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UNA.AS^K20 - Q2 2003 Unilever N.V. Pre-Close Conference Call

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OVERVIEW:

Management confirmed its outlook for low double-digit EPS growth for the full year 2003, with 1H03 EPS growth expected to be flat. Q&A Focus: Destocking effect, effect of number of trading days, advertising and promotion programs.

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PRESENTATION

Operator

Good afternoon, Ladies and Gentlemen, welcome to Unilever's 2003 Second Quarter Pre-results Update Conference Call. This conference will begin with the presentation by Mr. Howard Green, Senior Vice President Investor Relations, followed by a question and answer session. This conference is being recorded and will be available for a period of two weeks. Details of the replay numbers and access codes can be found on Unilever's website. An audio webcast of the teleconference will also be available on Unilever's website at www.unilever.com. We will shortly hand you over to Mr. Green.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Ladies and gentlemen, welcome to this conference call, whose purpose is to update the market on the progress of our business. A transcript of the teleconference presentation can be accessed by our website at www.unilever.com, and is also being released to the relevant stock exchanges by their news services. The transcript contains the usual disclaimers as to forward-looking statements within the meaning of the relevant U.S. legislation, and this presentation and discussions are conducted subject to that disclaimer. I propose that I do not read it out but that we take the disclaimer as read into the record for the purpose of this conference call. This update is based on the first two months of trading in the quarter. Comments on EPS are made on a before exceptional item items and goodwill amortization basis.

Let me start by conferring our outlook for earnings per share growth for the year of low double digits, notwithstanding a more challenging business environment than the one we expected at the outset of the year. One of the long-standing strengths of our business is its ability to sustain earnings and cash flow growth by successfully navigating through such changes and challenges. By staying focused on the consumer, we're able to reshape the execution of plans by focusing resources in the places where they create the most value. For example, we continue to focus our investment behind the key innovations, increase the role of value propositions within our portfolio, and tailor our plans in the areas of the business which are most impacted such as prestige fragrances. This together with vigorous attention to cost management allows us to ensure that we protect long-term business health.

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EPS growth for the first half year is expected to be flat. The achievement of our full-year target will be driven by, firstly, restructuring savings which are running at around 100 million Euros per quarter and as such, are well on track to deliver the 700 million Euros expected over 2003 and 2004.

Secondly, an improved mix, as we benefit from a greater proportion of higher margin categories including Personal Care.

Thirdly, we see progress in a number of developing and emerging markets where we've taken pricing action to recover the devaluation led cost increases and also where we have been seeing stabilization of currencies in key markets.

In addition in 2003, we now expect some euro 600 million of savings from our Global Buying Program, which is ahead of our plan that we communicated at the start of the year. Product logic, which many of you saw in Chicago last week, gives further impetus to future benefits. In terms of advertising and promotion, we expect a level for the year similar to or slightly ahead of that in 2002.

Finally, we're gaining structural benefits in tax and expect a BEIA tax rate of 30 to 32% over the next few years, while this year, as last, we expect to be at the lower end of this range. In respect to the phasing of EPS growth for the year, there are a number of elements, which lead to awaiting to the second half. These are, firstly, a relatively high A&P spend in the latter part of 2002, from the back-end-loaded innovation plan. Secondly, the impact of dilution from disposals, especially Diversey Lever and Mazola, which is expected to be close to 3% for the first half year, but much less in the second half.

Thirdly, we have successfully implemented a new go to market approach in our foods business in North America. Our experience elsewhere shows that it brings sustainable benefits in the extended supply chain in the efficiency and effectiveness of promotions and the speed of bringing innovations to market. However, in the short term, it has a planned one-off negative impact in the first half year of an estimated euro 50 million on operation profit. In looking at the quality and comparability of the EPS growth this year, it should also be remembered that both out target and results continue to reflect the impact of pensions under FRS17 accounting and the expensing of stock options which account for the equivalence of some six percentage points of EPS growth.

Turning to the top line, in the second quarter, we expect leading brand growth of around 3%. Within the quarterly growth, we expect to see a pickup in foods, including the expected bounce from Easter and not withstanding the continued soft performance from Slim Fast and the home channels including food service. In Home & Personal Care, a business that has delivered above-the-target growth in the last three years, we expect growth below the Unilever long-term target range but in the quarter, we see an accelerated impact from the focus on improving laundry margins, a sharp decline in Prestige due to reduced demand in travel retail, and the impact of continued trade de-stocking in the U.S.

In respect to our mass market business in the U.S., it is important to point out that based on six-channel market share data which gives us 95% coverage of our HPC sales, we have maintained our aggregate market share throughout the year. Thus based on our expectations for the second quarter, along with our experience in the first quarter, we have clearly given up more of the headroom in our plan and we're comfortable with at this stage of the year and are therefore adjusting the growth outlook for the leading brands to some 4% for the year. There are three main factors behind the lower planned performance.

Firstly, Slim Fast accounts for a little over 40 basis points off the growth rate for the year.

Secondly, sharper than expected trade de-stocking including the effect of some retailers facing financial difficulties. We believe this has largely run its course, but it is expected to reduce the full-year growth rate by 40 basis points.

Thirdly, the market conditions in Prestige and out of home channels including food service have an impact of 30 basis points. Before we move to Q & A, I think it might also be useful to remind ourselves that the success of past growth will be decided at the end of the 20-lap program and not at any intermediate measurement point. Indeed the path to growth strategy remains as valid today, as it did at the beginning of the program. The reasons for that are simple.

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Path to growth was designed to realize a significant step-up in delivering value and achieving top third total shareholder return amongst our peer group. At its heart was our desire to bring about an acceleration in the profitable growth of our business. Unprofitable growth has always been easy, so our strategy looked to step up our performance on all of the levers of value creation.

With respect to top line growth, we set out to change our portfolio in order to focus on the faster growing areas of our markets and of those businesses where we have scale and leading positions. Focus on our leading brands, those that are on trend with the consumer and are number one or two in their markets. Programs in their consumer heartland to reinforce strength, fill in geographic white space, stretch across categories, and to take brands to where consumers are consuming. Use the focus on brands and the underpinning knowledge and capability to bring sharpness to innovation with fewer more impact full development capable of being rolled out with speed. In short brands up for the right consumer value and they are the brands that retailers must have to drive traffic through their stores. Portfolio and brand focus would enable us to better realize the scale advantage and synergy of our business leading to improvements in two of the other levers of value creation, enhanced margins and improved capital efficiency.

Indeed, looking at progress since the past growth, it has translated itself into a 50% increase in free cash flow, defined as operating cash flow after capital expenditure, financial investments including the purchase of shares to hedge options programs, and tax charge, for the 12 months to end quarter one, 2003, this is running at 4.2 billion Euros. It is cash flow in the expectation of its growth, which determines economic value of the company and by implication, should determine the enterprise value. Over the last 10 years, free cash flow has grown by compound average rate of 13% per annum, whilst growth in enterprise value has lacked this.

