

UNILEVER N V
Form 6-K
January 23, 2013

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of January, 2013

UNILEVER N.V.

(Translation of registrant's name into English)

WEENA 455, 3013 AL, P.O. BOX 760, 3000 DK, ROTTERDAM, THE NETHERLANDS
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports
under cover Form 20-F or Form 40-F.

Form 20-F..X.. Form 40-F.....

Indicate by check mark if the registrant is submitting the Form 6-K in paper
as permitted by Regulation S-T Rule 101(b)(1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper
as permitted by Regulation S-T Rule 101(b)(7): _____

Indicate by check mark whether the registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No ..X..

If "Yes" is marked, indicate below the file number assigned to the registrant
in connection with Rule 12g3-2(b): 82- _____

Exhibit 99 attached hereto is incorporated herein by reference.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNILEVER N.V.

/S/ T.E. LOVELL
By T.E. LOVELL
SECRETARY

Date: 23 January 2013

EXHIBIT INDEX

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
99	Notice to London Stock Exchange dated 23 January 2013
Final Results	

Exhibit 99

2012 FULL YEAR AND FOURTH QUARTER RESULTS

STRONG, BROAD-BASED GROWTH IN 2012

Full year highlights

- Turnover increased by 10.5% to €51.3 billion with a positive impact from foreign exchange of 2.2% and acquisitions net of disposals of 1.1%.
- Underlying sales growth 6.9% comprising volume growth of 3.4% and price growth of 3.3%.
- Emerging markets underlying sales growth 11.4% now representing 55% of turnover.
- Core operating margin up 30bps to 13.8%; gross margin up 10bps, advertising and promotions up €470 million at constant exchange rates.
- Core earnings per share increased by 11% to €1.57; free cash flow of €4.3 billion.

Fourth quarter highlights

- Underlying sales growth 7.8% with volume growth of 4.8% and price growth of 2.9%.

Paul Polman: Chief Executive Officer statement

"We continue to make good progress in transforming Unilever into a sustainable growth company. We have reported another quarter of good quality, profitable growth ahead of our markets. All categories and all geographies grew with a good overall balance between volume and price. Emerging markets again contributed double-digit growth helping us exceed €50 billion turnover, an important milestone in our journey to double the size of Unilever from €40 to €80 billion whilst reducing our environmental impact.

These results have been achieved in tough economic conditions, with volatile commodity costs and in an intensely competitive environment. They reflect the progress made in delivering bigger, better innovations and rolling them out faster, improving our execution in the market place and increased discipline driving savings in all areas of the business. We continued to invest behind our brands, again increasing advertising and promotions spend. I am pleased to report that Magnum and Sunsilk have joined the group of €1 billion brands in our portfolio, bringing the total to fourteen. This gives us confidence that Unilever is becoming fit to win. Importantly, we achieved these results whilst continuing to lay the foundations for the long term. The Unilever Sustainable Living Plan is becoming embedded across the business.

However there is no room for complacency: markets will remain challenging, with intense competition and volatile commodity costs. We remain focused on achieving another year of profitable volume growth ahead of our markets, steady and sustainable core operating margin improvement and strong cash flow."

Key Financials (unaudited)	Full Year 2012	
Current Rates		
Underlying Sales Growth (*)	6.9%	
Turnover	€51.3bn+10.5%	
Operating Profit	€7.0bn+9%	
Net Profit	€4.9bn+7%	
Core earnings per share (*)	€1.57+11%	
Diluted earnings per share	€1.54	+5%
Quarterly dividend payable in March 2013	€0.243 per share	

(*) Underlying sales growth and core earnings per share are non-GAAP measures, see note 2 on page 10.
23 January 2013

OPERATIONAL REVIEW: CATEGORIES

(unaudited)	Fourth Quarter 2012				Full Year 2012				Change in core operating margin bps
	Turnover	USG	UVG	UPG	Turnover	USG	UVG	UPG	
	€bn	%	%	%	€bn	%	%	%	
Unilever Total	12.6	7.8	4.8	2.9	51.3	6.9	3.4	3.3	30
Personal Care	4.7	11.5	7.2	4.0	18.1	10.0	6.5	3.3	(50)
Foods	3.8	1.3	(0.1)	1.4	14.4	1.8	(0.9)	2.7	-
Refreshment	1.9	9.8	6.7	2.9	9.7	6.3	2.4	3.9	170
Home Care	2.3	10.4	7.0	3.1	9.1	10.3	6.2	3.9	50

Our markets: Throughout 2012 our markets experienced markedly different dynamics as emerging markets grew in both volume and value terms whilst developed market value remained subdued, with volumes lower than prior year.

Unilever performance: In this context Unilever delivered another quarter of solid growth. All of our categories grew, driven by the combination of strong innovations, sharpened in-market execution and the rollout of our brands to new markets. Emerging markets underlying sales growth was 10.8% in the quarter, evenly split between volume and price, taking the full year underlying sales growth to 11.4%. The developed markets grew 4.0% in the quarter and were up 1.6% in the full year.

Higher commodity costs were offset by increased prices, our strong savings programmes and the benefits of mix. Full year gross margin improved 10bps to 40.0% at constant exchange rates. We continued to invest strongly behind our brands and we increased absolute advertising and promotions spend by €470 million. Lower overhead costs were due to a reduction of 20bps in business restructuring. Core operating margin was therefore up 30bps at 13.8%.

Personal Care

Hair finished the year with a strong quarter of double-digit growth. Tresemmé had an excellent quarter, reflecting strength in Brazil and the impact of the recent launches in Indonesia and India. Dove Hair benefited from the continuing success of Dove Damage Therapy. Clear also grew strongly, completing a good first year in the highly competitive US market. Sunsilk became a €1 billion brand driven by the growth of the core business coupled with the success of recent innovations such as the natural oils range.

Skin performance reflected the success of innovations across the portfolio. Dove Nutrium Moisture continues to drive growth in body wash and the Dove Purely Pampering range, successful in skin cleansing, is now being extended to hand & body. Dove Men+Care continued to build sales and was extended to male face care in the UK. Lifebuoy had another strong quarter reflecting good progress on the core products, the success of Lifebuoy Clini-Care 10 and the recent launch of colour-changing germ protection hand wash in Indonesia and India. The broad-based growth of the Lux brand in emerging markets reflected the successful relaunch with improved product quality, winning fine fragrances and strong advertising. The acquired Kalina brands continued to make good progress in Russia.

Deodorants growth reflected a good performance from Rexona with the notable success of Maximum Protection in Latin America and the extension of the MotionSense technology to North America. Dove deodorant was underpinned by a strong innovation programme and the rollout of Dove Men+Care. Competitive intensity in oral was high but

Signal Expert Protection continued to do well and we launched White Now Gold in France and Italy.

Core operating margin was down 50bps, reflecting stable gross margin and the investment that we are making to build beauty capabilities and infrastructure.

