

Unilever Q1 Results Presentation : 7th May 2009

Paul Polman

Chief Executive Officer

Chart 1: Introduction

Good morning and welcome to Unilever's first quarterly results call of 2009. I am joined by Jim Lawrence, our Chief Financial Officer and by James Allison, our Head of Investor Relations.

Jim will briefly run through Q1 performance. After that I will give you my perspectives on our markets, our priorities and the progress we have been making. There will be plenty of time left for questions after that.

Jim Lawrence

Chief Financial Officer

Chart 2 : Safe Harbour

Thank you Paul and good morning everyone.

Before I get started, I draw your attention to the usual disclaimer relating to forward looking statements and non_GAAP measures.

Chart 3 : Q1 Summary

Let me start by summarising the highlights.

Organic growth of 4.8 % was underpinned by continuing double digit growth in our D&E markets and strong performance in our Americas region. In Western Europe our market shares are still down but we have seen some improvement since quarter 4.

Our savings programmes are continuing to deliver strongly – helping us to offset high commodity costs and adverse currency pressures.

Underlying operating margin declined by 30 basis points but would have been flat without the impact of dilution from disposals.

We are benefiting from our strong balance sheet and prudent financial management. We issued two bonds in the quarter, one in the US and another in the UK. Both at very competitive rates, both heavily over subscribed and both performing well in the secondary market.

And we continue to strengthen our portfolio, with the announcement of the acquisition of Baltimor, the leading ketchup business in Russia. The acquisition of TiGi , the premium range of salon hair care brands was completed at the beginning of April.

Overall, a solid performance in a tough environment, in line with our expectations.

Chart 4: Sales in Quarter 1 2009

Turnover in the first quarter was €9.5 billion, 0.7% lower than last year. This includes a negative currency effect of 2%. Disposals, net of acquisitions, reduced turnover by a further 3.3%.

Given the above, underlying sales growth was 4.8 % in the quarter with price at +6.8%. Volumes declined by 1.8% - similar to the performance of quarter 4 2008.

Chart 5 : Asia Africa CEE

Our strong organic growth continued in **Asia Africa CEE** with underlying sales up by 9.5% in the quarter. The price component remained high at plus10.5% and volumes declined by a little under 1 percent. There was some further trade de-stocking in a number of markets.

Growth continues to be broad based with particularly strong performances in Indonesia, South Africa, Australia, Russia and Vietnam.

A number of countries in Central Europe saw double digit declines in volume as the markets softened considerably. That said, our share performance in these markets continues to hold up well.

Underlying operating margins improved in the quarter by 170 basis points reflecting good recovery of cost increases, lower media rates and the phasing of the innovation programme.

Chart 6 : The Americas

The **Americas** grew by **7.2%** in the quarter with pricing up by 8.3% and volume down by 1 percent. This represents an encouraging step up versus the previous quarter.

In the US underlying sales grew by 3.8% and our consumer business returned to positive volume growth. We continue to exit unbranded business in our foodservice division and this suppressed overall growth levels. There has been some down-trading in our categories, with private label gaining share, but not at our expense, indeed our own market share is up.

Latin America grew by 11% with volume improving but staying slightly negative. In the quarter we saw particularly encouraging progress in Brazil and Mexico.

Underlying operating margin improved by 60 basis points in the quarter despite a negative 80 basis point impact from disposal dilution.

Chart 7 : Western Europe

Underlying sales declined in Western Europe by 2.8%. Volumes declined by 3.7% and underlying price growth was plus 1%.

Markets slowed significantly in quarter one and our shares are still down compared with a year ago. That said, our share performance improved on the levels of the 4th quarter of last year.

Sales performance in the UK was strong and volume driven and sales in France improved to close to last year's level.

Sales in Spain were down significantly reflecting the very challenging market conditions but also the tough comparator of Q1 2008 in which volumes were boosted ahead of a system implementation.

Germany remains difficult with lower market volumes, a tough retail environment and comparatively low promotional volumes.

Customer service levels improved throughout the quarter. The transparency and visibility provided by our regional IT system is starting to improve the ways of working between our European Supply Chain Company and the Multi Country organisations.

Concerted actions to address weakness in volume share will, we believe, progressively come through as the year unfolds.

Operating margin in the quarter was down by 310 basis points, reflecting the combined impact of:

- continuing high commodity costs as we work through forward covers,
- the adverse impact of exchange rates, especially on our UK business and
- the impact of lower volumes on fixed cost recoveries.

Let's now spend a few moments on some of the innovations which have driven growth in the first quarter.

Chart 8 :Savoury, Dressings and Spreads

Savoury, Dressings and Spreads grew by close to 3%.

