

Unilever 2010 Q3 Results

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

Chart 1: Title chart

Chart 2: Paul Polman, Chief Executive Officer

Good morning everyone and welcome to Unilever's results call for the third quarter of 2010. I am joined today by Jean-Marc Huët, our Chief Financial Officer and by James Allison, our Head of Investor Relations and M&A.

I will begin by sharing a few brief perspectives on our markets and on the overall progress of the business. I will then hand over to Jean-Marc who will review our recent performance in more detail.

Chart 3: Safe Harbour Statement

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

Chart 4: Strongest volume performance in 25 years

The results we have reported today are what we call solid in a challenging environment. And clear evidence that we are increasingly seeing benefits from the actions that we have been taking.

6% volume growth in the first nine months is Unilever's strongest performance for more than 25 years with shares continuing to improve across the board. Volume growth also continued in quarter 3 at above market rates.

I am pleased that this progress is broad-based, with good performance in each of our 11 major categories and in all three regions.

In Western Europe we are steadying the ship. We are investing consistently and sensibly, and share performance is good in most categories and in most countries. In North America our volumes are again strong and shares are up as well.

In these developed markets overall growth levels have been held back by the slower growth profile of some of our Foods categories. The acquisitions of Alberto Culver and Sara Lee in Personal Care will help to improve the category mix.

In the emerging markets our performance remains strong with double digit volume growth in the year to date and share gains in most countries despite the increased levels of competition.

Shares are substantially higher in the main battle grounds like Brazil, Indonesia, Turkey, South Africa, and most encouraging of all - China. And our performance in India continues to improve rapidly.

We are more than holding our own. A new, stronger, more competitive Unilever is emerging. One that is faster, more disciplined and more closely connected to consumers and customers. In short, a Unilever that is fit to compete.

Chart 5 : Delivering against our priorities

At the same time as we have become more competitive on the top line we have continued to improve our underlying operating margins; up by 30 basis points for the year to date despite spending almost €500 million more on advertising and promotions. Helped by our savings delivery which continues to be impressive; a billion Euros already this year with more to come.

Average working capital has been below zero now for four successive quarters. Cash flow is competitive with last year despite the windfall from working capital in 2009.

And let's not forget that over the first 9 months our Operating Profit is ahead by 21%. Earnings per share are up even more, by 29%.

More importantly, we have delivered what we said we would deliver and are again one step closer to the virtuous circle of growth we are after. That's a good habit, and one we intend to stick to.

Chart 6: Markets remain soft – recovery long drawn out

Let's not forget that this performance comes in the context of an environment that continues to be tough.

Western Europe and North America remain soft. Unemployment continues to rise and GDP growth is sluggish. Consumer confidence is low, and in most developed markets it shows signs of falling further, as concerns around job prospects and the impact of austerity measures take their toll. As a result, markets are flat at best.

Emerging markets remain in a much healthier state, although here there are signs of moderate slowdown as well. Let's keep some perspective around this however; GDP growth in China is still expected to be around 9.6% - but down from 10.5%.

That markets are difficult in the developed world is not a surprise to us. I have always said the recovery would be slow and long drawn out. It is something we have been saying since the beginning of 2009, and we have been planning the business accordingly.

But we are also seeing unprecedented levels of competition in many markets, particularly in HPC, and so it is against this backdrop of weak developed markets and intense competition that our performance should be judged.

Chart 7: A new Unilever emerging

The actions we have been taking to date have enabled us to close the gaps to competitors in several important areas. For example in

- Our innovation, in
- the discipline of our in-market execution, in
- our cost competitiveness,
- and in our organisational agility.

None of these areas is holding back our performance any longer.

In fact, we are increasingly starting to set our own agenda - building sustainable competitive advantages that will help us win not just for 90 days, but for the long term.

Our energising vision, our strength in the emerging markets, our rejuvenated innovation machine and the winning performance mentality we are developing in our culture – all areas where we have done the catching up. Now we are moving ahead!

Of course there is much still to be done but we have come a long way quickly. Putting the consumer and customer back in the middle and creating again a growing, winning culture.

I will return to these themes later in the presentation. But first, let me hand over to Jean-Marc to take you through our third quarter performance in a little more detail.

Chart 8: Jean-Marc Huët, Chief Financial Officer

JEAN-MARC HUËT

Thanks Paul and good morning everyone. I will begin my review of the third quarter by looking at our sales performance.

Chart 9: Q3 10: 13% turnover growth

Underlying Volume Growth for the Quarter was 4.8%, with Underlying Sales Growth of 3.6%.