Foods

Foods growth in the quarter was weak, in part due to difficult markets. In spreads we saw a decline in sales although volume shares improved in response to actions we took to ensure that our pricing was competitive. There is still more to do to drive category growth, for example our successful liquid margarines for use in cooking. During the quarter, Becel Gold was extended to the Nordics and Bertolli Gold was launched in the UK. Dressings continued to perform well despite a step-up in competitive intensity. We continued to benefit from our campaign to inspire new uses of mayonnaise and we are also seeing the impact of successful digital activities.

Despite sluggish growth in the core savoury business, new product innovations continued to perform well. Knorr jelly bouillon grew strongly driven by new variant launches such as Borsch and White Mushroom in Russia and Herbs and Spices in Austria and Switzerland. Knorr baking bags also grew rapidly and gained share in most markets despite intense competition. Our Food Solutions business, serving professional chefs, delivered solid results despite challenging developed markets, underpinned by double digit growth in key emerging markets.

Core operating margin was flat with lower gross margin, reflecting the impact of higher commodity costs, offset by lower advertising and promotions and overheads.

Refreshment

Ice cream saw double-digit growth in the quarter, primarily driven by volume. Magnum completed a successful year by passing the €1 billion milestone on the back of Magnum Infinity and the recent launches into new countries such as the Philippines. Cornetto and Max both grew strongly in 2012. Ben & Jerry's also performed well although we saw intense competition in take home ice cream, particularly in the US.

Beverages growth continued to improve in the quarter with Lipton progressing well, underpinned by the success of teapot bags in Turkey and the relaunch of the brand in Russia. India delivered a strong performance on Brooke Bond with double-digit growth in both the premium and value segments of the market.

The 170bps improvement in core operating margin was driven by higher gross margin, reflecting a strong savings programme, and improved overheads leverage.

Home Care

Fabrics cleaning grew ahead of our markets, reflecting the continuing success of Omo, relaunched to deliver faster stain removal, and the rapid growth of liquids across our brands and countries. Fabric conditioners also performed well driven largely by the new concentrated products and super-sensorial variants.

Household care growth continued to reflect strong performances by Sunlight hand dishwash and Domestos. Cif performance also improved driven for example by a strong innovation programme in Argentina and the success of the new Cif sprays and wipes with new Easy Lift technology in the UK.

Successful new business models underpinned the 50bps improvement in core operating margin.

OPERATIONAL REVIEW: GEOGRAPHIES

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(unaudited)	Fourth Quarter 2012				Full Year 2012				Change in core operating margin bps
	Turnover	USG	UVG	UPG	Turnover	USG	UVG	UPG	
	€bn	%	%	%	€bn	%	%	%	
Unilever Total	12.6	7.8	4.8	2.9	51.3	6.9	3.4	3.3	30
Asia/AMET/RUB	5.0	9.9	5.9	3.8	20.4	10.6	5.7	4.6	110
The Americas	4.2	11.8	6.9	4.6	17.1	7.9	3.1	4.8	30
Europe	3.3	0.2	0.7	(0.6)	13.9	0.8	0.9	(0.1)	(90)

Asia/AMET/RUB

Balanced growth in the fourth quarter, with volumes ahead of our markets, reflected continuing strong performances in Indonesia, Thailand and Pakistan. Growth in India was broad-based, across categories and channels. Russia implemented the regional SAP platform during the quarter and we saw good progress from the recently acquired Kalina business.

Core operating margin was up 110bps, benefiting from improved gross margin and lower overheads. The overheads result comprised an underlying improvement combined with the profit on disposal of properties in India.

The Americas

North America grew mid single-digit in the quarter, adjusting for the impact of the sales brought forward in the prior year prior to a systems upgrade. The growth was mainly volume driven. Magnum continued to do well in ice cream and the launch of Clear helped drive a strong performance in hair. In January 2013 we announced the disposal of the Skippy peanut butter business.

Latin America grew by 11.6% in the quarter, the sixth successive quarter of double-digit growth, driven by Argentina and Brazil, the latter benefiting from a strong ice cream performance and the success of Tresemmé in hair.

Core operating margin, up 30bps, was driven by improved gross margin and overheads offset by higher advertising and promotions expenditure.

Europe

European performance was sluggish reflecting the fragile state of consumer confidence and intensely competitive markets. However, despite this difficult environment, we delivered positive growth for the year with the UK and France continuing to perform well. We have responded to the needs of hard-pressed consumers by providing good quality products at low price points.

Core operating margin was down 90bps against a strong prior year comparator. Gross margin was negative reflecting the impact of higher commodity costs.

ADDITIONAL COMMENTARY ON THE FINANCIAL STATEMENTS - FULL YEAR

Finance costs and tax

The cost of financing net borrowings in 2012 was €390 million versus €448 million in 2011. Whilst the average level of net debt increased, interest rate movements were favourable: the average interest rate on borrowings was 3.5% and the average return on cash deposits was 2.9%. The pensions finance cost was a charge of €7 million compared with income of €71 million in the prior year.

The effective tax rate was 26.4% versus 26.5% in 2011.

Joint ventures, associates and other income from non-current investments

Net profit from joint ventures and associates, together with other income from non-current investments contributed €91 million compared to €189 million in 2011. The income from joint ventures and associates was broadly similar to the prior year.

Income from non-current investments fell as a result of two significant but unrelated items. The current year includes the negative impact of the impairment of warrants associated with the US laundry business which was sold previously. Separately, in the prior year we benefitted from a positive fair value adjustment for warrants associated with the previous disposal of our interest in JohnsonDiversey.

Earnings per share

Core earnings per share for the full year was up 11% at €1.57, driven by the improvement in core operating profit, lower financing costs, lower tax rates and currency which were partially offset by higher profits attributable to non-controlling interests and lower income from non-current investments. This measure excludes the impact of business disposals, acquisition and disposal related costs, impairments and other one-off items.

Fully diluted earnings per share for the full year was up 5% at €1.54. This increase is less than that for core earnings per share due to a lower profit from business disposals and lower one-off items, principally the pension credit in the prior year.

Restructuring and disposals

Business restructuring spend at 110bps of turnover for the year was 20bps lower than the same period in 2011. This reflects increased discipline in managing restructuring expenditure. We have continued to invest where necessary to make the business fit to compete in the current environment. This excludes the restructuring associated with acquisitions and disposals.

Acquisition and disposal related costs amounted to €190 million, lower than the €234 million in 2011 and mainly relating to the integration of Alberto Culver. Profit on business disposals contributed €117 million, mainly relating to the disposal of the US frozen foods business, lower than the €221 million in 2011.

Free cash flow and net debt

Free cash flow was €4.3 billion, up from €3.1 billion in 2011. This is mainly due to higher operating profit and improved trade working capital performance. Consistent management attention has enabled us to deliver a third year in which average trade working capital as a percentage of sales has been negative.

Closing net debt at €7.4 billion was down from €8.8 billion as at 31 December 2011. Closing cash and cash equivalents was €2.5 billion, down from €3.5 billion as at 31 December 2011.

Pensions

The net pensions deficit was €3.7 billion at the end of 2012 versus €3.2 billion at the end of 2011. This is due to an increase in liabilities resulting from the decrease in discount rates, offset to some extent by good investment performance increasing pension assets. Cash expenditure on pensions was €721 million, in line with expectations, versus the €553 million in the prior year.