In Savoury, Ragu pasta sauces have performed strongly in the US by appealing to consumers who are eating at home with the “feed your kids well” campaign. We also continued to roll-out Knorr stock pots across Europe.

Hellmann's continues to perform very well based on simple ingredients and healthy oils. Hellmann's Light with citrus fibre technology is being rolled out globally.

The Goodness of Margarine campaign is helping to reframe the health benefits of our margarine Brands versus butter. This is working well. We have implemented the campaign in 16 markets and intend to roll it out to 9 more over the course of the next 12 months.

Chart 9 : Ice Cream & Beverages.

Ice Cream & Beverages grew by over 4%.

Ice Cream innovations in Q1 include the launch of Popsicle “Slow Melt” water ices with ISP technology that lasts for over 30 minutes without dripping, a new Fruit Magnum Temptation variant, and Klondike ice-cream with more chocolate.

Lipton, our €3billion plus beverage Brand continues to perform well. Our pyramid teas are delivering exceptional growth in Russia and Poland and our premium range of Lipton Fruit teas and Infusions has been rolled out in Europe.

Chart 10 : Homecare

Home Care grew by 10.7%.

Surf, our ‘value’ brand is performing strongly across all regions. In Asia, we have launched Dirt is Good with Oxymax providing tough stain removal in a single wash and helping the consumer save precious water .

In Household Cleaning we launched Domestos '24 hour' in over 10 European markets and the 'best ever' CIF cream in a more contemporary and ergonomic pack.

Chart 11 :Personal Care

Personal Care grew by 4.0%.

Dove Go Fresh and Axe Dark Temptation deodorant are continuing to perform well. More recently we have rolled out the successful Clear mix in Argentina and launched Axe hair in the US. Our range of clinical protection deodorants in the US is growing share and has extended our leadership of the category. We have now launched Sure Maximum Protection in the UK.

Let's now look at the development of operating profit.

Chart 12 : Drivers of Operating Profit.

Here is the waterfall chart which shows the moving parts of operating profit versus the same period last year.

Lower volumes and the lost profit contribution from disposed businesses reduced operating profit by around €150 million.

Price increases boosted operating profit by over €600 million but costs were higher by around €900 million. Within the cost component commodities were €600 million higher with currency impacting negatively. We expect commodity costs to be up again in Quarter 2 but down in the second half and broadly flat for the year as a whole – again, including a negative impact from currency.

Savings were close to €300 million in the quarter.

Advertising and Promotions were down by around €80m reflecting lower media rates, the phasing of innovation and our on-going efficiency programmes. Media rate negotiations in one of our larger Asian markets led to a temporary suspension of media buying for a portion of the quarter and a consequent reduction in spending.

Phasing plans call for higher levels of A&P in the coming quarters as we increase spending in support of innovation and brand building activities.

This left operating profit before RDI's down by €30m at constant exchange rates. Absent the effect of the lost contribution from disposals, operating profit would be up 3% versus the first quarter of 2008.

Chart 13 : Operating Margin Development

There was an underlying decrease in operating margin of 30 basis points in the quarter.

Substantial commodity cost increases were only partly offset by a lower overheads ratio and lower A&P spending.

We expect gross margin to continue to be down in quarter 2 but to improve thereafter as commodity costs ease.

A step up in A&P spending together with a still subdued gross margin will mean that underlying operating margin in the second quarter will be lower than prior year before recovering in the second half.

Chart 14: Drivers of EPS Growth

Earnings per share declined by 44% in the quarter largely as a result of prior year disposals profits, mainly related to Boursin. Before the combined impact of restructuring, disposals and impairments, Earnings per Share reduced by 12.5%. This was largely driven by the negative impact of pensions on the interest line in 2009 and by the low prior year tax rate which benefited from the favourable settlement of tax audits.

Chart 15 : Balance Sheet and Cash Flow

Net debt increased by €1.1 billion in the quarter to slightly over €9 billion. The majority of this increase was due to the negative impact of exchange rates – particularly the strengthening of the US dollar.

Cash flow from operating activities was just over €0.1 billion, largely reflecting a €1.1 billion seasonal outflow of working capital and cash pension contributions of approaching €0.3 billion.

Working capital is progressing in line with plan, with an improvement in cash conversion days in every quarter since the high of quarter 2 2008. We expect this progress to continue into the next quarter and to see a sizeable year on year working capital improvement at the end of June.

Liquidity remains strong as evidenced by our ability to issue bonds at very competitive rates. In February we issued a two tranche 1.5 billion dollar US bond and followed this in March with a 350 million sterling bond. Both were well received by the market and both were priced very competitively – an indication of the financial strength of the company.

The net pension deficit increased by €0.2 billion in the quarter to €3.6 billion - reflecting a reduction in asset values. Liabilities were unchanged.

