

## **Unilever Q2 and Half Year 2010 Results**

Presentation and Video Cast

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| Paul Polman,    | Chief Executive Officer            |
| Jean-Marc Huët, | Chief Financial Officer            |
| James Allison   | Head of Investor Relations and M&A |

### **CHART 1: Title chart**

#### **Paul Polman**

Good morning and welcome to Unilever's 2<sup>nd</sup> Quarter and Half Year results presentation. We are grateful to you all for taking the time to join us today and for your continued active interest in our business.

I am joined today by Jean-Marc Huët, Chief Financial Officer and James Allison, Head of Investor Relations and M&A. In the audience are Dave Lewis, President of the Americas, Sandy Ogg, Chief HR Officer, Keith Weed, Chief Marketing and Communications Officer, Mike Polk, President of the Categories and Tonia Lovell, our recently appointed General Counsel.

The rest of the Unilever Executive team are not present today; they are busy in the field leading their respective areas of the business.

I will start off with a few words about the highlights of the year so far, before handing over to Jean-Marc who will take you through our recent performance in more detail.

I will then conclude with my perspectives on our performance; the business environment we are operating in, the improvements we have been making and the areas where there is still more to be done. I will close with some brief comments on the outlook for the rest of the year, before opening the floor for questions.

## **CHART 2: Safe Harbour Statement**

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

## **Chart 3: Priorities for 2010**

Let me firstly confirm our priorities for 2010. These are:

- To drive profitable volume growth, ahead of our markets;
- To increase underlying operating margin steadily and sustainably, and
- To generate strong cash flow and lower our average trade working capital.

At this half way point of the year I am pleased to report that we are well on track to deliver once more against these priorities.

I'll begin with a few words about two very important drivers of change in Unilever.

Firstly, the Innovation programme that is central to our growth ambition is picking up and getting to competitive levels. Our innovations are getting bigger, reaching more markets faster, and better meeting the needs of our consumers around the world. At the same time we are introducing more of our great brands into new markets than ever before. Here we are helped by having the deepest reach of any major consumer goods company.

Secondly, the culture in Unilever is changing. The organisation is getting stronger and we are beginning to operate with far more discipline. As I travel the business I am seeing a step-up in the pace and intensity of action that is new for Unilever.

I am encouraged by this. We have further to go, but progress is clear and measurable, particularly in the development of our volume.

#### **Chart 4 – Building Momentum in Tough Markets**

Where we face the toughest battles we are competing well. Overall volume shares are up by around 50 basis points, with share gains across the board including emerging markets where the competitive intensity is greatest. Here, our scale, strong market positions and deep roots have enabled us to not only withstand the pressures but to increase our market leadership in a number of key countries.

And in Western Europe and North America, where the fight for volume in difficult market conditions remains intense, we have gained volume share for the third quarter in a row.

Just as important, we have been driving responsible growth. Despite the significant step up in competitive pressure, pricing has not deteriorated, cost savings have been accelerated and A&P levels have been stepped up considerably. All this demonstrates discipline in the management of our operating margin and cash flow.

So – promising signs of a business that is delivering against its priorities and steadily building momentum. This gives us confidence as we face challenging conditions in the second half of the year. Building on the deep values which are part of our heritage, a new, stronger Unilever is emerging; one capable of competing and winning even when markets are tough and competition is intense.

Let me now pass you to Jean-Marc who will take you through the detail of our performance in Q2 and the first half of the year as a whole.

## **Chart 5: Introduction; Jean-Marc Huët, CFO**

**Jean-Marc Huët**

Thank you Paul and good morning everyone.

### **Chart 6: Q2 10: Strong Top Line Growth**

Underlying volume growth in the quarter was again strong at 5.7%, with underlying sales growth of 3.6%.

Turnover was €11.8 billion in the quarter, up 12.4% on the same period last year, with the unusually weak Euro contributing a positive forex effect of 8.7%.

### **Chart 7: H1 10: Underlying Sales Growth**

For the half year, turnover was €21.9 billion, up 9.7%, with underlying sales growth of 3.8%. In the context of very weak market conditions in Western Europe, CEE and North America this is a good performance.

### **Chart 8: Q2 10: Improved Pricing**

Underlying price growth in the quarter improved to minus 2.0%. In-quarter pricing at the group level has been stable for the last two quarters despite intense competition, especially in the emerging markets. Prices are up in some Categories, where there is clear cost inflation, but down in others where we have reacted to competitive pressures.