Looked at another way, based on our share price at the end of last year, Unilever's valuation implicitly assumes no free cash flow growth in real terms. This is not what we planned, nor is it what our track record suggests. If we look at our track record and using EPS growth as a good surrogate for long-term cash generation, it shows over the first 70 years of our existence, EPS grew by an average of nearly 8% and through the 1990s by 9% per annum. Past growth is about acceleration in value delivery, and thus cash momentum in our business which we see in the development of the cash flows as I've just described.

Operationally, we've executed a wide-ranging program in line with our intentions and as we set out for the market. The fact that enterprise value has not kept pace with the improvement in cash generation and that the share price at the end of the last year did not reflect any free cash growth in real tones shows that we have yet to convince the market about the sustainability of our improved performance. That continues to be our challenge.

So in summary, it is the robustness of our business proven over time that allows us to reconfirm low double-digit EPS growth for the year by continuing to do what we do best, applying the principles of value creation to manage our business in a way that optimizes economic returns by focusing on the right combination of value levers in any given situation.

With that, I've finished my presentation and I'll now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now poll for question from analysts. If you have a question, please press "star" and press "1" on your telephone. Please use the handset while asking your question. Should you wish to cancel your question, please press "star 2" At any time should you need to speak to an operator, please press "star" and “0”. Our first question is from Mr. Julian Hardwick of ABN. Please go ahead, sir.

Julian Hardwick - *ABN Amro Bank - Analyst*

Good afternoon, Howard.

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The pre-close statement doesn't give us much of the detail on the factors underlying the profit trends in Q2, and I think by implication, if you're talking about flat first half, you're talking about EPS down sort of ballpark 4% in Q2. Could you talk us through the factors, which are giving rise to that result, particularly what's happening to A & P spending in the quarter?

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah, I mean, let me try and run through some of the building blocks. The first factor in quarter 2 is the retail de-stocking issues that we've seen particularly in Home & Personal Care in North America. If you put that together with the [weak] count of home channels and also the accounting change that comes from the go-to-market in North America, then we see that operating profits is off by around 120 to 140 million in the second quarter. Now, by their nature, those are issues that, as in the case of go to-markets, are one off because we have changed the business model.

In the case of retailer de-stocking, as we said, they have largely come to an end, and we also see some pickup in -- certainly in Foodservice channel, although prestige continues to be weak. We haven't backed off any of the key innovation programs that we've got in place. We're confident about the plans that we've got, we're confident about the innovations that we have got in the marketplace, and we're backing them with the appropriate amounts of investment. There will be an increase in A & P in the second quarter. You should expect, however, that will be at a lower rate than we saw in the first quarter, because the first quarter came up against an easy comparator from quarter 1 of 2002.

The major investments in the A&P, as I said, is going behind the innovations, particularly in the hair and deodorant categories, and I think the track record in those categories speaks for itself. You know also that we have never specifically -- well, we've tried to avoid going into the specifics of a number for the quarter at the time of pre-close. I'd rather wait to actually have the full quarter's numbers in, but there is, as I say, an increase in the A&P spend rate. Most importantly, within the context of the overall development to margin, there's the continued momentum in our cost savings programs.

And I hope that I brought out that clearly as well, that we're seeing both the benefits in the restructuring programs and that global procurement is still delivering and is delivering at a faster rate than we saw or that we mentioned with the quarter 4 results of last year.

Julian Hardwick - *ABN Amro Bank - Analyst*

Ok. Thanks for that. Can you give us any indication what you expect EBIT margins to do in Q2?

Howard Green - *Unilever Inc. - SVP Investors Relations*

I'd expect them to be flat against last year.

Julian Hardwick - *ABN Amro Bank - Analyst*

And can you just give us some sense as to in terms of framing your guidance, what assumptions you've made about how June is going to pan out relative to a sort of normal June experience?

Howard Green - *Unilever Inc. - SVP Investors Relations*

You mean you're looking at weather?

Julian Hardwick - *ABN Amro Bank - Analyst*

Well, among other things.

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Howard Green - *Unilever Inc. - SVP Investors Relations*

I mean, we -- the process that we go through is that we've got the two months in house, we've got a full cost from the business, and in respect to our ice cream business, we would have a normal weather pattern factored into that forecast. Now, it's also important to actually look at that relative to last year, because if I remember from last year, I think ice cream in Europe had growth of something like certainly in high single digits or maybe it was in mid single digits in Europe in June month. So the forecast is based around a normal month, and there is a higher comparator in the last year for the June month.

Julian Hardwick - *ABN Amro Bank - Analyst*

Thanks a lot, Howard.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Okay Julian thanks.

Operator

Your next question comes from Julia Bannon of BNP Paribas Bank. Please go ahead.

Julia Bannon - *BNP Paribas Bank - Analyst*

Good afternoon. Howard, it is Julia here.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Hi Julia.

Julia Bannon - *BNP Paribas Bank - Analyst*

Hi, Howard I wonder if you can flesh out in two areas. In HPC, now, in the first quarter, you did indeed mention that there was softer amount in travel channels from prestige, but perhaps you could put a bit of extra color on that in terms of just how bad the demand is relative to 2002, and whether -- it sounds like the situation has actually got worse in Q2 verses Q1.

And secondly, where you actually mentioned about trade de-stocking in the US, because I think this is a point that we all made last year -- sorry -- last quarter, was that the comment in terms of the Foods performance and de-stocking almost seemed to be entirely, as far as food was concerned, but there seems to be a of a sort of de-stocking emphasis shifting towards HPC now as well.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Ok. Let me try and go through those. I mean, they have indeed been a pickup in the rate of slowdown in prestige. In the first two months of the quarter, we have been looking at underlying sales declines in the region of 20%, so that's April and May and if I look at the year-to-date figures, there's a decline in the underlying sales growth just in double digits so it's definitely an acceleration in what we have seen in the underlying sales growth for prestige and the majority of that is actually coming in the second quarter. In respect to the other issue, I think there was certainly two separate points, and I more than likely didn't explain it well enough in the last conference call.

