of the *Country Crock* and *Bertolli* brands into new categories, and from *Lipton* ready-to-drink and speciality teas. *Slim•Fast* continued to regain share, but in a much contracted weight management market and sales were well below the previous year.

New launches in the US included the well received *Dove Cool Moisture* range and the extension of *Axe* into male shower gels. In Latin America our brands were also very successful in connecting with younger consumers through *Rexona* [teens] and innovative communication for *Axe*.

In the US we introduced *all Small & Mighty* laundry detergent, offering the convenience of the same cleaning power in a smaller bottle. We invested in communication of our *Omo* laundry brands, under the [Dirt is Good] campaign in southern Latin America.

In Foods, we strengthened the Vitality credentials of our brands in the US with *Promise* heart health spread, *Ragú* organic and support for the anti-oxidant properties of *Lipton* teas. *AdeS* continued to build across Latin America with the distinctive nutrition benefits of [soy with fruit].

The operating margin at current rates of exchange was 13.0%, 5.7 percentage points higher than in 2004. Net charges for restructuring, disposal and impairment were 3.4%, which was 5.8 percentage points lower than in the prior year. Cost savings offset a higher level of advertising and promotions and increased input costs. There were also gains from the sale of an office in the US, in US healthcare plans and from currency effects on capital reductions.



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## Report of the Directors (continued)

### Operating review by region Asia Africa

#### Asia Africa

**Turnover** (€ million)  
Continuing operations

**Operating profit** (€ million)  
Continuing operations

**Operating margin** (%)  
Continuing operations

	€ million	€ million	€ million	Year on year change at current exchange rates		Year on year change at constant exchange rates	
	2006	2005	2004	2006 vs 2005	2005 vs 2004	2006 vs 2005	2005 vs 2004
Continuing operations at current rates of exchange							
Turnover	<b>10 863</b>	10 282	9 620	<b>5.7%</b>	6.9%	<b>6.8%</b>	6.9%
Operating profit	<b>1 327</b>	1 291	1 040	<b>2.8%</b>	24.1%	<b>4.0%</b>	24.7%
Operating margin	<b>12.2%</b>	12.6%	10.8%				
Restructuring, business disposals and impairment charges included in operating margin	<b>(0.3)%</b>	0.0%	(2.9)%				

Turnover and underlying sales growth	2006	2005
	vs 2005	vs 2004
Underlying sales growth (%)	<b>7.7</b>	8.7
Effect of acquisitions (%)	<b>0.0</b>	0.0
Effect of disposals (%)	<b>(0.8)</b>	(1.6)
Effect of exchange rates (%)	<b>(1.1)</b>	0.0
Turnover growth (%)	<b>5.7</b>	6.9

#### 2006 compared with 2005

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.

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 the launch of a competitor's major brand. 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.

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 is driving 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*. Indeed, Unilever Oral Care and *Zhonghua* exhibited at the FDI World Dental Federation Congress in China to showcase "Live, Learn, Laugh" - Unilever's global partnership with the Federation to improve oral health globally.

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 is under way to correct this.

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 is increasingly being driven globally and regionally, rather than locally. The new *Sunsilk* range has been introduced in most major markets and in laundry, the *Dirt is Good* positioning is now in place across the region. *Pond's Age Miracle*, incorporating unique technology and designed specifically for Asian skin, has been launched in four countries. Meanwhile the latest global *Axe/Lynx* fragrance, *Click*, has been 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, has been very well received by mothers and children alike and has proven a real success story in South East Asia. Healthy green tea innovations are being 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.

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Report of the Directors  
(continued)

## Operating review by region Asia Africa (continued)

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### 2006 compared with 2005 (continued)

The operating margin at 12.2% was 0.4 percentage points lower than a year ago. Before the impact of restructuring, disposals and impairments, the operating margin would have been in line with last 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.

### 2005 compared with 2004

Turnover at current rates of exchange rose by 6.9%, with no net impact from currency movements. Operating profit at current rates of exchange was 24% higher than in 2004, after allowing for an adverse impact from currency movements of 0.6%. The underlying performance of the business after eliminating these exchange translation effects and the impact of disposals is discussed below at constant exchange rates.

We capitalised on our leading positions and buoyant consumer demand across most of the region, growing underlying sales by nearly 9%, in a competitive environment, and increasing market share in key battlegrounds.

The growth was broad-based in terms of both categories and geographies. There were notable performances in all major developing and emerging countries, including a strong recovery in India with market share gains, and significant contributions from China, which was up by over 20%, and from South East Asia, South Africa, Turkey and Arabia. Japan returned to growth. After a weak first half, Australia improved in the second half of the year.

Most of the increase came from volume, but price growth gained momentum through the year, as we moved selectively to recover increased commodity costs, especially in home care.

Growth was underpinned by a range of innovations. In skin care in India, *Lux* was strengthened with new soap bars from the global range and the introduction of limited editions. Innovations in *Pond*s included a new *□mud□* range in China.

In haircare we launched *Dove* in Indonesia, a *Sunsilk* summer range across South East Asia, a new variant for *Lux Super Rich* in China and a strengthened *Sunsilk* range across several key markets in Africa and the Middle East.

New formulations for our laundry products include improved whiteness delivery for *Surf* in Indonesia and *Omo* for sensitive skin in Turkey.

In tea, we substantially strengthened the *Brooke Bond* brand in India, while *Lipton* benefited from strong regional innovations, including Earl Grey and Green Tea variants in markets such as Turkey and Arabia.

The operating margin was 12.6%, 1.8 percentage points higher than in 2004. Increased investment in advertising and promotions was partly offset by productivity gains. The remaining difference was due to net restructuring, disposal and impairment charges which were insignificant in 2005 compared with a net charge of 2.9% in 2004.

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**Report of the Directors**  
(continued)

## Operating review □ categories

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We are passionate about developing great global brands and bringing them to market brilliantly. Our Foods and Home and Personal Care teams invest heavily in world-class innovation in order to create global brand ideas that can be rolled out fast. This involves close collaboration between our marketing and research teams, in order to develop breakthrough ideas that meet the changing needs of consumers the world over and fulfil our mission of adding Vitality to life.

### Faster roll-out

Changes to our structure, our □One Unilever□ programme, and better collaboration across our business are helping us get new products to market faster than ever before, and this is having a big impact on brand growth.

Our Dirt is Good positioning including the *Omo* laundry brand now has sales of over €2.5 billion thanks to an alignment of the brand positioning and the rapid roll-out in Asia, where it delivered not only growth, but record market shares.

The new *Rama/Blue Band Idea!* spread was launched in 14 countries within only five months. *Idea!* is a breakthrough innovation with an advanced nutrient mix that supports children□s mental development □ an issue of interest to parents around the globe, both in developed and developing markets.

*Dove Summer Glow* self-tanning lotion was rolled out across four European countries in just a few weeks. It became our most successful personal care innovation in Europe in 2006, gaining sector leadership in most markets through an outstanding team effort involving marketing, supply chain, R&D and customer development.

### Brands with global missions

Throughout 2006 we continued to build brands with global missions and distinctive points of view. Our brands aim to communicate ideas that can be expressed wherever and whenever consumers encounter them, and play an active role in consumers□ lives.

*Axe/Lynx* is one of the best-known examples: the □Axe/Lynx effect□ □ giving guys the edge in the dating game □ underpins all the brand□s campaigns. In 2006 this led to an innovative launch for *Axe Click*, our most successful anti-perspirant variant since *Pulse*. More than 4 million consumers claimed a free hand-held clicker to keep track of the flirtatious looks they attracted as a result of using *Axe Click*, helping drive the brand□s growth in France, Germany and Mexico.

Overall, our deodorants business continues to grow. *Rexona*, with its □won□t let you down□ promise, played a big role in this success, and reached a major milestone by breaking the €1 billion sales barrier.

*Flora/Becel* has been fighting the spread of cardiovascular disease for over 40 years. Since 2003 the brand has joined forces with the World Heart Federation to educate consumers and encourage them to make heart-healthy changes to their diet and lifestyle. *Flora/Becel pro•activ* is the world□s best-selling cholesterol-lowering food brand and in 2006 the Three Week Challenge engaged with consumers in a number of countries to demonstrate to them the product□s effectiveness in lowering cholesterol.

Throughout the year, the *Dove Campaign for Real Beauty* continued to challenge conventional definitions of beauty. The strength of this global mission led to great examples of regional execution. For example, the Evolution advertisement, which exposed some of the tricks of the beauty trade, prompted much media attention in North America and was downloaded from YouTube.com a million times in a two-week period.

The *Dove Self Esteem Fund* works in partnership with schools and organisations such as Girl Scouts of America and the Eating Disorders Association to inspire girls to feel more confident about the way they look. So far, *Dove* self-esteem programmes have reached more than 750 000 young people and sales of *Dove* products are growing rapidly.

*Lipton* is committed to ensuring consumers everywhere are aware of the 'goodness of tea', which is rich in theanine and antioxidants, and has zero calories. Popular all over the world, *Lipton* is the leading global tea brand. In 2006, the brand grew strongly, with leaf tea increasing by around 5% and ready-to-drink products, including sales through our joint venture with Pepsi, up by 25%.

### Research & Development

We currently employ more than 6 000 scientists and product developers in Research & Development (R&D) worldwide, delivering total product solutions for Vitality innovations. In 2006 we spent over €900 million on R&D worldwide.

Following our Science & Technology Review, which looked at all aspects of our R&D activities, we are focusing resources on world-class R&D capabilities, working with clear innovation targets and concentrating on fewer – but bigger – projects, which in many cases involve patented technology. We have also embraced Open Innovation, which has involved creating new working relationships between our R&D teams, suppliers, customers, universities and other institutes worldwide.

Launched in Turkey in December, *Amaze Brainfood* is the result of four years of development, long-term clinical trials and €40 million of research. The range of lunchbox snacks and milk drinks contains one-third of the nutrients children need daily for brain development. It was developed through collaboration between our product development teams and the Unilever Food & Health Research Institute.



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Report of the Directors  
(continued)

## Operating review □ categories (continued)

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In the Asia skincare market, *Pond*□s launched *Age Miracle*, a breakthrough patented innovation containing a plant extract called CLA (conjugated linoleic acid) which helps reduce signs of ageing and yields exceptional results in Asian complexions. *Age Miracle* has gone on sale across Asia, helping build *Pond*□s profile in fast-growing D&E markets.

We also developed *Surf Excel*, which enables consumers to achieve the same laundry cleaning results with less rinsing □ a big advantage in areas where water supply is limited.

Following the theme of □less is more□ in laundry, new technology helped create *all Small & Mighty* concentrated liquid detergents, which were launched in the US. *Small & Mighty* is three times more concentrated than regular detergents, so you get a full load clean with just one-third of the amount. That means fewer packaging materials, cheaper transport and less space needed for storage □ good news for consumers, retailers and the environment. During 2007 *Small & Mighty* will be rolled out across Europe.

In June we submitted a dossier to the UK FSA (Food Standards Agency) to seek regulatory approval under the EC Novel Foods Regulation for the use of Ice Structuring Protein (ISP) in ice cream products in Europe. This breakthrough ISP technology enables a multitude of innovations in ice cream, including significantly healthier options and better quality ice cream.

New *Domestos 5x* contains a molecule called C-TAC which clings to the toilet bowl flush after flush, killing germs up to five times longer than any other bleach or toilet product. As part of its launch, consumers were supplied with a test strip to prove how long it remains effective. *Domestos 5x* is due to be launched in all key countries for the brand.

### Vitality

Our Vitality mission is at the heart of everything we do. It provides clear direction for meeting consumers□ changing needs, and helps us identify major growth opportunities for our Foods and Home and Personal Care brands.

For example, *Knorr Vie* shots pack lots of nutrition into each handy 100ml bottle. These smoothie-style products made from fruit and vegetables provide half the minimum daily intake of fruit and vegetables recommended by the World Health Organization. Launched in 2005, they are now available in 12 European countries □ over 100 million bottles have been sold so far.

*AdeZ* □ our soya-based drink with fruit juices □ delivers 35% of the daily recommended intake of vitamins B6 and C, magnesium and calcium. *AdeZ* provides the goodness of soya in a great tasting range of flavours. *AdeZ* started in South America and, with the launch in the UK, this successful product has now been brought to Europe.

When it comes to hygiene, *Lifebuoy* has already helped around 70 million people in India become more aware of the importance of hand-washing with soap to control the spread of diarrhoeal disease and respiratory infections. The brand has been working in partnership with organisations such as the World Bank and UNICEF to promote hand-washing in other countries and as part of its roll-out in Africa.

In early 2005 we made a commitment to reduce the amount of fats, salt and sugar in our products □ a pledge which won the praise of the European Health Commissioner. Since then we have achieved our original targets: by the end of 2006 we had assessed more than 16 000 products and taken out more than 37 000 tonnes of trans and saturated fats, 3 000 tonnes of sodium and 17 000 tonnes of sugars □ without compromising flavour. This work continues through our ongoing Nutrition Enhancement Programme.

A great example is the nutritional improvements to our ice cream products. We have removed artificial colours and flavours, increased the fruit content and reduced sugar levels in water ices across our kids' portfolio in Western Europe. It is an ongoing improvement process which will extend to more products and regions in the future.

Through our global partnership with the FDI World Dental Federation we are helping to improve oral health around the world with practical, sustainable community programmes. To support these initiatives we have developed a low-cost toothbrush, the *Pepsodent Fighter*, which retails at a price equivalent to just €0.20 and is proving a great success in India and Indonesia.

Meanwhile our Choices programme is helping busy shoppers make quick purchasing decisions for healthier eating. The front-of-pack stamp helps identify products which are in line with international recommendations for trans fats, saturated fats, salt and sugar. The programme has been launched in the Netherlands, Belgium and the US, and is now being rolled out globally to a total of 40 countries. We are also encouraging its adoption more widely in the foods industry.

### **Innovations in 2006**

The following are some examples of our brand innovations and similar activities in 2006.

*Lipton*, the world's biggest tea brand, is creating drinks that help people live healthier lives. The brand has been rolling out a communication programme to inform consumers of its antioxidant health benefits and is influencing the wider tea industry with its commitments to sustainability – for example, sustainable farming practices – and education and health. In 2006 Unilever Tea Kenya won a Global Business Coalition on HIV/AIDS award for its work on the education, prevention and treatment of HIV/AIDS in the workplace and beyond. The brand has shown consistent high growth over the past few years.

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**Report of the Directors**  
(continued)

## Operating review □ categories (continued)

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*Dove Summer Glow* self-tanning lotion keeps a body beautiful all year round. A great example of how a strong global platform can help a brand extend into new categories, *Dove Summer Glow* was launched in the US and rolled out in four European countries in a matter of weeks. Its advertising continued to target women who, through earlier campaigns, already know that *Dove* is committed to real beauty for real women. *Dove Summer Glow* helps them feel good about their skin, whatever the weather.

The healthy-heart foods market is growing fast. And backed by our Goodness of Margarine campaign, *Flora/Becel* continues to lead the way. Unilever has been a partner of the World Heart Federation since 2003, and works closely with them to increase awareness of cardio-vascular disease. Throughout 2007, *Flora/Becel* is planning to take the message further than ever before, with its global Love Your Heart campaign which is intended to inspire and empower people to make heart-healthy choices.

Backed by a passion-packed advertising campaign linked to the energy and excitement of football and the 2006 World Cup, *Rexona* scored this year when annual sales passed the €1 billion mark for the first time. The goal now is to promote the brand's market-leading body-responsive deodorant, with its technology-based "won't let you down" promise, and turn *Rexona* into an iconic brand worldwide for men and women.

Test-marketed in Ireland and Belgium in 2006, *Frusi* □ our new frozen snack □ is proving very popular. *Frusi* was created to provide guilt-free pleasure for people who take their health seriously. With *Frusi* they have the best of both worlds: real natural goodness without compromise on taste, pleasure or convenience. Sales of *Frusi* have beaten targets for market penetration and share, and repeat purchases. Following the success of this test-market, *Frusi* is being rolled out to more countries in 2007.

Developed with "empty nesters" in mind and launched in the UK in January 2006, *Comfort Crème* has shown thousands of older women that it's good to wear softer clothes that help you look and feel great. With its gold-topped bottles and fragrances of

jojoba and sweet almond oil, *Comfort Crème* is now used in over a million UK households. Its success has overturned the idea that fabric conditioners are only popular with mothers with young children.

With each bottle able to dress more salad than a bottle twice its size □ 26 salads in all □ *Wish-Bone Salad Spritzers* are helping Americans count the calories. The easy-to-use bottles allow consumers to dress their salads perfectly with just one calorie per spray. Available in three flavours □ Italian, Balsamic Breeze and Red Wine Mist □ *Wish-Bone Salad Spritzers* are good for salads, vegetables □ and waistlines.

Bad hair dramas are becoming a thing of the past for America's 20-something women. Launched nationwide in 2006 with a witty, \$200 million campaign, the *Sunsilk* "Get Hairapy" approach to the dramas of kinky, flat or frizzy hair is bringing this global brand to an entirely new market. Backed by innovative marketing, the campaign has led to more and more women solving their hair issues with some serious "hairapy".

In 2001, when Unilever signed a joint venture with Indonesia's Kecap company, *Bango* soy sauce had a national market share of less than 5%. Today, following an imaginative programme designed to preserve Indonesia's culinary heritage and enhance the livelihood of the country's soy bean farmers, the brand has sales of around €100 million □ and is growing by 10% year on year. Unilever's guaranteed market, technical assistance and access to finance, combined with improved work opportunities for women and localised community involvement, have all helped develop the brand.

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Right across Asia, from Pakistan to China, the Dirt is Good positioning with *Omo (Rinso)* has been washing well with consumers. Based on the simple premise that, for children, dirt and stains are a natural part of being active and learning through play, the campaign promotes the brand through community-endorsed playgrounds, outdoor games and competitions involving both children and parents. The campaign's success has led to *Omo* becoming Unilever's first-ever billion RMB (Renminbi) sales brand in China.

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Report of the Directors  
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## Financial review

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The Financial review for the year ended 31 December 2006 is presented below. The Financial review is presented to provide an overview of key influences on Unilever's financial performance for the year and the financial position as at 31 December 2006. Background sections, such as the overview of Unilever's critical accounting policies and non-GAAP measures are included to provide some additional context.

### Critical accounting policies

The accounts presented comply in all material respects with IFRS and UK and Dutch law. 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 reevaluated 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. 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.

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. Significant assumptions, such as long-term growth rates and discount rates, are made in preparing these forecast cash flows; although these are believed to be appropriate, changes in these assumptions could change the outcomes of the impairment reviews.

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 2006.

Please refer also to note 9 on page 88.

### Financial instruments

Financial instruments are classified according to the purpose for which the instruments 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. Please refer to note 1 on page 75 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 105.

The following table sets out these assumptions (except for mortality rates), as at 31 December 2006, 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	5.1	4.6	5.8	4.6
Inflation	2.9	1.9	2.5	1.9
Expected long-term rate of return:				
Equities	8.0	7.6	8.3	7.6
Bonds	5.2	4.4	5.2	4.4
Property	6.5	6.1	6.8	6.1
Others	7.2	4.0	4.8	3.0

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.

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## Financial review (continued)

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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 1 on page 76. Deferred tax assets are regularly reviewed for recoverability, and a valuation allowance is established to the extent that recoverability is not considered likely.

### Reporting currency and exchange rates

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 prescribed by the Equalisation Agreement of 3<sup>1</sup>/9p = €0.16 (see Corporate governance on page 39).

### 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 or US GAAP. 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:

- Underlying sales growth;
- Ungearred free cash flow;
- Return on invested capital; 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 on non-GAAP measures, we summarise the impact on Total Shareholder Return (TSR) which is our 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 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 Ungearred 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 under IFRS and US GAAP. We include them in this respect 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 page 26, we reconcile each as follows: UFCF to cash flow from operating activities and also to net profit; ROIC to net profit.



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**Report of the Directors**  
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## Financial review (continued)

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### Caution

Unilever cautions that, while UFCF and ROIC are widely used as tools for investment analysis, they are not defined terms under IFRS or US GAAP and therefore their definition 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.

### Underlying sales growth

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 the GAAP measure turnover is as follows:

	<b>2006 vs 2005</b>	2005 vs 2004
Underlying sales growth (%)	<b>3.8</b>	3.4
Effect of acquisitions (%)	<b>0.1</b>	0.0
Effect of disposals (%)	<b>(0.8)</b>	(1.5)
Effect of exchange rates (%)	<b>0.3</b>	1.4
Turnover growth (%)	<b>3.2</b>	3.3

### Ung geared free cash flow

Ung geared free cash flow (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 capital expenditure, less charges to operating profit for share-based compensation and pensions, and less tax (adjusted to reflect an un geared position and, in 2006, for the impact on profit on sales of frozen foods businesses), but before the financing of pensions.

In 2006, UFCF was €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 on page 26.

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 is materially impacted by the tax effect of non-cash charges for the provision for preference shares and certain other non-cash items. UFCF based on actual cash tax paid would be €4.5 billion (2005: €3.7 billion).

### **Return on invested capital**

Return on invested capital (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 2006, ROIC was 14.6% (2005: 12.5%) . The reconciliation of ROIC to the GAAP measure net profit is shown on page 26.

ROIC reported in 2005 and 2006 has been based on total business profit, including profit on disposals. The impact on profit after tax of material disposals was €1 170 million (2005: €458 million). ROIC excluding this impact is 11.5% (2005: 11.3%).

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## Report of the Directors (continued)

### Financial review (continued)

	€ million 2006	€ million 2005	€ million 2004
<b>Ung geared free cash flow</b>			
Net profit	<b>5 015</b>	3 975	2 941
Taxation	<b>1 332</b>	1 301	836
Share of net profit of joint ventures/associates and other income from non-current investments	<b>(144)</b>	(55)	(95)
Net finance costs	<b>725</b>	618	631
Depreciation, amortisation and impairment	<b>982</b>	1 274	2 063
Changes in working capital	<b>87</b>	193	547
Pensions charges in operating profit less payments	<b>(1 038)</b>	(532)	(472)
Movements in provisions less payments	<b>107</b>	(230)	574
Elimination of profits on disposals	<b>(1 620)</b>	(789)	(308)
Non-cash charge for share-based compensation	<b>120</b>	192	218
Other adjustments	<b>8</b>	(23)	(10)
Cash flow from operating activities	<b>5 574</b>	5 924	6 925
Less charge for share-based compensation	<b>(120)</b>	(192)	(218)
Add back pension payments less pension charges in operating profit	<b>1 038</b>	532	472
Less net capital expenditure	<b>(934)</b>	(813)	(869)
Less tax charge adjusted to reflect an ungeared position	<b>(1 336)</b>	(1 440)	(964)
Taxation on profit	<b>(1 332)</b>	(1 301)	(836)
Taxation on profit on sales of frozen foods businesses	<b>159</b>	□	□
Tax relief on net finance costs	<b>(163)</b>	(139)	(128)
Ung geared free cash flow	<b>4 222</b>	4 011	5 346

	€ million 2006	€ million 2005	€ million 2004
<b>Return on invested capital</b>			
Net profit	<b>5 015</b>	3 975	2 941
Add back net interest expense net of tax	<b>365</b>	424	431
Add back impairment charges net of tax <sup>(a)</sup>	<b>15</b>	245	536
Profit after tax, before interest and impairment of goodwill and indefinite-lived intangible assets	<b>5 395</b>	4 644	3 908

Year-end positions for invested capital:

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Property, plant and equipment and other non-current investments	<b>7 142</b>	7 333	6 966
Software and finite-lived intangible assets	<b>608</b>	642	623
Inventories	<b>3 796</b>	4 107	3 756
Trade and other receivables	<b>4 667</b>	5 185	4 410
Trade payables and other creditors due within one year	<b>(8 513)</b>	(8 782)	(8 232)
Elements of invested capital included in assets and liabilities held for sale	<b>15</b>	200	□
Goodwill and indefinite-lived intangible assets at gross book value	<b>20 705</b>	21 621	19 854
	<hr/>		
Total	<b>28 420</b>	30 306	27 377
Add back cumulative goodwill written off directly to reserves	<b>6 427</b>	6 870	7 246
	<hr/>		
Year-end invested capital	<b>34 847</b>	37 176	34 623
	<hr/>		
Average invested capital for the year	<b>36 850</b>	37 012	36 444
	<hr/>		
Return on average invested capital	<b>14.6%</b>	12.5%	10.7%

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

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**Report of the Directors**  
(continued)

## Financial review (continued)

### Net debt

Net debt is defined as the excess of total borrowings, bank overdrafts, relevant derivatives and finance leases 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 reconciliation of net debt to the GAAP measure total borrowings is as follows:

	€ million 2006	€ million 2005
Total borrowings	<b>(8 601)</b>	(12 399)
Borrowings due within one year	<b>(4 362)</b>	(5 942)
Borrowings due after one year	<b>(4 239)</b>	(6 457)
Cash and cash equivalents as per balance sheet	<b>1 039</b>	1 529
Cash and cash equivalents as per cash flow statement	<b>710</b>	1 265
Add bank overdrafts deducted therein	<b>329</b>	265
Less cash and cash equivalents in assets/liabilities held for sale	□	(1)
Other financial assets	<b>237</b>	335
Derivatives and finance leases included in other receivables and other liabilities	<b>(198)</b>	33
<b>Net debt</b>	<b>(7 523)</b>	(10 502)

### Total Shareholder Return

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

Unilever's TSR target is to be in the top third of a reference group including 20 other international consumer goods companies on a three-year rolling basis. At the end of 2005 we were positioned 14th, and at the end of 2006 the ranking was 13th. In 2006, the following companies formed the peer group of comparative companies:

Avon	Kraft
Beiersdorf	Lion
Cadbury Schweppes	L'Oréal

Clorox  
Coca-Cola  
Colgate  
Danone  
Heinz  
Kao  
Kimberly-Clark

Nestlé  
Orkla  
Pepsico  
Procter & Gamble  
Reckitt Benckiser  
Sara Lee  
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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## Report of the Directors (continued)

### Financial review (continued)

#### Results and earnings per share

The following discussion summarises the results of the Group during the years 2004, 2005 and 2006. 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 the US dollar is given on page 146.

The results reflected in the consolidated income statement and supporting notes arise from the Group's continuing operations. In November 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 2004 and 2005, and in 2006, for the period up to the date of sale. During July 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 the 2004 year and, in 2005, for the period up to the date of sale.

	€ million 2006	€ million 2005	€ million 2004
Continuing operations:			
Turnover	<b>39 642</b>	38 401	37 168
Operating profit	<b>5 408</b>	5 074	3 981
Net profit	<b>3 685</b>	3 335	2 728
Net profit from discontinued operations	<b>1 330</b>	640	213
Net profit □ total	<b>5 015</b>	3 975	2 941
	€ 2006	€ 2005	€ 2004
EPS □ continuing operations	<b>1.19</b>	1.07	0.87
EPS □ total	<b>1.65</b>	1.29	0.94

#### Results for 2006 compared with 2005

Turnover for the period increased by 3.2% to €39 642 million. The increase is driven by underlying sales growth of 3.8%, with contributions from both volume and price, as well as favourable currency effects of 0.3%. Offsetting the increase is the impact of disposals (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 last 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. An overview of performance by regions is included in the Operating review on pages 13 to 19.

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 last 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 last year due to the continued growth in the partnerships between *Lipton* and Pepsi for ready-to-drink tea. Share of net profit from associates increased significantly compared with 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 the year. Including the profits of the discontinued operations, net profit and earnings per share increased by 26% and 27% in the year, respectively.

Return on invested capital (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, the ROIC increased from 11.3% to 11.5% ..

#### **Results for 2005 compared with 2004**

Reported turnover grew by 3.3% in the year to €38 401 million. This increase includes a favourable effect from movements of the average euro exchange rate against the basket of Unilever currencies, which amounted to 1.4% of turnover. The net impact of disposals less acquisitions was a decline in turnover of 1.5% . This arose principally from the sale of European olive oil and other foods businesses. Underlying sales growth in the year of 3.4% was the result of volume increases.

Operating profit increased by 27% in the year to €5 074 million with operating margin increasing to 13.2% (2004: 10.7%) . Before the impact of net costs of restructuring, business disposals and impairments, the operating margin for 2005 would have been 0.9 percentage points lower than the previous year. Advertising and promotions were 1.1 percentage points of sales higher than last year. Cost savings and an improved mix more than offset the effect of an increase of nearly €600 million in input costs. Operating charges for restructuring, business disposals and impairments include the impairment of the *Slim•Fast* business in both 2005 and 2004 amounting to €363 million and €791 million respectively. An overview of performance by region is included in the Operating review on pages 13 to 19.

Net finance costs were 2% lower in the year at €613 million, through lower levels of borrowings.



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**Report of the Directors**  
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## Financial review (continued)

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A reduced contribution was generated from our shares in joint ventures and associates, most significantly from our associate JohnsonDiversey. Profit from discontinued operations includes the gain of €458 million arising from the sale of UCI.

The Group's effective tax rate of profit for the year was 26%, compared with 21% in 2004, which reflected resolution of a higher level of outstanding prior year tax issues.

Net profit and earnings per share from continuing operations increased by 22% and 23% respectively in the year. Including the profits of the discontinued operations, total earnings per share increased by 37% in the year.

Return on invested capital (ROIC) for the year was 12.5%, up from 10.7% in 2004. This reflects the lower restructuring costs and higher profits on business disposals included in net profit. ROIC retains all goodwill and intangibles in invested capital, regardless of impairment.

### Acquisitions and disposals

#### 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. is reported as a subsidiary and is Unilever's main foods business in Greece. The offer price was €24.50 per share, with the public offer closing on 25 October 2006. A total of 2 234 692 shares were purchased by the end of 2006, increasing Unilever's ownership of Elais-Unilever S.A. to 83.52% .

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.

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

In March 2005 Unilever carried out a 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 now holds 49% of the combined foods business and Jerónimo Martins Group 51%. See page 123 for further details on the Portuguese businesses whose ownership was

further reorganised as at 1 January 2007.

## 2004

There were no material acquisitions during 2004.

In 2004 we disposed of more than 20 businesses with total turnover in excess of €700 million. Significant disposals included the sale of certain household care brands in North America, our edible oils business under the Capullo, Inca and Mazola brands in Mexico, the Dalda brand in Pakistan and the sale of our European frozen pizza and baguette business. Our chemicals business in India (Hindustan Lever Chemicals) was merged with Tata Chemicals.

For further information on the impact of acquisitions and disposals refer to note 26 on page 113.

## Dividends and market capitalisation

### Dividends per share

	€ 2006	Per €0.16 NV ordinary share € 2005	£ 2006	Per 3 1/9p PLC ordinary share £ 2005
Interim	<b>0.23</b>	0.22	<b>15.62</b>	15.04
Final	□	0.44	□	30.09
Proposed final	<b>0.47</b>	□	<b>32.04</b>	□
	<b>0.70</b>	0.66	<b>47.66</b>	45.13
One-off	<b>0.26</b>	□	<b>17.66</b>	□
	<b>0.96</b>	0.66	<b>65.32</b>	45.13

Final dividends for 2006 are subject to approval at the Annual General Meetings. If approved, this will bring the total regular dividend, excluding the additional one-off payment, to €0.70 per share for NV and 47.66p for PLC, an increase of 6% in each case. In accordance with IFRS, no provision for the amount of this dividend, estimated as €1 358 million, has been recognised in the financial statements for the year ended 31 December 2006. The additional one-off dividend of €751 million was paid during December 2006.

Unilever's combined market capitalisation at 31 December 2006 was €63.4 billion (2005: €57.5 billion).

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## Report of the Directors (continued)

### Financial review (continued)

#### Balance sheet

	€ million 2006	€ million 2005
Goodwill and intangible assets	<b>17 206</b>	18 055
Other non-current assets	<b>10 365</b>	10 303
Current assets	<b>9 501</b>	11 142
Current liabilities	<b>(13 884)</b>	(15 394)
	<b>23 188</b>	24 106
Non-current liabilities	<b>11 516</b>	15 341
Shareholders' equity	<b>11 230</b>	8 361
Minority interest	<b>442</b>	404
	<b>23 188</b>	24 106

Goodwill and intangibles as at 31 December 2006 were €0.8 billion lower than in 2005. This was almost solely a consequence of currency movements. Currency movements also explain the reduction of inventories and trade receivables when compared with prior year. The other significant movements in non-current assets relate to pension assets for funded schemes in surplus and deferred tax assets. The increase in pension fund assets was due to improvements in asset yields and increased contributions. The decrease of non-current deferred tax assets from €1.7 billion as at 31 December 2005 to €1.3 billion as at 31 December 2006 was a result of the decrease in pension liabilities.

The overall funding shortfall before tax of pensions and health care plans reduced significantly from €5.6 billion at the end of 2005 to €3.1 billion at the end of 2006. Within this, there was at 31 December 2006 an aggregated surplus of €0.3 billion on our funded plans, reflecting a combination of strong equity returns, increased contributions and higher real interest rates, partly offset by increased life expectancy assumptions. The value of our unfunded obligations reduced from €4.2 billion to €3.4 billion due to rises in interest rates, favourable exchange movements and changes to various retiree medical benefits.

We made a number of changes to our pensions and post-retirement healthcare plans during 2006. In particular, in the US retiree healthcare plan we introduced an annual cap on the benefits which each participant can claim. In the UK we updated assumptions on pension commutations and now reduce some deferred pensions if they are taken early, to align with market practice. See page 32 for details on Unilever's pension investment strategy.

Total equity has increased by €2.9 billion in the year. Net profit added €5.0 billion and currency and fair value/actuarial gains added €0.5 billion. Dividends paid in the year totalled €2.7 billion.

As at 31 December 2006, cash and cash equivalents and other financial assets amounted to €1.3 billion, a decrease of €0.6 billion. Borrowings, (including finance leases amounting to €0.2 billion and the negative fair value of derivatives relating to borrowings) amounted to €8.8 billion a reduction of €3.8 billion.

The net debt position, see page 27, as at 31 December 2006 was €7.5 billion, a reduction of €3.0 billion since 1 January 2006. This was driven by the cash generated by the business during the year, the proceeds of disposals

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(particularly from the sale of the majority of the European frozen foods businesses) and currency effects, specifically the weakening of the US dollar.

Unilever manages interest rate and currency exposures based on the net debt position. Taking into account the various cross currency swaps and other derivatives, 81% of Unilever's net debt was in US dollars (2005: 60%) and 25% in euros (2005:17%) and ((33)% - financial assets) in sterling, with the remainder spread over a large number of other currencies. The currency distribution of total borrowings was as follows: 70% in US dollars (2005: 51%), and 24% in euros (2005: 20%) with the remainder spread over a large number of other currencies. Further details of the currency analyses are given in note 15 on page 95 and note 16 on page 98.

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 2006 were: bilateral committed credit facilities totalling US \$4.6 billion, bilateral notes commitments totalling US \$0.2 billion and bilateral money market commitments totalling US \$1.4 billion. Further details regarding these facilities are given in note 16 on page 98.

During 2006, a US \$300 million bond with a fixed interest rate of 6.15% was repaid, as was a €1 billion bond with a fixed interest rate of 5.125% and a US \$500 million bond with a fixed interest rate of 5.125% . Three floating rate bonds denominated in Japanese yen for a total of ¥37 billion (approximately €250 million) were repaid and Unilever issued a new floating rate bond for a similar amount with a maturity date of June 2008.

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 2006 included capital expenditure commitments, borrowings, lease commitments and other commitments. A summary of certain contractual obligations at 31 December 2006 is provided in the table below. Other long-term commitments have increased compared with prior year due to the outsourcing contracts which Unilever has entered into during 2006. Further details are set out in the following notes to the accounts; note 10 on page 90, note 16 on page 96, note 17 on pages 99 to 101 and note 25 on page 112.

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**Report of the Directors**  
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## Financial review (continued)

### Contractual obligations at 31 December 2006

	€ million	€ million	€ million	€ million	€ million
	Total	Due within one year	Due in 1-3 years	Due in 3-5 years	Due in over 5 years
Long-term debt	<b>6 183</b>	<b>1 944</b>	<b>696</b>	<b>1 346</b>	<b>2 197</b>
Operating lease obligations	<b>1 617</b>	<b>342</b>	<b>537</b>	<b>338</b>	<b>400</b>
Purchase obligations <sup>(a)</sup>	<b>233</b>	<b>156</b>	<b>58</b>	<b>16</b>	<b>3</b>
Finance leases	<b>296</b>	<b>71</b>	<b>90</b>	<b>27</b>	<b>108</b>
Other long-term commitments	<b>1 547</b>	<b>315</b>	<b>395</b>	<b>312</b>	<b>525</b>

(a) Raw and packaging materials and finished goods.

