UNILEVER RESULTS PRESENTATION FOR Q2
Conference Call, Thursday 4th August

John Rothenberg – SVP Investor Relations

Chart 1 – Title and Safe Harbour

Good morning and welcome to Unilever's Q2 Conference Call.

I am here with Unilever's CEO, Patrick Cescau and our CFO, Rudy Markham.

Patrick is going to kick off by giving his perspective on where we are at the half year. Rudy will then take you through the results in a bit more detail and we will then take your questions as usual.

Before passing over to Patrick, I would just like to draw your attention to the usual disclaimer relating to forward looking statements, which is included in chart 1 and will be posted with the text of this presentation on Unilever's web-site.

I would also like to point out that, following the sale of the UCI prestige fragrance business to Coty on 11th July, under IFRS, the business is reported under discontinued operations in both the current and prior year results. The profit generated by this disposal will be taken to results in Q3.

With that, I shall now hand over to Patrick.

Patrick Cescau – Unilever CEO

Good morning everyone.

As John mentioned, I want to take this opportunity to share with you my impressions of how things are going.

Turning to chart 2.

Chart 2 – Progress Towards Recovery

I should say from the outset that I am more than a little disappointed to have to share with you a set of results that include a further write-down on *Slim*Fast*. Rudy will talk about this later, but I can assure you that we are doing what is necessary to ensure that we rebuild this small but still valuable part of our business.

We should not let this disappointment cloud the bigger picture where we can report some real progress on the road to recovery.

Back in February, I said that my most immediate task was to return this business to growth. To do this, we would have to raise our game, improve our competitiveness in the marketplace, and reverse the share losses that we had been suffering during the latter half of 2003 and through 2004.

At the same time, I announced major changes in our organisation and top team. These changes had two aims.

First, to create a small, empowered executive team under my leadership, with shortened reporting lines into our major markets.

Second, to sharpen responsibility and accountability between those responsible for developing brilliant marketing mixes - the Categories, and those responsible for excellence in 'Go to Market' operations - the Regions.

These changes have been rapidly implemented. The Unilever Executive was up and running by the beginning of April, and by the end of April, we had made over 100 senior appointments within the new organisation.

It is still early days but there are clear signs that the changes we are making in the business are gaining traction.

As I review progress with my top team, and visit our operations around the world, I see increasing evidence that the focus on competitiveness is translating into more and better innovation, into keener pricing of our products and sharper execution in the way in which we bring our brands and innovations to the market.

This is starting to show through in our top-line. The 3.3% volume driven sales growth we posted in Q2 is a meaningful improvement in our growth performance, coming on top of an improving trend in each of the previous two quarters.

The acid test for our competitiveness lies in our market shares. Since the beginning of the year, our market shares have stabilised and even increased slightly in some important battle grounds around the world.

We have increased investment to bring about this improvement.

Our pricing is flat at the half year, at a time when input costs have risen significantly and after a year of price decreases in 2004. We are investing more in in-store activity and have made a number of decisive moves to improve our price positioning where this is appropriate.

At the same time, we have increased advertising and promotional expenditure in a disciplined way behind our business priorities, in each of the past 3 quarters.

We have also focused resources and management effort behind an innovation plan that is significantly stronger in terms of quantity and quality and that will be sustained through the 2nd half.

Cost pressure caused by higher commodity costs is an issue that is affecting the whole of our industry. The good news is that, so far, we have been able to limit the impact on our margin of both higher input costs and our increased investment in competitiveness thanks to improving business mix and the benefits of our savings programmes.

Our procurement programmes continue to deliver a steady flow of savings and our One Unilever programme is starting to impact favourably on our administrative costs. And there is more to come.

I have previously indicated that, while we believe we have the right portfolio going forward, we will continue to act to improve it where shareholder value can be enhanced. John has already mentioned the UCI disposal, which will generate a pre-tax profit of around €450m in the 3rd quarter. This was the right decision at the right time and at the right price.