Although the Euro recovered some ground in the third quarter relative to the first half of 2010, on a year-on-year basis it was still sharply weaker against most key currencies. As a result the forex effect was strongly positive at 9.8%; a major element of the 13% increase seen in Turnover, which reached €11.5 billion for the quarter.

Chart 10: YTD – 11% turnover growth

For the first nine months of 2010 Turnover was €33.4 billion, up 11% with forex again a significant factor. Underlying sales growth was 3.8%, with volume growth of 6.0% - the strongest delivered by Unilever for more than 25 years.

Chart 11: Q3 10: broad based volume growth

Particularly pleasing is the fact that this volume growth is broad based. Although our emerging market businesses are clearly leading the way we are also seeing modest volume growth in the developed markets. Given the difficult economic backdrop this is encouraging performance – growing ahead of the market and doing so consistently. This is clear and compelling evidence of the beginnings of a virtuous circle of growth in Unilever.

Volume growth is also broad-based across our categories. In the first nine months of the year volumes are up in all 11 of our key categories, in most cases ahead of the relevant market. In the third quarter we grew volume in 10 of the 11. Even in the one exception – the Spreads category - we continued to build on our long term trend of gaining volume share, albeit in conditions that are challenging for the category as a whole.

Chart 12: Volume shares strong

It is not only in Spreads that we have been gaining volume market share. On a moving annual total basis our volume share is up by around 40 basis points.

Share gains in Foods and HPC are at very similar levels, reassuring evidence that the improvements we are making are rooted throughout the business and are not just specific to any one category.

Let me pick up on two of our key growth drivers – innovation and brands into new markets.

Chart 13: Q3 10: personal care innovations

In Face care, the new Pond's Gold Radiance range with anti-ageing qualities has been launched in Asia. Early performance is encouraging in the launch markets of China and especially Indonesia, where 2% share has already been achieved. Further launches in key geographies will follow in the coming months.

In Hair, the recent re-launch of Lux has generated strong momentum in China and especially in Japan, where market leadership has been regained from our key competitor.

Chart 14: Q3 10: home care innovations

In Household Cleaning, the new format of Sun is the first phosphate free all-in-one concentrated gel in the European dishwash market. We have completed several launches in the last quarter including France and the Netherlands.

In Fabric Cleaning, our global re-launch of the Dirt is Good brand with built-in pre-treaters is being rolled out to 45 countries.

Chart 15: Q3 10: foods innovations

In China, Lipton Milk tea has been launched in the third quarter, with initial reaction proving very positive.

And in Western Europe we are benefitting from the re-launch of our Hellmann's and Calvé brands in Dressings, helping to build the concept of the 'goodness of mayonnaise'.

As well as making good progress in our delivery of bigger better faster innovations, we have also driven growth with the launch of more of our great brands into new markets. The momentum we have established in this respect over the last few quarters is being maintained. For example, in the third quarter we:

Chart 16: Q3 10: brands into new markets

- Launched Axe shower gel into Japan and Axe Deodorants in Bangladesh,
- and continued the expansion of Cif in South East Asia with a launch in Indonesia.

Chart 17: Q3 10: brands into new markets

- Also in Indonesia, we introduced Dove Deodorants,
- and the successful Magnum brand was further expanded to reach Ecuador.

Chart 18: Q3 10: brands into new markets

- The Rexona deodorant brand was launched in Israel,
- and in China the Dove brand was extended to include the Defi range in Skin, with its unique nutrium technology.

These are just a few examples. The pace of activity in Unilever today has clearly stepped up, and our volume performance reflects this.

But our results are not built on volume alone. Let me now say a few words about pricing.

Chart 19: Q3 10: underlying price growth improving

There is no doubt that the pricing environment continues to be challenging, with an unusually aggressive promotional climate in a number of important markets.

Nevertheless, underlying price growth continues to improve and in-quarter pricing was again flat at the group level.

Commodity cost inflation is now beginning to impact the income statement as we expected. In the long term we are confident that a mix of pricing actions and cost savings will fully offset this inflation.

In the shorter term we have already been raising prices, typically in categories where there is significant cost inflation such as tea. This is where we have the clearest step up in price, and encouragingly we have not seen any loss in volume share as a result.

We see similar patterns on a regional basis also, with Latin America for example already seeing positive price whilst at the same time continuing to gain volume market share.

