Unilever presentation to the ING Benelux Conference

7th April 2011

Sustainability at the heart of Unilever's long term business model

Chart 1

Good morning and thank you Marco. It is a pleasure to be here today talking about a subject which is not only close to my heart and but also at the heart of Unilever's strategy.

Chart 2: Safe harbour

First of all, I draw your attention to the usual disclaimer relating to forward-looking statements and non-GAAP measures.

Chart 3: Unilever

Before I address the question of how so called "soft factors" can reap "hard profits", let me provide some context.

Unilever is a €uro 44 billion business, operating in more than 180 countries with 167,000 employees. Of the billions of households across the planet, a majority – in fact 7 out of 10 – will have a Unilever product somewhere in their kitchen or bathroom.

Our brands – Dove, Unox, Hellman's, Axe, Magnum, Knorr, Andrelon, Robijn and Becel for example – are used by over 2 billion consumers every day. 53% of our business is in the emerging markets and growing fast.

Chart 4: Lessons from the Financial Crisis

When I arrived at Unilever late in 2008 the impact of the financial crisis, or as I have often said, a crisis of ethics or morality, was the immediate issue at hand, and we took the necessary actions to prepare the business to weather the storm. We restructured our balance sheet, tightened cash controls, renegotiated contracts with suppliers and we were amongst the first to impose a pay freeze.

Learning the lessons from the crisis, we not only took care of the short-term but also prepared the business for the long-term, investing in our brands, innovation, R&D and people, but most importantly in an exciting new business model.

To create the right environment, we have set our face decisively against the short-term – the kind of "quarterly capitalism" which, as Dominic Barton argued recently in the Harvard Business Review, did so much to create the financial meltdown of 2008.

Instead, we are now more focused on long-term value creation, not only for us, but all stakeholders. It requires a deeper connection between the purpose of the Organization and the needs of society that can only come with long term focus.

In 2009 we abolished the practice of giving guidance to the market. In 2010 we announced a new compensation system which firmly puts the emphasis on the longer-term – more accountability, pay for performance and share ownership. More skin in the game and performance bite as we like to say.

Then, at the end of 2010 we announced our intention to change the way we provide quarterly reporting. Instead of producing a full set of financial data every quarter, we will only do so at the half-year and at year-end.

Whilst we are well aware of the need to deliver results, we made this change because we do not operate on 90-day cycles for advertising, marketing or innovation. There is no good reason why our reporting should be different.

Alongside these immediate actions to manage the short-term and create the right longer-term environment, we also began to make fundamental changes to our operating model and strategy to build the foundations for long-term success.

Chart 5: Compass strategy sets out our ambition

We introduced a new strategy, which we captured in what we call "the Compass", focusing on re-igniting growth after years of stagnation. We set out our ambition to double the size of the company whilst reducing our environmental footprint. The first company that I know of this size which has made a firm commitment to decouple growth from environmental impact.

Sustainability in its broadest sense – social, economic and environmental – is now at the heart of our business strategy. It will become a catalyst for growth.

The Compass puts sharper focus on consumers, customers, innovation and brands, putting them squarely back in the middle of all we do. And we have taken decisive action in each of these areas to make us fit to compete again.

- Thanks to re-focused investment in R&D, we are rolling out bigger and better innovations faster.

  For example, Dove for Men has gone into more than 30 markets in a year. Clear is now in 38 markets and Magnum Gold has been launched in 29 markets. Our innovations are not just bigger and better but they are being spread around the world at a faster rate.

- We are also launching established brand mixes into white space more rapidly. In fact over 100 of them in the last two years alone. For example, Dove Hair to China, Lifebuoy to Australia, Brazil and parts of Africa, Cif to India and Lipton into Spain.

- We are equally back on the acquisition trail with Alberto Culver, Sara Lee and, more recently, Colgate's fabrics cleaning business in Colombia. In 2011, for the first time in many years, acquisition and disposals will make a positive impact on our top line.

- And we are investing much more in our brands - €700 million more A&P in 2010 than in 2008, and systematically improving product quality – spending over a €100m strengthening our formulations.

