

Unilever 2010 Q1 Results

London 0800 BST, Thursday 29th April, 2010

Paul Polman,	Chief Executive Officer
Jean-Marc Huët,	Chief Financial Officer
James Allison,	Head of Investor Relations

Paul Polman Chief Executive Officer

Chart 1: Introduction

Good morning and welcome to Unilever's first quarterly results call of 2010. I am joined by Jean-Marc Huët, our Chief Financial Officer and by James Allison, our Head of Investor Relations. It is a particular pleasure to have Jean-Marc on the Unilever team. He has a track record of outstanding success and I am sure he will be a formidable asset for the company.

In a few moments Jean-Marc will take you through the details of our performance in the quarter. After that I will share a few reflections of my own. We will leave plenty of time for questions after that.

But let me just remind you of our priorities for 2010. These are:

- To drive profitable volume growth, ahead of our markets;
- To increase underlying operating margin steadily and sustainably, and
- To generate strong cash flow and lower the average working capital.

And to do this whilst taking actions to improve the long term health of Unilever.

Against these priorities I think we have made a solid start in a challenging environment. Let me now pass you to Jean-Marc who will take you through the detail of Q1 performance.

Chart 2: Introduction Jean-Marc Huët

JEAN-MARC HUËT,
Chief Financial Officer

Thanks Paul and good morning everyone. I'm delighted to be participating in this - my first results call with Unilever. I have met a number of you already - and I look forward to meeting many more of you in the months to come.

Chart 3: Safe Harbour Statement

As usual, I draw your attention to the disclaimer relating to forward looking statements and non-GAAP measures.

Now, let me begin by looking at our Sales performance.

Chart 4: Q1: Strong Top Line Growth

Underlying Volume Growth for the Quarter accelerated to 7.6%. With price growth of minus 3.3% this resulted in Underlying Sales Growth of 4.1%.

With the Euro weakening against a number of key currencies the forex effect was positive at plus 2.3%. Turnover was €10.1 billion, 6.7% up on the same quarter last year.

Chart 5: Q1: Improved Underlying Sales Growth

Quarter 1 marks an important turning point in the evolution of our underlying sales growth; the first sequential improvement in our growth rate since Q3 2008, when pricing peaked.

Let me take a moment to look at the recent trends in pricing. I will then look at volume growth in a bit more detail, and at the innovation that is underpinning our performance.

Chart 6: Q1 : In-Quarter Pricing Stable

In-quarter price growth was flat for the Group overall, and we see an improving trend in the Americas despite high levels of price competition in Brazil.

In Western Europe the overall position was stable, with improvements in some markets but substantial price competition remaining in others. In Asia Africa CEE we have adjusted prices where necessary to respond to intense price competition in markets such as India, China, Indonesia and Turkey. In fact, in these markets volume growth is more than compensating for the additional price investment – a testimony to the strength of our brands.

Overall, we now expect underlying price growth to turn positive towards the end of 2010 rather than around the middle of the year as previously indicated.

Chart 7: Q1: Continued Volume Growth Momentum

Volume growth in quarter 1 was the highest we have seen in many years. Even though the prior year comparator was weak, we are encouraged by the consistent upward trend in volume performance across both regions and categories.

Chart 8: Q1: Broad Based Volume Growth

In the Americas and Asia Africa CEE, volume growth has been increasing since the start of 2009. In Western Europe the trend is similar, but at a lower level.

Central to this strong growth momentum is innovation. We are bringing to market bigger and better innovations and rolling them out faster. The scale of this has struck me as I've started to visit our businesses. For example, in Jakarta recently I learnt about the 67 new launches we will bring to the Indonesian market this year.

Let me build on this theme with some more examples.

Chart 9: Bigger, Better, Faster Innovations

In HPC we are continuing to drive powerful innovation through the Dove brand. In Hair for example, the 'Damage Expert' range of shampoos and conditioners will build a position based on better hair therapy solutions. It is also a good example of innovative use of new packaging design techniques. We will push this range into more than 50 markets by the end of the year, much faster than we have done before.

We have continued the roll out of Dove Men+ Care throughout Western Europe and North America, with encouraging early results.

And in India we have re-launched our Wheel laundry brand .The improved formulation is delivering strong results despite aggressive price-based competition.