Chart 20: Q3 10: confidence in pricing actions

Here are a few more localised examples of recent price increases. In each case you can see that there has been no detrimental impact on volume shares.

No doubt some of the pricing actions we still need to take may put our volumes under pressure. Nevertheless we take confidence from these early signs of success, and continue to expect that pricing will turn positive towards the end of the year.

Chart 21: Q3 10: gross margin up 60 bps year-to-date

Gross Margin in quarter 3 was down by 150 basis points, reflecting sharp increases in key commodity costs, particularly petrochemicals, edible oils and tea, and the still negative impact from pricing.

Gross Margin for the first nine months is up by 60 basis points. A key driver of this improvement has been our exceptional success in driving cost savings. Our target for the year of achieving €1 billion of savings has already been reached, and we now expect full year savings to be around €1.3 billion.

We continue to expect that for the year as a whole Gross Margin will be ahead of 2009.

Chart 22: Q3 10: A&P investment behind innovations

Turning now to advertising and promotions, despite our efficiency programmes we have substantially increased our investment in 2010, reaching levels which are highly competitive.

The volume of our spend continues to be a function of the level of our activity in the market place. Spending in the third quarter was at the same absolute level as the corresponding period last year; fully in line with our plans. The modest reduction of 60 basis points this represents should be seen against the backdrop of the very high support levels in the second half of last year.

Advertising and promotions investment will be substantially up for the year as a whole.

Chart 23: Q3 10: underlying operating margin

Underlying Operating Margin was up by 20 basis points in the quarter.

A major contributor to the increase seen in the quarter was a significant reduction in Indirects. This reflects continuing strong progress in savings as I mentioned previously, but also was influenced by phasing effects, some of which will reverse in the fourth quarter.

This will lead to higher Indirects spend in the fourth quarter than in the same period last year.

Chart 24: Q3 10 YTD: underlying operating margin

On a year to date basis, improvements in both Gross Margin and Indirects have allowed us to substantially increase advertising and promotions whilst at the same time increasing Underlying Operating Margin by 30 basis points.

We continue to expect that for the year as a whole we will deliver on our objective of a steady and sustainable improvement in Underlying Operating Margin.

Chart 25: Q3 10 YTD: earnings per share

Fully diluted earnings per share for the first nine months were up by 29% to one Euro and 13 cents, including an increase of 19% in the third quarter.

Operational performance accounts for 9% of this increase. A further 9% came from restructuring, as we return to more normal levels following the completion of the One Unilever programme. We continue to expect full year restructuring costs to be around 120 basis points, in line with year to date levels.

The remaining increase came primarily from positive currency effects and lower pension costs.

Chart 26: Q3 10: negative trading working capital

Our performance in managing Trading Working Capital was again very encouraging, with the clear long-term improvement trend still very much intact. We have now been running the business with negative working capital for the last four quarters.

We are confident that we can continue to push Working Capital lower, but the incremental benefits may become less as we move closer to best practice.

Chart 27: Q3 10 YTD: free cash flow €2.5bn

Operating profit before depreciation and amortisation was €5.6 billion for the first nine months, up from €4.8 billion in the same period last year.

Free cash flow was €2.5 billion, down by €0.5 billion on the prior year figure despite this strong underlying performance. Capex is higher as we invest behind capacity expansion in our fast-growing emerging markets. Tax payments were higher by €0.3 billion and Working Capital was an outflow in the first nine months compared with an inflow in 2009.

Chart 28: Balance sheet

Net debt fell significantly in the quarter to reach €6.1 billion, down from €7.6 billion at the half year. With the Euro strengthening in the quarter, forex made a large contribution to this reduction.

Net debt has also fallen slightly from the 2009 year end position of €6.4 billion.

The pension deficit declined in the quarter by half a billion Euros to reach €3.5 billion. This however is still up on the 2009 year end figure of €2.6 billion. Although asset returns have been strong the increase in scheme assets has been outweighed by an increase in liabilities triggered by sharply lower corporate double A bond rates.

Cash contributions to pensions in the first nine months were around €500 million, down by €200 million versus the same period last year. We expect full year cash payments to be around €700 million.

Finally, I can confirm that the next quarterly dividend will be 20.8 Euro cents, to be paid in December. This will bring the total cash paid in dividends for the year to 81.9 Euro cents, an increase of 5.1% on the amount paid in 2009.

On that note, I now return you to Paul.

Chart 29: Title chart – Paul Polman, Chief Executive Officer

Paul Polman

Thank you Jean-Marc.

So, good progress in a tough environment.

