

Geneva Forum for Sustainable Investment

8 June 2012

**Sustainable Growth - building new, long term business
models**

Thank you Angela.

Good afternoon, everyone. It's a pleasure to be here with you today and to talk about a subject close to my heart – Sustainability.

I will show you how sustainability is central to Unilever's vision, helping us to re-shape the business. In fact, increasingly it is becoming the way we do business.

I would also like to encourage you - the investment community - to engage with the sustainability agenda – because your engagement will help drive and accelerate change. Companies which find new business models which use fewer resources and have a bigger positive social impact will, in the end, generate more consistent and higher returns for you and your clients.

Let's start with the context and the challenges facing companies like Unilever.

Context – Sustainability and Unilever

This audience will be well aware of the challenges which are facing the world. We are consuming the planet's bio physical resources at rates faster than nature's capacity to replenish them - 1.5 times faster according to WWF.

The latest data from the International Energy Agency shows that we are locked in to a 3 degree global temperature rise which cannot now be reversed. Governments urgently need to have an honest conversation with their citizens about what this will mean. According to the scientists it means entering an “unsafe” zone.

Even without climate change the challenges of feeding and watering the growing population are immense:

- Food production alone has to increase 70% to meet global demand by 2050. The staggering fact is that we will need to produce as much food in the next 40 years as we have in the last 8000 years!**
- 2.8 billion people already live in water-stressed regions and 2 billion lack access to safe drinking water**
- And despite years of global growth, a quarter of mankind is still living below the poverty line**

And this comes at a time when the attention of governments everywhere is focused on addressing the financial crisis and re-igniting global growth. The eyes of government are simply not on this particular ball.

Looking around us here in Switzerland it is often hard to appreciate the scale of the challenges which confront us. But I have seen first-hand the impact of drought conditions in Africa, the flooding in Thailand and the deforestation in South East Asia. These are real and we ignore them at our peril.

It certainly isn't "business as usual" either for companies like Unilever or investors like you. The Unilever Sustainable Living Plan is our response to the need for real and radical change.

We want to double our size to €80 billion while halving our environmental footprint.

In essence we are building a new business model for sustainable, equitable, long term growth. One that is totally consistent with the philosophy of our founders. Unilever has always had a strong social conscience and a clear guiding purpose to 'do well by doing good'.

The Sustainable Living Plan has three big goals by 2020.

- **To help a billion people take action to improve their health and well-being**
- **To halve the environmental impact of our products**
- **And to source 100% of our agricultural raw materials sustainably**

We believe this kind of approach will become the only acceptable model of growth in the 21st century.

Companies which want to grow will have to demonstrate that they are doing so responsibly.

That is why we are embedding the Sustainable Living Plan in our entire value chain. It will be a long journey. Last month we published our first progress report - there are some copies at the back of the room. Please read it, engage with us and help us. We're making progress.

Let me give you some examples:

- **In health and hygiene, we reached 48 million people with our Lifebuoy hand-washing programmes and a further 35 million with safe drinking water.**

- **We now source a quarter of all our agricultural raw materials from sustainable sources – up by 10% in just a year.**
- **And by the end of 2012 we will hit our target of 100 per cent sustainable palm oil covered by Green Palm certificates – three years ahead of schedule! Our leadership is having a measurable impact on the rate of deforestation in South East Asia.**

But these examples are just the tip of the iceberg and we have much more to do. We need to adopt new approaches to satisfying people's needs whilst reducing the consumption of scarce resources. And we need to find ways to have a greater positive impact on society.

This is not about philanthropy or Corporate Social Responsibility. It is hard business logic. Those companies who embrace the importance of sustainability will grow faster and create more value for shareholders.

The fact that you are here today means that you are part of a small but fast-growing group within the investment community who understands the need for change.

However there are still many investors who either ignore the issues or who are sceptical as to their eventual impact. They focus on quarterly results and ignore the longer term issues of resource scarcity, of more frequent climate-related natural disasters and of the social and political instability which will follow.

We need to make the case and explain why companies need to change.

So, let's address the business case for sustainability.

The business case for sustainability

At the superficial level this is easy – it is self-evident that to achieve long-term, sustainable growth we need business models which will continue to be acceptable to society and business models which are not dependent on resources which are rapidly disappearing.

But making the tough choices today when others are ignoring the fast-approaching resource crunch is much harder:

Firstly, the measurement systems for valuing our use of natural resources or the real cost of our emissions are inadequate.