So, *Slim*Fast* aside, I am pleased with the way that our business has developed in the first half of 2005.

That does not mean that I am complacent. We are still at a relatively early stage of our recovery plan.

The new executive team has been in place for only a few months and there is still a considerable amount of work to be done to strengthen our marketing and innovation and to achieve a consistently high level of operational performance across the business. There are still important parts of our business where our competitive performance is below par, most notably in Europe.

So, in summary, encouraged by our progress to date – yes.

Confident that we are on the road to recovery – yes.

Congratulating ourselves on a job well done – certainly not yet.

I will now ask Rudy to go into a little more detail on our performance in Q2 and for the half year, and to add a little more colour to our assessment of progress towards recovery.

Rudy Markham – Unilever CFO

Thanks Patrick.

Turning to chart 3, I would first like to say a few words about our trading environment.

Chart 3 – Trading Environment

Looking across the world, I would have to say that there has been little or no change in market conditions since the start of 2005, and no obvious signs of a changes to come.

Developing and Emerging markets remain buoyant and consumer demand is steady in North America.

Western Europe remains difficult, with weak consumer demand and no let up in the price competition between retailers.

In aggregate, we estimate the growth rate of the categories and regions in which we are growing at between 3 and 3.5%. Within this, our European markets are flat, North America is growing at around 2.5 to 3%, with the Rest of the World making up the difference.

Commodity costs continue the trend of previous quarters.

Edible oil and other key agricultural commodity prices are lower year-on-year, but this is more than cancelled out by the higher mineral oil price, affecting particularly HPC raw materials, packaging and distribution.

In the 1st half, Unilever absorbed around €275m of additional material and distribution costs, equivalent to a year-on year increase of around 4%.

A number of consumer products companies have commented on the difficulty of raising prices to recover input cost inflation, and we see a similar picture across many markets, but especially in Europe.

In spite of the consequent pressure on margins, we see little signs of a reduction in support levels within the industry.

Against this background, I now turn to chart 4 and the drivers of our top-line growth.

Chart 4 – Q2 Underlying Sales Growth

As Patrick mentioned, our underlying sales growth of 3.3% in the 2nd quarter represents the third quarter in a row of improving like-for-like growth, coming on top of 1% in Q4 2004 and 2% last quarter.

We are particularly pleased with the quality of this growth, which is entirely volume driven and reflects a much better share performance across our categories. Our global market shares in both Foods and HPC have stabilised since the beginning of the year. We take this as a clear indication that we have indeed improved our level of competitiveness compared with 2004.

A key driver of improvement has been the strengthening of our innovation programme during 2005. We have increased both the quality and rate of our innovation in 2005 across both Foods and HPC.

Vitality driven innovation like the new *Flora* pro.activ mini drinks that we have just launched in the UK and Portugal. Following on the success of our cholesterol lowering products, these new products incorporate naturally occurring milk peptides which have been scientifically shown to help control blood pressure as part of a healthy diet. We are first to market with this technology and it is yet another example of the consistent flow of innovation that has driven our *Flora*/*Becel* heart health brand to double digit growth during 2005.

We have also got better at exploiting our successes.

Thus, our 'Dirt is Good' initiative in Fabric Cleaning, that has proven so successful in Latin America, is being rolled out with renewed vigour and determination across Europe and Asia. This has led to double-digit growth of *Omo*, and is an important contributor to the nearly 5% growth in Home Care in the quarter.

We have also been working hard to ensure that our products offer value to our consumers.

We took pricing action in a number of categories and markets during 2004, for example in Laundry and Hair in India, and in Spreads in Europe. We continue to monitor the price positioning of our product offerings carefully, making adjustments where we believe it is necessary.

Turning to chart 5, I would now like to run quickly through our business priorities for 2005 starting with D&E markets.

