

Unilever Q2 and First Half Year Results

Presentation and video cast

London 0830 GMT, Thursday 6th August, 2009

Paul Polman Chief Executive Officer

Jim Lawrence Chief Financial Officer

Chart 1: Q2 and First Half Year 2009 results

Good morning and welcome to Unilever's Quarter 2 and Half Year 2009 results presentation. I am joined by Jim Lawrence, our Chief Financial Officer and by James Allison, our Head of Investor Relations.

In the audience are Vindi Banga, President Categories; Genevieve Berger, Chief R&D Officer; Mike Polk , President Americas; Harish Manwani, President Asia, Africa and Central and Eastern Europe; and Sandy Ogg, our Chief HR Officer.

Jim will cover performance. After that I will give you my perspectives on the development of our markets and where we stand versus the priorities we have set out for the business.

Before I pass to Jim to go through the details let me summarise what I consider to be some of the highlights.

Chart 2: Safe Harbour

But first I draw your attention to the usual disclaimer relating to forward looking statements and non_GAAP measures.

Chart 3: Q2 Highlights

We set out to reignite volume growth whilst protecting cash flow and margin. Although early days, I am encouraged by the progress we have made.

Organic growth of 4.1% in Quarter 2 was well balanced with 2.1% coming from price and 2% from volume.

The volume growth represents a clear step up from the negative trend we had seen in previous quarters. Although helped a bit by strong ice cream sales in June, this has not come about by accident.

Growth is solid and of good quality as it is mainly driven by improved execution and stronger innovation backed up by higher A&P spending. And volume growth is widespread, across categories and countries, with share trends showing positive momentum in nearly 60% of our turnover. We have closely aligned the business behind our priorities and it's starting to pay off.

Price remained positive in the quarter, but the year on year trend in underlying price growth is down. The bulk of this is carry-over effect but we have also corrected prices, particularly in Western Europe. Specifically:

- In categories such as Spreads and Dressings commodity costs have reduced significantly from the peaks of 2008 and where appropriate these savings have been passed back to consumers.
- As commodity costs escalated in the second half of 2008 we took some price increases in some markets which were not followed by competition. This weakened our consumer value propositions. We have now brought our prices back in to line and are happy with our relative price positions.

A&P spending increased by 50 basis points in quarter two as we stepped up support behind innovation and market development initiatives. Both A and P were significantly higher despite lower media costs, strengthening our relative position.

Operating Margin before restructuring was down by 60 bps in the quarter reflecting the step up in A&P spending and a 30 bps negative impact of dilution from disposals. Savings continue to be strong helping to offset the still higher commodity costs.

Cash flow from operating activities, improved by €1.6 billion in the first half as we tightened our grip on working capital.

Our priorities are the right ones and I am satisfied that the focus we are giving to them is helping us to improve performance.

But there is more to be done. Although our share momentum is improving, there are still too many markets where we need to do better. The same holds true for our cost structure which is not yet sufficiently competitive. I am determined that we will continue to make progress in these areas.

So with these few opening words I will now pass you to Jim to take you through the details of our performance.

Jim Lawrence

Chief Financial Officer

Chart 4: Q2 and H1 Sales

Thank you Paul and good morning everyone.

Let me start by reviewing our top line performance.

Turnover in Q2 was €10.5 billion, which is 0.8% ahead of last year. There was no currency impact. Disposals, net of acquisitions, reduced turnover by -3.2%. This left underlying sales growth of +4.1%, with volume up 2.0% and price up 2.1%.

Volume growth was restored in all regions. Turnover for the half year was €20.0 billion, similar to last year.

Turning to the regional highlights and starting with our largest region. Asia, Africa CEE

Chart 5: Asia Africa CEE

Underlying sales growth was 8.2% in Q2 with 3.3% volume growth driven by innovation and market development initiatives. Our strong portfolio of brands typically covers the range of price points in the major segments of our key markets.

Our price growth came down to +4.8%, as we lapped the price increases taken during last year.

Volume performance improved in most countries across the region. India returned to positive volume growth, whilst Indonesia, Russia and Vietnam continued to deliver strong double digit sales growth underpinned by strong volume growth. We have not yet seen much improvement in our markets in Central Europe.

Underlying operating margin improved by 130 basis points in the quarter, with cost savings, carry-over pricing and the operational leverage from higher volume more than offsetting the adverse impact of higher commodity costs.

Chart 6: The Americas

Underlying sales growth in the Americas was 4.9% in Q2, with volumes up 1.6% and price growth of 3.2%.