The chart shows just a few of our recent innovations. There are many more. In Europe for example we have launched Signal Anti-Age, the first toothpaste that fights the signs of ageing; an important development in better oral care. Axe Twist in Deos across the World, the relaunch of Fair & Lovely in India, Lux Shine in Japan and China - the list goes on.

Chart 10: Bigger, Better, Faster Innovations

In Ice Cream Magnum Gold?! will be launched into 28 markets this year. A truly great-tasting product.

In Savoury, we are supplementing our range of restaurant quality meals with the launch, this month, of the PF Chang range of frozen Asian dishes in the US. We have also introduced a 'two in one' range of Knorr Meal-Makers in several CEE markets.

In Dressings we are continuing to roll out Hellmann's mayonnaise with cage-free eggs throughout Europe and North America.

Chart 11: Brands Into New Markets

We have also launched some of our key brands into markets where they are not yet present.

In the first quarter we introduced Cif, Lifebuoy and Vaseline for Men into a wide range of our developing and emerging markets.

And we have also been active in Western Europe. Domestos has been launched in Italy, and even a brand as ubiquitous as Lipton is not yet in every market. In Q1 we launched in Spain, and early signs are positive.

Chart 12: Q1 : Continued Investment in A&P

All this activity requires investment. As we step up the pace of innovation and roll out brands to new markets so we have responded with more and higher quality advertising. Our A&P spend was up in the quarter by 220 basis points, despite lower media rates, and our share of voice is up across our brand and category portfolio.

We expect full year A&P spend to be comfortably ahead of 2009.

Not only are we investing more – we are investing smarter as well. Our advertising quality continues to improve and we are actively embracing the move into new media, with our digital communication spend up by 90% in the quarter.

So – I have gone through our volume growth, the innovation that has underpinned it and our step up in advertising and promotion. Let's now look at performance across our regions in a bit more detail.

Chart 13: Q1 : Asia Africa CEE

In our Asia Africa CEE region we recorded another strong quarter of volume growth despite intensifying competition. Volume was up by 11.7%, with strong performances especially in markets such as Turkey, China and Indonesia where the competitive battles have been tough. An encouraging quarter in our CEE business saw a return to growth after a difficult year in 2009, when markets were severely depressed.

On the chart we show a couple of examples of recent innovations. In India, we have launched the 'Sehatmand' variant under the Brooke Bond brand. This allows people at the bottom of the price pyramid to buy a branded tea for the first time. And in Home Care, the Radiant laundry powder range with new optical whitening qualities has been re-launched in Thailand and South Africa .

Gross margin was strongly ahead with benefits from savings, operational leverage, positive mix and lower commodity costs more than offsetting the price investment. Advertising and Promotional spend saw another step-up and underlying operating margin was up 30 basis points.

Chart 14: Q1 : Americas

In the Americas volume growth reached 6.3%. This was led by Latin America, where growth was in double digits driven by a strong performance in Brazil. North America also had a good quarter, with both the US and Canadian businesses growing volume ahead of their markets. This despite the continuing impact of the product recall on our SlimFast business. This incident is now behind us and the brand is back in full distribution.

Innovation activity in the Americas also included the launch of the Breyers Smooth & Dreamy range in North America. The recent relaunches of Surf and Skip in Laundry are progressing well in Brazil, Argentina and other Latin American markets.

Despite a substantial increase in A&P underlying operating margin was up by 40 basis points.

Chart 15: Q1 : Western Europe

Volume growth in Western Europe of 4% in the first quarter was well ahead of the market. This was led by the UK and Benelux but was broad-based with contributions from all major markets.

Innovation also played a major role in Western Europe. In Skin Cleansing, we have launched the Dove Visible care range of body wash. This makes use of patented nutrium technology and follows a similar launch last year in North America. We also re-launched

Pro. Activ in Spreads and introduced the new TIGI Curlesque collection of hair products.

Gross margins were higher, with the benefits of the European Supply Chain setup coming through strongly. A&P spend was again higher, but with lower overheads from the One Unilever restructuring programme underlying operating margin was up by 130 basis points.

Let me now move onto some key aspects of our first quarter financial performance.

Chart 16: Q1: Improved Gross Margins

Gross Margin was up by 240 basis points, and has now returned to the level prevailing prior to the commodity cost escalation in 2008.

Progress was widespread across all regions and all major categories

Our gross margin performance stepped up during the course of 2009. So – as the year progresses the positive variance we have seen in gross margin performance will lessen.