Chart 5 – Building on Strengths: D&E

Our D&E markets, which contribute around 35% of our sales, grew by over 10% in Q2, with a strong contribution from almost every major market across Latin America, Asia, Africa and Central and Eastern Europe. So far this year, these markets have delivered almost €650m in incremental turnover and as such, are once again a key engine of growth for Unilever.

The key to unlocking the potential of our D&E businesses has been better innovation targeting the vitality needs of local consumers, as well as leveraging our distribution reach in both the modern and traditional trade.

Our *Omo* Laundry brand has performed particularly well across our D&E world, through a combination of great innovation and excellent brand activation.

In Turkey, where 10% of households have babies and nearly half of young mothers wash their baby's clothes separately, we have launched *Omo* Baby, an effective but hypoallergenic product designed specifically for this purpose.

In Brazil, a high profile campaign around the theme of 'No Dirt, No Sport' endorsed by the football star, Ronaldinho, has engaged the Brazilian consumer's passion for football.

In Thailand, the 'Dirt is Good' concept is proving effective in yet another corner of the World.

Marketing initiatives such as these helped drive *Omo* growth in Q2 well into the mid-teens.

There are plenty of other exciting initiatives that are driving growth in our big brands in D&E markets.

For example, '*Knorr Cubitos*' affordable bouillons have proved successful in Latin America and are being rolled out into parts of Africa. Green leaf teas and milk teas are helping *Lipton* to grow in markets such as Turkey, Arabia and China.

Turning now to our second business priority, Personal Care, as detailed in Chart 6.

Chart 6 – Building on Strength: Personal Care

With over 50% of our Personal Care business in D&E markets, our strong performance there is obviously a major contributor to the 5.6% underlying sales growth we achieved in Personal Care in Q2.

In developed markets, a good performance in North American Personal Care, and a discernible improvement in Japan were offset by the weakness in Europe.

I will talk more about Europe, but let me first say a few words about Personal Care in the U.S. where we recorded high single-digit sales growth in the quarter.

We have gained share both year-on-year and versus exit 2004, thanks to a strong but focused innovation programme behind brands such as *Dove*, *Vaseline* and *Axe*. In Hair Care, where we are working hard to strengthen the *Suave* brand, we have stabilised market shares since the beginning of the year.

Dove cool moisturising is an excellent example of how to bring real news to consumers and therefore growth to the core of our business.

A new soap bar and body wash that combines new sensory properties with the moisturising benefits of *Dove* is recruiting new consumers to the brand and helping to drive double-digit growth for the *Dove* brand in North America.

In Japan, we have seen our market shares in the hair category improve in recent months, in response to the innovation and brand activation we have put behind *Lux Super Rich* and *Dove.* The battle is a long way from being won, but this, together with outstanding performance of *Lipton*, has brought Japan back to growth in the quarter.

Turning to Chart 7, Europe.

<u>Chart 7 – Regaining Momentum in Europe</u>

Our markets in Europe have grown in aggregate by less than 1% so far in 2005, which remains well below historic rates.

We are no longer losing share in Europe, but neither have we regained the share we lost during 2004.

These two factors help to put our Q2 underlying sales decline of –0.6% into perspective. It represents modest progress over the –2% like-for-like decline that we saw in Q1, but we are still lagging the market as a consequence of the share we lost during 2004. Clearly, we have more work to do to.

Looking in more detail, Ice Cream was an important contributor to the better sales performance in Q2. With the seasonal weather in Q2 2005 only slightly better than 2004, a large part of this growth is attributable to market share gain, driven by successful innovations such as '*Magnum 5 Senses*.'

Elsewhere, sales are flat to slightly down in Spreads & Cooking Products, in Savoury and Dressings and in Beverages after a strong 1st quarter. Our shares in these categories are broadly stable and, on balance we are satisfied that we are making steady progress in what are difficult markets.

On the other hand, our performances in Home and Personal Care and in Frozen Foods remain disappointing.