### **Chart 9: Q2 10: Improved Pricing**

For the first half, underlying price growth was minus 2.6%. We continue to expect underlying price growth to turn positive towards the end of the year.

### **Chart 10: Q2 10: Underlying Volume Growth**

Underlying volume growth of 5.7% in the second quarter brings the UVG for the first half to 6.6%. This is the highest recorded by Unilever in over 20 years, albeit against a rather weak first half of 2009 when volume was flat.

### **Chart 11: Volume Growth is Broad Based**

Equally positive is the fact that volume growth is broad based, whether we look by category, by brand, or by geography. There are exceptions of course, but the vast majority of the business is growing, reflecting the robustness of our strategy.

In case you are wondering, the pictures at the bottom of this slide are not random pieces of real estate. They are three of our new One Unilever MCO head offices in Western Europe.

### **Chart 12: Q2 10: Volume Growth by Region**

Focusing a little more on the regions we see firstly the continuing strong performance in our Emerging markets. The Asia Africa CEE region, where competition is most intense, continues to be a

powerhouse of growth, but our businesses in Latin America have also performed strongly.

North American volumes were also positive, with performance in the US holding up well in a difficult environment. Even in Western Europe, where conditions are most challenging, we saw encouraging performance, ahead of the market. Excluding Greece, where the market as a whole suffered sharp volume decline, Western Europe overall grew volume. Although this was modest for the second quarter, for the first half overall it was more than 2% in a market which was at best flat.

### **Chart 13: Q2 10: Strong Volume Shares**

Volume shares have been steadily improving since the beginning of 2009, and have shown consistent gains of between 50 and 60 basis points since the 4<sup>th</sup> quarter of last year. We need to go back a long way to see performance like this for Unilever as a whole.

### **Chart 14: Winning Where Markets are Toughest**

Especially pleasing is our share performance in some of the most competitive markets. In Turkey for example, despite aggressive price competition we have stretched our lead in Home Care. In Indonesia, as well as closing the gap to the market leaders in Home Care we have increased our leadership in the much larger Personal Care sector. And in Brazil, we have responded strongly

to concerted attacks and managed to increase even further our substantial share leadership in Home Care.

### **Chart 15: China: Narrowing the Gap to Market Leaders**

Worthy of special mention is China, where the market is already significantly bigger than in India. Here we are making substantial progress in the face of robust competition. Whether in Savoury, Home Care or Personal Care, we are increasingly narrowing the gaps to the market leaders.

### **Chart 16: Q2 10: A&P Continued Investment**

So, good volume performance across the board, strongly driven by acceleration in innovation and launches of new brands into new markets.

Despite lowering media rates we have steadily increased Advertising and Promotions in recent quarters to levels which are very competitive, with share of spend strongly ahead. We have been investing for the long term.

In the remainder of the year we expect A+P expenditure to be broadly flat in absolute terms against the very high levels of investment which we made in the second half of 2009.

We continue to expect our A&P investment to be comfortably up for the year as a whole.

## **Chart 17: H1 10: Strong Savings Continue**

Turning now to our margins, we continue to see good delivery from our stepped up savings programmes where we are benefitting from the restructuring activity that was pulled forward into 2009. Savings in the first half were €700 million, just over half of which came from buying.

With our efficiency programmes more biased to the first half of the year than the second, we expect full year savings to be just a little ahead of the €1 billion level we originally targeted.

## **Chart 18: Q2 10: Continued Gross Margin Improvements**

Gross Margin in the quarter was again up, by 120 basis points, bringing the overall first half improvement to 180 basis points. This came in a developed world environment where levels of price promotion were high.

The commodity cost inflation which we see in the market has not yet impacted our P&L. Commodity costs were broadly flat in the quarter.

However, we continue to expect commodity cost inflation for the year as whole to be around 2%, meaning that we will face headwinds in the second half of the year. Petrochemicals are the most significant contributor, although dairy products, plastics, paper and board, edible oils and tea have also increased in price.

The development of commodity costs, together with the unusually high comparators from 2009 will mean second half Gross Margins will be lower, although pricing will drive some improvement in the 4<sup>th</sup> quarter. For the year as a whole, we continue to expect Gross Margin to be ahead of 2009.

### **Chart 19: H1 10: Underlying Operating Margin**

Underlying Operating Margin was up by 10 basis points in the Quarter, and by 30 basis points in the first half.

