

## Unilever Q2 and First Half Year Results

Presentation and video cast

London 10 am GMT, Thursday 31<sup>st</sup> July, 2008

Patrick Cescau, Group Chief Executive

Jim Lawrence, Chief Financial Officer

**Patrick Cescau, Group Chief Executive**

### *Chart 1: Q2 and First Half Year 2008 Results*

Good morning everyone. Welcome to Unilever's Quarter 2 and Half Year 2008 Results presentation.

I am joined this morning by Jim Lawrence, our Chief Financial Officer, and also by John Rothenberg. It is a pleasure to introduce today his successor James Allison, our new Head of Investor Relations, who is taking over from John.

In the audience are Vindi Banga, President Foods, Home & Personal Care; Harish Manwani, President Asia Africa CEE; and Professor Genevieve Berger, our newly appointed Chief R&D Officer.

### *Chart 2: Safe Harbour Statement*

As usual, I draw your attention to the disclaimer relating to forward looking statements and non-GAAP measures. This disclaimer is included here and will be posted with the text of this presentation on Unilever's website.

### *Chart 3: Business Priorities*

In a moment, Jim will take you through the details of the results for Q2 and the half year.

But first, let me remind you of **the priorities** we set out at the beginning of the year:

- First and foremost to maintain our competitiveness in the market place and deliver consistent top-line growth
- Second, to drive for sustainable margin improvement, keeping us on track to deliver our longer-term financial goals
- And third, to gain market share where the opportunity arises and where the return on investment is attractive

### *Chart 4: Key Messages*

Measured against these priorities, the **performance** in the first half has been good, with...

- Organic sales growth of 7.0 % and aggregate growth broadly in line with our markets, and
- An underlying operating margin improvement of 40 bps

We have achieved this despite operating in a **more challenging environment**. We have faced two particularly strong headwinds:

- A continuing escalation in commodity costs, mainly driven by mineral and edible oil price rises. This has added 550 basis points of additional cost in Q2 versus the prior year – somewhat more than we had expected.
- And there has been a softening in consumer volumes, especially in developed markets.

There are a number of reasons why our business has continued to perform well in this environment.

**First**, we have stuck to a very clear **strategy**, based around directing resources to our most attractive opportunities – including D&E, Personal Care, and initiatives which support Unilever’s mission of adding Vitality to Life

So, in the first half, for example, we have seen...

- growth in D&E countries ahead of the market, with a good mix of price and volume. Growth was broad-based, with good contributions from Latin America and from CEE.
- we have also grown ahead of the market in Personal Care – with more than half of the incremental A&P spending going behind our Personal Care brands.
- in total we supported our brands with some €100m of additional in-market advertising spend, maintaining our share of voice.
- and in the last six months we have made progress in reshaping the portfolio for long-term growth.....
  - Firstly, with the previously announced disposals of Lawry’s and Boursin, at attractive prices.

- Then, in the last two weeks, we have announced the disposal of Bertolli and our North American Laundry business

Both in line with strategy, and both representing good value for our shareholders.

- at the same time we have demonstrated – with Inmarko in Russia – that we will add bolt-on acquisitions which support our strategic priorities.

The second reason why our performance has been good in the first half is that we have benefited significantly from the **transformation** of the business – a process, you may recall, that we promised to accelerate when we reported to you this time last year.

Unilever today is a much more agile and responsive business than ever before. An agility that has been very valuable in responding quickly to changing economic circumstances.

We see that reflected in a number of aspects of the first half performance.

Hence...

- We have continued to drive productivity improvements with savings in the quarter of 250 bps – up from 200 bps in Q1, and firmly on track to deliver €1 billion in the year. These have helped us to mitigate some of the impact of input cost inflation and to remain price competitive.
- We have been able to move decisively in taking pricing action to recover input cost inflation. Our brands are strong and we have often led the way.... Moreover our price increases are sticking.

- And we have also seen continued benefits from our capability-building programme, whether in ...
  - Marketing, where we have won 18 lions at the prestigious Cannes advertising awards – four of them gold!
  - or in our ‘Win with Customers’ programme,
  - or in the greater emphasis we are giving to science and technology. This is something that has always underpinned our innovation programme. But this will now be further strengthened with the appointment of Professor Geneviève Berger as Chief R&D Officer.

