

Unilever Results Presentation for Full Year 2005
Conference Call, Thursday 9 February, 2006

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Slide 1 Introduction

Good morning to everyone here with us today and to everyone listening in. First, I'd like to introduce Rudy Markham, our CFO and John Rothenberg, Head of Investor Relations.

Today we will present for around 30 minutes, then take your questions.

Turning to slide 2, the Safe Harbour statement.

Slide 2 Safe Harbour statement

As usual, I'd like to point out that this discussion is subject to the usual 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.

And so on to 2005 on slide 3.

Slide 3 2005 – the task

At the start of 2005 we were clear what we had to do. We had to restore our competitiveness in the market and get this business growing again. We had to do this in a way that we can sustain for the long term, creating value and unlocking Unilever's full potential.

On the next chart you see how we set about doing it.

Slide 4 2005 - the task

The strategy was simple - to focus on the three things that matter:

1. Making our portfolio work harder for us, with sharper priorities and resource allocation
2. Strengthening our execution capabilities, especially in marketing and customer management.
3. Creating a simpler, more agile 'One Unilever' organisation - aligned behind a single strategy, with the right people in the right jobs delivering better quality and speed of execution.

Our first priority was to get back in the race. We had to make clear choices about where we could win in 2005 and invest at competitive levels to stabilise market shares and restore growth.

We did this and got the result we were aiming for.

But we also knew that to sustain this turnaround – to make it stick - we had to make fundamental changes to the way Unilever works.

Later in the presentation I will explain the changes we have made and why I believe we will win in 2006 and beyond.

But first, let me start by explaining what we did in 2005 to restore our competitiveness and get Unilever growing again.

As you have seen in our announcement, we delivered underlying sales growth for the year of 3.1%, with growth momentum building through the year. And we stabilised our market share.

Turning to slide 5 - how we did it.

Slide 5 More weight behind fewer priorities

We put more firepower behind fewer priorities.

In particular:

- To exploit our strengths in Personal Care, Developing and Emerging markets and Vitality and
- To regain momentum in Europe.

We targeted for growth the market positions, innovations and brands with the best potential reward. We invested strongly behind them and accelerated our programmes to generate savings to help fund growth.

Investing in our strengths delivered the results we were aiming for and showed what we can achieve when we prioritise tightly and execute with discipline.

For example, on slide 6.

Slide 6 Building on strengths – Personal Care

Personal care.

We got **Personal Care** back to growth levels that are up with the best at over 6%.

We delivered broad-based share gain across most of our biggest markets and strong profitability.

Our big global brands are performing – Dove, Sunsilk, Lux, Axe and Rexona all grew strongly. Smaller, more local brands also pulled their weight, for example Lifebuoy and Clear.

Now let's turn to developing and emerging markets, on the next slide.

Slide 7 Building on strengths – D&E

In **D&E**, we delivered a strong performance across the year in all major markets and across Foods, Home Care and Personal Care.

For the first time, Unilever's sales in D&E markets, at 38%, exceeded our sales in Western Europe.

Turning to vitality on slide 8.

Slide 8 Building on strengths – Vitality

Across our entire portfolio, Vitality is the inspiration for innovations that are driving our growth, as you can see from the examples. Lipton and AdeS– healthy, refreshing beverages. Dove – Campaign for Real Beauty. Healthier options in Ice Cream.

Just a few examples of many.

Personal Care, D&E, Vitality. In all three of these areas, we have achieved what we set out to achieve – good growth and strengthened market positions.

We also made progress in Europe in 2005. Turning to slide 9, let's look at what we did.

Slide 9 Regaining momentum in Europe

A healthy European business matters to Unilever.

It delivers a large proportion of our sales – 41% in 2005 – and is an important source of profit.

Europe is also a key source of insight into new consumer trends, innovation and talent that can be leveraged around the world.

Looking at our performance, Central and Eastern Europe performed strongly in 2005, with Russia, for example, delivering around 20% growth.