Secondly, consumers are not yet demonstrating a consistent demand for products produced in a sustainable way. And nor will they until companies like Unilever provide the leadership and foresight to make the case. Although we are only a little over a year into the Unilever Sustainable Living Plan, I am encouraged by the progress. We can already see many examples of how the plan is driving business performance and re-shaping our business models for the better.

Often people are sceptical because it is not tangible or visible. We are clear that this is hard-wired into the top-line and bottom line of our business. Let me explain how.

1) Firstly it accelerates growth.

Today a small but growing number of consumers want the reassurance that the products they buy are ethically and responsibly sourced. They are choosing to buy brands such as Rainforest Alliance Certified Lipton Tea, Ben & Jerry's Fairtrade Ice Cream and "Small and Mighty" eco efficient concentrated laundry detergents.

For this group of consumers a more sustainable brand is often a more desirable brand. Few of them will accept trade-offs in price, performance or convenience. But if we can hold these constant and deliver either a social or environmental benefit then we will get the casting vote.

Brands which are building sustainability into their offer are growing well. For example Lifebuoy soap is spear-heading a drive to change people's hygiene habits by getting them to wash their hands with soap at key moments during the day. It is also one of our fastest-growing brands, growing double digit in 2011.

2) Secondly it accelerates innovation and sets the bar higher for R&D

Our Pureit water purifier is an illustration of the way we are doing this.

The lack of safe drinking water is a major problem in many parts of the world.

We developed our Pureit technology to kill all harmful viruses and bacteria to provide safe water. It is cheaper than boiling water and 15 times less expensive than bottled water.

It is already performing well in India. We have now extended it to Brazil, Indonesia, Mexico and Bangladesh. We aim to deploy the technology in all water stressed countries with the goal of reaching 500 million people by 2020.

In the process we will have an important impact on public health through the reduction of water borne diseases whilst at the same time building a completely new market for Unilever.

Another example is Comfort One Rinse, a product which we sell across Asia.

Laundry is a water intensive process. Most of the water is used not for cleaning clothes but for rinsing them.

Comfort One Rinse enables people to rinse their clothes in just one bucket of water when normally they would use three or four.

In countries where water is scarce, and where you may be walking a couple of miles to fetch it, this is a big benefit. It has struck a chord with consumers and in Vietnam the brand grew by around 14% in 2011. The mix has now been rolled out to 10 countries.

3) Thirdly, the Sustainable Living Plan energises our employees

Our leadership of the agenda has struck a chord with our people and is a key factor behind our employee engagement scores which have been improving consistently in recent years.

We can also see the impact on our reputation as an employer. Unilever is now one of the top 3 most highly rated employers in 27 countries. This makes us more competitive in the battle for talent. The best people want to work for a company which is not just delivering a great economic performance but also doing the right things socially and environmentally.

4) Fourthly Retailers want it

Many of our key retailers have sustainability goals of their own and they are looking for the support of partners like Unilever to help achieve them. Our actions are helping us build stronger and deeper relationships with our customers.

5) Finally the Sustainable Living Plan is helping us to drive down our costs.

Managing our business sustainably reduces energy bills, minimises packaging and drives out waste.

Since 1995 when we first started focusing on eco-efficient manufacturing we have reduced:

- The CO2 emissions from our factory network by 51%**
- Our water consumption by 69%**
- Our waste by 80%**

In Europe we now purchase all of our energy from renewable sources.

In China the power in our largest factory at Hefei is generated from bio-mass collected from the waste product of local farmers. This enabled us to keep our factory running recently when others suffered from power outages.

In Vietnam we have started using solar power

In India we have a 10 year plan to draw more than 80% of our energy from wind.

Programmes of this kind have delivered big cost savings.

Over the last 5 years, for example, the energy programmes in our factories have saved us over a quarter of a billion Euros.

I hope that these examples bring to life the impact that the Sustainable Living Plan has on driving profitable growth. We still have more to do, but we are well on the way to embedding sustainability at the heart of Unilever.

Let me finish by sharing a few thoughts on the relevance of sustainability to the investment community.

Sustainability and investors

In recent years, the financial services industry has responded to the challenges of the Environment, Social Responsibility and good corporate Governance. It is heartening to see that investment funds which apply some form of ESG criteria now account for nearly 10% of the global assets under management, and are growing ahead of the market, expected to reach 20% by 2015.

It is also good that more than 700 investment companies representing \$30 trillion assets have signed up to the UN Principles for Responsible Investment. If these investment funds were moved into truly sustainable business models, the impact would be dramatic and would indicate that sustainable investing is no longer a specialist niche.