In the US, we have adapted quickly to changing consumer needs. For example we have increased investments in campaigns emphasizing consumer value and addressing increased demand for in-home eating.

This has led to the 2nd consecutive quarter of positive volume growth in our US Consumer business. Sales in Foodservice were down, partly from the exit of unbranded business but also because fewer people are eating out-of-home.

In Canada, now managed as part of our North American MCO, our performance has improved strongly driven by innovation and better execution.

Latin America grew by 9%, with higher volumes mainly driven by good performances in Brazil, Argentina and Chile. Economies in Central America remain particularly weak and our sales were down, although not as much as in Q1.

Underlying operating margin improved by 10 basis points, despite a negative 80 basis point impact from disposal dilution.

Chart 7: Western Europe

Western Europe returned to positive volume growth, with volumes up by 1.0% in Q2, after 5 consecutive quarters of decline including -3.7% in Q1.

Volume growth was broad based. Ice Cream sales in the first half of the summer season have been strong but even without this volumes in our consumer business would have been slightly up. In addition, all key countries showed an improving volume trend.

Underlying sales were down by 1.1%, with price growth 2.0% lower as we adjusted prices to reflect the anticipated easing of commodity costs and corrected prices where we have been uncompetitive.

Our pan-European SAP system, fully in place since 1st January 2009, is allowing us to share and utilise information more efficiently and is a key enabler for our continued progress in customer service.

Underlying operating margin in the quarter was down by 340 basis points, reflecting higher commodity costs as we continued to work our way through high priced covers, the depreciation of sterling, and a step up in investments to reignite volume growth.

Let me now go through our performance by category.

Chart 8: Savoury, Dressings and Spreads

Savoury, Dressings and Spreads sales were flat in the quarter and up +1.4% in the first half.

In Spreads, we have lowered the prices of our products in a number of our markets to reflect the easing of edible oil prices and close competitive gaps where necessary.

We have also reinforced the nutritional value of our Family Goodness brands such as Rama with the further roll-out of the Goodness of Margarine campaign. In Central Africa, we introduced more affordable margarine tubs to our Blue Band range.

In Dressings, we have seen good growth from the roll out of new Hellmann's Light 'double whisked' mayonnaise which utilises our proprietary citrus fibre technology.

In Savoury, we have introduced our new Knorr Stock Pots in several more markets in Western Europe. Here, consumption is building and repeat purchase rates are particularly encouraging. We have also launched a new range of Knorr rice seasoning mixes and soups into Latin America.

Chart 9: Ice Cream and Beverages

Ice Cream and Beverages grew by almost 5% in the quarter and 4.5% in the first half.

Ice Cream sales picked up in Q2 helped by good weather in Europe and new communication campaigns for innovations such as Magnum Temptation, now also available in multi packs for consumption at home.

Inmarko, our recently acquired Russian ice-cream brand, has delivered a strong double-digit performance so far.

In Latin America, we continue to build on the successful relaunch of Magnum by extending the range with new variants.

Tea is one of our fastest growing categories. Innovations include new Lipton green teas launched into the US and the further roll-out of our Lipton Linea slimming teas into Russia and China.

Chart 10: Home Care

Home Care grew by 9.2% in Q2 and 9.9% in the first half, with strong performances in both Laundry and Household Care.

Surf has delivered another strong performance driven by its 'clean and fresh' offering and a great 'value' price for consumers. In Asia, we continue to roll-out new improved formulations of our Dirt is Good brand to a number of markets, including China. In Fabric Conditioners, Comfort Naturals have been launched, with ingredients which are kind to your skin.

In Household Care, Domestos '24 hour protection' and CIF 'actifizz' delivered strong growth, and more recently we have rolled out CIF creams into India.

Chart 11: Personal Care

Personal Care grew by 5.4% in the second quarter, and 4.6% in the first half of the year.

Deodorants continue to perform strongly across both developed and developing markets. New variants include Axe Instinct with the 'scent of leather' and Rexona No White Marks 'invisible ice'. Dove hair minimising deodorants have also been rolled out into North America after a successful launch into Europe and Latin America last quarter.

Hair Care is performing better. TiGi sales are ahead of last year and Clear has now been rolled out to Argentina and Colombia. The new mix is now available in India.

We have added Nutrium Moisture technology to our Dove shower gels in North America. This new proprietary technology significantly improves moisturisation by penetrating the skin and repairing damage.

Our Lifebuoy range of anti-bacterial hand wash and soaps have performed well across Asia, with specific marketing campaigns addressing consumers' heightened hygiene concerns.

