Results presentation for Q1 2004

Ladies and gentlemen, good morning and welcome to Unilever's first quarter 2004 results presentation.

A transcript, which contains the usual formal disclosure as to forward-looking statements within the meaning of relevant US legislation, can be accessed via our website 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 presentation and conference call.

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

On Chart 1 you will see the quarter's key features.

Chart 1: Key features of Q1 2004 performance

Leading brands have grown by 1.3% in the quarter with some 1.4 percentage points from underlying volume growth.

HPC leading brands grew by 1.6% with some 2.9 percentage points from underlying volume growth whilst Foods leading brands grew by 1.0% with some 10 bps in underlying volume.

Operating margin, before exceptional items and goodwill amortisation, at 14.9% is 30 bps ahead of last year, after a 20 bps increase in Advertising & Promotion.

Net borrowing costs have reduced by €46 million or by 22% and reflects the benefit of cash flow from operating activities and the sale of businesses as we focus the portfolio, and lower rates.

The net FRS17 financing cost for pensions was €22 million compared to €43 million in the prior year.

Net debt at closing rates is €12.6 billion with the benefits of cash flow offset by currency movements.

For the last twelve months progress on the two key metrics within our financial strategy is as follows: firstly, we have an EBITDA interest cover of 10; and secondly, funds from operations to lease adjusted net debt is 37%, or applying new SEC regulations for calculating liquidity ratios, 33%.

The beia tax rate in the quarter was 29%, 0.3 percentage points lower than last year.

EPS (beia) is ahead by 7.5%, which is after absorbing over 3 percentage points of dilution from disposals.

Exceptional items in operating profit were a charge of €67 million and include €95 million of restructuring investment costs and €28 million of net profits from disposals.

EPS declines by 15% reflecting higher after tax profits on disposals in the prior year.

At current exchange rates EPS (beia) has risen by 2% in Euros, by 19% in US $ and by 4% in £ Sterling.

Let me turn to Chart 2 where I show the build up of our sales growth for the year.

Chart 2: Sales performance in Q1 2004

Underlying sales grew by 40 bps, all from underlying volume growth. The difference between this growth rate and that of the leading brands comes from our strategy of managing the tail, or non-leading brands for value. This has two aspects to creating value:

- firstly, via a harvesting strategy. In the quarter we have seen an underlying sales decline of 11.5%, impacting underlying sales growth by some 80 bps;
- secondly, through the sale of businesses. In the quarter the effect has been to reduce turnover by the equivalent of 320 bps or just over €300 million.

Acquisitions add some 60 bps.

Altogether this gives total sales in the quarter of €9.8 billion, some 220 bps below last year.

Let me turn to Chart 3 and get behind the growth of the leading brands to explain our slow start to the year.

Chart 3: Sales performance in Q1 2004 – getting behind the numbers

Firstly, in this quarter we have one less trading day compared to 2003. This effect is partly offset by the soft comparator in the prior year where we saw the start of sharp de-stocking by retailers, particularly in US Home & Personal Care. The net of these two year on year comparator effects is to reduce growth by some 50 bps.

Secondly, as expected, Slim.Fast and Prestige Fragrances continue to dilute leading brand growth. At the full year results we explained that the impact of progressive share loss during the course of 2003 gave a lower exit running rate and thus 2004 performance in the first half year will be coming up against a tough comparator notwithstanding the actions we are taking to address business issues.

In addition, as part of the plan to return our Frozen Foods business to a more consistent and sustainable growth profile we are taking determined action to further rationalise the product portfolio in order to fully focus resources on faster growing segments.

Taken together, Slim.Fast, Prestige Fragrances and Frozen Foods dilute leading brand growth by around 100 bps.

In this quarter we have also seen a continuation of the tough business environment that we saw through 2003:

- market growth rates, at around 3%, continue to be lower than in the recent past, with weak economies in some of our key markets, particularly in Western Europe and North America where our markets in aggregate are growing at around half this rate;
- within this, we have also seen aggressive price based competition in a limited number of countries to which we have responded in order to maintain market position.

So if we look at the development of price and volume for leading brands on Chart 4,

Chart 4: Development of price and volume – leading brands

Overall pricing is flat in the first quarter, which compares with positive pricing of around 1.5% in 2003.

To understand the price trend we need to look separately at the developing and emerging markets and the developed markets as they have different dynamics.

In the D&E markets, defined as including Central and Eastern Europe, and excluding Japan and Australia, price growth has come down from approaching 7% in 2002 to around 4% in 2003 and was broadly flat in the first quarter of this year.