### Off-balance sheet arrangements

IFRS interpretation SIC 12 and US GAAP FIN 46R require 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) or variable interest entities (VIEs) as defined by SIC 12 and FIN 46R respectively. The most recent review has concluded that there are no significant SPE or VIE 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	€ million	€ million
	2006	2005	2004
Net cash flow from operating activities	<b>4 511</b>	4 353	5 547
Net cash flow from/(used in) investing activities	<b>1 155</b>	515	(120)
Net cash flow from/(used in) financing activities	<b>(6 572)</b>	(4 821)	(5 938)
Net increase/(decrease) in cash and cash equivalents	<b>(906)</b>	47	(511)

Cash and cash equivalents at 31 December 2006 were €0.6 billion lower than as at 31 December 2005. Cash from operating activities was €0.3 billion lower than in 2005 due to significantly higher contributions to pension schemes. This was offset to some extent by the improvements in the level of working capital, with a further reduction of €0.1 billion as at 31 December 2006. Income tax paid was substantially lower through a combination of tax relief on the higher pension contributions, structural improvements in the tax rate and timing differences. As a result, net cash flow from operating activities was €0.2 billion higher than last year.

Net cash flow from investing activities was €0.6 billion higher due to the impact of the disposals in the year which had a positive impact of €1.8 billion (2005: €0.8 billion), offset by increased capital expenditure of €0.1 billion compared with the prior year.

Net cash flow used in financing activities increased by €1.8 billion, reflecting dividend payments and repayment of debt.

## 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 27. 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.

## 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.

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.

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## Report of the Directors

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### Financial review (continued)

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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 95, 96 and 99.

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 pages 100 and 101.

#### 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 company 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 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 solution to implement their strategic asset allocation models initially for equities. The aim is to provide a high quality, well diversified risk controlled solution.

#### Significant changes after the balance sheet date

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 consolidated Portuguese entity, called Unilever Jerónimo Martins. The consolidated business includes the foods and home and personal care businesses. The remaining 45% interest is held by Jerónimo Martins Group. The structure of the agreement is such that there is joint control of the newly formed entity and so it will be accounted for by Unilever as a joint venture.

On 12 March 2007, Unilever announced the commencement of a share buy-back programme. This will involve the purchase in 2007 of ordinary shares of NV or PLC, or a combination of the two, up to an aggregate market value of €1.5 billion. The value of the shares purchased will be booked against equity under the heading of Other reserves, in line with established practice. As at 19 March 2007, 1 967 782 ordinary shares of NV had been purchased at prices between €19.55 and €21.41 per share. These shares will be held as treasury shares.

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**Report of the Directors**

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## Corporate governance

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### Introduction

Unilever constantly keeps its 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 39), 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 characterised by being universally applicable within the Unilever Group. They are mandatory in effect 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 provides for a confidential hotline, not only to ensure that employees can anonymously submit concerns regarding accounting and auditing issues but to handle 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/corp-governance](http://www.unilever.com/investorcentre/corp-governance).



Our internal risk management and control systems are described on page 9.

### **Developments in corporate governance**

In recent years there have been significant developments in Unilever's corporate governance structure.

In 2004, the NV and PLC shareholders adopted proposals to create one-tier boards with a majority of independent Non-Executive Directors.

In 2005, shareholders approved a series of further changes to streamline management and leadership. A separate Non-Executive Chairman and Group Chief Executive were appointed. The Group Chief Executive established the Unilever Executive (UEX) which comprises three Regional Presidents (for Europe, The Americas and Asia Africa), two Category Presidents (for Foods and Home and Personal Care), the Chief Financial Officer and the Chief HR Officer.

The regions are responsible for performance, implementing proven brand mixes and focusing on building capabilities with customers. The categories are responsible for the entire brand development process, including innovation, brand positioning and communication and category strategies. The interdependence between the regions and categories allows us to exploit our global scale, while building on our deep roots in local markets. Our HR and Finance functions concentrate on excellence in human capabilities and cost-efficiencies across the Group.

In 2006, following a thorough review of our corporate structure, shareholders approved proposals to:

- adapt Unilever's constitutional arrangements to allow greater flexibility to allocate assets between both parent companies;
- simplify the relationship between NV and PLC shares by establishing a one-to-one equivalence in their economic interest in the Unilever Group (this was achieved by a split of the NV shares and a consolidation of the PLC shares); and
- allow shareholders the right to nominate candidates to the Boards, taking into account the need to ensure the unity of management.

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## Report of the Directors

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### Corporate governance (continued)

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In 2007, Unilever plans to appoint its first independent Non-Executive Chairman, Michael Treschow, subject to his appointment as a Non-Executive Director at the AGMs.

The text that follows describes the corporate governance arrangements since the 2006 AGMs. 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).

#### 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.

The Nomination Committee, based on the evaluation of the Boards, its Committees and its individual members, recommends to the Boards a list of candidates for nomination at both the Annual General Meetings of NV and of PLC. In addition, since 2006 shareholders have been able to nominate Directors for this list but 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.

### **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;
- review of the functioning of the Boards and their Committees;
- preparation of the Annual Report and Accounts;
- declaration of dividends;
- agreement of quarterly results announcements;
- convening of shareholders' meetings;
- nominations for Board appointments; and
- approval of Board remuneration policy.

In 2006 the Boards of NV and PLC met eight times. All our Executive Directors attended all meetings. All the Non-Executive Directors attended all meetings, except for Wim Dik who missed one meeting; Lynda Chalker, David Simon and Jean-Cyril Spinetta who each missed two meetings, and Jeroen van der Veer who missed three meetings. Board meetings are normally held either in London or Rotterdam. The Chairman is assisted by the Joint Secretaries, who ensure that the Boards are supplied with all the information necessary for their deliberations. The Chairman and the Joint Secretaries 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. Updates on corporate governance developments and investor relations matters are frequent items at Board meetings. On-going 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 2006, a Board meeting was held at Port Sunlight which included a visit to one of Unilever's Research and Development facilities.

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**Report of the Directors**  
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## Corporate governance (continued)

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### Board evaluation

In 2006, an independent firm, Board Consultants International (BCI), was commissioned to carry out an evaluation of the Boards, the Board committees, the Chairman and individual Directors. As part of the evaluation, Dr Florian Schilling from BCI conducted interviews with all Directors, the Joint Secretaries and two former Directors who had retired in 2006. He reported the outcome of the evaluation to the Chairman and the Senior Independent Director and to the Boards in February 2007.

### Board support

The Joint Secretaries are available to advise all Directors and ensure that Board procedures are complied with. They are 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 Executive Directors held office throughout the year.

Leon Brittan, Lynda Chalker, Wim Dik, David Simon and Jeroen van der Veer were re-elected as Non-Executive Directors of NV and PLC at the 2006 AGMs. In addition, Charles Golden, Byron Grote, Jean-Cyril Spinetta and Kees Storm were appointed as Non-Executive Directors.

In 2006, David Simon became our Senior Independent Director, Vice-Chairman of NV and PLC, and Chairman of our Remuneration and Nomination Committees. Kees Storm became a member and Chairman of the Audit Committee. Charles Golden and Byron Grote became members of the Audit Committee. Jean-Cyril Spinetta became a member of the Remuneration and Nomination Committee.

At the 2006 AGMs, Bertrand Collomb, Oscar Fanjul and Hilmar Kopper retired as Non-Executive Directors.

At the 2007 AGMs all of the Executive Directors and the Non-Executive Directors, with the exception of Antony Burgmans, Lynda Chalker and Rudy Markham, who will be retiring at these meetings, will be nominated for re-election. Their colleagues would like to thank Antony, Lynda and Rudy for the enormous contribution they have made to Unilever during their association with the Group.

In addition, four new Non-Executive Directors will be proposed for election at the 2007 AGMs. These are Genevieve Berger, Narayana Murthy, Hixonia Nyasulu and Michael Treschow. Genevieve Berger is a Professor of Biophysics and Medical Imaging at Paris University VI and Chairman of the Advisory Board "Health" for the EU Commission for Research. Narayana Murthy is co-founder and Chairman of Infosys Technologies Limited. Hixonia Nyasulu is a Non-Executive Director of Sasol Limited and Anglo Platinum and an Advisory Board Member of JP Morgan South Africa. Michael Treschow, who, if appointed, will become Unilever's new independent Chairman, is currently Chairman of Ericsson and Electrolux. He will be stepping down as Chairman

of Electrolux in April 2007. Their appointments will, should their nominations be approved by shareholders, bring further diversity of background and experience to the Boards. Professor Berger, Mr Murthy and Ms Nyasulu will, subject to their election as Directors, become members of the Corporate Responsibility and Reputation Committee.

Biographical details for the new Non-Executive Directors are contained in the 2007 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 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 reports to the Group Chief Executive. For UEX members' biographies see page 47. For our business structure, please refer to [About Unilever] on page 5.

### **Executive Directors**

All four Executive Directors are members of the UEX: the Group Chief Executive, the Chief Financial Officer, the President, Europe and the President, Home and Personal Care. Details on their responsibilities can be found in [The Governance of Unilever].

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. We are currently updating our Directors' service contract to take into account recent changes in the law and best practice, for example, those relating to age limits for directors.

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 to 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.

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## Report of the Directors

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### Corporate governance (continued)

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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.

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. Executive Directors are to obtain approval from the Chairman for all outside Board appointments. Normally not more than one such appointment should be accepted. 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;
- 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 the Corporate Responsibility and Reputation Committee (formerly External Affairs and Corporate Relations Committee). The roles and membership of these key Board committees are described on page 37. 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 the Senior Independent Director. In 2006 they met twice as a group. In addition, the Non-Executive Directors usually meet before each Board meeting with the Chairman, the Group Chief Executive and the Joint Secretaries.

#### 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 2006, and it is reported on page 61. Details of the engagement of our Non-Executive Directors can be seen on the Unilever website.

### **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, with the exception of Antony Burgmans. 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. 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 does not involve him in any way in its broking relationship with Unilever. They have noted that Lynda Chalker's involvement in consultancy services for Unilever had been terminated before she was elected a Non-Executive Director in May 2004. The Boards have formed the view that the fact that Antony Burgmans was a member of the Supervisory Board of ABN AMRO until April 2006 and that David Simon is a senior adviser of Morgan Stanley International, were not material.

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**Report of the Directors**  
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## Corporate governance (continued)

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The Boards consider that the Executive Directorship of Byron Grote combined with the Non-Executive Directorship of Antony Burgmans of BP p.l.c. does not affect Dr Grote's status as independent in relation to his Non-Executive Directorship of Unilever. The Boards also consider that Jean-Cyril Spinetta's position as Chairman/CEO of Air France-KLM SA combined with Kees Storm's Chairmanship of the Supervisory Board of KLM Royal Dutch Airlines N.V. does not affect their status as independent in relation to their Non-Executive Directorships of Unilever.

Antony Burgmans, who before May 2005 was an Executive Director, is not considered to be independent. The Nomination Committee and the Boards nominated him for election as a Non-Executive Director in 2005 because of his thorough knowledge of Unilever and its operations. Antony Burgmans will be succeeded by Michael Treschow as an independent Chairman at the AGMs in 2007, subject to his election as a Non-Executive Director.

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

### Board committees

The Boards have established the following committees, 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 has an Executive Director as a member, and report regularly to the Boards. The remits 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 Committee met five times in 2006, and the members attended all meetings. 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 General Counsel, the Deputy Chief Financial Officer, 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 UK, US and the Netherlands.

The Audit Committee is supplied with all information necessary for the performance of its duties by the Chief Auditor, Chief Financial Officer, and Deputy Chief Financial Officer. Both the Chief Auditor and the external auditors have direct access to the Audit Committee separately from management.

See page 63 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 Jean-Cyril Spinetta, Jeroen van der Veer and Antony Burgmans. It met six times in 2006 and the members attended all meetings except that David Simon was absent for one meeting. 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 Joint Secretaries.

See page 48 for the Report of the Nomination Committee to shareholders.

### **Remuneration Committee**

Our Remuneration Committee comprises three independent Non-Executive Directors. It is chaired by David Simon and its other members are Jean-Cyril Spinetta and Jeroen van der Veer. It met six times in 2006 and the members attended all meetings except that David Simon was absent for one meeting.

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 supplied with information by Jan van der Bijl, Joint Secretary of Unilever.

The detailed report of the Remuneration Committee to shareholders on Directors' remuneration is on pages 49 to 62.

### **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 Lynda Chalker and its other members are Leon Brittan, Antony Burgmans, Wim Dik and Ralph Kugler. Following the 2007 AGMs, subject to their election, Leon Brittan will chair the Committee and its members will be Genevieve Berger, Ralph Kugler, Narayana Murthy and Hixonia Nyasulu. The Committee, which replaced the External Affairs and Corporate Relations 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.

See page 64 for the Report of the Corporate Responsibility and Reputation Committee to shareholders.

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## Report of the Directors

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### Corporate governance (continued)

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#### 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 Joint Secretaries are responsible for the operation of these committees.

#### Disclosures Committee

The Boards have set up a Disclosures 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 Deputy Chief Financial Officer, the Joint Secretaries and the Group Treasurer.

#### Directors – 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 our Executive Directors to build and retain a personal shareholding in Unilever equal to at least 150% of their annual base pay.

#### Directors – 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.

#### 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.

#### 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.

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 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 meeting 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.

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 United Kingdom 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).

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## Corporate governance (continued)

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### 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 Directors and is 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 41 and 42).

PLC shareholders can cast one vote for each 1.4p nominal capital that they hold. This means that one vote equals 9/20ths of a share. Shareholders can vote in person at the meeting or by proxy. Proxies should be submitted to the Registrars, Computershare Investor Services PLC, whose details can be found on page 159, at least 48 hours before the AGM. Shareholders at the PLC 2007 AGM are, however, being asked to approve a change in the voting rights of PLC's ordinary shares designed to bring the voting arrangements into line with the consolidation of ordinary shares of 3<sup>1</sup>/<sub>9</sub>p approved at the 2006 AGM. This will result in one vote for each 3<sup>1</sup>/<sub>9</sub>p of nominal capital instead of 1.4p of nominal capital.

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 shareholders' 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 2006 provided PLC shareholders with the option to direct their proxy to vote either for or against the resolution or to abstain. In 2007, proxy appointment forms will replace the abstain option with a vote withhold option. Future PLC proxy forms and voting result announcements will 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 at least €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.

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 one-tenth of the issued ordinary shares of PLC 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 of Directors. Such a proposal requires the prior approval of the meeting of the holders of the special shares. A proposal to alter the Memorandum and Articles of Association of PLC can be made either by the Board of Directors or by shareholders in the manner permitted under the United Kingdom Companies Act 1985. Proposals to alter the provisions in the Articles of Association of NV and PLC 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. Copies of 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 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, 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:

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**Report of the Directors**  
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## Corporate governance (continued)

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

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

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

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

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

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

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

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, either by three-quarters in writing, or by three-quarters 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. In addition, 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 of Mutual Covenants 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 of Mutual Covenants) 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.

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## Corporate governance (continued)

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### 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.

### 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 87.

### Share capital

NV's issued share capital on 31 December 2006 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	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

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 Annual General Meeting held on 8 May 2006 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 8 November 2007 to resolve on the issue of or on the granting of rights to subscribe for shares not yet issued and to restrict or exclude the statutory pre-emption rights that accrue to shareholders upon issue of shares, on the understanding that this authority is limited to 10% of the issued share capital of the Company, plus an additional 10% of the issued share capital of the Company in connection with or on the occasion of mergers and



acquisitions.

At the 2006 AGM the Board of Directors of NV was authorised, in accordance with Article 98 of Book 2 of the Netherlands Civil Code, until 8 November 2007 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.

PLC's issued share capital on 31 December 2006 was made up of:

- £40 760 420 split into 1 310 156 361 ordinary shares of 3<sup>1</sup>/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	2 911 458 580	99.76
£100 000 deferred stock	7 142 857	0.24

Article 83 sets out the voting rights of members which are currently one vote for every 1.4p of capital. At the 2007 PLC AGM, a resolution will be proposed to amend Article 83 to state that every member shall have one vote for every 3<sup>1</sup>/9p nominal of capital held of whatever class.

The Board of Directors of PLC under sections 80 and 89 United Kingdom 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 2006 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 2006 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 12 months anniversary after the passing of the resolution or the conclusion of the 2007 AGM.

#### Depositary receipts for NV shares

As at 1 March 2007, the majority (around 75%) of NV's ordinary shares and around 34% of NV's 7% cumulative preference shares are 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).

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## Corporate governance (continued)

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

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

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 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 holders of depositary receipts who instruct the Foundation outside the Shareholders Communication Channel.

### **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 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 2007 were:

- NV ordinary shares of €0.16: 1 285 189 970 (74.95%);
- NV 7% cumulative preference shares of €428.57: 9 790 (33.76%);
- 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).

#### **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.

#### **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 and upon request.

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## Corporate governance (continued)

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

#### 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 34).

#### Role of the Chairman

The Dutch Code recommends that in a one-tier board the chairman should neither be, nor have been, responsible for the day-to-day conduct of the business (bpp III.8.1). Before his appointment as Non-Executive Chairman, Antony Burgmans was jointly responsible for the daily operations of NV and PLC. Thus he is not independent from Unilever. He was nominated as Non-Executive Chairman in 2005 because of his thorough knowledge of Unilever and its operations. In addition to his role as Chairman, the Board considered his knowledge of the business to be essential to see through the changes resulting from the structure review. Antony Burgmans will be succeeded by Michael Treschow as an independent Chairman at the AGMs in 2007, subject to his appointment as Non-Executive Director.

As Antony Burgmans was the only Non-Executive Director who is not independent from Unilever, NV complies with bpp. III.2.1 of the Dutch Code.

In addition to the Chairman, the Boards of NV and PLC have a Senior Independent Director who is appointed by the Non-Executive Directors and acts as their spokesperson.

#### Risk management and control

Reference is made to page 66 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 the 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). On pages 9 and 10 we have identified certain specific risks that are areas of focus in 2007. 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 report, published on 20 December 2005, the 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 this Annual Report does not contain any material inaccuracies;
- the risk management and control systems have worked properly in 2006;
- there are no indications that the risk management and control systems will not work properly in 2007;
- no material failings in the risk management and control systems were discovered in the year under review or the current year until the signing of these accounts; and, as regards financial, operational, social, strategic, environmental and regulatory risks; and
- 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.

### **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. The exception is the options over 150 NV shares granted each year to our Executive Directors under the all-employee share option plan in the Netherlands, as described on pages 117 and 118. The Directors' participation in this plan is seen as a stimulus for all employees to participate.

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## Corporate governance (continued)

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### **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 to 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) . Our Share Dealing Code provides that Directors are required, upon request, to disclose to the compliance officer their holdings and transactions in securities in other listed companies. We believe this requirement constitutes an appropriate arrangement.

### **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 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 it 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. The relevant information which NV is required to disclose in accordance with the Decree dated 5 April 2006 to implement Article 10 of Directive 2004/25/EC can be found in this document.

### **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 United Kingdom 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 Combined Code issued in 1998, as revised in 2003 (the Combined Code), appended to the United Kingdom Listing Rules.

In the preceding pages we have described how we have applied the Principles and the provisions in the Combined Code. In 2006, Unilever complied with the Combined Code except in the following two areas:

- Antony Burgmans, who before May 2005 was an Executive Director, is not considered to be independent. The Nomination Committee and the Board nominated him for election as a Non-Executive Director in 2005 because of his thorough knowledge of Unilever and its operations. However, with the appointment of Michael Treschow as Chairman, subject to his appointment as a Non-Executive Director at the AGMs, Unilever will comply with the provision that requires the Chairman to be independent on appointment; and
- 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 therefore 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.

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Report of the Directors  
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## Corporate governance (continued)

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We have complied with the requirements concerning corporate governance that were in force during 2006. Attention is drawn in particular to the remit of the Audit Committee on page 37 and the Report of the Audit Committee on page 63.

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
- 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 2006.

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 would also confirm that it is our practice, in accordance with our home country laws and practices, to give our shareholders the opportunity to vote on equity compensation plans.



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**Report of the Directors**  
(continued)

## Corporate governance Biographical details

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### Executive Directors

#### **Patrick Cescau**

##### Group Chief Executive

Nationality: French. Aged 58. 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 and Conseiller du Commerce Extérieur de la France in the Netherlands.

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

##### President Europe

Nationality: Dutch. Aged 56. 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) and Member, IAB (International Advisory Board of the City of Rotterdam). Member, Supervisory Boards of ANWB Club (Algemene Nederlandse Wielrijdersbond) and ANWB B.V.

#### **Ralph Kugler<sup>1</sup>**

##### President Home and personal care

Nationality: British. Aged 51. President Home and Personal Care since 1 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.

#### **Rudy Markham**

##### Chief Financial Officer

Nationality: British. Aged 61. Chief Financial Officer since April 2005. Joined Unilever 1968. Appointed Director 6 May 1998. Previous posts include: Financial Director 2000. Strategy & Technology Director 1998. Business Group President, North East Asia 1996-1998. Chairman, Nippon Lever Japan 1992-1996. Chairman, Unilever Australasia 1989-1992. Group Treasurer 1986-1989. External appointments include: Non-Executive Director, Standard Chartered PLC and Legal & General Group Plc.

### Non-Executive Directors

#### **Antony Burgmans<sup>1,2</sup>**

##### Chairman

Nationality: Dutch. Aged 60. Appointed 2005. Joined Unilever 1972. Appointed Director 8 May 1991. Previous posts include: Chairman, Unilever N.V. and Vice-Chairman, Unilever PLC 1999-2005. Vice-Chairman, Unilever N.V. 1998. Business Group President, Ice Cream and Frozen Foods in Europe and Chairman, Unilever Europe Committee 1996-1998. Responsible for South European Foods business 1994-1996. Personal Products Co-ordinator 1991-1994. External appointments include: Member, Supervisory Board of Akzo Nobel N.V. and Non-Executive Director, BP p.l.c.

**The Rt Hon The Lord Brittan of Spennithorne QC, DL<sup>1</sup>**

Nationality: British. Aged 67. Appointed 2000. Vice-Chairman, UBS Investment Bank and Chairman, UBS 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.

**The Rt Hon The Baroness Chalker of Wallasey<sup>3</sup>**

Nationality: British. Aged 64. Appointed 1998. Non-Executive Director, Group 5 (Pty) Ltd. and Equator Energy Limited. Member, International Advisory Board of Lafarge S.A. and Merchant Bridge & Co Ltd. UK Minister of State at the Foreign and Commonwealth Office 1986-1997.

**Professor Wim Dik<sup>1,7</sup>**

Nationality: Dutch. Aged 68. Appointed 2001. Professor at Delft University of Technology. Chairman, Supervisory Boards of Tele Atlas N.V., Zesko Holding B.V. and N.V. Casema. Non-Executive Director, Aviva plc and LogicaCMG plc. 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>7</sup>**

Nationality: American. Aged 60. 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>7</sup>**

Nationality: American/British. Aged 59. Appointed 2006. Chief Financial Officer, BP p.l.c. Member of Advisory Council, Cornell University Johnson Graduate School of Management.

**The Lord Simon of Highbury CBE<sup>4,5,6</sup>**

[Vice-Chairman](#)

Nationality: British. Aged 67. Appointed 2000. Non-Executive Director, Suez Group. Senior Advisor, Morgan Stanley International. UK Government Minister 1997-1999. Group Chief Executive, BP p.l.c. 1992-1995 and Chairman 1995-1997.

**Jean-Cyril Spinetta<sup>2,9</sup>**

Nationality: French. Aged 63. Appointed 2006. Chairman and CEO of Air France  $\square$  KLM S.A. Director, Saint-Gobain and Alitalia S.p.A 2002-2006. Permanent representative of Air France on Board of Directors of Le Monde Enterprises S.A.

**Kees Storm<sup>8</sup>**

Nationality: Dutch. Aged 64. 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>2,9</sup>**

Nationality: Dutch. Aged 59. Appointed 2002. Chief Executive Royal Dutch Shell plc. Former Member, Supervisory Board of De Nederlandsche Bank 2000-2004.

1 Member Corporate Responsibility and Reputation Committee

2 Member Nomination Committee

3 Chairman Corporate Responsibility and Reputation Committee

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- 4 Chairman Nomination Committee
- 5 Chairman Remuneration Committee
  
- 6 Senior Independent Director
- 7 Member Audit Committee
- 8 Chairman Audit Committee
- 9 Member Remuneration Committee

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Report of the Directors  
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## Corporate governance Biographical details (continued)

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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 52. 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)

#### **Harish Manwani**

[President Asia Africa](#)

Nationality: Indian. Aged 53. 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.

#### **Rudy Markham**

[Chief Financial Officer](#)

(see previous details on page 46)

#### **Sandy Ogg**

[Chief Human Resources Officer](#)

Nationality: American. Aged 53. 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 in Change Management/Organisation Effectiveness to assist in the transformation of all Communications businesses.

#### **John Rice\*\***

[President The Americas](#)

Nationality: American. Aged 55. Appointed President The Americas April 2005. Joined Unilever 1981. Previous posts include: Business Group President, Unilever Foods, North America 2002 and Unilever

Bestfoods Latin America 2000.

- \* UEx members are treated as executive officers and senior management for US purposes and key management personnel for IFRS purposes. Although Unilever intends to offer revised service agreements to members of UEx, the agreements are currently under negotiation with these individuals. 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 122
- \*\* Unilever announced on 19 December 2006 that John Rice had decided to retire from Unilever in March 2007. He will be replaced on the Unilever Executive Team and as President, The Americas by Michael Polk. Michael is currently Group Vice President and President Unilever United States. Michael joined Unilever in 2003 after 16 years at Kraft.

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**Report of the Directors**  
(continued)

## Report of the Nomination Committee

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### Composition

During 2006 the Nomination Committee comprised three Independent Non-Executive Directors and the Chairman of Unilever. David Simon chaired the Committee from 9 May 2006, taking over from Bertrand Collomb. Other members in 2006 were Jean-Cyril Spinetta, as from 9 May 2006, and Jeroen van der Veer and Antony Burgmans. The Joint Secretaries act as secretaries to the Committee.

The Boards are of the view that it is appropriate that the Chairman is included as a member of the Committee on the express condition that he does not participate in any discussion of his own position.

### Remit

The Committee recommends to the Boards candidates for the positions of Executive and Non-Executive Director, Chairman, Vice-Chairman and Senior Independent Director. The Committee is concerned with succession planning within the Boards. The Committee also has responsibility for oversight of all matters relating to corporate governance and brings any issues to the attention of the Boards. The Committee uses the services of recruitment consultants and other external experts. The Boards conduct a process of evaluation of their own performance each year. This includes a review of each Board Committee's performance.

The remit of the Committee 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). Also on the website are the procedures for evaluation of the Boards and individual Directors. The results of the evaluations are provided to the Committee when it discusses the nominations for election as Directors, who offer themselves for re-election every year.

In nominating Directors to the Boards, the Committee follows an 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. 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).

### Meetings of the Committee

The Committee met six times in 2006. All but one meeting were fully attended. The Committee proposed the nomination of all Directors offering themselves for re-election at the AGMs in 2006. In 2006, the Committee also proposed the nomination of four new Non-Executive Directors.

These were Charles Golden, Byron Grote, Kees Storm and Jean-Cyril Spinetta. They were chosen specifically for their financial and general business expertise. The first three are members of the Audit Committee, with Kees Storm in the chair. Jean-Cyril Spinetta is a member of the Nomination Committee and the Remuneration Committee.

During the year the Committee conducted the search for a new Chairman to succeed Antony Burgmans, who retires at the 2007 AGMs. The Committee followed a thorough process supported by an independent consultant. The process resulted in the Committee's recommendation to the Boards to nominate Michael Treschow as Antony Burgmans' successor. The Committee is pleased to have identified an excellent candidate, who fully meets the criteria set for the Chairman's role. Upon appointment Michael Treschow will be the first independent

non-executive Chairman of Unilever.

The Committee has initiated the search process aimed at identifying candidates for the role of Chief Financial Officer, following the retirement of Rudy Markham at the 2007 AGMs. For this purpose an outside executive search firm has been engaged.

Also with the support of independent consultants the Committee continued its search for new Non-Executive Directors 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.

The nominations of Genevieve Berger, Hixonia Nyasulu and Narayana Murthy are the result of this search. The Committee is of the view that they, if appointed, would be a very valuable addition to the Boards' composition.

The Committee commissioned an outside consultant to support it in carrying out the 2006 evaluation of the Boards, the Chairman, the individual Directors and the Board Committees. The results of this evaluation have been presented to and discussed by the Boards. The overall conclusion is that Boards and Board Committee performance is in line with that of its peer group.

**David Simon** Chairman of the Nomination Committee

**Antony Burgmans**

**Jean-Cyril Spinetta**

**Jeroen van der Veer**

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**Report of the Directors**  
(continued)

## Report of the Remuneration Committee

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During 2006 the Committee has reviewed the remuneration policy and practice of the past few years, and on the basis of this experience has decided to prioritise five strategic principles to serve as the platform for Unilever's approach to remuneration. This strategy is not only for our Executive Directors but for all Unilever's leadership levels. These principles, which improve the structure of our existing remuneration framework as explained in greater detail in the following pages, are that pay should be:

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

Our overriding objective is to ensure that Unilever recruits and retains the best performers and then optimises the return on investment from the reward system for Unilever's leadership group. It is also our aim to manage the differing elements of total remuneration in a fully integrated manner.

The five principles will from 2007 provide the foundation of some important changes to executive remuneration that we are proposing for the level and structure of Unilever incentive plans. Our proposals have been the subject of consultation with our major shareholders and their representatives. In summary, these changes enhance variable rewards relative to fixed pay and simplify the share-based incentives.

The details of the proposed changes to Unilever's long-term incentive arrangements are described in the Notices to Shareholders for the 2007 AGMs.

In short, we believe that we have developed an approach which incorporates the right mix and level of incentives for our leadership team which also aligns with shareholders' interests. It would also be more understandable and simpler to communicate to our staff.

The year 2006 showed a continuing improvement in top-line growth, whilst trading contribution was proximate to but slightly below the targets we had set.

To remain competitive the base salaries for the Unilever Executive team were increased by an average of 3.9% from the beginning of 2006. Based on the performance over 2006 the annual incentive awards were on average 52% of base salary across the Unilever Executive team. However, in industry ranked terms we are not yet in a payout position for the TSR Long-Term Incentive Plan.

In 2007, we are strengthening the linkage between business performance and executive rewards.

We hope to see continued improvement in business results in 2007, with the leadership team appropriately rewarded commensurate with these improved results.

**David Simon** Chairman of the Remuneration Committee  
**Jean-Cyril Spinetta**  
**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 55, the 'Remuneration for individual Executive Directors' on page 55, the 'Executive Directors' Global Performance Share Plan' on page 56, the 'Executive Directors' conditional share awards under the TSR Long-Term Incentive Plan' on page 56, the 'Executive Directors' Share Matching Plan' on page 57, 'Executive Directors' share options' on page 58, 'Executive Directors' pensions' on page 59, 'Executive Directors' interests in share capital' on page 60, 'Non-Executive Directors' remuneration on page 61 and 'Non-Executive Directors' interests in share capital' on page 62.

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**Report of the Remuneration Committee (continued)****Unilever reward policy table 2006**

Element	Payment vehicle	Indicative levels at face value as % of base pay	Plan objectives/Key drivers	Performance measures
<b>Short-term (one year)</b>				
Base salary	Cash	Market competitive	Attraction and retention of key executives	Individual performance
Annual incentive	Cash (75%)	Executive Director: 60% on target	Delivery of trading contribution (Unilever's primary internal measure of economic value added – see page 51) and top-line growth targets	Trading contribution (Executive Director: 40%, Group Chief Executive: 50%)
	Shares (25%)	Group Chief Executive: 90% on target (range of 0% – 150%)		
			Individual responsibility for key Unilever business objectives	Underlying sales growth (Executive Director: 40%, Group Chief Executive: 50%)  Individual contribution to Unilever business strategy (Executive Director: 20%, Group Chief Executive: 50%)
<b>Long-term (three years)</b>				
Global Performance Share Plan	Shares	Grant level: around 25%  Vesting level: 0% – 200% of grant	Ungeared Free Cash Flow as the basic driver of Unilever shareholder returns  Top-line growth as essential to Unilever's long-term value creation	Ungeared Free Cash Flow (50%)  Underlying sales growth (50%)
TSR Long-Term Incentive Plan	Shares	Grant level: around 60%  Vesting level: 0% – 200% of grant	Shareholder return at upper half of peer group with 20 other companies	Relative total shareholder return

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Share Matching Plan	Shares	25% of annual incentive earned in return for the deferral of 25% of bonus earned	Alignment with shareholders' interests
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A significant proportion of the Executive Directors' total reward is linked to a number of key measures of Group performance to create alignment with the strategy and business priorities.

Depending on the level of performance the variable component could vary between 0% and around 70% of the total reward package (excluding pensions).

Unilever's reward policy is benchmarked regularly against arrangements of other global companies based in Europe. This ensures that Executive Directors' reward levels remain competitive. An internal comparison is 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 needs to happen to drive underlying performance. This is reflected in both the short-term and long-term performance targets.

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**Report of the Directors**  
(continued)

## 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 in the context of Group and individual performance.

### Annual incentive

The annual incentive arrangement 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 2006, the Group Chief Executive had a maximum opportunity of 150% of base salary. The maximum level is only payable in the case of exceptional performance. The opportunity for other Executive Directors in 2006 was between 0% and 100%.

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 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. Part of the annual incentive (25%) 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

The long-term incentives for Executive Directors in 2006 consist of three elements, all of which are delivered in shares:

- Global Performance Share Plan;
- TSR Long-Term Incentive Plan; and
- Share Matching Plan (linked to the 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 Performance Share Plan (GPSP)

Under the GPSP conditional rights over shares in NV and PLC are awarded annually to Executive Directors. For Executive Directors the value of a grant of conditional shares will not exceed 50% of base salary. The number of shares actually received at the end of the performance periods of the three years depends on the satisfaction of the performance targets.

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The performance measures for vesting are underlying sales growth (for 50% of the award) and ungeared free cash flow (for 50% of the award). These are key performance measures in Unilever's external reporting. Underlying sales growth focuses on the organic growth of Unilever's turnover. Ungeared free cash flow expresses the translation of profit into cash and thus longer-term economic value.

In respect of performance targets, there is a minimum and a maximum performance range for each of the two measures and associated vesting levels. Each year, the Remuneration Committee reviews the performance targets by taking account of market conditions and internal financial planning.

### Total Shareholder Return (TSR) Long-Term Incentive Plan

This plan rewards Executive Directors for creating more value for Unilever's shareholders when compared with the investment returns generated by competitors.

Under this plan conditional rights over shares in NV and PLC are awarded annually to Executive Directors.

The level of conditional annual award in 2006 is as follows:

- Group Chief Executive: Shares in NV and PLC to the combined value of €800 000; and
- Other Executive Directors: Shares in NV and PLC to the combined value of €500 000.

Vesting is subject to Unilever's relative TSR performance. TSR measures the returns received by a shareholder, capturing both the increase in share price and the value of dividend income (assuming dividends are reinvested). Unilever's TSR performance is compared with a peer group of competitors over a three-year performance period. The TSR results are compared on a single reference currency basis.

No shares will vest if Unilever is ranked below position 11 of the TSR ranking table over the three-year period. Between 25% and 200% of the shares will vest if Unilever is ranked in the top half of the table as shown below:

Vested award	% of original conditional award that will vest
TSR peer group ranking	
12th to 21st	0%
10th or 11th	25%
8th or 9th	50%
5th to 7th	100%
3rd or 4th	150%
1st or 2nd	200%

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**Report of the Directors**

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**Report of the Remuneration Committee (continued)**

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Peer group:

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

[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 set out on page 51.

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 Remuneration Committee has decided that from 2007 new Executive Directors will be members of the all-employee pension arrangement of their home country. 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 for Executive Directors in 2005 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 many other employees of Unilever. For example, like other employees, Executive Directors are able to participate in the UK Employee ShareSave Plan, the UK Share Incentive Plan (ShareBuy) and the All Employee Option Plan in the Netherlands.

Some of the Executive Directors serve as a non-executive on the Board of another company. Unilever requires that all remuneration and fees earned from outside directorships are paid directly to Unilever.

**Future developments**

Changes will be proposed for the structure and level of the Unilever incentive plans. In summary these changes enhance variable awards relative to fixed pay and simplify the share-based incentives.

Details of the proposed changes to Unilever's long-term incentive arrangements are described in the notice to shareholders for the 2007 AGMs.

The Remuneration Committee intends to continue monitoring 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.

### Commentary on Executive Directors' Remuneration paid in 2006

The tables on pages 55 to 60 give details of the specific elements of Executive Directors' reward packages in 2006.

#### Base salary

In 2006, base salary levels were benchmarked against those paid in other major global companies based in Europe, excluding companies in the financial sector. The increases for 2006 reflect the change in market levels as well as individual and Group performance. The 2006 annual base salary levels for the Executive Directors are set out below:

<b>Based in the UK</b>	
Patrick Cescau	£ 972 500
Ralph Kugler	£ 587 500
Rudy Markham	£ 664 500
<b>Based in the Netherlands</b>	
Kees van der Graaf	€798 000

#### Annual incentive

The annual incentive awards for 2006 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 2006.

#### Long-term incentive arrangements

- **Global Performance Share Plan**

The performance period of the first award ends on 31 December 2007 and therefore no award vested in 2006. The second award was made in 2006 for the performance period 2006-2008.

- **TSR Plan**

The conditional shares awarded in 2003 lapsed in 2006 because the 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 2005. For this period, Unilever was ranked 14 in this peer group and therefore no vesting occurred for this award in March 2006 and the shares lapsed.