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There was a planned change to do with our Foods business in the strategy for its go-to-market operations. That has gone exceptionally well, and was-- there was an impact of customers' orders getting phased over from the first quarter into the second quarter, that was fully built into our plans and considered in terms of the overall growth number for our Foods operations in North America. And the reason for that phasing was that we were changing over to a performance-based system, which was whereby our retail partners accrue the benefits of promotional dollars as we ship the goods. By the way, because it's accrued on shipping, that accounts for the accounting change. So that was always in our plan, and if I gave the impression that that was one of the issues behind the de-stocking, then I apologize for that, because the more important issue, which I think came out in the Q & A, was that, in fact, the major part of the unexplained or the unexpected de-stocking was in Home & Personal Care and that was related to some of the major retailers taking action to reduce inventory primarily because we see much lower overall growth rates in those categories than historically we have seen. I mean, our information that we have here shows that the Home & Personal Care categories are growing on average around about 1.5%. That's the track record through the first part of this year. That is significantly below the historic growth rate. If we look at our retail sales, which we also collect information on, then our retail sales, either stuff going off the shelves in the retailers, have been growing above the category growth rates, have been growing around at about 2%. However, if we look at the pattern of what's happening on the sales that we report to the market, i.e., our sales into the retail chain, that's where we've seen this de-stocking effect. And that is the equivalent around about -- all together, around about Euro 120 million of sales coming out of inventory. And it is mainly a Home & Personal Care issue. It's the Home & Personal Care issue that is different to our plans, and it is not a foods issue that makes it different to our plans. The Foods issue was considered within our plans, and, in fact, if anything, has gone at least as well as we expected.

Julia Bannon - *BNP Paribas Bank - Analyst*

Ok. And Howard, just to finish up, if I may, on the leading brand growth and the split of the 3%, bearing in mind obviously what the contents of the statement and what you've just said, if we were to hazard a guess for the split, would it be something like the Q1 split for 2002, 3.5 for Home & Personal Care and 2.6 for Foods?

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah, that's -

Julia Bannon - *BNP Paribas Bank - Analyst*

That's the order of magnitude?

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah.

Julia Bannon - *BNP Paribas Bank - Analyst*

Ok. Thank you.

Operator

Thank you. Your next question comes from Victoria Buxton of (inaudible). Please go ahead.

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Victoria Buxton - *Analyst*

Yes, good afternoon, Howard. I was just wondering if you could actually spit out the HPC number between Home Care and Personal Care? The 3.5 that Julia referred to --

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Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah, I can give a very trite answer which is it's going to be faster in Personal Care than it is in home care. One of the one of the effects we've got within Home Care in the quarter is that the effect of the repositioning of the laundry portfolio. If I look at Personal Care to date in the quarter, then that's -- then I would estimate that Personal Care will be running at around about 4 to 4.5% in the second quarter. It could possibly be a bit above that. I've just given you that number including Prestige. I have to back out the Prestige number. Let me just do a slightly more complicated -- I would think Personal Care was up more towards 5% and the difference on that relative to the previous performance that we have seen consistently over a number of quarters is primarily coming out of the trade de-stocking issues in Home & Personal Care North America.

Victoria Buxton - *Analyst*

Ok. And then can you indicate where your A & P focus was in the quarter in terms of the split of the business as well, whether it was more towards Personal Care again or whether there was a step up in Foods?

Howard Green - *Unilever Inc. - SVP Investors Relations*

I mean, the majority of the A & P increase did go behind, as I said, the categories of hair and deodorants. It also obviously included within that some [silk] in Europe, [Dove] hair in North America, continued rollout of various hair innovations in Asia and Latin America. There was also investment behind a number of innovations that we've got in the Foods area, and including, if I go to Europe, I can look in the dressings area and in Knorr, we're seeing good growth in Knorr and Hellmann's in Europe. So it's not exclusively limited to the Personal Care categories. There's also support behind a pickup that we've seen in the Foods growth.

Victoria Buxton - *Analyst*

More in Foods than we saw in Q1?

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah. There's a better growth profile to Foods in quarter 2, although part of that needs to be recognized as to do with the bounce that we've seen from Easter. I mean, and if we look at the sort of growth that we were getting in April from the Easter bounce, as it's called, then in spreads, we were seeing growth of over 7%, dressings over 10%, ice cream of 15%, and those are April figures. In North America, spreads, dressings, olive oil all recorded substantial growth increases and confirmed the Easter bounce that we had talked about previously.

Victoria Buxton - *Analyst*

Could I just -- what's the degree of --attrition compared to Q2?

Howard Green - *Unilever Inc. - SVP Investors Relations*

We have seen in two months, the first month was 4% and the second month was 8%.

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Victoria Buxton - *Analyst*

Ok. Thanks very much.

Operator

Thank you. Your next question comes from Mr. John McMillin of Prudential Securities.

John McMillin - *Prudential Securities, Inc. - Analyst*

Howard, did you give a breakdown between volume and price in the quarter?

Howard Green - *Unilever Inc. - SVP Investors Relations*

No, I didn't, but it's around half of the leading brand growth is in price. That's around 150 basis points.

John McMillin - *Prudential Securities, Inc. - Analyst*

Ok. And in terms of the fact that you just highlighted this HPC business in Chicago, you know, I guess I'm not an expert on Home & Personal Care, but for the business to have such a hiccup, if you want to call it, and to have highlight it, I guess I didn't really have a feel that it was that type of de-stocking going on. Can you just quantify, of the slowdown in Home & Personal Care, what percent of it came from inventory de-stocking? I miss missed it.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah I mean, if I look across our business, then in HPC, it's around about 230 basis points on HPC growth is coming from retailer de-stocking. --And, I mean, in some ways--, you know, the reason that it's actually happening in North America does stem from these lower category growth rates that we're getting, and clearly stated strategies, financial strategies of retailers to only allow increases in inventory at below their rates of sales increase.

John McMillin - *Prudential Securities, Inc. - Analyst*

But it doesn't reflect any kind of loading pattern in past sales efforts by you?

Howard Green - *Unilever Inc. - SVP Investors Relations*

No -- it does reflect that we had too high a stock in the trade. One of the things that we have extended VMI-type initiatives, Vendor Managed Inventory, we get a much better tracking now between sales in, sales out in terms of the distribution centers. I mean, sort of the sophistication of the systems at the store does not, is still not sufficiently accurate, but I think that that shows that there is no discernible pattern of loading. There's a natural rhythm that obviously goes on with innovation cycles, but it's something that we monitor, and our trade stock levels were too high relative to what the retailers were trying to do.

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John McMillin - *Prudential Securities, Inc. - Analyst*

Yeah, I just -- you know, again, I know it was a sensitive time to have a meeting. You know, you just can't come out at that meeting and unveil what's going on in the market, but just to, how you could have six guys stand up there and get no feel for the fact that this kind of level of de-stocking was going on is surprising. And that's just more a comment than a statement.

Howard Green - *Unilever Inc. - SVP Investors Relations*

No that's okay. I mean, I think that's part of what I said to Julia, was that I thought that at the time of the Q1 conference call, when we were explaining issues to do with our performance in Q1, that we did bring out that there were several impacts in terms of trade de-stocking, and that the ones in Foods were known and were in our plans, and that there was a series of things happening in Home & Personal Care which had not been considered in our plan. And I thought that I had brought that out as being an issue during the Q1 conference call, but it's clear from your comments and from those of Julia that I didn't bring them out.

