

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

Edgar Filing: UNILEVER PLC - Form 20-F

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)

---

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

---

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

---



[Back to Contents](#)

## At a glance

---

**Turnover** (€ million)  
Continuing operations

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

**Operating margin** (%)  
Continuing operations

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

---

### 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.

---

## 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.

## Contents

### Report of the Directors

<a href="#"><u>Chairman's report</u></a>	<a href="#"><u>3</u></a>
<a href="#"><u>About Unilever</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>Group Chief Executive</u></a>	<a href="#"><u>11</u></a>
<a href="#"><u>Operating review – regions</u></a>	<a href="#"><u>13</u></a>
<a href="#"><u>Operating review – categories</u></a>	<a href="#"><u>20</u></a>
<a href="#"><u>Financial review</u></a>	<a href="#"><u>23</u></a>
<a href="#"><u>Corporate governance</u></a>	<a href="#"><u>33</u></a>
<a href="#"><u>Report of the Nomination Committee</u></a>	<a href="#"><u>48</u></a>
<a href="#"><u>Report of the Remuneration Committee</u></a>	<a href="#"><u>49</u></a>
<a href="#"><u>Report of the Audit Committee</u></a>	<a href="#"><u>63</u></a>
<a href="#"><u>Report of the Corporate Responsibility and Reputation Committee</u></a>	<a href="#"><u>64</u></a>

### Financial statements

<a href="#"><u>Statement of Directors' responsibilities</u></a>	<a href="#"><u>66</u></a>
<a href="#"><u>Management's report on internal control over financial reporting</u></a>	<a href="#"><u>68</u></a>
<a href="#"><u>Auditors' report</u></a>	<a href="#"><u>69</u></a>
<a href="#"><u>Consolidated income statement</u></a>	<a href="#"><u>70</u></a>
<a href="#"><u>Consolidated statement of recognised income and expense</u></a>	<a href="#"><u>71</u></a>
<a href="#"><u>Consolidated balance sheet</u></a>	<a href="#"><u>72</u></a>
<a href="#"><u>Consolidated cash flow statement</u></a>	<a href="#"><u>73</u></a>
<a href="#"><u>Notes to the consolidated accounts</u></a>	<a href="#"><u>74</u></a>
<a href="#"><u>Selected financial data</u></a>	<a href="#"><u>141</u></a>
<a href="#"><u>Principal group companies and non-current investments</u></a>	<a href="#"><u>147</u></a>

### Shareholder information

<a href="#"><u>Analysis of shareholding</u></a>	<a href="#"><u>149</u></a>
	<a href="#"><u>150</u></a>

<u>Exchange controls affecting security holders</u>	
<u>Nature of the trading market</u>	<u>151</u>
<u>Taxation for US residents holding shares in NV</u>	<u>153</u>
<u>Taxation for US residents holding shares in PLC</u>	<u>154</u>
<u>Dividend record</u>	<u>155</u>
<u>Glossary</u>	<u>156</u>
<u>Cross reference to Form 20-F</u>	<u>157</u>
<u>Financial calendar</u>	<u>158</u>
<u>Contact details</u>	<u>158</u>
<u>Website</u>	<u>159</u>
<u>Publications</u>	<u>159</u>
<u>Share registration</u>	<u>159</u>
<u>Index</u>	<u>160</u>

[Back to Contents](#)

## A changing Unilever

---

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□.





[Back to Contents](#)

**Report of the Directors**

## Chairman's report

---

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.

[Back to Contents](#)

**Report of the Directors**

(continued)

## Chairman's report (continued)

---

### 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.

[Back to Contents](#)

**Report of the Directors**

(continued)

## About Unilever

---

### Description of business

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

### Strategy and long-term financial targets

At the heart of Unilever's strategy is a concentration of resources on areas where we have leading 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.

[Back to Contents](#)

## Report of the Directors

(continued)

## About Unilever (continued)

---

### 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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## About Unilever (continued)

---

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.

[Back to Contents](#)

## Report of the Directors

(continued)

## About Unilever (continued)

---

### 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

[Back to Contents](#)

**Report of the Directors**  
(continued)

## About Unilever (continued)

---

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.

[Back to Contents](#)

## Report of the Directors

(continued)

### About Unilever (continued)

---

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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Group Chief Executive

---

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.

[Back to Contents](#)

## Report of the Directors

(continued)

### Group Chief Executive (continued)

---

#### **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.

## Edgar Filing: UNILEVER PLC - Form 20-F

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.

[Back to Contents](#)



**Report of the Directors**

(continued)

## Operating review by region

---

### **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.

[Back to Contents](#)

## 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*.

[Back to Contents](#)


**Report of the  
Directors (continued)**

## Operating review by region Europe (continued)

---

### 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.

[Back to Contents](#)

## 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.

[Back to Contents](#)


**Report of the  
Directors (continued)**

## Operating review by region The Americas (continued)

---

### 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.



[Back to Contents](#)

## 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)%				

	2006 vs 2005	2005 vs 2004
Turnover and underlying sales growth		
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.

[Back to Contents](#)

Report of the Directors  
(continued)

## Operating review by region Asia Africa (continued)

---

### 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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Operating review □ categories

---

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.



[Back to Contents](#)

Report of the Directors  
(continued)

## Operating review □ categories (continued)

---

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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Operating review □ categories (continued)

---

*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.

## Edgar Filing: UNILEVER PLC - Form 20-F

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.

[Back to Contents](#)

Report of the Directors  
(continued)

## Financial review

---

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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Financial review (continued)

---

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.



[Back to Contents](#)

**Report of the Directors**  
(continued)

## Financial review (continued)

---

### 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

### Ungearred free cash flow

Ungearred 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 ungeared 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%).

[Back to Contents](#)

## Report of the Directors (continued)

### Financial review (continued)

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

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

Year-end positions for invested capital:

Edgar Filing: UNILEVER PLC - Form 20-F

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.

[Back to Contents](#)

**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.

[Back to Contents](#)

## 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.



[Back to Contents](#)

**Report of the Directors**  
(continued)

## Financial review (continued)

---

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).

[Back to Contents](#)

## 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

## Edgar Filing: UNILEVER PLC - Form 20-F

(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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## 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.

[Back to Contents](#)

## Report of the Directors

(continued)

### Financial review (continued)

---

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.

[Back to Contents](#)

**Report of the Directors**

(continued)

## Corporate governance

---

### 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 Naamlouze 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.

[Back to Contents](#)

## Report of the Directors

(continued)

### Corporate governance (continued)

---

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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Corporate governance (continued)

---

### 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.

[Back to Contents](#)

## Report of the Directors

(continued)

### Corporate governance (continued)

---

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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Corporate governance (continued)

---

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.

[Back to Contents](#)

## Report of the Directors

(continued)

### Corporate governance (continued)

---

#### 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).

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Corporate governance (continued)

---

### 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:

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Corporate governance (continued)

---

- 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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Corporate governance (continued)

---

### 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).

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Corporate governance (continued)

---

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.

[Back to Contents](#)

**Report of the Directors**  
(continued)

## Corporate governance (continued)

---

### 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.

## Edgar Filing: UNILEVER PLC - Form 20-F

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;