This announcement may contain forward-looking statements, including 'forward-looking statements' within the meaning of the United States Private Securities Litigation Reform Act of 1995. Words such as 'will', 'aim', 'expects', 'anticipates', 'intends', 'believes', 'vision', or the negative of these terms and other similar expressions of future performance or results, and their negatives, are intended to identify such forward-looking statements. These forward-looking statements are based upon current expectations and assumptions regarding anticipated developments and other factors affecting the Group. They are not historical facts, nor are they guarantees of future performance.

CAUTIONARY STATEMENT

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. Among other risks and uncertainties, the material or principal factors which could cause actual results to differ materially are: Unilever's global brands not meeting consumer preferences; increasing competitive pressures; Unilever's investment choices in its portfolio management; finding sustainable solutions to support long-term growth; customer relationships; the recruitment and retention of talented employees; disruptions in our supply chain; the cost of raw materials and commodities; secure and reliable IT infrastructure; successful execution of acquisitions, divestitures and business transformation projects; economic and political risks and national disasters; the debt crisis in Europe; financial risks; failure to meet high product safety and ethical standards; and managing regulatory, tax and legal matters. Further details of potential risks and uncertainties affecting the Group are described in the Group's filings with the London Stock Exchange, Euronext Amsterdam and the US Securities and Exchange Commission, including the Group's Annual Report on Form 20-F for the year ended 31 December 2011 and the Annual Report and Accounts 2011. These forward-looking statements speak only as of the date of this announcement. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

ENQUIRIES

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www.unilever.com/ourcompany/investorcentre/results/quarterlyresults/default.asp

The web cast can also be viewed from the Unilever Investor Relations app which you can download from:
<http://itunes.apple.com/us/app/unilever-investor-centre-app/id483403509?mt=8&ign-mpt=uo%3D4>

INCOME STATEMENT

(unaudited)

€ million

Full Year

2012

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (SFAS 141R), which establishes principles and requirements for the reporting entity in a business combination, including recognition and

measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R will become effective for our fiscal year beginning October 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statement amendments of ARB No. 51 (SFAS 160). SFAS 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. This statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity's first fiscal year beginning after December 15, 2008, which corresponds to the Company's fiscal year beginning October 1, 2009.

3. Employee Share-Based Compensation

The total stock compensation expense for the Company's stock option plans amounted to \$3,660 for the three months ended December 31, 2007. These expenses include the impact of the stock option grant discussed below.

On December 11, 2007, the Company granted 499,500 stock options under the Equity Incentive Plan (the New Plan). The stock options vest over a period of four years and expire ten years after the date of the grant. The exercise price of such options may not be less than 100% of the fair market value of a share of the Company's common stock as determined by the closing price as of the date of the grant. The New Plan provides for granting in total up to 2,275,000 stock options to employees and received stockholder approval at the Company's Annual Meeting of Stockholders held on February 27, 2007.

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The fair values of the stock options granted under the New Plan were estimated using the Black-Scholes option pricing model and the assumptions set forth in the following table. The exercise price is equal to the fair market value of

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Sirona's stock at the grant date. The expected volatility is determined based on the Company's historical stock volatility. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant and has a term equal to the expected life of the options. The expected life represents the period of time the options are expected to be outstanding based on anticipated employee exercise behavior taking into consideration historical exercise behavior. The expected dividend yield is based on the Company's history of not paying regular dividends in the past and the Company's current intention not to pay dividends in the foreseeable future.

Exercise price	\$ 31.81
Expected volatility	44%
Risk-free rate	3.27%
Expected life	5 years
Expected dividends	
Grant date fair value	\$ 13.63

4. Comprehensive Income

	Three months ended December 31, 2007 2006	
	\$ 000s	
Net Income	\$ 16,985	\$ 2,318
Other Comprehensive Income	16,670	10,408
Total Comprehensive Income	\$ 33,655	\$ 12,726

Other comprehensive income for the three months ended December 31, 2007 relates to the cumulative translation adjustment and the pension obligation adjustment. The cumulative translation adjustment includes unrealized non-cash gains on intra-group foreign currency transactions of a long-term investment nature between entities consolidated in these financial statements in the amount of \$11,544, the cumulative translation adjustment resulting from the translation of the financial statements of subsidiaries with functional currencies other than the U.S. Dollar of \$ 5,088, and the pension obligation adjustment includes the amortization

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of actuarial gains and losses in the amount of \$38. Other comprehensive income for the three months ended December 31, 2006 are unrealized non-cash gains on intra-group foreign currency transactions of a long-term investment nature between entities consolidated in these financial statements.

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5. Inventories, Net

	December 31, 2007	September 30, 2007
	\$ 000s	
Finished goods	\$ 38,246	\$ 40,000
Work in progress	15,149	13,647
Raw materials	33,377	32,136
	86,772	85,783
Inventory reserve	(12,186)	(10,949)
	\$ 74,586	\$ 74,834

6. Intangible Assets and Goodwill

	Gross	Accumulated amortization	Net
	\$ 000s		
As of December 31, 2007			
Patents & licenses	\$ 153,721	\$ 36,829	\$ 116,892
Trademarks	140,162	153	140,009
Technologies and dealer relationships	482,202	147,418	334,784
Prepayments for intangible assets	247		247
	776,332	184,400	591,932
Goodwill	698,354		698,354
Total intangible assets	\$ 1,474,686	\$ 184,400	\$ 1,290,286

	Gross	Accumulated amortization	Net
	\$ 000s		
As of September 30, 2007			
Patents & licenses	\$ 148,218	\$ 32,183	\$ 116,035
Trademarks	136,058	128	135,930

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Technologies and dealer relationships	469,555	124,465	345,090
Prepayments for intangible assets	247		247
	754,078	156,776	597,302
Goodwill	677,506		677,506
Total intangible assets	\$ 1,431,584	\$ 156,776	\$ 1,274,808

The change in the value of goodwill from September 30, 2007 to December 31, 2007 includes changes in exchange rates totaling \$20,896 and (\$48) relating to the accounting for income tax benefits from the exercise of employee stock options.

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7. Short-Term Debt and Current Portion of Long-Term Debt

Short-term debt relates to the Company's current portion of long-term debt, other short-term debt and accrued interest on long-term debt totaling \$6.0 million and \$13.1 million, as of December 31, 2007 and September 30, 2007, respectively. In October 2007 the Company repaid the utilized portion of its revolving credit facility in the amount of Euro 7 million (\$10.1 million).

8. Long-Term Debt

	December 31, 2007	September 30, 2007
	\$ 000s	
Senior term loan, Tranche A1, variable rate repayable in annual installments starting November 2009 through November 2011	150,727	153,066
Senior term loan, Tranche A2, variable rate repayable in annual installments starting November 2009 through November 2011	406,420	396,692
Other debt	2,019	1,958
	559,166	551,716
Less current portion	4,476	11,573
	\$ 554,690	\$ 540,143

Senior Term Loans

On November 22, 2006, Sirona Dental Systems, Inc. entered into a new senior credit facility (the "Senior Facilities Agreement") as original guarantor, with Schick Technologies, Inc., a New York company and wholly owned subsidiary of Sirona ("Schick NY"), as original borrower and original guarantor, with

Sirona Dental Systems GmbH, as original borrower and original guarantor, with Sirona Dental Services GmbH, as original borrower and original guarantor and with Sirona Dental Systems LLC, Sirona Holding GmbH and with Sirona Immobilien GmbH as original guarantors. Initial borrowings under the Senior Facilities Agreement plus excess cash were used to retire the outstanding borrowings under the Company's previous credit facilities.

