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Certain sections of the Unilever Annual Report and Accounts 2005 have been audited. Sections that have been audited are set out on pages 78 to 151, 157 to 172 and 174 to 177. The auditable part of the Directors' Remuneration report as set out on page 69 has also been audited.

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The Annual Report and Accounts does not constitute an invitation to invest in Unilever shares. Any decisions you make in reliance on this information are solely your responsibility.

The information is given as of the dates specified, is not updated, and any forwardlooking statements are made subject to the reservations specified on page 4 of the Report.

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Financial Review

Non-GAAP measures

Certain discussions and analyses set out in this Annual Report and Accounts include measures which are not defined by generally accepted accounting principles (GAAP) such as IFRSs 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. Definitions of non-GAAP measures and reconciliations to GAAP measures are provided on pages 17 to 19.

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

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 IFRSs 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 light of how Unilever reviews long-term value creation for shareholders;
- Properly define the metrics used and confirm their calculation;
- Share the metrics with all investors at the same time; and
- Disclose UFCF as it is one of the drivers of management remuneration and therefore management behaviour.

As investor measures, we believe that there are no GAAP measures directly comparable with UFCF and ROIC. However, in the tables on pages 17 and 18, we reconcile each as follows: UFCF to cash flow from operating activities and also to net profit; ROIC to net profit.

Unilever cautions that, while UFCF and ROIC are widely used as tools for investment analysis, they are not defined terms under IFRSs 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:

- Unilever recognises that the usefulness of UFCF and ROIC as indicators of investment value is limited, as such measures are based on historical cost 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. It is broadly available to cover the servicing of debt along with other non-discretionary expenditures that have not been deducted from this measure.

Financial Review

Non-GAAP measures (continued)

Ungeared 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), but before the financing of pensions.

The reconciliation of UFCF to the GAAP measures net profit and cash flow from operating activities is as follows:

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

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 2005 and 2004 the income statement tax charge on this basis is materially impacted by the tax effect of non-cash charges for the impairment of *Slim•Fast* and certain other non-cash items. UFCF based on actual cash tax paid would be €3.7 billion (2004: €4.8 billion).

UFCF reported in the 2004 Annual Report and Accounts was based on cash flow from group operating activities, less capital expenditure and financial investment less a tax charge adjusted to reflect an ungeared position. This measure is the same as defined above in all respects except for the non-cash charge for share-based compensation less payments of €545 million (2004: €(114) million), the non-cash charge for pensions less payments of €(532) million (2004: €(472) million) and net financial investment of €33 million (2004: €43 million), resulting in UFCF on this basis of €4 057 million (2004: €4 803 million).

Financial Review

Non-GAAP measures (continued)

Return on invested capital

Return on invested capital (ROIC) expresses the returns generated on capital invested in the company. 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^(a) 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.

The reconciliation of ROIC to the GAAP measure net profit is as follows:

	€ million 2005	€ million 2004
Net profit	3 975	2 941
Add back net interest expense net of tax	424	431
Add back impairment charges net of tax ^(a)	245	536
Profit after tax, before interest and impairment of goodwill and indefinite-lived intangible assets	4 644	3 908
Year-end positions for invested capital:		
Property, plant and equipment and other non-current investments	7 333	6 966
Software and finite-lived intangible assets	642	623
Inventories	4 107	3 756
Trade and other receivables	5 061	4 410
Trade payables and other creditors due within one year	(8 658)	(8 232)
Elements of invested capital included in assets and liabilities held for sale	200	–
Goodwill and indefinite-lived intangible assets at gross book value	21 621	19 854
Total	30 306	27 377
Add back cumulative goodwill written off directly to reserves	6 870	7 246
Year-end invested capital	37 176	34 623
Average invested capital for the year	37 012	36 444
Return on average invested capital	12.5%	10.7%

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

Financial Review

Non-GAAP measures (continued)

Underlying sales growth

USG reflects the change in revenue 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:

	2005 vs 2004
Underlying sales growth (%)	3.1
Effect of acquisitions (%)	0.1
Effect of disposals (%)	(1.6)
Effect of exchange rates (%)	1.3
Turnover growth (%)	2.9

