

Treatment of hyperinflation in Turkey in Underlying Sales Growth (USG) calculation for Q2

In Turkey, cumulative inflation rates over a three-year period exceeded 100% as at April 2022 and the accounting firms, based on IAS 29 criteria, have now classified Turkey as a hyperinflationary economy for reporting periods ending on or after 30 June 2022. Unilever concurs with, and has now decided to apply, the external guidance and as a result has completed a preliminary assessment of the expected financial statement impact for the quarter ending at 30 June 2022.

For Q2 2022 reporting, and until further notice, Unilever will follow its standard practice of capping the growth metrics UPG and USG, using the same methodology applied for other hyperinflationary countries (see practice described in detail in the link below). Growth will be the only metric in Q2 impacted by the classification of Turkey as hyperinflationary. All other aspects of Unilever's first half financial statements will be reported as normal.

A review of the impact of IAS 29 on the second half and future financial statements is underway and the outcome will be communicated in due course.

<https://www.unilever.com/files/origin/0444227439ab8755644ab4d30b28be44fac7ae3c.pdf/treatment-of-hyperinflationary-countries-in-underlying-sales-growth--usg.pdf>

As part of the Unilever practice, a normalised level of price growth is included in USG, which is capped at an annual rate that is equivalent to approximately 2% per month compounded. This cap is derived from one of the indicators of hyperinflation cited in IAS 29 and ensures that any price growth above this level will be excluded from USG. This definition allows the full volume impact and limited price growth to be included in USG but avoids the distortion of hyperinflationary pricing beyond the capped level. We believe this definition reflects our normal pricing actions, distinct from those taken to respond to hyperinflationary conditions.

For context, the Unilever business in Turkey accounted for nearly €1 billion of turnover in 2021, growing both volumes and price in 2021. The Full Year 2021 UPG was less than 15%. As referenced in the Q1 2022 press release, inflation increased in Turkey during the first quarter. This upward trend continued in the second quarter of 2022.

Previous quarters, including Q1 2022, which were not materially affected by hyperinflationary pricing in Turkey, will not be restated.