

**Accounting and Reporting Changes from 1 January 2005, including adoption of IFRS**

**What changes is Unilever making to its reporting from 2005?**

**Why are these changes being made?**

**What are the main impacts of these changes?**

**How does the restated Income Statement for 2004 compare with the previously reported numbers?**

**How do the changes affect turnover?**

**How do the changes affect operating margin?**

**How do the changes affect earnings per share?**

**Is Return on Invested Capital affected?**

**Is cash flow affected?**

**Are there any implications for dividends?**

For the full IFRS restatement pack, go to the [Unilever Investor centre](#).

For the 2004 report and accounts under 'old GAAP' go to the [Unilever Investor centre](#).

**Safe Harbour Statement**

## **What changes is Unilever making to its reporting from 2005?**

From 1 January 2005 Unilever will:

- Adopt International Financial Reporting Standards (IFRS).
- Treat certain expenses, primarily promotional couponing and trade communications, as deductions from revenue rather than advertising and promotions spend.
- Simplify the presentation of results:
  - Normal ongoing business restructuring will be treated as ‘non-exceptional’ and the ‘beia’ (before exceptional items and goodwill amortisation) measures of operating profit, operating margin, net profit and earnings per share will be discontinued.
  - The full Income Statement will be presented at current exchange rates, in line with IFRS requirements. Absolute numbers at constant exchange rates will no longer be presented. (Until now, Unilever has presented the full Income Statement at constant exchange rates and a summarised Income Statement at current rates only). Percentage changes will be given at both current and constant rates, and business performance commentary will be continue to be on the basis of constant exchange rates.
  - The segmental analysis will reflect the new internal organisation.
  - Commentary on the development of advertising and promotions will be included in the results presentation as appropriate. The detailed quarterly variance analysis of advertising and promotions, which has been included in a separate datasheet, will be discontinued.

[\[RETURN TO INDEX\]](#)

## **Why are these changes being made?**

The adoption of IFRS is mandatory for all listed companies within the EU from 1 January 2005.

The changes are being made to aid comparability across companies and for greater simplicity in reporting.

The changes in reporting reflect the introduction of IFRS, the simplification in the business in recent years and the new, simpler internal organisation.

[\[RETURN TO INDEX\]](#)

## What are the main impacts of the changes?

### 1. Adoption of IFRS

The adoption of IFRS has been a major change project affecting the measurement and classification of a number of items in our Income Statement and Balance Sheet. For Unilever the transition to IFRS is less significant than for many other European companies because:

- Unilever was an early adopter (in 2003) of FRS 17, the UK accounting standard for pensions. FRS 17 has many similarities with the IFRS standard for pensions reporting.
- Unilever began expensing stock options, using an approach consistent with IFRS 2, from 2003.
- Under IFRS, goodwill and most acquired intangible assets are not amortised. Unilever's headline measures have, since 2000, been expressed on a "before amortisation" basis ('beia').

Further details of the impact of the key areas of change in the transition to IFRS are provided in the full restatement document at the [Unilever Investor centre](#).

### 2. Treatment of trade promotion costs

The treatment of trade promotion costs by companies in the FMCG sector is not covered in detail by IFRS, and such costs tend to be treated differently by different companies in Europe.

Unilever's treatment of trade promotion costs has been as follows:

- Most of these (such as "Buy-one-get-one-free", or "20% off this purchase") are already deducted from turnover
- Certain expenses, primarily coupons offering discounts for future purchases and trade communications have been included in advertising and promotions.

Under US GAAP, all trade promotion costs, including promotional couponing and trade communications are deducted from turnover. Details of these costs therefore appear in the notes to the Report and Accounts set out in our annual accounts.

In the area of revenue accounting it is expected that IFRS and US GAAP will shortly become aligned, and indeed a joint FASB/IASB project has been active for some time in this area. In anticipation of this change, and to remove an area of divergence with our US GAAP reporting, Unilever has elected to change the treatment of promotional couponing and trade communications at the same time as making the transition to IFRS. From 1 January 2005 all trade promotion costs (including the costs of promotional couponing and trade communications) will be deducted from turnover and treated as part of 'price' in the variance analysis of sales growth.