At the same time volume growth in the leading brands in D&E markets has been accelerating, from just over 2% in 2002, to around 4% in 2003 and to around 8% in the first quarter. This is as we would have expected given the start of economic recovery in a number of markets and produces leading brand growth in D&E markets of 8% - a level similar to that of the last two years.

Turning to the developed markets, pricing in recent years has generally been flat, or up to 1% growth while in the first quarter of this year price declined by around 30 basis points.

Both the slightly lower pricing in the first quarter, and an underlying volume decline of around 1.6%, derive from economic and competitive conditions in particular markets where we have lost some ground:

- Firstly, Germany, France and the Netherlands have all been difficult markets and this has particularly impacted Spreads. We have taken appropriate action and have a strong innovation programme in the category. In Laundry we have also seen some share loss, particularly to retailer own brands. Again we have a programme to address this.
- Secondly, in North America we lost around 1 percentage point of market share in Laundry in 2003, as we focused on liquids with the Surf/All and Wisk brands and on fabric conditioners. Recent shares have been stable.

- In Japan, we have doubled our share in Hair Care over the last 4 years and this success has produced an aggressive response through new product launches by locally based competitors and the skin care category has also seen intense levels of competition. In a market which is very sensitive to innovation we are stepping up our own activity.

The combination of our pricing actions in different countries across the world and markets that are currently being driven by higher than usual levels of investment behind in-store activities means that our investment in trade and consumer related price promotions, which we deduct from sales to arrive at reported revenue, is some 200 bps ahead of the prior year.

Whilst this obviously has implications for our short-term top-line growth metrics and is reflected in the market growth rate, two points should be borne in mind:

- firstly, that this investment is fully funded from our ongoing savings programme, indeed gross margins, as I will show you later, improved by a further 110 bps in the quarter; and
- secondly, we have continued to invest in the long-term development of our business with all key innovations and market activation being executed in line with our operating plan for the year.

Let me now illustrate this by turning to the development of our categories and reviewing some of our current initiatives, starting with our Personal Care leading brands on Chart 5.

Chart 5: Development of leading brands: Personal Care

In mass Personal Care, which represents around 27% of total leading brands, growth of 2.5% in the quarter reflects a strong prior year comparator and competitive markets in the USA and Japan in the Hair category.

In terms of the key initiatives for 2004 that are already in market or announced to the trade we see:

- firstly, in Hair Care we have the broadening of the Sunsilk range in Europe, Latin America, Asia and Africa whilst in Dove we also have launches across the world that strengthen the brand through new formulations and variants to address different hair needs. In Japan our current innovation programme has its focus on Mods and Lux. In the US we also have an extensive programme behind Suave;
- secondly, in Skin Care the Dove Face range has now been extended in the US and a new firming lotion has been launched in Europe whilst in Japan we see initiatives supporting the brand in the areas of Body Wash and make-up removal. We have also re-launched Pond's Double White, and the Pond's Oil Control and White Beauty variants in Asia. We have also extended the range in China and the US. Finally in the area of Skin Care the re-launch of Lux goes from strength to strength in Latin America and was extended to Indonesia and also to Europe with the launch of Lux premium soap bars, bath and shower products in selected countries;
- thirdly, we continue our strong programme in Deodorants behind the Rexona, Axe and Dove brands. In Rexona the focus is on products for specific skin types and an active lifestyle whilst in Asia and Latin America we are launching products that appeal to consumers with lower disposable incomes. In Axe we have further strengthened our position in North America with the launch of sticks and gels and a new variant 'Touch' is being rolled out across the Axe world. We also have the launch of selected Axe fragrances in a number of other countries. In the US, Dove deo is being re-launched with the emphasis on the brand's skin care attributes and there is further activity for the brand in Europe.
- lastly, in Oral Care the successful launch of Signal whitening kits in France will be rolled out to other markets together with the re-launch of the Signal "Complete Care" toothpaste and new low cost toothbrushes. In Close-up we have a range of variant initiatives in Asia and Latin America.

In Prestige Fragrances, with a new leadership team in place, we have continued to make good progress with our restructuring programme and the first phase of this year's strengthened innovation programme was introduced to the market towards the end of the quarter. Given our plan to focus our efforts on a limited number of stronger brands and more profitable channels and thus the tougher comparator from last year we still do not expect to see the benefits of our actions on the top line until the second half of the year.

Let me now turn to Home Care on Chart 6.