As you saw earlier, Advertising and Promotions spend was again up in the quarter and has increased by 180 basis points in the first half. This incremental cost was more than offset by an improvement in Gross Margin of 180 basis points and lower Indirects of 30 basis points. This led to an underlying operating margin of 14.9% for the first half of the year.

We continue to expect that for the year as a whole we will deliver on our objective of steady and sustainable underlying operating margin improvement.

This robust performance underlines the benefits of the virtuous circle of growth.

### **Chart 20: H1 10: Earnings Per Share**

Earnings per share in the first half were strongly ahead, admittedly against a low base from 2009. Fully diluted EPS of 70 Euro cents

represents an increase of 36%, of which 10% came from operational performance. The one-off profit on disposal of the Brunch business boosted EPS by 5% in the second quarter and by 3% in the first half.

The large headline increase is of course driven by a series of financial items, all of which have been positive so far this year. The movement in pensions financing costs will continue to enhance earnings throughout the year.

Lower restructuring costs have boosted EPS by 8%, as we move to a more normalised level of restructuring following the completion of the One Unilever programme. We expect restructuring costs for the year to be around 120 basis points, similar to the level in the first half.

In the second half of 2009 the tax charge was unusually low, balancing a higher than average charge in the first half of that year. This is likely to mean that tax will have a negative impact on EPS growth in the second half of 2010 and most particularly in the next quarter. We expect that the impact of tax on earnings for the year as a whole will be broadly neutral.

Currency boosted EPS by 7% in the first half of the year

## **Chart 21: Third Consecutive Quarter of Negative Trading Working Capital**

Trading Working Capital was negative for the third successive quarter. The long term improvement trend is clear from the chart, where we can see that the moving annual total is now negative also.

It is discipline in all aspects of Working Capital that has driven this positive trend. There remains more to be done however, and we can certainly push this improvement further.

## **Chart 22: H1 10: Free Cash Flow**

This quarter we have introduced a measure of 'free cash flow', defined as shown on the chart as net cash flow from operating activities less net interest and net capital expenditure. Many of you already measure cash generation in this way. We have made this change following your broad input, in the interests of simplifying our reporting and better aligning the business with typical market metrics for cash.

Net cash flow from operating activities for the first half was up by around €0.2 billion. This was driven by improved operating profit and lower pension contributions, offset by higher tax payments and an absolute increase in working capital.

Net capital expenditure in the first half was up by around €0.2 billion on last year. This reflects increased investment behind

accelerating volume growth as we come to the end of the intense One Unilever restructuring programme. Our investments are particularly focused on capacity expansion in several of our key Emerging markets.

With net interest stable this resulted in free cash flow for the first half being broadly unchanged at around €1.3 billion.

### **Chart 23: Balance Sheet**

Net debt was €7.6 billion at the half year, up from €6.4 billion at the end of 2009. The main driver of the increase was the significant weakening of the Euro, especially against the US Dollar in which the majority of our debt is denominated. Overall, Euro weakness increased debt levels by €1.4 billion over the course of the first half.

The pension deficit increased to €4.0 billion at the half year against €2.6 billion at the end of 2009. The main contributor to this has been lower corporate double A bond rates, which have driven an increase in pension liabilities of around €1 billion. Currency moves account for most of the remaining increase. Scheme assets have remained broadly flat, with higher returns in the first quarter offset by equity market weakness in the second.

Cash contributions to pensions in the first half were around €350 million, down by around €100 million on 2009. We still expect full year payments to be around €750 million, well below the €1.3 billion contributed in 2009.

Finally, I can confirm that the next quarterly dividend will be 20.8 Euro cents, to be paid in September.

With that, I now return you to Paul.

## **CHART 24: Title chart – Paul Polman, CEO**

### **Paul Polman**

Thank you Jean-Marc.

Let me begin my reflections on the last six months with a few words about the business environment.

We continue to expect the recovery in our markets to be long and drawn out. We see clear evidence of this all around us; most acutely here in Western Europe but also in North America, where markets remain sluggish.

Our views on deleveraging in these developed markets, on fragile consumer confidence, and on the slow pace of market recovery have not changed.

In the Emerging markets growth is more robust, although not without signs of slowdown in some countries.

With opportunities for growth at a premium it should not surprise anyone that competitive intensity shows no signs of abating.

Certain high profile players dominate the headlines, but we are experiencing tough battles throughout our business, as much with lean aggressive local players as with our global peers.