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 31 December 2005	€ million 1 January 2005	€ million IAS 32/39 and IFRS 5 adjustments	€ million 31 December 2004
Total borrowings	(12 399)	(13 669)	(1 621)	(12 048)
Borrowings due within one year	(5 942)	(6 448)	(1 293)	(5 155)
Borrowings due after one year	(6 457)	(7 221)	(328)	(6 893)
Cash and cash equivalents as per balance sheet	1 529	1 582	(8)	1 590
Cash and cash equivalents as per cash flow statement	1 265	1 406	–	1 406
Add bank overdrafts deducted therein	265	184	–	184
Less cash and cash equivalents in assets/liabilities held for sale	(1)	(8)	(8)	n/a
Other financial assets	335	533	(480)	1 013
Derivatives and finance leases included in other receivables and other liabilities	33	369	587	(218)
Net debt	(10 502)	(11 185)	(1 522)	(9 663)

Financial review

Basis of reporting and discussion

Our accounting policies are based on International Financial Reporting Standards (IFRSs) and UK and Netherlands law. These differ in certain respects from United States GAAP. The principal differences are described on pages 158 to 161. We have shown reconciliations to net income and equity under US GAAP on page 157.

International Financial Reporting Standards

Unilever has adopted International Financial Reporting Standards (IFRSs) as adopted by the EU with effect from 1 January 2005, with a transition date of 1 January 2004. Unilever has applied the exemption in IFRS 1 relating to business combinations, as explained in note 35 on page 144. IAS 32 and IAS 39 in respect of financial instruments and IFRS 5 in respect of non-current assets and asset groups held for sale have been applied with effect from 1 January 2005.

The most significant impacts of the transition to IFRS on Unilever's restated consolidated financial statements relate to the timing of the recognition of items in the income statement. Reported net assets are impacted as a result of these timing changes, but there is no impact on the underlying cash flows generated by Unilever.

The key changes in our accounting policies as a result of our adoption of IFRSs are described in note 35 on pages 144 and 145. These changes, unless otherwise stated, have been applied retrospectively in arriving at the opening balance sheet under IFRSs as at 1 January 2004.

Reconciliations of our equity as at the transition date and 31 December 2004 and the profit for the year then ended are given in note 35 on pages 146 to 151. For further details of these and other changes in Unilever's reporting please refer to our website at www.unilever.com/investorcentre.

Turnover definition

Until 31 December 2004, promotional couponing and trade communication costs were included in the cost of advertising and promotions. From 1 January 2005, these costs are deducted from turnover and treated as part of the price element in the variance analysis of sales growth, together with other trade promotion costs which are already deducted from turnover. Comparatives have been restated to reflect this change.

The effect of this change in presentation is a reclassification from advertising and promotions expenditure to a deduction from turnover for the year ended 31 December 2004 amounting to €1 061 million. This change in accounting policy does not have any impact on operating profit or net profit.

Critical accounting policies

Unilever complies with IAS 1, which requires that the most appropriate accounting policies are selected in all circumstances. The accounts comply in all material respects with IFRS and UK and Netherlands 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 re-evaluated on an ongoing basis. However, actual amounts and results could differ. Critical accounting policies are those which are most important to the portrayal of Unilever's financial position and results of operations. Some of these policies require difficult, subjective or complex judgements from management, the most important being:

Goodwill, intangible assets and property, plant and equipment

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 following the guidance in IAS 36. Such 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 product group. We have reviewed the carrying value of this cash generating unit by considering expected future cash flows based on actual and planned growth rates and margins for this product group. No impairment loss has been identified.

We have reviewed the carrying value of the *Slim•Fast* business in light of the continued decline in the weight management market segment throughout 2005. Over the last few years, consumer tastes in this group have changed frequently, featuring low-calorie, low-carbohydrate, low-salt, low-sugar and other products. The business declined in 2005 but maintained leadership of the market segment by refreshing its product range and offering a more personalised diet plan. The impairment review of the business resulted in an impairment loss of €363 million (2004: €791 million) reflected in operating profit for the Americas region. The impairment review was based on determining the value in use of the global *Slim•Fast* business incorporating a number of important assumptions regarding the future performance of the *Slim•Fast* business. For further details, refer to note 10 on page 99.