We are responding to competitive pressure with renewed vigour.

Our model is clear; to grow ahead of our markets whilst delivering steady and sustainable improvements in underlying operating margin and strong cash flow.

I am confident that in 2010 we will deliver against this model. But of course we need to demonstrate we can do so year in year out – so there is much still to do.

Let me pick up the theme of being fit to compete by giving some examples of our performance in categories and markets where the competition has been intense.

Chart 30: Fit to compete in Laundry

The most intense competition we have seen over recent months has been concentrated in Fabric cleaning. Our response has been single-minded and effective; we are once again growing our volumes ahead of the market.

Fabric cleaning is predominantly an emerging markets business for Unilever. It is in these markets where the pressure has been most acute, and yet we see our volumes up by more than 10% this year, and our volume shares strongly ahead, especially in Asia. Better than our historical performance and supporting my point that competition is good!

Most high profile of all has been Fabric Cleaning in India. As you may have heard from Hindustan Unilever's recent results call, after a tough few months the trend here is clearly improving fast. Although we are cautious in quoting share figures in a market where such data is notoriously difficult we are confident that we are once again growing ahead of the market and outperforming competition.

In other markets where our Laundry business has experienced an increase in competitive pressure we are seeing similar results. In Turkey and Thailand for example, we see both volume and value shares strongly ahead.

Of course this determined response is expensive as we face competitive price investment, and you see the impact in our Home Care margins. But – we are fully committed to remaining competitive. We have demonstrated this very clearly in recent quarters.

As I have said before, we prefer to grow our business through innovation and investment in building brand equity; but where we come under pressure on price we will not hesitate to defend our market positions.

At the same time, competition on this scale also drives us to become even more cost efficient. In today's environment it is imperative that we drive out all costs that the consumer is not prepared to pay for. This is what we have been doing in India and elsewhere, and the business is stronger as a result.

Chart 31: Fit to compete in Deodorants

Competition is intense in some other categories as well, and is not always so price-focused. In Deodorants for example some of our competitors are making a determined effort to strengthen their position and reduce the scale of our global category leadership.

We have responded well, sticking to our proven approach of building the equity of brands such as Axe, Rexona and Dove, introducing them to new markets and innovating tirelessly. But also upping the pace, tapping into the energising effects that often comes with heightened competition.

Our market shares in Deodorants continue to grow, with all regions strongly ahead including the key battleground of Western Europe. Just to pick one example, in France our volume share is up by more than 100 basis points.

Chart 32: Fit to compete in Hair – North America

In Deodorants we have been strong for some time; in Hair our performance has historically been patchy. Here too we are making clear and measurable progress. Global volumes have now been growing for six quarters in a row. In North America we see shares strongly ahead and volume growth in high single digits. Same for India and other priority countries, with our key competitors losing share.

This success has been built on a strong flow of innovation. The Dove Damage Therapy range for example has set new standards in the care of damaged hair. The TIGI Catwalk range has been launched in three phases, each one distinct and striking in both packaging and product performance.

With this strong innovation flow, a rejuvenated Suave brand and great brands such as TRESemmé to welcome to our portfolio we look forward to competing in Hair with renewed confidence.

Chart 33: Fit to compete in Ice cream

We continue to strengthen our leadership in ice cream as well. Here in the important market of Western Europe we didn't enjoy the warmest of summers (sorry, no excuse!), and yet we still have grown our global ice cream volumes by high single digits, with shares ahead in all regions.

This is innovation-led performance. Magnum Gold has been a success around the world. Fruttare has been a catalyst for growth throughout Latin America. Cornetto Enigma has been a success beyond our expectations in Europe. And the list goes on.

Chart 34: Fit to compete in emerging markets

Some of the most intense competitive pressure has come in the emerging markets. And yet this year our emerging market businesses have grown their volumes at low double digit levels.

Within this, remember that CEE remains tough, so many of our key emerging markets – China, Turkey or the Philippines for example – are growing volumes by 15% or more.

But we are not simply riding the wave of rapid economic growth. We are also consistently growing our volume share, with nearly all emerging markets posting gains over the last year. For example:

- In China, we have strong double digit volume growth across both HPC and Foods. Shares are also strong across the portfolio, with major gains in Hair, Skin, Deodorants and Laundry.
- In India, as you know we went through some difficult months, but the business is once again performing well with 60% growing share. Volume growth is double digit, and we are growing ahead of the market.
- In Turkey, volume growth this year is running at more than 20%, fuelled by outstanding performance in Ice Cream and Laundry. Shares are also strongly ahead, especially in Fabric Cleaning, where market leadership has been re-captured.
- And in Brazil, volume growth is again in double digits, with Dressings and Deodorants both showing strong growth and significant share gains. The Ades Soy beverage business was also an outstanding performer, with volumes exceptionally strong.