So our issue is *Western* Europe. And the issue is *growth*, not profitability.

Western Europe is a tough competitive environment for reasons you know well. Turning this business around is not just about making a few tweaks – we are making fundamental changes.

For the consumer

- We are delivering better value. We have addressed pricing in selected markets and categories such as Frozen Foods in the UK or Home Care in the Netherlands.
- We are increasing choice - extending our product portfolio to address lower price points such as value ranges in ice cream and moving into a wider range of channels.
- We are delivering more and better innovation – new Heart Health ranges, for example, and Sunsilk Styling. And we are putting more marketing investment behind our innovations and other growth priorities.

For our customers

- We are increasing the value that we can *both* gain by doing business together.
- We are implementing a customer development improvement programme in selected markets, with outstanding results.
- We put this to work in the Netherlands in 2005, where it has delivered better customer programmes, increased promotional efficiency, more strategic investment with key customers and one face to customer – making us a €1 billion plus business in the Netherlands.
- The programme – which is also delivering strong results in the US - has been rolled out to France and Germany and will be extended further in 2006.

For our organisation

We are increasing our speed and agility and driving a more competitive cost-structure by simplifying our organisation and the way we work.

We have made substantial changes to the leadership in Europe.

We have pushed forward with One Unilever implementation, leveraging our scale by combining all of our operations within several countries, for example Germany and the Netherlands.

We are in the process of setting up a regional supply organisation based in Switzerland. And we are outsourcing business support services.

So we have done a lot to address our issues in Europe and, as a result, we have delivered real improvement as you can see on slide 10.

Slide 10 Regaining momentum in Europe

- We have reduced underlying sales decline in 2005 to less than -1%, against -3% in 2004.
- In the fourth quarter, we delivered positive like-for-like sales growth of around +2%.
- We stabilised market shares in Foods, with an upward trend in recent months. HPC market shares were down slightly in the year but stable in the second half.

So real improvement in a tough, highly competitive market.

But the best of our competitors *are* growing. And faster than us. We won't be satisfied that the job is done until we are delivering a competitive – and I mean winning – performance.

Now, turning to slide 11, I'd like to talk now about how we have invested behind and funded our growth in 2005.

Slide 11 Increased investment, focus on savings

Getting Unilever back to growth required a step up in investment behind our growth priorities.

In 2005, we invested €500 million more in advertising and promotions than we did in 2004. That is 110 basis points.

We also invested significantly to reduce prices or offer better value in selected categories and markets to defend and build key competitive positions.

In the face of a significant cost head-wind from higher commodity prices, our savings programmes were essential for funding this additional investment. We relentlessly pursued cost saving opportunities, delivering over €700 million in 2005.

Turning to slide 12.

Slide 12 Decisive action on the portfolio

As well as working on the priorities we just talked about, we have also been taking decisive action on parts of our portfolio that no longer fit with our strategy.

In the middle of 2005, we sold UCI for \$800 million. We are very pleased with the value we gained.

We have also completed a thorough strategic review of our **European Frozen Foods** business.

As we announced this morning, we have decided to divest the majority of it.

We have made a considerable investment in European Frozen Foods over the past four years, restructuring it to deliver healthy profit levels.

But we have not yet been able to grow the business which is key to future value creation. To do that would require significant management and financial resources and we believe we have better opportunities elsewhere.

We have therefore decided to look for a new home for this great business.

We have decided to retain Frozen Foods in Italy because we believe we can generate more value by keeping it. It has strong market positions, is strategically important as our biggest single

business in Italy and is an important source of innovation and technology in frozen ready meals, which we are rolling out successfully in the US.

Now let's turn to slide 13 and talk about what we have done on Unilever's change agenda in 2005.

Slide 13 Unilever's change agenda

We have done a lot in a short time.

I have already talked about:

Winning in key markets - how we made our portfolio work harder for us in 2005. And the results this delivered.

We were able to do this – and go further in our plan for 2006 – because of:

The changes we made in our organisation during the year.