Chart 17: Q1: Commodity Costs Tailwind Continues

Commodity costs continued to be a tailwind in Q1, albeit at a lower level than in Q4 last year.

With a number of key input costs starting to trend upwards we expect higher commodity cost headwinds in the second half than previously anticipated. However, we expect these to be offset by more favourable currency effects so our view of 2-3% inflation for the year as a whole remains unchanged.

Chart 18: Q1 : Strong Savings Delivery

Savings delivery has continued to play an important role in driving our margin development. Savings in the quarter were €300 million, with just over a half of this coming from buying, around 30% from restructuring activity and the balance from local efficiency programmes. We continue to expect savings of at least €1bn in 2010.

As we further sharpen our operations in response to the increasingly competitive environment we are finding new opportunities to take costs out of the system. Restructuring costs in the Quarter were around 120 basis points. We now expect restructuring costs for the year as a whole to be somewhat higher than the 50-100 basis points previously anticipated. This is before any costs related to the acquisition of Sara Lee.

Chart 19: Q1: Underlying Operating Margin

Underlying Operating Margin improved by 60 basis points. This reflected strong Gross Margin development as well as good progress in overheads, which were lower by 40 basis points. This improvement came despite an increase of 220 basis points in Advertising & Promotional spend.

Chart 20: Q1: Double Digit Increase in Earnings Per Share

We intend to now focus on a single earnings per share measure – post RDI's and fully diluted. Going forward we will adjust out only disposal profits and sizeable one-offs.

As you can see from the chart the first Quarter saw strong EPS growth, albeit against a low base from last year. EPS of 34 Euro cents represent an increase of 32%, with 12% coming from operational performance. As we guided with Q4 results, most of the non-operational factors that were a drag on earnings in 2009 have now turned positive. Although pension costs and restructuring should remain positive throughout the year, the other elements may fluctuate.

Chart 21: Cash Conversion Cycle has improved by 18 days vs. Q1'09

Progress in improving Trading Working Capital continues to be strong. The cash conversion cycle is now 18 days better than a year ago. In fact we had negative Trading Working Capital across the Group for the second straight Quarter. This reflects strong progress across the business in better forecasting, improved transparency and greater rigour in tackling obsolete inventories and overdues. There is however still more to be done.

Net cash flow from operating activities was €0.6 billion in the Quarter – well ahead of last year.

Chart 22: Net Debt, Pensions and Dividends

Net debt was €7.1 billion at the end of the quarter, up from €6.4 billion. The increase was caused by dividend payments and the adverse impact of currency movements on our debt balance. This particularly related to the weakening of the Euro against the US Dollar, in which much of our net debt is denominated.

The interest rate on net debt in the quarter was up slightly to 6.5%, compared with 5.9% in the same period last year.

The pension deficit – as defined under IAS 19 - was broadly stable at around €2.7 billion. Cash expenditure on pensions in the first quarter was around €200 million. We still expect full year payments to be around €750 million, well below the €1.3 billion figure from 2009.

The pension financing charge was close to zero, a reduction of around €50 million from Q1 2009.

Finally, we have announced this morning that the second quarterly dividend of 2010 will be 20.8 euro cents, to be paid in June. This is an increase of 6.7%.

On that note let me return you to Paul.

Chart 23: Paul Polman Introduction

Paul Polman

Chief Executive Officer

Thank you Jean-Marc.

Chart 24 : The Model is Working

So a solid set of results that bears out that our model is beginning to work.

Volume growth of more than 7% is strongly underpinned by innovation with a step up in performance across all of our key categories - be it:

- Dove for Men Plus Care in Skin and Deodorants,
- Sunsilk Co-Creations and Dove Damage Therapy in Hair
- Knorr Stock pot in Savoury or be it Magnum Gold?! in Ice Cream.

In fact, we are in the process of upgrading over 30% of our portfolio and rolling out the improved mixes faster to more markets.

At the same time we are further investing in product superiority, filling in opportunities in the price pyramid and extending some of our best known Brands, such as Cif, Domestos, Lifebuoy, Vaseline and Ponds in to new markets.

All this is being fuelled by a step up in the amount and quality of our advertising activity.

This is how we are building brand equities. This is how we have been able to record double digit volume growth in Asia, including Japan and Australia, and 4% volume growth in Western Europe.

