Unilever Half Year & Q2 2006 Results Presentation
London, Thursday 3rd Aug 2006

Patrick Cescau – Unilever Group Chief Executive

Chart 1 - Introduction

Good morning to everyone here with us today and to everyone listening in to this, Unilever's half-year results presentation.

I am joined here by Rudy Markham, our CFO and John Rothenberg, Head of Investor Relations.

Chart 2 - Safe Harbour

As usual, I draw your attention to the disclaimer relating to forward looking statements and non-GAAP measures. This disclaimer is included here and will be posted with the text of this presentation on Unilever's web-site

We will keep this presentation short to leave sufficient time for your questions.

Chart 3 - Unilever's Strategic Agenda

In early 2005 we were faced with an urgent need to restore Unilever's competitiveness. Our growth performance had stalled in 2004. Our market shares were in decline. We had missed our earnings guidance.

Restoring market competitiveness had to be our number one priority.

We set about this:

- by building on our existing strengths, in Personal Care, in D&E markets and in Vitality
- by reigniting growth with a step-up in marketing investment
- and by changing our organisation to improve our execution.

By the end of 2005 significant progress had been made, but the task was incomplete. Significant parts of our business were still not fully competitive, most notably in Europe.

As we move into the second half of 2006, I'm satisfied that this immediate priority – to restore our market competitiveness – has now been largely achieved.

Restoring competitiveness has required a step-up in investment:- in pricing; in product quality; in innovation; in advertising and promotions; in building capabilities; and in restructuring.

In 2005, we had to invest ahead of our ability to fund.

In 2006, we are facing a cost headwind that is stronger than we expected. In the 1st half, pricing, higher volume, improved business mix and savings have been largely cancelled out by cost inflation, leaving little to finance additional marketing spend.

However, you will have seen from this morning's announcement that this tougher than expected cost environment is not deflecting us from our growth plans. Furthermore, we remain confident that we will deliver an operating margin in excess of 13.4% in 2006 and that we have a sound base for sustainable margin improvement going forward. Rudy will say more about this in a minute.

Generating returns for our shareholders that are not 'middle of the pack' but 'top of the class' remains our long term aim. The next phase of our strategy is therefore focused on driving performance to the next level – growth ahead of our markets, hand in hand with sustainable margin expansion.

Before looking too far ahead, let me first return to our business results in the 1st half of 2006, and why these indicate to me that we have largely restored our competitiveness.

Chart 4 – Underlying Sales Growth

Our underlying sales growth was 3.9% in Q2 and 3.4% in the 1st half. This was in line with the estimated growth in our markets, as borne out by our market shares which, in aggregate, have been stable over recent quarters.

Consumer demand across the world is more or less where we expected it to be. We have seen some signs of an upturn in demand in Western Europe, but market growth at around 1 % in the 1st half remains below historical norms.

D&E growth remains generally buoyant, albeit that we have seen a slow down in demand in some Latin American markets.

Our growth is broad based. In the 2nd quarter, and for the first time for many quarters, all our major categories and all our regions and sub-regions delivered organic growth. This included good performances from parts of the business that had previously been a drag on Unilever's top-line such as Slim*Fast and Household Care.

Equally encouraging has been the quality of that growth.

Price growth has been increasing without loss of the solid volume momentum built up in 2005.

Also, the areas we earmarked for particular focus and investment in 2006 have delivered strong performances in the first half.

Personal Care grew by 6% in the 1st half and 7% for the quarter. Again growth was broad based – both across categories and across regions. Personal Care in Europe, for example grew by more than 3% in the 1st half, and accelerated in Q2.

Chart 5 – Personal Care: High Quality Innovation

High quality innovation is a key driver of this growth.

Take for example the success of Dove Summer Glow. Self-tanning products have not always had the best of reputations with consumers, but here we have combined a technically outstanding product with a brand trusted by the target audience. As a result, we have not only generated impressive growth for Dove in Europe and North America, but have helped to grow the Hand and Body segment.