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**Report of the Directors**  
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## Report of the Remuneration Committee (continued)

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- **Share Matching Plan**  
The matching shares originally granted in 2003 on a conditional basis vested in 2006, subject to fulfilment of the retention conditions.
- **Executive Share Options**  
The grants of executive share options made in 2003 became exercisable as from 2006. As the 2003 grant was based on Unilever's EPS performance, the options at vesting were subject to no further conditions.

### 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 2006, in line with the treatment adopted for other UK-based employees, individual contributions paid by Executive Directors in the UK are now paid through a salary sacrifice arrangement.

### Non-Executive Directors

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 the companies. The levels were increased in 2006 as a market analysis against Unilever's peers showed that Unilever had fallen behind in this area. The Remuneration Committee believes that the levels outlined below are fair in the light of the responsibilities carried out by Non-Executive Directors and in view of the need to attract and retain Non-Executive Directors of the appropriate calibre and standing.

The current fee levels are set out below:

Non-Executive Role	Fees payable by PLC	Fees payable by NV
Chairman	£175 000	€255 000
Senior Independent Director	£45 000	€65 000
Chairman of Audit Committee	£38 000	€55 000
Board Committee Chairman	£35 000	€50 000
Other Non-Executive Directors	£31 000	€45 000

An additional £5 000 per meeting will be paid to Non-Executive Directors who have to travel to meetings from outside Europe.

### Other items

#### 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



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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

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**Report of the Directors**  
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## Report of the Remuneration Committee (continued)

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### Remuneration committee

#### 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 2006, it met on six occasions.

#### Structure and role

Bertrand Collomb stepped down as Chairman of the Committee at the AGM 2006. At the same time David Simon became the new Chairman of the Committee and Jean-Cyril Spinetta joined as member of the Committee. The other Non-Executive Director of the Committee is Jeroen van der Veer.

#### Advice and assistance

The Committee does not formally retain remuneration consultants. It seeks professional advice from external advisers as and when required. During 2006, 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 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.

The Non-Executive Chairman can, in his role as Chairman of the Board, also attend the meetings.

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**Report of the Directors**  
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## Report of the Remuneration Committee (continued)

The following section contains detailed information on the Executive Directors' annual remuneration, long-term incentives, pension benefits and share interests in respect of 2006.

### 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.

	€ '000 2006	€ '000 2005
<b>Annual emoluments</b>		
Base salary	4 061	5 219
Allowances and other payments:		
Allowances	178	255
Other payments <sup>(a)</sup>	735	2 586
Benefits	111	264
Performance-related payments (annual incentive)	2 409	2 752
<b>Sub-total of annual emoluments</b>	<b>7 494</b>	11 076
<b>Other income arising from vesting/exercise of long-term incentives<sup>(b)</sup></b>		
Gains on exercise of share options	427	10
Vesting of matching shares	566	1 149
Vesting of TSR Long-Term Incentive Plans	□	□
<b>Total of annual emoluments and other income arising from long-term incentives</b>	<b>8 487</b>	12 235

(a) Other payments include payments to Antony Burgmans and André van Heemstra following contractual obligations.

(b) Includes the gains realised in 2006 following the exercise of share options granted in earlier years and the value of matching shares vested in 2006. No value is attributed to TSR Long-Term Incentive Plan as the shares which were conditionally granted in 2003 did not vest and lapsed in 2006.

### Remuneration for individual Executive Directors

The following table gives details of the remuneration received in 2006 (including the value of vested share match and options exercised at the end of the exercise period) by each Executive Director individually.

**Annual Emoluments 2006**

**Other income arising from  
long-term incentives and  
exercise of options in 2006**

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Name and Base Country	Base salary € '000	Allowances and other payments <sup>(a)</sup> € '000	Benefits <sup>(b)</sup> € '000	Bonus <sup>(c)</sup> € '000	Total 2006 € '000	Total 2005 € '000	Option gains € '000	Share match € '000	TSR/LTIP € '000	Grand total 2006 € '000	Grand total 2005 € '000
Patrick Cescau (UK) <sup>(d)</sup>	1 426	109	51	1 141	<b>2 727</b>	2 544	□	213	□	<b>2 940</b>	2 742
Kees van der Graaf (NL)	798	14	23	367	<b>1 202</b>	1 119	□	85	□	<b>1 287</b>	1 173
Ralph Kugler (UK)	862	27	10	414	<b>1 313</b>	817	□	101	□	<b>1 414</b>	827
Rudy Markham (UK)	975	28	27	487	<b>1 517</b>	1 425	427 <sup>(e)</sup>	167	□	<b>2 111</b>	1 610

Following notice period payments made to former Executive Directors:

Antony Burgmans ( NL) Jan □ May	674				<b>674</b>					<b>674</b>	
André van Heemstra (NL) January	61				<b>61</b>					<b>61</b>	

(a) Include: allowance in lieu of company car; blind trust fees compensation; compensation for loss of net income because part of the salary had to be paid in the Netherlands; entertaining allowance; allowance for cost on chauffeur driven cars 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. Also includes payments to Antony Burgmans and André van Heemstra following contractual obligations.

(b) Include: benefits for company car; medical insurance; private use chauffeur driven cars; and housing (for business use) instead of hotel. 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 2006 totalled €206 083 (including related taxes payable).

(c) Bonus of the year 2006. Include: the value of both the cash element and the element paid in shares of Unilever N.V. 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) All shares under option purchased and retained.

Figures have been translated into euros using the following exchange rate: €1 = £0.6818 (2005: €1 = £0.6837)

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## Report of the Directors (continued)

### Report of the Remuneration Committee (continued)

#### Executive Directors – Global Performance Share Plan

The following conditional shares were outstanding, awarded or vested during 2006 under the Global Performance Share Plan:

	Share type	Balance of conditional	Conditional grant made 21 March 2006		Balance of conditional
		shares at 1 January 2006	(Performance period 2006 to 2008 <sup>(b)</sup> )		shares at 31 December 2006
		No. of shares <sup>(a)</sup>	No. of shares <sup>(a)</sup>	Price at award <sup>(a)</sup>	No. of shares
Patrick Cescau	NV	9 000	9 000	€19.10	18 000
	PLC	9 000	9 000	1 301.11p	18 000
Kees van der Graaf	NV	6 000	6 000	€19.10	12 000
	PLC	6 075	6 075	1 301.11p	12 150
Ralph Kugler	NV	6 000	6 000	€19.10	12 000
	PLC	6 075	6 075	1 301.11p	12 150
Rudy Markham	NV	6 000	6 000	€19.10	12 000
	PLC	6 075	6 075	1 301.11p	12 150

(a) Number of shares and share prices have been recalculated following the share split and consolidation.

(b) Each award of performance shares is conditional and vests subject to certain conditions three years after the date of the award. The 2006 awards are subject to the performance period 1 January 2006 to 31 December 2008.

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

Conditional rights to ordinary shares in NV and PLC were outstanding, granted or vested/lapsed in 2006 as shown in the table below:

	Share type	Balance of conditional	Conditional award made 21 March 2006		Conditional awards lapsed 25 March 2006	Balance of conditional	
		shares at 1 January 2006	(Performance period 2006 to 2008) <sup>(a)</sup>		(Performance period 2003 to 2005) <sup>(b)</sup>	shares at 31 December 2006	
		No. of shares <sup>(c)</sup>	No. of shares <sup>(c)</sup>	Price at award <sup>(c)</sup>	No. of shares <sup>(c)</sup>	Original price at award <sup>(c)</sup>	
Patrick Cescau	NV	51 144	20 943	€19.10	(13 611)	€18.37	58 476

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				1			
	PLC	52 118	21 326	301.11p	(12 995)	1 300p	60 449
Kees van der Graaf	NV	31 281	13 089	€19.10	(8 169)	€18.37	36 201
	PLC	31 888	13 329	301.11p	(7 795)	1 300p	37 422
Ralph Kugler	NV	31 281	13 089	€19.10	(8 169)	€18.37	36 201
	PLC	31 888	13 329	301.11p	(7 795)	1 300p	37 422
Rudy Markham	NV	42 267	13 089	€19.10	(13 611)	€18.37	41 745
	PLC	42 845	13 329	301.11p	(12 995)	1 300p	43 179

(a) The end date of the performance period in respect of the conditional award made in 2006 is 31 December 2008.

(b) The conditional awards made in 2003, which vested in 2006 were based on the TSR performance of Unilever (when ranked against its defined peer group) over the three-year performance period ending 31 December 2005. For this period, Unilever was ranked 14 out of its peer group and therefore no vesting occurred for this award in March 2006 and the awarded shares of the award 2003 lapsed.

(c) The numbers of shares and prices have been converted following the share split and share consolidation which took place on 22 May 2006.

Antony Burgmans changed from Executive to Non-Executive Director at the 2005 AGMs and assumed his new role of Non-Executive Chairman. In his capacity as an Executive Director Antony Burgmans was granted conditional shares under the TSR Long-Term Incentive Plan.

Below are details of the balances and vesting of shares under this Plan:

	Balance 1 January 2006 <sup>(a)</sup>	Conditional award lapsed 25 March 2006 <sup>(a)(b)</sup>	Balance 31 December 2006
NV	43 962	(21 780)	22 182
PLC	43 814	(20 790)	23 024

(a) The number of shares and prices have been converted following the share split and share consolidation which took place on 22 May 2006.

(b) The conditional shares awarded in 2003 lapsed in March 2006.

In his capacity as a Non-Executive Chairman, Antony Burgmans does not participate in any share-based remuneration.

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**Report of the Directors**  
(continued)

## Report of the Remuneration Committee (continued)

### Executive Directors' conditional share awards under the TSR Long-Term Incentive Plan (continued) 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 2006 under the share matching plan:

	Share type	Balance of conditional shares at 1 January 2006		Conditional shares awarded in 2006(a)(b)		Shares vested on 24 March 2006(a)(c)		Balance of conditional shares at 31 December 2006
		No. of shares(a)	No. of shares	Price at award	No. of shares	price at vesting	Market price at award	Original No. of shares
Patrick Cescau	NV	7 932	6 552	€19.10 1	(5 706)	€19.15 1	€18.37	8 778
	PLC	7 770	6 671	301.11p	(5 449)	298.89p	1 300p	8 992
Kees van der Graaf	NV	4 293	2 211	€19.10 1	(2 238)(d)	€19.15 1	€18.37	4 266
	PLC	4 439	2 254	301.11p	(2 299)(d)	298.89p	1 300p	4 394
Ralph Kugler	NV	4 359	2 175	€19.10 1	(2 703)	€19.15 1	€18.37	3 831
	PLC	4 305	2 215	301.11p	(2 584)	298.89p	1 300p	3 936
Rudy Markham	NV	6 675	2 739	€19.10 1	(4 482)	€19.15 1	€18.37	4 932
	PLC	6 552	2 788	301.11p	(4 269)	298.89p	1 300p	5 071

(a) The numbers of shares and prices have been converted following the share split and share consolidation which took place on 22 May 2006.

(b) Each award of matching shares is conditional and vests three years after the date of the award subject to certain conditions. The 2006 award was made on 21 March 2006 and will vest on 21 March 2009.

(c) The conditional shares awarded on 25 March 2003 (relating to the 2002 performance period) vested on 24 March 2006.

(d) Includes conditional shares awarded in 2001: 1 041 NV (original granted at €20.97) and 1 155 PLC (original granted at 1 174p). Antony Burgmans changed from Executive to Non-Executive Director at the 2005 AGMs and assumed his new role of Non-Executive Chairman. In his capacity as an Executive Director Antony Burgmans was granted conditional share under the Executive Directors' Share Plan.

Below details of the balances and vesting of shares under this Plan:

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	Balance 1 January 2006(a)	Conditional shares awarded in 2006(a)(b)	Shares vested 24 March 2006(a)(c)	Balance 31 December 2006
NV	9 909	1 743	(7 083)	4 569
PLC	9 698	1 773	(6 759)	4 712

(a) The number of shares and prices have been converted following the share split and share consolidation which took place on 22 May 2006.

(b) The award was made 21 March 2006 and related to the period January to May 2005. The award will vest on 21 March 2009.

(c) The conditional shares awarded 25 March 2003 vested on 24 March 2006.

In his capacity as a Non-Executive Chairman, Antony Burgmans does not participate in any share-based remuneration.



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## Report of the Directors (continued)

### Report of the Remuneration Committee (continued)

#### Executive Directors' share options

Details of the option plans under which Executive Directors and employees are able to acquire ordinary shares of NV and PLC are shown in note 29 on pages 117 to 121.

Options to acquire NV ordinary shares of €0.16 each and options to acquire PLC ordinary shares of 39p each were granted, exercised, lapsed and held during 2006 as follows:

Share type	Balance of options at 1 January 2006(a)	Number of options granted in 2006	Number of options exercised/lapsed in 2006	Balance of options at 31 December 2006	Options outstanding below market price at 31 December 2006		Options outstanding above market price at 31 December 2006		First exercisable date	
					Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price		
<b>Patrick Cescou</b>										
Executive Plan	NV	269	□	□	269	135	□	133	□	□
Executive Plan	PLC	166	□	□	166	237	€17.66	929	€22.08	08/05/01
NL All-Employee Plan	NV	272	□	□	272	245	1 175p	27 000	1 483p	08/05/01
UK ShareSave Plan	PLC	967	□	□	967	967	1 171p	□	□	01/10/11
<b>Kees van der Graaf</b>										
Executive Plan	NV	135	□	□	135	83 250	€18.30	52 200	€21.94	24/03/02
Executive Plan	PLC	450	□	□	450	135	1 203p	□	□	24/03/02
NL All-Employee Plan	NV	450	□	□	450	450	1 202p	□	□	01/10/10
UK ShareSave Plan	PLC	750	150(b)	(150)(c)	750	600	€17.53	150	€22.63	12/06/02
<b>Ralph Kugler</b>										
Executive Plan	NV	176	□	□	176	120	€18.19	56 025	€22.04	24/03/02
		625	□	□	625	600				

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Executive Plan NL	PLC	176 625	□	□	176 625	176 625	1 163p	□	□	24/03/02
All-Employee Plan UK	NV	150	150(b)	□	300	300	€17.59	□	□	18/05/05
ShareSave Plan	PLC	1 374	□	□	1 374	1 374	1 202p	□	□	01/10/10

Rudy Markham

Executive Plan NL	NV	264 150	□	(27 000)(e)	237 150	130 500	106 650	€17.60	€22.21	08/05/01
Executive Plan NL	PLC	278 682	□	(41 532)(f)(g)	237 150	203 400	33 750	1 167p	1 483p	08/05/01
All-Employee Plan UK	NV	750	150(b)	(150)(c)	750	600	150	€17.53	€22.63	12/06/02
ShareSave Plan	PLC	1 373	□	□	1 373	1 373	1 190p	□	□	01/10/09

(a) The number of shares and the share prices have been converted following the share split and share consolidation which took place on 22 May 2006.

(b) Grants made under the Dutch All-Employee Option Plan on 18 May 2006 at an option price of €17.50.

(c) Options lapsed without value on 30 May 2006.

(d) Grants made under the UK All-Employee ShareSave Plan on 3 July 2006 at an option price of 1 171p.

(e) Options exercised on 1 December 2006 at a market price of €19.97. The options had originally been granted on 2 June 1997 at a price (after taking into account the share split in May 2006) of €14.26.

(f) Options in respect of 14 532 shares exercised on 2 June 2006 at a market price of 1 188p. The options had originally been granted on 6 December 1996 at a price (after taking into account the share consolidation in May 2006) of 762p.

(g) Options in respect of 27 000 shares exercised on 1 December 2006 at a market price of 1 363p. The options had originally been granted on 2 June 1997 at a price (after taking into account the share consolidation in May 2006) of 904p.

The value, calculated in accordance with an adjusted Black-Scholes pricing method in respect of options granted in 2006 to the current Executive Directors was as follows: Patrick Cescau €6 155; Kees van der Graaf €432; Ralph Kugler €432; and Rudy Markham €432.

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 2006 were €20.70 (NV shares) and 1 428p (PLC shares). During 2006 the highest market prices were €20.84 and 1 428p respectively, and the lowest market prices were €16.53 and 1 125p respectively.

Antony Burgmans changed from Executive to Non-Executive Director at the 2005 AGMs and assumed his new role of Non-Executive Chairman. In his capacity as an Executive Director Antony Burgmans was granted share options under the Executive Plan and the Dutch All-Employee Plan.

Below are details of his outstanding options under the Option plans:

Plan	Share type	Balance of options at 1 January 2006	Number		Balance of options at 31 December 2006	Balance below market price	Weighted average exercise price	Balance above market price	Weighted average exercise price	First exercisable date	Final expiration date
			Number of options granted in 2006	of options exercised/lapsed in 2006							
Executive Option	NV	316 800	□	□	316 800	203 400	€17.61	113 400	€21.78	24/03/02	13/02/09
	PLC		□	□	316 800		1 163p	□	□	24/03/02	13/02/09

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Executive	316				316						
Option	800				800						
NL											
All-Employee											
Plan	600	□	(150) <sup>(a)</sup>	450	300	€17.47	150	€22.63	12/06/02	12/05/09	

(a) Options lapsed without value on 30 May 2006.

In his capacity as a Non-Executive Chairman, Antony Burgmans does not participate in any share-based remuneration.

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**Report of the Directors**  
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## Report of the Remuneration Committee (continued)

### Executive Directors' pensions<sup>(a)</sup>

Pension values for the year ended 31 December 2006 are set out below.

Name and base country	Age at 31/12/06	Accrued pension at 31/12/05 <sup>(b)</sup> €'000 pa	Increase in accrued pension during 2006 <sup>(c)</sup> €'000 pa	Accrued pension at 31/12/06 <sup>(b)</sup> €'000 pa	Transfer value of accrued pension at 31/12/05 <sup>(d)</sup> €'000	Increase in transfer value during 2006 (less individual contributions) <sup>(e)</sup> €'000	Individual contributions made during 2006 <sup>(f)</sup> €'000	Transfer value of accrued pension at 31/12/06 <sup>(d)</sup> €'000
Patrick Cescau (UK)	58	933	67	<b>1 000</b>	16 770	1 874	18	<b>18 662</b>
Kees van der Graaf <sup>(g)</sup> (NL)	56	538	64	<b>602</b>	6 942	1 147	9	<b>8 098</b>
Ralph Kugler (UK)	50	396	45	<b>441</b>	5 411	862	10	<b>6 283</b>
Rudy Markham (UK)	60	752	41	<b>793</b>	15 147	741	21	<b>15 909</b>

- (a) Figures have been translated into euros where necessary using the following exchange rates: 31 December 2005 €1.00 = £0.6864; 31 December 2006 €1.00 = £0.6712; Average for the year ended 31 December 2006 €1.00 = £0.6818.
- (b) Based on the Executive Directors' current pension letters and calculated on a deferred basis using the Executive Directors' service to 31 December 2005 and 31 December 2006 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 2005.
- (d) For the Netherlands-based Executive Directors' arrangement calculated on the basis used by the Unilever Netherlands pension plan ('Progress'), as prescribed by the Netherlands Ministry of Social Affairs and Employment. For the UK-based Executive Directors' arrangement calculated on the market related basis used by Unilever United Kingdom pension plan (UUKPF), in line with the GN11 guidance note published by the Institute and Faculty of Actuaries in the United Kingdom.
- (e) The increase in transfer value during 2006 includes the effect of salary increases and additional service together with exchange rate movements (for pensions denominated in currencies other than Euro) and the Executive Directors being one year closer to retirement.
- (f) Consistent with other Netherlands and UK-based employees, the rate of individual contributions in the Netherlands is 1% of pensionable salary and in the UK 5% of pensionable salary (above the relevant thresholds). In line with the treatment adopted for other UK-based employees, individual contributions paid by Executive Directors in the UK are now paid through a salary sacrifice arrangement. Individual contributions shown above represent the contributions paid before the change to salary sacrifice.
- (g)

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Consistent with the treatment adopted for other Netherlands-based employees, the increase in pension accrued during the year includes the impact of the changes to the Unilever Netherlands pension plan.

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 table above:

- Increase (or decrease) in accrued pension during 2006 (excluding the effect of inflation on the accrued pension at 31 December 2005): Patrick Cescau €33 000; Kees van der Graaf €56 000; Ralph Kugler €10 000; Rudy Markham €(4 000); and
- Transfer value at 31 December 2006 of the increase (or decrease) in accrued pension during 2006 (excluding the effect of inflation on the accrued pension at 31 December 2005 and less individual contributions): Patrick Cescau €605 000; Kees van der Graaf €754 000; Ralph Kugler €134 000; Rudy Markham €(110 000).

The Dutch Corporate Governance Code requires the following disclosure of pension service costs charged to operating profit: Patrick Cescau €842 000; Kees van der Graaf €258 000; Ralph Kugler €299 000; Rudy Markham €167 000.

The accrued pension of Antony Burgmans at 1 June 2006 (the date his pension payment commenced) was €1 136 000; increase in accrued pension during the year €22 000 (€21 000 excluding inflation); transfer value of the increase in accrued pension during the year (less individual contributions) €652 000 (€337 000 excluding inflation); individual contributions made during the year €10 000; pension cost charged to operating profit €621 000.

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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 2006 and of their immediate families were as shown in the table below:

Name	Share type <sup>(a)</sup>	Shares held at	Shares held at
		1 January 2006 (excluding unvested matching shares) <sup>(b)</sup>	31 December 2006 (excluding unvested matching shares)
Patrick Cescau <sup>(c)</sup>	NV	69 351	85 059
	PLC	40 230	52 347
Kees van der Graaf	NV	18 708	23 157
	PLC	12 037	16 718
Ralph Kugler	NV	41 628	45 396
	PLC	16 264	20 124
Rudy Markham	NV	127 044	161 265
	PLC	64 606	113 329

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

The numbers have been converted into the new denomination following the NV/PLC share split and share consolidation which took place on 22 May 2006.

(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 19 454 453 PLC ordinary shares at 1 January 2006 (converted into the new denomination following the shares split and consolidation) and 16 678 871 PLC ordinary shares at 31 December 2006, 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 121.

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 families in NV and PLC ordinary shares between 31 December 2006 and 1 March 2007 were that:

- The holding of the Unilever Employee Share Trust (Jersey) has reduced to 16 313 295 PLC ordinary shares; and
-

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Kees van der Graaf, Ralph Kugler and Rudy Markham each acquired further interests in 18 PLC ordinary shares during January and February due to monthly ShareBuy purchases.

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**Report of the Directors**  
(continued)

## Report of the Remuneration Committee (continued)

### Non-Executive Directors' remuneration

The total fees payable to each Non-Executive Director in 2006 are set out below:

<b>Current Non-Executive Directors</b>	€ <b>Total fees paid in 2006</b> <sup>(a)</sup>	€ Total fees paid in 2005(a)
Leon Brittan <sup>(b)</sup>	<b>82 712</b>	67 102
Antony Burgmans <sup>(c)</sup>	<b>299 614</b>	□
Lynda Chalker <sup>(d)</sup>	<b>94 403</b>	80 415
Wim Dik <sup>(b)(e)</sup>	<b>84 663</b>	67 102
Charles Golden <sup>(e)(f)(g)</sup>	<b>89 478</b>	n/a
Byron Grote <sup>(e)(f)</sup>	<b>60 311</b>	n/a
David Simon <sup>(h)</sup>	<b>109 735</b>	67 102
Jean-Cyril Spinetta <sup>(f)(i)</sup>	<b>60 311</b>	n/a
Kees Storm <sup>(f)(j)</sup>	<b>75 137</b>	n/a
Jeroen van der Veer <sup>(i)</sup>	<b>82 712</b>	67 102
<b>Former Non-Executive Directors</b>		
Bertrand Collomb <sup>(k)(l)</sup>	<b>42 001</b>	100 654
Oscar Fanjul <sup>(e)(l)</sup>	<b>28 000</b>	67 102
Hilmar Kopper <sup>(j)(l)</sup>	<b>33 557</b>	80 415

(a) Covers fees and allowances received from both NV and PLC.

(b) Member of the Corporate Responsibility and Reputation Committee.

(c) Chairman NV and PLC, and Nomination Committee member. Received fee as Chairman since June 2006.

(d) Chairman of the Corporate Responsibility and Reputation Committee.

(e) Member of the Audit Committee.



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- (f) Appointed at 2006 AGMs.
- (g) Total fees include €29 167 allowance for travel from outside Europe.
- (h) Senior Independent Director, Vice Chairman and Chairman of the Remuneration and Nomination Committees as from 2006 AGMs. Until 2006 AGMs member of the Nomination and Remuneration Committees.
- (i) Member of the Nomination and Remuneration Committees.
- (j) Chairman of the Audit Committee.
- (k) Senior Independent Director, Vice Chairman and Chairman of the Remuneration and Nomination Committees until 2006 AGMs.
- (l) Stepped down at the 2006 AGMs.

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**Report of the Directors**  
(continued)

## Report of the Remuneration Committee (continued)

### 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 2006 (including those of their immediate families) were as shown below:

Name	Share type <sup>(a)</sup>	Shares held at 1 January 2006 <sup>(b)</sup>	Shares held at 31 December 2006
Leon Brittan	NV	0	0
	PLC	0	0
Antony Burgmans	NV	133 848	137 334
	PLC	58 511	62 054
Lynda Chalker	NV	0	0
	PLC	1 136	1 136
Wim Dik	NV	0	0
	PLC	0	0
Charles Golden	NV	0	0
	PLC	0	0
Byron Grote	NV	3 000 <sup>(c) (d)</sup>	3 000 <sup>(d)</sup>
	PLC	1 800 <sup>(c) (e)</sup>	1 800 <sup>(e)</sup>
David Simon	NV	0	0
	PLC	1 421	1 492
Jean-Cyril Spinetta	NV	0	0
	PLC	0	0
Kees Storm	NV	0	0
	PLC	0	0
Jeroen van der Veer	NV	16 800	16 800
	PLC	0	0

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

(b) The numbers have been converted into the new denomination following the share split and share consolidation which took place on 22 May 2006.

(c) Balance at date of appointment at the AGMs in May 2006.

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(d) Held in the form of NV New York shares.

(e) Held in the form of PLC ADRs.

There were no changes in the interests of the Non-Executive Directors and their immediate families in NV and PLC ordinary shares between 31 December 2006 and 1 March 2007.

The Report has been approved by the Boards and has been signed on their behalf by the Joint Secretaries, J A A van der Bijl and S G Williams.

By order of the Boards

**J A A van der Bijl**  
**S G Williams**

Joint Secretaries of Unilever N.V. and Unilever PLC

6 March 2007

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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 2006 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 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. 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;
- review of management's risk assessments in relation to the NV preference shares issued in 1999;
- 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 which included a procedure for handling complaints and concerns relating to accounting, internal control and auditing matters;
- quarterly review of progress of the implementation of the requirements under Section 404 of the 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 and consideration of proposals relating to capital injection, debt issuance, investment hedge and dividends.

### External auditors

The Audit Committee conducted a formal evaluation of the effectiveness of the external audit process and carried out a formal review of the appointment of external auditors in October 2006. 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 2007.

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 UK lead partner in charge of the audit, who was appointed in 2001, rotated off at the 2006 AGM and a new lead partner was appointed in May 2006, and assumed responsibility for the audit of the 2006 accounts.

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 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 February 2006, the terms of reference were updated to reflect requirements under the Dutch Corporate Governance Code that the Audit Committee has oversight of the policy of the Group on tax planning, the financing of the Group, and the applications of information and communication technology.

The Audit Committee carried out a self-assessment of its own performance.

**Kees Storm** Chairman of the Audit Committee

**Wim Dik**

**Charles Golden**

**Byron Grote**

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**Report of the Directors**  
(continued)

## Report of the Corporate Responsibility and Reputation Committee

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### Terms of reference

In 2006, the Committee revised its name and terms of reference and made the following adjustments:

- the members of the Committee will include the Executive Director who chairs the Corporate Responsibility Council;
- the Committee has oversight of and will make recommendations to the Boards on Unilever's conduct with regard to corporate and societal obligations and its reputation as a responsible corporate citizen;
- it will ensure that appropriate communications policies are in place and working effectively to build and protect Unilever's reputation internally and externally; and
- it will provide oversight and guidance on the environmental and social impact of how Unilever conducts its business.

The full text of the Committee's terms of reference can be found on Unilever's website at [www.unilever.com](http://www.unilever.com).

### Meetings

In its four meetings held in 2006, the Committee focused on a review of its terms of reference, implementation of Unilever's Code of Business Principles and its supplier code, corporate responsibility strategy as defined by the newly established Corporate Responsibility Council (consisting of executive members from supply chain, SEAC, communications and regional representatives), Unilever's role in the Investment Climate Facility for Africa and policy issues such as biofuels.

The Committee welcomed the visibility and importance given to the Code by Executive Directors as an important mechanism to ensure that Unilever operates as a good corporate citizen. The Committee reviewed the programme for further embedding of the code in Unilever's business operations, including the training module to keep the code alive and understood.

Unilever's lead role in the Investment Climate Facility for Africa, launched at the World Economic Forum in Cape Town in June, was discussed. This initiative is supported by several companies,

governments, the EU Commission and the World Bank. Unilever's commitment to help drive development and growth in Africa through public/private partnerships was fully endorsed.

The Committee noted good progress made on redefining Unilever's corporate environmental strategy.

The important role and impact that values-led product brands have on the health and prosperity of the communities Unilever serve was discussed and the CEO leadership role recognised (Social Innovation: How values-led brands are helping to drive business strategy, speech by Patrick Cescau, available on Unilever's website at [www.unilever.com](http://www.unilever.com)).

Policy issues discussed included Unilever's strategy on biofuels. First generation biofuels are made from rapeseed oil and other ingredients generally used for food, while second generation biofuels are made from materials including wood, straw, pulp and waste. Members supported Unilever's position to improve energy efficiency and set targets for the use of renewable energy with the aim of combating climate change causes. Members also agreed that biofuels can play an important role as an alternative energy provided they meet the criteria of being sustainable, efficient and not having a negative impact on public health. It was agreed that second generation biofuels would meet these criteria. Unilever should develop a strategy geared towards promoting that more resource, particularly in R&D, be allocated to accelerating the introduction of second generation biofuels and other sustainable, cost-effective sources of renewable energy.

**Lynda Chalker** Chair of the Corporate Responsibility and Reputation Committee

**Leon Brittan**

**Antony Burgmans**

**Wim Dik**

**Ralph Kugler** Executive Director

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## Financial Statements

## Financial Statements

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**Financial Statements**  
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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 which they consider to be applicable have been followed.

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 2007 and 2008, 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 Disclosures 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 assessment annually with all other controls being reviewed over a one- to three-year cycle.

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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.

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**Financial Statements**  
(continued)

## Statement of Directors' responsibilities (continued)

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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 2006 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 2006 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 2006 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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**Financial Statements**  
(continued)

## 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 2006, and has concluded that such internal control over financial reporting is effective.
- PricewaterhouseCoopers LLP and PricewaterhouseCoopers Accountants N.V., who have audited the consolidated financial statements of the Group for the year ended 31 December 2006, have also audited management's assessment of the effectiveness of internal control over financial reporting as at 31 December 2006 and have issued an attestation report on management's assessment. For the Auditors' report please refer to page 69.

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**Financial Statements**  
(continued)

## 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**

We have completed an integrated audit of the Unilever Group's 31 December 2006 consolidated accounts and of its internal control over financial reporting as of 31 December 2006 and audits of its 31 December 2005 and 31 December 2004 consolidated accounts in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

#### **Consolidated accounts**

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 2006 and 2005 and the results of its operations and cash flows for each of the three years in the period ended 31 December 2006, in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. These consolidated accounts are the responsibility of the Group's Directors. Our responsibility is to express an opinion on these consolidated accounts based on our audits. We conducted our audits of these consolidated accounts in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free of material misstatement. An audit of consolidated accounts includes 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. We believe that our audits provide a reasonable basis for our opinion.

IFRS as adopted by the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in notes 34 and 35 on pages 124 to 140.

As discussed in note 21 on page 108, Unilever changed the manner in which it accounts for financial instruments upon adoption of International Accounting Standards No. 32 Financial Instruments: Disclosure and Presentation, and No. 39 Financial Instruments: Recognition and Measurement, on 1 January 2005.

#### **Internal control over financial reporting**

Also, in our opinion, management's assessment, included in the accompanying Management's report on internal control over financial reporting as set out on page 68, that the Group maintained effective internal control over financial reporting as of 31 December 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Group's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design

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and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 standards and 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 financial statements in accordance with generally accepted accounting standards and principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

26 March 2007, Rotterdam, The Netherlands  
PricewaterhouseCoopers Accountants N.V.  
As auditors of Unilever N.V.

PricewaterhouseCoopers LLP  
London, United Kingdom  
As auditors of Unilever PLC

Prof Dr J A van Manen RA

26 March 2007

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## Financial Statements (continued)

### Consolidated income statement Unilever Group

for the year ended 31 December

	€ million 2006	€ million 2005	€ million 2004
<b>Continuing operations</b>			
<b>Turnover</b> 2	<b>39 642</b>	38 401	37 168
<b>Operating profit</b> 2	<b>5 408</b>	5 074	3 981
After (charging)/crediting:			
Restructuring 3	<b>(704)</b>	(328)	(913)
Business disposals, impairments and other 3	<b>196</b>	(249)	(908)
Gain on US healthcare and UK pensions 3	<b>266</b>	□	□
Net finance costs 5	<b>(721)</b>	(613)	(623)
Finance income	<b>128</b>	129	145
Finance costs	<b>(590)</b>	(689)	(714)
Preference shares provision	<b>(300)</b>	□	□
Pensions and similar obligations	<b>41</b>	(53)	(54)
Share of net profit/(loss) of joint ventures	<b>78</b>	47	39
Share of net profit/(loss) of associates	<b>36</b>	(25)	2
Other income from non-current investments 11	<b>30</b>	33	54
<b>Profit before taxation</b>	<b>4 831</b>	4 516	3 453
Taxation 6	<b>(1 146)</b>	(1 181)	(725)
<b>Net profit from continuing operations</b>	<b>3 685</b>	3 335	2 728
Net profit from discontinued operations 27	<b>1 330</b>	640	213
<b>Net profit</b>	<b>5 015</b>	3 975	2 941
Attributable to:			
Minority interests	<b>270</b>	209	186
Shareholders' equity	<b>4 745</b>	3 766	2 755

	€ 2006	€ 2005	€ 2004
<b>Combined earnings per share</b> 7			
<b>From continuing operations</b>			
Basic earnings per share	<b>1.19</b>	1.07	0.87
Diluted earnings per share	<b>1.15</b>	1.04	0.84

#### From discontinued operations



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Basic earnings per share	<b>0.46</b>	0.22	0.07
Diluted earnings per share	<b>0.45</b>	0.21	0.07

**From total operations**

Basic earnings per share	<b>1.65</b>	1.29	0.94
Diluted earnings per share	<b>1.60</b>	1.25	0.91

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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 74 to 140, which form an integral part of the consolidated financial statements.

Accounting policies of the Unilever Group are set out in note 1 on pages 74 to 78.

Variations from United States generally accepted accounting principles and Securities and Exchange Commission Financial Statement Requirements Regulation S-X are outlined in notes 34 and 35 on pages 124 to 140.

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**Financial Statements**  
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## Consolidated statement of recognised income and expense Unilever Group

for the year ended 31 December

	€ million 2006	€ million 2005	€ million 2004
Fair value gains/(losses) net of tax:			
On cash flow hedges	6	14	n/a
On available-for-sale financial assets	15	□	n/a
Actuarial gains/(losses) on pension schemes net of tax	853	(49)	(480)
Currency retranslation gains/(losses) net of tax <sup>(a)</sup>	(335)	513	80
<b>Net income/(expense) recognised directly in equity</b>	<b>539</b>	478	(400)
Net profit	5 015	3 975	2 941
<b>Total recognised income and expense 21</b>	<b>5 554</b>	4 453	2 541
Attributable to:			
Minority interests	242	249	167
Shareholders' equity	5 312	4 204	2 374

(a) Includes fair value gains/(losses) on net investment hedges of €(779) million (2005: €332 million; 2004 n/a).