In Frozen Foods, we have maintained share in those segments of the category where we are present, which give us some encouragement that our work to rebuild our brand equity is having some effect. However, in the current market environment, consumers continue to shift towards the commodity end of the category where we are not represented, and our market segments continue to decline.

Turning to HPC, our sales are heavily impacted by the share we lost during 2004 and in the first quarter of this year. We are improving the quality and quantity of our innovation, and our Go to Market activities, especially in key markets such as the UK and France.

For example, the Skip brand in France has been gaining share since the beginning of the year in response to the 'Dirt is Good' activation, and recent share readings suggest that Persil in the UK is benefiting from a similar programme.

Meanwhile, the launch of *Sunsilk* Styling in ten European countries has helped the *Sunsilk* brand to grow by nearly 20% so far this year. These products are uniquely positioned to offer women accessibly priced styling products that solve their daily hair battles, whether it be sad flat hair, hairstyles that don't hold, or hair that is prone to kinks or frizz.

As a result of these and other market initiatives, our European HPC market shares have started to turn up, but we still have a long way to go before we are back on track.

Whether to build on strength in D&E and Personal Care, or regain momentum in Europe, we need to generate the money required to strengthen our competitiveness. This leads into our third business priority in chart 8, under the heading 'Funding Growth'.

Chart 8 – Funding Growth

Our savings programmes are essential for ensuring that we can sustainably gear up our competitiveness across the portfolio.

Our global procurement programme has been well established for a number of years and continues to generate significant quarter-on-quarter savings of just under €100m per quarter.

Our One Unilever programme, which was announced back in July last year has been reinforced by the new executive organisation and is progressing well.

To recap, the purpose of this programme was to implement a simple common design for our operations across Foods and HPC in each of our countries. This will allow us to more effectively leverage Unilever's scale within individual markets, by ensuring a common face to key customers and suppliers, by simplifying systems and processes and by speeding up decision making.

It also gives us significant cost benefits, through a de-layered management organisation and functional excellence and shared services in our business support activities.

To give you a few examples of One Unilever initiatives.

First, in moving to a single Foods/HPC organisation.

In a number of countries across the world, such as Germany, China, and Brazil, we have announced moves to a single operating company, bringing together the Foods and HPC business units to share resources for support services such as Marketing Services, Finance, HR and IT.

In the US, we have created a unified Foods and HPC 'Go to Market' organisation that will drive our business with our key customers.

Second, in leveraging Unilever's scale more effectively.

Across Europe, our media planning and buying operations are now being handled by a single agency, giving us a deeper strategic relationship in a vitally important area of the business, as well as significant cost savings that flow directly back into our media budgets.

Also in Europe, we are consolidating our regional supply chain management into a single organisation that will manage our sourcing activities from procurement through to primary distribution.

In Latin America, we have set up two financial shared services centres, one in Sao Paulo and one in Santiago. These are designed to handle the transactional activities of the entirety of our €4bn business in the region and are already servicing Brazil and many of the Spanish speaking countries.

In the U.S and Canada, we have gone one stage further and recently completed the out-sourcing of our accounting operations to IBM.

We had previously indicated that 'One Unilever' would yield savings of around €700m p.a. by the end of 2006. We remain confident that this will be delivered in full Furthermore, we are identifying projects that go beyond our original plans, and that will ensure that savings continue to flow beyond 2006.

So turning to chart 9.

<u>Chart 9 – H1 Operating Margin Development</u>

Looking now at the 1st half of 2005, savings have been instrumental in helping us to protect operating margin, while absorbing the considerable headwind caused by higher input costs and our increased investment in competitiveness.

Operating margin in the 1st half year is 1.4 percentage points below prior year at 13.7%. This includes a further €353m write-down of the carrying value of *Slim*Fast*.taken in Q2.

We are obviously disappointed that we have had to take an additional charge for *Slim*Fast* after the €791m charge already taken.

The reason for this additional charge is that the meal replacement category in the US has continued to decline, and at a faster rate than we anticipated. Year-on-year sales in this category are down by around 25%. Although our market share is increasing again, the sales base from which we project future growth is now considerably lower than we previously assumed.