The Senior Facilities Agreement includes: (1) a term loan A1 in an aggregate principal amount of \$150 million (the "tranche A1 term loan") available to Sirona's subsidiary, Schick NY, as borrower; (2) a term loan A2 in an aggregate principal amount of Euro 275 million (the "tranche A2 term loan") available to Sirona's subsidiary, Sirona Dental Services GmbH, as borrower; and (3) a \$150 million revolving credit facility available to Sirona Dental Systems GmbH, Schick NY and Sirona Dental Services GmbH, as initial borrowers. The revolving credit facility is available for borrowing in Euro, U.S. dollars, Yen or any other freely available currency agreed to by the facility agent. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself. There are no cross-border guarantees since all guarantees are by entities that have the same functional currency as the currency in which the respective guaranteed borrowing is denominated.

Each of the senior term loans are to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% is due on November 24, 2009, 15% is due on November 24, 2010 and 70% is due on November 24, 2011. At the Company's current leverage multiples, the new facilities bear interest at a margin of 65 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

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The Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from November 24, 2007 onwards, the applicable margin will vary between 90 basis points and 45 basis points per annum according to our leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the Senior Facilities Agreement). Interest rate swaps have been established for 66.6% of the interest until March 2010. The interest rate swaps fix the LIBOR or EURIBOR element of interest payable on 66.6% of the principal amount of the loans for defined twelve and thirteen month interest periods over the lifetime of the swaps, respectively. The defined interest rates fixed for each twelve or thirteen month interest period range from 3.50% to 5.24%. Settlement of the swaps is required on a quarterly basis.

The Senior Facilities Agreement contains restrictive covenants that limit Sirona's ability to make loans, make investments (including in joint ventures), incur additional indebtedness, make acquisitions or pay dividends, subject to agreed-upon exceptions. The Company has agreed to certain financial debt covenants in relation to the financing. The covenants stipulate that the Company must maintain certain ratios in respect of interest payments and defined earnings measures. If the Company breaches any of the covenants, the loans will become repayable on demand.

Debt issuance costs of \$5.6 million were incurred in relation to the new financing in November 2006 and were capitalized as deferred charges and are amortized using the effective interest method over the term of the loan.

Debt Extinguishment

The retirement of the borrowings under the Company's credit facilities prior to November 2006, the senior syndicated loan tranches A, B and C and the mezzanine loan facility, was accounted for as a debt extinguishment in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" in November 2006. The unscheduled repayment of the mezzanine facility by the Company resulted in a prepayment fee of Euro 0.9 million (\$1.2 million). In addition, \$19.9 million of unamortized debt issuance costs relating to the previous credit facilities were written off in the three month period ended December 31, 2006. As a result, a loss on debt extinguishment

totaling \$21.1 million was recognized in the three month period ended December 31, 2006.

9. Income Taxes

For fiscal year 2008, an estimated effective tax rate of 30% has been applied, which is positively impacted by a lower German tax rate and tax planning initiatives. This compares to an effective tax rate of 35% for fiscal year 2007.

Effective October 1, 2007 the Company adopted the provisions of FASB Interpretation 48

Accounting for Uncertainty in Income Taxes (FIN 48) without material impact. FIN 48 clarifies the accounting and reporting for uncertain income tax positions. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

At October 1, 2007, the total amount of unrecognized tax benefits was \$336.

With limited exceptions, the Company and its subsidiaries are no longer subject to U.S. federal, state and local or non-U.S. income tax audits by taxing authorities through 2004. During the quarter, the U.S. Internal Revenue Service commenced an audit of the 2005 U.S. income tax returns for a U.S. subsidiary of the Company. The Company anticipates that this audit will be completed by the third quarter of 2008.

The Company classifies interest and penalties associated with income taxes as interest and other operating expense, respectively. Amounts of interest or penalties have not been material in any period.

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10. Income Per Share

The computation of basic and diluted income per share is as follows:

	Three months ended December 31,	
	2007	2006
	\$ 000s (except per share amounts)	
Net income	\$ 16,985	\$ 2,318
Weighted average shares outstanding - basic	54,768,324	54,621,818
Dilutive effect of stock options	668,417	226,695
Weighted average shares outstanding - diluted	55,436,741	54,848,513
Income per share		
Basic	\$ 0.31	\$ 0.04
Diluted	\$ 0.31	\$ 0.04

Stock options to acquire 561,000 shares of Sirona's common stock that were granted in connection with the New Plan were not included in the computation of diluted earnings per share for the three months ended December 31, 2007, because the options' underlying exercise prices were greater than the average market price of Sirona's common stock for the period.

11. Product Warranty

The following table provides the changes in the product warranty accrual for the three months ended December 31, 2007 and December 31, 2006:

**Three months ended
December 31,**

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	2007	2006
	\$ 000s	
Balance at beginning of the period	\$ 12,547	\$ 10,879
Accruals for warranties issued during the period	5,442	4,035
Warranty settlements made during the period	(4,921)	(3,412)
Translation adjustment	451	432
Balance at the end of the period	\$ 13,519	\$ 11,934

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12. Pension Plans

Components of net periodic benefit costs are as follows:

	Three months ended	
	December 31,	
	2007	2006
	\$ 000s	
Service cost	\$ 87	\$ 95
Interest cost	654	536
Net periodic benefit cost	\$ 741	\$ 631

13. Segment Reporting

The following tables show the results of the Company's reportable segments under the Company's management reporting system. The segment performance measure used to monitor segment performance is gross profit excluding the impact of the acquisition of control of the Sirona business by Sirona Holdings Luxco S.C.A. (Luxco), a Luxembourg-based holding entity owned by funds managed by Madison Dearborn Partners (MDP), Beecken Petty O'Keefe and management of Sirona, through a leveraged buyout transaction on June 30, 2005 (the MDP Transaction) and the acquisition of Schick (the Exchange). This measure is considered by management to better reflect the performance of each segment as it eliminates the need to allocate centrally incurred costs and significant purchase accounting effects that the Company does not believe to be representative of the performance of the segments. Furthermore, the Company monitors performance geographically by region. As the Company manages its business on both a product and a geographical basis, U.S. GAAP requires segmental disclosure based on product information.