John McMillin - *Prudential Securities, Inc. - Analyst*

Well, maybe I missed it so.

Howard Green - *Unilever Inc. - SVP Investors Relations*

No, no, no. I mean, if two of you are saying it, then there's something wrong with what's going on. And it does impact, -- you know, I mean, it's 30 basis points at the end of the day, which is either significant or not significant on its own, it would have been something that, you know, normally we would just manage, it's just when it gets combined with Slim Fast and some other issues that it pushes us outside our comfort zone in terms of the headroom that we actually have within the planning system. In terms of the actual Chicago event itself, then I think one of the things that we try to make sure is that these are about highlighting global capability that were got in the business and not about a specific geography where we're actually sitting, and we're specifically not anything to do with the quarter's results. And again, I hopefully made that clear. And we weren't talking about, you know, the Home & Personal Care business North America's performance. We're talking about what we were doing globally in hair and deodorants and in our laundry strategy.

John McMillin - *Prudential Securities, Inc. - Analyst*

Thanks a lot.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Ok. Thanks, John.

Operator

Thank you. Next question comes from Mr. James Edwards Jones of Credit Suisse First Boston.

James Edwards Jones - *Credit Suisse First Boston - Analyst*

Two questions, if I may, Could you just sort of expand a bit more on the food business? And it looks as though that will have grown leading brands by about a percent and a half for the first half as a whole, which we see excludes all the Easter effects and calendar effects. And what's going on there? Because that, there does seem to be a maturity lower rate of growth than I guess even we'd expected.

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Howard Green - *Unilever Inc. - SVP Investors Relations*

The number that you've got is right, but don't forget there's also one fewer trading day in the first half of the year. So if you remember the unique features of the Unilever calendar, then, you know, that accounts for a lower growth rate around about 50 basis points just on the pure phasing to do with the calendar. Slim Fast has a significant impact on the Foods business. I mean, it takes down the growth rate in the Foods business in the first half year by around about 120 basis points. The weakness in Foodservice and what I call out of home channels, which also includes sort of scooping ice cream, takes the growth down by around about 40 basis points.

So, mathematically, yes, you're right, at 1.5, but there are some things generally that need to be considered, there are some very specific Unilever things such as Slim-Fast, and then there are changes that we have made specifically to improve the business infrastructure going forward.

For example, go to market changes in Unilever Bestfoods North America. And that in its own right, just the changes to go to market also take about 50 basis points off the growth rate. So if you add all of those up, then yes, 1-1/2% is the number, but underlying - if you want to go underlying, underlying help us with the concept, but there's a more robust framework underneath that if you look at the core of the business.

James Edwards Jones - *Credit Suisse First Boston - Analyst*

I guess that goes someway to answering my second question, which is how can you be so confident that the business is going to grow by -- or the leading brands will grow by about 5% in the second half? It does seem and well clearly as basically as against much tougher comparisons and it looks now as if it's going to be against a materially lower A & P expense than it was in the second half of last year. So, there are some big new product initiatives in there that's going to turn that around in the second half, or is there something more to it than that?

Howard Green - *Unilever Inc. - SVP Investors Relations*

First of all, let's try and get the math out of the way because, I mean -- and deal with the issue of tough comparators.

In the second half of last year, we had leading brand growth of around 6.6%. That included one extra trading day in the fourth quarter. And if we adjust for that, then on a like for like basis, that was equivalent to just over 6%. Whilst that’s at the top end of our growth range, it's by no means exceptional. And to achieve our full year target, we need to grow in the second half of this year by around 5%, and given that we have got one extra trading day, on a like for like basis, we actually need to grow, backing that out, by around 4.5%. If you bring it back the other way around and actually say well, what in the first half of the year is different and we look at the 3% growth rate, then in Foodservice, we've assumed a return to higher rates of growth, but still below those achieved in the second half of last year.

In prestige, we've assumed that the impact of the business environment will continue for the rest of the year, and in respect of a number of impacts that we've seen that have held back sales growth in the first half, those were expected to have a much less significant in the second half. Those impacts are, we have implemented to a large part the Foods North America go to market initiative. And implementation plan has gone smoothly into plan. We believe very much at the end of the sharp reduction in inventories that we've seen principally in Home Personal Care North America.

As I said earlier, market shares have remained stable, and our retail sales have been growing at around about 2% during that time. Slim-Fast performance in the first half has depressed the Unilever sales growth rate. And in the second half, we expect to see a progressive improvement as we benefit from innovation in the marketplace. And then the issue of the one trading day. If you add all of those together, you actually get to a difference of around about 280 basis points that should be looked at on top of the run rate in the first quarter. So, you know, sort of 5.5 to 6% looks like the run rate based on where we are in the first half of the year. That takes us into a figure of about 4% for the full year, and also gives us some headroom as we move forward to deal with things that are the normal cut and thrust of business. We have got a good innovation program going forward, and turning to the A & P issue, we see we see a flat to if not slightly higher level of A & P, and we see that A & P consistent with the over all figure that is we gave at the start of path to growth, which was for an increase of around 200 basis points, we said at the year-end results that we still had around about 80 basis points of A & P to go in the overall equation, a slight increase in 2003 is consistent with that overall positioning and where we expect to get to in terms of the overall path to growth program.

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James Edwards Jones - *Credit Suisse First Boston - Analyst*

What will the A & P spend since you've done in Q2, very roughly?

Howard Green - *Unilever Inc. - SVP Investors Relations*

Very roughly, we would expect it to have gone up but not up as much as it did in quarter 1, which was up against an easy comparator from the prior year, and as I said earlier, to one of the answers, with an EBIT margin that's expected to be roughly flat year on year.

James Edwards Jones - *Credit Suisse First Boston - Analyst*

So it is right to seem it's going to be significantly lower in the second half?

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah -- well, lower than what?

James Edwards Jones - *Credit Suisse First Boston - Analyst*

Lower than the second half 2002.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah, I'd I have to say that I do think there's sometimes an absolute obsession with quarterly numbers and what they're actually doing because, I mean, there's a set of programs that we're putting in place. Those are receiving the appropriate amount of investment behind the innovations and marketplace support. The exact phasing of that quarter by quarter is an interesting statistic, but it's the longer term trend that is more important. And it is consistent -- well, what we're doing in 2003 is consistent with the overall path of growth program. I won't pretend for a moment that, for example, in the case of prestige, we are likely not to be spending as much in prestige as we first planned. I mean, it's a different marketplace to the one that we started off in. If you are getting the growth of so-called smart shopper value propositions, those have got a different overall margin structure in terms of where they are than in some other brands. And our job is just to make sure that we keep the consumer, you know, sort of full square in the frame of what we're doing and make sure that we actually focus on delivering what is relevant to them. So yeah, there are always changes as we work our way through the year. But in terms of overall A & P spend, then we are putting, as I said, the same or expectation of slightly more into the market, and that is consistent with the overall framework that we gave at the time of path to growth, was first announced.