- All this is having an impact. More than 90% of our products are now equal to, or better than, competition – a significant improvement versus the situation in 2008.

- Most importantly we also further stepped-up investment in our people, becoming again an employer of choice in most places and ensuring that we have the right people on board to lead this exciting journey.

- Finally we are instilling a performance culture where promotion and reward is based on measurable delivery of business results.

Employees have reacted well to the new strategy. Our latest engagement scores are at their highest levels for many years and people have a new confidence and energy.

Chart 6: Business results are following

Business results are following. Volume growth in 2010 was the highest in 25 years, 60% of our business is growing market shares and our stock has appreciated by nearly 50% over the past two years.

However, there is still much to do. We are all mindful that 2011 will be a pivotal year in the transformation of Unilever. A year in which we have to demonstrate that we can maintain the momentum despite an economic, geo-political and input cost environment which is adverse, to say the least.

Looking forward we recognise that building shareholder value for the long-term can only be done successfully if it builds what Michael Porter calls "shared value".

What Professor Porter is preaching is essentially what 19th Century businessmen like William Lever, Samuel van den Bergh, George Cadbury and Milton Hershey all practised.

These early entrepreneurs all recognised that their success was intimately bound up with that of their customers, their employees, their suppliers and with society at large. Not having the benefit of Harvard MBAs they intuitively understood that if they looked after these stakeholders then their investors and shareholders would prosper too.

Chart 7: Shared value

This move from shareholder value to "shared value" as a way to long-term value creation underpins our new strategy and business philosophy.

No longer is it sufficient for companies to work just for narrow institutional goals such as profit, market dominance and return on capital.

Now more than ever, business must reconnect financial success with social progress. I believe that we are seeing a turning point where business leaders and shareholders are starting to understand that society and the environment will no longer be a servant of the economy but that the economy will become the servant of society and of the environment.

I believe firmly that business must stop seeing itself as merely a self-regarding participant in a system that is largely given and shaped and maintained by others, and start seeing itself as leaders in protecting and improving the system that gives it life.

More so than shared value, it requires sustainability. Forward-looking companies across the spectrum are thinking creatively and learning how to address what until now has been regarded as problems for governments and NGOs, by developing new innovative strategies and business models that enhance the prospects for sustaining the market system, and generate financial benefits for the company at the same time.

At Unilever we set out a challenging ambition to double the size of the business while reducing its overall environmental footprint. The Unilever Sustainable Living Plan is our roadmap to achieve this. We plan to create a new business, the same size as Unilever today, without increasing our impact on the world's resources.

Our Sustainable Living Plan, which we launched last November, sets out how we will decouple future growth from environmental impact in an increasingly resource-scarce earth.

The Sustainable Living plan is not a soft, fluffy accessory to the Compass strategy. It is, in fact, at the heart of our strategy and business model. It will help us to deliver both our growth and margin goals.

The Sustainable Living Plan will position Unilever to be able to expand and prosper in a world that will be very different from the one which we inhabit today.

Three big trends will shape this world:

Chart 8: Shift of economic power

The first of these is the shift of economic power to the East and South.

China, India, Russia and Brazil will increasingly take centre- stage in a new world order.

These countries will be home to most of the world's population and much of its economic growth.

The centre of gravity of Unilever's business will shift eastward and southward

- By 2020, 70% or more of our sales will be outside Europe and North America
- Manufacturing will move east to stay close to the growing populations
- More of our management will be recruited from Asia and Latin America

Chart 9: Shift of power to the consumer in a digital world

The second big trend is a shift of power to the consumer.

The digitisation of communications and media is giving huge power to the individual. The proliferation of sophisticated search engines and cheaper mobile devices will give everyone – rich and poor – free and easy access to information.

Facebook, with over 500 million users, is regarded by some as the world's third most populous nation after China and India.

And in India you have the troubling statistic that more people own a mobile phone than have a toilet.