Under IFRS, we are required to reflect this in a lower valuation of *Slim*Fast*'s intangible assets.

We remain committed to restoring *Slim*Fast* to growth.

We have taken further steps to reduce the cost base of the business by moving *Slim*Fast* operations from Florida to our US Foods headquarters in New Jersey. We also continue to bring news to consumers through innovations such as high protein bars and shakes.

We are confident that the business can create value going forward.

Looking at the other key drivers of operating margin, restructuring during the first half is running around 60 bps below the same period last year, while profit on disposals are about 20 bps higher.

Price growth is flat and therefore has little impact on margin development.

The benefits of our savings programmes and improved mix largely offset the impact of increased input costs, and increased A&P investment.

A&P investment is up again in the 2nd quarter, both in absolute spend and as a percentage of sales.

So far this year, our underlying profitability has remained pretty robust, in spite of increased input costs and our determination to sustain a higher level of market competitiveness.

Turning now to Chart 10, we can see how our operating performance translates into other key financial indicators.

Chart 10 – Key Financials Q2 2005 and H1 2005

Earnings per share on total operations declined by 29% in the quarter and by 6% in the 1st half. The *Slim*Fast* charge reduced EPS by 22% and 12% respectively.

The tax rate in the quarter was 30%, bringing the rate at the half year to 27%.

Our net debt at the end of the quarter was 11.5bn, €0.3bn above the level at the start of the year and reflecting a €1.3bn adverse movement due to the effect of currency movements, partly offset by the conversion of the NV preference shares in the 1st quarter.

Net cash flow from operating activities in the in the 1st half was €1.4bn. This is €0.6bn down on last year, mainly due to the particularly low level of working capital that was achieved at the year-end, combined with higher tax payments in the first half of 2005 compared to 2004.

Capital expenditure remains under tight control, and our trading working capital efficiency continues to improve year-on-year.

The capacity of our business to generate cash remains strong.

Because of this, we will be able to continue with our plans to buy in NV shares to replenish our ESOP hedges, and then commence our buy-back programme of up to €500m in 2005. Up to the end of July, we have purchased 8.1m NV shares at a total outlay of €435m.

That completes what I wanted to say about our results for Q2 and the half-year.

Looking forward, as we have said before, we do not intend to give specific annual top and bottom line guidance. However, in chart 11, I set out some of our assumptions for the 2nd half of 2005.

Chart 11 – Outlook

First, we are not expecting any significant changes in the business environment over the next six months. Cost pressures will continue, and opportunities to pass these on through price increases are likely to remain limited.

Second, we remain committed to restoring our top-line growth, and will therefore continue to invest appropriately in our market competitiveness.

I would also like to remind you that we will have 6 fewer days in our reporting calendar in the fourth quarter, which will impact on our reported sales growth.

Third, we are confident that our savings programmes will continue to make a major contribution in the 2nd half, helping to limit the impact of cost pressures and our additional marketing investment.

Fourth, we expect higher restructuring costs in the 2nd half, although given the gains that we have generated on disposals, we now expect net restructuring to be at the lower end of the 50-100 bps range for the full year.

And finally, as we said following our Q1 results, we expect the tax rate for the full year to be slightly below our long-term expectation of 30%.

In summary, turning to chart 12 and to reiterate Patrick's opening remarks, we are confident that the changes we have made in order to raise our competitiveness in the marketplace are starting to show through.

Chart 12 – Summary

We are pleased to be able to share with you some real evidence of progress on the road to recovery.

However we do need to keep things in perspective. Our new organisation is barely four months old, and there are still important parts of the business where we have much work to do to restore performance to acceptable levels.

So progress, but much more to do, and far too early to confirm that we have returned to the kind of growth that we know this business can and should deliver.

Chart 13 – Close

Patrick, John and I would now be happy to take your questions.