Chart 6 – Personal Care: Inescapable Brand Building

Great brand building is another key driver of success. We have targeted the male segment of the Deo market with a campaign for Rexona for Men around the excitement of football in the World Cup. This has included not only conventional TV advertising, but a more extensive 360 degree approach to our brand communication, including a series of sponsored 'Fans United' TV programming. This has propelled Rexona to double digit growth in H1 and more than compensates, believe me, for the disappointment that I otherwise felt about the outcome to the World Cup!

Chart 7 – Personal Care: Strengthening the Portfolio

And we continue to strengthen our Personal Care portfolio. In the US, we have built up our Suave and Dove hair care ranges in preparation for the launch of Sunsilk, which hit the shelves in July with a $200m investment programme in its1st year. At the same time, we've taken the opportunity to dispose of minor brands such as Finesse and Aquanet.

Chart 8 – D&E Markets

Growth in D&E was also strong and in line with our expectations at just under 8% in the 1st half.

Growth was particularly strong across Asia, driven both by our traditional strongholds such as India and Indonesia, as well our newer businesses like China and Vietnam.

China is a prime example of our focus on high growth spaces generating growth ahead of a strong and growing market. In fact, 30% underlying sales growth in the 1st half of 2006. We are still underweight in China – our business is only 1/3 the size of that in India - but thanks to high quality innovation and better distribution, Unilever's share of wallet in this huge consumer market is growing fast.

Chart 9 – Vitality: AdeZ

Our Vitality mission is shaping the thrust of our innovation and investment priorities across the whole of our business.

I could quote you numerous examples.

AdeZ soya based fruit drinks combine the goodness of soya, rich in calcium and protein, with the refreshment, taste and vitamin C from fruit juice. And all with a 1/3 less calories than a regular fruit juice.

AdeZ has been growing at over 30% per annum in Latin America over the past few years, boosted by a continuous pipe-line of new products and flavours.

We are now bringing the concept to Europe with the recent introduction of three flavours of Adez drinks in the UK. It's early days, but already an exciting example of how Vitality is guiding us towards new growth opportunities.

Chart 10 – Vitality: Lifebuoy

In India, our Lifebuoy 'Health Awakening' programme has been driving consistent double digit growth for the brand. This five year campaign aims to help educate 200m people – 20% of the population – about basic hygiene habits, including washing hands with soap, in partnership with health organisations, government agencies and community leaders. So far, we have reached 70 million people in over 18,000 villages – a significant achievement but with much more to come.

Chart 11 – Vitality: Breyer's Double Churned Light

And in North America, we are using our processing and formulation technology to bring to consumers new and exciting products such as Breyers Light Double Churned novelties that offer the creamy mouth-feel of regular ice cream but with significantly less fat, and Popsicle Fruity Shots with improved quality and more intense fruit flavours. The outstanding success of these vitality innovations are reflected in the continuing strong performance of our US Ice Cream business, combining market share gain with good profitability.

Chart 12 – Restoring Growth in Europe

The 1st half also saw us restore growth in Europe, another of our priorities for the year. The last six quarters have now seen a steadily improving sales trend in Europe, resulting in 1% underlying sales growth in Q2.

Chart 13 – Restoring Growth in Europe: Change Programme

Those of you who attended our investor event in Poland will have seen examples of the principal drivers of this improving performance.

A strengthened innovation programme has certainly been a factor. Much of the effort has been focused on the rejuvenation of core brands. Our Cif and Domestos brands are back to growth in Europe, driven by innovations like Cif Power Cream sprays and Domestos 5x Bleach, both of which have improved the image of these brands with products that offer "best ever" performance.

We have also been innovating in new areas, with the selective introduction of new, potentially high impact products such as Knorr Vie fruit and vegetable shots and Dove Summer Glow, which I referred to earlier.

Innovation has also helped us rebalance our price value equation.

In some cases, we have reduced prices to achieve this. In others, we have improved product quality for the same price. But in many cases, 'playing the price piano' more effectively has led us to expand the range of products we offer to cover different price points. Thus in France, we have introduced a range of 'Secret de Grand Mere' soups under the Knorr brand at a substantially lower price than our our premium range.