So – growing strongly and consistently, well ahead of the market. Further evidence of a new Unilever emerging, fit to compete and starting to win.

The next step is to go beyond this – to build on our competitive strengths, to increasingly set our own agenda and start to create competitive gaps of our own.

Let me give you a few examples.

Chart 35: Setting our own agenda – new vision

Firstly, we now have a hugely energising vision; one that has resonated throughout the organisation.

The aspiration of doubling the size of our business while reducing our overall impact on the environment strongly motivates our people. Not only the doubling, but also decoupling growth from environmental impact. A new model that will drive innovation harder and is increasingly consumer relevant. It is stretching, it feels right, and it is something that people want to be part of.

Yes I do believe that the approach we are taking to sustainability will increasingly become a competitive advantage - giving us an edge that our consumers value.

You will hear a lot more about our plans in the area of sustainability in the next couple of weeks.

Chart 36: Setting our own agenda - innovation

Secondly, as you know we have been consistently focused on bringing to market bigger innovations, better differentiated and rolled out faster.

We now have plenty of examples of success in this area – a selection of which you see on the chart – and I'm pleased to say that these are no longer the exception. Innovating at this level is becoming a good habit, something that will continue to drive Unilever's growth into the future. And we are rapidly transforming our relationship with the external world such as suppliers, universities and others to further fuel innovation.

Chart 37: Setting our own agenda - emerging markets

Thirdly, as you know, we have more than half of our business in emerging markets; a higher proportion than any of our peers, with our products in six out of ten homes globally. This is a core competitive advantage, and one that we are increasingly benefitting from driving deeper and faster distribution of our brands.

You see the results of this clearly enough in the numbers I mentioned earlier. But let me briefly mention a couple of specific examples of actions we are taking to help us win:

- Market development is key to our growth in many emerging markets. We have many examples where we are acting responsibly to encourage new or different usage of our products. Our ‘twice-daily brushing’ campaign in Oral for example, or our ‘growth meter’ campaign to make essential fats more affordable for low income consumers. In both cases good for the well-being of our consumers and good for our growth.
- A further example is the perfect store concept that we are rapidly rolling out across Asia. Getting the right assortment in the right place is a simple enough concept, but implementing these ‘perfect stores’ with speed and rigour takes a discipline that is new for Unilever. We will tell you more about this at the investor event in Singapore, and some of you will be able to see it for yourselves in Indonesia.

Chart 38: Setting our own agenda - performance culture

Fourthly, we are building a performance culture - the right people, the right structure, and the right behaviours are coming together to create, bit by bit, a winning culture.

Unilever is increasingly becoming a company that people want to work for. Not just in our traditional strongholds, but also in some of our newer markets where we are not yet so powerful. In both China and Russia for example we have recently been recognised as a preferred employer. This comes on top of our already well-established employer credentials in markets like India or Indonesia.

Finally, we have also been accelerating portfolio change.

Chart 39: Setting our own agenda - M&A

We will complete the acquisition of the Personal Care portfolio of Sara Lee in the coming weeks and have already completed the sale of our Italian frozen food business.

In addition, in the last quarter we have:

- announced bolt-on deals in the European ice cream business in Greece and Denmark,
- acquired the rights to the Toni & Guy hair care brand globally, and
- Signed an agreement to dispose our Brazilian tomato business.

Chart 40: Setting our own agenda – M&A

And, more importantly, we have signed a merger agreement with Alberto Culver which will bring great brands such as TRESemmé, Alberto VO5 and Simple into the Unilever portfolio.

It's been a busy few months in M&A - another demonstration that we are changing gear, and clear progress in portfolio re-shaping.

So, plenty of examples of how Unilever is changing and moving beyond being simply fit to compete. But this is a marathon and not a sprint. There are plenty of challenges ahead of us and no doubt a few setbacks.

We will continue to set the bar higher and we will remain focussed on doing the right things for the long term.

Chart 41: Priorities for 2010 confirmed

I will close by reiterating my expectations for 2010.

We will continue to focus on profitable volume growth, whilst delivering steady and sustainable improvement in underlying operating margin and strong cash flow.

With that I will now open the lines for questions.

Chart 42: Questions