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**Financial Statements**  
(continued)

## Consolidated balance sheet Unilever Group

as at 31 December

	€ million 2006	€ million 2005
Goodwill 9	<b>12 425</b>	12 963
Intangible assets 9	<b>4 781</b>	5 092
Property, plant and equipment 10	<b>6 276</b>	6 492
Pension asset for funded schemes in surplus 20	<b>1 697</b>	1 036
Trade and other receivables due after more than one year 14	<b>252</b>	231
Deferred tax assets 12	<b>1 266</b>	1 703
Other non-current assets 11	<b>874</b>	841
<b>Total non-current assets</b>	<b>27 571</b>	28 358
Inventories 13	<b>3 796</b>	4 107
Trade and other current receivables 14	<b>4 290</b>	4 830
Current tax assets	<b>125</b>	124
Cash and cash equivalents 15	<b>1 039</b>	1 529
Other financial assets 15	<b>237</b>	335
Assets held for sale 27	<b>14</b>	217
<b>Total current assets</b>	<b>9 501</b>	11 142
Borrowings due within one year 16	<b>(4 362)</b>	(5 942)
Trade payables and other current liabilities 18	<b>(7 934)</b>	(8 228)
Current tax liabilities	<b>(579)</b>	(554)
Provisions 19	<b>(1 009)</b>	(644)
Liabilities associated with assets held for sale 27	□	(26)
<b>Total current liabilities</b>	<b>(13 884)</b>	(15 394)
<b>Net current assets/(liabilities)</b>	<b>(4 383)</b>	(4 252)
<b>Total assets less current liabilities</b>	<b>23 188</b>	24 106
Borrowings due after more than one year 16	<b>4 239</b>	6 457
Trade payables and other liabilities due after more than one year 18	<b>399</b>	389
Non-current tax liabilities	<b>272</b>	213
Pensions and post-retirement healthcare liabilities:		
Funded schemes in deficit 20	<b>1 379</b>	2 415
Unfunded schemes 20	<b>3 398</b>	4 202
Provisions 19	<b>826</b>	732

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Deferred tax liabilities 12	<b>1 003</b>	933
<b>Total non-current liabilities</b>	<b>11 516</b>	15 341
Called up share capital 21	<b>484</b>	512
Share premium account 21	<b>165</b>	162
Other reserves 21	<b>(2 143)</b>	(2 328)
Retained profit 21	<b>12 724</b>	10 015
<b>Shareholders' equity</b>	<b>11 230</b>	8 361
Minority interests 21	<b>442</b>	404
<b>Total equity</b>	<b>11 672</b>	8 765
<b>Total capital employed</b>	<b>23 188</b>	24 106

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

These financial statements were approved by the Directors on 26 March 2007.

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**Financial Statements**  
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## Consolidated cash flow statement Unilever Group

for the year ended 31 December

	€ million 2006	€ million 2005	€ million 2004
Cash flow from operating activities 28	<b>5 574</b>	5 924	6 925
Income tax paid	<b>(1 063)</b>	(1 571)	(1 378)
<b>Net cash flow from operating activities</b>	<b>4 511</b>	4 353	5 547
Interest received	<b>125</b>	130	168
Purchase of intangible assets	<b>(113)</b>	(92)	(89)
Purchase of property, plant and equipment	<b>(1 013)</b>	(914)	(978)
Disposal of property, plant and equipment	<b>192</b>	124	151
Sale and leaseback transactions resulting in operating leases	□	69	47
Acquisition of group companies, joint ventures and associates	<b>(96)</b>	(20)	(40)
Consideration paid in respect of acquisitions made in previous years	□	□	(158)
Disposal of group companies, joint ventures and associates	<b>1 873</b>	804	413
Payments received in advance for future disposals	□	□	101
Acquisition of other non-current investments	<b>(90)</b>	(50)	(25)
Disposal of other non-current investments	<b>61</b>	83	68
Dividends from joint ventures, associates and other non-current investments	<b>120</b>	65	92
(Purchase)/sale of financial assets	<b>96</b>	316	130
<b>Net cash flow from/(used in) investing activities</b>	<b>1 155</b>	515	(120)
Dividends paid on ordinary share capital	<b>(2 602)</b>	(1 804)	(1 720)
Interest and preference dividends paid	<b>(605)</b>	(643)	(787)
Additional borrowings and change in short-term borrowings	<b>2 154</b>	3 968	2 966
Repayment of borrowings	<b>(5 364)</b>	(4 795)	(6 008)
Sale and leaseback transactions resulting in finance leases	<b>2</b>	□	211
Capital element of finance lease rental payments	<b>(73)</b>	(53)	(59)
Movement on treasury stock	<b>98</b>	(1 276)	(332)
Dividends paid and other payments (to)/from minority shareholders and joint ventures	<b>(182)</b>	(218)	(209)
<b>Net cash flow from/(used in) financing activities</b>	<b>(6 572)</b>	(4 821)	(5 938)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(906)</b>	47	(511)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1 265</b>	1 406	1 428
Effect of foreign exchange rate changes	<b>351</b>	(188)	489
<b>Cash and cash equivalents at the end of the year 15</b>	<b>710</b>	1 265	1 406

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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**Financial Statements**  
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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 essentially the same as those which applied for the previous financial year. Changes arising from interpretations or amendments of applicable accounting standards are 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<sup>1</sup>/<sub>9</sub>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 39.

#### 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 EU, including interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), and with Book 2 of the Civil Code in the Netherlands and the United Kingdom Companies Act 1985.

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 the following IFRIC interpretations with effect from 1 January 2006. Adoption of these interpretations did not have a material effect on the financial statements of the Group.

- IFRIC 4 "Determining Whether an Arrangement Contains a Lease" provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied.
- IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds", establishes the accounting treatment for funds established to help finance decommissioning for a company's

assets.

The Group also applied the amendment to IAS 39 [Financial Instruments: Recognition and Measurement] and IFRS 4 [Insurance Contracts] which requires that financial guarantee contracts are accounted for as financial instruments, initially recognised at fair value. As the Group has no material external financial guarantees, the amendment did not have a material effect on the financial statements.

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

- Within the income statement, costs and revenues relating to restructuring, business disposals and impairments are shown separately;
- Within the balance sheet, current tax assets were previously shown net within current tax liabilities. These are now reported separately on a gross basis; and
- Secondary reporting segments are presented in four reporting segments, as opposed to six reporting segments in 2005. Further information is provided on page 81.

Variations from United States generally accepted accounting principles and Securities and Exchange Commission Financial Statement Requirements Regulation S-X are outlined in notes 34 and 35 on pages 124 to 140.

### 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 borrowings 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.

### 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.

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**Financial Statements**  
(continued)

## Notes to the consolidated accounts Unilever Group

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### 1 Accounting information and policies (continued)

#### 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 review for impairment.

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

Freehold buildings	40 years
(no depreciation on freehold land)	
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 settlement 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 as gains and losses from investment securities. 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.

#### **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.



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## Notes to the consolidated accounts Unilever Group

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### 1 Accounting information and policies (continued)

#### **Borrowings and other financial liabilities**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings 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 borrowings using the effective interest method. Those borrowings 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.

### **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.

### **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.



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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

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### 1 Accounting information and policies (continued)

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 trust borrowings are included in the Group's borrowings. 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 under IFRS 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 89.

### **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.



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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

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

IFRS 7, [Financial Instruments: Disclosures](#), (effective from 1 January 2007), introduces significant new disclosures to improve the information about financial instruments. It requires the disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including analysis of sensitivity to market risk. It replaces disclosure requirements in IAS 32, [Financial Instruments: Disclosure and Presentation](#).

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

Unilever will apply IFRS 7 and the amendment to IAS 1 from January 2007.

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](#) and its impact is currently being assessed by the Group.

The following interpretations, relevant to Unilever, have been released and will be adopted by Unilever on the dates as noted. Adoption is not expected to have a material effect on the consolidated results of operations or financial position of Unilever.

- IFRIC 7, [Applying the Restatement Approach](#) under IAS 29 [Financial Reporting in Hyperinflationary Economies](#) (effective for Unilever from 1 January 2007) provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy when that economy was not hyperinflationary in the prior period.
- IFRIC 9 [Reassessment of embedded derivatives](#) (effective for Unilever from 1 January 2007) requires an entity to assess whether a contract contains an embedded derivative at the date an entity first becomes a party to the contract and prohibits reassessment unless there is a change to the contract that significantly modifies the cash flows.

- IFRIC 10 [Interim Financial Reporting and Impairment] (effective for Unilever from 1 January 2007) states that any impairment loss recognised for goodwill and equity instruments classified as available for sale in an interim period may not be reversed in subsequent interim periods.

Recent changes in reporting requirements under US GAAP are discussed in note 34 on page 131.

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**Financial Statements**  
(continued)

## 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 2006 was €3 710 million (2005: €3 679 million; 2004: €3 831 million). The combined operating profit in 2006 was €555 million (2005: €648 million; 2004: €667 million). Turnover for the United States for 2006 was €7 627 million (2005: €7 550 million; 2004: €7 361 million). No other countries 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 81 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 financial assets, cash and cash equivalents, other non-current investments and pension and current and deferred tax assets. Segment liabilities consist primarily of trade payables and other liabilities. Corporate liabilities include borrowings, 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.

Additional segment information relevant to reporting in the United States is set out in note 35 on pages 132 to 133.

	€ million	€ million	€ million	€ million
<b>Analysis by geographical segment</b>	Europe	The Americas	Asia Africa	Total
<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)
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
Profit before taxation				4 831
Taxation				(1 146)
Net profit from continuing operations				3 685
Net profit from discontinued operations				1 330
Net profit				5 015
<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

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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

**2004**

Turnover	15 252	12 296	9 620	37 168
Operating profit	2 045	896	1 040	3 981
Net finance costs				(623)
Share of net profit/(loss) of joint ventures	6	31	2	39
Share of net profit/(loss) of associates	(2)	3	1	2
Other income from non-current investments				54
				<hr/>
Profit before taxation				3 453
Taxation				(725)
				<hr/>
Net profit from continuing operations				2 728
Net profit from discontinued operations				213
				<hr/>
Net profit				2 941

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(continued)

**Notes to the consolidated accounts Unilever Group****2 Segment information** (continued)

	€ million	€ million	€ million	€ million
	Europe	The Americas	Asia Africa	Total
<b>Analysis by geographical segment</b>				
<b>Assets</b>				
<b>2006</b>				
Segment assets	<b>14 445</b>	<b>11 550</b>	<b>5 875</b>	<b>31 870</b>
Joint ventures/associates	<b>78</b>	<b>16</b>	<b>9</b>	<b>103</b>
Total assets by geographical segment	<b>14 523</b>	<b>11 566</b>	<b>5 884</b>	<b>31 973</b>
Corporate assets				<b>5 099</b>
Total assets				<b>37 072</b>
<b>2005</b>				
Segment assets <sup>(a)</sup>	15 138	12 532	6 299	33 969
Joint ventures/associates	26	37	21	84
Total assets by geographical segment	15 164	12 569	6 320	34 053
Corporate assets				5 447
Total assets				39 500
<b>Liabilities</b>				
<b>2006</b>				
Segment liabilities	<b>4 375</b>	<b>1 732</b>	<b>2 192</b>	<b>8 299</b>
Joint ventures/associates	<b>18</b>	<b>11</b>	<b>5</b>	<b>34</b>
Total liabilities by geographical segment	<b>4 393</b>	<b>1 743</b>	<b>2 197</b>	<b>8 333</b>
Corporate liabilities				<b>17 067</b>
Total liabilities				<b>25 400</b>
<b>2005</b>				
Segment liabilities	4 485	1 914	2 244	8 643
Joint ventures/associates	20	11	6	37
Total liabilities by geographical segment	4 505	1 925	2 250	8 680
Corporate liabilities				22 055
Total liabilities				30 735
<b>Capital expenditure</b>				
<b>2006</b>	<b>511</b>	<b>396</b>	<b>294</b>	<b>1 201</b>

2005	447	305	298	1 050
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**Depreciation of property, plant and equipment**

<b>2006</b>	<b>(368)</b>	<b>(239)</b>	<b>(180)</b>	<b>(787)</b>
2005	(390)	(230)	(150)	(770)
2004	(429)	(303)	(217)	(949)

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**Amortisation of finite-lived intangible assets and software**

<b>2006</b>	<b>(63)</b>	<b>(76)</b>	<b>(18)</b>	<b>(157)</b>
2005	(52)	(38)	(9)	(99)
2004	(37)	(24)	(3)	(64)

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- (a) During the year the Directors have reassessed the allocation of goodwill to segments following the implementation of a new operating framework and establishment of primary segments based on geographies during 2005. The reassessment is based on the relative fair values of the segments at the time of the implementation of the new operating framework and results in a reallocation of goodwill (and associated currency retranslation effects during 2005) from Europe and The Americas regions of €0.1 billion and €1.1 billion respectively into the Asia Africa region. Segmental amounts for 2005 have been amended to reflect this allocation.



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**Financial Statements**  
(continued)

## Notes to the consolidated accounts Unilever Group

### 2 Segment information (continued)

<b>Analysis by geographical segment</b>	<b>€ million</b>	<b>€ million</b>	<b>€ million</b>	<b>€ million</b>
	Europe	The Americas	Asia Africa	Total
<b>Impairment charges</b>				
<b>2006</b>				
Goodwill	(12)	□	□	(12)
Intangible assets	□	(2)	□	(2)
<b>Total impairment charge</b>	<b>(12)</b>	<b>(2)</b>	<b>□</b>	<b>(14)</b>
<b>2005</b>				
Goodwill	□	(129)	(2)	(131)
Intangible assets	□	(241)	(10)	(251)
Other	□	□	(15)	(15)
<b>Total impairment charge</b>	<b>□</b>	<b>(370)</b>	<b>(27)</b>	<b>(397)</b>
<b>2004</b>				
Goodwill	(147)	(793)	(63)	(1 003)
<b>Other non-cash charges</b>				
<b>2006</b>				
2005	(224)	(311)	(53)	(588)
2004	(417)	(472)	(194)	(1 083)

Although the Group's operations are managed on a geographical basis, the two Foods and Home and Personal Care categories manage brands which we group into our principal product areas; these are our secondary reporting segments and are listed below. In 2006, we reviewed the structure of our secondary reporting segments in the light of the planned disposal of the majority of our European frozen foods businesses. As a consequence we are presenting the main product areas in four reporting segments, as opposed to six reporting segments in 2005. We have presented the information on this basis, as the products in each of the four reported segments are substantially similar in nature, and combining the segments provides more meaningful information. Information for prior years has been restated accordingly.

**Savoury, dressings and spreads** □ including sales of soups, bouillons, sauces, snacks, mayonnaise, salad dressings, olive oil, margarines and spreads, and cooking products such as liquid margarines.

**Ice cream and beverages** □ including sales of ice cream, tea, weight management products, and nutritionally enhanced staples sold in developing markets.

**Personal care** □ including sales of skin care and hair care products, deodorants and anti-perspirants, and oral care products.

**Home care and other operations** □ including sales of home care products, such as laundry powders and liquids, and a wide range of cleaning products. To support our consumer brands, we own tea plantations and palm oil plantations, the results of which are reported within this segment.

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	€ million	€ million	€ million	€ million	€ million	€ million	€ million
<b>Analysis by product area</b>	Savoury, dressings and spreads	Ice cream and beverages	Foods	Personal care	Home care and other	Home and personal care	Total
<b>2006</b>							
Turnover	<b>13 767</b>	<b>7 578</b>	<b>21 345</b>	<b>11 122</b>	<b>7 175</b>	<b>18 297</b>	<b>39 642</b>
Operating profit	<b>1 993</b>	<b>900</b>	<b>2 893</b>	<b>1 913</b>	<b>602</b>	<b>2 515</b>	<b>5 408</b>
Net finance costs							<b>(721)</b>
Share of net profit/(loss) of joint ventures	<b>13</b>	<b>64</b>	<b>77</b>	<b>1</b>	<b>□</b>	<b>1</b>	<b>78</b>
Share of net profit/(loss) of associates	<b>□</b>	<b>□</b>	<b>□</b>	<b>□</b>	<b>36</b>	<b>36</b>	<b>36</b>
Other income from non-current investments							<b>30</b>
Profit before taxation							<b>4 831</b>
Taxation							<b>(1 146)</b>
Net profit from continuing operations							<b>3 685</b>
Net profit from discontinued operations							<b>1 330</b>
Net profit							<b>5 015</b>

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**Notes to the consolidated accounts Unilever Group****2 Segment information (continued)**

	€ million	€ million	€ million	€ million	€ million	€ million	€ million
<b>Analysis by product area</b>	Savoury, dressings and spreads	Ice cream and beverages	Foods	Personal care	Home care and other	Home and personal care	Total
<b>2005</b>							
Turnover	13 557	7 332	20 889	10 485	7 027	17 512	38 401
Operating profit	2 026	609	2 635	1 793	646	2 439	5 074
Net finance costs							(613)
Share of net profit/(loss) of joint ventures	10	36	46	1	□	1	47
Share of net profit/(loss) of associates	□	□	□	□	(25)	(25)	(25)
Other income from non-current investments							33
Profit before taxation							4 516
Taxation							(1 181)
Net profit from continuing operations							3 335
Net profit from discontinued operations							640
Net profit							3 975
<b>2004</b>							
Turnover	13 476	7 090	20 566	9 780	6 822	16 602	37 168
Operating profit	1 880	(30)	1 850	1 508	623	2 131	3 981
Net finance costs							(623)
Share of net profit/(loss) of joint ventures	5	31	36	1	2	3	39
Share of net profit/(loss) of associates	□	□	□	□	2	2	2
Other income from non-current investments							54
Profit before taxation							3 453
Taxation							(725)
Net profit from continuing operations							2 728
Net profit from discontinued operations							213
Net profit							2 941

**Assets****2006**

Segment assets	<b>20 434</b>	<b>4 485</b>	<b>24 919</b>	<b>3 616</b>	<b>3 335</b>	<b>6 951</b>	<b>31 870</b>
Joint ventures/associates	<b>29</b>	<b>24</b>	<b>53</b>	<b>7</b>	<b>43</b>	<b>50</b>	<b>103</b>
Total assets by product area	<b>20 463</b>	<b>4 509</b>	<b>24 972</b>	<b>3 623</b>	<b>3 378</b>	<b>7 001</b>	<b>31 973</b>
Corporate assets							<b>5 099</b>
Total assets							<b>37 072</b>

**2005**

Segment assets	21 289	5 455	26 744	3 622	3 603	7 225	33 969
Joint ventures/associates	23	31	54	9	21	30	84
Total assets by product area	21 312	5 486	26 798	3 631	3 624	7 255	34 053
Corporate assets							5 447
Total assets							39 500

**Capital expenditure**

2006	<b>387</b>	<b>327</b>	<b>714</b>	<b>195</b>	<b>292</b>	<b>487</b>	<b>1 201</b>
2005	346	226	572	245	233	478	1 050

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**Financial Statements**  
(continued)

## Notes to the consolidated accounts Unilever Group

### 3 Gross profit and operating costs

	<b>€ million 2006</b>	€ million 2005	€ million 2004
Turnover	<b>39 642</b>	38 401	37 168
Cost of sales	<b>(20 093)</b>	(19 539)	(18 942)
Gross profit	<b>19 549</b>	18 862	18 226
Distribution and selling costs	<b>(9 486)</b>	(9 078)	(8 025)
Administrative expenses <sup>(a)</sup>	<b>(4 655)</b>	(4 710)	(6 220)
Operating profit	<b>5 408</b>	5 074	3 981

(a) Includes amortisation of finite-lived intangible assets and impairment of goodwill and intangible assets. The following items are disclosed on the face of the income statement as separate disclosure provides additional information to users to help them better understand underlying business performance.

	<b>€ million 2006</b>	€ million 2005	€ million 2004
Restructuring	<b>(704)</b>	(328)	(913)
Business disposals, impairments and other			
Gain/(loss) on disposals of group companies	<b>179</b>	132	264
Impairments	<b>(14)</b>	(397)	(1 003)
(Provision for)/release of Brazilian sales tax	<b>31</b>	16	(169)
Gains on US healthcare and UK pensions	<b>266</b>	□	□

Restructuring costs are incurred as the business continues to reorganise operations and support functions. They primarily relate to redundancy and retirement costs. Business disposals generate both costs and revenues which are not reflective of underlying performance. Impairment charges are primarily recognised for goodwill other than where included in restructuring or as part of business disposals. In 2005 and 2004 significant impairment charges were recognised in respect of *Slim•Fast* respectively €363 million and €791 million.

The gains on US healthcare arise from the introduction of an annual cap on the benefits which each participant can claim. The gain in the UK results from reducing deferred pensions if they are taken early.

Other items within operating costs include:

	<b>€ million 2006</b>	€ million 2005	€ million 2004
Staff costs	<b>(5 355)</b>	(5 745)	(5 708)
Raw and packaging materials and goods purchased for resale	<b>(15 655)</b>	(15 106)	(14 278)
Amortisation of finite-lived intangible assets and software	<b>(157)</b>	(99)	(64)

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Depreciation of property, plant and equipment	<b>(787)</b>	(770)	(949)
Advertising and promotions	<b>(5 203)</b>	(4 918)	(4 365)
Exchange gains/(losses)	<b>(25)</b>	19	(97)
Lease rentals	<b>(451)</b>	(421)	(389)
Minimum operating lease payments	<b>(455)</b>	(423)	(393)
Contingent operating lease payments	<b>(3)</b>	(3)	(5)
Less: Sub-lease income relating to operating lease agreements	<b>7</b>	5	9

Total expenditure on research and development in 2006, including costs incurred under some of the headings reported above, was €906 million (2005: €932 million; 2004: €972 million).

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 4 Staff costs

<b>Staff costs</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
Remuneration of employees	<b>(4 377)</b>	(4 456)	(4 378)
Emoluments of Executive Directors	<b>(8)</b>	(11)	(12)
Pensions and other post-employment benefits <sup>(a)</sup>	<b>(132)</b>	(384)	(445)
Social security costs	<b>(718)</b>	(702)	(660)
Share-based compensation costs	<b>(120)</b>	(192)	(213)
	<b>(5 355)</b>	(5 745)	(5 708)

(a) In 2006 includes gains of €266 million arising from changes in US post-retirement healthcare plans and UK pension plans.

<b>Average number of employees during the year</b>	<b>'000 2006</b>	'000 2005	'000 2004
Europe	<b>47</b>	51	53
The Americas	<b>46</b>	46	48
Asia Africa	<b>96</b>	115	126
	<b>189</b>	212	227

#### 5 Net finance costs

<b>Finance costs</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
Finance costs	<b>(590)</b>	(689)	(714)
Bank loans and overdrafts	<b>(93)</b>	(90)	(106)
Bonds and other loans	<b>(505)</b>	(580)	(612)
Dividends paid on preference shares <sup>(a)</sup>	<b>(6)</b>	(11)	n/a
Exchange gains/(losses)	<b>14</b>	(8)	4
Preference shares provision <sup>(b)</sup>	<b>(300)</b>	□	□
Finance income	<b>128</b>	129	145
Pensions and similar obligations <sup>(c)</sup>	<b>41</b>	(53)	(54)
	<b>(721)</b>	(613)	(623)

(a) From 1 January 2005, Unilever has adopted IAS 32 [Financial Instruments: Disclosure and Presentation] which requires preference shares that provide for a fixed preference dividend to be classified as borrowings, and preference dividends to be recognised in the income statement as a finance cost. In accordance with the transition rules for IAS 32, 2004 comparatives have not been restated.

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- (b) For further information please refer to note 19 on page 102.
- (c) Net finance costs in respect of pensions and similar obligations are analysed in note 20 on page 106.



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**Financial Statements**  
(continued)

## Notes to the consolidated accounts Unilever Group

### 6 Taxation

<b>Tax charge in income statement</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
<b>Current tax</b>			
Current year	<b>(1 171)</b>	(1 172)	(1 534)
Over/(under) provided in prior years <sup>(a)</sup>	<b>206</b>	107	330
	<b>(965)</b>	(1 065)	(1 204)
<b>Deferred tax</b>			
Origination and reversal of temporary differences	<b>(171)</b>	(123)	445
Changes in tax rates	<b>(15)</b>	2	34
Utilisation of unrecognised losses brought forward	<b>5</b>	5	□
	<b>(181)</b>	(116)	479
	<b>(1 146)</b>	(1 181)	(725)

(a) Provisions have been released for amounts over provided for tax in prior years in a number of countries, none of which is individually material.

Europe is considered to be Unilever's domestic tax base. The reconciliation between the computed weighted average rate of income tax expense, which is generally applicable to Unilever's European companies, and the actual rate of taxation charged is as follows:

<b>Reconciliation of effective tax rate</b>	<b>% 2006</b>	% 2005	% 2004
Computed rate of tax <sup>(b)</sup>	<b>30</b>	31	32
Differences due to:			
Other rates applicable to non-European countries	<b>1</b>	□	1
Incentive tax credits	<b>(7)</b>	(5)	(5)
Withholding tax on dividends	<b>1</b>	2	2
Adjustments to previous years	<b>(4)</b>	(2)	(10)
Expenses not deductible for tax purposes	<b>2</b>	2	□
Utilisation of previously unrecognised tax losses	□	(1)	□
Other	<b>1</b>	(1)	1
Effective tax rate	<b>24</b>	26	21

(b) The computed tax rate used is the average of the standard rate of tax applicable in the European countries in which Unilever operates, weighted by the amount of profit before taxation generated in each of those countries.

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## Financial Statements (continued)

# Notes to the consolidated accounts Unilever Group

## 6 Taxation (continued)

The following tables analyse profit before taxation and actual taxation charges between those arising in Europe and elsewhere.

	€ million 2006	€ million 2005	€ million 2004
<b>Profit before taxation</b>			
<b>Europe</b>			
Parent and group companies	2 266	2 379	2 203
Share of net profit/(loss) of joint ventures	17	11	7
Share of net profit/(loss) of associates	36	(20)	(2)
	<b>2 319</b>	2 370	2 208
<b>Outside Europe</b>			
Group companies	2 451	2 115	1 209
Share of net profit/(loss) of joint ventures	61	36	32
Share of net profit/(loss) of associates	□	(5)	4
	<b>2 512</b>	2 146	1245
	<b>4 831</b>	4 516	3 453
<b>Taxation</b>			
<b>Europe</b>			
Parent and group companies:			
Current taxes payable	(359)	(414)	(615)
Deferred taxation	(174)	(162)	164
Accelerated depreciation	2	22	54
Pensions	(196)	(123)	(63)
Provisions	24	(25)	57
Goodwill and intangible assets	4	(48)	109
Other	(8)	12	7
	<b>(533)</b>	(576)	(451)
<b>Outside Europe</b>			
Group companies:			
Current taxes payable	(606)	(651)	(589)
Deferred taxation	(7)	46	315
Accelerated depreciation	25	(40)	(20)
Pensions	(142)	28	(26)
Provisions	16	(78)	205
Goodwill and intangible assets	98	123	168
Other	(4)	13	(12)

<b>(613)</b>	(605)	(274)
<hr/>		
<b>(1 146)</b>	(1 181)	(725)
<hr/>		

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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

### 7 Combined earnings per share

<b>Combined earnings per share</b>	€ <b>2006</b>	€ 2005	€ 2004
<b>From continuing operations</b>			
Basic earnings per share	<b>1.19</b>	1.07	0.87
Diluted earnings per share	<b>1.15</b>	1.04	0.84
<b>From discontinued operations</b>			
Basic earnings per share	<b>0.46</b>	0.22	0.07
Diluted earnings per share	<b>0.45</b>	0.21	0.07
<b>From total operations</b>			
Basic earnings per share	<b>1.65</b>	1.29	0.94
Diluted earnings per share	<b>1.60</b>	1.25	0.91

#### Basis of calculation

The calculations of combined earnings per share are based on the net profit attributable to ordinary capital divided by the average number of share units representing the combined ordinary capital of NV and PLC in issue during the year, after deducting shares held as treasury stock. Earnings per share are calculated on the basis of the revised nominal share values which have been applied since 22 May 2006 and which resulted in a one-to-one equivalence of ordinary shares of NV and PLC as regards their economic interest in the Group. For further information please refer to note 22 on page 109.

The calculations of diluted earnings per share are based on: (i) conversion into PLC ordinary shares of the shares in a group company which are convertible in the year 2038, as described in Corporate governance on page 42; (ii) conversion of the €0.05 NV preference shares; (iii) the effect of share-based compensation plans, details of which are set out in note 29 on pages 117 to 121; and (iv) the forward equity contract described in note 29 on page 121.

On 15 February 2005, Unilever converted its €0.05 NV preference shares into ordinary €0.51 NV shares. The conversion was made using shares already held by Unilever for the purposes of satisfying the Group's share-based compensation plans. Unilever bought further ordinary shares in the market during 2005 to the extent required to restore the hedging position. Until the date of conversion, the €0.05 preference shares were potentially dilutive for the purposes of the calculation of fully diluted earnings per share, as shown below. At midnight on 13 July 2005 the €0.05 NV preference shares were cancelled.

<b>Calculation of average number of share units</b>		Millions of share units		
		<b>2006</b>	2005	2004
Average number of shares:	NV	<b>1 714.7</b>	1 714.7	1 714.7
	PLC	<b>1 310.2</b>	1 310.2	1 310.2
		<b>(141.6)</b>	(111.9)	(134.7)

Less shares held by employee  
share trusts and companies

Combined average number of share units for all bases except diluted earnings per share	<b>2 883.3</b>	2 913.0	2 890.2
Add shares issuable in 2038	<b>70.9</b>	70.9	70.9
Add shares for conversion	□	7.1	56.6
Add dilutive effect of share-based compensation plans and forward equity contract	<b>18.3</b>	16.0	14.9
Adjusted combined average number of share units for diluted earnings per share basis	<b>2 972.5</b>	3 007.0	3 032.6

	<b>€ million 2006</b>	€ million 2005	€ million 2004
<b>Calculation of earnings</b>			
Net profit attributable to shareholders□ equity	<b>4 745</b>	3 766	2 755
Less preference dividends	<b>n/a</b>	n/a	(28)
Net profit attributed to ordinary capital for basic earnings per share calculations	<b>4 745</b>	3 766	2 727
Adjusted net profit attributed to ordinary capital for the diluted earnings per share calculation <sup>(a)</sup>	<b>4 745</b>	3 769	2 748

(a) In accordance with IAS 33, the net profit for diluted earnings per share has been adjusted for the preference dividend on shares for conversion, which in 2006 amounted to €nil (2005: €3 million; 2004: €21 million).

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## Financial Statements (continued)

# Notes to the consolidated accounts Unilever Group

## 8 Dividends on ordinary capital

<b>Dividends paid on ordinary capital during the year</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
Final dividend 2003 paid in June 2004	□	□	(1 116)
Interim dividend 2004 paid in November 2004	□	□	(603)
Final dividend 2004 paid in June 2005	□	(1 229)	□
Interim dividend 2005 paid in December 2005	□	(638)	□
Final dividend 2005 paid in June 2006	<b>(1 269)</b>	□	□
Interim dividend 2006 paid in December 2006	<b>(664)</b>	□	□
One-off dividend paid in December 2006	<b>(751)</b>	□	□
	<b>(2 684)</b>	(1 867)	(1 719)

<b>Dividends per share</b>	Per €0.16 NV ordinary share			Per 3 1/9p PLC ordinary share		
	<b>€</b>	€	€	<b>pence</b>	pence	pence
	<b>2006</b>	2005	2004	<b>2006</b>	2005	2004
Interim	<b>0.23</b>	0.22	0.21	<b>15.62</b>	15.04	14.07
Final	□	0.44	0.42	□	30.09	28.49
Proposed final <sup>(a)</sup>	<b>0.47</b>	□	□	<b>32.04</b>	□	□
	<b>0.70</b>	0.66	0.63	<b>47.66</b>	45.13	42.56
One-off	<b>0.26</b>	□	□	<b>17.66</b>	□	□
	<b>0.96</b>	0.66	0.63	<b>65.32</b>	45.13	42.56

(a) The proposed final dividend on ordinary capital for the year 2006 has to be approved by shareholders at the Annual General Meetings. In accordance with IFRS, no provision for the amount of this dividend, estimated at €1 358 million, has been recognised in the financial statements for the year ended 31 December 2006.

Full details of dividends per share for the years 2002 to 2006 are given on page 155.

## 9 Goodwill and intangible assets

Indefinite-lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. These are considered to have an indefinite life, given the strength and durability of our brands and the level of marketing support. Brands that are classified as indefinite have been in the market for many years, and the nature of the industry we operate in is such that brand obsolescence is not common, if appropriately supported by advertising and marketing spend. Finite-lived intangible assets, which primarily comprise patented and non-patented technology, know-how, and software, are capitalised and amortised in operating profit on a straight-line basis over the period of their expected useful lives, none of which exceeds ten years. The level of amortisation for finite-lived intangible assets is not expected to change materially over the next five years.

<b>At cost less amortisation and impairment</b>	<b>€ million 2006</b>	€ million 2005
Goodwill	<b>12 425</b>	12 963
Indefinite-lived intangible assets	<b>4 174</b>	4 450
Finite-lived intangible assets	<b>343</b>	416
Software	<b>264</b>	226
	<b>17 206</b>	18 055

<b>Movements during 2006</b>	<b>€ million Goodwill</b>	<b>€ million Indefinite- lived intangible assets</b>	<b>€ million Finite- lived intangible assets</b>	<b>€ million Software</b>	<b>€ million Total</b>
<b>Cost</b>					
1 January 2006	<b>14 080</b>	<b>4 713</b>	<b>631</b>	<b>291</b>	<b>19 715</b>
Acquisitions of group companies	<b>60</b>	<b>8</b>	<b>1</b>	□	<b>6</b>
Disposals of group companies	<b>(1)</b>	□	□	□	<b>(1)</b>
Change in useful life assumptions	□	<b>(32)</b>	<b>32</b>	□	□
Additions	□	□	<b>3</b>	<b>110</b>	<b>113</b>
Currency retranslation	<b>(685)</b>	<b>(280)</b>	<b>(25)</b>	<b>(9)</b>	<b>(999)</b>
31 December 2006	<b>13 454</b>	<b>4 409</b>	<b>642</b>	<b>392</b>	<b>18 897</b>
<b>Amortisation and impairment</b>					
1 January 2006	<b>(1 117)</b>	<b>(263)</b>	<b>(215)</b>	<b>(65)</b>	<b>(1 660)</b>
Amortisation for the year	□	□	<b>(94)</b>	<b>(63)</b>	<b>(157)</b>
Impairment	<b>(12)</b>	□	□	<b>(2)</b>	<b>(14)</b>
Currency retranslation	<b>100</b>	<b>28</b>	<b>10</b>	<b>2</b>	<b>140</b>
31 December 2006	<b>(1 029)</b>	<b>(235)</b>	<b>(299)</b>	<b>(128)</b>	<b>(1 691)</b>
Net book value 31 December 2006	<b>12 425</b>	<b>4 174</b>	<b>343</b>	<b>264</b>	<b>17 206</b>

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## Notes to the consolidated accounts Unilever Group

### 9 Goodwill and intangible assets (continued)

	€ million	€ million	€ million	€ million	€ million
	Goodwill	Indefinite-lived intangible assets	Finite-lived intangible assets	Software	Total
<b>Movements during 2005</b>					
<b>Cost</b>					
1 January 2005	12 887	4 251	597	193	17 928
Acquisitions of group companies	13	□	□	□	13
Disposals of group companies	(49)	(6)	(16)	(4)	(75)
Additions	□	2	4	86	92
Reversal of assets held for sale not included in final disposal	15	55	□	□	70
Currency retranslation	1 214	411	46	16	1 687
31 December 2005	14 080	4 713	631	291	19 715
<b>Amortisation and impairment</b>					
1 January 2005	(937)	□	(150)	(27)	(1 114)
Disposals of group companies	42	1	3	2	48
Amortisation for the year <sup>(a)</sup>	□	□	(62)	(38)	(100)
Impairment losses	(131)	(251)	□	□	(382)
Currency retranslation	(91)	(13)	(6)	(2)	(112)
31 December 2005	(1 117)	(263)	(215)	(65)	(1 660)
Net book value 31 December 2005	12 963	4 450	416	226	18 055

(a) Includes €(1) million relating to discontinued operations.

There are no significant carrying amounts of goodwill and intangible assets that are allocated across multiple cash generating units (CGUs).

#### Impairments charges in the year

The impairments charged in 2006 principally relate to planned business disposals that will be completed during 2007.

In 2006, *Slim•Fast* was fully integrated into The Americas business as part of the North American beverage operations. As a result of the integration, *Slim•Fast* is no longer evaluated on a stand-alone basis but as part of the North American beverage CGU. The 2006 impairment review on this basis and on a stand-alone basis did not result in any impairments (2005: €363 million; 2004: €791 million).

#### Significant CGUs

The goodwill and indefinite-lived intangible assets (predominantly *Knorr* and *Hellmann*□s) held in the global savoury and dressings CGU, comprising €11.6 billion (2005: €11.9 billion) and €3.4 billion (2005: €3.6 billion) respectively, are considered significant in comparison to the total carrying amounts of goodwill and indefinite-lived



intangible assets at 31 December 2006. No other CGUs are considered significant in this respect.

During 2006, we conducted an impairment review of the carrying value of these assets. Value in use of the global savoury and dressings CGU has been calculated as the present value of projected future cash flows. A pre-tax discount rate of 10% was used.

The following key assumptions were used in the discounted cash flow projections for the savoury and dressings CGU:

- a longer-term sustainable growth rate of 3%, adjusted for market fade, used to determine an appropriate terminal value multiple;
- average near-term nominal growth for the major product groups within the CGU of 3%; and
- average operating margins for the major product groups within the CGU ranging from 16% to 19%.

The growth rates and margins used to estimate future performance are based on past performance and our experience of growth rates and margins achievable in our key markets as a guide. We believe that the assumptions used in estimating the future performance of the savoury and dressings CGU are consistent with past performance.

The projections covered a period of ten years as we believe this to be a suitable timescale over which to review and consider annual performance before applying a fixed terminal value multiple to the final year cash flows of the detailed projection. Stopping the detailed projections after five years and applying a terminal value multiple thereafter would not result in a value in use that would cause impairment.