A third reason we have been able to remain competitive is that we have adjusted our Go-to-Market tactics to accommodate the external environment. Examples include:

- Moving pack sizes down to maintain critical price points. At the same time offering larger economy packs with lower price per usage.
- Price ‘tiering’ – providing products across a wide range of consumer income levels – straddling the price pyramid.
- Driving new product forms that consumers prefer, but, at the same time, contain less oil or packaging material. Hellmann’s Light Mayonnaise and our range of Small and Mighty concentrated detergents are excellent examples.
- Tailoring our activities to capture broader channel opportunities

That said, whilst the performance overall has been good, there are some areas where we have not progressed as much as we wanted.....

In Europe, volumes were down 2.9% in the second quarter. This is partly explained by Ice Cream, where volumes are sharply lower despite share gains.

But there is no doubt that markets are softer. Price increases required to cover input cost inflation have been implemented in all categories.

The price increases have been particularly acute in Spreads, and this is where the volume reduction has been highest – excluding ice cream

Our cash flow performance is behind last year. This is working-capital-related and Jim will come back to this later in the presentation.

So, in summary, we are focussed on our priorities and we continue to progress our strategy and transformation programme.

Our business is leaner and more agile than before – better able to respond to markets which are difficult to predict. We have had a good first half and we are on track to meet our guidance for the year.

With these opening remarks, I will now handover to Jim to take you through the details :

**Jim Lawrence, Chief Financial Officer**

*Chart 5: Strong Organic Growth*

Thanks Patrick. Good morning everyone.

Let me start by reviewing top line performance.

Underlying sales growth in Q2 was 6.8% driven by price increases of 7.4%.

Underlying volume growth was down 50 basis points but marginally positive when adjusted for sales that were pulled forward in the US prior to the major systems implementation in July of last year.

Pricing has continued to rise steadily as we have taken steps to recover commodity cost increases. There has been some volume impact in some markets but particularly in North America and Europe.

Underlying sales growth in our D&E countries picked up further to 15% in Q2 with just over 4% coming from volume.

Growth has been broad based across all categories. Every category grew in excess of 5 % in the first half.

Turnover in Q2 was €10.4 billion, which is 1.4% behind last year. There was an adverse currency effect of 7.1% as well as a 0.6% increase from acquisitions offset by a 1.3% reduction from disposals.

The adverse currency effect reflects the continued strengthening of the Euro, our reporting currency, against a wide range of currencies, including the US dollar and sterling.

This left turnover for the half year at €19.9 billion, 0.5% below the same period last year.

Turning now to Europe.

### *Chart 6: Europe*

Underlying Sales Growth was 2.3% in both the quarter and the half year. This is slightly behind the growth of our markets. But it's a tale of two parts.

Central and Eastern Europe continued to grow strongly. Half year organic growth was 10%, equally split between volume and price. Russia continues to perform strongly growing over 17%.

In Western Europe growth was 1.4% in the quarter and 1.3% in the first half with volume down 3.7% in Q2 and down by 2.5% for the half year.

Volumes in the second quarter were significantly affected by the poor start to the Ice cream season and the 50 basis points impact of sales pulled forward into Q1 mentioned last quarter.

And as Patrick has already mentioned, substantial price increases and the prevailing impact on consumer incomes have also led to lower volumes.

In Foods we have seen acceleration in market growth driven by pricing. Here we have lost some share to private label in countries such as France and Spain, but not in others such as the UK.

In Home Care and Personal Care markets are down but our share has been maintained.

We will continue to take pricing action where necessary, but not to the extent that we lose competitiveness in markets and categories which are strategically important.

And, importantly, we are beginning to see the benefits of the transformation programme coming through in margin. Underlying operating margin (before the impact of restructuring and disposals) was 130bps higher in Q2 and 100bps higher in the half year.

With our change programme making good progress and with the newly appointed Doug Baillie taking responsibility specifically for Western Europe, we are ready to step up our efforts to drive top line growth.