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	Three months ended December 31, 2007 2006	
	\$ 000s	
Revenue external		
Dental CAD/CAM Systems	\$ 61,973	\$ 52,475
Imaging Systems	68,048	58,879
Treatment Centers	44,530	40,572
Instruments	25,550	22,868
Total	\$ 200,101	\$ 174,794

Revenue internal		
Dental CAD/CAM Systems	\$	\$
Imaging Systems	20	52
Treatment Centers	4	2
Instruments	2,830	3,490
Intercompany elimination	(2,854)	(3,544)
Total	\$	\$

Revenue total		
Dental CAD/CAM Systems	\$ 61,973	\$ 52,475
Imaging Systems	68,068	58,931
Treatment Centers	44,534	40,574
Instruments	28,380	26,358
Total	\$ 202,955	\$ 178,338

Segment performance measure		
Dental CAD/CAM Systems	\$ 41,193	\$ 38,521
Imaging Systems	40,939	34,840
Treatment Centers	18,978	16,879
Instruments	11,743	11,047

Total	\$ 112,853	\$ 101,287
Depreciation and amortization expense		
Dental CAD/CAM Systems	\$ 1,008	\$ 579
Imaging Systems	1,200	1,036
Treatment Centers	694	645
Instruments	870	699
Total	\$ 3,772	\$ 2,959

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Reconciliation of the results of the segment performance measure to the consolidated statements of operations

The following table and discussion provide a reconciliation of the total results of operations of the Company's business segments under management reporting to the consolidated financial statements. The differences shown between management reporting and U.S. GAAP for the three month periods ended December 31, 2007 and 2006, are due to the impact of purchase accounting. Purchase accounting effects are not included in gross profit as the Company does not believe these to be representative of the performance of each segment.

Inter-segment transactions are based on amounts which management believes are approximate to the amounts of transactions with unrelated third parties.

	Three months ended December 31, 2007 2006	
	\$ 000s	
Revenue		
Total segments	\$ 200,101	\$ 174,794
Electronic center and corporate	5	5
Consolidated revenue	200,106	174,799
Depreciation and amortization		
Total segments	3,772	2,959
Electronic center and corporate	688	361
Differences management reporting vs. U.S. GAAP	21,663	20,251
Consolidated depreciation and amortization	26,123	23,571
Segment performance measure		
Total segments	112,853	101,287

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Electronic center and corporate	2,138	844
Differences management reporting vs. U.S. GAAP	(20,622)	(18,059)
Consolidated gross profit	94,369	84,072
Selling, general and administrative expense	55,886	47,501
Research and development	13,708	10,280
Provision for doubtful accounts and notes receivable	57	301
Net other operating (income)	(2,500)	(150)
Foreign currency transactions gain, net	(5,886)	(7,066)
Loss/(gain) on derivative instruments	2,218	(491)
Interest expense, net	6,746	8,959
Loss on debt extinguishment		21,145
Income before income taxes and minority interest	\$ 24,140	\$ 3,593

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**ITEM 2. MANAGEMENT'S DISCUSSION
AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS**

Management's Discussion and Analysis of Financial Condition and Results of Operations (the MD&A) should be read in conjunction with the Condensed Consolidated Financial Statements included elsewhere in this report and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

All amounts are reported in thousands of U.S. dollars (\$), except as otherwise disclosed.

This report contains forward-looking statements that involve risk and uncertainties. All statements, other than statements of historical facts, included in this report regarding the Company, its financial position, products, business strategy and plans and objectives of management of the Company for future operations, are forward-looking statements. When used in this report, words such as anticipate, believe, estimate, expect, intend, objectives, plans and similar expressions, or the negatives thereof or variations thereon or comparable terminology as they relate to the Company, its products or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of various factors, including, but not limited to, those contained in the Risk Factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. All forward looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. We undertake no obligation to update or revise forward-looking statements which may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events other than required by law.

Overview

Sirona is a leading manufacturer of high-tech dental equipment. Sirona focuses on developing innovative systems and solutions for dentists globally. Sirona has served equipment dealers

and dentists worldwide for more than 125 years. The Company has its headquarters in Long Island City, New York and in addition the Company has its primary facility in Bensheim, Germany. Sirona manages its business on both a product and geographic basis and has four reporting segments: Dental CAD/CAM Systems, Imaging Systems, Treatment Centers and Instruments. Products from each category are marketed in all geographical sales regions.

Significant Factors that Affect Sirona's Results of Operations

Increased Focus on Sirona's Position in the U.S. Market and Further Global Expansion

The U.S. market is the largest individual market for Sirona. Over the last three fiscal years, bolstered by the Exchange in 2006, Sirona experienced strong revenue growth in the U.S. market, with revenue increasing on average by 35% annually. Several products have generated significant interest in the U.S. market, including, but not limited to, CEREC, Schick imaging products, GALILEOS, the ORTHOPHOS XG line, inLab, inEos, C8+, electrical handpieces and SIROLaser.

Sirona works together with large distributors in the U.S. market, including Patterson Dental and Henry Schein, which accounted for 31% and 16%, respectively, of Sirona's global revenues for the three-month period ended December 31, 2007. The relationship with Henry Schein was expanded beyond the European markets to the United States in January 2005. Patterson Dental made a payment of \$100 million to Sirona in July 2005 in exchange for the exclusive distribution right for CEREC CAD/CAM products in the United States and Canada until 2017. The amount Sirona received was recorded as deferred revenue and has been recognized on a straight-line basis since October 1, 2007.

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Focus on Further Global Expansion

In addition to increased U.S. market penetration, Sirona has pursued expansion in the rest of the world. Over the last three fiscal years, sales in the rest of the world grew on average by 14% annually. To support this growth, Sirona expanded its local presence and distribution channels by establishing new sales and service locations in Spain, France and the United Kingdom in 2004; in Japan and Australia in 2005; in China in 2006; and in Italy in 2007. This expansion resulted in increased sales, gross profit and SG&A expense.

Transactions Accounted for as Business Combinations

The MDP Transaction and the Exchange were accounted for as business combinations and are described in detail in the Company's annual reports on Form 10-K for fiscal year 2007 and 2006.

As a result of these transactions, Sirona's cost of goods sold and SG&A expense have been and will continue to be materially affected by (i) higher depreciation and amortization costs arising from the step-up of Sirona's assets and liabilities to fair value; and (ii) accounting for the Company's stock option plans. Taxes, interest and net income have also been and will continue to be substantially impacted by the structural changes resulting from these business combinations.

IPR&D projects acquired in connection with the Exchange and the MDP Transaction, with fair values of \$6.0 million and \$33.8 million, respectively, were appraised and charged to the income statement at the respective dates of acquisition. The projects acquired in connection with the MDP Transaction primarily related to (i) 3D-Imaging, (ii) enhancements to the CAD/CAM system's hardware and software, (iii) the new treatment center platform and (iv) intra-oral digital imaging. The fair value of \$6.0 million in connection with the Exchange related primarily to the intra-oral digital imaging projects. As of December 31, 2007, the 3D-Imaging and the majority of the CAD/CAM system's enhancements have been completed.

The remaining estimated costs to complete the significant projects at December 31, 2007 were (i) \$0.8 million for an outstanding enhancement to the CAD/CAM system, (ii) \$6.8 million for

the new treatment center platform, and (iii) \$0.3 million for the intra-oral digital imaging projects. The estimated percentages of completion of the significant projects as of December 31, 2007 were (i) 66%; (ii) 70%; and (iii) 90%, respectively.