The growth rates used to estimate future performance beyond the periods covered by our annual planning and strategic planning processes do not exceed the long-term average rates of growth for similar products.

We have performed sensitivity analysis around the base case assumptions and have concluded that no reasonably possible changes in key assumptions would cause the recoverable amount of the global savoury and dressings CGU to be less than the carrying amount.

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## Notes to the consolidated accounts Unilever Group

### 10 Property, plant and equipment

<b>At cost less depreciation and impairment</b>	<b>€ million 2006</b>	€ million 2005
Land and buildings	<b>1 944</b>	1 994
Plant and equipment	<b>4 332</b>	4 498
	<b>6 276</b>	6 492
Includes freehold land	<b>205</b>	224
Commitments for capital expenditure at 31 December	<b>231</b>	263

<b>Movements during 2006</b>	<b>€ million Land and buildings</b>	<b>€ million Plant and equipment</b>	<b>€ million Total</b>
<b>Gross</b>			
1 January 2006	<b>3 014</b>	<b>10 845</b>	<b>13 859</b>
Acquisitions of group companies	<b>2</b>	<b>6</b>	<b>8</b>
Disposals of group companies	<b>(130)</b>	<b>(291)</b>	<b>(421)</b>
Additions	<b>150</b>	<b>921</b>	<b>1 071</b>
Disposals	<b>(80)</b>	<b>(586)</b>	<b>(666)</b>
Currency retranslation	<b>(136)</b>	<b>(446)</b>	<b>(582)</b>
Reclassification as held for sale <sup>(a)</sup>	<b>95</b>	<b>(69)</b>	<b>26</b>
Other adjustments	<b>77</b>	<b>(9)</b>	<b>68</b>
31 December 2006	<b>2 992</b>	<b>10 371</b>	<b>13 363</b>
<b>Depreciation</b>			
1 January 2006	<b>(1 020)</b>	<b>(6 347)</b>	<b>(7 367)</b>
Disposals of group companies	<b>50</b>	<b>185</b>	<b>235</b>
Depreciation charge for the year <sup>(b)</sup>	<b>(74)</b>	<b>(731)</b>	<b>(805)</b>
Disposals	<b>45</b>	<b>512</b>	<b>557</b>
Currency retranslation	<b>38</b>	<b>251</b>	<b>289</b>
Reclassification as held for sale <sup>(a)</sup>	<b>(18)</b>	<b>69</b>	<b>51</b>
Other adjustments	<b>(69)</b>	<b>22</b>	<b>(47)</b>
31 December 2006	<b>(1 048)</b>	<b>(6 039)</b>	<b>(7 087)</b>
Net book value 31 December 2006	<b>1 944</b>	<b>4 332</b>	<b>6 276</b>
Includes payments on account and assets in course of construction	<b>71</b>	<b>478</b>	<b>549</b>

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- (a) After reinstating certain assets with gross value of €112 million and accumulated depreciation of €28 million which were previously classified as held for sale.
- (b) Includes €(18) million relating to discontinued operations.

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## Notes to the consolidated accounts Unilever Group

### 10 Property, plant and equipment (continued)

<b>Movements during 2005</b>	€ million Land and buildings	€ million Plant and equipment	€ million Total
<b>Gross</b>			
1 January 2005	2 859	10 013	12 872
Disposals of group companies	(26)	(117)	(143)
Additions	163	795	958
Disposals	(95)	(619)	(714)
Reversal of asset held for sale not included in final disposal	53	57	110
Currency retranslation	269	798	1 067
Reclassification as held for sale	(175)	(116)	(291)
Other adjustments	(34)	34	□
31 December 2005	3 014	10 845	13 859
<b>Depreciation</b>			
1 January 2005	(966)	(5 855)	(6 821)
Disposals of group companies	12	91	103
Depreciation charge for the year <sup>(c)</sup>	(77)	(715)	(792)
Disposals	53	549	602
Reversal of asset held for sale not included in final disposal	(5)	(50)	(55)
Currency retranslation	(83)	(466)	(549)
Reclassification as held for sale	51	94	145
Other adjustments	(5)	5	□
31 December 2005	(1 020)	(6 347)	(7 367)
Net book value 31 December 2005	1 994	4 498	6 492
Includes payments on account and assets in course of construction	64	487	551

(c) Includes €(22) million relating to discontinued operations.

Included in the above is property, plant and equipment under a number of finance lease agreements, for which the book values are as follows:

<b>Net book value</b>	€ million Buildings	€ million Plant and equipment	€ million Total
Gross book value	<b>62</b>	<b>369</b>	<b>431</b>
Depreciation	<b>(20)</b>	<b>(201)</b>	<b>(221)</b>
31 December 2006	<b>42</b>	<b>168</b>	<b>210</b>

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Gross book value	68	354	422
Depreciation	(18)	(202)	(220)
	<hr/>		
31 December 2005	50	152	202
	<hr/>		

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**Financial  
Statements (continued)**

## Notes to the consolidated accounts Unilever Group

### 11 Other non-current assets

	€ million 2006	€ million 2005
Interest in net assets of joint ventures	57	67
Interest in net assets of associates	46	17
Other non-current assets	771	757
	<b>874</b>	841

	€ million 2006	€ million 2005
<b>Movements during 2006 and 2005</b>		
<b>Joint ventures<sup>(a)</sup></b>		
1 January	67	32
Additions <sup>(b)</sup>	□	26
Dividends received/reductions	(85)	(43)
Share in net profit	78	47
Currency retranslation	(3)	5
	<b>57</b>	67
<b>Associates<sup>(c)</sup></b>		
1 January	(20)	6
Acquisitions/(disposals)	5	7
Dividends received/reductions	(13)	(11)
Share in net profit	36	(25)
Currency retranslation	4	3
	<b>12</b>	(20)
Of which: Net liabilities of JohnsonDiversey reclassified to provisions	<b>34</b>	37
	<b>46</b>	17
<b>Other non-current assets<sup>(d)</sup></b>		
1 January	757	731
Additions/(reductions)/(impairments)/fair value movements	46	(22)
Currency retranslation	(32)	48
	<b>771</b>	757

(a) Our principal joint ventures are the FIMA business in Portugal and the Pepsi/Lipton Partnership in the US.

(b) Effect of the 2005 transaction in connection with our Foods business in Portugal (see note 26 on page 113).

(c) Associates primarily comprise our investments in JohnsonDiversey Holdings Inc., Palmci and Langholm Capital Partners. Other Unilever Ventures assets (excluding Langholm) are included under □Other non-current assets□ above.

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(d) Other non-current assets are mainly available-for-sale assets, and predominantly consist of investments in a number of companies and financial institutions in India, Europe and the US, including €181 million (2005: €197 million) of assets in a trust to fund benefit obligations in the US (see also note 20 on page 103). Also included under this heading are biological assets with a fair value of €36 million (2005: €37 million).

<b>Analysis of listed and unlisted investments</b>	<b>€ million 2006</b>	€ million 2005
Investments listed on a recognised stock exchange	<b>402</b>	326
Unlisted investments	<b>369</b>	431
	<b>771</b>	757

<b>Other income from non-current investments</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
Income from other non-current investments	<b>21</b>	20	36
Profit/(loss) on disposal	<b>9</b>	13	18
	<b>30</b>	33	54

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed, and the Group has no significant contingent liabilities in relation to its interest in the joint ventures and associates.

The Group has no outstanding capital commitments to joint ventures.

Outstanding balances with joint ventures and associates are shown in note 30 on page 122.

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**Financial**  
**Statements (continued)**

## Notes to the consolidated accounts Unilever Group

### 12 Deferred taxation

<b>Movements during the year</b>	€ million As at 1 January 2006	€ million Income statement(a)	€ million Equity(b)	€ million Acquisitions and disposals	<b>€ million As at 31 December 2006</b>
Pensions and similar obligations	1 478	(344)	(415)	(5)	<b>714</b>
Provisions	666	40	(37)	23	<b>692</b>
Goodwill and intangible assets	(834)	102	49	(1)	<b>(684)</b>
Accelerated tax depreciation	(742)	55	29	9	<b>(649)</b>
Tax losses	146	(36)	(5)	8	<b>113</b>
Fair value gains	□	(2)	1	□	<b>(1)</b>
Fair value losses	□	7	(3)	□	<b>4</b>
Share-based payments	74	9	11	(2)	<b>92</b>
Other	(18)	13	(2)	(11)	<b>(18)</b>
	<b>770</b>	<b>(156)</b>	<b>(372)</b>	<b>21</b>	<b>263</b>

(a) Includes €25 million credit reported under discontinued operations in the income statement.

(b) Of the total movement in equity of €372 million, €39 million arises as a result of currency retranslation.

At the balance sheet date, the Group has unused tax losses of €1 621 million and tax credits amounting to €338 million available for offset against future taxable profits. Deferred tax assets have not been recognised in respect of unused tax losses of €1 243 million and tax credits of €338 million, as it is not probable that there will be future taxable profits within the entities against which the losses can be utilised. The majority of these tax losses and credits arise in tax jurisdictions where they do not expire with the exception of €494 million of state and federal tax losses in the USA which expire between now and 2026.

Other deductible temporary differences of €199 million have not been recognised as a deferred tax asset. There is no expiry date for these differences.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was €755 million (2005: €765 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

<b>Deferred tax assets and liabilities</b>	<b>€ million Assets 2006</b>	€ million Assets 2005	<b>€ million Liabilities 2006</b>	€ million Liabilities 2005	<b>€ million Total 2006</b>	€ million Total 2005
Pensions and similar obligations	<b>925</b>	1 709	<b>(211)</b>	(231)	<b>714</b>	1 478



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Provisions	<b>670</b>	704	<b>22</b>	(38)	<b>692</b>	666
Goodwill and intangible assets	<b>(194)</b>	(431)	<b>(490)</b>	(403)	<b>(684)</b>	(834)
Accelerated tax depreciation	<b>(328)</b>	(489)	<b>(321)</b>	(253)	<b>(649)</b>	(742)
Tax losses	<b>112</b>	144	<b>1</b>	2	<b>113</b>	146
Fair value gains	<b>(1)</b>	□	□	□	<b>(1)</b>	□
Fair value losses	<b>4</b>	6	□	(6)	<b>4</b>	□
Share-based payments	<b>92</b>	74	□	□	<b>92</b>	74
Other	<b>(14)</b>	(14)	<b>(4)</b>	(4)	<b>(18)</b>	(18)
	<b>1 266</b>	1 703	<b>(1 003)</b>	(933)	<b>263</b>	770
Of which deferred tax to be recovered/(settled) after more than 12 months	<b>460</b>	1 269	<b>(621)</b>	(834)	<b>(161)</b>	435

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 13 Inventories

<b>Inventories</b>	<b>€ million 2006</b>	€ million 2005
Raw materials and consumables	<b>1 360</b>	1 512
Finished goods and goods for resale	<b>2 436</b>	2 595
	<b>3 796</b>	4 107

Inventories with a value of €96 million (2005: €123 million) are carried at net realisable value, this being lower than cost. During 2006, €160 million (2005: €159 million) was charged to the income statement for damaged, obsolete and lost inventories. In 2006, €34 million (2005: €35 million) was utilised or released to the income statement from inventory provisions taken in earlier years.

In 2006, inventories with a carrying amount of €6 million were pledged as security for certain of the Group's borrowings (2005: €8 million).

#### 14 Trade and other receivables

<b>Trade and other receivables</b>	<b>€ million 2006</b>	€ million 2005
<b>Due within one year</b>		
Trade receivables	<b>3 054</b>	3 345
Prepayments and accrued income	<b>477</b>	833
Other receivables	<b>759</b>	652
	<b>4 290</b>	4 830
<b>Due after more than one year</b>		
Other receivables	<b>252</b>	231
Total trade and other receivables	<b>4 542</b>	5 061

Concentrations of credit risk with respect to trade receivables are limited, due to the Group's customer base being large and diverse.

<b>Impairment provision for trade receivables – movements during the year</b>	<b>€ million 2006</b>	€ million 2005
1 January	<b>258</b>	232
Charged to current year income statement	<b>38</b>	39
Reductions/releases	<b>(107)</b>	(33)
Currency retranslation	<b>(9)</b>	20
31 December	<b>180</b>	258



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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

### 15 Cash and cash equivalents and other financial assets

<b>Cash and cash equivalents and other financial assets</b>	<b>€ million 2006</b>	€ million 2005
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	<b>469</b>	867
Short-term deposits with maturity of less than three months	<b>390</b>	412
Other cash equivalents	<b>180</b>	250
	<b>1 039</b>	1 529
<b>Other financial assets</b>		
Listed	<b>47</b>	36
Unlisted	<b>190</b>	299
	<b>237</b>	335
<b>Total cash and cash equivalents and other financial assets</b>	<b>1 276</b>	1 864

Other financial assets include government securities and A minus or higher rated money and capital market instruments.

<b>Cash and cash equivalents included in the cash flow statement</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
Cash and cash equivalents as per balance sheet	<b>1 039</b>	1 529	1 590
Cash and cash equivalents in businesses held for sale	□	1	n/a
Bank overdrafts	<b>(329)</b>	(265)	(184)
	<b>710</b>	1 265	1 406

### Interest rate profile and currency analysis of financial assets

The table set out below takes into account the various interest rate swaps and forward foreign currency contracts entered into by the Group, details of which are set out in note 17 on pages 99 and 100.

The interest rate profiles of the Group's financial assets analysed by principal currency are set out in the table below:

	<b>€ million</b>			<b>€ million</b>		<b>€ million</b>
	Fixed rate	Fixed rate	Fixed rate	Floating rate	Floating rate	Total
	Amount of fixing	Average interest rate	Weighted average fixing		Interest rate for	

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	for following year	for following year	period	2007		
<b>Assets □ 2006</b>						
Euro	1	3.1%	0.1 years	210	4.1%	<b>211</b>
Sterling	1 549	5.3%	1.0 years	1 193	5.6%	<b>2 742<sup>(a)</sup></b>
US dollar	□			8	5.4%	<b>8</b>
Indian rupee	□			403	8.8%	<b>403</b>
Other	□			635	7.0%	<b>635</b>
				<hr/>		
	1 550			2 449		<b>3 999</b>
Sterling leg of currency derivatives mainly relating to intra-group loans <sup>(a)</sup>						<b>(2 723)</b>
				<hr/>		
Total						<b>1 276</b>
<b>Assets □ 2005<sup>(b)</sup></b>						
Euro	14	3.1%	1.1 years	636		650
Sterling	□			57		57
US dollar	□			94		94
Indian rupee	□			346		346
Other	□			967		967
				<hr/>		
Total	14			2 100		2 114 <sup>(c)</sup>

- (a) Includes the sterling leg of the currency derivatives mainly relating to intra-group loans, amounting to €2 723 million for 2006. These derivatives create a sterling interest rate exposure. However, to reconcile the assets with the balance sheet, the total value is eliminated again. The other leg of the currency derivatives is shown in note 16 as a liability.
- (b) Figures for 2005 have been restated to reflect the amount of fixing and related average interest rate for the following year.
- (c) Includes fair value of borrowing-related derivatives amounting to €250 million. For further information please refer to note 17 on pages 99 and 100.

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 16 Borrowings

<b>Borrowings</b>	<b>€ million 2006</b>	€ million 2005
Preference shares	<b>124</b>	124
Bank loans and overdrafts	<b>1 307</b>	1 456
Bonds and other loans		
At amortised cost	<b>6 561</b>	8 609
Subject to fair value hedge accounting	<b>609</b>	2 210
	<b>8 601</b>	12 399

<b>Borrowings □ additional details</b>	<b>€ million 2006</b>	€ million 2005
<b>The repayments fall due as follows</b>		
Within one year:		
Bank loans and overdrafts	<b>743</b>	786
Bonds and other loans	<b>3 619</b>	5 156
Total due within one year	<b>4 362</b>	5 942
After one year but within two years		
After two years but within three years	<b>385</b>	2 049
After three years but within four years	<b>311</b>	180
After four years but within five years	<b>1 344</b>	391
After five years	<b>2</b>	1 493
Total due after more than one year	<b>2 197</b>	2 344
Secured borrowings	□	8
Of which secured against property, plant and equipment	□	□

	<b>€ million</b>		<b>€ million</b>	<b>€ million</b>	<b>€ million</b>
Number of shares authorised	<b>Authorised</b>	Nominal value per share	Number of shares issued	<b>€ million Issued, called up and fully paid</b>	<b>Statutory Reserve Total</b>

**Preference shares NV as at 31 December 2006**

7% Cumulative Preference	75 000	<b>32</b>	€428.57	29 000	<b>12</b>	<b>1</b>	<b>13</b>
6% Cumulative Preference	200 000	<b>86</b>	€428.57	161 060	<b>69</b>	<b>4</b>	<b>73</b>
4% Cumulative Preference	750 000	<b>32</b>	€42.86	750 000	<b>32</b>	<b>2</b>	<b>34</b>
Share premium					<b>4</b>		<b>4</b>
		<b>150</b>			<b>117</b>	<b>7</b>	<b>124</b>
<b>Preference shares NV as at 31 December 2005</b>							
7% Cumulative Preference	75 000	34	€453.78	29 000	13	□	13
6% Cumulative Preference	200 000	91	€453.78	161 060	73	□	73
4% Cumulative Preference	750 000	34	€45.38	750 000	34	□	34
Share premium					4	□	4
		<b>159</b>			<b>124</b>	<b>□</b>	<b>124</b>

The 7%, 6% and 4% cumulative preference shares of NV are entitled to dividends at the rates indicated. The 4% preference capital of NV is redeemable at par at the company's option either wholly or in part. The other classes of preferential share capital of NV are not redeemable.

At the Annual General Meeting of NV held on 8 May 2006 it was agreed to convert the nominal value of all classes of shares from guilders into euros. The 7% and 6% preference shares with a nominal value of Fl.1 000 each, were converted into shares with a nominal value of €428.57 each, and the 4% preference shares with a nominal value of Fl.100 each, were converted into shares with a nominal value of €42.86 each. The effect of this was to adjust their reported value, with the difference being held as a statutory reserve.

In order to maintain the same economic rights for the preference shares as before the euro conversion, it was decided that their entitlement to dividend and liquidation proceeds remains linked, using the official euro conversion rate, to the amount in Dutch guilders originally paid up on these shares. As a consequence the amount paid out as preference dividends will remain the same euro amount as paid out in previous years.

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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

### 16 Borrowings (continued)

#### Borrowings – additional details

The tables set out below and on page 95 take into account the various interest rate swaps and forward foreign currency contracts entered into by the Group, details of which are set out in note 17 on pages 99 and 100.

Details of specific bonds and other loans are also given below:

	€ million Amortised cost 2006	€ million Fair value 2006 <sup>(a)</sup>	€ million Amortised cost 2005	€ million Fair value 2005 <sup>(a)</sup>
<b>Unilever N.V.</b>				
5.125% Bonds 2006 (€)	0	0	0	1 010
5.125% Notes 2006 (US \$)	0	0	431	0
4.250% Bonds 2007 (€)	505	500	513	507
5.000% Bonds 2007 (US \$)	490	0	0	556
3.375% Bonds 2015 (€)	747	0	747	0
Commercial paper (€)	0	0	2 180	0
Commercial paper (£)	0	0	491	0
Commercial paper (US \$)	0	0	348	0
Commercial paper (Swiss francs)	0	0	53	0
Other	7	0	36	0
<b>Total Unilever N.V.</b>	<b>1 749</b>	<b>500</b>	<b>4 799</b>	<b>2 073</b>

#### Other group companies

##### Netherlands

Commercial paper (€)	770	0	0	0
Commercial paper (£)	532	0	0	0
Commercial paper (US \$)	236	0	0	0
Commercial paper (Swiss francs)	63	0	0	0

##### United States

6.150% Bonds 2006 (US \$)	0	0	253	0
7.125% Bonds 2010 (US \$)	1 321	0	1 467	0
7.000% Bonds 2017 (US \$)	110	0	120	0
7.250% Bonds 2026 (US \$)	217	0	239	0
6.625% Bonds 2028 (US \$)	166	0	185	0
5.900% Bonds 2032 (US \$)	746	0	829	0
5.600% Bonds 2097 (US \$)	69	0	77	0
Commercial paper (US \$)	259	0	0	0
Other	8	0	12	0

##### Japan

Floating rate note 2006 (Japanese yen)	0	0	151	0
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**Thailand**

3.300% Bonds 2007 (Thai baht)	<b>139</b>	□	134	□
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**South Africa**

10.200% Bonds 2008 (South African rand)	□	<b>109</b>	□	137
Commercial paper (South African rand)	<b>27</b>	□	120	□

**Other countries**

	<b>149</b>	□	223	□
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Total other group companies	<b>4 812</b>	<b>109</b>	3 810	137
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Total bonds and other loans	<b>6 561</b>	<b>609</b>	8 609	2 210
-----------------------------	--------------	------------	-------	-------

(a) As required by fair value hedge accounting, the fair value of the bonds and other loans is based on their amortised cost adjusted for the market value of the related derivative.

**Reclassifications**

During 2006 Unilever discontinued fair value accounting for 5.000% Bonds 2007. On the date the hedge accounting discontinued, the fair value became the new value at amortised cost.

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 16 Borrowings (continued)

##### Undrawn committed facilities

Unilever had the following undrawn committed facilities at 31 December 2006:

- revolving 364-day bilateral credit facilities of in aggregate US \$4 263 million (2005: US \$3 958 million) with a 364-day term out;
- revolving five-year bilateral credit facilities of in aggregate US \$334 million (2005: US \$334 million);
- revolving 364-day notes commitments of US \$200 million (2005: US \$200 million) with the ability to issue notes with a maturity up to 364 days; and
- 364-day bilateral money market commitments of in aggregate US \$1 420 million (2005: US \$1 725 million), under which the underwriting banks agree, subject to certain conditions, to subscribe for notes with maturities of up to three years.

The facilities that matured in November 2006 and December 2006 have been renewed until November 2007.

##### Interest rate

The average interest rate on short-term borrowings in 2006 was 3.6% (2005: 3.0%) .

##### Interest rate profile and currency analysis of financial liabilities

The interest rate profiles of the Group's financial liabilities analysed by principal currency are set out in the table below:

	€ million			€ million		€ million
	Fixed rate	Fixed rate	Fixed rate	Floating rate	Floating rate	Total
	Amount of fixing for following year	Average interest rate for following year	Weighted average fixing period		Interest rate for 2007	
<b>Liabilities 2006</b>						
Euro <sup>(a)</sup>	<b>1 771</b>	3.4%	4.5 years	<b>351</b>	4.1%	<b>2 122</b>
Sterling	<b>140</b>	7.8%	20.8 years	<b>140</b>	5.6%	<b>280</b>
US dollar	<b>3 444</b>	6.6%	12.2 years	<b>2 687</b>	5.4%	<b>6 131</b>
Swedish krona	□			<b>830</b>	3.8%	<b>830</b>
Swiss francs	□			<b>519</b>	2.4%	<b>519</b>
Japanese yen	<b>1</b>	4.0%	0.5 years	<b>377</b>	0.8%	<b>378</b>
Thai baht	<b>139</b>	3.2%	0.9 years	<b>85</b>	5.2%	<b>224</b>
Other	<b>102</b>	11.7%	3.9 years	<b>936</b>	7.7%	<b>1 038</b>
	<b>5 597</b>			<b>5 925</b>		<b>11 522 (2 723)</b>

Euro leg of currency derivatives mainly relating to intra-group loans<sup>(b)</sup>

Total					<b>8 799<sup>(c)</sup></b>
<hr/>					
<b>Liabilities</b>	<b>□ 2005<sup>(d)</sup></b>				
Euro <sup>(a)</sup>	1 897	3.0%	4.9 years	571	2 468
Sterling	91	5.4%	0.7 years	(52)	39
US dollar	3 857	6.3%	12.9 years	2 517	6 374
Japanese yen	2	4.0%	1.5 years	436	438
Thai baht	153	3.2%	1.9 years	104	257
Other	127	11.7%	4.8 years	2 913	3 040
<hr/>					
Total	6 127			6 489	12 616 <sup>(e)</sup>

(a) Euro borrowings include €124 million preference shares that provide for a fixed preference dividend.

(b) Includes the euro leg of the currency derivatives mainly relating to intra-group loans, amounting to €2 723 million for 2006. These derivatives create an interest rate exposure in euro. However, to reconcile the liability with the balance sheet, the total value is eliminated again. The other leg of the currency derivatives is shown in note 15 on page 95 as an asset.

(c) Includes finance lease creditors amounting to €187 million and fair value of borrowing-related derivatives (see note 17 on page 99) amounting to €11 million.

(d) Figures for 2005 have been restated to reflect the amount of fixing and related average interest rate for the following year.

(e) Includes finance lease creditors amounting to €217 million.

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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

### 17 Financial instruments and treasury risk management

The Group has comprehensive policies in place, approved by the Boards, covering the use of derivative financial instruments. These instruments are used for hedging purposes. Established controls are in place covering all financial instruments. These include policies, guidelines, exposure limits, a system of authorities and independent reporting. Performance is closely monitored with independent reviews undertaken by internal audit. Hedge accounting principles are described in note 1 on page 74. The use of leveraged instruments is not permitted. Details of the instruments used for interest rate and foreign exchange exposure management, together with information on related exposures, are given below.

Unilever's interest rate management policy is described below. The Group's exposure to interest rates is mainly fixed by fixed rate long-term debt issues and straightforward derivative financial instruments, such as interest rate swaps. In general, cash is invested short-term at floating interest rates.

At the end of 2006, interest rates were fixed on approximately 48% of the projected net of cash and borrowing positions for 2007 and 52% for 2008 (compared with 61% for 2006 and 49% for 2007 at the end of 2005).

The separate amounts shown as assets and liabilities are not indicative of the amount of credit risk to which the Group is exposed as we have netting agreements in place with our principal banks. In case of a default, Unilever is allowed to net the assets and liabilities. There was no significant concentration of credit risk with any single counterparty. Details of our policy for managing credit risk are given below.

In the assessment of hedge effectiveness the credit risk element on the underlying hedged item has been excluded. Hedge ineffectiveness is immaterial.

Fair values of derivatives used as cash flow hedges, fair value hedges and in connection with purchases of own shares at 31 December 2006 amounted in total to assets of €23 million (2005: €62 million) and liabilities of €9 million (2005: €22 million). Of these amounts, the fair value of borrowing-related derivatives at 31 December 2006 was €5 million (2005: €46 million).

<b>Fair values of derivatives used as hedges of net investments in foreign entities</b>	<b>€ million Assets</b>	€ million Assets	<b>€ million Liabilities</b>	€ million Liabilities
	<b>2006</b>	2005	<b>2006</b>	2005
<b>Current</b>				
Foreign exchange derivatives	<b>11</b>	250	<b>350</b>	1

The fair value of borrowing-related derivatives included above at 31 December 2006 amounted to €(339) million (2005: €249 million). The impact of exchange rate movements on the fair value of forward exchange contracts used to hedge net investments is recognised in reserves.

<b>Fair values of natural hedges<sup>(a)</sup></b>	<b>€ million Assets</b>	€ million Assets	<b>€ million Liabilities</b>	€ million Liabilities
	<b>2006</b>	2005	<b>2006</b>	2005
<b>Current</b>				

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Interest rate derivatives	<b>2</b>	7	<b>1</b>	2
Cross currency swaps	□	253	<b>6</b>	1
Foreign exchange derivatives	<b>371</b>	11	<b>31</b>	282
	<b>373</b>	271	<b>38</b>	285
<b>Non-current</b>				
Interest rate derivatives	□	□	<b>1</b>	4
Cross currency swaps	□	□	<b>12</b>	27
	□	□	<b>13</b>	31
	<b>373</b>	271	<b>51</b>	316

(a) A natural hedge □ sometimes known as an economic hedge □ is where exposure to a risk is offset, or partly offset, by an opposite exposure to that same risk. Hedge accounting is not applied to these relationships. Of the fair values disclosed above, the fair value of borrowing-related derivatives at 31 December 2006 amounted to €323 million (2005: €(45) million).

#### Additional information

The fair values of forward foreign exchange contracts represent the unrealised gain or loss on revaluation of the contracts at the year-end forward exchange rates. The fair values of interest rate derivatives are based on the net present value of the anticipated future cash flows.

#### Embedded derivatives

In accordance with IAS 39, 'Financial instruments: Recognition and Measurement', Unilever has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet specific requirements set out in the standard; no such embedded derivatives have been identified.

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## Financial Statements

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# Notes to the consolidated accounts Unilever Group

## 17 Financial instruments and treasury risk management (continued)

### Fair values of financial assets and financial liabilities

The following table summarises the fair values and carrying amounts of the various classes of financial assets and financial liabilities. All trade and other receivables and trade payables and other liabilities (other than finance lease creditors) and provisions have been excluded from the analysis below and from the interest rate and currency profiles in note 15 on page 95 and note 16 on page 96, as their carrying amounts are a reasonable approximation of their fair value, because of their short-term nature.

	€ million Fair value 2006	€ million Fair value 2005	€ million Carrying amount 2006	€ million Carrying amount 2005
<b>Financial assets</b>				
Other non-current assets	784	757	771	757
Cash and cash equivalents	1 039	1 529	1 039	1 529
Other financial assets	237	335	237	335
Derivatives related to borrowings	□	250	□	250
	<b>2 060</b>	2 871	<b>2 047</b>	2 871
<b>Financial liabilities</b>				
Bank loans and overdrafts	(1 307)	(1 456)	(1 307)	(1 456)
Bonds and other loans	(7 402)	(11 255)	(7 170)	(10 819)
Finance lease creditors	(192)	(225)	(187)	(217)
Preference shares	(122)	(124)	(124)	(124)
Derivatives related to borrowings	(11)	□	(11)	□
	<b>(9 034)</b>	(13 060)	<b>(8 799)</b>	(12 616)

The fair values and the carrying amount of listed investments included in financial assets and preference shares included in financial liabilities are based on their market values. Cash and cash equivalents, other financial assets, bank loans and overdrafts have fair values that approximate to their carrying amounts because of their short-term nature. The fair values of listed bonds are based on their market value; non-listed bonds and other loans are based on the net present value of the anticipated future cash flows associated with these instruments. Fair values for finance lease creditors have been assessed by reference to current market rates for comparable leasing arrangements.

### Collateral

Counterparties have deposited securities with a market value of €2 million (2005: €275 million) as collateral for their obligations in respect of derivative financial instruments. Such collateral is not regarded as an asset of Unilever and is excluded from the balance sheet.

### Commodity contracts

Unilever purchases forward contracts to hedge future requirements for certain raw materials, almost always for

physical delivery. Futures contracts may also be used to hedge future price movements.

### **Treasury risk management**

Unilever manages a variety of market risks, including the effects of changes in foreign exchange rates, interest rates, liquidity and counterparty risks.

Unilever has an interest rate management policy aimed at optimising net interest cost and reducing volatility. This is achieved by modifying the interest rate exposure of debt and cash positions through the use of interest rate swaps.

Fixed rate investments and borrowings give rise to a fair value interest rate risk. The floating amounts give rise to a cash flow interest rate risk.

Because of Unilever's broad operational reach, it is subject to risks from changes in foreign currency values that could affect earnings. As a practical matter, it is not feasible to fully hedge these fluctuations. Additionally, Unilever believes that most currencies of major countries in which it operates will equalise against the euro over time. Unilever does have a foreign exchange policy that requires operating companies to manage trading and financial foreign exchange exposures within prescribed limits. This is achieved primarily through the use of forward foreign exchange contracts. Regional groups monitor compliance with this policy. At the end of 2006, there was no material exposure from companies holding assets and liabilities other than in their functional currency.

In addition, as Unilever conducts business in many foreign currencies but publishes its financial statements and measures its performance in euros, it is subject to exchange risk due to the effects that exchange rate movements have on the translation of the underlying net assets of its foreign subsidiaries. Unilever aims to minimise its foreign exchange exposure in operating companies by borrowing in the local currency, except where inhibited by local regulations, lack of local liquidity or local market conditions. For those countries that, in the view of management, have a substantial retranslation risk, Unilever may hedge such net investment. Nevertheless, from time to time, currency revaluations on unhedged investments will trigger exchange translation movements in the balance sheet.

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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

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### 17 Financial instruments and treasury risk management (continued)

Liquidity risk is managed by maintaining access to global debt markets through an infrastructure of short-term and long-term debt programmes. In addition to this, Unilever has committed credit facilities in place to support its commercial paper programmes and for general corporate purposes. See note 16 on page 96 for further details of these credit facilities.

Counterparty exposures are minimised by restricting dealing counterparties to a limited number of financial institutions that have secure credit ratings, by working within agreed counterparty limits, by obtaining collateral for outstanding positions and by setting limits on the maturity of exposures. Counterparty credit ratings are closely monitored and concentration of credit risk with any single counterparty is avoided. There was no significant concentration of credit risk with any single counterparty as at the year end.

Master netting agreements are in place for the majority of interest rate derivative instruments. The risk in the event of default by a counterparty is determined by the extent to which market prices have moved since the contracts were made. The Group believes that the risk of incurring such losses is remote.

Cash flow provides the funds to service the financing of the business and enhance shareholder return. A material and sustained shortfall in our cash flow could undermine our credit rating and overall investor confidence and could restrict the Group's ability to raise funding.

#### Sensitivity analysis

The analysis below presents the sensitivity of the fair value of the financial instruments, including derivative financial instruments which the Group held at 31 December 2006, to hypothetical changes in interest and foreign exchange rates.

#### Interest rate sensitivity

The fair values of debt, investments and related hedging instruments are affected by movements in interest rates. The analysis shows the sensitivity of the fair value of interest rate-sensitive instruments to a hypothetical 10% change in the interest rates across all maturities.

#### Foreign exchange rate sensitivity

The values of debt, investments and related hedging instruments, denominated in currencies other than the functional currency of the entities holding them, are subject to exchange rate movements. The analysis shows the income statement sensitivity of these values to a hypothetical 10% change in foreign exchange rates.

	Sensitivity to a hypothetical 10% change in rates as at 31 December	
	€ million 2006	€ million 2005
Interest rate risk	<b>167</b>	193
Foreign exchange rate risk	<b>16</b>	30



The above-mentioned interest rate sensitivity relates to financial instruments, including derivative financial instruments, with fair values amounting to €7 408 million at the end of 2006 (2005: €11 186 million). The above-mentioned foreign exchange rate risk relates to a value of financial instruments and derivatives of €164 million at the end of 2006 (2005: €300 million).

#### Sensitivity to not applying hedge accounting

Derivatives have to be reported at fair value. Those derivatives used for cash flow hedging for which we do not apply hedge accounting will cause volatility in the income statement. Such derivatives did not have a material impact on the 2006 income statement.

#### Income statement sensitivity to changes in interest rates

As mentioned above on page 100, Unilever has an interest rate management policy aimed at optimising net interest costs and reducing volatility. Part of the interest rates on funds and debt are not fixed and are therefore subject to changes in floating interest rates. The analysis shows the sensitivity of the income statement to a hypothetical one percentage point change in floating interest rates over both funds and debt on a full-year basis.

	Sensitivity to a hypothetical one percentage point change in floating rates as at 31 December	
	€ million 2006	€ million 2005
Funds	<b>24</b>	21
Debt	<b>(59)</b>	(66)

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## Financial Statements

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# Notes to the consolidated accounts Unilever Group

## 18 Trade payables and other liabilities

<b>Trade and other payables</b>	<b>€ million</b> <b>2006</b>	€ million 2005
<b>Due within one year</b>		
Trade payables	<b>3 833</b>	3 988
Accruals	<b>2 741</b>	2 858
Social security and sundry taxes	<b>386</b>	410
Finance lease creditors	<b>61</b>	64
Others	<b>913</b>	908
	<b>7 934</b>	8 228
<b>Due after more than one year</b>		
Accruals	<b>197</b>	153
Finance lease creditors	<b>126</b>	153
Others	<b>76</b>	83
	<b>399</b>	389
<b>Total trade and other payables</b>	<b>8 333</b>	8 617

The amounts shown above do not include any creditors due after more than five years other than finance lease creditors described in note 25 on page 112.

## 19 Provisions

<b>Provisions</b>	<b>€ million</b> <b>2006</b>	€ million 2005
<b>Due within one year</b>		
Restructuring provisions	<b>439</b>	391
Preference shares provision	<b>300</b>	□
Other provisions	<b>270</b>	253
	<b>1 009</b>	644
<b>Due after one year</b>		
Restructuring provisions	<b>53</b>	63
Legal provisions	<b>51</b>	38
Disputed indirect taxes	<b>560</b>	547
Net liability of associate	<b>34</b>	37
Other provisions	<b>128</b>	47

	<b>826</b>	732
Total restructuring and other provisions	<b>1 835</b>	1 376

	€ million	€ million	€ million Preference shares	€ million Disputed indirect taxes	€ million Net liability of associate	€ million Other provisions	€ million Total
<b>Movements during 2006</b>	<b>Restructuring provisions</b>	<b>Legal provisions</b>	<b>provision</b>	<b>provision</b>	<b>provision</b>	<b>provision</b>	<b>provision</b>
31 December 2005	<b>454</b>	<b>38</b>	□	<b>547</b>	<b>37</b>	<b>300</b>	<b>1 376</b>
Disposal of group companies	<b>1</b>	□	□	□	□	<b>48</b>	<b>49</b>
Income statement:							
New charges	<b>472</b>	<b>18</b>	<b>300</b>	<b>95</b>	□	<b>126</b>	<b>1 011</b>
Releases	<b>(89)</b>	<b>(3)</b>	□	<b>(47)</b>	□	<b>(30)</b>	<b>(169)</b>
Utilisation	<b>(332)</b>	□	□	<b>(22)</b>	□	<b>(35)</b>	<b>(389)</b>
Currency retranslation	<b>(14)</b>	<b>(2)</b>	□	<b>(13)</b>	<b>(3)</b>	<b>(11)</b>	<b>(43)</b>
31 December 2006	<b>492</b>	<b>51</b>	<b>300</b>	<b>560</b>	<b>34</b>	<b>398</b>	<b>1 835</b>

Restructuring provisions primarily relate to early retirement and redundancy costs; no projects are individually material.