Turning to the Americas.

#### *Chart 7: Americas*

Underlying sales growth was 4.9% in the quarter and 5.7% in the half year.

This is against a prior year comparator which was inflated by additional sales in June 2007 ahead of the system implementation in the US.

This impacts the Americas sales performance by around 2% in the quarter and by 1% for the half year. The impact on US performance was over 3% in the quarter and around 1.5% in the half year.

Adjusting for this effect, which reverses in July, organic sales growth in the US would be around 4% for Q2 and for the half year, again driven by price.

Our own growth has been slightly ahead of the market trend. Market volumes are weak but we have not seen any significant down-trading across our categories.

Sales growth in Latin America was 13% in the quarter and 11% for the half-year, with good performance in all the major countries including Brazil and particularly strong volume growth in Mexico.

In terms of profitability, there was an underlying reduction in Operating Margin of 60 basis points in the first half. Whilst the combination of pricing and savings have covered commodity cost increases in absolute terms this has not been sufficient to maintain margins.

Moving to Asia Africa:

#### *Chart 8: Asia Africa*

Underlying sales growth was 15.1% in Q2 and 14.7% for the first half year, with volume growth remaining strong at 5.7% for the half year and 4.1% for the quarter.

This strong performance is broad-based, with India, China, Indonesia and Turkey each posting growth of around 20% for the first half. South Africa grew 15 %, all price, as volumes were held back because of supply chain constraints.

Performances in Japan and Australia were soft.

Underlying operating margin for the first half year is up by 80 basis points, reflecting the impact of scale, with pricing and savings largely covering cost increases.

Let me now turn to our categories and the innovation review.

### *Chart 9: Savoury, Dressings and Spreads*

Savoury, Dressings and Spreads grew by 8.7% in the first half of 2008 up from 3.8% in the first half of 2007 and reflecting substantial price increases across Dressings and Spreads

A combination of vitality-focused product launches and global health campaigns has driven growth. Examples include:

- Our family spreads brands, such as Rama and Blue Band, grew, strongly supported by the “goodness of margarine” campaign, educating consumers on the role of essential oils.
- Hellmann’s Light mayonnaise continues to perform very well, utilising new technology to provide great taste at lower oil content. In Europe, we have launched Hellmann’s mayonnaise with Free Range Eggs as part of the ‘It’s time for **real** food’ campaign.
- In the US, the new Mediterranean flavours for Bertolli frozen offer consumers authentic, restaurant-quality Italian meals ‘right at home’ and are proving to be a great success.

### *Chart 10: Ice Cream and Beverages*

Ice-cream and beverages grew over 5% in the first half of 2008, in spite of lower ice cream sales in Europe. In the same period last year, our Ice Cream sales in Europe were up 6%.

Looking first at beverages, we have seen:

- Strong, broad-based double-digit growth of the Lipton brand. New launches include the roll-out of Clear Green teas to further markets, Lipton premium pyramid bags in CEE, and the Lipton range bearing the Rainforest Alliance seal in over 12 countries.

And in Ice Cream:

- We continue to gain market share in Europe, supported by exciting new launches including Magnum Minis and Magnum Temptations. In Asia we have launched the new Cornetto Disc variant and this is driving considerable growth.
- And we are expanding the repertoire of Ben and Jerry's in Europe with 'Fro- Yo' - a new frozen yoghurt range`. This is under the banner of 'More Love, Less Handle'.

### *Chart 11: Home Care*

Home Care had a strong first half year, with growth of 8%, up over 2 percentage points on the same period last year.

- Small & Mighty super-concentrated liquid detergents have been rolled out across Europe under the Dirt is Good Brand, which has grown share.
- The global "Every child has the Right" campaign was successfully launched, taking up the cause of diminishing childhood in the modern world. This campaign also supports the Dirt is Good Brand
- In household cleaners, we introduced new CIF with effervescent technology and Domestos Grotbuster, "destroying grot everywhere it lurks".

