Unilever Trading Update, 20 September 2004

Introduction by Patrick Cescau and Rudy Markham

Ladies and gentlemen, good morning and welcome to this conference call which follows the trading update made earlier today.

I am joined on this conference call by Antony Burgmans, Chairman of Unilever NV in Rotterdam. Rudy Markham, our Financial Director, is here with me in London. Together, we are here to answer your questions, but before doing so, I would like to make a few opening remarks.

It goes without saying that we are very disappointed that we have had to issue a trading update this morning. But we have done this because, as we have said on many previous occasions, as a business our over-riding objective is long term value creation for our shareholders.

This commitment sometimes means putting the longer-term health of the business ahead of the achievement of short-term financial targets.

We firmly believe that the decisions we have now taken are in the long term interests of the business, however painful the immediate consequences.

I am now going to ask Rudy to take you through in a little more detail the background to our statement this morning.

Thank you Patrick, and good morning everyone.

Before going further, please may I point out that a transcript, which contains the formal disclosure as to forward-looking statements within the meaning of relevant US legislation, can be accessed via our web site at www.unilever.com and this presentation and discussions are conducted subject to that disclaimer.

I will not read out the disclaimer but propose we take it as read into the record for the purpose of this conference call.

I remind you that unless otherwise stated the financial numbers used are in Euros at constant rates of exchange, that is average 2003 rates.

You will remember that with the second quarter results we described a combination of weaker markets, fierce price competition, some market activation weaknesses and some share losses. These factors led to a disappointing top line performance in the first half year.

We also said then that, in spite of the difficult trading environment, the business remained able to finance the necessary investment in our brands and to respond flexibly to the specific circumstances of individual markets, while maintaining our outlook for low double digit earnings growth for the year. This outlook was based on a number of assumptions:

- Firstly, no significant improvement in the weak market conditions across Europe and North America, characterised by low market growth, and in some market place declines, and continued price competition in several key markets.

- Secondly, no change in the competitive environment in several of our key Asian markets, notably India and Japan.

- Thirdly, a fully funded programme of market activities, albeit with some rebalancing between ‘below the line’ advertising spend and increased expenditure on ‘above the line’ trade investment to support our brands at point of sale.

- Fourthly, a recovery in the top line growth of our under-performing businesses towards the back end of the year.

- We also expected an increased benefit from our savings programmes in the second half of 2004, including an initial contribution from the overheads simplification project that we announced with Q2 results.

- Finally, we assumed an average summer in Europe after the exceptionally hot 2003.

Overall, we were looking for some pick-up in the growth of leading brands in the 2nd half, with EPS growth weighted to the fourth quarter.

So what has changed, and why have we today revised our outlook for EPS (beia) growth?

The first thing to say is that, for the most part, our business is progressing broadly to plan. So we do not intend to provide any further details on regional or category performance now. Instead, I would like to focus on the changes to our plans resulting in today's update.

The most visible impact on our assumptions has been the very poor weather that we have suffered in Northern Europe. After a poor start to the season in Q2, our plans assumed no better than average weather conditions in Q3, in contrast to the exceptionally hot weather we saw in 2003. Even so, the reality during July and August was worse than expected, hitting sales in our Ice Cream and Ready to Drink Tea businesses in these markets. Lower ice cream and Ready to Drink sales also impact, through lower volumes and weaker mix, the average gross margin for the whole company.

Secondly, we have experienced a further deterioration of market conditions in Western Europe, especially in HPC where we have seen an even sharper decline in market sizes during July and August compared with that which we had seen in the 1st half. A combination of weak consumer confidence, competition within the retail trade and competition between manufacturers is leading to severe price compression and down trading.

We have also seen a further intensification of competitive pressure on our positions in Asia, particularly in Laundry and Hair.

Therefore we now believe more investment is necessary to underpin the development of our business. We have identified certain markets where we will strengthen further the investment behind our brands to counter specific competitive threats and to drive even harder the recent and new innovations we are bringing to market.

The combined effect of weaker than expected business development, and our desire to sustain, and in some cases increase support investment led us to the unavoidable conclusion that we must create more space to react flexibly and decisively. This means we have decided we should lower our EPS outlook for this year in order to protect and sustain our long term business health.

So what actions are we taking?

Our first step is to strengthen where necessary the market competitiveness of our offerings. We have conducted a thorough review of our investment plans. This has been a bottom up exercise conducted by our Foods and HPC Divisions, which has identified a number of areas of the business, mainly in Europe and Asia, and to a lesser extent North America, where we will step up our market activities and increase support investment. These include some necessary adjustments to price points, as well as heavier support behind a number of high quality innovation activities.

For competitive reasons, I shall not go into detail as to the precise markets and activities that we are targeting.

We will ensure that we can sustain this step-up in investment through into 2005 and beyond by accelerating the savings programmes required to fund it. Also we are continuing to take actions which improve our financing and tax. The latter is now expected to be at a rate around 27% for the year 2004.

Next, the actions we have taken to address the lack of growth in areas of under-performance are well into execution. We fully expect to see a return to profitable growth in these businesses within reasonable timescales as follows:

In Slim*Fast, we have completed a full re-launch of the brand during the 3rd quarter of 2004, and our plans assume progress over the next six months. The carrying value of Slim*Fast on our balancing sheet will remain under continuing review.

Our Prestige business has been reshaped and the 2004 innovation programme is in the market.

In Frozen Foods we have actioned additional restructuring and some further realignment of the portfolio. Our core frozen foods range in Europe is being repositioned to respond to growing consumer interest in healthiness and freshness. We would expect to see the impact of this in the course of next year.

Finally, earlier this year we outlined the framework of performance that we were looking for over the coming years (Unilever 2010).

We believe our model provides us with the flexibility we require to adjust to fluctuations in market and competitive positions and we remain committed to the long term financial targets of ROIC and growth in free cash flow delivery as our main value creation metrics.

In light of the current market environment, we will clearly want to reassure ourselves, and the market, that our business remains competitive and equipped for sustained profitable growth. Therefore, we are now reviewing for all our markets and sectors the continuing validity of the market assumptions that we have made. We will report back on the conclusions with our Q4 2004 results at the latest.

Before moving to Q&A I would like to stress that our priority is to get the business back to sustained and profitable top line growth as quickly as possible. This priority is reflected in the actions we are taking now.

With that I would like to open the call to questions.