James Edwards Jones - *Credit Suisse First Boston - Analyst*

Ok. Thanks, Howard.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Thanks, James.

Operator

Thank you. Your next question comes from Hayward Rick of ING Financial Markets. Please go ahead, sir.

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Hayward Rick - *ING Financial Markets - Analyst*

Hello.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Hi.

Hayward Rick - *ING Financial Markets - Analyst*

Concerning the geographical development of the volume sales, is that-was that of the leading brand - was that comparable to what happened in the first quarter, so meaning negatives in the mature markets and positives in the emerging markets? And on Slim-Fast on -- about the development, does it mean that it's again weak in the second quarter, that it is a disappointment against earlier expectations? And maybe you can elaborate on what kind of marketing sales decline you expect in the second half, how many basis points.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah, I mean the--, by geography, then-- I think it's clear from the comments, I made already that the North American number will not show a significant improvement compared to the first quarter. We still expect to see an underlying sales decline largely driven by Slim Fast and by the trade de-stocking in HPC North America. We expect a more positive performance in Europe, and we're looking for positive underlying sales growth, and in our D & E regions, we'd also expect there to be the positive trends that we've been seeing over the last few quarters.

In terms of the investment in A & P, I think, you know, again, I think it's just more appropriate that we actually wait until we've got the full quarter's results for me to comment on the specifics of the quarter. I've given an indication of where we stand for the full year, and I really don't see as much value added by me speculating further on what might happen in the second quarter. It's consistent with the overall plan for the year. And I think we do have to remember that this is a trading update, it's pre-close, it's two months' figures, and I'll have the real numbers, as they say, when I talk to you the next time.

Hayward Rick - *ING Financial Markets - Analyst*

And Slim Fast, is that -

Howard Green - *Unilever Inc. - SVP Investors Relations*

Oh, yes, sorry, Howard. I think Slim Fast -- if we go back, there were three separate issues that we talked about last time. One was to do with the promotional planning and timing. The second was to do with the consumer trend towards low carb diets, and the third issue was to do with the phasing of innovation. We have sorted out the promotional planning and timing issues in terms of the way that we actually structure ourselves and approach the retailers. The innovations that we talked about in terms of soups, pastas, a selection of different bars, including a new zero sugar or low carb snack bar, and the development of a soy-based RTD, those are going into the marketplace as we speak, but we're -- we'll really feature in Q3's results, and we also had Slim Fast ice cream going in, which is going well.

In terms of the overall sales growth for the second quarter, then we're seeing a similar level of decline that we saw in quarter 1, a small improvement if you include the ice cream benefiting within the numbers, but again, I think that we said that the important thing was that we saw the improvement throughout the rest of the year and that we expected to see a much stronger position as we exited the year. The plan is dependent upon the success of the innovations and the success of advertising and PR campaigns in respect to the appropriateness of our solution with the consumers as opposed to other solutions that the consumer might want to use. In overall market share terms, we're two to three percentage points down in market shares,

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so not withstanding the rate of sales decline, we are still very much the clear dominant leader in the category, and that gives us the strength to make the innovations stick with both the retail partners and in terms of the amount of advertising that we put behind them. So the key elements of the plan are in place, but we're going to have to watch this develop over the rest of the year to see whether or not that has been fully successful.

Hayward Rick - *ING Financial Markets - Analyst*

Thank you.

Operator

Thanks, your next question comes from Mr. Kavlov (inaudible). Please go ahead.

Unidentified

Good afternoon. First of all, just - I understand well that we saw a recovery at the ice cream compared to Q1, which was very weak. Is that also at Ben and Jerry's ice cream? And my second question is I still have some problems in that you still reconfirm your year target because EPS will be flat in the first half year, and you still believe on yearly basis at least 10% percent profit growth, that means that you would have a fantastic second half of the year. Do you really need a strong recovery of the economy for that?

Howard Green - *Unilever Inc. - SVP Investors Relations*

In terms of the ice cream question, then our business in North America has been performing well in marketplace terms. By that, I mean market share terms. Good Humor-Breyers business is showing good business in retail growth. However, both them, Ben and Jerry have been hit somewhat by weak sales in out of home channels, so for example, scooping shops or parlors. So good performance in Good Humor-Breyers and a weaker performance where we have those out of home channels. In terms of Europe, we saw a very strong performance in April. We saw a weaker performance in May, and June is, we'll just have to wait and see.

The important part about the ice cream in Europe was that we did indeed see the so-called Easter bounce with underlying sales growth in April of 15%, but that was weaker by the time or by the May month was considerably weaker than that. We actually saw an underlying sales decline in the May month. Together, April and May, they look -- they look okay, as the basis for moving into the main season, which after all, is June, July, and August. So we really do need to wait to see what happens in June.

In terms of the EPS forecast for the rest of the year, then there are a couple of issues again that I think need to be focused on. One of them is that there was a very strong EPS growth in the first half of last year, and, therefore, it was producing or is producing uneven comparators. Against that, there was a relatively high level of advertising promotion spend in the latter part of last year, as we had very much a back-end-phased advertising innovation program, partly because we were still in the first half of the year going through the best foods integration.

The third fact is that in the first half of this year, we have EPS dilution from known disposals, which are around 3% in the first half year, primarily the disposals of Diversey, Lever and Mazola, and they drop out in the second half of the year, so there's very little dilution expected from known disposals in the second half. And then the last point is -- well, I should then add in that we're actually seeing an improving trend in D & E markets from margin structure in terms of the recovery of devaluation-led cost increases that we've been able to recover through pricing action, and then the last point is that in the first half of the year, we've got the number of one-off or short-term factors that have reduced EPS in the first half year, and those include the unusual level of trade de-stocking, the introduction of the go-to-market change in North America. If I take all of those one-off or short-term factors into account, they've impacted operating profit by around about Euros 130 to 150 million, which is equivalent to some eight percentage points of EPS growth in the half year. So to do the plan for the full year, it doesn't require there to be any change in the economy or whatever as you expressed it. It does require us to continue to deliver the savings programs, and we've got a good track record of delivering the savings programs. It does require us to deliver the benefits that there are in terms of global procurement, and again, our record on that is first class.

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And in the second half, there will not be the one-off factors that have impacted the first half of the year. I have to say that also our track record of delivery over the last three years points to the fact that we are confident about the plans we've got for earnings delivery over 2003, and that we've got the operating plans to do that.