### *Chart 12: Laundry – D&E*

- Our laundry business in D&E has grown by 15% in the first half of 2008
- Here our brands straddle the price pyramid, catering to consumers at specific, different income levels. For example, in India, our brands Wheel, Rin and Surf all delivered double-digit growth.
- In Brazil, our brands at the higher price point (Omo) and at the entry price point (Surf) have grown at double digit rates, more than compensating for the flat sales of mid tier brand Brilhante to deliver strong overall sales growth.

And in Personal Care

### *Chart 13: Personal Care*

Underlying Sales Growth was 5.7% in the first half of 2008.

This couldn't match last year's 7.9%, because of weaker market conditions in both North America and Europe.

- Deodorants grew strongly through technology driven innovations:
  - upside-down Rexona and Dove deodorant roll-ons
  - new Rexona for Men deodorants, unbeaten in dryness
  - And the new variant Axe Chocolate is shaping up to be the most successful ever!

- We have just launched our No.1 deodorant brand Rexona in China. More than 85% of Chinese women are already pre-disposed to adopt the deo habit and we are confident that we will turn this market into another Unilever deo stronghold.
- Dove “Go Fresh” continues to perform well globally. We have also launched, in the US and in the UK, Vaseline for Men face and body care range specifically formulated to fortify men’s skin to keep it looking and feeling healthy.
- Lifebuoy grew double digit with a range of affordable shower gels, hand wash, and bars, providing users a “gold standard in germ kill without compromising on fragrance”.
- In Asia the Ponds brand has been transformed around the core essence of Ponds with leading anti-ageing and skin lightening technology. Supported at the point of sale in store with highly trained personnel.

And Clear continues to grow strongly in the key markets where we have launched.

In summary, a strong innovation programme focused on our key strengths – health and wellness, superior technology and the ability to rapidly deploy to new markets.

That covers the drivers of our top-line performance. Let me now turn to other aspects of our financial performance, starting with the operating margin.

#### *Chart 14: Q2 Operating Margin Development*

The second quarter operating margin, at 13.2%, was 50 basis points lower than last year

Restructuring costs were higher this year than last and, with no significant impact from disposal profits, there was an underlying improvement of 50 basis points.

Advertising spend increased in the quarter by about €35 million at constant exchange rates.

Promotional spending was lower. This is a result of two things:

- First, intense promotional activity is not sensible at a time when price increases are being implemented in the market.
- Second, we are driving promotional effectiveness, leveraging global programmes and improving the return on investment.

With the added benefit of the higher sales, advertising as a percentage of sales was 20 basis points lower than last year, with promotional spending down by 50 basis points, making 70 basis points in total.

Savings programmes accelerated in the second quarter and contributed 250 basis points to the operating margin.

These mostly offset a shortfall between price, mix and costs.

So far, we have been reviewing the component parts of operating margin in percentage terms. Now, let's look at what's happening in absolute terms.

#### *Chart 15: Q2 Drivers of Operating Profit*

Here are the drivers of underlying profit change in the quarter, measured in constant exchange rates:

- The contribution from a better mix was fully offset by the impact of lower volumes.

- Price increases contributed around €750 million
- Commodity costs increased by around €600 million and I'll give you some more detail on this in a moment.
- Other cost increases, such as energy in factories, salary inflation and so on, have added a further €250 million.

So, as you can see, price increases recovered about 90% of the cost increases in absolute terms, leaving a shortfall of around €100 million.

- Savings programmes accelerated in the quarter, delivering close to €300 million to make up all of the gap and more.
- And the advertising increase of €35 million was partly offset by lower promotions.

This left an underlying increase in operating profit of about €170 million, or about 11%, in the second quarter of 2008 versus the second quarter of 2007.

Now let me briefly take you through the half year performance.

#### *Chart 16: H1 Operating Margin Development*

The operating margin development for the first half year shows a very similar pattern to the second quarter.

Here you can see it in percentage terms. An underlying improvement of 40 basis points, with savings matching the shortfall between cost, price and mix.

Again, let's look at the key drivers in absolute terms.

### *Chart 17: H1 Drivers of Operating Profit*

Volume growth and mix contributed a little over €100 million.

Price increases contributed some €1.2 billion.

Commodity costs have increased by around €1.0 billion, with other cost increases adding a further €400 million.