This "connectedness" gives individuals and groups almost unlimited potential to organise and campaign. Look what happened in Egypt and Tunisia a few weeks ago. Unquestionably these were the first "face book" revolutions. There will be others.

Consumers will use this power to demand change from banks, business and government. They will insist on higher standards of ethical behaviour. It will result in improved governance, fairer payment of taxes, more equitable remuneration. If you don't believe me speak to our friends at ABN Amro.

Chart 10: The end of the age of abundance

The third big trend, and in my view the most significant, is what we in Unilever call "the end of the age of abundance".

The world of the future will be a world of scarcity.

Professor John Beddington, the UK government's chief scientific adviser, warned of a "perfect storm" coming our way in a speech delivered some 18 months ago.

He is anticipating a future where the most basic resources of food, energy and water will all be in scarce supply.

- The IEA (the International Energy Association) are estimating that in 2030 we will need to generate 50% more energy than we produce today.

- The UN's Food and Agriculture organisation is saying that we will need to produce 50% more food than we harvest today.

- And for water, the challenge is equally demanding

At the nexus of all this is a climate crisis – and driving the change in climate is population.

Chart 11: Population growth drives everything

By 2050 there will be 2.7 billion more people on planet earth than there are today. Do the arithmetic. It is equivalent to a city the size of London being created every month for the next 40 years. Or to put it another way, it is two extra India's with an Indonesia thrown in free.

Chart 12: We've only one planet, not three

The WWF estimate that even today we are consuming the world's bio-physical resources at rates faster than the planet's natural capacity to replenish them. They calculate that we will require three planets, if all of the world's population were to consume at the rate of countries like the Netherlands and the UK. Unfortunately we are going to have to make do with one!

Chart 13: Unilever Sustainable Living Plan

The Unilever Sustainable Living Plan is our attempt to prepare the company for this future and to give it the tools and resources to prosper and grow in this new world.

Three features distinguish the Sustainable Living Plan:

Chart 14/15/16: Unilever sustainable Living Plan: Three key features

First, its scope. It spans our entire portfolio of brands and all 180 countries in which we sell our products.

Second, when it comes to the environment, the plan covers not just the direct impacts of our factories, offices, trucks and laboratories. It accepts that Unilever has a responsibility across all the activities in its value chain – from the sourcing of raw materials through to the energy and water needed by people to cook, clean and wash with our products.

Third, for Unilever, sustainability isn't just about the environment. There is a social and economic dimension. Our products make a difference to people's health and well-being and our supply chain supports the livelihoods of millions.

Chart 17: Unilever sustainable living plan: Three big goals

The Sustainable Living Plan has three over-arching goals. By 2020 it aims to:

- halve the environmental footprint of our products.

- source 100% of our agricultural raw materials sustainably.

- help a billion people take action to improve their health and well-being.

I do not intend to take you through the detail of the plan. For those of you who are interested, you can find a copy on our web-site.

What I do want to do now is explain why sustainability is so central to Unilever's strategy and how it will help us achieve our growth objectives.

Chart 18: The business case for sustainability

The business case for sustainability is strong and getting stronger by the day.

It is founded on 5 basic premises:

Chart 19: Consumers want it …

1. It starts with the consumer. Today a small but growing number of consumers around the world 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 Fair-trade Ice Cream and "Small and Mighty" concentrated laundry detergents.

For this group of consumers a more sustainable brand is often a more desirable brand. Few of them will accept tradeoffs 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.

This is not just a developed-world phenomenon. Consumers in emerging markets are also responding to our sustainability messages. The hand-washing campaign to help reduce infectious diseases like diarrhoea is driving the use of Lifebuoy soap in South Asia and Africa.

Last year Lifebuoy volumes grew double digit as it took its social mission to new markets.

Equally the “brush day and night” campaigns of our toothpaste brands are helping to reduce tooth decay and grow the toothpaste market. Once again business results followed with our oral category growing volumes by close to 6%.

Social benefits of this kind will increase in relevance in the years to come. And the brands that get their message across first will have more credibility and authority than those who come late to the party.