But there is a long way to go. The focus on short term performance and quarterly expectations management is making it much harder for companies to do the right things for the long term success of the business.

Generation Asset Management, the investment firm founded by Al Gore and David Blood, say in their recent report on Sustainable Capitalism, “the pressure that short-term returns are placing on companies is leading to dramatically inefficient capital allocation. Aside from the damage that this short-termism is doing to the planet and to society, it is also reducing returns for investors.”

That’s why at Unilever we decided not to give forward-looking guidance to financial markets and to stop full financial reporting on a quarterly basis. At the same time we have progressively changed our compensation system to reward longer term performance.

We also concentrate on longer term investors and focus our attention on them. Whilst we understand the need for liquidity in financial markets, things have gone too far. Rapid buying and selling now means that the average holding period for shares is now 8 months – less than the annual financial reporting period.

I have often said that we need to put the consumer and customer first and, if we do so, then the returns to our shareholders will follow.

We cannot only pursue Total Shareholder Return or a few specific financial metrics. Instead we must complement these measures with a focus on our impact on society and the wider costs of our resource consumption, a ‘Total Return to Society’ if you like. By doing this we hope to achieve a more sustainable form of capitalism: one where business sees itself as part of society, not separate from it; where the focus is on the long term, not on quarterly earnings; where the needs of citizens and communities carry the same weight as those of shareholders.

In this world, investors would profit from patience: companies would give better information about environmental, social and governance issues; fund-managers would show that their investments serve long-term interests of equity-holders; and company cultures and incentive schemes would all focus on the longer term.

With 2 billion more people, increased urbanisation and innovation space as consumers look for brands which meet their needs sustainably, I see a world of opportunity.

However, if you don't see the opportunity, you could look at this through the lens of risk management. In these times of heightened expectations and with people increasingly connected by social media , those companies that do not approach business for the long term will be exposed to new and serious threats which will put at risk their future – and with it, your investment.

There are many examples of this, but let me give just two.

- Netflix trying to increase fees and being pushed back by popular pressure and**
- The impact on the 'shareholder spring' on executive teams whose remuneration is not judged to be consistent with their performance**

These examples stand as a clear reminder to us all.

I've already mentioned the report on sustainable capitalism by Generation Asset Management. We share their point of view and support many of their recommendations – in fact we have already implemented several of them. The next will be to chart a path towards more integrated reporting, moving from backward looking financial reporting to a more strategic, forward-looking model which focuses on all types of capital, including human, social and environmental.

The sustainable living plan is now central to Unilever's business model and our strategy and therefore it makes no sense that we have a sustainability report which is separate from our Annual Report to shareholders. We need to work out how to get there, but I am confident that integrated reporting is a further step in the right direction for Unilever.

We have much still to do. From the company point of view we need to deliver the plan and communicate our actions and the reasons behind them to our investors. We need to be clear and transparent so that the markets can take these factors into account in their valuation methodology.

And you as investors also have a role to play. There are a number of actions which you can take to drive the change.

Fundamentally you could start to include sustainability when you evaluate potential investments. You could start to work out where a company's impacts are greatest and assess what they are doing in response to the changing world.

On the positive side you will find opportunities to grow brands and build greater consumer loyalty, to reduce costs and waste and to attract the best people.

On the negative side you will find exposure to shortages of materials, higher costs, factories without sufficient energy or water, lack of access to key talent – all factors which will differentiate company performance in the coming years.

You can also help drive change by

- Encouraging the move to a longer term focus and specifically the move to longer term incentive metrics for their management teams. Associated with this, I would hope that you will support the move to integrated reporting by engaging with and helping shape the debate**
- You can avoid investing in companies which achieve their short term goals with no regard to their wider social and environmental impacts**
- Finally you must use your votes to influence Boards and to ensure the highest standards of corporate governance and oversight. As the owners of businesses you have a big role to play in setting the tone and ensuring that long-term thinking prevails.**

You will not only be playing your part, you will also be serving the long term interests of your customers.

Summing up

So I hope I have managed to convey a little of what Sustainable Living means to us at Unilever and why it is so important.

As Ben Franklin said, ‘You may delay, but time will not, and lost time is never found again.’ After several difficult years, the financial services community is now looking for a new direction.

We have found that financial profit is not a sufficient end in itself and we now need to find a deeper purpose which will take us beyond the financial crisis and will create a better world for our children. You now have a unique opportunity to contribute to finding that new purpose.

Thank you very much. And now, I think that we have a few minutes to take your questions.