Financial review

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Financial instruments

From 1 January 2005, we account for financial instruments in accordance with IAS 32 and 39. 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 83 for a description of each of these categories.

Based on IAS 32 and 39, we report derivative financial instruments at fair value. Changes in fair values are booked through profit or loss unless the derivatives are designated and effective as hedge 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.

The most important change associated with the implementation of IAS 32 relates to the treatment of our preference share capital. Under the new accounting rules we treat the preference shares as third-party borrowings and the dividends are reported as interest costs through profit or loss.

Retirement benefits

We account for pensions and similar obligations in accordance with IAS 19 'Employee Benefits'. Under this standard, 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 and expected long-term rates of return on assets. The following table sets out these assumptions, as at 31 December 2005, in respect of the four largest Unilever pension plans. Further details of assumptions made are given in note 22 on pages 115 and 116.

	% UK	% Nether- lands	% United States	% Germany
Discount rate	4.7	4.0	5.5	4.0
Inflation	2.7	1.8	2.4	1.8
Expected long-term rate of return:				
Equities	7.6	7.0	8.0	7.0
Bonds	4.5	3.7	4.8	3.7
Property	6.1	5.5	6.5	5.5
Others	6.7	3.7	4.2	3.7

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

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy, plan experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension plans. Mortality assumptions for the four largest plans are given in more detail in note 22 on page 116.

Share-based compensation

In accordance with IFRS 2 we include a non-cash charge against operating profit to reflect the fair value to the employee of share options and awards granted. In determining the additional charge, we apply a valuation based on modified Black-Scholes or multinomial models spread over the vesting period. The fair value so calculated depends on certain assumptions which are described in note 31 on page 132. The assumptions made in respect of share price volatility and expected dividend yields are particularly subjective. Unilever considers these and all other assumptions to be appropriate, but significant changes in assumptions could materially affect the charge recorded.

Provisions

Provision is made, among other reasons, for environmental and legal matters and for employee termination costs 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, as required under IAS 12, at the rates of tax prevailing at the year end unless future rates have been enacted, as detailed in note 1 on page 84. 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 £1 = Fl.12, and then to euros at the official rate of €1.00 = Fl.2.20371 (see Corporate Governance on page 41).

Financial review

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The figures quoted in the following discussion are in euros, at current rates of exchange, ie. 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 156.

Results for 2005 compared with 2004

The results reflected in the consolidated income statement and supporting notes arise from the continuing operations of the Group. During July 2005, we completed the sale of Unilever Cosmetics International (UCI) to Coty Inc., United States. The results of UCI have been presented separately as discontinued operations for the 2004 year and, in 2005, for the period up to the date of sale.

Reported turnover grew by 2.9% in the year to €39 672 million. This increase includes a favourable effect from movements of the average euro exchange rate against the basket of Unilever currencies, which amounted to 1.3% 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 3.1% was the result of volume increases.

Operating profit increased by 25% in the year to €5 314 million with operating margin increasing to 13.4% (2004: 11.0%). Before the impact of net costs of restructuring, business disposals and impairments, the operating margin for 2005 would have been 0.8 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 reviews on pages 26 to 28.

Net finance costs were 2% lower in the year at €618 million, through lower levels of borrowings. This also reflects a reduction in the finance costs associated with pensions which were €55 million.

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 22% 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 21% and 22% 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

There were no material acquisitions during 2004 or 2005.

In March 2005 Unilever completed the restructuring of its Portuguese foods business. Before the restructuring Unilever Portugal held an interest in FIMAVG – 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%.

On 11 July 2005, we announced the completion of 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.

On 20 December 2005, Unilever announced its intention to sell its Mora business to Ad van Geloven in the Netherlands, for an undisclosed sum. The agreement is subject to approval by competition authorities and advice from work councils. The proposed transaction relates to the Mora brand and to factories in Maastricht and Mol (Belgium).