Chart 20: Customers want it …

2. The business case for sustainability also embraces the customer. Many retailers have sustainability goals of their own. They need the support of their big global suppliers like Unilever if they are to achieve them.

For example, Wal-Mart’s commitment to “sell products that sustain people and the environment” is a clear invitation for us to partner with them to develop mixes which bring this commitment to life.

We share our expertise in areas like sustainable agriculture, water conservation, product stewardship and bio-diversity.

This collaboration is broadening and deepening the relationships which we have with our customers. It was a key element in us securing the Tesco Supplier of the Year award for the fifth year running, and being made Wal-Mart’s global supplier of the year last year.

There is little doubt that it is bringing us real competitive advantage. Our customers are searching us out to partner them in programmes to optimise logistics efficiency, reduce waste and do away with unnecessary packaging.

We also work with them to mount joint promotions which grow both their business and ours and help them achieve their environmental goals.

Chart 21: It fuels innovation

3. Innovation is another important part of the business case. Sustainability is a fertile area for product and packaging innovation. It is allowing us to deliver new products with new consumer benefits.

The list is growing. A good example is Comfort One Rinse.

Doing the laundry is a water intensive process. Curiously 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. In Vietnam the brand grew by around 14% in 2010 and the approach has helped maintain market leadership.

Chart 22: It fuels innovation

Another example is Small & Mighty.

Concentrated laundry detergents deliver great cleaning performance whilst reducing the green house gas impact of the laundry process. The smaller, lighter packs are also appreciated by consumers. The latest Persil Small & Mighty launched in the UK has been specifically formulated to deliver results on short wash cycles as well as at low temperatures. It will enable consumers to save £1 on energy for every 28-wash bottle – a significant bonus accompanied by a further reduction in greenhouse gas emissions.

Delivering consumer behaviour change is not easy, but getting it right drives profitable growth.

Chart 23: It helps grow markets

4. There is a market growth dimension to the business case as well. Over half Unilever's sales are in developing countries. These are the places which will experience first, and be impacted most, by climate change, water scarcity, poor sanitation, deterioration in soil quality.

These countries represent major growth markets for Unilever, so if we can develop products today that enable people to adapt to the changing environment of tomorrow, it will help us grow faster in future.

Pureit 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. The Pureit in-home water purifier kills 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 and we aim to deploy this technology in other water stressed countries in order to reach 500 million people by 2020, and in the process build a completely new market for Unilever.

Chart 24: and it saves money

5. Last but not least the business case for sustainability rests on cost efficiency. Managing our business sustainably reduces energy bills, minimises packaging and drives out waste. Over the last 5 years, for example, the energy saving programmes in our factories have saved us over a quarter of a billion Euros.

Sustainability is being integrated into Unilever's approach to innovation, R&D, procurement and capital investment. Over time its impact will grow and influence all aspects of our business.

But there is another area where it is having an impact, and that is on our people. Our very public leadership of the agenda has struck a chord with our employees and is a key factor behind our improving engagement scores.

I am convinced that, over time, it will become a differentiator in the external perception of Unilever as a place to work and will make us even more competitive in the battle for talent. The best people want to work for a company which is demonstrably working to succeed by doing the right thing.

How is all this being received in the capital markets?

Chart 25: Sustainability and the financial markets

Transparency and risk assessment should be high on the agenda of any investment decision.

Not surprisingly, certain investors and asset managers are now waking up to the cost of indifference to the longer systematic issues of poverty, climate change, rising income inequality etc, and are now calling on companies to disclose the environmental and social impacts of their activities. No doubt business needs to engage more with institutional investors to create further awareness.

A good example is the Carbon Disclosure project which started in 2000. It is now backed by 534 institutional investors representing more than 64$ trillion in assets under management. It sends questions to over 4500 of the world's largest corporations to assess risk of climate change to their long term financial health.

For many years Unilever has engaged with specialist ESG or SRI investors. We have addressed their questions on issues such as governance, sustainable sourcing and Unilever's role in society.

