

Unilever Q4 and Full Year Results

Presentation and video cast

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Chart 1: Q4 and full year 2007 results

Good morning everyone. Welcome to Unilever's Quarter Four and Full Year 2007 Results presentation.

I am joined this morning by Jim Lawrence, our Chief Financial Officer and by John Rothenberg, our Senior Vice-President for Investor Relations. And in the audience by Vindi Banga, President Foods; Ralph Kugler, President HPC; Harish Manwani, President Asia Africa; and Dave Lewis, head of our business here in the UK.

Chart 2: Safe harbour statement

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.

Chart 3: Key messages

In a moment, Jim Lawrence will take you through the details of the results for last year.

The starting point is that 2007 was a good year for Unilever, marked by a strong business performance:

- Organic sales growth of 5.5%
- And an underlying operating margin improvement of 0.2%

Growth was, once again, broad-based.

But it was also of good quality...

...reflecting as it did the priorities we have set for the business.

Hence, we saw....

- A further re-directing of our business towards faster-growing D&E markets
- And another strong performance from our Personal Care business, with growth of 6.7%

Yet, at the same time, 2007 witnessed:

- A stronger contribution from our Foods categories
- And benefits coming through from restructuring, especially in Western Europe

Reflecting the strategy we have been pursuing over the last three years, the last twelve months were also characterised by:

- Bigger innovations, rolled out faster and across more parts of the world
- A greater role for technology delivering real consumer benefits
- Further increases in the levels of investment behind our brands

We also saw an increasing contribution from pricing during the year and a higher rate of savings following the accelerated programme of restructuring we announced in August last year.

So, the key message from 2007 is one of improved performance.

But that only tells half the story....

...because the results we have announced today are underpinned by – and directly attributable to - the significant changes we have been making to Unilever itself - both to our organisation and to our ways of working.

We are, today, a leaner, more agile, more globally-oriented business.

- Our 'One Unilever' operating model is up and running in every major country and is being extended to a series of multi-country organisations across many parts of the world, injecting even greater speed and simplicity into the organisation
- We have streamlined our management, considerably, and brought in new people and new ideas
- We have raised the bar when it comes to critical capabilities, like marketing and customer management

- We are leveraging science and technology much more in support of our brands and categories
- And we have put a ruthless focus on improving our executional capability

We have further to travel in all of these areas, but the progress is clear and the impact on our performance is obvious.

So, for all these reasons we believe we remain on track to achieve our 2010 growth and margins targets, despite a tougher economic and cost environment. We are not complacent of course about the challenges that lie ahead, but Unilever today is a more resilient business than before, better placed to meet the challenges – and indeed the opportunities – of operating in uncertain times.

I will say more towards the end of the presentation about how we are approaching the year ahead, but first Jim will take you through the details of our performance in 2007.

Chart 5: 2007 highlights

Thanks Patrick. Good morning everyone.

As most of you will know, I joined Unilever in September of last year.

By this time, Patrick and his team had laid out Unilever's strategy and priorities for the next few years, including the accelerated change programme that was announced back in August.

I joined the business believing that this strategy would transform Unilever's performance.

Six months into the job, I am now even more convinced that we have an exciting opportunity ahead of us, despite an uncertain and possibly more difficult business environment in the immediate future.

Our 2007 results bear this out.

It was our third consecutive year of accelerating organic sales growth, to 5.5%. And we finished the year strongly, with a markedly better performance in Europe.

At the same time, we saw a resumption of underlying margin improvement of some 20 basis points. With input costs rising sharply through the year, our pricing actions and savings programmes have been critical.

We saw an increasing contribution to earnings from joint ventures and associates, and from our management of tax and the balance sheet.

We generated free cash flow of €3.8bn, and increased our return on invested capital to 12.7%, from 11.5% in 2006, excluding the profit on the sale of frozen foods.

And €3.7bn of cash was returned to shareholders during the year through share buybacks and dividend payments, and we are announcing today a 7% increase in our 2007 annual dividend and a share buy-back programme of at least €1.5bn for 2008.

Let me now look at the numbers in a little more detail.