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

In 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.

Financial review

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On 9 February 2006 Unilever announced its intention to sell the majority of its frozen foods businesses in Europe. The intended sale includes the frozen food portfolio under the *Iglo* and *Birds Eye* brands in Austria, Belgium, France, Germany, Greece, Ireland, the Netherlands, Portugal, Spain and the United Kingdom.

For further information on the impact of acquisitions and disposals refer also to the cash flow section of this review on page 24 and to note 28 on page 128.

Dividends and market capitalisation

The proposed final dividend of €1.32 per €0.51 share brings the dividends paid and proposed on the NV ordinary capital to €1.98 per €0.51 share (2004: €1.89), an increase of 5% per share. The proposed final dividend of 13.54p per 1.4p share brings the dividends paid and proposed on the PLC ordinary capital to 20.31p per 1.4p share (2004: 19.15p), an increase of 6% per share. The 2005 final proposed and interim paid dividends of €1 905 million (2004: €1 832 million) represented 51% (2004: 66%) of net profit attributable to shareholders' equity for the year.

Unilever's combined market capitalisation at 31 December 2005 was €57.5 billion (2004: €49.3 billion).

Balance sheet

Goodwill and intangible assets at 31 December 2005 were €1 048 million higher than in 2004. Currency movements added €1 575 million, offset by *Slim-Fast* impairment, disposals and the reclassification of assets held for sale. Inventories and current trade receivables were €1 050 million higher, reflecting currency movements and the low position achieved at the end of 2004.

Total equity has increased by €2 250 million since 1 January. Net profit added €3 975 million and currency retranslation and fair value gains €540 million. Treasury stock, which is deducted from equity, was used for the conversion of the €0.05 preference shares. This reduced borrowings by €1 380 million and increased equity by €930 million. Subsequent purchases of treasury stock and parent company dividends reduced equity by €1 262 million and €1 867 million respectively.

The net debt position (see page 19) at 31 December 2004 was €9 663 million which increased on 1 January 2005 to €11 185 million as a result of the application of IAS 32/39 and IFRS 5 from this date. Closing net debt was €10 502 million, a decrease of €683 million since 1 January. Purchases of treasury stock were €1 276 million (including the share buy-back program of €500 million) and proceeds of business disposals were €804 million. The €1 380 million net debt reduction on conversion of the €0.05 preference shares was largely offset by currency movements.

At 31 December 2005, cash and cash equivalents and financial assets (including the positive fair value of derivatives relating to borrowings amounting to €250 million) amounted to €2 114 million (2004: €2 603 million); borrowings, including finance leases, amounted to €12 616 million (2004: €12 266 million). The net of these cash and borrowing positions, being the net debt, amounted to €10 502 million (2004: €9 663 million).

Unilever manages the related interest rate and currency exposures based on this net debt position. Taking into account the various cross currency swaps and other derivatives, 60% of Unilever's net debt was in US dollars (2004: 96%) and 17% in euros (2004: (28)% financial assets), with the remainder spread over a large number of other currencies. The currency distribution of total borrowings was as follows: 51% in US dollars (2004: 58%) and 20% in euros (2004: 15%) with the remainder spread over a large number of other currencies. Further details of the currency analyses are given in note 17 on page 106 and note 18 on page 109.

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 2005 were: bilateral committed credit facilities totalling US \$4 292 million, bilateral notes commitments totalling US \$200 million and bilateral money market commitments totalling US \$1 725 million. Further details regarding these facilities are given in note 18 on page 109.

In September, a total of €750 million of term financing was raised through issuance of a 10 year Eurobond.

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 2005 included capital expenditure commitments, borrowings, lease commitments and other commitments. A summary of certain contractual obligations at 31 December 2005 is provided in the table below. Further details are set out in the following notes to the accounts: note 11 on page 100, note 18 on page 108, note 19 on pages 110 to 112 and note 27 on page 127.

Contractual obligations at 31 December 2005

	€ 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	8 447	1 990	2 229	1 884	2 344
Operating lease obligations	1 931	339	564	431	597
Purchase obligations ^(a)	240	165	55	20	—
Finance leases	330	75	116	27	112
Other long-term commitments	591	200	330	43	18

(a) Raw and packaging materials and finished goods.