But great innovations have to be fully exploited. During this year, we will completely revitalise our range of Knorr bouillons. The quality of existing products is being substantially upgraded in terms of ingredients, appearance and flavour. And new products which appeal to consumer's interest in Vitality are being introduced, including organic bouillons, olive oil and sea salt herb mixes. Within six months, this programme will have touched every one of our Western European markets.

Improvement in Europe is also about better execution, especially in customer management. The Netherlands was one of the first of our European businesses to fully adopt the 'One Unilever' model, and the first to fully embrace our more disciplined approach to customer management. It is good to note therefore that the Netherlands is comfortably our fastest growing Western European market in the first half of 2006.

We are now extending our customer management improvement programme across Europe, with France and Germany at the head of the queue.

The scale of the transformation that we are undertaking in Europe is very significant. But I can now say with some confidence that these changes are strengthening the business and that they can be executed in parallel with more competitive performance in the market place.

I am now going to hand over to Rudy who will take you through the details of our financial performance.

Rudy Markham – Unilever CFO

Chart 14 – Rudy Markham CFO

Thank you Patrick.

I would like to start by commenting on a few additional features of our top line.

Turnover grew by 5.8% in the first half and 3.3% in Q2. Disposals reduced turnover growth by just under 1% in both the quarter and the half year. The impact of exchange rates slowed sharply from 6.3% in Q1 to only 0.4% in Q2.

Our European frozen food businesses, currently held for disposal, are not included in reported turnover. These performed satisfactorily in the first half. The disposal process is proceeding to plan and we remain on track for completion by the year end.

Chart 15 – Operating Margin Q2 and H1

At the half year, our operating margin is 14.4% - around 1% ahead of the half year figure in 2005.

However, the shape of our margin development both this year and last is affected by the phasing of restructuring, disposals and especially, the Slim*Fast impairment taken in Q2 2005. Before these items, the underlying change in operating margin was 60 bps below in the 1st half and 100 bps down in Q2.

So what have been the key drivers of our margin development in the 1st half?

First, A&P increased by 50bps, with the incremental investment focused on priority initiatives in Skin, Deodorants, Savoury and Heart Health, and in priority markets. A&P was up in all three regions, and especially in Asia.

Second, a substantial contribution from our savings programmes, which in aggregate have yielded €400m in the first half.

Third, a significant headwind from input cost inflation that has more than offset the combined benefits of price increases, volume growth and better mix.

And, finally, there was a one-off difference in overheads in Q2 caused by €50m profit on a property sale taken last year.

The commodity cost environment is certainly more challenging than we expected at the beginning of the year. Apart from a mineral oil price that has drifted up through the year to over $70 per barrel, we have seen increases in a number of other key commodities, including edible oils and tea.

The impact of internationally traded commodities on our business has been exacerbated by the strengthening of the US dollar against the Euro, and the recent weakening of certain D&E currencies such as the Turkish Lira and the South African rand.

This harsher cost environment reduces our margin headroom in 2006, leaving our gross margin flat both in Q2 and at the half year, but we remain confident that our full year operating margin will exceed the 13.4% delivered in 2005.

What are our reasons for this confidence?

Chart 16 – Drivers of FY Operating Margin

First, we are increasing prices. Price growth has been accelerating over the past three quarters and, in light of the increased cost pressures, we are pushing harder for increases where we can.

Second, we are accelerating our savings programmes. We are now planning restructuring of over 100 bps in 2006 to support this and we expect to comfortably exceed the €700m of savings we generated in 2005.

Third, we have a softer operating margin comparator in the fourth quarter, largely reflecting the phasing of our innovation and market development activities, which are more weighted to Q2 and Q3 this year than last. This includes a substantial investment behind the launch of Sunsilk in North America.

Chart 17 - H1 Earnings and Cash

Turning to other aspects of our financial performance, there have also been some important improvements to earnings below operating profit. These include:

- An increase in net profit from joint ventures and associates, most notably the excellent performance of the Pepsi Lipton Partnership. Sales of Lipton ready to drink tea have risen by over a third in North America so far this year. Unfortunately, being a joint venture, this is not reflected in our sales growth!
- We also benefited from substantially lower financing costs driven by lower net debt and higher pension asset values
- And our 1st half tax rate of 25% leaves us well placed to repeat the 26% full year rate that we saw in 2005.