As of December 31, 2007, (i) the project for enhancements to the CAD/CAM system's hardware and software was more than half way through the product development phase, with the remaining steps prior to the project release phase being the finalization of project development including working models, beta testing and regulatory approvals, (ii) the new treatment center platform was in the product development phase with the remaining steps prior to the product release phase being beta testing and regulatory approvals, and (iii) the intra-oral digital imaging projects were close to completion as specified prior to the Exchange.

It is anticipated that the projects will be completed in fiscal year 2008 and begin to generate cash in the fiscal year following their completion. There are no specific risks and uncertainties associated with these projects; however, the general risks relating to the Company as discussed under "Risk Factors" as set forth in our Form 10-K for the fiscal year ended September 30, 2007 may apply.

Fluctuations in U.S. Dollar/Euro Exchange Rate

Although the U.S. dollar is Sirona's reporting currency, its functional currency varies depending on the country of operation. For the three months ended December 31, 2007, approximately 53% of Sirona's revenue and approximately 77% of its expenses were denominated in Euros. During the periods under review, the U.S. dollar/Euro exchange rate has fluctuated significantly, thereby impacting Sirona's financial results. Between October 1, 2006 and December 31, 2007, the U.S. dollar/Euro exchange rate used to calculate items included in Sirona's financial statements varied from a low of 1.2515 to a high of 1.4854 and as of September 30, 2007 and December 31, 2007 were 1.4187 and 1.4716, respectively. Although Sirona does not apply hedge accounting, Sirona has entered into foreign exchange forward contracts to manage foreign currency exposure. As of December 31, 2007, these contracts had notional amounts totaling \$39.75 million. As these agreements are relatively short-term (generally six months), continued fluctuation in the U.S. dollar could materially affect Sirona's results of operations.

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Certain revenue information under Results of Operations below is presented on a constant currency basis. This information is a non-GAAP financial measure. Sirona supplementally presents revenue on a constant currency basis because it believes this information facilitates a comparison of Sirona's operating results from period to period.

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without regard to changes resulting solely from fluctuations in currency rates. Sirona calculates constant currency revenue growth by comparing current period revenues to prior period revenues with both periods converted at the U.S. dollar/Euro average foreign exchange rate for the current period. The exchange rates used in converting Euro denominated revenues into U.S. \$ in the Company's financial statements prepared in accordance with U.S. GAAP were: \$1.44850 and \$1.28958 for the three months ended December 31, 2007 and 2006, respectively.

Loans made to Sirona under the new senior credit facility entered into November 22, 2006 are denominated in the functional currency of the respective borrowers. See "Liquidity and Capital Resources" for a discussion of our new senior credit facility. However, intercompany loans are denominated in the functional currency of only one of the parties to the loan agreements. Where intercompany loans are of a long-term investment nature, the potential non-cash fluctuations in currency exchange rates are reflected within other comprehensive income. These fluctuations may be significant in any period due to changes in the exchange rates between the Euro and the U.S. dollar.

Fluctuations in Quarterly Operating Results

Sirona's quarterly operating results have varied in the past and are likely to vary in the future. These variations result from a number of factors, many of which are substantially outside its control, including:

the timing of new product introductions by Sirona or its competitors;

the timing of industry trade shows;

seasonal fluctuations;

developments in government reimbursement policies;

changes in product mix;

Sirona's ability to supply products to meet customer demand;

fluctuations in manufacturing costs;

income tax incentives; and

currency fluctuation.

Due to the variations which Sirona has experienced in its quarterly operating results, it does not believe that period-to-period comparisons of results of operations of Sirona are reliable indicators of current and future performance.

Results of Operations

Three Months Ended December 31, 2007 Compared to Three Months Ended December 31, 2006

Revenue for the three months ended December 31, 2007 was \$200.1 million, an increase of \$25.3 million, or 14.5%, as compared with the three months ended December 31, 2006. On a constant currency basis, adjusting for the fluctuations in the U.S. dollar/Euro exchange rate, total revenue increased by 6.0%. Growth rates were 18.1% (up 11.2% on a constant currency basis) for the CAD/CAM Systems segment, 15.6% (up 9.6% on a constant currency basis) for the Imaging Systems segment, 11.7% (up 0.6% on a constant currency basis) for the Instruments segment and 9.8% (down 2.0% on a constant currency basis) for the Treatment Center segment.

The Dental CAD/CAM Systems segment revenue growth was impacted by our new MC XL milling machine, which has been well received in the marketplace. Sales were particularly strong in the European markets. The trade-in program we implemented in the U.S. for existing CEREC users in the fourth quarter of fiscal year 2007 contributed positively to our first quarter revenue development.

The Imaging Systems segment development was attributable to the continued adoption of digital radiography and sales of the 3D digital panoramic imaging unit GALILEOS. While sales of GALILEOS contributed to the increase, the Company has experienced a longer than expected sales cycle, as new 3D product offerings have caused the dental community to take longer to evaluate all of the available options.

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The Instruments and Treatment Center segments faced a challenging year-over-year comparison due to strong sales in Germany in the three month ended December 31, 2006, which was driven by the announced VAT increase which became effective January 1, 2007.

Revenue in the United States for the three months ended December 31, 2007 increased by 3.9% compared with the same period last year driven by the CAD/CAM and the Imaging Systems segments.

Revenue growth in the rest of the world was 20.3%. On a constant currency basis, adjusting for the fluctuations in the U.S. dollar/Euro exchange rate, revenue in the rest of the world increased by 7.1%. The revenue growth in the rest of the world was primarily due to Sirona's expanded presence in Japan, Australia and Italy as well as strong sales in Russia and France.

Cost of Sales

Cost of sales for the three months ended December 31, 2007 was \$105.7 million, an increase of \$15.0 million, or 16.5%, as compared with the three months ended December 31, 2006. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$20.6 million as well as non-cash option expense of \$0.2 million for the three months ended December 31, 2007, compared to amortization and depreciation expense resulting from the step-up to fair values of tangible and intangible assets of \$19.2 million and non-cash option expense of \$0.1 million for the three months ended December 31, 2006. The quarter-over-quarter increase in amortization and depreciation expense mainly resulted from variations in the U.S. dollar / Euro exchange rate. Excluding these amounts, costs of sales as a percentage of revenue increased to 42.4% for the three months ended December 31, 2007 compared with 40.9% for the three months ended December 31, 2006 and gross profit as a percentage of revenue decreased by 1.5 percentage points to 57.6% from 59.1%.

Gross profit margins were negatively impacted by variations in the U.S. dollar/Euro rate as most of the expenses are denominated in Euro, the trade-in-program for the MC XL milling unit and higher manufacturing costs for this unit. This development was partly off-set by a positive impact of the 3D imaging unit

GALILEOS on the gross profit margins and by a favorable product mix in the Treatment Center segment.