Chart 6: Sales in 2007

Our sales in Q4 were €9.9bn, which is 1.7% ahead of last year. This was after a 0.8% reduction from disposals and an adverse currency effect of 3.4%.

The latter reflects the strength of our reporting currency, the Euro, against a wide range of currencies, including the US dollar and sterling.

This left turnover for the full year at €40.2bn, or 1.4% up.

Chart 7: Strong organic growth

Underlying sales growth in 2007 was 5.5%, a material step-up from 3.8% growth in 2006.

Growth has been consistently strong across all four quarters, but Q4 was a strong finish to the year, with growth of over 6%.

Pricing rose steadily through the year as we took steps to recover commodity cost increases.

The pricing power of our brands has been strengthened over the past couple of years, through:

- a stronger and more consistent flow of innovation
- the systematic improvement of product quality, and
- increased marketing investment behind brand equity

Determined pricing action did have an impact on volume growth in some markets, especially in the US and Latin America. However, Unilever's volume growth remained robust overall, 3.7% for the full year and 3.0% in Q4, reflecting strong volume growth in our D&E markets and a welcome return to volume growth in Europe.

Our growth was broad based across all of our regions, and all of our categories, while reflecting our differentiated portfolio strategy and allocation of resources.

Chart 8: Europe

In Europe, underlying sales growth was just under 3% in 2007, up from around 1% in 2006.

Q4 growth was 5.5%. Even allowing for a weak prior year comparator and a small boost from trade buying ahead of SAP implementation in the UK and January price increases in Germany, this was a good performance.

We have seen improving year-on-year trends almost everywhere.

Russia has been a star performer, with growth in the high teens. But all our major European businesses have grown in 2007, including the UK, Italy, Germany and the Netherlands.

Sales in France were only marginally up, but still better than a decline in 2006 in what remains a challenging market.

This improvement has not been driven by a step-up in A&P investment. It has been driven by a relentless focus on innovation, on improving the quality and value of our product offerings and on better execution.

It is also a direct reflection of a business that is now fit to compete. Patrick referred earlier to Unilever's change programme and nowhere is the pace of change greater than in Europe. To put this into context, in the last 12 months, we have:

- Sold the *Boursin* business and, earlier this week, agreed to buy *Inmarko*, the leading ice cream business in Russia
- Announced the closure or stream-lining of 10 factories in UK, the Netherlands, Sweden, France and Spain
- Formed 4 new multi-country organisations – UK/Ireland, Benelux, Germany/Austria/Switzerland and Czech/Hungary
- Rolled out SAP to cover two-thirds of our European business, to be completed in 2008.

All this adds up to a significant step-up in productivity, which is feeding through into margins. There was an underlying improvement in our European operating margin in 2007 of 90bps.

Chart 9: Americas

Full year growth in the Americas was 4.1%.

In the US, the overall growth of our markets has held up pretty well. In the 2nd half of the year, we have seen slightly weaker demand in Personal Care. There has also been some softness in out-of-home channels. In contrast, we have seen quite strong demand for food products used in the home such as meal kits and side-dishes.

Against this background, our US business delivered solid growth in the year of just over 3%. This included good growth across most of the foods categories and personal care and a much improved performance in home care.

In North America ice cream however, we had a poor year. We are making 'root and branch' changes to our business model which, while causing some short-term pain, will support more consistent, sustainable growth going forward.

In Latin America, we got off to a slow start in Mexico and Brazil. But our performance has picked up in both markets. Full year growth was 5.6%, with well over 6% in the 4th quarter.

Operating margin was down 40 bps on an underlying basis, in part due to increased marketing investment, but also reflecting the impact of substantial cost increases.

Increased commodity costs have been a significant issue everywhere, but especially in the Americas. We have moved decisively to increase prices across many categories and markets, leading to significantly higher price growth in the 2nd half but lower volume growth.