Legal provisions are comprised of many claims, of which none is individually material.

Unilever announced on 8 November 2006 that it had agreed a settlement with the main parties in the legal dispute over its 1999 Unilever N.V. preference shares. The terms of the agreement are that NV will pay an amount of €1.38 plus interest of €0.16 compensation per preference share held at the beginning of 24 March 2004, the day on which NV announced its intention to convert the preference shares into NV ordinary shares. NV also agreed to reimburse the parties who initiated the Enterprise Chamber procedure for costs and expenses. On 19 January 2007 NV announced that the settlement offer will be extended to all those other former preference shareholders who held preference shares at the beginning of 24 March 2004. Unilever has provided €300 million in respect of the settlement.

The provision for disputed indirect taxes is comprised of a number of small disputed items. The largest elements of the provision relate to disputes with the Brazilian authorities. Because of the nature of the disputes, the timing of the utilisation of the provisions, and any associated cash outflows, is uncertain. The majority of the disputed items attract an interest charge.

No individual item within the other provisions balance is significant. Unilever expects that the issues relating to these restructuring, legal and other provisions will be substantively resolved over the next five years.

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## Notes to the consolidated accounts Unilever Group

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### 20 Pensions and similar obligations

#### Description of plans

In many countries the Group operates defined benefit pension plans based on employee pensionable remuneration and length of service. The majority of these plans are externally funded. The Group also provides other post-employment benefits, mainly post-employment medical plans in the United States. These plans are predominantly unfunded. The Group also operates a number of defined contribution plans, the assets of which are held in external funds.

The majority of the Group's externally funded plans are established as trusts, foundations or similar entities. The operation of these entities is governed by local regulations and practice in each country, as is the nature of the relationship between the Group and the trustees (or equivalent) and their composition.

#### Exposure to risks

Pension assets and liabilities (pre-tax) of €17 278 million and €20 358 million respectively are held on the Group's balance sheet as at 31 December 2006. Movements in equity markets, interest rates, inflation and life expectancy could materially affect the level of surpluses and deficits in these schemes, and could prompt the need for the Group to make additional pension contributions, or to reduce pension contributions, in the future. The key assumptions used to value our pension liabilities are set out below and on page 104.

#### 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 company 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 and cash. The majority of assets are managed by a number of external fund managers with a small proportion managed in-house. Unilever has a pooled investment vehicle (Univest) which it believes offers its pension plans around the world a simplified externally managed investment solution to implement their strategic asset allocation models initially for equities. The aim is to provide a high quality, well diversified risk-controlled solution.

#### Significant Items on the face of the Income Statement

During 2006 we updated certain terms of the defined benefit plan in the UK which resulted in a one-off credit to the income statement in 2006 of €120 million. During 2006 a number of initiatives were taken to reduce the cost of healthcare benefits, principally in the United States, through changes to the design of the plans. As a consequence, a reduction in liability of €146 million was recognised in the income statement for 2006.

#### Assumptions

With the objective of presenting the assets and liabilities of the pensions and other post-employment benefit plans at their fair value on the balance sheet, assumptions under IAS 19 are set by reference to market conditions at the valuation date. The actuarial assumptions used to calculate the benefit obligations vary according to the country in which the plan is situated. The following table shows the assumptions, weighted by liabilities, used to value the principal defined benefit pension plans (covering approximately 96% of pension liabilities – the principal pension plans) and plans providing other post-employment benefits, and in addition the expected long-term rates of return on assets, weighted by asset value.

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	<b>31 December 2006</b>		31 December 2005		31 December 2004	
	<b>Principal defined benefit pension plans</b>	<b>Other post-employment benefit plans</b>	Principal defined benefit pension plans	Other post-employment benefit plans	Principal defined benefit pension plans	Other post-employment benefit plans
Discount rate	<b>5.1%</b>	<b>5.9%</b>	4.6%	5.5%	5.0%	5.7%
Inflation	<b>2.5%</b>	<b>n/a</b>	2.4%	n/a	2.4%	n/a
Rate of increase in salaries	<b>3.7%</b>	<b>4.0%</b>	3.5%	4.0%	3.6%	4.5%
Rate of increase for pensions in payment	<b>2.3%</b>	<b>n/a</b>	2.1%	n/a	2.2%	n/a
Rate of increase for pensions in deferment (where provided)	<b>2.7%</b>	<b>n/a</b>	2.5%	n/a	2.6%	n/a
Long-term medical cost inflation	<b>n/a</b>	<b>5.0%</b>	n/a	4.8%	n/a	4.8%
Expected long-term rates of return:						
Equities	<b>7.8%</b>		7.4%		7.9%	
Bonds	<b>4.9%</b>		4.2%		4.5%	
Property	<b>6.3%</b>		5.8%		6.3%	
Others	<b>6.3%</b>		6.1%		6.1%	
Weighted average asset return	<b>6.9%</b>		6.4%		6.8%	

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**Notes to the consolidated accounts Unilever Group****20 Pensions and similar obligations (continued)**

The valuations of other post-employment benefit plans generally assume a higher initial level of medical cost inflation, which falls from 9.9% to the long-term rate within the next five years. Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effect:

	€ million 1% point increase	€ million 1% point decrease
Effect on total of service and interest cost components	4	(3)
Effect on total benefit obligation	51	(47)

The expected rate of return on plan assets was determined, based on actuarial advice, by a process that takes the long-term rates of return on government bonds available at the balance sheet date and applies to these rates suitable risk premiums that take account of historic market returns and current market long-term expectations for each asset class.

For the most important pension plans, representing approximately 80% of all defined benefit plans by liabilities, the assumptions used at 31 December 2006, 2005 and 2004 were:

Assumptions	2006	United Kingdom		2006	2005	Netherlands 2004
		2005	2004			
Discount rate	<b>5.1%</b>	4.7%	5.3%	<b>4.6%</b>	4.0%	4.5%
Inflation	<b>2.9%</b>	2.7%	2.8%	<b>1.9%</b>	1.8%	1.8%
Rate of increase in salaries	<b>4.4%</b>	4.2%	4.3%	<b>2.4%</b>	2.3%	2.3%
Rate of increase for pensions in payment	<b>2.9%</b>	2.7%	2.9%	<b>1.9%</b>	1.8%	1.8%
Rate of increase for pensions in deferment (where provided)	<b>2.9%</b>	2.7%	2.9%	<b>1.9%</b>	1.8%	1.8%
Expected long-term rates of return:						
Equities	<b>8.0%</b>	7.6%	8.0%	<b>7.6%</b>	7.0%	7.6%
Bonds	<b>5.2%</b>	4.5%	5.0%	<b>4.4%</b>	3.7%	4.1%
Property	<b>6.5%</b>	6.1%	6.5%	<b>6.1%</b>	5.5%	6.1%
Others	<b>7.2%</b>	6.7%	7.2%	<b>4.0%</b>	3.7%	3.5%
Weighted average asset return	<b>7.3%</b>	6.9%	7.3%	<b>6.6%</b>	6.0%	6.6%

	2006	2005	United States		2005	Germany	
			2004	2006		2004	

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Discount rate	<b>5.8%</b>	5.5%	5.7%	<b>4.6%</b>	4.0%	4.5%
Inflation	<b>2.5%</b>	2.4%	2.5%	<b>1.9%</b>	1.8%	1.8%
Rate of increase in salaries	<b>4.0%</b>	4.0%	4.5%	<b>2.6%</b>	2.5%	2.5%
Rate of increase for pensions in payment	<b>0.0%</b>	0.0%	0.0%	<b>1.9%</b>	1.8%	1.8%
Rate of increase for pensions in deferment (where provided)	<b>0.0%</b>	0.0%	0.0%	<b>0.0%</b>	0.0%	0.0%
Expected long-term rates of return:						
Equities	<b>8.3%</b>	8.0%	8.4%	<b>7.6%</b>	7.0%	7.6%
Bonds	<b>5.2%</b>	4.8%	4.7%	<b>4.4%</b>	3.7%	4.1%
Property	<b>6.8%</b>	6.5%	6.9%	<b>6.1%</b>	5.5%	6.1%
Others	<b>4.8%</b>	4.2%	2.1%	<b>3.0%</b>	3.7%	3.7%
Weighted average asset return	<b>7.4%</b>	7.0%	7.3%	<b>5.8%</b>	5.3%	5.7%

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 most important countries are based on the following post-retirement mortality tables: (i) United Kingdom: PMA 92 and PFA 92 with short cohort adjustment and scaling factor of 125% applied, projected to 2015 for current pensioners and to 2025 for future pensioners; (ii) the Netherlands: GBMV (1995-2000) with age set back of four years for males and two years for females; (iii) United States: RP2000 with a projection period of 10-15 years; and (iv) Germany: Heubeck 1998 (Periodentafel) with a scaling factor of 85%.

These tables translate into the following years of life expectancy for current pensioners aged 65:

	United Kingdom	Netherlands	United States	Germany
Males	19	18	19	18
Females	22	21	22	21

As considered appropriate having regard to the factors set out above, the assumptions and approach adopted allow for future improvements in life expectancy.

Assumptions for the remaining defined benefit plans vary considerably, depending on the economic conditions of the countries where they are situated.

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## Notes to the consolidated accounts Unilever Group

### 20 Pensions and similar obligations (continued)

#### Balance Sheet

The assets, liabilities and surplus/(deficit) position of the pension and other post-employment benefit plans and the expected rates of return on the plan assets at the balance sheet date were:

	€ million	€ million	%	€ million	€ million	%	€ million	€ million	%
	Pension plans	Other post-employment benefit plans	Long-term rates of return expected	Pension plans	Other post-employment benefit plans	Long-term rates of return expected	Pension plans	Other post-employment benefit plans	Long-term rates of return expected
		31 December 2006					31 December 2005		31 December 2004
Assets of principal plans:									
Equities	10 274	□	7.8%	9 670	□	7.4%	8 050	□	7.9%
Bonds	3 946	□	4.9%	3 854	□	4.2%	3 154	□	4.5%
Property	1 421	□	6.3%	1 326	□	5.8%	1 229	□	6.3%
Other	1 221	□	6.3%	752	□	6.1%	684	□	6.1%
Assets of other plans	403	13	7.3%	387	17	6.9%	288	14	7.2%
	<b>17 265</b>	<b>13</b>		15 989	17		13 405	14	
Present value of liabilities:									
Principal plans	(18 711)	□		(19 081)	□		(16 528)	□	
Other plans	(722)	(925)		(1 059)	(1 306)		(1 070)	(1 175)	
	<b>(19 433)</b>	<b>(925)</b>		(20 140)	(1 306)		(17 598)	(1 175)	
Aggregate net deficit of the plans	<b>(2 168)</b>	<b>(912)</b>		(4 151)	(1 289)		(4 193)	(1 161)	
Irrecoverable surplus <sup>(a)</sup>	□	□		(141)	□		(100)	□	
Pension liability net of assets	<b>(2 168)</b>	<b>(912)</b>		(4 292)	(1 289)		(4 293)	(1 161)	

Of which in respect of Funded plans in



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surplus:						
Liabilities	<b>(5 200)</b>	□	(4 728)	□	(4 176)	□
Assets	<b>6 897</b>	□	5 905	□	4 901	□
<hr/>						
Aggregate surplus	<b>1 697</b>	□	1 177	□	725	□
Irrecoverable surplus <sup>(a)</sup>	□	□	(141)	□	(100)	□
<hr/>						
Pension asset net of liabilities	<b>1 697</b>	□	1 036	□	625	□
Funded plans in deficit:						
Liabilities	<b>(11 716)</b>	<b>(44)</b>	(12 444)	(72)	(10 795)	(62)
Assets	<b>10 368</b>	<b>13</b>	10 084	17	8 504	14
<hr/>						
Pension liability net of assets	<b>(1 348)</b>	<b>(31)</b>	(2 360)	(55)	(2 291)	(48)
Unfunded plans:						
Pension liability	<b>(2 517)</b>	<b>(881)</b>	(2 968)	(1 234)	(2 627)	(1 113)
<hr/>						

(a) The surplus in the plans is recoverable to the extent that the Group is able to benefit from either refunds or future contribution reductions.

The constituents of the □Principal plans□ have been extended during 2006, such that some plans have been moved from □Other plans□ into □Principal plans□.

Equity securities include Unilever securities amounting to €32 million (0.2% of total plan assets) and €34 million (0.2% of total plan assets) at 31 December 2006 and 2005 respectively. Property includes property occupied by Unilever amounting to €75 million and €73 million at 31 December 2006 and 2005 respectively.

The pension assets above exclude the assets in a Special Benefits Trust amounting to €181 million (2005: €197 million) to fund pension and similar obligations in the US (see also note 11 on page 92).

The sensitivity of the overall pension liabilities to changes in the weighted key financial assumptions are:

	Change in assumption	Impact on overall liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 6.8%
Inflation rate	Increase/decrease by 0.5%	Increase/decrease by 5.6%

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**Notes to the consolidated accounts Unilever Group****20 Pensions and similar obligations (continued)****Income statement**

The charge to the income statement comprises:

	€ million 2006	€ million 2005	€ million 2004
Charged to operating profit:			
Defined benefit pension and other benefit plans			
Current service cost	<b>(369)</b>	(349)	(327)
Employee contributions	<b>13</b>	18	31
Special termination benefits	<b>(56)</b>	(73)	(133)
Past service cost	<b>293</b>	(12)	(11)
Settlements/curtailments	<b>48</b>	95	60
Defined contribution plans	<b>(61)</b>	(63)	(65)
<b>Total operating cost</b>	<b>(132)</b>	(384)	(445)
Charged to other finance income/(cost):			
Interest on retirement benefits	<b>(977)</b>	(984)	(972)
Expected return on assets	<b>1 018</b>	931	918
<b>Total other finance income/(cost)</b>	<b>41</b>	(53)	(54)
<b>Net impact on the income statement (before tax)</b>	<b>(91)</b>	(437)	(499)

**Cash flow**

Group cash flow in respect of pensions and similar benefits comprises company contributions paid to funded plans and benefits paid by the company in respect of unfunded plans. In 2006, the benefits paid in respect of unfunded plans amounted to €333 million (2005: €328 million; 2004: €324 million). Company contributions to funded defined benefit plans are subject to periodic review, taking account of local legislation. In 2006, contributions to funded defined benefit plans amounted to €758 million (2005: €508 million; 2004: €462 million). Contributions to defined contribution plans including 401k plans amounted to €61 million (2005: €63 million; 2004: €65 million). In 2005, a €15 million refund of assets was received out of unrecognised surplus from Finland. Total contributions by the Group to funded plans, net of refunds, are currently expected to be €371 million in 2007 (2006 Actual: €758 million). Benefit payments by the Group in respect of unfunded plans are currently expected to be about €341 million in 2007 (2006 Actual: €333 million).

**Statement of recognised income and expense**

Amounts recognised in the statement of recognised income and expense:

€ million	€ million	€ million	€ million Cumulative since 1 January 2004
<b>2006</b>	2005	2004	

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Actual return less expected return on pension and other benefit plan assets	<b>533</b>	1 592	369	2 494
Experience gains/(losses) arising on pension plan and other benefit plan liabilities	<b>51</b>	27	(47)	31
Changes in assumptions underlying the present value of the pension and other benefit plan liabilities	<b>474</b>	(1 706)	(1 047)	(2 279)
Actuarial gain/(loss)	<b>1 058</b>	(87)	(725)	246
Change in unrecognised surplus	<b>142</b>	(41)	2	103
Refund of unrecognised assets	□	15	□	15
Net actuarial gain/(loss) recognised in statement of recognised income and expense (before tax)	<b>1 200</b>	(113)	(723)	364

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## Notes to the consolidated accounts Unilever Group

### 20 Pensions and similar obligations (continued)

#### Reconciliation of change in assets and liabilities

Movements in assets and liabilities during the year:

	<b>€ million Assets 2006</b>	€ million Assets 2005	€ million Assets 2004	<b>€ million Liabilities 2006</b>	€ million Liabilities 2005	€ million Liabilities 2004
1 January	<b>16 006</b>	13 419	12 819	<b>(21 446)</b>	(18 773)	(17 880)
Acquisitions/disposals	<b>(63)</b>	(3)	□	<b>123</b>	18	(6)
Current service cost	□	□	□	<b>(384)</b>	(367)	(344)
Employee contributions	<b>14</b>	19	32	□	□	□
Special termination benefits	□	□	□	<b>(54)</b>	(79)	(135)
Past service costs <sup>(b)</sup>	□	□	□	<b>293</b>	(13)	(13)
Settlements/curtailments	<b>(17)</b>	(10)	(23)	<b>76</b>	105	85
Other finance income	<b>1 021</b>	931	918	□	□	□
Other finance cost	□	□	□	<b>(982)</b>	(986)	(976)
Actuarial gain/(loss)	<b>533</b>	1 592	369	<b>525</b>	(1 679)	(1 094)
Employer contributions	<b>1 091</b>	836	786	□	□	□
Benefit payments	<b>(1 267)</b>	(1 247)	(1 223)	<b>1 267</b>	1 247	1 223
Reclassification of benefits <sup>(c)</sup>	<b>38</b>	39	(166)	<b>(32)</b>	(140)	166
Currency retranslation	<b>(78)</b>	430	(93)	<b>256</b>	(779)	201
31 December	<b>17 278</b>	16 006	13 419	<b>(20 358)</b>	(21 446)	(18 773)

(b) The reduction in liabilities in 2006 includes the €266 million reported on the face of the income statement.

(c) During 2004 some plans changed from defined benefit to defined contribution. During 2005 certain obligations were reclassified as employee benefit obligations.

#### History of experience gains and losses

	<b>€ million 2006</b>	€ million 2005	€ million 2004
Actual return less expected return on plan assets (€ million)	<b>533</b>	1 592	369
As % of plan assets at beginning of year	<b>3.3%</b>	11.9%	2.9%
Experience gains/(losses) on plan liabilities (€ million)	<b>51</b>	27	(47)
As % of present value of plan liabilities at beginning of year	<b>0.2%</b>	0.1%	(0.3)%
Changes in actuarial assumptions underlying the present value of the pension benefit and other benefit plan liabilities (€ million)	<b>474</b>	(1 706)	(1 047)
As % of present value of plan liabilities at beginning of year	<b>2.2%</b>	(9.1)%	(5.9)%
Total actuarial gain/(loss) (€ million)	<b>1 058</b>	(87)	(725)
As % of present value of plan liabilities at beginning of year	<b>4.9%</b>	(0.5)%	(4.1)%

**US GAAP disclosures**

Disclosures required for the reporting of pensions and similar obligations under US GAAP are set out in note 34 on pages 126 to 130.

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**Notes to the consolidated accounts Unilever Group****21 Equity**

	Shareholders' equity					Total equity	
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
	Called up share capital	Share premium account	Other reserves	Retained profit	Total shareholders' equity	Minority interests	Total equity
<b>Consolidated statement of changes in equity</b>							
1 January 2004	642	1 530	(2 442)	7 006	6 736	439	7 175
Total recognised income and expense for the year	□	□	218	2 156	2 374	167	2 541
Preference dividends	□	□	□	(28)	(28)	□	(28)
Final dividends 2003 on ordinary capital	□	□	□	(1 116)	(1 116)	□	(1 116)
Interim dividends 2004 on ordinary capital	□	□	□	(603)	(603)	□	(603)
(Purchase)/sale/reduction of treasury stock	□	□	(331)	7	(324)	□	(324)
Share-based payment credit <sup>(a)</sup>	□	□	□	222	222	□	222
Dividends paid to minority shareholders	□	□	□	□	□	(203)	(203)
Currency retranslation gains/(losses) net of tax	□	□	□	1	1	(6)	(5)
Other movements in equity	□	□	□	2	2	(32)	(30)
31 December 2004	642	1 530	(2 555)	7 647	7 264	365	7 629
Accounting policy change □ preference shares <sup>(b)</sup>	(130)	(1 372)	□	□	(1 502)	□	(1 502)
Accounting policy change □ other financial instruments <sup>(b)</sup>	□	□	(19)	407	388	□	388
Equity as restated at 1 January 2005	512	158	(2 574)	8 054	6 150	365	6 515
Total recognised income and expense for the year	□	□	379	3 825	4 204	249	4 453
Final dividends 2004 on ordinary capital	□	□	□	(1 229)	(1 229)	□	(1 229)
Interim dividends 2005 on ordinary capital	□	□	□	(638)	(638)	□	(638)
Conversion of preference shares	□	□	1 129	(199)	930	□	930
(Purchase)/sale/reduction of treasury stock	□	□	(1 262)	□	(1 262)	□	(1 262)
Share-based payment credit <sup>(a)</sup>	□	□	□	186	186	□	186
Dividends paid to minority shareholders	□	□	□	□	□	(217)	(217)

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Currency retranslation gains/(losses) net of tax	□	4	□	□	4	9	13
Other movements in equity	□	□	□	16	16	(2)	14
<b>31 December 2005</b>	<b>512</b>	<b>162</b>	<b>(2 328)</b>	<b>10 015</b>	<b>8 361</b>	<b>404</b>	<b>8 765</b>
Total recognised income and expense for the year	□	□	(263)	5 575	5 312	242	5 554
Final dividends 2005 on ordinary capital	□	□	□	(1 269)	(1 269)	□	(1 269)
Interim dividends 2006 on ordinary capital	□	□	□	(664)	(664)	□	(664)
One-off dividend	□	□	□	(751)	(751)	□	(751)
(Purchase)/sale/reduction of treasury stock <sup>(c)</sup>	□	□	403	(285)	118	□	118
Share-based payment credit <sup>(a)</sup>	□	□	□	111	111	□	111
Dividends paid to minority shareholders	□	□	□	□	□	(184)	(184)
Currency retranslation gains/(losses) net of tax	(12)	3	14	□	5	(11)	(6)
Other movements in equity	(16)	□	31	(8)	7	(9)	(2)
<b>31 December 2006</b>	<b>484</b>	<b>165</b>	<b>(2 143)</b>	<b>12 724</b>	<b>11 230</b>	<b>442</b>	<b>11 672</b>

(a) The share-based payment credit relates to the reversal of the non-cash charge recorded against operating profit in respect of the fair value of share options and awards granted to employees.

(b) From 1 January 2005, Unilever adopted IAS 32 □Financial Instruments: Disclosure and Presentation□ and IAS 39 □Financial Instruments: Recognition and Measurement□.

(c) Includes transfer from treasury stock to retained profit of share settled schemes arising from prior years and differences between exercise and grant price of share options.

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## Notes to the consolidated accounts Unilever Group

### 22 Share capital

<b>Called up share capital</b>	<b>€ million 2006</b>	€ million 2005
Ordinary share capital of NV	<b>274</b>	290
Ordinary share capital of PLC	<b>210</b>	222
	<b>484</b>	512

<b>Ordinary share capital</b>	Number of shares authorised	<b>Authorised 2006</b>	Authorised 2005	Nominal value per share	Number of shares issued	<b>Issued, called up and fully paid 2006</b>	Issued, called up and fully paid 2005
		<b>€ million</b>	€ million			<b>€ million</b>	€ million
NV ordinary shares	3 000 000	<b>480</b>	508	€0.16	1 714 727	<b>274</b>	290
NV ordinary shares (shares numbered 1 to 2 400 □ 'Special Shares□)		<b>1</b>	1	€428.57	2 400	<b>1</b>	1
Internal holdings eliminated on consolidation (€428.57 shares)		□	□			<b>(1)</b>	(1)
		<b>481</b>	509			<b>274</b>	290
		<b>£ million</b>	£ million			<b>£ million</b>	£ million
PLC ordinary shares	4 377 075	<b>136.2</b>	136.2	3 <sup>1</sup> / <sub>9</sub> p £1	1 310 156	<b>40.8</b>	40.8
PLC deferred stock	492	<b>0.1</b>	0.1	stock	361	<b>0.1</b>	0.1
Internal holding eliminated on consolidation (£1 stock)	100 000	□	□		100 000	<b>(0.1)</b>	(0.1)
		<b>136.3</b>	136.3			<b>40.8</b>	40.8
Euro equivalent in millions (at £1.00 = €5.143) (2005: £1.00 = €5.445)						<b>210</b>	222



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For information on the rights of shareholders of NV and PLC and the operation of the Equalisation Agreement, see Corporate governance on pages 39 to 40.

At the Annual General Meetings of NV and PLC held on 8 May and 9 May 2006 respectively, shareholders approved proposals that the NV ordinary shares be split in the ratio 3 to 1 and that the PLC ordinary shares be consolidated in the ratio 9 to 20. At the same time, amendments were made to NV's Articles of Association to convert into euros the share capital amounts previously denominated in Dutch guilders. Following these changes, which became effective on 22 May 2006, the nominal value of each NV ordinary share is €0.16 and the nominal value of each PLC ordinary share is 3<sup>1</sup>/<sub>9</sub>p. In the case of the NV ordinary shares, the new nominal value per share does not, for reasons of rounding, equate exactly to the equivalent value expressed in Dutch guilders. As a result, the reported share capital issued at 31 December 2006 is €16 million lower than in 2005, with a corresponding amount being included in other reserves (see note 23 on page 110). In the case of the PLC ordinary shares, the euro conversion rate is now £1.00 = €5.143. As at 31 December 2005 when the NV shares were denominated in Dutch guilders, the effective rate of exchange was £1.00 = €5.445. This rate change results in a reduction in the euro equivalent of €12 million with a corresponding amount being included in other reserves (see note 23 on page 110). A nominal dividend of 6% is paid on the deferred stock of PLC, which is not redeemable.

### Internal holdings

The ordinary shares numbered 1 to 2 400 (inclusive) in NV (Special Shares) and deferred stock of PLC are held as to one half of each class by N.V. Elma – a subsidiary of NV – and one half by United Holdings Limited – a subsidiary of PLC. This capital is eliminated on consolidation. It carried the right to nominate persons for election as Directors at general meetings of shareholders. At NV's AGM held on 8 May 2006 and at PLC's AGM held on 9 May 2006 it was decided to abandon this right. Accordingly, NV's and PLC's Articles of Association were amended so that for an alteration of the provisions within them relating to the unity of management between NV and PLC, prior approval is required from meetings of the holders of the NV Special Shares and the PLC Deferred Stock. The subsidiaries mentioned above have waived their rights to dividends on their ordinary shares in NV.

### Share-based compensation

The Group operates a number of share-based compensation plans involving options and awards of ordinary shares of NV and PLC. Full details of these plans are given in note 29 on pages 117 to 121.

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 23 Other reserves

	€ million NV 2006	€ million NV 2005	€ million NV 2004	€ million PLC 2006	€ million PLC 2005	€ million PLC 2004	€ million Total 2006	€ million Total 2005	€ million Total 2004
Fair value reserves	9	(3)	n/a	7	(2)	n/a	16	(5)	n/a
Cash flow hedges	4	(3)	n/a	(3)	(2)	n/a	1	(5)	n/a
Available-for-sale financial assets	5	□	n/a	10	□	n/a	15	□	n/a
Currency retranslation of group companies	318	548	160	(19)	35	58	299	583	218
Adjustment on translation of PLCs ordinary capital at 3 <sup>1</sup> /9p = €0.16	□	□	□	(150)	(164)	(164)	(150)	(164)	(164)
Capital redemption reserve	16	□	□	16	16	16	32	16	16
Book value treasury stock	(1 623)	(2 010)	(2 065)	(717)	(748)	(560)	(2 340)	(2 758)	(2 625)
	<b>(1 280)</b>	<b>(1 465)</b>	<b>(1 905)</b>	<b>(863)</b>	<b>(863)</b>	<b>(650)</b>	<b>(2 143)</b>	<b>(2 328)</b>	<b>(2 555)</b>

Cash flow hedges □ movements during the year	€ million 2006	€ million 2005
1 January	(5)	(19)
Additions	12	9
Transfers to income statement	(4)	1
Transfers to inventories/non-current assets	(2)	4
31 December	1	(5)

Unilever acquired 3 010 666 ordinary shares of NV and 3 010 465 ordinary shares of PLC through purchases on the stock exchanges during the year. These shares are held as treasury stock as a separate component of other reserves. The total number held at 31 December 2006 is 70 319 259 (2005: 74 179 011) NV shares and 64 656 456 (2005: 71 332 301) PLC shares. Of these, 55 514 379 NV shares and 53 100 244 PLC shares were held in connection with share-based compensation plans (see note 29 on pages 117 to 121).

Treasury stock □ movements during the year	€ million 2006	€ million 2005
1 January	(2 758)	(2 625)
Utilised for preference shares conversion at average book value	□	1 129
Purchases and other utilisations	418	(1 262)
31 December	(2 340)	(2 758)

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<b>Currency retranslation reserve □ movements during the year</b>	<b>€ million 2006</b>	€ million 2005
1 January	<b>583</b>	218
Currency retranslation during the year	<b>495</b>	92
Movement in net investment hedges	<b>(779)</b>	332
Recycled to income statement	□	(59)
	<hr/>	
31 December	<b>299</b>	583

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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

### 24 Retained profit

<b>Movements during the year</b>	<b>€ million NV</b>	€ million NV	€ million NV	<b>€ million PLC</b>	€ million PLC	€ million PLC	<b>€ million Total</b>	€ million Total	€ million Total
	<b>2006</b>	2005	2004	<b>2006</b>	2005	2004	<b>2006</b>	2005	2004
31 December 2004		8 331			(684)			7 647	
Accounting policy change for financial instruments <sup>(a)</sup>		(1 500)			1 907			407	
1 January	<b>8 721</b>	6 831	7 321	<b>1 294</b>	1 223	(315)	<b>10 015</b>	8 054	7 006
Recognised income and expense through retained profit	<b>3 727</b>	3 092	1 520	<b>1 848</b>	733	636	<b>5 575</b>	3 825	2 156
Preference dividends <sup>(b)</sup>	□	□	(28)	□	□	□	□	□	(28)
Final dividends 2003 on ordinary capital	□	□	(630)	□	□	(486)	□	□	(1 116)
Interim dividends 2004 on ordinary capital	□	□	(343)	□	□	(260)	□	□	(603)
Final dividends 2004 on ordinary capital	□	(710)	□	□	(519)	□	□	(1 229)	□
Interim dividends 2005 on ordinary capital	□	(363)	□	□	(275)	□	□	(638)	□
Final dividends 2005 on ordinary capital	<b>(722)</b>	□	□	<b>(547)</b>	□	□	<b>(1 269)</b>	□	□
Interim dividends 2006 on ordinary capital	<b>(379)</b>	□	□	<b>(285)</b>	□	□	<b>(664)</b>	□	□
One-off dividend	<b>(428)</b>	□	□	<b>(323)</b>	□	□	<b>(751)</b>	□	□
Conversion of preference shares	□	(199)	□	□	□	□	□	(199)	□
Utilisation of treasury stock	<b>(217)</b>	□	7	<b>(68)</b>	□	□	<b>(285)</b>	□	7
Share-based compensation credit <sup>(c)</sup>	<b>70</b>	132	152	<b>41</b>	54	70	<b>111</b>	186	222
Adjustment arising from change in structure of group companies <sup>(d)</sup>	<b>(2 368)</b>	(70)	332	<b>2 368</b>	70	(332)	□	□	□
Other movements in retained profit	□	8	□	<b>(8)</b>	8	3	<b>(8)</b>	16	3
31 December	<b>8 404</b>	8 721	8 331	<b>4 320</b>	1 294	(684)	<b>12 724</b>	10 015	7 647
Of which retained by:							<b>12</b>	11	
Parent companies	<b>9 755</b>	9 463	7 693	<b>2 306</b>	2 145	1 553	<b>061</b>	608	9 246

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Other group companies	<b>(1 294)</b>	(668)	731	<b>2 006</b>	(837)	(2 235)	<b>712</b>	(1 505)	(1 504)
Joint ventures and associates	<b>(57)</b>	(74)	(93)	<b>8</b>	(14)	(2)	<b>(49)</b>	(88)	(95)
	<b>8 404</b>	8 721	8 331	<b>4 320</b>	1 294	(684)	<b>724</b>	10 015	7 647

- (a) Due to the adoption of IAS 32 and IAS 39 with effect from 1 January 2005, intra-group preference shares are now classified as debt instead of equity. The relative ownership of these preference shares has resulted in a realignment of balances between NV and PLC.
- (b) From 1 January 2005, Unilever adopted IAS 32 which requires preference shares that provide for a fixed preference dividend to be classified as borrowings and preference dividends to be recognised in the income statement. In accordance with the transition rules for IAS 32, 2004 was not restated.
- (c) The share-based compensation credit relates to the reversal of the non-cash charge recorded against operating profit in respect of the fair value of share options and awards granted to employees.
- (d) As part of the review of Unilever's corporate structure, and in the light of the constitutional and operational arrangements which enable Unilever N.V. and Unilever PLC to operate as nearly as practicable as a single company, the Directors have been authorised to take any action necessary or desirable in order to ensure that the ratio of the dividend generating capacity of Unilever PLC to that of Unilever N.V. does not differ substantially from the ratio of the dividend entitlement of ordinary shareholders in Unilever PLC to that of ordinary shareholders in Unilever N.V. Therefore, in 2006, shareholdings in the Unilever companies in Czech Republic, Hungary, Russia and Turkey, as well as a part of indirect shareholdings in Unilever US, have been transferred from Unilever N.V. to Unilever PLC for no consideration. In addition, part of a dividend which would otherwise be due from a Unilever US intermediate company to a company within the Unilever N.V. part of the Group has instead been paid to a company within the Unilever PLC part of the Group. Re-organisations of group companies have produced similar types of adjustments in previous years.

Cumulative goodwill written off directly to reserves prior to the transition to IFRS on 1 January 2004 was €5 199 million for NV and €2 063 million for PLC.

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## Financial Statements (continued)

# Notes to the consolidated accounts Unilever Group

## 25 Commitments and contingent liabilities

	€ million Future minimum lease payments 2006	€ million Finance cost 2006	€ million Present value 2006	€ million Future minimum lease payments 2005	€ million Finance cost 2005	€ million Present value 2005
<b>Long-term finance lease commitments</b>						
Buildings <sup>(a)</sup>	137	94	43	160	95	65
Plant and machinery	159	15	144	170	18	152
	<b>296</b>	<b>109</b>	<b>187</b>	330	113	217
The commitments fall due as follows:						
Within 1 year	71	10	61	75	11	64
After 1 year but within 2 years	68	8	60	60	10	50
After 2 years but within 3 years	22	6	16	56	6	50
After 3 years but within 4 years	17	6	11	14	6	8
After 4 years but within 5 years	10	5	5	13	6	7
After 5 years	108	74	34	112	74	38
	<b>296</b>	<b>109</b>	<b>187</b>	330	113	217

(a) All leased land is classified as operating leases.

	€ million 2006	€ million 2005
<b>Long-term operating lease commitments</b>		
Land and buildings	1 257	1 472
Plant and machinery	360	459
	<b>1 617</b>	1 931

	€ million Operating leases 2006	€ million Operating leases 2005	€ million Other commit- ments 2006	€ million Other commit- ments 2005
<b>Operating lease and other commitments fall due as follows</b>				
Within 1 year	342	339	471	365
After 1 year but within 2 years	294	297	261	323
After 2 years but within 3 years	243	267	192	62
After 3 years but within 4 years	182	222	175	40

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After 4 years but within 5 years	<b>156</b>	209	<b>153</b>	23
After 5 years	<b>400</b>	597	<b>528</b>	18
	<b>1 617</b>	1 931	<b>1 780</b>	831

The Group has sublet part of the leased properties under operating leases. Future minimum sublease payments of €16 million are expected to be received.

Other commitments principally comprise commitments under contracts to purchase materials and services. They do not include commitments for capital expenditure, which are reported in note 10 on page 90. The increase in other commitments as at 31 December 2006 is due to outsourcing initiatives.

Contingent liabilities are either possible obligations that will probably not require a transfer of economic benefits, or present obligations that may, but probably will not, require a transfer of economic benefits. It is not appropriate to make provisions for contingent liabilities, but there is a chance that they will turn into an obligation in the future. The Group believes that incurred losses in any of these matters would not have a material effect.

Examples of the first type of contingent liability arise in respect of litigation against group companies, investigations by competition, regulatory and fiscal authorities and obligations arising under environmental legislation. The estimated total of such contingent liabilities at 31 December 2006 was some €439 million (2005: €349 million). This includes amounts relating to some of the legal proceedings mentioned on page 8.