The work we did to build capabilities, especially in customer management and marketing.

And the action we took to make our organisation fit to compete.

Let's look at the changes we made, on slide 14.

Slide 14 Progress on our change agenda

We have explained before the shape of our new structure and you can see that we have moved quickly to put it in place.

We have simplified at the top – made it more clear who is responsible for portfolio choices, allocating resources and driving execution.

- We have moved from three executive groups – ExCo and the two divisions - to one
- And reduced executive management numbers by one third in 2005.

We have also flattened the structure, taking out layers.

- Of our top 20 businesses – which represent around 80% of our turnover – almost half already report directly to Unilever Executive members.

We have made roles more clear – who is responsible for delivering the capabilities we need to win – building great brands and taking them to market, profitably.

Categories and regions now have distinct, complementary roles.

One group of people focused on driving what needs to be done globally – brand strategy, for example.

Another group who specialise in what gets done locally – people who live and breathe customer management, for example.

These new roles and structure are in place. All management appointments are made and change programmes are ensuring that people understand their new roles and put them into practice.

We have capability improvement programmes up and running, delivering business results, as you saw in Europe with customer management.

We made good progress with the implementation of One Unilever in 2005 - simplifying our business and leveraging our scale more effectively.

- We have merged our operations in countries so that, at the end of 2005, over 80% of our turnover is managed through ‘One Unilever’ organisations.

Our new structure is cheaper. But the really big win for Unilever is that we now have an organisation that is closer to consumers and customers, faster, more agile and more disciplined – fit to compete.

Now - to Rudy to take you through Unilever’s financial performance in 2005.

Rudy Markham

Good morning everyone. Turning to slide 15 – 2005 growth.

Slide 15 2005 like-for-like sales growth

As Patrick said, our number one priority in 2005 was to restore competitiveness and get the business growing again.

Our turnover in 2005 grew by 2.9%, with a 1.3% favourable exchange rate impact more than offset by business disposals.

Underlying sales growth in 2005 was 3.1%, significantly better than the flat sales we delivered in 2004 and in line with the growth of our markets.

Just as important, growth momentum has improved steadily since Q3 2004, with like-for-like sales growth of around 5% in Q4, after allowing for the effect of calendar days.

Growth in 2005 was entirely volume. Although pricing turned positive in Q4 as increases taken to recover rising material costs started to come through.

Turning to slide 16.

Slide 16 **Growth by region**

You have already heard about our sales performance in Europe.

Volumes grew slightly in 2005, but investment in pricing meant that underlying sales declined by nearly 1%.

In our bigger markets, we saw strong growth in Russia and Poland, a return to modest growth in the Netherlands and Spain and a better performance in Germany, France, Italy and Belgium. Only the UK failed to show improvement.

In the Americas, we have seen a fairly consistent level of growth through the year. In the US, our sales grew by 3.2%, accelerating through the year, as we gained share in aggregate.

In contrast, we had a strong first half in both Brazil and Mexico but slightly weaker consumer demand and some share loss to local competitors in Foods led to a slower second half.

In Asia/Africa, we saw a strong bounce back from a weak 2004 performance. All our major D&E markets delivered strong growth. India recovered strongly, China grew by over 20%, Japan returned to growth in the year and Australia's performance improved in the 2nd half.

An encouraging aspect of our improved growth in 2005 is, therefore, that the improvement extends to most of our major markets and indeed most of our categories.

Now on to slide 17, 2005 operating margin

Slide 17 – 2005 operating margin

Full year operating margin is 13.4%, up from 11.0% in 2004.

Before the impact of restructuring, business disposals and impairments, operating margin would have been 0.8% lower than in 2004.

The key reason was additional investment – some €500m in A&P versus 2004 and zero price growth as we reduced prices in key categories and markets.

At the same time, we have absorbed significantly higher input costs of around €600 million in the year.

Our savings of over €700 million were therefore critical.

Restructuring of 90 bps was charged in the year. A net 50 bps of business disposals and impairments was also charged, including the Slim*Fast impairment which we took in Q2.