The pace of change is also significant in our Americas organisation. During 2007, we have:

- Sold our Brazilian margarine brands and the *Lawry's* seasoning business and progressed the disposal process for our US laundry business

- Implemented further 'One Unilever' integration projects across the US, Brazil, Mexico, Argentina, and several other countries
- Implemented SAP across the majority of our business in North and Latin America
- Continued to build critical capabilities, for example setting up a new team in the US to provide our customers with innovative shopper insights

Chart 10: Asia Africa

The strong growth in Asia Africa of over 11% in 2007 reflects both the vibrancy of these markets and the high priority we place on building our business in this region.

Here, our focus is on bringing the full scale and power of Unilever's branding, technology and innovation to bear in some of the fastest growing consumer markets in the world.

We have been building on existing strong category positions across the region – such as Laundry and Personal Wash, while seeking opportunities to introduce new brands and products for consumers across the region.

Global mixes like *Clear* anti-dandruff shampoo, successfully introduced in China, the Philippines, Arabia and new product forms like *Knorr* bouillon gels and pyramid tea bags.

The investment is paying off. All our major markets in Africa and Asia are growing strongly. Led by India and China, but including Indonesia, the Philippines, Turkey, Arabia and South Africa.

Our traditional strength in Home Care and Personal Care in these markets is now being complemented by strong growth across our foods categories.

In summary, all three regions have made excellent progress with implementing our change programme and raising the quality and speed of our 'go to market' operations.

However, they can only do so with strong brands and exciting innovations that allow them to go out and win with customers and consumers.

This is where our global category teams are now making a difference.

Chart 11: Innovation driving growth

Across each of our four category groups, we saw growth being driven by renovation – that's the strengthening of existing brands with new variants, new packaging or new advertising, and innovation - that's new products and new mixes.

We have stepped up our innovation over the past couple of years in a number of ways.

- First, more rapid roll-outs across key markets. One of our top priorities in 2007 was the simultaneous launch in 7 countries of *Clear*, a hair care brand with superior anti-dandruff technology. This included three of the biggest hair markets in the world: China, Russia and Brazil. In all markets, the brand is winning consumer preference and exceeding our expectations.
- Second, faster deployment of new technologies. *Hellmann's* Extra Light for example, uses citrus fibre technology to give consumers great tasting, very low fat mayonnaise. And it is a higher margin product at a time of increasing edible oil costs.
- Third, better transfer of mixes across continents and cultures. After only 6 months, *Axe* is already the brand leader in male deodorants in Japan.
- And finally, Vitality-focused innovation, targeting consumers' desire for healthier options. *Lipton* Green in the U.S., *Lipton* Linea slimming teas in Europe, *Lipton* milk teas in Asia. All leveraging tea as a healthy beverage.

There are many other examples, which together, have helped to drive the growth of our categories in 2007, and will continue to do so in 2008.

A few headlines on the performance of our categories.

Chart 12: Savoury, Dressings and Spreads

Savoury, Dressings and Spreads grew by 5.0% for the year.

- *Knorr*, our largest brand came close to hitting €4 billion of sales
- *Hellmann's* growth accelerated to 6%, stimulated by effective advertising and the success of the extra light variant.
- Spreads finished the year strongly with its "Goodness of Margarine" campaign – a programme of activities which promotes the health benefits of margarine.

Chart 13: Ice Cream and Beverages

Ice Cream and Beverages grew by 4.2% in 2007.

Lipton had an outstanding year, with double digit growth in systems sales, driven by the kind of innovations I mentioned earlier.

Ice cream also had a good year.

- *Frusi*, a frozen yoghurt packed with fruit and cereals, did well across Europe.
- Also in Europe, we improved our coverage across price points, with premium offerings such as *Magnum Temptations* and the roll-out of *Ben & Jerry's* and new value packs for more price conscious consumers.
- In Asia we had success with *Moo* – a brand that boosts children's calcium levels.

Chart 14: Home Care

Home Care had a strong year, with 6.1% underlying sales growth.

- We had a good year in Fabrics cleaning, including the roll-out of *Small & Mighty* in Europe and Latin America, continuing the drive towards more efficient, more environmentally friendly and higher margin concentrated liquids
- In Fabric conditioners, new premium variants, new fragrances and the new “fresh release” technology all helped to drive sales
- And we had another successful year for our household cleaning business where brands like *Cif* and *Domestos* helped it to grow 9%.