Savings programmes have delivered nearly €500 million.

The advertising increase of close to €100million was only partly offset by a small reduction in promotions.

This leaves an underlying increase in operating profit, half year on half year, of some €300 million, or about 10%.

Commodity costs obviously stand out, so let's look at what is happening in a bit more detail.

### *Chart 18: Commodity Cost Impact on Margin*

There has been a further acceleration in input costs in the quarter. Commodity cost increases of close to 20% resulted in an impact of around 550 basis points in quarter two taking the first half impact to 480 basis points

There are two main drivers to this year on year increase:

- the price of mineral oil which particularly affects plastics, petro-chemicals and transport,

- and edible oils as we started to consume materials purchased on higher priced forward covers.

The size of the increase in the second quarter was a little more than we expected.

Let's look first of all at mineral oils.

#### *Chart 19: Commodity Costs - Mineral Oils*

Here you can see the spot price for mineral oil in the market.

Mineral oil has been at or around \$130 - \$140 per barrel for most of the second quarter, some 40% higher than only three months earlier and double the level of this time last year.

A number of other mineral oil related materials saw even sharper rises.

Hence, mineral oil is going to impact our cost development for some time to come, notwithstanding the very recent easing.

#### *Chart 20: Commodity Costs – Edible Oils*

As you can see from the chart, the spot prices for edible oils seem to have stabilised in recent months, albeit at a high absolute level.

If current trends continue, this will provide some stability to our input costs going into 2009. In the second half of 2008 consumption prices will continue to rise as we work through our covers.

Turning to the overall outlook.

### *Chart 21: Commodity Cost Outlook*

We now expect commodity cost increases of around 600 basis points for the second half, resulting in an increase of around 550 basis points for the full year..

The development of the mineral oil price will of course influence where we end up, as well as setting the level of price increases needed by ourselves and the rest of the industry.

Let's now look at Earnings Per Share.

### *Chart 22: H1 Drivers of EPS Growth*

Earnings per share grew by 6% to €0.79 in the first half year.

The graph here summarizes the various key drivers for EPS growth.

First of all the operational drivers – underlying sales growth and underlying margin improvement – together contributed 10% to our EPS growth.

There was a positive 8% contribution from RDIs, more than offset by the 6% negative impact of currency and a similar sized impact from the much lower prior year tax comparator.

### *Chart 23: H1 Cash Flow and Balance Sheet*

We continued to have a strong balance sheet, which was recently re-affirmed as A1 by credit rating agency Moody's and A+ by S&P.

And we continue to return cash to shareholders. To the end of June, we have paid out €1.2 billion in dividends and we had repurchased €1.1 billion of shares.

Our net pension liability at the end of June reduced slightly to €1 billion. This is because reductions in asset values were offset by the beneficial effect of higher corporate bond yields used to discount liabilities.

*Chart 24: H1 Cash Flow and Balance Sheet*

Net debt has increased to €10.2billion at the end of June.

Cash flow from operating activities in the half year was €0.9 billion, down €0.8 billion on 2007 and a result of higher working capital outflow. Patrick alluded to this earlier in the presentation.

Whilst some of this can be explained by:

- input cost inflation and higher selling prices
- stock builds to support the change programme and
- calendar effects

Working capital levels are higher than we would have liked. We know how to fix this and you can expect to see improvements in the second half of 2008.

We have a strong track record in terms of managing and reducing our working capital. Over the last 10 years, Unilever's working capital as a percentage of sales has shown a continuously downward trend – from around 9% to close to 2%. It is my intention to see this downward trend continuing in the back half of this year.

Now let me turn to a review of our progress in accelerating the transformation of Unilever. This was announced one year ago.

### *Chart 25: Accelerating the Transformation*

We set out to accelerate change in three ways:

- To innovate more effectively, simplifying and leveraging our global scale
- To shape the portfolio, including disposals of businesses with more than €2 billion turnover
- To accelerate margin improvement, reducing the cost base by €1.5 billion by exit 2010 (against the 2006 base)

Let's look at how we are progressing.

### *Chart 26: Progress to Date*

- I have already shown some of the innovations we have brought to the market recently and Patrick described what is being done to further advance innovation capability. Those of you joining our investor event in November will have the opportunity to see much more than.