Chart 6: Development of leading brands: Home Care

Laundry, which represents 14% of leading brands, grew at 1.7%, with further evidence of the benefits of our value enhancement strategy. We have further improved operating margins, which are now running over 400 bps above the level in 2000, notwithstanding our response through pricing and price related promotions to competitive markets in both Europe, North America and Asia.

In terms of Fabric Cleaning innovation and following the success of the Aloe Vera variant in Europe we are extending this to Latin America, where we are also rolling out "Easy Iron". There has been a successful re-launch of the Omo brand in Latin America and Africa based on new technology, new packaging, new fragrance and new advertising. This is now being extended to Asia. In Europe we are extending the improved cleaning properties of the 'fizzing' product to powders, liquids and tablets. In the US we are increasing support behind our focused brand portfolio. In Fabric Conditioners we are sustaining our progress with the "Fast Dry" variant. In Europe we also have a strong programme of new fragrances being launched behind Snuggle and Comfort.

In Household Care, which represents less than 3% of leading brands, we see early signs of progress with growth in the quarter of 1.6% compared with a decline of 3.6% in the first half of 2003. Our innovation programme behind Cif and Domestos focuses on the core of both brands with improved communication and with a broadening of their appeal through different fragrances, packaging and product formats.

Let me now turn to Chart 7 to look at the development of our Foods leading brands.

Chart 7: Development of leading brands: Foods

In Savoury and Dressings, which represent 20% of leading brands, we continue to build on our strong brand portfolio with a wide-ranging innovation plan.

In Savoury we continue to innovate around the principles of "reaching down, reaching out and reaching up".

We have built on the success in 2003 with affordable seasoning cubes or liquids through roll-out to other parts of Latin America and Africa. We are also extending our range of bouillons with new local flavours and "no MSG" added liquid seasonings in Asia. Furthermore we are consolidating our position in the 13 new countries we entered last year and are continuing to extend the brand into new 'white spot' countries in 2004. Our nutritious Soup range is being extended in Europe with the launch of frozen soups which are low in salt, fat and lactose whilst Meal Kits continue to be rolled-out with new flavours including Mexican Burritos and Japanese Teriyaki. In the US we have launched three new Mexican cooking sauces and of course we have also launched the new Carb Options range which covers Ragu Sauces and Lawry's marinades.

In Dressings innovations in the core to promote the "good for you" credentials of the Hellmann's brand have continued in 2004, for example through the launch of an "Extra Light" variant in the UK, a range of low carb dressings, mayonnaise and ketchup in the US under the broader "CarbOptions" range and the launch of a Hellmann's Light variety based on soy in Argentina. The greater consumer focus on "personal healthiness" has also enabled us to bring a variety of new salad dressing products to market under the Hellmann's, Calve and Wishbone brands. We have also continued to extend the footprint of the brands into new categories such as ketchup, mustard, dippin' sauces and snack sauces and used the specific strength of other brands such as Knorr and Bertolli to extend geographic coverage.

In Foodsolutions we continue to see good, broad based performance in a tough market with underlying growth in the mid-single digit range driven by the roll-out of Knorr Soup Solutions across the world, including new flavours in established countries, Dairy Cream alternatives in Europe and by a wide range of initiatives in Savoury and Dressings, including the roll-out of Knorr ethnic solutions across all regions.

In Tea-based beverages, which are 6% of leading brands, we are launching new premium Lipton Yellow Label variants, including new fruit tea varieties and rolling out the "Fruit Fusion" range across Europe.

We are also building on the initial success of Lipton Green Tea, extending it from its initial ten countries to other parts of Europe and also to the rest of the world. In the US we have recently launched four new flavoured black teas. Lipton Aquae – tea flavoured water has recently been launched in parts of Europe including France.

I will carry on with Foods leading brands on Chart 8.

Chart 8: Development of leading brands: Foods

In Spreads and Cooking products, which are 9% of leading brands, we have seen the expected increase in innovation activity. Cremefine dairy cream alternatives are being rolled-out under the family brand and the roll-out of savoury spreads across Europe also continues. We have also re-launched Flora/Becel in parts of Europe with new packaging, advertising and with a new formulation which further strengthens the brand's credentials of keeping the heart and blood vessels healthy. Also under Flora/Becel we have launched a range of cholesterol lowering yoghurt and milk products in Europe under the pro.activ brand name. Finally, Skippy snack bars have been launched in the US.

In Health and Wellness the first 5 products in the Slim.Fast range of low carb alternatives have performed well and already represent around 20% of Slim.Fast sales and we are shortly going to extend the range to include a further 17 products. We will be addressing the decline in the traditional range of products later in the year. AdeS is also being re-launched in key countries in Latin America including Colombia.