Financial review

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In 2005, pension liabilities less plan assets amounted to €5 581 million (2004: €5 454 million).

In November 2001, NV entered into a forward purchase contract with a counterparty bank to buy 10 000 000 PLC shares at 559p per share in November 2006 to meet the obligation to employees under share option plans. Depending on the market value of this forward purchase contract, a cash collateral must be placed with the counterparty bank at a minimum of €8 million. At 31 December 2005, €16 million of collateral had been placed with the counterparty.

Off-balance sheet arrangements

IFRSs 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 27 on page 127.

Cash flow

Cash and cash equivalents at 31 December 2005 were at a similar level to the end of 2004. Net cash flow from operating activities, at €4 353 million, was €1 194 million lower than in the previous year. This includes the effects of additional marketing investment, a lower inflow from working capital compared with last year, and higher cash costs of restructuring, pensions and tax.

Net cash flow from investing activities was €635 million higher than last year, reflecting higher disposal receipts (including €623 million from the sale of UCI) and net movements in investments with maturity greater than three months. Net cash flow used in financing activities fell by €1 117 million, reflecting borrowing activity offset by increased purchases of own shares.

Share buy-back

In 2005 we completed a share buy-back program of €500 million. This was in addition to the purchase of €776 million of shares to partially replenish treasury stock used for the conversion of the €0.05 NV preference shares.

Finance and liquidity

Unilever aims to be in the top third of a reference group of 21 international consumer goods companies for Total Shareholder Return, as explained on page 25. 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 tactical acquisitions;
- 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 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.

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 83. The use of leveraged instruments is not permitted.

Other relevant disclosures are given in note 2 on pages 86 to 87, and notes 17, 18 and 19 on pages 105 to 113.

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 2 on pages 86 and 87.

Financial review

(continued)

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 Group also keeps a proportion of assets invested in property, bonds and cash. Most assets are managed by a number of external fund managers with a small proportion managed in-house. In December 2005, Unilever launched a pooled investment vehicle (Univest) which will offer its pension plans around the world a simplified 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.

Total Shareholder Return

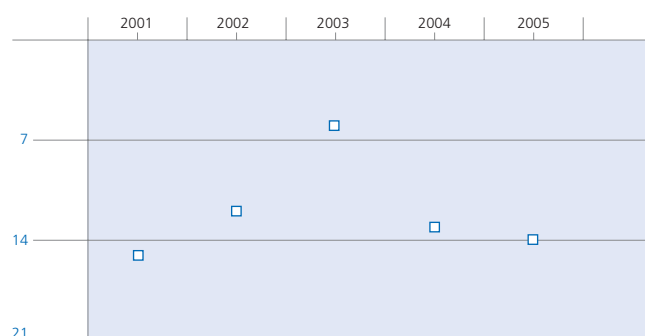
Total Shareholder Return (TSR) measures the returns received by a shareholder, capturing both the increase in share price and the value of dividend income (assuming dividends are re-invested). Unilever's TSR performance is compared with a peer group of competitors over a three-year rolling performance 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 2004 we were positioned 13th, and at the end of 2005 the ranking was 14th. In 2005, the following companies formed the peer group of comparative companies:

Altria	Kao
Avon	Lion
Beiersdorf	L'Oréal
Cadbury Schweppes	Nestlé
Clorox	Orkla
Coca-Cola	Pepsico
Colgate	Procter & Gamble
Danone	Reckitt Benckiser
Gillette	Sara Lee
Heinz	Shiseido

From 2006, Kraft will replace Altria and Kimberly-Clark will replace Gillette in the peer group.

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.

Significant changes after the balance sheet date

We announced on 9 February 2006 our decision to put the majority of the frozen foods businesses in Europe up for sale. The intended sale includes the frozen food portfolio under the *Iglo* and *Birds Eye* brands in Austria, Belgium, France, Germany, Greece, Ireland, the Netherlands, Portugal, Spain and the United Kingdom.