So we continue to plan the business on the basis of a long and slow recovery and very competitive markets.

Overall our progress is good, in fact a little ahead of our plans. Of course there is no room for complacency. We are working with the long term in mind and there is much still to do to get consistent top and bottom line growth; the good thing is that there are many opportunities still open to us.

I continue to hold the view that we can best create shareholder value by strongly growing the top line, whilst at the same time investing in the long term health of the business and delivering modest but consistent margin improvement. This is what we have been doing, and this is what we will continue to do.

Our intention is to invest heavily for the long term, whether it be in:

- Consistent and competitive levels of A&P,
- Capability building, especially in Supply Chain, Customer Development and Marketing, or
- The time and energy we are putting into changing our organisation and culture.

And, just as importantly for this new Unilever, we are making these investments with rigid discipline.

## **CHART 25: Strategic Framework**

Let me say a few words about our strategic framework, the Compass, and 3 of the thrusts that underpin it:

- Winning with Brands and Innovation
- Winning in the Market Place and
- Winning with People

First, Winning with Brands and Innovation.

## **CHART 26: Winning with Brands and Innovation Innovation Rate Ahead of 2009**

As you know, I see innovation as the key driver of Unilever's growth and I am encouraged by the progress we are making after many years of under-investment in our brands. In the many markets I have visited this year I have seen plenty of evidence of how our innovation is getting bigger, better and faster.

Our innovation funnel is healthier than ever before. That is clear from the metrics. Individual projects are getting bigger and the portfolio as a whole is delivering more. The proportion of our turnover coming from products launched in the last two years is up to a new high of 33%, compared with far lower levels at the end of 2008 when our innovation was less impactful.

## **CHART 27: Winning with Brands and Innovation Innovation Rate Ahead of 2009**

One of the most important drivers of our improved innovation performance has been the speed of roll-out to many more markets than in the past.

The chart gives you some examples. Dove for Men plus Care, Magnum Gold?!, Knorr StockPot and Dove Hair Damage Expert. These are all big-ticket projects with substantial investments that will have a significant impact on our growth. We are rolling out innovations such as these rapidly into multiple markets, mainly because of the discipline we are instilling in our business. Gone are the days of long debates on tweaking mixes for country X or Y. We know that with discipline and rigour comes speed, a vital part of a winning formula.

## **CHART 28: Winning with Brands and Innovation Innovating Category-wide : Hair**

We have been innovating across the category portfolio rather than just in selective Brands which did not move the needle enough at the category level. For example, in Hair we have successfully relaunched Timotei and Sunsilk at lower and mid market price points, and we will roll out Dove Damage Repair in the more premium segment. With additional launch activity behind Clear anti-dandruff and TiGi Catwalk we are active across our entire range of Hair brands, driving volume growth well ahead of the market.

Having looked from a category perspective let's now take a quick look from the country angle.

## **CHART 29: Winning with Brands and Innovation**

### **Innovation in action - Nigeria**

I was recently in Nigeria, a country with more than 150 million people and home to a Unilever business with a long and successful history. This is a business operating in a demanding environment, and you might think that attending to the basics was challenging enough. Yet the scale of innovation and market development we are driving under Thabo Mabe's leadership is truly impressive.

In Fabric cleaning, market leadership has been captured with the launch of Sunlight and relaunch of Omo. In Oral, a twice daily brushing campaign to develop usage has led to market growth and major share gains for Close Up, a brand that already enjoyed more than 80% share. In Savoury, rollout of new variants and a 'Power of Mealtime' campaign for Knorr have fuelled share gains.

We have also launched a 'spread for bread' variant of Blue Band, with a new formulation and more affordable price points. As well as driving growth this is enabling more consumers to access the nutritional benefits of margarine.

An inspirational example, but not an isolated one.

## **CHART 30: Winning with Brands and Innovation**

### **Q2 10: Brands into New Markets**

As well as innovating faster we are also taking our brands into more new markets. In the 2<sup>nd</sup> quarter for example, we:

- launched the Sure brand into India,
- expanded Lifebuoy into Brazil, Bolivia and Peru, but also into Australia, stretching the brand into the developed world.

## **CHART 31: Winning with Brands and Innovation**

### **Q2 10: Brands into New Markets**

- We launched TiGi Catwalk in India and Brazil, and
- introduced the successful Fruttare brand into Thailand, Malaysia and Singapore.