Examples of the second type of contingent liability are guarantees issued by group companies. At 31 December 2006 these amounted to some €105 million (2005: €113 million). Included in this are discounted trade bills with a value of €23 million (2005: €25 million). We believe that any loss arising in connection with these would not have a material effect on the Group's financial condition or results of operations. Guarantees given by parent or group companies that relate to liabilities already included in these consolidated accounts are excluded from this total.

The total value of guarantees which arose or were revised in 2006 was €41 million (2005: €39 million). The fair value of guarantees is not material in either 2005 or 2006.

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## Notes to the consolidated accounts Unilever Group

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### 26 Acquisitions and disposals

#### Acquisitions

During 2006 we purchased minority interests in subsidiary companies in Greece and Algeria, trademarks in Czech Republic, distribution in Tunisia and Vashisti business in India. Also an additional investment into Langholm Capital Partners Fund was made and classified as an acquisition of associates (see note 11 on page 92).

The following table sets out the effect of acquisitions of group companies in 2006, 2005 and 2004 on the consolidated balance sheet. The fair values currently established for all acquisitions made in 2006 are provisional. The goodwill arising on these transactions has been capitalised and is subject to an annual review for impairment (or more frequently if necessary) in accordance with our accounting policies as set out in note 1 on page 74. Any impairment is charged to the income statement as it arises. Detailed information relating to goodwill is given in note 9 on pages 88 and 89.

<b>Acquisitions</b>	<b>€ million 2006</b>	€ million 2005	€ 2004
Net assets acquired	<b>42</b>	7	33
Goodwill arising in subsidiaries	<b>60</b>	13	7
Consideration	<b>102</b>	20	40

Consideration consisted wholly of cash.

#### Disposals

The results of disposed businesses are included in the consolidated accounts up to their date of disposal.

On 3 November 2006, Unilever announced that it had reached a final agreement with Permira Funds to sell the majority of its European frozen foods business for €1.7 billion. The Unilever businesses being sold in this transaction include the frozen foods operations in Austria, Belgium, France, Germany, Ireland, Netherlands, Portugal and United Kingdom.

Other disposals in 2006 were Mora in the Netherlands and Belgium, Finesse in the US, Canada and Sweden, Friol in Italy and Nihar and tea plantations in India.

The principal disposals in 2005 were UCI across the world, Stanton Oil in UK and Ireland, Dextro in various countries in Europe, Opal in Peru, Karo and Knax in Mexico, spreads and cooking products in Australia and in New Zealand, Crispa, Mentadent, Marmite, Bovril and Maizena in South Africa, frozen pizza in Austria, Biopon in Hungary and tea plantations in India.

In March 2005 Unilever completed 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 hold 49% of the combined foods business and Jerónimo Martins Group 51%. During the year, Unilever signed an agreement with Jerónimo Martins to restructure the



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ownership of the Portuguese operations effective 1 January 2007. Further information is provided in note 33 on page 123.

In 2004, the principal disposals were Puget oils in France, the frozen pizza and baguette businesses in various countries in Europe, Rit, Niagara, Final Touch and Sunlight in North America, Capullo, Mazola and Inca in Chile and Mexico and Dalda oils in Pakistan. Our chemicals business in India (Hindustan Lever Chemicals) was merged with Tata Chemicals. Various other smaller brands were also sold as part of our Path to Growth strategy.

<b>Disposals</b>	<b>€ million 2006</b>	€ million 2005	€ 2004
Goodwill and intangible assets	<b>1</b>	150	23
Other non-current assets	<b>242</b>	78	52
Current assets	<b>354</b>	207	145
Trade creditors and other payables	<b>(157)</b>	(106)	(34)
Provisions for liabilities and charges	<b>(91)</b>	(15)	(9)
Minority interest	□	(1)	(25)
<b>Net assets sold</b>	<b>349</b>	313	152
(Gain)/loss on recycling of currency retranslation on disposal	□	(5)	2
<b>Profit on sale attributable to Unilever</b>	<b>1 528</b>	655	338
<b>Consideration</b>	<b>1 877</b>	963	492
Cash	<b>1 870</b>	845	417
Cash balances of businesses sold	□	(17)	(4)
Financial assets, cash deposits and borrowings of businesses sold	<b>(5)</b>	8	39
Non-cash items and deferred consideration	<b>12</b>	26	40
Payment received in prior year	□	101	□

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 27 Assets held for sale and discontinued operations

Following the announcement on 9 February 2006 of the intention to dispose of the majority of Unilever's European frozen foods businesses, the results of these businesses have been presented as discontinued operations. The sale of these businesses to Permira Funds was completed on 3 November 2006. Also included under this heading are the results of Unilever Cosmetics International (UCI) following the sale of this business to Coty Inc. in July 2005.

An analysis of the result of discontinued operations, and the result recognised on disposal of discontinued operations is as follows:

<b>Income statement of discontinued operations</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
Turnover	<b>1 033</b>	1 501	1 940
Expenses	<b>(863)</b>	(1 253)	(1 648)
Operating profit	<b>170</b>	248	292
Net finance costs	<b>(3)</b>	(6)	(7)
Profit before tax	<b>167</b>	242	285
Taxation	<b>(25)</b>	(72)	(98)
Profit after taxation	<b>142</b>	170	187
Gain/(loss) on disposal of discontinued operations	<b>1 349</b>	513	39
Recycling of currency retranslation upon disposal	□	5	□
Taxation arising on disposal	<b>(161)</b>	(48)	(13)
Gain/(loss) after taxation on disposal	<b>1 188</b>	470	26
Net profit from discontinued operations	<b>1 330</b>	640	213
<b>Segment analysis of discontinued operations</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
<b>Turnover</b>			
Europe	<b>1 033</b>	1 397	1 702
The Americas	□	102	231
Asia Africa	□	2	7
	<b>1 033</b>	1 501	1 940
Foods	<b>1 033</b>	1 271	1 398
Personal care	□	230	542

	<b>1 033</b>	1 501	1 940
<b>Operating profit</b>			
Europe	<b>170</b>	227	241
The Americas	□	20	47
Asia Africa	□	1	4
	<b>170</b>	248	292
Foods	<b>164</b>	226	219
Personal care	<b>6</b>	22	73
	<b>170</b>	248	292

<b>Summary cash flow statement of discontinued operations</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
Net cash flow from/(used in) operating activities	<b>79</b>	62	314
Net cash flow from/(used in) investing activities	<b>1 618</b>	621	44
Net cash flow from/(used in) financing activities	<b>(1)</b>	(4)	(5)
	<b>1 696</b>	679	353

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## Notes to the consolidated accounts Unilever Group

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### 27 Assets held for sale and discontinued operations (continued)

Various non-current assets were held for sale at the year end, including a number of other production and distribution facilities.

<b>Assets classified as held for sale</b>	<b>€ million 2006</b>	€ million 2005
<b>Disposal groups held for sale</b>		
Goodwill	□	□
Intangible assets	□	□
Property, plant and equipment	□	42
Biological assets	□	21
Other non-current investments	□	□
Inventories	□	18
Trade and other receivables	□	6
Cash and cash equivalents	□	1
	<hr/>	<hr/>
	□	88
	<hr/>	<hr/>
<b>Non-current assets held for sale</b>		
Property, plant and equipment	<b>14</b>	129
	<hr/>	<hr/>
	<b>14</b>	217

<b>Liabilities classified as held for sale (part of disposal groups)</b>	<b>€ million 2006</b>	€ million 2005
Trade payables and other liabilities	□	(16)
Restructuring and other provisions	□	□
Pension liability for unfunded schemes	□	(1)
Deferred taxation	□	(9)
	<hr/>	<hr/>
	□	(26)

Total assets at 31 December 2006 are included in the geographical segments as follows: Europe €9 million; The Americas €4 million; and Asia Africa €1 million.

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 28 Reconciliation of net profit to cash flow from operating activities

<b>Cash flow from operating activities</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
Net profit	<b>5 015</b>	3 975	2 941
Taxation	<b>1 332</b>	1 301	836
Share of net profit of joint ventures/associates and other income from non-current investments	<b>(144)</b>	(55)	(95)
Net finance costs	<b>725</b>	618	631
Finance income	<b>(138)</b>	(130)	(145)
Finance cost	<b>602</b>	693	717
Preference shares provision	<b>300</b>	□	□
Pensions and similar obligations	<b>(39)</b>	55	59
Depreciation, amortisation and impairment	<b>982</b>	1 274	2 063
Changes in working capital	<b>87</b>	193	547
Inventories	<b>(156)</b>	(153)	221
Trade and other current receivables	<b>(172)</b>	(36)	298
Trade payables and other current liabilities	<b>415</b>	382	28
Pensions and similar provisions less payments	<b>(1 038)</b>	(532)	(472)
Provisions less payments	<b>107</b>	(230)	574
Elimination of (profits)/losses on disposals	<b>(1 620)</b>	(789)	(308)
Non-cash charge for share-based compensation	<b>120</b>	192	218
Other adjustments	<b>8</b>	(23)	(10)
<b>Cash flow from operating activities</b>	<b>5 574</b>	5 924	6 925

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 Group cash flow statement.

#### Major non-cash transactions

During 2006 the Group has taken a provision of €300 million for possible compensation payments relating to the 2005 conversion of preference shares, issued by Unilever N.V. in 1999.

During 2006 the Group entered into new finance lease arrangements in respect of equipment with a capital value at inception of the lease of €51 million (2005: €49 million).

On 15 February 2005 €1 129 million of treasury stock was used in the conversion of the €0.05 preference shares into ordinary NV shares.



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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

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### 29 Share-based compensation plans

As at 31 December 2006, the Group had a number of share-based compensation plans:

#### (i) All-Employee Share Option Plans

Local All-Employee Share Option Plans have been set up in 15 countries to enhance employee involvement with Unilever and its performance by providing a potential financial benefit linked to the Unilever share price. There are no individual performance targets to be met. The plans permit participation by all permanent employees in the country where the relevant plan applies.

#### (ii) Executive Option Plans

The Executive Option Plans were introduced in 1985 to reward key employees throughout the world for their contribution to the enhancement of the Group's longer-term future and their commitment to the Group over a sustained period. The grants were dependent on performance of the Group and the individual.

#### (iii) Global Performance Share Plan (GPSP)

Introduced in 2005, under this plan managers can be awarded conditional shares which will vest three years later at a level between 0% and 150% - 200% depending on Unilever's achievement of set targets for Underlying Sales Growth and Ungearing Free Cash Flow over the three-year performance period.

#### (iv) TSR Long-Term Incentive Plan

This plan was introduced in 2001 and, depending on the TSR ranking (see page 27) of Unilever in comparison with its peer group, it will potentially award top executives on the vesting date three years later with between 0% and 200% of the original conditional award.

#### (v) North America Performance Share Programme

A long-term incentive plan for North American managers, awarding Unilever shares if company targets are met over a three-year period.

#### (vi) Other plans

These comprise a Share Matching Plan, a Restricted Share Plan, and a cash-settled share-based retention plan.

Unilever will not grant share options in total in respect of Executive Option Plans for more than 5% of its issued ordinary capital, and for all Plans together, for more than 10% of its issued ordinary capital. The Board does not apportion these limits to each plan separately.

In recent years we have met the obligations under our share option and award plans by purchasing shares in advance and transferring them, in return for the exercise price, to Directors and employees as the options are exercised or the awards vest.

The numbers in this note include those for Executive Directors shown in the report of the Remuneration Committee on pages 49 to 62 and those for key management personnel shown in note 31 on page 122. No awards were made to Executive Directors in 2004, 2005 and 2006 under the North America Performance Share Programme, the Restricted Share Plan or the cash-settled share-based retention plan. Non-Executive Directors do not participate in any of the share-based compensation plans.

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The economic fair value of the awards is calculated using an option pricing model (usually an adjusted Black-Scholes or multinomial model) and the resulting cost is recognised as remuneration cost amortised over the vesting period of the grant. The actual remuneration costs charged in each period is shown below, and relates almost wholly to equity settled plans:

	<b>€ million 2006</b>	€ million 2005	€ million 2004
All-Employee Share Option Plans	<b>(12)</b>	(13)	(17)
Executive Option Plans	<b>(29)</b>	(63)	(105)
Global Performance Share Plan	<b>(17)</b>	(15)	□
TSR Long-Term Incentive Plan	<b>(9)</b>	(10)	(9)
North America Performance Share Programme	<b>(31)</b>	(63)	(64)
Other Plans	<b>(22)</b>	(28)	(23)
	<b>(120)</b>	(192)	(218)

Disclosures, including a description of the method and significant assumptions used to estimate the fair values of options and the weighted average information, are given below for each type of plan, on a combined basis.

In the tables for each plan or group of plans, option or award valuations are given on the basis of the weighted average of options or awards granted during each period. For plans involving options, the fair value per option is estimated using the Black-Scholes option pricing method. The expected option terms are based on historic data. Figures for expected volatility are set with regard to historic volatility over the last six years. The expected dividend yield is based on the dividend yield in the year of grant. Forfeiture rates are set annually with regard to historic forfeiture rates.



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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 29 Share-based compensation plans (continued)

##### (i) All-Employee Share Option Plans

Unilever has All-Employee Share Option Plans in 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and Switzerland, and with a share save element in South Africa and the United Kingdom.

The vesting periods range between three and five years (Netherlands nil) and the maximum term is five years.

A summary of the status of the All-Employee Plans as at 31 December 2006, 2005 and 2004 and changes during the years ended on these dates is presented below:

	2006 Number of options	2006 Weighted average exercise price	2005 Number of options	2005 Weighted average exercise price	2004 Number of options	2004 Weighted average exercise price
Outstanding at 1 January	20 467		22 155		21 564	
	554	€19.11	623	€18.77	274	€18.71
Granted	4 356		4 884		4 830	
	278	€17.65	012	€17.62	401	€17.79
Exercised	(1 921)		(3 077)		(563 445)	
	936)	€17.32	008)	€15.59	(2 150)	€14.21
Forfeited	(1 683)		(1 967)		(2 150)	
	941)	€19.18	127)	€18.91	074)	€18.22
Expired	(3 224)		(1 527)		(1 525)	
	609)	€21.35	946)	€17.93	533)	€19.12
Outstanding at 31 December	17 993		20 467		22 155	
	346	€18.54	554	€19.02	623	€18.64
Exercisable at 31 December	6 484		6 819		5 988	
	654	€19.66	376	€20.88	657	€19.71

The weighted average market price of the shares at the time of exercise was €19.92 (2005: €18.34; 2004: €17.12). As at 1 January 2006 there were 13 648 178 non-vested options at a weighted average fair value of €3.59. As at 31 December 2006 there were 11 508 692 non-vested options at a weighted average fair value of €3.30. During 2006 there were 5 132 333 options vested at a weighted average fair value of €3.83.

	2006	2005	2004
<b>Option value information</b>			
Fair value per option	€ 3.10	€ 3.01	€ 3.18
Valuation assumptions:			
Expected option term	3.5 years	3.5 years	3.4 years

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Expected volatility	<b>27.5%</b>	27.5%	27.5%
Expected dividend yield	<b>3.8%</b>	3.6%	3.3%
Risk-free interest rate	<b>3.8%</b>	2.9%	3.5%

The exercise prices and remaining life of the All-Employee Option Plans as at 31 December 2006 are as follows:

		Options outstanding		Options exercisable	
Range of exercise prices	Number outstanding at 31 December 2006	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 31 December 2006	Weighted average exercise price
<b>€17.00] €23.34</b>	<b>17 993 346</b>	<b>3 years</b>	<b>€18.54</b>	<b>6 484 654</b>	<b>€19.66</b>

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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

### 29 Share-based compensation plans (continued)

#### (ii) Executive Option Plans

Under the Executive Option Plans options are granted to key employees of the Group on a discretionary basis. The exercise price is the market price at the date of grant. Since the introduction of the Global Performance Share Plan in 2005, it is the intention to make no further grants under the Executive Option Plans, except for a few premium option grants which result from prior commitments. The plans are made up of the following:

#### NV Executive Option Plan and PLC Executive Option Plan

These plans provide for the granting of options to purchase shares of Unilever N.V. and of Unilever PLC, at a price not lower than the market price on the day the options were granted. These options become exercisable after a three-year period from the date of grant. The options have a maximum term of ten years.

#### North America Executive Stock Option Programme

This programme is covered by the Unilever North America 2002 Omnibus Equity Compensation Plan and provides for the granting of options to purchase a maximum of 121.5 million shares in Unilever N.V. of the New York Registry, and 117.9 million shares of Unilever PLC, at a price not lower than the market value on the day the options are granted. These options become exercisable over a three-year period from the date of grant and have a maximum term of ten years.

Managers working in India can participate in an Executive Option Plan relating to Hindustan Lever Limited's shares. As these are neither NV nor PLC shares, no figures for this plan are disclosed in this note, but the fair value costs for 2006 €1 million (2005: €2 million; 2004: €3 million) and are included in the costs of Executive Option Plans on page 117.

A summary of the status of the Executive Option Plans as at 31 December 2006, 2005 and 2004 and changes during the years ended on these dates is presented below:

	Number of options	2006 Weighted average exercise price	Number of options	2005 Weighted average exercise price	Number of options	2004 Weighted average exercise price
Outstanding at 1 January	94 304 917	€18.16	106 817 066	€18.18	101 146 875	€17.45
Granted	□	□	994 780	€17.07	16 785	€17.03
Exercised	(12 458 411)	€16.80	(6 387 147)	€15.34	(5 079 787)	€12.41
Forfeited	(3 487 375)	€19.76	(7 078 325)	€19.19	(6 035 835)	€18.34
Expired	(55 912)	€13.87	(41 457)	€18.00	□	□
Outstanding at 31 December	78 303 219	€18.31	94 304 917	€18.29	106 817 066	€17.57

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Exercisable at 31 December	<b>64 704</b> <b>677</b>	<b>€18.46</b>	59 766 857	€18.39	49 223 513	€16.54
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The weighted average market price of the shares at the time of exercise was €19.64 (2005: €18.82; 2004:€17.13). As at 1 January 2006 there were 34 538 060 non-vested options at a weighted average fair value of €4.13. As at 31 December 2006 there were 13 598 542 non-vested options at a weighted average fair value of €3.82. During 2006 21 234 947 options vested at a weighted average fair value of €4.32.

	2006	2005	2004
<b>Option value information</b>			
Fair value per option	□	€3.67	€3.72
Valuation assumptions:			
Expected option term	□	6.0 years	5.9 years
Expected volatility	□	27.5 %	27.5 %
Expected dividend yield	□	3.8 %	3.4 %
Risk-free interest rate	□	4.0 %	3.7 %

The exercise prices and remaining life of the Executive Option Plans as at 31 December 2006 are as follows:

Range of exercise prices	Number outstanding at 31 December 2006	Weighted average remaining contractual life	Options outstanding		Options exercisable	
			Weighted average exercise price	Number exercisable at 31 December 2006	Weighted average exercise price	
<del>€8.58</del> <b>€11.65</b>	<b>1 165 006</b>	<b>4 years</b>	<b>€11.51</b>	<b>1 165 006</b>	<b>€11.51</b>	
<del>€12.34</del> <b>€16.91</b>	<b>16 001 431</b>	<b>5 years</b>	<b>€15.10</b>	<b>14 608 402</b>	<b>€14.95</b>	
<del>€17.19</del> <b>€24.66</b>	<b>61 136 782</b>	<b>5 years</b>	<b>€19.28</b>	<b>48 931 269</b>	<b>€19.68</b>	

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**Notes to the consolidated accounts Unilever Group****29 Share-based compensation plans (continued)****(iii) Global Performance Share Plan**

The GPSP was introduced in 2005. Under this plan, managers can be awarded conditional shares which will vest three years later at a level between 0% and 150% (for middle management) or 200% (for higher executives) depending on Unilever's achievement of set targets for Underlying Sales Growth and Free Cash Flow over the three-year performance period. The amount to be paid by participants to obtain the shares at vesting is zero.

A summary of the status of the GPSP as at 31 December 2006 and 2005 and changes during the year is presented below:

	<b>2006</b>	2005
	<b>Number of shares</b>	Number of shares
Outstanding at 1 January	<b>3 770 644</b>	□
Awarded	<b>3 426</b>	3 771
Vested	<b>757</b>	268
Forfeited	<b>(470 972)</b>	□ (624)
Outstanding at 31 December	<b>6 726 429</b>	3 770 644
Exercisable at 31 December	□	□

	<b>2006</b>	2005
<b>Share award value information</b>		
Fair value per share award	<b>€17.07</b>	€15.98

As at 1 January 2006 there were 3 770 644 non-vested share awards at a weighted average fair value of €15.87. As at 31 December 2006 there were 6 726 429 non-vested share awards at a weighted average fair value of €16.47. During 2006 no share awards vested.

**(iv) TSR Long-Term Incentive Plan**

Under this plan, introduced in 2001, grants are made to Executive Directors and some senior executives. The level of share award which will vest three years later will vary in accordance with the Total Shareholder Return in comparison with a peer group (see description on page 27). If the ranking is below the median, the share award will lapse; the higher the ranking above the median, the higher the share award. The amount to be paid to the company by participants to obtain the shares at vesting is zero.

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A summary of the status of the TSR Long-Term Incentive Plan as at 31 December 2006, 2005 and 2004 and changes during the year ended on these dates is presented below:

	<b>2006 Number of shares</b>	2005 Number of shares	2004 Number of shares
Outstanding at 1 January	<b>2 150</b>	2 180	1 994
Awarded	<b>450</b>	626	258
Vested <sup>(a)</sup>	<b>602 347</b>	689 495	734 699
Forfeited	<b>(33 971)</b>	(21 944)	(93 572)
Expired <sup>(b)</sup>	<b>(771 570)</b>	(697 727)	□
Outstanding at 31 December	<b>1 947 256</b>	2 150 450	2 180 626
Exercisable at 31 December	□	□	□

(a) 2001 award vested 100% as ranking was 6th.

(b) 2002 and 2003 awards expired (zero vesting) as rankings were 13th and 14th respectively.

	<b>2006</b>	2005	2004
<b>Share award value information</b>			
Fair value per share award <sup>(c)</sup>	<b>€14.08</b>	€13.48	€13.68

(c) Estimated using option pricing models (Monte Carlo) taking account of peer group TSR volatilities and correlations. As at 1 January 2006 there were 2 150 450 non-vested share awards at a weighted average fair value of €14.13. As at 31 December 2006 there were 1 947 256 non-vested share awards at a weighted average fair value of €13.83. During 2006 there were 771 570 share awards at a weighted average fair value of €14.84 which expired on the vesting date.

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## Notes to the consolidated accounts Unilever Group

### 29 Share-based compensation plans (continued)

#### (v) North America Performance Share Programme

This long-term incentive plan for North American managers, introduced in 2001, awards Unilever shares if company performance targets are met over a three-year period. The amount to be paid to the company by participants to obtain the shares at vesting is zero.

A summary of the status of the North America Performance Share Programme as at 31 December 2006, 2005 and 2004 and changes during the years ended on these dates is presented below:

	<b>2006</b>	2005	2004
	<b>Number of shares</b>	Number of shares	Number of shares
Outstanding at 1 January	<b>9 516 348</b>	10 749 007	11 255 341
Awarded	<b>2 735 732</b>	2 742 984	3 456 287
Vested	<b>(3 057 630)</b>	(3 510 939)	(3 819 424)
Forfeited	<b>(650 699)</b>	(464 704)	(143 197)
Outstanding at 31 December	<b>8 543 751</b>	9 516 348	10 749 007
Exercisable at 31 December	□	□	□

	<b>2006</b>	2005	2004
<b>Share award value information</b>			
Fair value per share award	<b>€17.42</b>	€19.02	€15.88

As at 1 January 2006 there were 9 516 348 non-vested share awards at a weighted average fair value of €16.14. As at 31 December 2006 there were 8 543 751 non-vested share awards at a weighted average fair value of €16.93. During 2006 there were 3 189 363 share awards vested at a weighted average fair value of €15.12.

#### (vi) Other Plans

The Group also provides a Share Matching Plan, a Restricted Share Plan, and a cash-settled share-based retention plan.

#### Additional information

As a result of the share-based compensation plans for employees, we are exposed to movements in our own share price. We take a flexible approach to the buying of shares to meet these obligations, not automatically buying

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shares at grant. In 2001, we entered into a contract with a bank for the forward purchase of Unilever shares. This contract was terminated in March 2006.

At 31 December 2006, there were options outstanding to purchase 87 114 773 (2005: 99 687 447) ordinary shares in NV or PLC in respect of share-based compensation plans of NV and its subsidiaries and the North American plans, and 28 832 519 (2005: 33 703 439) ordinary shares in NV or PLC in respect of share-based compensation plans of PLC and its subsidiaries.

To satisfy the options granted, certain NV group companies hold 91 935 752 (2005: 99 695 763) ordinary shares of NV or PLC, and trusts in Jersey and the United Kingdom hold 16 678 871 (2005: 19 454 453) PLC shares. The trustees of these trusts have agreed, until further notice, to waive dividends on these shares, save for the nominal sum of 0.01p per 3<sup>1</sup>/9p ordinary share. Shares acquired during 2006 represent 0.2% of the Group's called up capital. The balance at year end is 3.6% (2005: 3.9%) .

The book value of €1 836 million (2005: €2 258 million) of all shares held in respect of share-based compensation plans for both NV and PLC is eliminated on consolidation by deduction from other reserves (see note 23 on page 110). Their market value at 31 December 2006 was €2 279 million (2005: €2 261 million).

At 31 December 2006 the exercise price of 14 989 001 (2005: 43 740 558) NV and PLC options were above the market price of the shares.

Shares held to satisfy options are accounted for in accordance with IAS 32 and SIC 12. All differences between the purchase price of the shares held to satisfy options granted and the proceeds received for the shares, whether on exercise or lapse, are charged to reserves. In 2006 this includes €7 million (2005: €7 million) for shares held to meet options expiring in the short term which are priced above market value. The basis of the charge to operating profit for the economic value of options granted is discussed on page 117.

Obligations over the following number of shares were granted, exercised, forfeited or expired between 31 December 2006 and 1 March 2007. In this period we have also, in line with prior years practice, purchased 206 871 NV New York Registry Shares and 259 522 PLC shares in the form of ADRs to satisfy awards under the North America Executive Option and Share Matching Plans.

	Granted	Exercised, forfeited or expired
	Numbers of shares	Numbers of shares
All-Employee Option Plans	□	443 488
Executive Option Plans	□	3 006 729
Global Performance Share Plan	□	20 083
TSR Long-Term Incentive Plan	□	□
North America Performance Share Programme	□	91 187



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**Notes to the consolidated accounts Unilever Group****30 Related party transactions**

The following related party balances existed with associate or joint venture businesses at 31 December:

<b>Related party balances</b>	<b>€ million 2006</b>	€ million 2005
Trading and other balances due (to)/from joint ventures	<b>91</b>	85
Trading balances due (to)/from associates	<b>(14)</b>	(8)

**Joint ventures**

As discussed in note 33 on page 123, Unilever completed the restructuring of its Portuguese business as at 1 January 2007. Balances owed by FIMA at 31 December 2006 were €91 million (2005: €85 million).

**Associates**

Following the sale of DiverseyLever, our institutional and industrial cleaning business, to Johnson Professional Holdings Inc. in 2002, Unilever has a one-third equity stake in the combined JohnsonDiversey business, with an option to exit the business from 2007. This option had a fair value of zero at 31 December 2006 and 31 December 2005. At 31 December 2006 the outstanding balance payable to JohnsonDiversey Holdings Inc. was €14 million (2005: €8 million). Sales agency fees to JohnsonDiversey were incurred of approximately €68 million in 2006 (2005: €76 million; 2004: €68 million).

Langholm Capital Partners invests in private European companies with above-average longer-term growth prospects. It has invested in: Lumene OY, a Finnish personal care business specialising in natural personal care for fair skins in harsh climates; Dorset Cereals, a UK manufacturer of cereal products aimed at the healthy eating and luxury niche of the cereals market; Just Retirement, a specialist financial services company based in the UK, providing customised retirement solution for those in and approaching retirement, and Elvi, a UK retailer of plus-size women's clothing with 25 owned shops and 66 concession outlets. An IPO of Just Retirement took place in 2006. As a result of sale of shares during the IPO, Langholm returned €13 million to Unilever. Langholm remains a majority shareholder of Just Retirement. To build business opportunities that fit our core business interests in Foods and Home and Personal Care, we have committed €97 million to Langholm Capital Partners on a total of €242 million funds raised. At 31 December 2006, the outstanding balance with Langholm Capital Partners was €45 million (not material in 2005).

**Other related parties**

In September 2006 Harish Manwani, President Asia Africa and member of the Unilever Executive Team, and his wife purchased an apartment from Hindustan Lever Limited, a group company ultimately owned by PLC, for Rs.118 million (€2 042 255). The purchase was made at full market value via an open bidding/tendering process managed by independent property consultants. Mr Manwani is also Non-Executive Chairman of Hindustan Lever Limited a company listed on, among others, the National Stock Exchange of India and the Bombay Stock Exchange. The independent Directors of Hindustan Lever Limited, including the Chairman of the Audit Committee were fully consulted.

**31 Key management personnel**

For 2004 key management personnel included the Executive Directors, Non-Executive Directors and Business Presidents described on pages 68 and 69 of the 2004 Report and Accounts. Following a change in the management

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structure which took place in 2005 key management for 2005 and 2006 for reporting purposes became the members of the UEx together with the Non-Executive Directors described on page 46.

<b>Key management compensation</b>	<b>€ million 2006</b>	€ million 2005	€ million 2004
Salaries and short-term employee benefits	<b>(14)</b>	(13)	(21)
Non-Executive Directors' fees	<b>(1)</b>	(1)	(1)
Post-employment benefits	<b>(3)</b>	(4)	(5)
Other long-term benefits (all share-based)	<b>(2)</b>	(1)	(13)
Termination payments	□	(1)	(2)
	<b>(20)</b>	(20)	(42)
Of which:			
Executive Directors	<b>(11)</b>	(16)	(24)
Non-Executive Directors	<b>(1)</b>	(1)	(1)
Other	<b>(8)</b>	(3)	(17)
	<b>(20)</b>	(20)	(42)

Details of the remuneration of Directors are given in the auditable part of the report of the Remuneration Committee as defined on page 49. See also note 30 above for information on related party transactions.

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## Notes to the consolidated accounts Unilever Group

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### 32 Remuneration of auditors

	€ million 2006	€ million 2005	€ million 2004
Audit fees <sup>(a)</sup>	<b>(24)</b>	(14)	(13)
Audit-related fees <sup>(b)</sup>	<b>(3)</b>	(3)	(5)
Tax fees	<b>(2)</b>	(3)	(4)
All other fees	<b>(1)</b>	(2)	(2)

(a) Excludes out of pocket expenses and fees paid in respect of services supplied for associated pension schemes.

(b) Includes other audit services which comprises audit and similar work that regulation for agreements with third parties requires the auditors to undertake.

### 33 Events after the balance sheet date

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% interest is held by Jerónimo Martins Group. The structure of the agreement is such that there is joint control of the newly formed entity and so it will be accounted for by Unilever as a joint venture.

On 12 March 2007, Unilever announced the commencement of a share buy-back programme. This will involve the purchase in 2007 of ordinary shares of NV or PLC, or a combination of the two, up to an aggregate market value of €1.5 billion. The value of the shares purchased will be booked against equity under the heading of Other reserves, in line with established practice. As at 19 March 2007, 1 967 782 ordinary shares of NV had been purchased at prices between €19.55 and €21.41 per share. These shares will be held as treasury shares.

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## Notes to the consolidated accounts Unilever Group

### 34 Divergences from United States GAAP

Unilever's consolidated accounts are prepared in accordance with accounting principles which differ in some respects from those applicable in the United States. The following is a summary of the effect on the Group's net profit, combined earnings per share and equity of the application of accounting principles generally accepted in the United States (US GAAP).

	€ million 2006	€ million 2005	€ million 2004
<b>Net profit</b> as reported in the consolidated income statement	<b>5 015</b>	3 975	2 941
US GAAP adjustments:			
Impairment of goodwill and intangible assets	<b>(12)</b>	(279)	(152)
Restructuring costs	<b>23</b>	(224)	275
Pensions and similar obligations	<b>(464)</b>	(265)	(230)
Profit/(loss) on disposal of group companies	<b>(167)</b>	(217)	(11)
Currency retranslation written back on disposals	<b>(81)</b>	(102)	(8)
Sale and leaseback	<b>(28)</b>	(56)	□
Financial Instruments	<b>(41)</b>	(6)	(66)
Taxation effect of above adjustments including differences in deferred tax accounting	<b>178</b>	70	159
Other	<b>(38)</b>	(41)	(41)
Net increase/(decrease)	<b>(630)</b>	(1 120)	(74)
<b>Net income under US GAAP</b>	<b>4 385</b>	2 855	2 867
Attributable to:			
Minority interests	<b>270</b>	209	181
Shareholders' equity	<b>4 115</b>	2 646	2 686

### Combined earnings per share under US GAAP

#### From continuing operations

	€	€	€
Basic earnings per share	<b>0.98</b>	0.68	0.84
Diluted earnings per share	<b>0.93</b>	0.68	0.80

#### From total operations

Basic earnings per share	<b>1.45</b>	0.90	0.92
Diluted earnings per share	<b>1.38</b>	0.88	0.87

€ million  
2006      € million  
2005

<b>Total equity</b> as reported in the consolidated balance sheet	<b>11 672</b>	8 765
US GAAP adjustments:		
Goodwill	<b>4 171</b>	4 531
Indefinite-lived intangible assets	<b>1 246</b>	1 402
Restructuring costs	<b>171</b>	153
Pensions and similar obligations	<b>31</b>	1 085
Taxation effect of above adjustments including differences in deferred tax accounting	<b>(464)</b>	(896)
Other	<b>241</b>	356
Net increase/(decrease)	<b>5 396</b>	6 631
<b>Equity under US GAAP</b>	<b>17 068</b>	15 396
Attributable to:		
Minority interests	<b>442</b>	404
Shareholders' equity	<b>16 626</b>	14 992

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## Notes to the consolidated accounts Unilever Group

### 34 Divergences from United States GAAP (continued)

The consolidated accounts of the Unilever Group have been prepared in accordance with accounting principles which differ in certain respects from those generally accepted in the United States (US GAAP). The principal differences are set out below.

#### Goodwill and intangible assets

Under IFRS transitional rules, purchased goodwill and indefinite-lived intangible assets were recognised at the transition date to IFRS at deemed cost. For goodwill, the deemed cost at 1 January 2004 was the carrying value under previous GAAP at 31 December 2003. Under previous GAAP, goodwill arising from acquisitions after 1 January 1998 was capitalised and amortised over the period of its expected useful life, up to a maximum of 20 years. For intangible assets with indefinite lives, the deemed cost at the date of transition to IFRS is the original cost at which these intangible assets were initially recognised on the balance sheet at the time of the acquisition.

Under US GAAP prior to 1 January 2002, purchased goodwill and indefinite-lived intangible assets were capitalised and amortised over their useful lives. From 1 January 2002, under Financial Accounting Standards Board Statement FAS 142 [Goodwill and Other Intangible Assets], the amortisation of goodwill and indefinite-lived intangible assets ceased. Intangible assets that have finite useful lives continue to be amortised over their useful lives for both IFRS and US GAAP.

The differences in equity between IFRS and US GAAP in accounting for goodwill and intangible assets are set out in the table below:

	€ million 2006	€ million 2005
Pre-1998 goodwill and intangible assets	<b>3 149</b>	3 536
Cessation of goodwill amortisation	<b>1 633</b>	1 631
Cessation of indefinite-lived intangible assets amortisation	<b>(398)</b>	(329)
Differences in calculation of goodwill on acquisition	<b>1 118</b>	1 198
Recognised impairments on goodwill and indefinite-lived intangible assets	<b>(106)</b>	(128)
Cessation of goodwill amortisation on joint ventures and associates	<b>21</b>	25
<b>Total adjustment to equity</b>	<b>5 417</b>	5 933

Under US GAAP the carrying values and detailed rules for measuring and allocating an impairment loss differ from those rules under IFRS. The principal differences being that:

- The impairment review is performed by reference to reporting units, which are defined differently from cash generating units. A reporting unit is at the reporting segment or one level below; and
- Fair value is determined by use of a relief-from-royalty valuation method for indefinite-lived trademarks and through a present value of discounted cash flows methodology for the relevant reporting unit in respect of goodwill.

In 2006, the US GAAP impairment testing identified an additional €12 million of goodwill and intangible assets that were impaired (2005: €279 million; 2004: €152 million).

