Certain discussions and analyses set out in our results announcements and elsewhere on this website 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.

Measures of long-term value creation

Unilever's ambition for the creation of value for shareholders as 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 below, 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:

- We recognise 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 but represents cash generated by the business and broadly available to the providers of finance, both debt and equity.

USG and Net debt

We use **underlying sales growth** (USG) to reflect changes in revenue at constant rates of exchange, excluding the effects of acquisitions and disposals. We believe this measure 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. We provide a reconciliation of USG to turnover growth in total and by segment in our results announcements.

We use **net debt** since we believe it is a measure which provides valuable additional information on the summary presentation of the Group's net financial liability exposure. It is a measure in relatively common use and is used internally to monitor and evaluate cash and debt levels. In our results announcements we give an analysis of the GAAP amounts we include in our calculation of net debt.

USG and net debt are non-GAAP measures under IFRS and US-GAAP.

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 and the impact on profit on sales of Frozen Foods business), 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 2006	€ million 2005
Net profit	5,015	3,975
Taxation	1,332	1,301
Share of net profit of joint ventures/associates and other income from non-current investments	(145)	(55)
Net finance costs	725	618
Depreciation, amortisation & impairment	982	1,274
Changes in working capital	87	193
Pension charges in operating profit less payments	(1,038)	(532)
Movements in provisions less payments	107	(230)
Elimination of profits on disposals	(1,620)	(789)
Non-cash charge for share-based compensation	120	192
Other adjustments	9	(23)
Cash flow from operating activities	**5,574**	**5,924**
Less charge for share-based compensation	(120)	(192)
Add back pension payments less pension charges in operating profit	1,038	532
Less net capital expenditure	(934)	(813)
Less tax charge adjusted to reflect an ungeared position	(1,336)	(1,440)
Taxation on profit	(1,332)	(1,301)
Taxation on profit on sales of Frozen Foods business	159	
Tax relief on net finance costs	(163)	(139)
Ungeared free cash flow	**4,222**	**4,011**

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: €3.8 billion).

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 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 2006	€ million 2005
Net profit	5,015	3,975
Add back net interest expense net of tax	365	424
Add back impairment charges net of tax	15	245
Profit after tax, before interest and impairment of goodwill and indefinite-lived intangible assets	**5,392**	**4,644**
Year end positions for invested capital:		
Property, plant and equipment and other non-current investments	7,142	7,333
Software and finite-lived intangible assets	608	642
Inventories	3,796	4,107
Trade and other receivables (incl. current tax assets)	4,667	5,185
Trade payables and other current liabilities (incl. current tax liabilities)	(8,513)	(8,782)
Elements of invested capital included in assets & liabilities held for sale	15	200
Goodwill and indefinite-lived intangible assets at gross book value	20,705	21,621
Total	28,420	30,306
Add back cumulative goodwill written off directly to reserves	6,427	6,870
Year end invested capital	**34,847**	**37,176**
Average invested capital for the year	**36,850**	**37,012**
Return on average invested capital	**14.6%**	**12.5%**

ROIC reported in the 2005 Annual Report and Accounts was based on total business profit, including profit on disposals. The impact on profit after tax on material disposals was €1,170 million (2005: €461 million), ROIC excluding this impact is 11.5% (2005: 11.3%).