Now looking at Q4 on slide 18

Slide 18 **Q4, 2005 operating margin**

Operating margin in Q4 is 10.6%, compared with –3% in Q4 2004.

Before the impact of restructuring, business disposals and impairments, operating margin would have been 1.3% lower.

A&P was significantly up but only slightly above the average for the year of 12.6%.

Savings, some modest price growth and the benefit of improved mix exceeded cost increases in the quarter.

Turning to slide 19

Slide 19 – Investment in A&P: quality and quantity

An 11% increase in year-on-year A&P spend represents a significant investment in competitiveness. How we have spent this money is as important as what we spent.

Around two thirds of the additional A&P investment was in advertising which is key to building long term brand equity.

The investment was not ‘across the board’ but was carefully targeted behind our business priorities. For example, investment behind some of our Personal Care categories in key markets was up by as much as 30% or more.

We have improved the efficiency and quality of our spend. Globally led innovation gives rise to globally inspired communication. Scripting and shooting one high quality advert for €1m compared with a dozen for €0.5m not only saves money, but also leads to better results.

And our A&P spend has been more consistently weighted through the year.

This does not mean that spend is even from quarter to quarter, as innovation activities and indeed competitive activity are not smoothly spread. But it does mean that we are keeping our foot on the gas across the whole of the business cycle.

In 2005, this has led to a heavier year-on-year increase in A&P in the 2nd half of the year compared with the first half.

Turning to other key financials on slide 20.

Slide 20 - Key 2005 financials

Earnings per share on continuing operations were up 22%. This benefited from lower restructuring, business disposals and impairment charges, totalling €0.6 billion in 2005 against €1.8 billion in 2004. Total earnings per share were up 37% in the year, including the UCI disposal.

The tax rate of 26% was above the 22% in 2004 but below our previous long-term assumption of 30%.

Net cash flow from operating activities was €4.4bn, some €1.2bn lower than in 2004.

As well as the increased A&P investment, we incurred higher cash costs for restructuring, pensions and tax in the year.

Working capital was again lower year-on-year, but not by as much as in 2004. This led to a €0.4 billion lower inflow from working capital reduction.

Turning to our long term metrics. *[Same slide]*

Our measure of ungeared free cash flow is designed to reflect the long term cash generation of the business, irrespective of financing decisions. We have re-mapped our definition onto IFRS measures, including P&L charges for pensions, share options and tax.

On this basis our free cash flow for the year was €4.0 billion. Incidentally, under the old definitions it would have been €4.1 billion.

Our return on invested capital was 12.5% in 2005, compared with 10.7% in 2004, helped by lower restructuring and higher profits on business disposals. Our definition of ROIC retains all goodwill and intangibles in invested capital, regardless of impairments.

Now on to slide 21

Slide 21 – Delivering value to shareholders

Our financial strategy is designed to ensure that we maintain a balance sheet structure that is competitive for our industry.

This means a competitive cost of capital *and* the flexibility required to develop our business.

This means for us a strong, single-A credit rating.

As shown by the €4bn FCF generated in 2005, Unilever's cash generation is strong. Although some credit metrics are below those required for a strong, single-A rating, we expect them to improve during 2006.

In 2005, we spent €0.8bn on replenishing ESOP hedges following their use for conversion of preference shares. We also completed a share buy-backs totalling €0.5bn.

And we have announced today an increase in the 2005 dividend of 5%.

For 2006, we plan a further share buy-back of around €500 million.

During the course of the year, we may review this position in light of possible tactical acquisitions, disposal proceeds including Frozen Foods and the development of our credit metrics.

Overall, we are pleased with the progress we've made in 2005 which gives us a stronger platform from which to move forward.

Now to Unilever's financial model on slide 22

Slide 22 Unilever's financial model

As you know, our over-riding goal is sustained value creation for our shareholders and we aim for 'Top 1/3' TSR performance.

We aim to win market share overall. But growth is a means to an end and only one of our key value drivers.