In these uncertain times our financial strategy and strong cash generation remain a source of competitive advantage. It supports a highly attractive dividend policy whilst providing ready financing for attractive bolt-on acquisitions.

In the quarter we announced the acquisition of the Wonderlight laundry brand in Sri Lanka and Napoca, the Romanian iconic ice cream brand. We completed the acquisition of TiGi in early April.

Last week we announced the acquisition of Baltimor, the leading ketchup business in Russia. This is an excellent addition to our dressing category portfolio with a strong positioning in the value segment.

With that I will now hand you back to Paul.

Paul Polman

Chief Executive Officer

Chart 16 : CEO Perspective - Our Markets

Thank you Jim.

Let me just say a few words about the markets in general, our own performance, some of the initiatives we have been taking to strengthen the business, and the progress we are making against them before opening it up for Q&As.

This time we have the benefit of having most of our competitors' results before publishing our own, which gives us an opportunity to calibrate our performance better in this volatile environment. I will leave it up to you to do that.

Let me briefly share some of my thinking on what we are doing now to ensure that we come out of this recession stronger and in a better position to achieve more consistent long-term performance.

First, we continue to operate under the assumption that markets will be soft, and prudently plan our business accordingly. Both Europe and the US are forecasting negative GDP growth this year and, at best, flat next year. In the US, in the last quarter of 2008, consumer spending on food fell by an inflation-adjusted 4% - the steepest drop in over 60 years. The effects of falling house prices, excessive credit card debt, falling equity prices and job security fears are contributing to on-going consumer habit changes. Never has consumer behaviour changed so rapidly. We are clearly seeing a premium placed by consumers on value. For example we see:

- coupon searches on the web at record highs,
- substantial hits on our branded web sites from consumers looking for value recipes
- consumers shopping more frequently with smaller baskets,
- consumers switching towards perceived value channels
- consumers sticking closely to a shopping list, with less impulse buying becoming more common – even in men

- and we see value in many categories becoming even more of a discriminator of choice.

So consumer behaviour is changing and we need to understand and adapt and take advantage of the opportunities that this brings.

Yes, there are some categories where private label has benefited from the economic slowdown - but not everywhere and not a consistent picture. For companies that are close to the consumer and shopper, it is not all bad news. I continue to believe that strong, well supported brands, committed to innovation, can win in this environment and we are seeing evidence of that in selected places - even North America and Europe. For example, brands like Hellmans, Bertolli and Ragu in the US are clearly benefiting from increased sandwich and pasta consumption at home as well as a good innovation pipeline. The same is true of our European Home Care and Tea businesses – both performing well behind a steady stream of innovation news

Markets : D&E

Let's now look at the regions.

In the developing and emerging markets, we are pleased with our progress – even though there was destocking and currency weakness in many countries leading to increased prices and slower market growth.

Our business in countries like India, Brazil, China, Vietnam, Russia and Indonesia, although slowing, are holding up and growing faster than the developed world.

The main softening has been in Central Europe, some African countries and Central America, where our footprint is still relatively weak.

There is no doubt that our overall D&E footprint remains a competitive advantage over the long-term with still strong growth opportunities from building share, expanding markets and population growth. That said, the significant pricing needed to offset currency movement is slowing down volume growth temporarily. Russia and China, which I visited in the last few weeks will continue to be priority investment areas.

Markets : North America and Western Europe

In North America consumer volumes are actually picking up from last quarter boosted by the 'eating at home' phenomenon and good innovation. At the same time our FoodSolutions business is seeing lower volumes, but mainly from the divestiture of non-branded business and only partly as a consequence of consumers eating less outside of the home.

The main challenge is Western Europe where GDP as a whole is expected to decline in 2009 by 4%. Going forward we expect these markets to continue to be soft. We have some brighter spots like the UK and, to a lesser extent, France and Belgium. There are early signs that shares, although still down year on year, are improving as we step up innovations.

Chart 17: CEO Perspective - Actions taken to drive volume

The actions we have been taking.

Let me briefly mention some of the actions we have taken to strengthen the business long-term.

We are now focussed on our growth agenda, that is, profitable volume growth without compromising operating margins or cash flow. The primary focus is on our core business, but we will augment this with selective M&A.

We see some early results:

- First, our 13 billion euro brands to which we gave priority are in aggregate growing ahead of the company
- Second, our US consumer business has returned to positive volume and share growth and
- Third, our share decline in Western Europe is showing signs of stabilisation – although not yet at the levels I am happy with.
- Fourth, the volume trend picked up through the course of the quarter after a weak start.
- Finally, our innovations are getting bigger.