Chart 15: Personal Care

Personal Care was once again Unilever’s fastest growing category with 6.7% growth in 2007.

As well as the roll-out of *Clear*, we had:

- Another year of double digit growth from *Axe* and *Rexona*
- A new *Pond’s* anti-ageing range across Asia
- A continued flow of innovations on *Dove*, building on success in the self-tanning segment and driving the multi-country, multi-category launch of *Dove pro.age*.

That covers what I wanted to say about the drivers of our top-line performance. Let me now turn to other aspects of our financial performance, starting with the operating margin.

Chart 16: Operating margin development: 2007

Our full year operating margin was 13.1%. This included €875m of restructuring charges partly offset by disposal profits of €306m, to leave a net charge equivalent to 1.4% of sales in the year.

Excluding restructuring, disposals, and one-time gains in the prior year from changes in pensions and health care plans, there was an underlying improvement in operating margin of 20bps.

We continued to spend competitively behind our brands throughout the year.

Advertising and promotions rose in line with sales in 2007, an increase of €260m in constant currencies. The majority of this increase was in brand building advertising rather than consumer promotions.

And we are getting more bang for our bucks. More global advertising means fewer, bigger campaigns, allowing us to:

- get the best out of our advertising agencies
- spend less on production
- produce fewer higher quality films and copy
- and free up money to spend on more media time and space.

The impact of commodity costs during 2007 has been the highest we have seen for many years, with a full year impact of around €900m. I will say more about commodity costs in a minute.

However, we have been able to manage this unprecedented cost pressure, thanks to consistent growth and mix improvement, pricing actions, and savings programmes.

Our combined savings programmes have delivered close to €1bn in 2007. Of this, close to €500m was from buying savings, around €300m from the accelerated restructuring programme and around €200m from ongoing efficiency programmes.

Chart 17: Operating margin development: Q4

Looking at the fourth quarter:

The operating margin at 11.1% was 20bps higher than last year, with a similar aggregate level of restructuring disposals and one-off items in each year.

The shape of our margin delivery as we exited 2007 is indicative of how our business is able to navigate through a worsening cost environment, by:

- Using our pricing power to raise prices
- Sustaining investment behind our brands to secure consistent top-line growth and mix improvement
- Delivering a continued high level of savings through our global buying and restructuring programmes.

Chart 18: Commodity costs

Turning to commodity costs.

As expected, we saw another sharp increase in commodity-related costs in Q4, equivalent to an on-cost in the quarter of €330m or 330bps.

There were some reductions during the year, for example olive oil and some commodity costs have shown signs of passing their peaks, such as dairy.

However, these are small for us, when compared with the increases we see elsewhere, in edible oils and fats and other agricultural commodities, in petrochemicals, in packaging, in transport, and almost anything with a significant energy component.

As things stand today, we expect to see a similar, if not higher rate of increase than we saw in the 4th quarter, until well into 2008. It may be that we shall see some easing of global demand for commodities as we go through the year, but we do not expect to see much benefit from this until much later in the year.

Chart 19: Drivers of 2007 EPS growth

Below operating profit, we continue to drive improvements in a number of areas having a substantial positive impact on our EPS growth.

Net financing costs were significantly lower, through lower interest on net borrowings and a better funding position on pensions.

Our share in net profit from Joint Ventures has increased by 30% in the year, driven by strong growth in our ready-to-drink tea partnership with PepsiCo.

The full year tax rate of 22%, which was helped by one-offs and a lower tax rate on disposal profits, was below the 2006 rate of 24%.

For 2008, we expect a tax rate closer to our long-term guidance of 26%.

Finally, it is worth noting that in 2006, we took a €300m provision relating to the 2005 conversion of preference shares.

All of this led to an increase in earnings per share from continuing operations in 2007 of 12%.

Turning to the balance sheet and cash flow.

Chart 20: Balance sheet and cash flow

Our financial strategy targets a competitive balance sheet with a 'strong single A' credit rating that puts Unilever at the median of its peer group. This strikes a balance

between optimising our cost of capital on the one hand, while making sure that our financing does not become a constraint on our business strategy.