Selling, General and Administrative

For the three months ended December 31, 2007, SG&A expense was \$55.9 million, an increase of \$8.4 million, or 17.7%, as compared with the three months ended December 31, 2006. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets of \$1.0 million as well as non-cash option expense in the amount of \$3.2 million for the three months ended December 31, 2007, compared with \$0.9 million and \$2.9 million, respectively, for the three months ended December 31, 2006. Excluding these amounts, as a percentage of revenue, SG&A expense increased to 25.8% for the three months ended December 31, 2007 as compared with 25.0% for the three months ended December 31, 2006. The increase was primarily due to variations in the U.S. dollar/Euro exchange rates as most of the expenses were denominated in Euro and expenses associated with the growth in revenue and with Sirona's expanded presence in various markets, including Italy, Japan and Australia.

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Research and Development

R&D expense for the three months ended December 31, 2007 was \$13.7 million, an increase of \$3.4 million, or 33.3%, as compared with the three months ended December 31, 2006. R&D expense included non-cash stock option expense in the amount of \$0.3 million for the three months ended December 31, 2007 whereas the three months ended December 31, 2006 did not include any non-cash stock option expense. Excluding this amount, as a percentage of revenue, R&D expense increased to 6.7% for the three months ended December 31, 2007, compared with 5.9% for the three months ended December 31, 2006. The quarter-over-quarter increase was primarily driven by variations in the U.S. dollar/Euro exchange rates as most of the expenses were denominated in Euro and expenses reflecting new product developments or product enhancements, with particular focus on the new treatment center platform and GALILEOS.

Gain on Foreign Currency Transactions

Gain on foreign currency transactions for the three months ended December 31, 2007 amounted to \$5.9 million compared to a gain of \$7.1 million for the three months ended December 31, 2006. For the three months ended December 31, 2007 the gain included an unrealized non-cash foreign currency gain of \$3.6 million on the U.S. dollar denominated deferred income, resulting from the translation adjustment of Patterson's exclusivity payment, as well as a non-cash foreign currency gain on U.S. dollar denominated short-term intra-group loans to European entities of \$2.1 million. For the three months ended December 31, 2006 the gain included foreign currency gains upon the repayment of the U.S. dollar denominated bank debt of \$3.9 million and an unrealized non-cash foreign currency gain of \$4.0 million on the U.S. dollar denominated deferred income, resulting from the translation adjustment of Patterson's exclusivity payment, as well as a non-cash foreign currency gain on U.S. dollar denominated short-term intra-group loans to German entities of \$0.6 million.

Loss/(Gain) on Derivative Instruments

Loss on derivative instruments for the three months ended December 31, 2007 amounted to \$2.2 million compared to a gain of \$(0.5) million for the three months ended December 31, 2006.

For the three months ended December 31, 2007 the loss included an unrealized non-cash loss of \$1.7 million on interest swaps, as well as a non-cash loss on foreign currency hedges of \$0.5 million. The gain for the three months ended December 31, 2006 included an unrealized non-cash loss of \$0.2 million on interest swaps, as well as a non-cash gain on foreign currency hedges of \$(0.7) million.

Interest Expense

Net interest expense for the three months ended December 31, 2007 was \$6.7 million, compared to \$9.0 million for the three months ended December 31, 2006. This decrease was primarily due to the Company's refinancing of its previous credit facilities on November 24, 2006 on more favorable terms.

Income Tax Provision

The income tax provision for the three months ended December 31, 2007 was \$7.2 million, compared to \$1.2 million for the three months ended December 31, 2006. For fiscal year 2008, an estimated effective tax rate of 30% has been applied, which is positively impacted by a lower German tax rate and tax planning initiatives. This compares to an effective tax rate of 35% for fiscal year 2007.

Net Income

Sirona's net income for the three months ended December 31, 2007 was \$17.0 million, an increase of \$14.7 million, as compared with the three months ended December 31, 2006. For the three months ended December 31, 2007, amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to the Exchange and the MDP Transaction amounted to \$21.7 million (\$15.2 million net of tax). Furthermore, unrealized, non-cash foreign currency gains on the deferred income from the Patterson exclusivity payment and on short-term intra-group loans amounted to \$5.7 million (\$4.0 million net of tax) and option expense was \$3.7 million (\$2.6 million net of tax). Sirona's net income for the three month period ended December 31, 2007 was also impacted by the reduction of the estimated tax rate for fiscal year 2008 to 30% compared to an estimated tax rate of 35% for fiscal year 2007. Excluding these items, net income increased due to higher revenue, partially offset by higher SG&A and R&D expenses.

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Liquidity and Capital Resources

Historically, Sirona's principal uses of cash, apart from operating requirements, including research and development expenses, have been for interest payments, debt repayment and acquisitions. Periodic capital expenditures have approximately equalled depreciation (excluding any effects from the increased amortization and depreciation expense resulting from the step-up to fair values of Sirona's and Schick's assets and liabilities required under purchase accounting). Sirona's management believes that Sirona's working capital is sufficient for its present requirements.

	Three months ended	
	December 31,	December 31,
	2007	2006
	\$ 000s	
Net cash provided by/(used in) operating activities	\$ 2,637	\$ (3,676)
Net cash (used in) investing activities	(5,212)	(4,692)
Net cash (used in) financing activities	(9,917)	(21,608)
Decrease in cash during the period	\$ (12,492)	\$ (29,976)

Net Cash Provided by/(Used in) Operating Activities

Net cash provided by/(used in) operating activities represents net cash from operations, returns on investments, and payments for interest and taxation.

Net cash provided by/(used in) operating activities was \$2.6 million for the three months ended December 31, 2007 compared to \$(3.7) million for the three months ended December 31, 2006. The primary contributing factors to the increase in cash provided by operating activities were an increase in net income, which was partly off-set by a decrease in accreted interest in the current year quarter by \$7,347 and income tax prepayments of \$6,205.

Net Cash Used in Investing Activities

Net cash used in investing activities represents cash used for capital expenditures, financial investments and long-lived asset disposals. The primary contributors to the investing cash outflow in the periods presented are capital expenditures in the course of normal operating activities.

Net Cash Used in Financing Activities

Net cash used in financing activities was \$9.9 million for the three months ended December 31, 2007, compared to \$21.6 million for the three months ended December 31, 2006. Net cash used in financing activities in the three months ended December 31, 2007 relates to the repayment of the utilized portion of the Company's revolving credit facility. Cash used in financing activities in the three month period ended December 31, 2006 reflected the refinancing of the Company's prior credit facilities as of November 24, 2006.

Sirona's management believes that Sirona's operating cash flows and available cash (including restricted cash), together with its long-term borrowings, will be sufficient to fund its working capital needs, research and development expenses (including but not limited to the acquired in-process research and development), anticipated capital expenditure and debt service requirements for the foreseeable future.

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Capital Resources

Senior Term Loans

On November 22, 2006, Sirona Dental Systems, Inc. entered into a senior credit facility (the Senior Facilities Agreement) as original guarantor, with Schick Technologies, Inc., a New York company and wholly owned subsidiary of Sirona as original borrower and original guarantor, with Sirona Dental Systems GmbH, as original borrower and original guarantor, with Sirona Dental Services GmbH, as original borrower and original guarantor and with Sirona Dental Systems LLC, Sirona Holding GmbH and Sirona Immobilien GmbH as original guarantors. Initial borrowings under the Senior Facilities Agreement plus excess cash were used to retire the outstanding borrowings under the Company's previous credit facilities.