Following the Portfolio and Organisational transformation of the last few years, we are now driving the cultural changes needed to succeed long-term, making the organisation increasingly customer and consumer focussed, faster and more disciplined with an action plan we call the '9 for 2009' – some simple focus areas for the whole organisation. For example:

Making the **innovation** pipeline more robust. During the first quarter we moved to the one Unilever R&D organisation, focussing our R&D effort in 6 global centres to better leverage our scale. The organisational model now allows us to consistently roll out innovations multi-regionally as we move from an 'opt in' to a justified 'opt out' approach in all markets. Quarter 1 has seen the roll out of our Ponds Face Care range to North Africa, the Middle East and South Africa; Signal 'White Now' and Dove Hair Minimising deodorant across Latin America; Lipton Linea to China and Russia and premium variants of the Lipton Pyramid bag range to most of Western Europe and CEE. As a result, we expect to get consistently more incremental turnover from our innovations.

A&P

Support was comparable with A&P at €1.1bn for the quarter, but down by 110 basis points versus the first quarter of last year. Yes, we do see media rates coming down; yes we are benefiting from greater efficiencies and yes, our competitors are spending less – some a lot less. We will not compromise on maintaining a competitive share of voice and strongly supporting our innovations.

The truth is, however, that more of the innovation comes in Quarter 2 and later, and you will see a pick up in A&P as we go forward behind strong initiatives such as Starbucks ice Cream in the US, Dove Hair Minimising Deodorants and Ponds Face Care launches in various countries.

Examples of 30 day fix it actions

Not only are innovations getting bigger; we are getting faster in addressing those areas where our Brands are challenged. **'30 day' action plans** are now in place for all key markets representing 70% of the business - indeed some actions have already been taken and we are starting to see the effects in the marketplace. In other areas - not yet.

We have seen good progress for example, in South Africa where our laundry market shares have risen strongly after several years of decline. We have fixed supply chain issues, improved formulations and filled a gap in the product range at the entry level with a low priced variant of Surf. We have seen similar improvements in our Indonesian skin cleansing business, and our Ice Cream businesses in the UK, Germany and Australia as a result of fast intervention.

However it's not all plain sailing. Our global Hair business will take longer to fix as our equities are not yet strong enough in enough markets. The same is true for Knorr in Germany or Skin Cleansing in India, where actions will take longer to show results.

I am also pleased to see the progress we are making in our **'go to market' capabilities** where we have focussed, as a priority, on improving customer service. Although we still have some way to go, we have already seen significant improvements across all regions resulting in better on-shelf availability and improved relationships with key retailers.

Following a successful implementation in Europe, we have also now decided to roll out a regional supply chain structure in Asia.

Chart 18 : CEO Perspective - Actions taken to protect cash flow and margins

On **cost reduction**, we are accelerating our restructuring plans and aim to complete most of the remaining projects by the end of this year. Most of the restructuring is concentrated in Europe and we have pulled forward activities in France, Italy and Germany. We are also looking at other parts of the organisation, especially overheads to make the organisation even more customer and consumer focused. Accelerating the plans this year will allow us to fully focus on building the business in 2010 with restructuring much reduced and, hopefully, a part of normal on-going business

A big opportunity continues to be simplification and, with the implementation of regional IT systems, we are now getting the transparency we need to take faster action there as well. An example is formula and SKU simplification. In laundry powders for example we aim to reduce the number of base formulations by well over 50% - providing us not only with lower costs but other significant benefits such as improved operational efficiency, better operational reliability, lower working capital and improved cross border sourcing opportunities.

On Cashflow, we are on target. Our cash conversion cycle is improving in all regions and working capital objectives account for one third of the variable pay targets of all managers - so it's another area of important focus.

Finally, let me say a word or two about the **organisation and culture**.

We will evolve the culture towards a faster, more consumer centric organisation, with clear responsibility and accountability. We are clearly driving speed and discipline with our 30 day plans, and ensuring that we are aligned around the common '9 for 2009' action plan. We are now setting variable pay targets every six months simplifying the number of individual objectives and aligning them better between the various business units.

We are also continuing to make good progress in putting the right people in to the right jobs. Roughly one third of the people filling the top 100 leadership roles will have changed or rotated by the middle of this year.

Chart 19 : Summary

Summary

We feel good about the progress made, but recognise that there is more to do. We will continue to pursue the priorities we set out at the beginning of the year

These are :

- To reignite volume growth whilst
- Protecting underlying operating margin and cash flow.

I do believe that volume growth can be achieved profitably and sustainably and that this is the surest route to long term value creation.

We are strengthening our Brands and our innovation capability; we are improving our go to market execution; we are cutting costs that the consumer is not prepared to pay for; we are strengthening the organisational capabilities and will continue to set the bar higher in areas that matter.

With that ladies and gentlemen we will now move to questions.

Chart 20: Q&A's