Unidentified

Thank you very much. That was very important to me.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Ok. Thank you.

Operator

Thank you. Your next question comes from Ms. Anne Gillen of Lehman Brothers.

Anne Gillen - *Lehman Brothers - Analyst*

Hi Howard. If you could go back to the 1.5% that you're seeing for the category growth for HPC North America? And just flesh out for us what channels you're tracking to get that 1.5?

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yeah, I mean, it's what we would call the six channels. So it includes dollar clubs, normal retail. Let me think what else? I need to get a piece of paper in front of me, I think. IRI, for example, normally covers 2 and 1/2 channels. What IRI normally misses, which is around 50% of category sales, is it ignores warehouse club and dollar stores, which are all showing record growth, and, of course, we also get a pickup of Wal-Mart data. So where we talk about that, we're getting a 95% coverage of our HPC business for the basis of that calculation.

Anne Gillen - *Lehman Brothers - Analyst*

Ok. That's helpful. And then just basis of comparison, can you tell us what it was running in the first quarter? What the same six-channel measurement was?

Howard Green - *Unilever Inc. - SVP Investors Relations*

Well, there's very little difference, Anne, than we've actually seen over the course of 2003. I mean, historically, it's been growing at 3.5% to 4%. I mean, our actual plan as we entered the year was for growth much more in line with the historic levels, and that's why we call this a sharp -- there's been a sharp de-stocking. Year-to-date, I have to say that we're picking up -- year-to-date for total North America --sorry -- total HPC North America, the same number, 1.5%.

Anne Gillen - *Lehman Brothers - Analyst*

Great. That's helpful. And then you did talk about having moved to more vendor-managed inventory, and I'm wondering if that also played a role in your year-to-date and kind of if that phase-in might have accelerated some of this in the period through the end of May.

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Howard Green - *Unilever Inc. - SVP Investors Relations*

I think -- I mean, we've been using vendor managed inventory techniques for quite some time. I mean, we use it around about -- or we get VMI coverage in around about 60% of our inventory that's out there. So -- I was trying to think of a clever way of saying it, but it's actually 60% of the stock, the inventory is actually covered by that. What we've been far more able to do recently is to actually get a clearer linkage between selling out data in the retail channel and matching that to our own selling-in data and triangulating that with the VMI. So we're getting a much better integration right across the supply chain so that you're actually more responsive to the demand signal. And it would be wrong of me to try and attribute any of that into VMI. I mean, at the end of the day, what VMI is quite clearly designed to do is to reduce the amount of inventory within the total supply chain. I mean, all of us and the retailers that we actually work with want to have very, very efficient business systems. But it would be wrong to try -- well, I'd be extrapolating from thought to fact, which would be wrong to say that VMI was part of it. What is interesting, though, is that we take a lot of the learning from what we're doing in North America, rolling that out in -- D & E markets, and also that's been an integral part of what we're doing within Foods go-to-market where we've actually got a lower coverage at the moment covered by VMI systems.

Anne Gillen - *Lehman Brothers - Analyst*

Terrific. Thank you.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Thanks, Anne.

Operator

Thank you. Your next question comes from Mr. John Parker of Deutsche Bank. Please go ahead.

John Parker - *Deutsche Bank - Analyst*

Hello, Howard. Couple of margin questions. Is there any swing in associated costs behind the evolution of margins in the second quarter on the one hand, and second, you said margins flashes overall. Can you give any indication of how that performance is in food, household and personal and three separate units?

Howard Green - *Unilever Inc. - SVP Investors Relations*

In terms of the associated costs, John, I think in the prior year, it was around about Euros 40 million of associated costs and we wouldn't see that as being much different in this quarter, quarter 2 2003. So no swing in associated costs. In terms of the overall margins for the various parts of the business, then I wouldn't say that there's anything stunningly -- that sticks out about the margins except to say that we're seeing the improvement that we would want to see within home care, and that in Personal Care, the margin looks relatively lower than the historic levels because of the higher A & P that is going behind Personal Care to support the longer-term position of that business and the phasing of it.

So, Foods, relatively little difference to prior year, improvement in home care, and A & P in Personal Care producing a lower than you might have seen in the last few quarters.

John Parker - *Deutsche Bank - Analyst*

Ok. Thanks. And just back on sales growth, obviously you've indicated leading brands. Have I missed this? Have you given an indication of underlying total Unilever growth in the quarter?

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Howard Green - *Unilever Inc. - SVP Investors Relations*

No, I didn't, but I'll answer that question. I would expect that to be around about 2% underlying sales growth. And I'll just give you the net effect of disposals net positions would be to reduce sales by around Euros 450 million in the quarter, and operating profit by around Euros 50 million.

John Parker - *Deutsche Bank - Analyst*

Ok. And cost savings overall, I mean, running around -- I mean, I think sort of 200 basis points was what we saw in the first quarter if you take cost savings and price changes and so forth, which -- is that still about the right level, similar level in Q2?

Howard Green - *Unilever Inc. - SVP Investors Relations*

I'm not sure I can answer that question. What I can say is that the savings programs themselves are continuing to deliver what we expect them to do, that there's a faster progress on both the general restructuring savings and in the overall procurement. I think I'll have to wait until I actually get to the full quarter to see the overall number because we've obviously got some impact of lower sales from de-stocking have any impact in operating profit on the way you know, on the basis that I'm already explained.

John Parker - *Deutsche Bank - Analyst*

Yeah.

Howard Green - *Unilever Inc. - SVP Investors Relations*

I think the other thing that's important to remember, as I said, with the first quarter results was that there's always some lumpiness in overhead savings, I mean so there was a very large number, as far as I remember, in overheads in quarter 1, and I warned at that time that people shouldn't expect to just extrapolate that number throughout the rest of the year. That will continue to be lumpy as we -- as some of these things just happen because there are large projects that allow headcount to lever a certain point and that has a disproportionate effect in any one quarter.

But the shape of the overall program, the shape of the overall savings programs and the totals within path to growth are intact. The only other thing I have been saying that developing in emerging markets, I've said that we are seeing some recovery in gross margins through the pricing action and that there's been some stabilization of currencies in key markets that we've been seeing, and we would, therefore, expect to start seeing some of the benefits of that. But again, that's particularly in the second half of the year. We're seeing it in quarter 2, but the full benefit is there in the second half of the year.

John Parker - *Deutsche Bank - Analyst*

Thanks, Howard.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Thanks, John.

Operator

Thank you, sir. Your next question comes from Florence Tash (ph) -- of MSS. Please go ahead.