**Goodwill**

An analysis of goodwill of group companies, joint ventures and associates by reporting segment is given below:

	€ million	€ million	€ million	€ million
	Europe	The Americas	Asia Africa	Total
1 January 2005 <sup>(a)</sup>	8 515	5 937	1 960	16 412
Acquisitions	□	□	13	13
Disposals	(149)	(24)	(4)	(177)
Impairment charged to income statement	□	(176)	(3)	179
Currency retranslation	56	1 123	381	1 560
<b>31 December 2005</b>	<b>8 422</b>	<b>6 860</b>	<b>2 347</b>	<b>17 629</b>
Acquisitions	43	□	17	60
Disposals	(111)	(25)	(4)	(140)
Impairment charged to income statement	(17)	(5)	(2)	(24)
Currency retranslation	(5)	(415)	(388)	(808)
<b>31 December 2006</b>	<b>8 332</b>	<b>6 415</b>	<b>1 970</b>	<b>16 717</b>

(a) In 2005 Unilever implemented a new operating framework, which resulted in Unilever reporting its primary operating segments as geographies. In 2005 an allocation of goodwill was made to the reportable segments. During the year the Directors have reassessed the allocation of goodwill to geographical segments based on the relative fair value of the segments at the time the new operating framework was introduced. As a result, we have amended the 1 January 2005 goodwill balances (and associated currency retranslation effects in 2005) by reallocating goodwill from the Americas segment to the Asia Africa and Europe segments of €1.0 billion and €0.3 billion respectively.

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 34 Divergences from United States GAAP (continued)

##### Indefinite-lived intangible assets

Indefinite-lived intangible assets principally comprise trademarks. An analysis of the net book value of indefinite-lived intangible assets at cost less accumulated amortisation is given below:

	€ million 2006	€ million 2005
Cost	<b>6 878</b>	7 471
Accumulated amortisation	<b>(1 458)</b>	(1 619)
Net book value 31 December	<b>5 420</b>	5 852

##### Restructuring costs

Under Unilever's accounting policy, costs relating to employee terminations and certain other costs are recognised when a restructuring plan has been announced as the Group is considered to be "demonstrably committed". Under US GAAP, employee termination costs are recognised when the company has a liability to the employee, unless further service is required from the employee, in which case costs are recognised as benefits are earned. Additionally, under US GAAP, liabilities relating to certain other exit costs are recognised when incurred.

##### Pensions and similar obligations

Under IAS 19, the expected costs of providing retirement benefits are charged to the income statement over the periods benefiting from the employees' services. Variations from the expected cost are recognised as they occur in the statement of recognised income and expense. The assets and liabilities of pension plans are included in the Group balance sheet at fair value. Under previous US GAAP rules, pension and other post-retirement plan costs and liabilities were accounted for in accordance with the prescribed actuarial method and measurement principles of FAS 87, "Employers' Accounting for Pensions" and FAS 106, "Employers' Accounting for Post-Retirement Benefits Other than Pensions". The most significant difference between IFRS and US GAAP was that variations from the expected costs were recognised in the income statement over the expected service lives of the employees. Furthermore, an additional minimum liability was recognised and a charge made to other comprehensive income when the accumulated benefit obligation exceeded the fair value of plan assets to the extent that the amount was not covered by the net liability recognised in the balance sheet.

On 31 December 2006, Unilever adopted FAS 158, "Employer's Accounting for Defined Benefit Pension and Other Post-Retirement Plans" as issued by the Financial Accounting Standards Board (FASB) in September 2006 in full. The standard requires the net surplus or deficit of plans to be shown in the statement of financial position. This standard was adopted by Unilever with effect from 31 December 2006. The adoption of FAS 158 means that the only significant difference from IFRS is that variations from the expected costs are recognised first in equity and then recycled in the income statement over the expected service life of the employees.

Under US GAAP, the actuarial assumptions used to calculate the benefit obligations are set by reference to market conditions at the balance sheet date, in a manner similar to that used under IAS 19. Following the adoption of FAS 158 in 2006 the balance sheet accounting methodology is now similar to that under IAS 19. However, there is still one significant difference since under US GAAP all costs are recognised in operating profit and certain cost items are amortised in the income statement even though they have already been recognised in equity. Under the provisions of FAS 158 earlier years have not been restated.



The disclosures below show the benefit obligations, assets, funded status and balance sheet impact, as well as the periodic expense, cash flows and related economic assumptions associated with the defined benefit pension plans and other post-employment benefit plans as computed in accordance with FAS 87, FAS 106 and FAS 158.

**Measurement dates**

All plan assets are valued at fair value at the balance sheet date. Liabilities in respect of the most important pension plans, comprising approximately 80% of the pension liabilities, are subject to actuarial valuations every year. The valuations use membership data for the current year with the liability projected forward to the balance sheet date. Valuations of all other plans are carried out every three years and in the case of the other principal pension plans, comprising approximately a further 15% of the liabilities, the valuations are updated each year.

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**Financial  
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## Notes to the consolidated accounts Unilever Group

### 34 Divergences from United States GAAP (continued)

#### Benefit obligations

The table below shows changes in benefit obligations during 2006 and 2005:

	€ million	€ million	€ million	€ million
	<b>Pension</b>	Pension	<b>Other post-employment benefit plans</b>	Other post-employment benefit plans
Change in benefit obligations	<b>plans</b>	plans	<b>plans</b>	plans
	<b>2006</b>	2005	<b>2006</b>	2005
1 January	<b>19 927</b>	17 512	<b>1 306</b>	1 175
Service cost	<b>338</b>	321	<b>28</b>	28
Interest cost	<b>907</b>	915	<b>62</b>	68
Plan member contributions	<b>14</b>	19	□	□
Amendments	<b>(107)</b>	13	<b>(186)</b>	(56)
Actuarial (gains)/losses	<b>(451)</b>	1 665	<b>(80)</b>	12
Acquisitions	□	□	□	□
Disposals	<b>(118)</b>	(22)	<b>(5)</b>	(3)
Settlements	<b>(16)</b>	(4)	□	(1)
Curtailments	<b>(33)</b>	(36)	<b>(27)</b>	(3)
Special termination benefits	<b>54</b>	79	□	1
Gross benefits paid	<b>(1 177)</b>	(1 160)	<b>(79)</b>	(84)
Less: Federal subsidy on benefit paid	□	□	<b>6</b>	□
Reclassification of benefits <sup>(a)</sup>	<b>27</b>	18	<b>1</b>	10
Currency retranslation	<b>(137)</b>	607	<b>(101)</b>	159
31 December	<b>19 228</b>	19 927	<b>925</b>	1 306

(a) During both 2006 and 2005, certain obligations were reclassified as employee benefit obligations. The weighted assumptions used to value the benefit obligations in respect of the principal plans are:

	%	%	%	%
	<b>Pension</b>	Pension	<b>Other post-employment benefit plans</b>	Other post-employment benefit plans
Weighted average assumptions used to determine benefit obligations for the principal plans at 31 December	<b>plans</b>	plans	<b>plans</b>	plans
	<b>2006</b>	2005	<b>2006</b>	2005
Discount rate	<b>5.1</b>	4.6	<b>5.9</b>	5.5
Salary increases	<b>3.7</b>	3.5	<b>4.0</b>	4.0
Pension increases	<b>2.3</b>	2.1	<b>n/a</b>	n/a

In setting the discount rate, the Group has regard to the yield on high quality corporate bonds of suitable duration to the liabilities. For the UK, we utilise the iBoxx 15+ year AA All Stock Index yield, for the Eurozone we utilise the iBoxx Euro 10+ year AA All Stock index and for the US we utilise the Moody's Corporate AA index yield.

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Assumptions for the remaining defined benefit plans vary considerably, depending on the economic conditions of the countries where they are situated.

### Post-employment healthcare benefits

Additional assumptions in respect of healthcare benefits are:

Weighted average healthcare trend rates at 31 December	2006	2005
Healthcare cost trend rate assumed for next year	<b>9.9%</b>	10.4%
Rate to which the cost trend rate gradually declines	<b>5.0%</b>	4.8%
Year that the assumed long-term rate is reached	<b>2012</b>	2012

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effect:

	€ million 1% point increase	million 1% point decrease
Effect on post-employment benefit obligation	51	(47)

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## Notes to the consolidated accounts Unilever Group

### 34 Divergences from United States GAAP (continued)

#### Plan assets

The table below shows the changes in the fair value of plan assets during 2006 and 2005:

	€ million Pension plans 2006	€ million Pension plans 2005	€ million Other post- employment benefit plans 2006	€ million Other post- employment benefit plans 2005
Change in the fair value of plan assets during the year				
1 January	15 989	13 441	17	14
Actual return on plan assets	1 558	2 483	(2)	3
Acquisitions	□	□	□	□
Disposals	(63)	(3)	□	□
Settlements	(16)	(10)	□	□
Employer contributions/surplus refunds	1 002	751	71	82
Plan member contributions	14	19	□	□
Benefits paid from plan assets	(1 177)	(1 160)	(73)	(84)
Reclassification of benefits <sup>(b)</sup>	38	39	□	□
Currency retranslations	(80)	429	□	2
31 December	17 265	15 989	13	17

(b) During 2005, certain obligations were reclassified as employee benefit obligations.

#### Asset allocation

The asset allocation for the Group's principal pension plans at 31 December 2005 and 2006, target allocation for 2007, and expected long-term rates of return by asset category are as follows:

Long-term asset category	Target percentage allocation for 2007	Percentage of plan assets at 31 December 2006	Percentage of plan assets at 31 December 2005	Long-term expected return on plan assets at 31 December 2006
Equity securities	60	61	61	7.8%
Debt securities	26	24	25	4.9%
Property	9	8	9	6.3%
Other	5	7	5	6.0%
	100	100	100	

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Equity securities include Unilever securities amounting to €32 million (0.2% of total plan assets) and €34 million (0.2% of total plan assets) at 31 December 2006 and 2005 respectively.

**Funded status**

The funded status of the plans, reconciled to the amount reported in the statement of financial position, is as follows:

	€ million Pension plans 2006	€ million Pension plans 2005	€ million Other post- employment benefit plans 2006	€ million Other post- employment benefit plans 2005
Fair value of plan assets	<b>17 265</b>	15 989	<b>13</b>	17
Benefit obligations	<b>(19 228)</b>	(19 927)	<b>(925)</b>	(1 306)
Funded status at 31 December	<b>(1 963)</b>	(3 938)	<b>(912)</b>	(1 289)
Unrecognised net transition liability/(asset)	□	(46)	□	□
Unrecognised net actuarial loss/(gain)	□	3 008	□	319
Unrecognised prior service cost	□	91	□	(59)
Net amount recognised at 31 December	<b>(1 963)</b>	(885)	<b>(912)</b>	(1 029)
Amount recognised in the statement of financial position consists of:				
Prepaid benefit cost	n/a	1 603	n/a	3
Accrued benefit liability	n/a	(2 488)	n/a	(1 032)
Additional minimum liability	n/a	(2 442)	n/a	□
Intangible asset	n/a	52	n/a	□
Accumulated other comprehensive income	n/a	2 390	n/a	□
Net amount recognised at 31 December	<b>n/a</b>	(885)	<b>n/a</b>	(1 029)
Current assets	<b>50</b>	n/a	□	n/a
Non-current assets	<b>1 653</b>	n/a	<b>2</b>	n/a
Current liabilities	<b>(224)</b>	n/a	<b>(84)</b>	n/a
Non-current liabilities	<b>(3 442)</b>	n/a	<b>(830)</b>	n/a
Total net liability	<b>(1 963)</b>	n/a	<b>(912)</b>	n/a

The projected benefit obligation (PBO), accumulated benefit obligation (ABO), and fair value of plan assets, in total and for pension plans where the projected benefit obligation or accumulated benefit obligation is in excess of plan assets are as follows:

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## Notes to the consolidated accounts Unilever Group

### 34 Divergences from United States GAAP (continued)

	€ million	€ million	€ million	€ million	€ million	€ million
	<b>Pension plans 2006</b>	Pension plans 2005	<b>Plans where PBO exceeds plan assets 2006</b>	Plans where PBO exceeds plan assets 2005	<b>Plans where ABO exceeds plan assets 2006</b>	Plans where ABO exceeds plan assets 2005
As at 31 December:						
Projected benefit obligations	<b>19 228</b>	19 927	<b>14 069</b>	15 175	<b>13 738</b>	14 749
Accumulated benefit obligations	<b>18 152</b>	18 687	<b>13 350</b>	14 290	<b>12 967</b>	13 849
Fair value of plan assets	<b>17 265</b>	15 989	<b>10 404</b>	10 067	<b>10 096</b>	9 659

#### Net periodic cost

	€ million	€ million	€ million	€ million	€ million	€ million
	<b>Pension plans 2006</b>	Pension plans 2005	Pension plans 2004	<b>Other post-employment benefit plans 2006</b>	Other post-employment benefit plans 2005	Other post-employment benefit plans 2004
Components of net periodic benefit cost						
Service cost (gross)	<b>351</b>	339	324	<b>28</b>	28	24
Interest cost	<b>907</b>	915	909	<b>62</b>	68	64
Expected returns on plan assets	<b>(1 020)</b>	(930)	(917)	<b>(1)</b>	(1)	□
Employee contributions	<b>(14)</b>	(19)	(32)	□	□	□
Amortisation of prior service cost	<b>23</b>	30	33	<b>(8)</b>	(2)	□
Amortisation of transition (asset)	<b>(35)</b>	(35)	(35)	□	□	□
Amortisation of actuarial loss/(gain)	<b>172</b>	162	163	<b>17</b>	17	12
Total before FAS 88 events	<b>384</b>	462	445	<b>98</b>	110	100
Adjustments for FAS 88 events	<b>42</b>	81	120	<b>(27)</b>	(3)	6
Net periodic benefit cost	<b>426</b>	543	565	<b>71</b>	107	106

The assumptions in respect of principal plans used to determine the periodic expense in the table above for pensions and other retirement benefits are given in the table below:

	%	%	%	%	%	%
	<b>Pension plans</b>	Pension plans	Pension plans	<b>Other post-employment</b>	Other post-employment benefit plans	Other post-employment benefit plans
Weighted average assumptions used to determine net cost						

for the principal plans for the years ended 31 December	benefit plans					
	2006	2005	2004	2006	2005	2004
Discount rate	4.6	5.1	5.5	5.5	5.7	6.1
Expected long-term rate of return on plan assets	6.4	6.8	7.2	n/a	n/a	n/a
Salary increases	3.5	3.6	3.7	4.0	4.5	4.5
Pension increases	2.1	2.2	2.2	n/a	n/a	n/a

#### Expected rate of return on plan assets

The expected rate of return on plan assets was determined, based on actuarial advice, by a process that takes the current long-term rates of return available on government bonds and applies to these rates suitable risk premiums that take account of historic market returns and current market expectations.

#### Post-employment healthcare benefits

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	€ million 1% point increase	€ million 1% point decrease
Effect on total of service and interest cost components	4	(3)

#### Other comprehensive income

Other changes in plan assets and benefit obligations recognised in other comprehensive income.

	€ million Pension plans 2006	€ million Pension plans 2005	€ million Pension plans 2004	€ million Other post- employment benefit plans 2006	€ million Other post- employment benefit plans 2005	€ million Other post- employment benefit plans 2004
Change in effect of additional minimum liability	(2 388)	n/a	n/a	□	n/a	n/a
Total recognised in other comprehensive income	(674)	n/a	n/a	17	n/a	n/a
Total recognised in net period benefit cost and other comprehensive income	(248)	n/a	n/a	54	n/a	n/a
Amounts recognised in accumulated other comprehensive income:						
Additional minimum liability	n/a	(2 442)	(2 208)	n/a	n/a	n/a
Net actuarial loss/(gain)	1 781	n/a	n/a	207	n/a	n/a
Prior service cost/(credit)	(56)	n/a	n/a	(224)	n/a	n/a
Transition obligation/(asset)	(11)	n/a	n/a	□	n/a	n/a
Total amount recognised	1 714	n/a	n/a	(17)	n/a	n/a

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 34 Divergences from United States GAAP (continued)

	€ million Pension plans 2007	€ million Other post- employment benefit plans 2007
Estimated amortisation amounts from accumulated other comprehensive income into net periodic benefit cost during 2007		
Actuarial loss/(gain)	89	4
Prior service cost/(credit)	2	(23)
Transition obligation/(asset)	(35)	□
Total	56	(19)

#### Expected cash flows

During 2007, net of refunds, Unilever currently expects to make cash contributions of €371 million to funded defined benefit plans. This includes both mandatory and discretionary payments. In addition, a further €82 million is expected to be contributed to defined contribution plans.

The table below shows the expected benefit payments from defined benefit plans. The benefits paid from funded plans include amounts funded by employee contributions. The benefits paid in respect of unfunded plans are made from the Group's cash resources.

Expected benefit payments	€ million		€ million	€ million
	Pension benefits Funded	Other benefits Unfunded	Other benefits Unfunded	Federal subsidy Unfunded
2007	909	225	99	6
2008	928	207	101	6
2009	960	216	105	6
2010	971	222	108	7
2011	999	228	111	7
2012-2016	5 302	1 262	557	36

#### Effect of implementing FAS 158

The following table shows the incremental effect of adopting FAS 158 as at 31 December 2006:

	€ million Before adopting FAS 158	€ million Adjustments to adopt FAS 158	€ million After adopting FAS 158
Assets:			
Current benefit asset	□	50	50



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Non-current benefit asset	1 153	502	1 655
Intangible asset	13	(13)	□
Deferred tax asset	611	(5)	606
Liabilities:			
Current benefit liability	(308)	□	(308)
Non-current benefit liability	(3 679)	(593)	(4 272)
Shareholders' equity:			
AOCI	1 144	(50)	1 094

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**Deferred tax**

Under IFRS, a provision is made on unremitted earnings of controlled group companies to the extent that the distributions are considered probable. US GAAP requires full provision to be made assuming all earnings will be distributed, unless those earnings can be recovered tax-free or will be permanently reinvested in the controlled group company.

Under IFRS, deferred tax on share-based compensation is provided based on the actual tax credit expected to be received using the fair market value of the share price at the year end (the intrinsic value). The deferred tax is credited to the income statement to the extent of the tax recognised on the share-based compensation charge with the excess recognised directly in equity. Under US GAAP, upon adoption of FAS 123(R), "Share Based Payments", deferred tax is recognised to the extent of the cumulative amount of compensation cost recognised through the income statement. Upon exercise, the deferred tax adjustment required is recognised in the income statement or equity, dependent on whether a windfall pool exists or not.

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**Financial Statements**  
(continued)

## Notes to the consolidated accounts Unilever Group

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### 34 Divergences from United States GAAP (continued)

#### Profit or loss on disposal of group companies

Under both IFRS and US GAAP, Unilever calculates profit or loss on sale of group companies net of goodwill included on the balance sheet and after the write-back of cumulative currency retranslation differences. Under previous GAAP, goodwill and intangible assets purchased prior to 1 January 1998 were written off in the year of acquisition as a movement in profits retained. Under US GAAP, such goodwill and intangible assets were capitalised and, prior to 1 January 2002, were amortised over their useful lives. These different accounting treatments give rise to differences between net profit or loss calculated under IFRS and that calculated under US GAAP. In 2006, the additional goodwill and intangibles recorded under US GAAP for disposals during the year means that the disposal profit was €167 million (2005: €217 million; 2004: €11 million) lower than that reported under IFRS.

Under IFRS, cumulative currency retranslation differences arising from the transition date to IFRS of 1 January 2004 are included in the calculation whereas under US GAAP the profit or loss on disposal includes cumulative currency retranslation differences which have arisen since the date that the businesses were originally acquired.

#### Currency retranslation

Under IFRS, the gain from cumulative translation differences arising from the partial repayment of capital of a subsidiary is recognised within the income statement. Under US GAAP, currency translation gains and losses are only recycled to the income statement on the sale or upon the complete or substantially complete liquidation of the investment.

#### Financial instruments

From 1 January 2005, Unilever recognises all derivative financial instruments on the balance sheet at fair value and applies hedge accounting to a portion of its portfolio of derivative financial instruments, meaning that 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. This is similar to requirements under FAS 133, *Accounting for Derivatives and Hedging Activities*.

Prior to the adoption of IAS 32 and IAS 39 on 1 January 2005, Unilever applied hedge accounting to its portfolio of derivative financial instruments, meaning that changes in the value of forward exchange contracts were recognised in the results in the same period as changes in the values of the assets and liabilities they were intended to hedge. Interest payments and receipts arising from interest rate derivatives such as swaps and forward rate agreements were matched to those arising from underlying debt and investment positions. Payments made or received in respect of the early termination of derivative instruments were spread over the original life of the instrument so long as the underlying exposure continues to exist.

Prior to 1 January 2005, Unilever had not designated any of its derivative financial instruments as qualifying hedge instruments under FAS 133 and accordingly, under US GAAP, all derivative financial instruments were valued at fair value with changes in fair value reflected in the income statement.

#### Sale and leaseback

The test for determining if an asset qualifies for treatment as a sale in a sale and leaseback transaction is stricter under US GAAP than that under IFRS, in particular where the lessee has continuing involvement. As a result, certain sale and leaseback transactions entered into by Unilever are reversed for the purposes of US GAAP reporting.

## Other

Other equity differences relate to joint ventures and associates, biological assets, preference shares, borrowing costs, outsourcing contracts, sale and leaseback and financial instruments. Other net profit differences relate to biological assets, dividends on preference shares, joint ventures and associates, borrowing costs and outsourcing contracts.

## Share-based payments

Unilever has adopted FAS 123(R) as of 1 January 2006 on a prospective basis. Since the Group had already voluntarily adopted the fair value measurements from FAS 123 in prior years, the adoption of this Standard has had no material impact on the consolidated results from operations and financial position of Unilever.

## Recent accounting developments

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes". The provisions of FIN 48 will be effective for all outstanding tax positions on adoption, which for Unilever is 1 January 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The impact of FIN 48 on the consolidated results of the operations and financial position of Unilever is currently being assessed by the Group.

In October 2006, FASB issued FAS 157, "Fair Value Measurement". The standard addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes, and move toward a market-based measure instead of an entity-based measure, and expands disclosure requirements about fair value measurements. The standard is effective for fiscal years beginning after 15 November 2007 and will be adopted by Unilever as at 1 January 2008. The impact of FAS 157 on the consolidated results of operations and financial position of Unilever is currently being assessed by the Group.

In February 2006, the FASB issued FAS 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FAS 133 and FAS 140". This statement simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. FAS 155 is effective for Unilever for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after 1 January 2007. The adoption is not expected to have a material effect on the consolidated results of operations or financial position of Unilever.

In February 2007, the FASB issued FAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities". The standard provides companies with an option to report selected financial assets and liabilities at fair value. FAS 159 is effective for fiscal years beginning after 15 November 2007, and will be adopted by Unilever as at 1 January 2008. The impact on the consolidated results of operations and financial position of Unilever is currently being assessed by the Group.

## Documents on display in the United States

Unilever files and furnishes reports and information with the United States Securities and Exchange Commission (SEC). Such reports and information can be inspected and copied at the SEC's public reference facilities in Washington DC, Chicago and New York. Certain of our reports and other information that we file or furnish to the SEC are also available to the public over the internet on the SEC's website at [www.sec.gov](http://www.sec.gov).

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# Notes to the consolidated accounts Unilever Group

## 35 Additional information for US investors

Presented below is additional information required for reporting in the United States, prepared on an IFRS basis: (i) Segment information; (ii) Summarised presentation of the NV and PLC parts of the Group; and (iii) Guarantor statements.

### (i) Segment information (prepared on an IFRS basis)

Unilever has reviewed the extent of its business with major customers, and has concluded that it has no customers that would require separate disclosure during the reporting periods covered by this filing.

For management reporting purposes, Unilever uses a number of measures of segment performance at constant average rates of exchange (that is, the same rates as in the preceding year). The internal management measure of profit that is most consistent with operating profit reported in the accounts is □Trading Result□. This differs from operating profit, mainly because Trading Result includes a number of statistical and other adjustments including the application of an inflation charge on working capital which is added back to arrive at operating profit.

	€ million	€ million	€ million	€ million
	Europe	The Americas	Asia Africa	Total
<b>Analysis by geographical segment</b>				
<b>2006</b>				
<b>Turnover</b>				
At constant 2005 exchange rates	14 967	13 591	10 983	39 541
Exchange rate adjustments	33	188	(120)	101
At current 2006 exchange rates	15 000	13 779	10 863	39 642
<b>Trading result</b>				
At constant 2005 exchange rates	1 966	2 096	1 320	5 382
Exchange rate adjustments	5	20	(9)	16
At current 2006 exchange rates	1 971	2 116	1 311	5 398
Other adjustments				10
<b>Operating profit</b>				<b>5 408</b>
<b>2005</b>				
<b>Turnover</b>				
At constant 2004 exchange rates	14 879	12 715	10 281	37 875
Exchange rate adjustments	61	464	1	526
At current 2005 exchange rates	14 940	13 179	10 282	38 401

**Trading result**

At constant 2004 exchange rates	2 101	1 942	1 234	5 277
Exchange rate adjustments	6	58	(3)	61

At current 2005 exchange rates	2 107	2 000	1 231	5 338
Other adjustments				(264)

**Operating profit**

5 074

**2004****Turnover**

At constant 2003 exchange rates	15 246	13 380	10 122	38 748
Exchange rate adjustments	6	(1 084)	(502)	(1 580)

At current 2004 exchange rates	15 252	12 296	9 620	37 168
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**Trading result**

At constant 2003 exchange rates	2 236	2 153	1 090	5 479
Exchange rate adjustments	5	(186)	(57)	(238)

At current 2004 exchange rates	2 241	1 967	1 033	5 241
Other adjustments				(1 260)

**Operating profit**

3 981

**Depreciation, amortisation and impairment****2006**

At constant 2005 exchange rates	<b>(442)</b>	<b>(313)</b>	<b>(200)</b>	<b>(955)</b>
Exchange rate adjustments	<b>(1)</b>	<b>(4)</b>	<b>2</b>	<b>(3)</b>

At current 2006 exchange rates	<b>(443)</b>	<b>(317)</b>	<b>(198)</b>	<b>(958)</b>
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**2005**

At constant 2004 exchange rates	(442)	(630)	(184)	(1 256)
Exchange rate adjustments	□	(8)	(2)	(10)

At current 2005 exchange rates	(442)	(638)	(186)	(1 266)
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**2004**

At constant 2003 exchange rates	(613)	(1 236)	(297)	(2 146)
Exchange rate adjustments	□	116	14	130

At current 2004 exchange rates	(613)	(1 120)	(283)	(2 016)
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## Notes to the consolidated accounts Unilever Group

### 35 Additional information for US investors (continued)

#### (i) Segment information (continued)

	€ million	€ million	€ million	€ million
	Europe	The Americas	Asia Africa	Total
<b>Capital expenditure</b>				
<b>2006</b>				
At constant 2005 exchange rates	<b>507</b>	<b>389</b>	<b>296</b>	<b>1 192</b>
Exchange rate adjustments	<b>4</b>	<b>7</b>	<b>(2)</b>	<b>9</b>
At current 2006 exchange rates	<b>511</b>	<b>396</b>	<b>294</b>	<b>1 201</b>
<b>2005</b>				
At constant 2004 exchange rates	446	291	298	1 035
Exchange rate adjustments	1	14	□	15
At current 2005 exchange rates	447	305	298	1 050

	€ million	€ million	€ million	€ million
	United Kingdom & Netherlands	United States	Other	Total
<b>Analysis by geographical area<sup>(a)</sup></b>				
<b>Turnover</b>				
<b>2006</b>				
At constant 2005 exchange rates	<b>3 703</b>	<b>7 688</b>	<b>28 150</b>	<b>39 541</b>
Exchange rate adjustments	<b>7</b>	<b>(61)</b>	<b>155</b>	<b>101</b>
At current 2006 exchange rates	<b>3 710</b>	<b>7 627</b>	<b>28 305</b>	<b>39 642</b>
<b>2005</b>				
At constant 2004 exchange rates	3 700	7 587	26 588	37 875
Exchange rate adjustments	(21)	(37)	584	526
At current 2005 exchange rates	3 679	7 550	27 172	38 401
<b>2004</b>				
At constant 2003 exchange rates	3 779	8 093	26 876	38 748

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Exchange rate adjustments	52	(732)	(900)	(1 580)
	<hr/>			
At current 2004 exchange rates	3 831	7 361	25 976	37 168
	<hr/>			
<b>Property, plant and equipment</b>				
2006	<b>967</b>	<b>1 060</b>	<b>4 249</b>	<b>6 276</b>
2005	1 018	1 140	4 334	6 492
	<hr/>			

(a) For the United Kingdom and the Netherlands, which are the home countries of the parent companies, the combined operating profit in 2006 was €555 million (2005: €648 million; 2004: €667 million).

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## Financial Statements (continued)

### Notes to the consolidated accounts Unilever Group

#### 35 Additional information for US investors (continued)

##### (ii) Summarised presentation of the NV and PLC parts of the Group (prepared on an IFRS basis)

NV and PLC and their group companies constitute a single reporting entity for the purposes of presenting consolidated accounts. The following supplemental information shows the consolidated income statement and balance sheet of the Group analysed according to the relative legal ownership of individual entities by NV or PLC.

	€ million NV	€ million NV	€ million NV	€ million PLC	€ million PLC	€ million PLC
<b>Income statement</b> for the year ended 31 December	<b>2006</b>	2005	2004	<b>2006</b>	2005	2004
<b>Continuing operations:</b>						
<b>Turnover</b>	<b>27 376</b>	26 479	25 328	<b>12 266</b>	11 922	11 840
<b>Operating profit</b>	<b>3 608</b>	3 552	2 666	<b>1 800</b>	1 522	1 315
Net finance costs	<b>(686)</b>	(470)	(375)	<b>(35)</b>	(143)	(248)
Share in net profit of joint ventures	<b>59</b>	35	30	<b>19</b>	12	9
Share in net profit of associates	□	(12)	8	<b>36</b>	(13)	(6)
Other income from non-current investments	<b>13</b>	20	35	<b>17</b>	13	19
<b>Profit before taxation</b>	<b>2 994</b>	3 125	2 364	<b>1 837</b>	1 391	1 089
Taxation	<b>(727)</b>	(774)	(471)	<b>(419)</b>	(407)	(254)
<b>Net profit from continuing operations</b>	<b>2 267</b>	2 351	1 893	<b>1 418</b>	984	835
Net profit from discontinued operations	<b>836</b>	455	131	<b>494</b>	185	82
<b>Net profit</b>	<b>3 103</b>	2 806	2 024	<b>1 912</b>	1 169	917
Attributable to:						
Minority interest	<b>66</b>	57	56	<b>204</b>	152	130
Shareholders' equity	<b>3 037</b>	2 749	1 968	<b>1 708</b>	1 017	787

	€ million NV	€ million NV	€ million PLC	€ million PLC
<b>Balance sheet</b> as at 31 December	<b>2006</b>	2005	<b>2006</b>	2005
Goodwill and intangible assets	<b>12 569</b>	14 152	<b>4 637</b>	3 903
Property, plant and equipment	<b>3 642</b>	4 321	<b>2 634</b>	2 171



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Pension asset for funded schemes in surplus	<b>1 484</b>	966	<b>213</b>	70
Deferred tax assets	<b>755</b>	961	<b>511</b>	742
Other non-current assets	<b>723</b>	695	<b>403</b>	377
<b>Total non-current assets</b>	<b>19 173</b>	21 095	<b>8 398</b>	7 263
Inventories	<b>2 141</b>	2 661	<b>1 655</b>	1 446
Trade and other current receivables	<b>2 744</b>	3 628	<b>1 546</b>	1 202
Cash and cash equivalents	<b>565</b>	941	<b>474</b>	588
Other financial assets	<b>143</b>	317	<b>219</b>	142
Assets held for sale	<b>7</b>	166	<b>7</b>	51
<b>Total current assets</b>	<b>5 600</b>	7 713	<b>3 901</b>	3 429
Borrowings due within one year	<b>(3 925)</b>	(5 506)	<b>(437)</b>	(436)
Trade payables and other current liabilities	<b>(5 469)</b>	(6 114)	<b>(3 044)</b>	(2 668)
Provisions	<b>(806)</b>	(460)	<b>(203)</b>	(184)
Liabilities associated with assets held for sale		□ (16)		□ (10)
<b>Total current liabilities</b>	<b>(10 200)</b>	(12 096)	<b>(3 684)</b>	(3 298)
<b>Net current assets/(liabilities)</b>	<b>(4 600)</b>	(4 383)	<b>217</b>	131
<b>Total assets less current liabilities</b>	<b>14 573</b>	16 712	<b>8 615</b>	7 394
Borrowings due after more than one year	<b>3 172</b>	5 484	<b>1 067</b>	973
Pension and post-retirement healthcare liabilities:				
Funded schemes in deficit	<b>465</b>	757	<b>914</b>	1 658
Unfunded schemes	<b>2 097</b>	3 040	<b>1 301</b>	1 162
Provisions	<b>674</b>	635	<b>152</b>	97
Deferred tax liabilities	<b>888</b>	770	<b>115</b>	163
Other non-current liabilities	<b>247</b>	338	<b>424</b>	264
<b>Total non-current liabilities</b>	<b>7 543</b>	11 024	<b>3 973</b>	4 317
Intra-group □ NV/PLC	<b>(368)</b>	(1 932)	<b>368</b>	1 932
Shareholders' equity	<b>7 360</b>	7 571	<b>3 870</b>	790
Minority interests	<b>38</b>	49	<b>404</b>	355
<b>Total equity</b>	<b>7 398</b>	7 620	<b>4 274</b>	1 145
<b>Total capital employed</b>	<b>14 573</b>	16 712	<b>8 615</b>	7 394

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**Financial Statements**  
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## Notes to the consolidated accounts Unilever Group

### 35 Additional information for US investors (continued)

#### (iii) Guarantor statements (prepared on an IFRS basis)

On 2 October 2000, NV and Unilever Capital Corporation (UCC) filed a US \$15 billion Shelf registration, which is unconditionally and fully guaranteed, jointly and severally, by NV, PLC and Unilever United States, Inc. (UNUS). Of the US \$15 billion Shelf registration, US \$2.75 billion of Notes were outstanding at 31 December 2006 (2005: US \$2.75 billion; 2004: US \$4.25 billion) with coupons ranging from 5.90% to 7.125%. These Notes are repayable between 1 November 2010 and 15 November 2032.

Provided below are the income statements, cash flow statements and balance sheets of each of the companies discussed above, together with the income statement, cash flow statement and balance sheet of non-guarantor subsidiaries. These have been prepared under the historical cost convention, and, aside from the basis of accounting for investments at net asset value (equity accounting), comply in all material respects with International Financial Reporting Standards. We have not provided reconciliations from the accounting principles used by Unilever to US GAAP for the columns relating to the guarantor entities, as such reconciliations would not materially affect an investor's understanding of the nature of this guarantee. The financial information in respect of NV, PLC and UNUS has been prepared with all subsidiaries accounted for on an equity basis. The financial information in respect of the non-guarantor subsidiaries has been prepared on a consolidated basis.

	€million Unilever Capital Corporation subsidiary issuer	€million Unilever N.V. parent issuer/ guarantor	€million Unilever PLC parent guarantor	€million Unilever United States Inc. subsidiary guarantor	€million Non- guarantor subsidiaries	€million Eliminations	€million Unilever Group
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#### Continuing operations:

	(1)	(126)	(108)	(16)	5 659	39 642	39 642
<b>Turnover</b>							
<b>Operating profit</b>							
Finance income		38	5	1	84		128
Finance costs	(169)	(662)			(59)		(890)
Pensions and similar obligations		(5)		(61)	107		41
Intercompany finance costs	187	805	(20)	(29)	(943)		
Dividends		1 916	1 337		(3 253)		
Share of net profit/(loss) of joint ventures					78		78
Share of net profit/(loss) of associates					36		36
Other income from non-current investments					30		30

<b>Profit before taxation</b>	<b>17</b>	<b>1 966</b>	<b>1 214</b>	<b>(105)</b>	<b>1 739</b>	<b>4 831</b>
Taxation	(6)	(119)	16	76	(1 113)	(1 146)
<b>Net profit from continuing operations</b>	<b>11</b>	<b>1 847</b>	<b>1 230</b>	<b>(29)</b>	<b>626</b>	<b>3 685</b>
Net profit from discontinued operations			180		1 150	1 330
Equity earnings of subsidiaries		2 898	3 335	567		(6 800)
<b>Net profit</b>	<b>11</b>	<b>4 745</b>	<b>4 745</b>	<b>538</b>	<b>1 776</b>	<b>(6 800)</b>
Attributable to:						
Minority interest					270	270
Shareholders equity	11	4 745	4 745	538	1 506	(6 800)

**Income statement**

for the year ended 31 December 2005

**Continuing operations:**

<b>Turnover</b>					38 401	38 401
<b>Operating profit</b>		87	(61)	(3)	5 051	5 074
Finance income		61	11		57	129
Finance costs	(241)	(274)	(2)	(3)	(169)	(689)
Pensions and similar obligations		(5)		(61)	13	(53)
Intercompany finance costs	256	509	(11)	(40)	(714)	
Dividends		1 043	856		(1 899)	
Share of net profit/(loss) of joint ventures					47	47
Share of net profit/(loss) of associates					(25)	(25)
Other income from non-current investments					33	33
<b>Profit before taxation</b>	<b>15</b>	<b>1 421</b>	<b>793</b>	<b>(107)</b>	<b>2 394</b>	<b>4 516</b>
Taxation	(5)	(118)	36	45	(1 139)	(1 181)