Unilever continues to generate strong cash flow. Net cash flow from operating activities was €1.5bn in the 1st half, up slightly on 2005. This included lower tax payments that more than offset a larger seasonal outflow from working capital. Structurally, our working capital efficiency remains very competitive.

Net debt, at €10.3bn, is €1.2bn lower than this time last year. €0.4bn of this improvement is due to favourable currency movements, but this is also after healthy dividends and a €0.5bn share buy-back in the 2nd half of 2005.

As we said back in February, we plan for a further share buy-back of around €500m in 2006. We may review this in light of any bolt-on acquisitions, disposal proceeds and the development of our credit metrics.

Patrick, back to you

Patrick Cescau – Unilever Group Chief Executive

Thank you Rudy.

Chart 18 – Restored Competitiveness

As I said earlier, I am now satisfied that we have largely completed the first phase of our strategy – to restore our competitiveness in the market.

The evidence for that I think now is clear.

We have grown the business for six consecutive quarters.

Specifically, within this, we have seen significant progress on our immediate growth priorities:

- Building on our strengths in Personal Care, in D&E markets and in Vitality.

- And returning our business in Europe to growth.

At the same time, the organisational changes we have put in place are proving to be a powerful enabler for growth.

Again, the evidence supports.

- More leveraging of our global scale within our local roots and global scale. Witness the acceleration of our savings programmes during the year.

- Faster roll-outs. Look at the success of Dove Summer Glow on both sides of the Atlantic, in the same year.

- A better balance of innovation between rejuvenating the core of our brands, and entering new areas, as with Knorr, where we have taken the brand into new wet soups in pouches in the Netherlands and Poland, while upgrading our bouillons across Europe.

- And a significant upping of our game in some core capabilities:

Chart 19 – Improvement in Key Capabilities

in **customer management** for example, where we are introducing common approaches and disciplines across Unilever, and where we are developing some genuinely leading edge capabilities – our shopper insight work in Europe and North America, for instance.

and **in brand development** and **marketing**, where again the story is one of leading-edge developments. This is particularly true of the way we are using our 360 degree communications to reach consumers in a host of new and exciting ways. One of the reasons, perhaps, why Unilever walked off with no fewer than 37 of the coveted Lions for creative excellence at last month's Cannes Advertising Festival – more than three times the number of our next leading competitor!

Ladies and gentlemen. All of this is helping to infuse Unilever with a much greater sense of self-belief and purpose. There is now a clarity to our strategy and a sharpness to our delivery that wasn't there two years ago. It is helping to energise the whole business. It's giving us vitality, if you like.

So, we are now looking to the future, not over our shoulder.

And we are doing so with a real sense of confidence. I am happy to reflect some of that confidence to you this morning.

Chart 20 – Moving to the Next Phase

Our task now is to build on our strengths and the positive changes we have made and to move to the next phase of our strategy – unlocking Unilever's potential for market beating performance.

The key here will be the clear-sighted and skilful management and development of our portfolio strategy:

- driving global leadership positions in key markets;
- investing to build strength in high growth spaces.

We can do this organically. We are confident of that. But equally, we make no secret of the fact that where M&A activity will help us to accelerate our strategy – both in strengthening existing leadership positions and in entering new high growth spaces – we will actively seek out those opportunities.

This is what we mean by building a winning portfolio.

Chart 21 – Unilever 2010

It is why we feel able to say today that we expect to grow ahead of our markets with long term underlying sales growth of 3-5%.

And that we will do so while delivering sustainable margin expansion, leading to an operating margin in excess of 15% by 2010.

We need to do this to if we are to deliver 'Top 1/3' returns for our shareholders.

And, for the reasons Rudy and I have spelt out today, we are confident that we are firmly on track to do so.

Chart 22 – Questions

Thank you very much. I will now hand you over to John, who will explain how we will take your questions.