At the same time we have the discipline to capture the benefits of volume growth in the form of fixed costs leverage and efficiencies. Added to this is the contribution from our continuing strong savings programmes and some commodity cost tailwinds. Together this adds up to substantial fuel for growth which in turn drives volume.

All this together represents what I call the virtuous circle of growth.

Operating margin improvement will come primarily from mix and margin accretive innovation.

Chart 25: Winning Where Markets are Toughest

It is clear that some of our competitors have been referring to stepped-up innovation. Some of this must be a very broad definition given the amount of pricing activity that we see going on. But we welcome increased competition.

Because it forces us to accelerate our transformation programme – to become more competitive, faster and more externally focussed. We will use it as ‘fuel for change’ in much the same way as we used the global financial and economic crises as a catalyst to shift company performance.

As Jean Marc has already mentioned, where we see the most aggressive activity, market development is being stimulated and our growth has accelerated.

In China – a market far more developed than India, we see share gains in every category except one. We see the same picture in Indonesia and Turkey.

The focus of disproportionate attention is India. Unilever has a 52% stake in Hindustan Unilever Ltd, a business which accounts for 6% of group turnover.

Local, low cost competition has been winning share at our expense and recently, international branded players have ‘rediscovered’ the opportunity for growth in India.

In India, like in other places, we are determined to stay competitive.

- We have stabilised volume share in laundry powders
- We are investing in superior products in a number of categories and bringing new brands to the market like Vaseline for Men, Cif, Domestos and the previously mentioned Brook Bond Sehatmand Tea range.
- We have re-launched the entire portfolio of skin cleansing brands with particular emphasis on the local jewels which previously we had neglected in favour of our global brands.

There is much still to do in India but we are confident that we are doing the right things.

In the meantime I continue to be encouraged by our performance in these fast growing, competitive D&E markets.

Turning now to culture and performance.

Chart 26: The Culture is Changing

We continue to strengthen the organisation.

Jean-Marc is a great addition to the team and I look forward to welcoming Mike Polk as President Categories when Vindi retires at the end of May. Let me say that Mike has very big shoes to fill. Vindi has been instrumental in driving the acceleration of our innovation agenda and we will miss him. His actions will help the company for many years still to come.

I also welcome to UEx, Dave Lewis and Keith Weed - both Unilever veterans, in experience if not age, with powerful track records.

And just to clear up some facts and figures about the top 100.

- About 60 are in new jobs
- 20 have been promoted from within and
- 4 outsiders have been brought in.

This is indicative of Unilever's outstanding bench strength and I have no doubt that the changes we are making will help Unilever to grow faster.

At the same time we are stepping-up new training and leadership development programmes. Increasingly senior management is being benchmarked against the best in class and in- depth personal development plans are being created which allow the company and the individual to succeed. We see our progress now being recognised as we become again a company that many people are aspiring to join.

Our new compensation scheme is designed to sharpen performance. There are a number of elements:

- Simpler and more stretching targets aligned to the company strategy
- More differentiation of individual performance
- More weight to long term performance and more 'skin in the game' and finally
- Higher potential reward for outstanding performance

I am convinced that these changes will boost the performance orientation in the company. We are starting to see this coming through.

Chart 27: Priorities for 2010

Let me conclude with a few words on outlook.

You might hear increasingly bullish noises from economic commentators but recognise that for many companies the base is low and that inventory replenishment will have played its part in making current numbers look healthy.

We continue to think that the recovery will be long and drawn out, and plan the business accordingly.

We see a tale of 2 worlds.

- In Developed markets we see deleverage. The impact of high fiscal deficits on public spending and taxes, stubbornly high unemployment and low consumer confidence may mean a prolonged period of stagnation in some markets.
- In D&E we see robust growth but at lower levels than in 2007 with a risk of overheating in China and India.

For these reasons let me be very clear:

- We do not expect the environment to get better and
- We do expect competition to get tougher
- As Jean Marc has said the tailwind from commodity costs will turn in to a headwind and
- We will see increasingly tough comparators as the year progresses.

So please don't run ahead of yourselves.

Our guidance is clear. We will continue to focus on profitable volume growth, whilst delivering steady and sustainable year on year improvement in operating margin and strong cash flow.

With that ladies and gentlemen we look forward to taking your questions: