

UNILEVER Q1 2007 RESULTS

Teleconference at 10.00 UK time, Thursday 3rd May 2007

John Rothenberg – SVP Investor Relations

Chart 1: Title Slide: Q1 2007 Results

Good morning everybody. I'm joined on this call by Rudy Markham, our CFO and Charles Nichols from Investor Relations.

We'll be taking your questions in a few minutes. But, before that, I will run through some of the key features of our first quarter results that we published this morning.

Chart 2: Safe harbour

I draw your attention to the usual disclaimer relating to forward looking statements and non-GAAP measures. This will also be posted with the text of this presentation on Unilever's website.

Chart 3: Q1 highlights

We have had a good start to the year, both in terms of sales and margin development.

Our underlying sales growth of 5.7% was broad based across all regions and categories.

It was underpinned by a substantial innovation programme, including some significant product launches in the quarter.

We saw further improvement in Europe, aided in part by a strong start in Ice Cream and sales ahead of price increases in several key markets.

We saw an underlying improvement in operating margin of around 40 basis points, accompanied by a sustained level of advertising behind our brands and innovations, and despite continued commodity cost pressures..

We continued to see structural improvements flowing through into our earnings from joint ventures, from lower financing costs and from tax.

Most importantly, we can clearly see improvements in our operational performance as a direct consequence of our growth strategy and new ways of working.

Over recent quarters, we have seen a marked improvement in growth across regions and categories, driven by a continued focus on our growth priorities; by fewer, bigger innovations and faster roll-out; and by better execution in the market place.

And we have kept up the pace of our change programme throughout, with further progress on One Unilever and other change initiatives.

It is the quality of our underlying performance as much as a good 1st quarter, which leaves us confident of achieving our financial objectives in 2007:

Turning now to the specifics of our top-line performance.

Chart 4: Q1 Turnover

Our sales in the quarter were in line with last year at €9.5bn.

This was after a 1% reduction due to business disposals and an adverse currency effect of 4.5%.

The latter reflects the strengthening of the Euro against a wide range of currencies, most notably the US dollar, the Turkish Lira and the South African Rand.

As many of these movements date back through 2006, the full year currency impact, if exchange rates were to stay where they are, would be more moderate, at around -2%.

Chart 5: Growth momentum building

The underlying sales growth of 5.7% in the quarter comprises volume up 4.8% and pricing contributing 0.8%.

Our growth momentum has been building over the past few years, from an annualised growth rate of zero at the end of 2004, to comfortably over 4% today.

Of course, there are a number of factors that can impact on sales growth in any given quarter. These include major product launches, price increases, trade de-stocking, and major systems implementations.

I will comment on some of these as they affect our 1st quarter numbers when I come on to the regions, but in simple terms, Europe and Asia/Africa are probably slightly flattered by such effects, and the Americas looks slightly understated..

But overall, the picture remains of a strong quarter of growth.

Looking now at our growth performance by region.

Chart 6: USG by region

Improving our growth in Europe remains a key business priority for us in 2007.

Against a background of slightly stronger consumer markets, we got off to an encouraging start, with underlying sales growth in the quarter of 3.6%.

All five of our largest markets grew in the quarter – the UK, Germany, France, Italy and the Netherlands.

Germany in particular had a strong quarter, aided in part by trade demand in advance of price increases which took effect from the end of March.

Our business in France was up slightly in the quarter, however, this was against a soft prior year comparator, and we continue to see our shares down year-on-year in flat markets. The new management team in France is still grappling with some operational issues but we expect to see a gradual improvement over the coming quarters.

Meanwhile, we continued to see good growth in Central and Eastern Europe, including around 10% growth in Russia.

And across the region, we had a strong start in Ice Cream, boosted by innovations and a successful sell-in coinciding with buoyant early season demand.

These highlights aside, the picture is very much of solid, innovation-driven growth across the region.

Before leaving Europe, a word on pricing. Prices declined by 0.7% in the quarter, an apparent reverse of the return to positive pricing seen in Q4 2006.

This is influenced by two factors.

First, a significant fall in the cost of olive oil that passes straight through to pricing in this category.

Second, higher listing fees and other trade expenditure in the quarter in support of a strong Personal Care innovation plan.

Furthermore, we have a number of price increases taking effect from Q2 onwards which we expect to lead to an increased contribution from pricing in Europe over the coming quarters.

The Americas grew by 3.2% in the quarter.

Within this, U.S. growth was 3.7% with most categories off to a strong start to the year. Personal Care in particular grew in double digits, partly helped by the de-stocking that hit the first quarter last year, but also driven by a strong innovation programme and share gains.

Ice Cream had a weak quarter after what had been a weak end to 2006. We saw a continuation of trade de-stocking as the market moves away from the heavy promotions of recent years, but also some share loss. We are adjusting our marketing plans to leverage our global Ice Cream innovation pipe-line and expect to see the business return to its usual profitable growth in the 2nd half.

Latin America grew by 2.1% in the quarter. We have seen an improvement in the underlying performance of our business in Mexico over the past couple of quarters. However, sales this quarter were down sharply against a prior year comparator which included heavy trade buying in advance of our SAP implementation.

This effect reduced Latin American sales by over 200 basis points in the 1st quarter, and will reverse in Q2.

Elsewhere in Latin America, we saw good growth. Brazil was slower than of late but other markets grew strongly across all categories.

Our large emerging market presence across Asia and Africa has been a consistent growth driver for Unilever, and Q1 was no exception.

For the region as a whole, underlying sales growth was 11.8%, with double digit growth in both Foods and HPC. This included price growth of 2.9% as we moved to recover commodity and exchange rate related cost increases in several markets, most notably Turkey and India.

The growth in the quarter included some pipe-line filling behind two major launches – Clear in China and Axe in Japan – nonetheless, overall the picture looks very positive.

All the major markets that drove our growth in 2006 – India, China, Indonesia Turkey and Arabia - continued to grow strongly in the quarter.

In addition, several key businesses that disappointed last year showed significant improvement in the quarter, as a result of actions taken during 2006. These included Thailand, South Africa and Nigeria.

Our businesses in the developed markets in the region, Australia and Japan, also grew.

That gives you a brief overview of how we are doing in our various geographies around the world.

But a key driver of our improved growth performance over recent quarters has been the global leadership of our category teams.

They are tasked with developing outstanding innovations and consumer communication, and ensuring that these are rolled out quickly and successfully across our business. I want to spend just a few minutes reviewing some of the more important category initiatives that underpin our strong start to 2007.

Chart 7: Personal Care

Personal Care grew by 8.4% in the quarter. In almost every sub-category, we have examples of globally important innovation activities which have kicked off in early 2007.

In Hair, we are active in the important anti-dandruff segment, with significant launches of our Clear brand in China, Brazil, Russia and Arabia and updated product ranges where the brand was already present, as in Thailand and Turkey.

We have also completely refreshed the Mods hair brand in Japan, complementing the steps we have taken to secure the brand leadership of Lux Super Rich in the highly competitive Japanese market.

In Deodorants, we have re-launched Axe body spray globally with a revolutionary can design, improved fragrances and new advertising, together with a new variant, Axe Vice.

And in Skin, we have Pond's "Age Miracle" across Asia, new Vaseline Intensive Rescue in the US and Dove 'glow' lotions across North America and Europe.

And of course we have the multi-category, multi-country launch of Dove Pro-age.

Chart 8: Home Care

Home Care grew by 5.8% in the quarter. All regions contributed, including North America and Western Europe.

Our drive to converge on a global 'Dirt is Good' platform in fabric cleaning is leading to sustained growth and provides the ideal platform for faster roll-out of global innovation.

Thus, the 2006 launch of all 'Small & Mighty' concentrated fabric liquid has proved to be an industry moving event in the U.S., and we have followed this up with launches of the 'Small & Mighty' format under Persil in the UK and Skip in France.

And we have a strong innovation programme for 'Dirt is Good' in many of our developing and emerging markets later in the year.

Chart 9: USG Savoury, Dressings and Spreads

Underlying sales growth in Savoury, Dressings and Spreads was 3.8%. This included a strong performance from both Knorr and Hellmann's, each growing around 6%.

We continue to extend our Heart Health franchise with new Flora/Becel products fortified with Omega-3 across Europe and the announced launch of 'Promise Activ' mini-drinks in the US.

But we have also been innovating in our core family margarines, with the launch at the end of 2006 of Rama or Blue Band Idea! across several countries. These products contain nutrients that are linked with healthy brain development in children.

In another example of Vitality innovation, we have launched a new Hellman's Light in the UK, France and Russia during Q1. This product incorporates citrus fibre technology that delivers superior texture and flavour with very low fat content.

And building on another Vitality initiative, we have launched Knorr Vie into the important German market, bringing to over a dozen the number of countries where the product is now present.

Chart 10: USG Ice Cream & Beverages

Growth in **Ice Cream & Beverages** of 4.9% came despite the weak ice cream performance in the US to which I referred earlier.

The innovation we are taking into the European market this year is the strongest we have had for some time. This includes new impulse products such as three new Magnum premium

variants: Dark Ecuador, Java Milk Chocolate, and Colombia Aroma, as well as Solero 'Smoothies' - rich fruit ice creams with only 99 calories.

We also have new products under the Vitality theme, such as Frusi – a healthy yoghurt and fruit snack which is now in 6 countries across Europe and a 'Milk time' product range which follow the 'Moo' concept of calcium for kids that has been successful across Asia.

In Tea, we have seen activity in the quarter to strengthen some of our important local brands, such as PG Tips in the UK and Brooke Bond in India and to continue to develop our global Lipton brand with variant innovations in black tea, ready-to-drink and the emerging milk tea segment.

Chart 11: Q1 Operating Margin

Let me now talk about our margin development.

Our operating margin in the first quarter of 13.7% is 1.1 percentage points below last year. This reduction is more than explained by the combined impact of restructuring and disposals.

In Q1 2006, we had disposal gains of €119m, compared with only €35m this quarter.

At the same time, we have kept up the pace of our restructuring activity, with a charge in the quarter of €121m, compared with €61m in 2006, mainly associated with the One Unilever programme.

The net effect is 150 basis points adverse swing in restructuring disposals and impairments. Excluding these items, there was an improvement of 40 basis points.

During the quarter, we continued to spend competitively behind our brands, resulting in advertising and promotions as a percentage of sales at a similar level to last year.

This means that the combined benefit of positive pricing, cost savings and positive mix and volume were more than sufficient to offset cost increases in the quarter.

Commodity related cost increases amounted to around €115m in the quarter, or 120 basis points. This is a slightly lower run rate than we saw at the back-end of 2006. However, there are two things to bear in mind.

First, this is after a sharp reduction in olive oil prices which knocked around €15m off material costs in the quarter, mainly in Europe.

More importantly, we have seen a continuing rise in the price of many agricultural commodities over recent months, but not all of this is yet reflected in our costs.

For this reason we expect to see continued cost pressures over the coming quarters, especially in Foods and this may require us to look for additional price increases.

Meanwhile, our savings programmes continue to deliver at a consistently high rate. Savings in the quarter were nearly €180m, half from buying savings, and half from One Unilever and other initiatives.

Chart 12: Drivers of EPS

Turning now to other aspects of our financial performance in the first quarter.

Earnings per share on continuing operations were up 6%, while total earnings per share increased by 2%.

Total earnings include a lower net profit from discontinued operations which, in 2006, included a contribution from the Frozen Foods businesses which we subsequently sold in Q4 2006.

Operating profit was down 8%. Within this, the adverse swing in restructuring, disposal gains and impairments reduced operating profit by 11%, while the impact of exchange rates and the loss of contribution from disposals was around -6%.

Below operating profit, we continue to deliver structural improvements in a number of areas which are feeding through into earnings.

Financing costs were €51m lower in the quarter, reflecting our lower net debt and the better funding position of our pension schemes.

Net profit in joint ventures increased from €18m to €27m in the quarter, mainly due to the continued success of our Pepsi Lipton operations, but also now including a contribution from the newly formed Portuguese JV.

Our share of net profit in associates was also sharply up. This was more one-off in nature, being almost entirely driven by a gain in one of our venture capital funds.

There was also a one-off profit on a non-current investment in Indonesia.

We had a low tax charge in the quarter of only 22%, largely due to a favourable country mix.

Looking forward, we expect a particularly low tax rate in Q2 due to favourable completion of tax audits, but a higher rate in the 2nd half to leave the full year in line with our guidance of around 24%.

Chart 13: Balance sheet and cash flow

As far as the balance sheet and cash flow are concerned, there is little of note to report.

Q1 is traditionally a light cash flow quarter given the seasonal variations in our working capital.

Against this background, cash flow from operating activities was broadly flat compared with last year and included a slightly higher outflow from cash restructuring in the quarter.

Net debt, at €7.7bn, was little changed compared with the €7.5bn as at the end of 2006.

Finally, as many of you know, we started our €1.5bn buy-back programme for 2007 on the 12th March. As at the end of April, we had bought back €265m worth of shares in the market.

That completes my run-through of the numbers. I am now going hand over to Rudy to sum up.

Thank you John.

Chart 14: Summary

So, a good quarter for us, and one that leaves us confident about the development of the business through the rest of the year..

It is true that we face a stronger head wind from rising agricultural commodity costs than we planned . As John mentioned earlier, we may need to be more aggressive on pricing in order to recover some of these additional costs.

But we also have a strong innovation programme, supported by much improved go-to-market execution. And our change programme is helping us to build on this momentum, while delivering the efficiency savings we need to invest behind our brands and to deliver the margin improvement we seek.

Thus, we remain confident of achieving our guidance for the year of growth in the 3 to 5% range, and a reported operating margin in excess of 13.6%, after restructuring charges of between 50 to 100 basis points.

We expect this to result in an underlying improvement in our operating margin during 2007.

But we still have a lot to do. As we presented to you at our recent IR seminar, we are establishing some real momentum in the business, both organisationally and operationally.

And we want to build on this, by continuing to reap the benefits of the changes that we have already made, while seeking opportunities to speed up the transformation of our business and to raise our performance still further.

Chart 15: Questions

With that, I would be happy to take your questions.

SAFE HARBOUR STATEMENT: This **document** may contain forward-looking statements, including 'forward-looking statements' within the meaning of the United States Private Securities Litigation Reform Act of 1995. Words such as 'expects', 'anticipates', 'intends' or the negative of these terms and other similar expressions of future performance or results, including financial objectives to 2010, and their negatives are intended to identify such forward-looking statements. These forward-looking statements are based upon current expectations and assumptions regarding anticipated developments and other factors affecting the Group. They are not historical facts, nor are they guarantees of future performance. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including, among others, competitive pricing and activities, consumption levels, costs, the ability to maintain and manage key customer relationships and supply chain sources, currency values, interest rates, the ability to integrate acquisitions and complete planned divestitures, physical risks, environmental risks, the ability to manage regulatory, tax and legal matters and resolve pending matters within current estimates, legislative, fiscal and regulatory developments, political, economic and social conditions in the geographic markets where the Group operates and new or changed priorities of the Boards. Further details of potential risks and uncertainties affecting the Group are described in the Group's filings with the London Stock Exchange, Euronext Amsterdam and the US Securities and Exchange Commission, including the Annual Report & Accounts on Form 20-F. These forward-looking statements speak only as of the date of this **document**.