There is no impact from this change on operating profit or net profit.

Had this policy been applied in 2004, turnover would have been lower by €1,061 million at current exchange rates, a reduction of 2.6%.

Advertising and promotions expense would have been lower by the same absolute amount.

With the same operating profit but a lower turnover, the operating margin beia would have been higher using this approach by 0.4% (40 basis points).

Underlying sales growth would have been higher by 0.3% (30 basis points) as the amount of promotional couponing and trade communications allowances reduced in 2004.

### **3. Restructuring costs and discontinuation of the 'beia' measure**

Unilever has already announced its intention to treat normal ongoing business restructuring costs as 'non-exceptional'. In view of this, and the change to goodwill amortisation under IFRS, Unilever will no longer report operating profit, operating margin or net profit on a 'beia' basis.

Information on the impact of restructuring activity or other items of an unusual or non-recurring nature (e.g. disposals, significant asset impairments and other one-off events) will continue to be provided where this is relevant for a proper understanding of the underlying performance of the business.

Unilever expects ongoing net restructuring costs in the order of 0.5% to 1% of sales.

### **4. Full Income Statement at current exchange rates**

The full Income Statement will be presented at current exchange rates, in line with IFRS requirements. In order to properly assess the underlying business performance the percentage changes at both current and constant rates will be given. Commentary on business performance will continue to focus on underlying sales growth, which is on the basis of constant exchange rates, and operating margin – for which there is generally very little difference between constant and current rates.

### **5. Segmental analysis**

The segmental analysis will be simplified to reflect the new internal organisation. Turnover, underlying sales growth, operating profit and operating margin will be provided for each of the following regions:

- Europe
- The Americas
- Asia / Africa

The existing category segments will be maintained, however 'Other Operations' will be combined with Home Care, so that category analysis will be by:

- Foods
  - Savoury and Dressings
  - Spreads and Cooking Products
  - Beverages
  - Ice Cream and Frozen Foods

Home and Personal Care  
Personal Care  
Home Care and Other

[\[RETURN TO INDEX\]](#)

**How does the restated Income Statement for 2004 compare to the previously reported numbers?**

The following table is provided to highlight the key differences in the Income Statement numbers. Full details of the restatement, including reconciliations to the reported numbers are given at the [Unilever Investor centre](#).

	<b>As reported in 2004 €million</b>	<b>Restated under IFRS €million</b>
Turnover	40 366	39 108
Operating profit – BEIA*	6 138	6 138 *
Amortisation of goodwill and intangible assets	(1 086)	(67)
Exceptional items	(1 597)	(1 758) **
Operating profit	<u>3 455</u>	<u>4 313</u>
Net profit – BEIA*	3 969	3 986 *
Amortisation of goodwill and intangible assets net of	(1 036)	(58)
Exceptional items net of tax	(1 057)	(1 173) **
Net profit	<u>1 876</u>	<u>2 755</u>
Minority interests	<u>181</u>	<u>186</u>
Profit for the year	2 057	2 941
<hr/>		
Earnings per share NV – BEIA* (Euros)	4.09	4.11 **
Earnings per share PLC – BEIA* (Euro cents)	61.37	61.63 **
<hr/>		
Earnings per share NV (Euros)	1.92	2.83
Earnings per share PLC (Euro cents)	28.78	42.46

\* Before exceptional items and amortisation of goodwill and intangible assets.

\*\* For future reporting the ‘BEIA’ measure will no longer be used and most ongoing business restructuring will be treated as non-exceptional.

Further explanations on the impacts on individual lines are given as follows:

How do the changes affect turnover?

How do the changes affect operating margin?

How do the changes affect earnings per share?

[RETURN TO INDEX]

## How do the changes affect turnover?

Reported turnover is affected by two changes, neither of which affect net profit:

### 1) Joint ventures

Under IFRS joint venture turnover is not included in reported turnover, which reduces the 2004 turnover by €197m.

The share of after tax profit from joint ventures will be included in a separate line below operating profit, so there is no impact on net profit from this change.

### 2) Promotional couponing and trade communications

The change in treatment of promotional couponing and trade communications reduces 2004 turnover by €1,061 million, a reduction of 2.6%.