Before I review the drivers of operating profit, let me say a few words about commodity costs, savings and pricing.

Chart 12: Commodity Cost Development

Commodity costs in Q2 were higher than the same period of last year, this time by around € 400m with currency accounting for two thirds of the cost increase. This follows the €600m of increases we saw in the first quarter.

Whilst the benefit of lower edible and crude oil prices will flow through the income statement in the coming quarters this will continue to be offset by the impact of currency devaluation in a number of our key markets. Inflationary pressures are also evident in a number of commodity types such as Tea, Fruit and Vegetables and Food Ingredients.

In the second half of the year we expect commodity costs to be a tailwind. For the year as a whole we now expect commodity costs including currency to be up, by a few hundred million Euros.

Chart 13: Strong Savings Delivery

Savings for the quarter were more than €300 million and now stand at €600 million for the first half of 2009. Half of these savings are coming from better buying, one third are from restructuring and the remainder from local efficiency savings.

We expect our overall savings programmes to deliver in excess of €1 billion for the year as a whole.

Restructuring costs for the first half of 2009 now stand at just over €350 million and we continue to expect restructuring charges for the year as a whole to be nearer to €1 billion.

Chart 14: Pricing

Let me also say a few words about pricing, building on what Paul mentioned at the beginning of the presentation.

The carry-over impact of price increases taken last year contributes between 2 and 3% to price growth for 2009 as a whole with between 6 and 7% in Q1 falling to close to zero by Q4.

In addition we have adjusted prices where we had not been competitive and prices have come down in some of the categories most affected by the reduction in commodity costs.

The impact of carry over pricing and these adjustments will mean that price growth in the second half of this year will be flat, perhaps even slightly negative. This is a natural consequence of volatile commodity costs.

Turning now to Operating Profit

Chart 15: Q2 Drivers of Operating Profit

This chart shows the up and down elevators of operating profit for the second quarter, expressed in constant currency, and compared with the same period last year.

You can see that the benefits of volume and mix are partly offset by the lost contribution from disposals.

Price increases and savings largely, but not completely, cancel out the very large increase in commodity and other costs.

And you can see the step-up in investment in advertising and promotions left operating profit before RDI's down €90 million at constant exchange rates.

Chart 16: Q2 Operating Margin

Underlying operating margin was down 60 basis points in the quarter.

Gross margin, although 20 basis points lower than the same period last year, showed a marked improvement versus the previous quarters. This trend will continue in the second half as lower commodity costs flow through the income statement.

Advertising and Promotion expenditure was 50 basis points higher than the same period last year.

Overheads came down by 10 basis points after absorbing c.30 bps of un-sheddable costs from disposals. This reflects the benefits of our ongoing restructuring programme.

The underlying operating margin for the first half of 2009 was 50 bps down. The details are included in the appendix to this presentation as is the up and down elevator chart on operating profit for the first half.

Having covered the operational performance for the 2nd quarter let's now review earnings and cash flow for the first half.

Chart 17: H1 Drivers of EPS Growth

Earnings per share was € 0.53. Before the impact of restructuring, disposals and impairments, earnings per share reduced by 13%.

The key drivers of this reduction are: 3% dilution from disposals, 6% from the pensions finance charge, and 3% from a higher tax rate in the first half of the year.

The underlying tax rate in H1 was 28.5%. We expect this to be lower in H2 and for the tax rate before RDI's, for the full year, to be around 27% - slightly above our longer term guidance of 26%.

Chart 18: Reducing Cash Conversion Cycle

Cash flow from operating activities was €2.5 billion in the first half, which was € 1.6 billion higher than last year and largely driven by improvements in working capital. Although versus an easy comparator our cash conversion cycle has improved by 15 days versus the same period last year with 13 days coming from reduced inventory.

Chart 19: Balance Sheet and Cash Flow H1

Net debt was €8.9 billion at the end of June, €1.3 billion lower than at the same time last year and €0.9 billion higher than at the start of the year.

We also continued to issue new bonds to re-finance our debt at very competitive rates. In June, we added two new bonds: an 8-year 400 million Sterling bond at a rate of 4.75% and a 4-year 450 million Eurodollar bond at a 3.125% interest rate.

The net pension deficit increased in the first half by €0.3 billion to €3.7 billion. This mainly reflects an increase in pension liabilities due to lower discount rates. Our estimate of the cash cost of pensions for the full year 2009 remains unchanged at around €1 billion.

Our financial strategy and strong cash flow generation are a source of competitive advantage. Our cash flow and strong single A credit rating support competitive financing costs and a highly attractive dividend policy whilst providing ready financing for possible bolt-on acquisitions.