In Ice-Cream, which is 11% of leading brands, growth was driven by a particularly strong performance in the US where we continued to gain share. We also have an active innovation programme across our key regions. This includes:

- firstly, in Europe the launch of Special Edition Cornetto, a range of new kids products, the re-launch of Solero and new Magnum products including Magnum Light;
- secondly, in the US the launch of Breyers Carb Smart products and a range of low fat, no sugar added and sugar free options under the Klondike, Popsicle and Breyers brands whilst Ben & Jerry's have launched two low carb flavours, plus Light and Organic variants and three low fat frozen yoghurt variants;
- lastly, in Latin America a broadening of the Magnum range, whilst in Brazil we have recently launched Kibon Light ice cream.

Finally to Frozen Foods. As part of managing the business to a more consistent growth profile and to improve further its profitability, actions are being taken to rationalise the product portfolio and focus on higher growth and profitable segments, and sales are reduced as a result. The launch of Knorr in a number of countries and Slim.Fast frozen in the UK made good contributions in the first quarter.

Through the HPC and Foods category review you see a plan that has a level of activity at least as high as last year, is totally focused behind our leading brands and which in combination with our actions to address Slim.Fast, Prestige and Frozen Foods is designed to stimulate growth.

Let me now turn to Chart 9 and look at the progress we have made with operating margin.

Chart 9: Development of operating margin

The basis points quoted are all expressed as an effect on total Unilever operating margin which has moved ahead by 30 bps to 14.9%.

Gross margins moved ahead by 110 bps with the key drivers being:

- firstly, an improvement in mix which contributed 80 bps through portfolio change and a larger proportion of higher margin categories;
- secondly, continued benefits from our Path to Growth restructuring programmes which contributed some 40 bps; and
- finally, cost increases exceeded pricing by 10 bps, including the impact, in price, of the additional investment in trade and consumer value activities referred to earlier.

Let me say a few words about commodity costs increases. Whilst we see some adverse trends such as soya and butter fat prices in the US these have been mitigated elsewhere where we see higher US$ prices offset by strengthening currencies. In the balance of the year we currently see a modest upward pressure but less than the increase we saw last year. We will continue to manage this through market pricing and the benefits of our hedging and formulation management programmes.

Advertising and promotions increased by 20 bps. As with the last half of 2003 this reflects that some funds have been redirected to an increased level of trade and consumer activities within pricing. We will continue to maintain an appropriate balance of investment as we go through the rest of the year.

Overheads are 60 bps higher than last year. This primarily reflects the impact on the overheads ratio of short-term unrecovered fixed costs following disposals and the phasing of, amongst others, market research and development costs.

Looking forward, we have a strong restructuring programme for 2004 and part of the benefit of this will be seen in overheads later in the year.

Turning to the EPS delivery for the year as a whole on Chart 10.

Chart 10: Drivers of EPS (beia) growth for the full year

In the first quarter the main drivers of EPS (beia) were improved gross margins and lower financing costs partly offset by short-term dilution from disposals. For the full year we expect a slight faster rate of growth coming from:

- firstly, an improved rate of growth in the leading brands, including the reversal of the first quarter trading days effect with an extra two days in the fourth quarter, and less dilution from Slim.Fast and Prestige, given the comparators;
- secondly, an improvement in the overheads progression as described above. In combination, gross margin and overheads are expected to contribute at least 100 bps to operating margin improvement for the full year, taking the full year operating margin (beia) to well over 16%.

In the other elements of EPS growth we expect sustained benefits in interest and the net FRS17 financing cost for pensions whilst in respect of tax, we expect a rate similar to last year, and at the bottom end of the 29-30% range which we guided at the start of the year.

The regional review sections are included in this morning's results announcement and can be accessed via our website. So before we move to Q&A let me summarise.

Chart 11: Q1 2004 performance - concluding remarks

It has been a tough quarter both in terms of the trading environment in some of our key markets and because of the specific portfolio challenges we are dealing with. Sales growth has been disappointing.

We have responded flexibly based on the specific needs of individual markets.

However, we have also continued to demonstrate the strength of our business:

- We have generated more savings and improved our business mix to deliver a strong expansion in gross margin;
- We have increased investment behind our brands;
- We have continued to support all our key innovations and market place activities to build long-term brand and business health;
- We have delivered 7.5% growth in EPS (beia) which has been achieved after absorbing short-term dilution of over 3% through the disposal of tail businesses,

and we have in place the programmes designed to stimulate growth.

That completes my presentation and I will now be happy to take your questions.

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