The Senior Facilities Agreement includes: (1) a term loan A1 in an aggregate principal amount of \$150 million (the tranche A1 term loan) available to Sirona's subsidiary, Schick NY, as borrower; (2) a term loan A2 in an aggregate principal amount of Euro 275 million (the tranche A2 term loan) available to Sirona's subsidiary, Sirona Dental Services GmbH, as borrower; and (3) a \$150 million revolving credit facility available to Sirona Dental Systems GmbH, Schick NY and Sirona Dental Services GmbH, as initial borrowers. The revolving credit facility is available for borrowing in Euro, U.S. dollars, Yen or any other freely available currency agreed to by the facility agent. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself. There are no cross-border guarantees since all guarantees are by entities that have the same functional currency as the currency in which the respective guaranteed borrowing is denominated.

Each of the senior term loans has a five year maturity and is to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 15% is due on November 24, 2009, 15% is due on November 24, 2010 and 70% is due on November 24, 2011. At the Company's current leverage multiples, the new facilities bear interest at a margin of 65 basis points plus, in the case of Euro-denominated loans, EURIBOR and,

in the case of other loans, LIBOR.

The Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from November 24, 2007 onwards, the applicable margin will vary between 90 basis points and 45 basis points per annum according to the Company's leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the Senior Facilities Agreement). Interest rate swaps have been established for 66.6% of the interest until March 2010. The interest rate swaps fix the LIBOR or EURIBOR element of interest payable on 66.6% of the principal amount of the loans for defined twelve and thirteen month interest periods over the lifetime of the swaps, respectively. The defined interest rates fixed for each twelve or thirteen month interest period range from 3.50% to 5.24%. Settlement of the swaps is required on a quarterly basis.

The Senior Facilities Agreement contains restrictive covenants that limit Sirona's ability to make loans, make investments (including in joint ventures), incur additional indebtedness, make acquisitions or pay dividends, subject to agreed exceptions. The Company has agreed to certain financial debt covenants in relation to the financing. The covenants stipulate that the Company must maintain certain ratios in respect of interest payments and defined earnings measures. If the Company breaches any of the covenants, the loans will become repayable on demand.

Debt issuance costs of \$5.6 million were incurred in relation to the new financing and were capitalized as deferred charges and are amortized using the effective interest method over the term of the loan.

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Other Financial Data

	Three months ended December 31, 2007 2006	
	\$ 000s	
Net income	\$ 16,985	\$ 2,318
Net interest expense	6,746	8,959
Provision for income taxes	7,242	1,249
Depreciation	3,793	3,623
Amortization	22,329	19,948
 EBITDA	 \$ 57,095	 \$ 36,097

EBITDA is a non-GAAP financial measure that is reconciled to net income, its most directly comparable U.S. GAAP measure, in the accompanying financial tables. EBITDA is defined as net earnings before interest, taxes, depreciation, and amortization. Sirona's management utilizes EBITDA as an operating performance measure in conjunction with U.S. GAAP measures, such as net income and gross margin calculated in conformity with U.S. GAAP. EBITDA should not be considered in isolation or as a substitute for net income prepared in accordance with U.S. GAAP. There are material limitations associated with making the adjustments to Sirona's earnings to calculate EBITDA and using this non-GAAP financial measure. For instance, EBITDA does not include:

interest expense, and because Sirona has borrowed money in order to finance its operations, interest expense is a necessary element of its costs and ability to generate revenue;

depreciation and amortization expense, and because Sirona uses capital and intangible assets, depreciation and amortization expense is a necessary element of its costs and ability to generate revenue; and

tax expense, and because the payment of taxes is part of Sirona's operations, tax expense is a necessary element of costs and

impacts Sirona's ability to operate. In addition, other companies may define EBITDA differently. EBITDA, as well as the other information in this filing, should be read in conjunction with Sirona's consolidated financial statements and footnotes.

In addition to EBITDA, the accompanying financial tables also set forth certain supplementary information that Sirona believes is useful for investors in evaluating Sirona's underlying operations. This supplemental information includes gains/losses recorded in the periods presented which relate to the early extinguishment of debt, share based compensation, revaluation of dollar-denominated exclusivity payment and borrowings where the functional currency is Euro, and the Exchange. Sirona's management believes that these items are either nonrecurring or noncash in nature, and should be considered by investors in assessing Sirona's financial condition, operating performance and underlying strength.

Sirona's management uses EBITDA together with this supplemental information as an integral part of its reporting and planning processes and as one of the primary measures to, among other things:

- (i) monitor and evaluate the performance of Sirona's business operations;
- (ii) facilitate management's internal comparisons of the historical operating performance of Sirona's business operations;
- (iii) facilitate management's external comparisons of the results of its overall business to the historical operating performance of other companies that may have different capital structures and debt levels;
- (iv) analyze and evaluate financial and strategic planning decisions regarding future operating investments; and

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(v) plan for and prepare future annual operating budgets and determine appropriate levels of operating investments. Sirona's management believes that EBITDA and the supplemental information provided is useful to investors as it provides them with disclosures of Sirona's operating results on the same basis as that used by Sirona's management.

Supplemental Information

	Three months ended December 31, 2007 2006	
	\$ 000s	
Loss on debt extinguishment	\$	\$ 21,145
Share-based compensation	3,660	3,076
Unrealized, non-cash (gain) on revaluation of the carrying value of the \$-denominated exclusivity fee	(3,631)	(3,954)
Foreign currency exchange (gain) on the early extinguishment of \$-denominated bank debt		(3,885)
Unrealized, non-cash (gain) on revaluation of the carrying value of short-term intra-group loans	(2,110)	(591)
	\$ (2,081)	\$ 15,791

Recently Issued Accounting Pronouncements

See note 2 to the unaudited condensed consolidated financial statements for discussion of recently issued accounting pronouncements that have not yet been adopted.

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**ITEM 3. QUANTITATIVE AND
QUALITATIVE DISCLOSURES
ABOUT MARKET RISK**

There have been no material changes to the Company's market risk since September 30, 2007.

**ITEM 4. CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and
Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as of December 31, 2007. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2007, the Company's disclosure controls and procedures were effective. Our disclosure controls and procedures are designed to ensure that information relating to the Company, including our consolidated subsidiaries, that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Commission's rules and forms.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II.

ITEM 1. LEGAL PROCEEDINGS

There are currently no material legal proceedings pending.

ITEM 1A. RISK FACTORS

There are no material changes from risk factors as previously disclosed by the Company in Part I, Item 1A of its 2007 Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF
EQUITY SECURITIES AND USE
OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR
SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO
A VOTE OF SECURITY
HOLDERS**

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following Exhibits are included in this report:

Exhibit No.	Item Title
31.1	Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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- 31.2 Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Section 1350 Certification of Chief Executive Officer.
- 32.2 Section 1350 Certification of Chief Financial Officer.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 8, 2008

Sirona Dental
Systems, Inc.

By: /s/ Simone
Blank
Simone Blank,
Executive
Vice President

and Chief
Financial
Officer

(Principal
Financial and
Accounting
Officer)

(Duly
authorized
signatory)