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Florence Tash - *MSS - Analyst*

Hi, Howard. Just going back to the top line, when we had the first quarter call, you said the leading brands were up only 3% versus your long-term target of 5-6%, and basically 200 basis points of the short fall was coming from Easter and one less trading day split about 50/50. So I guess the expectation was that, you know, given that you have the same number of trading days this quarter and then Easter is coming back, you would have had naturally a 200 basis point down versus Q1. So as the de-stocking getting that much worse that it's actually completely offset that positive impact you were supposed to have?

Howard Green - *Unilever Inc. - SVP Investors Relations*

No, I think that, you know, we've never got into the business of the quarterly sales forecast. We certainly didn't get any guidance for the quarterly phasing of our plans. What we did say was that we would expect to see the Easter bounce, and that, we did see. The extra trading day, just to remind everyone, actually comes back in quarter 4 of this year.

Florence Tash - *MSS - Analyst*

Right, but the underlying in Q1, you should take out the effect for 5% to 6%. So even though the trading day is going to be 100 basis points extra benefit in the last quarter, you know, versus the first quarter, you should have still, you know, gotten back to your underlying level of growth.

Howard Green - *Unilever Inc. - SVP Investors Relations*

We have continued to see some of the features in the first quarter, which were the further de-stocking, particularly in HPC, North America. If anything, a pickup in the weakness of Prestige, as I've already explained to a previous question, the Foodservice channel continued to be weak. There was no immediate pickup after the end of the situation in the Middle East. And Slim Fast has continued.

Florence Tash - *MSS - Analyst*

But these were -- my point is that these were issues you were facing already in the first quarter.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Yes, and we entered into the second quarter with a plan, which still allowed us to -- still had the headroom to absorb some of these issues. What we see with the May results is that we have used up the headroom that we had, and hence it's necessary to reposition the overall outlook. Within any business, you're always going to get some good news and some bad news, and at the moment, the issues are going against us, and we can only deal with the reality of the numbers that we've got.

Florence Tash - *MSS - Analyst*

So -

Howard Green - *Unilever Inc. - SVP Investors Relations*

I could sit here and speculate about a wonderful summer, but I'm not going to do that.

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Florence Tash - *MSS - Analyst*

I'm not asking you to do that. I guess the other thing is, you said in Q4 that, you know, you had 8.5% growth in the leading brands in Q4, but some of that was due to an extra trading day in Q4 last year, is that correct? So that the underlying was only 6%?

Howard Green - *Unilever Inc. - SVP Investors Relations*

I said that there certainly was an extra trading day in Q4, what I said was -- that would get you to something like 7.5% for the -- for Q4.

Florence Tash - *MSS - Analyst*

That's Q4 2002, right?

Howard Green - *Unilever Inc. - SVP Investors Relations*

2002, yeah. And what I said was that if you actually looked at the second half of last year, that the growth rate after allowing for that extra trading day was at 6% in the second half, which was at the top of our range, is by no means exceptional. We had 5.4%, if I remember rightly, in quarter 3 of 2002, we had 8.5%, which included the one extra trading day, and it averaged out at a little over six and a half, which you then adjust for the trading day, takes you down to 6% like for like in the second half of last year.

Florence Tash - *MSS - Analyst*

And then in terms of the de-stocking in the U.S., the other thing that's very surprising is that, you know, at the same time, you're saying this, you're launching, you know, shampoos and deodorants, which, you know, should be in stocking phase at this stage. So I really don't understand which products are getting de-stocked.

Howard Green - *Unilever Inc. - SVP Investors Relations*

I mean, I'm not going to go through line item by line item, but, you know, there certainly are -- there's more Dove shampoo and there's more Axe that is sitting out there and there's more conditioner, but in aggregate, retailers are taking down inventory levels, and that will always be a mix across a variety of brands in any category. So I think they're almost two separate points. One is what is happening within the overall portfolio of the brands, and the second is what is actually happening in terms of the overall inventory levels in the trade. I mean, at the end of the day, our shares are stable in Home & Personal Care in North America. We've got a gain in Personal Care, and we've got a slight decline in Home Care. The slight decline in Home Care is made up of around about 120 basis points on laundry, offset by gains in fabric conditioners and in Personal Care, our shares are up by around about 60 basis points in aggregate.

Florence Tash - *MSS - Analyst*

All right. That's what I wanted to ask you. Thank you.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Thanks, Florence.

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Operator

Thank you. Your next question comes from John David Rogue of (inaudible)

John David Rogue - *Analyst*

Hello, Howard this is John David.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Hi John David.

John David Rogue - *Analyst*

I have three small questions. Let me start with the first one. Did I understand it correct that 2002 had one trading day more than 2001? And second question is, can you elaborate a bit on the new go-to-market approach in North America and why this is costing Unilever Euros 50 million, and do you expect these costs to come back in the second half of the year? And then the last one, the trade de-stocking in the U.S., Home & Personal Care. Did you lose or I mean did Unilever lose shelf space at the number of important retailers?

Howard Green - *Unilever Inc. - SVP Investors Relations*

In total, for the year, then there are no difference in the number of days. What it was in quarter 4 2002, there is an extra day relative to quarter 4 of 2001.

John David Rogue - *Analyst*

Ok.

Howard Green - *Unilever Inc. - SVP Investors Relations*

But in total, I mean, I'd have to go and look where the leap years are because that obviously gives another element of confusion, but quarter 4 on quarter 4, there's no -- it's not a total of the year, it's just within the quarters. If I look at the go-to-market situation in Foods North America, what actually happened was as we - we were changing the go-to-market strategy in our Foods business in North America, and we're moving to one where they accrue promotional dollars on the basis of shipments, so it's a performance-based scheme. The date of implementation of that was the first of April of this year. Retailers, therefore, did not order at the back end of March because they were able, or they knew that they would start earning promotional dollars from the first of April. So there was a holdback of their orders at the end of the first quarter that reduced sales by an amount of money and we have made no assumption that those sales come back. We plan that that is an effective improvement in the overall efficiency of the extended supply chain. As we move to the system of this new go-to-market strategy, we also have to reflect that in the way that we actually do the accounting for those promotional dollars because they are earning the dollars on shipments, the correct way of doing the accounting is to accrue for those promotional dollars. So shipment goes out of the door, somebody has earned a dollar, and we have implemented the accrual in the second quarter results. And together, those have reduced Unilever operating profit by the equivalent of around Euros 50 million in the first half of the year. So it's not a loss to Unilever. It just reflects the way that we're actually changing our strategy for go-to-market and reflects a change in the accounting because we would expect to end up with a more efficient way of actually interfacing with our retailers --

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John David Rogue - *Analyst*

I understand, but did you not you're usually pay these allowances in the fourth quarter, so by accruing these now, does that mean that you'd have to pay less in Q4?

