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Certain sections of the Unilever Annual Report and Accounts 2006 have been audited. Sections that have been audited are set out on pages 70 to 123, 129 to 130, 132 to 134 and 137 to 139. The auditable part of the Directors' Remuneration report as set out on page 49 has also been audited.

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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.

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.



Antony Burgmans
Chairman

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.

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.

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.