Advertising and promotions expense would have been lower by the same absolute amount, so there is no impact from this change on operating profit.

Underlying sales growth would have been higher by 0.3% (30 basis points) under this accounting treatment as the amount of promotional couponing and trade communications allowances reduced in 2004.

Thus the impact of the changes is:

	<b>€million</b>
2004 reported turnover	40,366
Less: share of turnover of joint ventures	<u>(197)</u>
2004 reported group turnover	40,169
Promotional couponing and trade communications	<u>(1,061)</u>
Restated 2004 IFRS turnover	39,108

[RETURN TO INDEX]

## How do the changes affect the operating margin ?

In 2004, under old GAAP, Unilever reported an operating margin of 8.6%.

However the 'headline' measure, and the basis of commentary, was operating margin 'beia' (before exceptional items and amortisation of goodwill).

The 2004 reported operating margin 'beia' was 15.2%

The IFRS and trade promotion costs accounting changes affect this as follows:

Share of turnover from joint ventures	0.1%
Promotional couponing and trade communications	0.4%
Net effect of IFRS changes on 'beia' op. profit	0.0%
Amortisation of finite life intangibles	<u>(0.2)%</u>

Thus a net increase from these changes of 0.3%

The restated operating margin also includes items reported as exceptional in 2004:

Net exceptional charges in 2004 (4.5)%

This gives a restated 2004 operating margin of 11.0% for the year.

By quarter, the restated 2004 operating margin was:

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>full year</b>
Operating margin	14.5%	15.3%	17.0%	(2.6)%	11.0%
This included items reported as exceptional in 2004 of:	(0.7)%	(0.0)%	(0.7)%	(16.4)%	(4.5)%

For illustrative purposes, if a 'normal' level of net restructuring costs of 0.5-1.0% of sales were assumed in place of the actual exceptional charges, then the pro forma restated operating margin for the year would have been in the range 14.5%-15.0%

[RETURN TO INDEX]

## How does the changes affect EPS?

*For illustrative purposes, the following calculations have been shown for the change in EPS on NV only.*

In 2004, under old GAAP, Unilever reported an undiluted EPS of €1.92 per ordinary NV share at current exchange rates.

However the 'headline' measure was EPS 'beia' (before exceptional items and amortisation of goodwill).

The 2004 reported EPS 'beia' at current rates was €4.09

The IFRS changes affect this as follows:

	<b>€per share</b>
Amortisation of finite life intangibles	(0.06)
Other IFRS changes	<u>0.02</u>
Net impact of IFRS changes	(0.04)

The restated 2004 EPS also includes items reported as exceptional in 2004:

Net exceptional charges in 2004 (net of tax) (1.22)

This gives a restated 2004 EPS of 2.83

By quarter, the restated 2004 EPS was:

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>full year</b>
EPS per NV ordinary share - undiluted	0.77	1.05	1.17	(0.16)	2.83
This included items reported as exceptional in 2004 of:	(0.05)	0.01	(0.02)	(1.16)	(1.23)

[RETURN TO INDEX]

**Is return on invested capital affected?**

Return on Invested Capital is largely unaffected as the measure has been reported including exceptional items and including the expensing of stock options and pension accounting under FRS17. Moreover, the invested capital has included, and will continue to include, all goodwill, including that previously amortised or written off other than in a business disposal.

The IFRS changes such as capitalisation of software will have a minor impact on the ROIC.

[RETURN TO INDEX]

**Is cash flow affected?**

Cash flow generation is unaffected by any of these changes, though the presentation of the cash flow statement under IFRS is slightly different.

[RETURN TO INDEX]

**Are there any implications for dividends?**

These changes do not affect the payment of dividends.

From an accounting perspective, final dividends will no longer be reflected as a liability in the balance sheet of the financial year's results to which it relates.

[RETURN TO INDEX]

## **Safe Harbour Statement**

This document may contain forward-looking statements, including ‘forward-looking statements’ within the meaning of the United States Private Securities Litigation Reform Act of 1995. 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. 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 document.

[\[RETURN TO INDEX\]](#)