Howard Green - *Unilever Inc. - SVP Investors Relations*

I mean, we're currently accruing for the trade funds at the time of shipment rather than the time of promotion. There may well be a change in timing, but at the moment, that is a reflection of what is actually happening within this quarter, and the only reason I mention it is to try and actually explain what is happening between the second quarter or second half year and the first half year.

John David Rogue - *Analyst*

Ok. And the last question -

Howard Green - *Unilever Inc. - SVP Investors Relations*

So -- now let me just be clear. I mean, we do not intend to have increased the overall amount of money that Unilever is putting behind promotional spend in the North American market, so it could well be some timing issues, but they'll get resolved over the timing and re-phasing of the promotions, and it's not something that I can reflect actually within the second quarter results. The second quarter results have to reflect the timing of the accounting and the taking of that accrual. There will be benefits as we go forward, but those are going to be phased over the actual execution of the promotional plan, so there won't be some other large sum of money that comes back in at some other point in time because previously, we accounted for the promotion as we executed the promotion. Does that make sense?

John David Rogue - *Analyst*

Yes, it makes sense, and the last question, about the trade de-stocking and the shelf space that you occupy?

Howard Green - *Unilever Inc. - SVP Investors Relations*

I mean, there are certain parts of the laundry portfolio where we have not got as much shelf space as we did have, although in the case of one particular brand, Whisk, you have to remember that that is a significantly stronger presence in the Northeast of the U.S. and down in the Southeast than it is in other parts of North America or U.S. landscape. So certainly in some of the weaker areas for Whisk, there's clear evidence of reduced [facings], but otherwise what we actually see through the overall maintenance of our market shares is that shares are stable in aggregate. And there's no indication of loss of spacing.

John David Rogue - *Analyst*

Ok. Thank you.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Thanks.

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Operator

Thank you. Our next question comes from Mr. Andrew Wood of Sanford C. Bernstein & Company;

Andrew Wood - *Sanford C. Bernstein & Company - Analyst*

Three questions for you.

Firstly, relating to your HPC business, basically Procter & Gamble came out and guided to 5 to 7% volume growth for their fourth quarter, which is equivalent to your second quarter, and mentioned or made no mention of trade de-stocking. You are saying there's trade de-stocking and you are holding your market share. There seems to be a bit of a disconnect there in terms of the messages.

Secondly, in terms of pricing, I wonder if you could give us some more color behind that 1.5% pricing. Basically your pricing has come down from 3% last year to 2% in the first quarter now to 1.5%. Is that a trend that you anticipate continuing?

And thirdly if I remember correctly in your year-end reporting, you basically said that you were planning to spend 100 basis points more of advertising and promo over the next two years, more or less split 50/50, so I think most of us assumed 50 basis points of advertising increase in 2003, now you're guiding to basically flat to small increase. Is this just not a case of cutting your A & P spend to meet your earnings target? Thanks.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Sure. I mean, let me start with pricing. I mean, one of the issues in respect to the pricing is that we actually have to look at what is going on in the tail of the business, and with the overall leading brands number, and that's a deliberate strategy to manage the tail of non-leading brands' value. It's almost worthwhile reflecting that in 2002, for example, 50% of the leading brand growth came from volume mix and 50% came from price. So there are some distortions in the way that can be -- that the pricing can be looked at just because of the implications of the impact of tail.

In respect of the overall pricing equation, then I don't think that we have ever said anything other than at times pricing goes up, particularly in D & E markets as we recover the effects of devaluation in D & E markets with pricing adjustments necessary to preserve the margin structure after the health of the business. And at the same time, you're getting underlying volume decline. So we would expect as we go through the D & E recovery process to actually see pricing increases going -- or lessening in terms of their importance in the overall mix, and volume gains starting to become more important in terms of the overall mix.

And if you go back to -- I mean if you actually go back and look in our history and go back over, you know, over the 1990's, then that's very much the picture that you would actually see, and is the background to why we've been able to grow our D & E business by an average of 9% through the 1990's with around about, I would guess, somewhere between 2 to 3 percentage points coming from price. So it's nothing that we've ever tried to say is any different in terms of the relative importance of price as we go through those sorts of cycles. In terms -- and that's why, I mean, in the way that we've discussed things with the market, we've actually tried to get the focus on underlying sales growth because we think that that actually reflects those sorts of trade-offs that are going on.

In terms of what others might be saying, then I can only say what is going on in our business there is an emphasis in the way that others talk about the progress of their business on unit volumes or case volumes or whatever they want to describe it as. There's also potential benefits of people sitting there at the moment with dollar-based currency conversions. I can only say what's going on in our business. We see that level of trade inventory coming out, and I have to say that, you know, we've seen few -- we haven't seen too many people at the moment talking about the second quarter, so I think we have to see that unravel. We always talk about value shares. We don't talk about volume shares. We see a sustained performance of our PC/Personal Care business well ahead of the Personal Care business of the majority of our competitors, and in respect of household care, where there certainly have been some share losses in laundry, they are part of a deliberate strategy that is focused on actually improving the profitability so that we can actually put the-- funds -- the better margin structure behind innovations where we've got some advantage. If I look across the Unilever world, then in respect of the shares in North America, we do not see any overall share loss to Procter & Gamble. If I look

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at the situation in Europe, then if I look in laundry, both Unilever and Procter & Gamble, and flat and Henkel have seemed to have gained a share point, particularly in their heartland, so I can only tell you what is the information that I have got here.

In respect to the third question that you asked, we talked about a step-up in A & P of around about 80 basis points, if I remember rightly, at the time of the Q4 results. We did indeed say that it would be no problems for the purposes of modeling to take it and split it 50/50, and we continue to expect to see A & P at the same rate or slightly ahead in 2003. And we see that as being consistent with the overall progress and development of the business. There have been some changes in the plans that we've made for the reasons I gave earlier. I mean, in certain parts of the world, so-called value propositions are tending to do better at the moment, and we have brands in those mid tier positions and always have had brands in those positions. Prestige is a weak market, and we just see that as being fully consistent with, you know, living the reality of the marketplace. We don't see that there's any deviation from the intentions of getting sharper focus in our portfolios supporting those correctly.

Andrew Wood - *Sanford C. Bernstein & Company - Analyst*

Okay. Thanks.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Thanks, Andrew.

Operator

That concludes our question and answer session. We will now pass back to Howard Green for his closing comments.

Howard Green - *Unilever Inc. - SVP Investors Relations*

Okay. Thanks very much for your questions and your interest. As usual, you know where to get hold of us on the phone. I can assure you that we will be there, and look forward to talking to you again with the full quarter's results.

Thanks very much. Bye-bye.

Operator

Thank you. This conference has been recorded. Details of the retail number and access code can be found on Unilever's website and audio of our web caste role will be available on Unilever's website at www.unilever.com.

Thank you.

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