Our long term targets - to remind you - are:

- FCF of €25-€30bn during the period 2005-2010
- Improved return on invested capital from a 2004 base of around 11%

We plan to deliver this from a combination of:

- Top-line growth ahead of our market growth which we estimate will grow at 2-4% p.a.
- Improved operating margin against a 2004 base, allowing for a normal level of restructuring of 50-100 bps p.a.

- Improved capital efficiency vs our 2004 base.
- Improved tax efficiency, which we now expect to lead to a sustainable tax rate of around 28%.

Patrick, back to you.

Patrick Cescau

Now, turning to slide 23 for the next important step towards those goals – 2006.

Slide 23 Delivering 2006

In 2005, our number one priority was restoring growth. In 2006, our priority is to sustain our growth momentum and improve our margins.

We are under no illusions. We know that we must deliver both good growth *and* strong profitability to deliver Unilever's full potential value.

This is what we are planning to do.

Turning to slide 24

Slide 24 Winning in key markets

Our strategy is to build a winning portfolio with more leadership positions in key markets *and* a more powerful presence in high growth spaces.

Going into 2006, we have much greater clarity on what our priorities are – precisely which categories, segments and brands, in which countries, will drive growth.

We have made sharper choices and set clearer objectives. We are channelling funds and resources behind our best opportunities.

We have the right structure to deliver and we have the disciplines in place to make sure that we execute against our priorities.

Our people are clear what they need to do and what they will be recognised and rewarded for delivering.

So let's take a look at those priorities – turning to slide 25.

Slide 25 The priorities for 2006

I want to keep some surprises for our competitors but I will give you some insight into our priorities for the year.

I've already talked about Europe.

You won't be surprised to hear that, for example, within the high growth spaces of D&E, India, China and Russia are a big feature of our plans.

Or that vitality is shaping our initiatives in Heart Health, Savoury and Tea.

Or that, in Personal Care, we are building on our leading market positions in Deodorant and Personal Wash.

We are also moving forward with our change agenda.

Turning to slide 26.

Slide 26 **Building capabilities – brand building**

A key focus, as we have said, will be strengthening capabilities.

We said earlier what we are doing to improve customer development.

As we move forward, we are also improving key aspects of our marketing capability. For example, the way we craft and leverage our global brand mixes.

You have seen what we can do when we are at our best with brands such as Dove, Axe and Sunsilk. In 2006 we will step up the pace on applying the same methods and standards across all of our brands.

Slide 27 **Fit to compete**

We will also continue to improve our fitness to compete.

Specifically, we will:

Complete One Unilever implementation. This means

- A single management team in all markets.
- Simplified, standardised business services up and running, with a substantial proportion out-sourced.
- The majority of our top 20 markets reporting directly to the Unilever Executive.
- Further reduction in management headcount.

One Unilever implementation will deliver €700 million savings by the end of 2006 and €1 billion by the end of 2007.

Slide 28 **2006 outlook**

We continue with our recent practice of not giving specific annual top or bottom line guidance.

In 2006 we plan to sustain our growth momentum and improve margins.

To drive growth, we will invest competitively in A&P behind our priorities and with the focus on effectiveness.

We also anticipate benefiting from a progressively more favourable pricing and commodity cost environment and a continued flow of savings.

We plan restructuring to be around 100 basis points. We will confirm the impact of business disposals if and when they happen.

Overall, we expect operating margin to increase in 2006 from the 13.4% in 2005 after allowing for the 100 basis points of planned restructuring.

We expect the tax rate to be in line with our longer-term guidance of around 28%.

Now turning to slide 29

Slide 29 “Unilever enters 2006 in much better shape, with increased competitiveness and growth

I am proud of what we achieved in 2005 and the momentum we created.

We enter 2006 in much better shape.

We are confident we know what we need to do to win and we have the clarity, commitment and courage to do it.

I have every confidence that we will deliver what we have promised and take more important steps towards unlocking the unique potential of Unilever.

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