For example, the acquisition of Baltimor, the leading ketchup manufacturer in Russia, was completed at the beginning of July. We also completed the acquisition of TiGi in the quarter and bought out the minority interests in our Vietnam operation.

With that I will now hand you back to Paul.

Chart 20: Paul Polman – Chief Executive Officer

Paul Polman

Chief Executive Officer

Thank you Jim.

Before I give you my overall brief impression on the results, let me say a few words about the economic environment we are operating in.

Although many keep quoting the increased amount of green shoots that are coming up, we like to continue to be realistic (hopefully, proven wrong) and plan our business accordingly.

This is, without any doubt, the longest and deepest recession during the post world war period and, whilst it might have bottomed out, we do not believe that there are any signs of a fast recovery. In fact, we expect many parts of the world such as Western and Eastern Europe still to soften before even bottoming out. The World Bank has continued to lower its forecast for global GDP growth in 2009 – now down to minus 2.8% - and even if the outlook for 2010 is slightly positive, which is by no means guaranteed, we are still well behind the levels we have seen in 2008 and before.

For us, the most important indicators are consumer confidence and unemployment. Consumer confidence remains low. A recent Nielsen survey showed that 48 out of 49 countries experienced a further drop in consumer confidence over the first half of 2009 vs the previous half year.

Unemployment has risen fast and will continue to rise especially in the US and Europe and will take a long time before going back to historical levels. Whilst major ticket items will be first affected, we also see grocery spend drop by about 10% when unemployment hits. Fortunately our categories are less affected and we believe that this will continue to be the case.

However, the rate of growth in our category volumes has clearly slowed from the periods prior to the recession and we expect it to stay at these levels for a while.

Volume growth in the developed world has stopped altogether or, in the case of Europe, it might even be negative. In the D&E markets, volume growth continues to be robust at 3%, but this is still down from the higher levels experienced in prior years.

In this 'new world' there is a recalibration of the value equation – and we expect a tougher competitive environment from both Private Label, who are benefitting short term, and from Branded competition.

Whilst we believe that there are ample opportunities in this environment - one size does not fit all! The way we respond to consumer needs will differ within different categories and between different countries. A prerequisite to do this well, is a very deep understanding of consumer needs and behaviours.

Research in the UK and Germany shows, for example, that it is not always private label that benefits. Whilst some consumers are trading down, they are not necessarily fleeing to discounters – rather they are looking for value without frills. An equally large section of the population is however moving up, looking for premium positioned market leaders that are well supported, differentiated and have strong innovations. It is this deep understanding of the consumer that, over time, will separate the winners from the losers.

Driving innovation behind our leading brands, strongly supported by A&P, and continuously shaping the value equation whilst rigorously maintaining focus on cost, continue to be key objectives.

Chart 21: Quality of Our Results

In this context we are making sure and steady progress in the

Quality of our Results:

- There has been a good improvement in volume share trends with nearly 60% of the business now contributing positive momentum.
- Growth is widespread across categories and countries - underpinned by more A&P support and better Innovation
- And the fundamentals of our cost structure continue to improve.

We are pleased with progress in **Developing and Emerging** markets with volumes growing over 3% after two consecutive quarters of decline. CEE continues to show negative volume but even here we saw improved performance in Q2. Russia and China, priority markets for Unilever, continue to perform well.

In **Developed** markets volumes grew by close to 1% after 5 consecutive quarters of decline.

North America is performing well and despite the growth of Private Label we have increased share.

Western Europe remains a difficult market but we have shown in places like the UK that we can do well, even in tough conditions.

Our shares in Western Europe continue to improve, although not yet to the level that I find satisfactory. Our volume performance in the second quarter was better especially where we had strong innovation roll outs such as Dove Hair Minimising Deo, Magnum Temptations and Small and Mighty liquid detergents. But we need to do more before we will feel comfortable that we have turned the corner.

So we are pleased and encouraged by progress but we will have to set the bar even higher.

Chart 22: Key Drivers of Our Performance

Let's now take a closer look at the 4 key drivers of improvement in our business performance.

First, strengthening our **Brands and Categories**.

Chart 23: Stronger Claims

We are improving **innovation** success rates by focussing on fewer projects backed by stronger claims.

For example the complete removal of trans fats from our soft spreads margarines in the US, positions us very well both in terms of market leading nutrition and taste. Our Ponds anti ageing range of skin creams, which provide younger looking skin in 7 days, are preferred by consumers, versus other leading prestige brands, across Asia. Our Small and Mighty range of detergents provides consumers with better performance whilst being kinder to the environment. It's also a better and more profitable proposition for our Customers. And our range of New Dove Liquids with Nutrium technology is proven to be the most effective natural nourishment ever delivered in a body wash.