## **CHART 32: Winning with Brands and Innovation**

### **Q2 10: Brands into New Markets**

- We expanded Cif into Vietnam, and
- rapidly launched Pepsodent in the Philippines to counter competitive threats.

These are just a few examples but the list, happily, is a long one.

## **CHART 33: Winning with Brands and Innovation**

### **White Spaces: a Growth Opportunity**

Whilst we have been rapidly introducing our brands into new markets the white space opportunity is still substantial. This chart shows the country coverage of our key brands. Clearly we have ample scope to grow.

Now today I have not focussed on market development but as we have said before, more consumers, more able to afford our products will be the main source of growth for Unilever for many years to come.

### **Chart 34: Reshaping the Portfolio**

Equally important as growing our brands and rolling out our innovations to more new markets we are also re-shaping the portfolio.

In the last quarter we continued to work towards the completion of the Sara Lee Personal Care deal, which we expect in Q4. We also:

- announced the disposal of our Italian Frozen Foods business,
- reached an agreement to dispose of a palm oil plantation in Ghana, the last country where we have such plantations, and
- completed the disposal of Brunch and started to license Du Darst in Germany.

Let me turn now to the second strategic thrust: Winning in the Market Place.

### **CHART 35: Winning in the Marketplace**

We are making good progress towards our goals of winning with winning customers and becoming an execution powerhouse. On shelf availability has been a key area of focus and we have seen excellent results. 290 basis points of improvement over the last year. This is a significant contributor to the improved volume momentum we are developing.

In the last quarter we have also opened another of our groundbreaking customer insight and innovation centres; this time in Paris. And as the chart shows the rollouts will continue.

Although we don't yet see ourselves as best in class we are being increasingly recognised by our customers. Tesco, for example, recently named us as their international vendor of the year and in China, WalMart named us as their supplier of the year.

Finally, let me say a few words about Winning with People and in particular the changes that we have been making to our culture and organisation.

## **CHART 36: Winning with People**

### **Organisation and culture**

Changing the culture of an organisation as large and complex as Unilever is a long journey, especially if you want the change to be engrained. Our progress so far is good. There is much still to do, but I can sense the electricity starting to flow through the wires and am greatly encouraged by this. Internally we feel that we are making progress; externally the changes are beginning to be recognised.

We are busy building capabilities throughout the business.

- In the Supply Chain we have made great progress under Pier Luigi's leadership, with much of our success in savings driven by the new organisation that has been built. In Europe we are fully up and running, in our other regions we are following not far behind.
- In Customer Development we are also driving change, with the energetic new leadership of Claudio Colzani.
- Now we are more focussed on improving Marketing, under the leadership of Keith Weed. Keith inherits a great tradition of marketing excellence in Unilever; our award as advertiser of the year at Cannes is one recent example of this. Keith has a full agenda ahead of him to ensure that all aspects of our brand management are truly world class.

- Capability building is just as important in our back office. Under the leadership of Pascal Visee, Unilever Enterprise Support is now up and running. It will bring a variety of business services together in one organisation, driving lower costs and improved performance. It is a key part of becoming a Consumer and Customer focussed organisation.

Culture change inevitably takes longer than this capability building. We are making progress. Our leaders are becoming more action orientated and externally focused. I expect our new reward system to have a real impact, with more differentiation, greater accountability, clearer expectations and again, tighter discipline.

Speed, clarity, discipline and accountability are all essential components of a business which can win in today's environment. The improvements we continue to make here underpin our competitiveness and are helping to build a new Unilever.

### **CHART 37: Priorities for 2010**

I will close my comments with a few words on the outlook for the rest of 2010. These are no different from what we have said before.

There can be no doubt that, together with our competitors, we face a tougher second half. In addition to a cautious consumer in Western Europe and North America we face difficult comparators from last year as well as the added burden of rising commodity costs. We are all competing hard, and there is no reason to believe that this is about to change.

Once more we welcome this competition, and as you have heard and seen in the results we believe the new Unilever is well placed. Although life is not made out of discrete 13 week periods, this was yet another good quarter. Despite this challenging environment we are confident. We are building momentum. The virtuous circle of volume growth is working for us and there is renewed energy and spirit in the business.

Our priorities remain unchanged. We will continue to focus on profitable volume growth, whilst delivering steady and sustainable year on year improvement in underlying operating margin and strong cash flow. We stay focused on doing the right things for the long term.

And on that note ladies and gentlemen I would like to open the floor for questions.

### **CHART 38: Questions**