This is important and our progress has been recognised. Unilever has been the Food Industry Leader in the Dow Jones sustainability index for the last 12 years and has performed strongly in indices like the Carbon Disclosure Project and in the FTSE4Good Environment Leaders Index.

You might have seen in yesterday's FT the introduction of a new rating system on governance, social and environmental practices.

We also welcome the fact that specialist SRI shareholders tend to be long term – typically holding stocks for up to 5 years – and this is very much in sync with the way that we run our business.

What's more, their influence is growing. Today the assets managed by SRI investment funds are around 7% of total assets under management and are growing at double the rate of the total market. A recent study suggests that by 2015, SRI will be main-stream, with up to 20% of global assets under management. Al Gore's Generation Investment Management firm is one of the best known examples.

More than 700 asset owners and investment managers have now signed up to the UN Principles for Responsible investment, thereby making a public commitment to adopt its principles.

This reflects the fact that they believe environmental, social, and corporate governance issues can affect the performance of investment portfolios and that they need to take them into account if they are to act in the best interests of their clients.

Another sign of change has been the Oxfam "Better Returns in a Better World" project. This initiative brought together institutions as diverse as HSBC, Alliance, Aviva, JP Morgan with NGOs, Pension fund managers and academics. It produced a series of sensible practical recommendations.

These might be easy to ignore in the short-term but their time will surely come. Because as Oxfam pointed out in their conclusion, "the centre of gravity of the investment industry is moving inexorably towards the emerging markets" and in these markets new criteria and new standards of behaviour will come to characterise investment decisions.

The risks of not tackling sustainability issues are measurable and material. A recent study on the food sector by AT Kearney and the World Resources Institute attempts to quantify it. They make a series of assumptions about the future cost of carbon, water and raw material availability and calculate what impact these changes would have on profitability.

They estimate that if companies do not tackle the issue it could reduce earnings in the food sector by between 13-31%.

With all of this going on in the background, we are starting to get questions on sustainability from our traditional investors. Marco and the team at ING have long recognised the importance of the issue, but more of his colleagues are now starting to address it seriously.

It is clear to me that companies that do not take sustainability seriously will eventually see an impact on their cost of, and access to, capital.

This is one of the reasons that we have chosen to publish our Sustainable Living Plan and to make clear short- and long-term commitments about the progress that we need to make. It not only galvanises action internally but also makes clear to the outside world that we are managing it rigorously.

We are convinced it will result in long-term value creation and are working hard to attract the type of investor that is aligned with this strategy. Some money managers, hedge funds, mutual funds and others which focus on short-term stock price and return and favour high-leverage high-risk might not be the ideal targets.

In "Capitalism for the long term " Dominique Barton calls this the tyranny of short-termism. In fact, 70% of all US equity trades are conducted by hyper-speed traders, many of whom hold stocks for only a few seconds.

Let me now sum up.

Chart 26: Unilever long term focus

Sustainable living is at the heart of Unilever's business strategy. It is not a soft factor or a peripheral public relations issue; it lies at the heart of how we will achieve our long-term objectives. Good nutrition, improved hygiene, reduced energy and water use, sustainable sourcing will open up new and exciting sources of growth.

Consumers and customers will increasingly demand it. It will drive innovation and it will be necessary to maintain our licence to operate.

Of course, progress on sustainability cannot come at the expense of business results. Our ambition is to double the size of Unilever. Sustainability reflects the type of long term thinking that will enable us to achieve this goal.

There will be many challenges along the way. Managers in the business are used to making the right trade-offs between top-line growth and margin. Sustainability is rapidly becoming a third factor in these decisions. Confronting the challenges and finding new solutions will be a key source of innovation, growth and competitive advantage for years to come.

I am convinced that we are not talking about ‘soft factors’ but hard realities that will rapidly become enduring discriminators of business performance for the long-run, which ultimately will also be to the benefit of our shareholders. Now is the time to build strong brand credentials for sustainability and to shape the future landscape.

Thank you again for giving me this chance to talk about Unilever’s approach to sustainability.

Chart 27: Questions

And with that I will be happy to take your questions.