I have reviewed this carefully, and concluded that we have got this balance about right. The recent credit crunch has refocused minds on the benefits of favourable access to debt markets and has reinforced how it is important to have a long term perspective.

For example, throughout the recent turmoil, Unilever has maintained a sizeable low cost commercial paper programme, very much in the interest of our shareholders.

Our cash generation continues to be strong. In 2007, cash flow from operating activities was €5.2bn. This was €0.4bn lower than 2006, reflecting higher cash costs of restructuring and accelerated pension contributions. Working capital improved for the third year in a row.

During the year, we invested around €1bn in capital expenditure.

Net debt at the end of year was €8.3bn, up from €7.5bn from year-end 2006. This includes the impact of dividends totalling €2.2bn returned to shareholders in the year, as well as €1.5bn of share buy-backs.

Our net pension liability at the end of December was €1.1bn. This is down from €3.1bn at the start of the year, driven by accelerated funding contributions and a higher discount rate applied to long-term liabilities.

Looking forward, we are recommending a final dividend of €0.50 per NV ordinary share and 34.11 pence per PLC share, raising our full year dividend by 7% on both shares.

We are also going to continue with share buy-backs, with a plan to buy back at least €1.5bn of shares during 2008.

Patrick, back to you.

Chart 21: 2008 outlook

Thanks Jim.

You will have seen from our press release this morning that we are confident that 2008 will mark another step towards our 2010 goals – for an operating margin in excess of 15%, while delivering consistent competitive growth along the way.

In 2008, we expect underlying sales growth to be towards the upper end of our 3 to 5% range and to see further underlying improvement in our operating margin.

We are clearly facing a more challenging business environment in 2008.

I want therefore to wrap up by giving you my perspective on how I see the year ahead. And why I believe that Unilever is well placed to meet these challenges and to exploit opportunities that may arise from a changed scenario.

Chart 22: 2008 business environment

Let me start with the macro-economic environment.

There is no doubt that some kind of economic slow-down in the US is now underway. And judging by recent forecasts, we should expect to see slower GDP growth in other economies during 2008, especially in Europe.

However, we expect the aggregate growth rate of our markets in 2008 to remain strong, at between 4 and 5%. There are two reasons why we can be positive about the outlook for growth.

First, and fortunately for us, consumers still want to eat and wash, even when discretionary expenditure is tight.

As Jim mentioned earlier, belt tightening by consumers does lead to changes in consumption patterns. But the breadth of our category and brand portfolio, which

straddles price points, channels, and different consumer needs, means these shifts in consumer behaviour are as much an opportunity as a challenge as we enter 2008.

Second, we benefit from a broad geographic exposure, including our strong presence in Asia. And while we could see the large emerging market economies come off their 2007 peaks, we still expect to see strong growth in these markets during 2008.

Another area of uncertainty is commodity costs.

Chart 23: Responding to challenges and opportunities

As Jim said, this will be a significant challenge in 2008. But as we have shown in 2007, we are equipped to deal with it.

Over the past 3 years, we have changed our business model in ways that makes us more resilient.

We have a stronger innovation pipe-line. We have invested more behind brand equity and in product quality. This today gives us the pricing power we need to pass on cost increases while maintaining market competitiveness.

And we are a leaner, fitter, faster organisation, better able to respond quickly to challenges and opportunities in the market place.

We are well underway with our accelerated restructuring programme that will deliver significant productivity gains over the next few years.

We have a robust operating plan for 2008, based on realistic assumptions about the business environment and a strong programme of innovation and marketing.

And we have a clear set of business priorities, which have governed our plans since 2005 and will continue to do so:

First, to maintain our competitiveness in the market place and deliver consistent top-line growth.

Second, to drive for sustainable margin improvement, keeping us on track to deliver our longer term financial goals.

Third, to invest selectively in gaining market share where the opportunity arises and where the return on investment is attractive.

So, a resilient business model, a robust operating plan, a clear set of priorities and a continued commitment to delivering shareholder value.

We therefore enter 2008 from a position of growing strength, clear on what we need to do to and on track to deliver our objectives.

We would now be happy to take your questions.

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