So, let me cover now, the other two points:

- We have made good progress **Shaping our Portfolio**
  - Over 75% of the disposal programme has been completed

- We have disposed of businesses with a combined turnover of €1.5 billion at an average sales multiple of around 1.8 times. There is likely to be some margin dilution from these disposals in 2009, due to residual uncovered overheads. But this will be of a short term nature.
- And we have acquired the Inmarko ice cream business in Russia and will acquire a West African soap business as part of our portfolio realignment in the Ivory Coast
- Our **restructuring programmes** are firmly on track :
  - We have announced or completed 23 factory closures globally and have announced the streamlining of 28 more.
  - €450 million cost savings have been delivered, with €1.2 billion in restructuring charges taken so far.
  - We have fewer interfaces and touch points. We now have one category organisation serving 29 multi-country organisations.

We are satisfied with the progress we have made, and happy that we started when we did and we are determined to deliver what we promised – and more.

Now, before I return to Patrick, let me say a few words about how we intend to utilise the cash from disposals.

#### *Chart 27: Use of Cash*

By the end of this week we will have bought back shares to the value of €1.5 billion  
At the same time we reiterate our commitment to our strong single A credit rating.

Our priorities for the use of cash are:

- First, capital expenditure and restructuring, which enable us to grow the business or to improve margins.
- Second, any value adding bolt-on acquisitions
- And third, returning capital to shareholders in the form of dividends and share buy-backs.

Yesterday regulatory approval was given for McCormick's to acquire our Lawry's business in North America and we plan to close this transaction later today, in line with our expectations.

In the last two weeks, we have announced the disposal of our Bertolli olive oil business and our North American laundry business.

So, additional cash will be generated on the completion of these deals but we are unlikely to see most of this until Quarter 4.

We will update you on how we intend to use additional cash from disposals in due course.

And with that I would like to pass you back to Patrick, for his closing remarks.

### *Chart 28: Outlook*

Thanks Jim.

Let me summarise.

- Our strategy is working, and working in a tougher economic environment

- Our priorities are clear:
  - To maintain our competitiveness in the market place and deliver consistent top-line growth
  - To improve Operating Margin, keeping us on track to deliver our longer term financial goals
  - And to gain market share where the opportunity arises and where the return on investment is attractive

It is likely that today's challenging environment will persist for some time. But we believe that we are well placed:

- Strong Brands – with nearly half of our top 25 brands posting double digit growth.
- A broad geographic footprint
- Products which meet the everyday needs of consumers and which straddle a wide variety of price points.
- A more nimble, more agile, more focussed company which is able to respond more quickly and act more decisively than ever before.

And we have experience of managing big businesses through very volatile periods. Since 1990 the average annual growth rate of our businesses in D&E has been around 9% with volume growth positive in every single year.

And this has been through many difficult and turbulent times in different countries – in Indonesia, Russia, Mexico, Brazil, and Argentina to name just a few.

We are fully aware of the challenges and we will be vigilant in our responses.

So, all in all, a good first half year, clear priorities going forward and we reconfirm previous guidance for full year 2008:

- Underlying sales growth in excess of our 3-5% target range with an underlying improvement in operating margin.

With that ladies and gentlemen, I will conclude my remarks and open the floor and the wires, to Q&As.

### *Chart 29: Q&A*

#### Safe Harbour Statement

This presentation 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 'expects', 'anticipates', 'intends' or the negative of these terms and other similar expressions of future performance or results, including financial objectives to 2010, 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. 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, including, among others, competitive pricing and activities, consumption levels, costs, the ability to maintain and manage key customer relationships and supply chain sources, currency values, interest rates, the ability to integrate acquisitions and complete planned divestitures, physical risks, environmental risks, the ability to manage regulatory, tax and legal matters and resolve pending matters within current estimates, legislative, fiscal and regulatory developments, political, economic and social conditions in the geographic markets where the Group operates and new or changed priorities of the Boards. 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 Annual Report & Accounts on Form 20-F. These forward-looking statements speak only as of the date of this presentation