Chart 24: Faster Roll-Outs to More Markets

And we will continue to roll out innovation to more markets, more quickly. Clear is now sold in 33 markets, 13 more than at the end of 2008 and Dove Hair Minimizing Deodorant is now in 37 markets, with 7 added in the most recent quarter.

Chart 25: Improving Product Quality

Product quality is being improved in many markets – Amora Dressings in France, Klondike Ice Cream bars in the US, our Dirt is Good formulations in Asia and are all examples – but there are many others.

Chart 26: Playing the Full Price Piano

The price piano is also being played better. We spoke before about the initiatives we have taken in South Africa including the extension of our laundry range to more attractive price points. In Russia we have launched a range of herbal infusion teas under the Beseda brand, specifically positioned in the value segment. And, as we have said already, we have corrected prices where needed – in order to restore or improve competitiveness and this has largely been in Western Europe.

But challenges remain. There are still too many market / category combinations – cells as we call them – which are not performing. And our Brand equities need to be stronger. So there is a lot of work still to do.

Chart 27: Key Drivers of Business Performance – In Market Amplification

The **second** driver of performance is what I call **In Market Amplification** – in essence, ensuring discipline in the sales fundamentals and helping our Customers to grow more quickly by agreeing with them joint business plans.

Chart 28: A Positive Customer Service Trend

We have been focussed on driving increased Customer Service and On Shelf availability and we are starting to see the results coming through.

Of our top 10 customers, 8 are growing faster than the company average as we work even more collaboratively on plans to grow their businesses and ours.

Chart 29: Customer Insight and Innovation Centre

In the US we are leveraging our Customer Insight and Innovation Centre and many of you will have the opportunity to see this later this year at our investor event in Englewood Cliffs, New Jersey. We will expand the concept of our Customer Insight and Innovation Centre to Europe and to Asia.

So again, good progress, but we have more to do on the basics, especially in-store availability. We also need to be acutely aware of the challenges which will come from low cost regional and local competitors and from increased Private Label penetration.

Chart 30: Key Drivers of Business Performance – Cash and Costs

The **third** important driver of business improvement is Cash and Costs.

You have seen already the improvements we have made in working capital management.

We are accelerating our already ambitious restructuring plans – most particularly in the area of overheads where we are going to achieve headcount targets this year which we had previously set for end 2010.

And as Jim has explained commodity costs, a severe headwind for the last 6 quarters will become a tailwind in the second half of 2009.

Our cost savings programmes are functioning well and are ahead of plan at the half way point in the year.

So again, good progress but we are still not fully competitive.

Chart 31: Key Drivers of Business Performance – Organisation

The final part of the jigsaw is the **Organisation**.

Chart 32: Aligning the Organisation

There are three areas where we are continuing to drive important changes. The **first** is to further build **Accountability and Responsibility** throughout the organisation. In the last 6 months we have appointed one third of our top managers to new roles, with more changes still to come and we have simplified and aligned the way in which we track and reward performance.

The **second change** we are making to the organisation is to further instil a **Bias for Action** and to build speed in to all that we do. To help this we will reduce complexity wherever it does not add value. And this is not just complexity in formulations, packaging and SKU count, but complexity in the way we run the business. We have also implemented 30 days action plans with clearly defined owners and this is helping us to take decisive action, quickly.

The **third** organisational imperative is to continue to drive **consumer and customer** thinking in to the heart of the business, and to further align the organisation on growth and driving out all activities which will not add value for consumers and customers.

We will also increase the focus on core brands and we will further strengthen the links between Brand Building and Brand Development to ensure that we operate seamlessly.

We are doing better in each of these areas but cultural changes take time and we don't want to build the organisation on quicksand.

After 6 months as CEO I should say that I'm thoroughly enjoying the opportunity of leading this great company. It's certainly demanding but I am relishing the challenge.

All in all I am pleased with the speed with which the organisation is responding to the direction we have set out.

However, as the saying goes – 'an early bird does not make a summer' – and we have been here before. Consistent delivery of results is what matters – not fancy words.

With the continued hard work and dedication of everyone, I have no doubt that we can become a Consistent Winning Organisation.

Chart 33: Priorities for 2009

Our principle focus continues to be the restoration of volume growth whilst protecting cash flow and margin for the year as a whole.

With that we will now be happy to take your questions.

Chart 34: Questions