<u>Bernstein Strategic Decisions Conference 2011</u>

<u>Unilever Presentation</u>

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Chart 1: Title chart

Thanks Andrew. Good morning everyone. It's nice to be here again, this time as the Chief Financial Officer of Unilever. I am joined today by James Allison who many of you know.

My objective this morning is to convey three key messages:

- Firstly – that Unilever is now a far <u>stronger company</u> and is fit to compete with the very best
- Secondly – that Unilever is <u>the</u> emerging market company
- And thirdly – that we have made great progress in embedding a culture of <u>continuous improvement</u> in the company but that there is much still to do and exciting opportunities still remain.

Chart 2: Safe Harbour Statement

As usual, let me first draw your attention to the disclaimer relating to forward looking statements and non-GAAP measures.

Chart 3: Title chart – H1 2011 results

Let me set the context by starting with a short summary of our recent performance.

Our first half numbers are clear evidence of a stronger business, driven by stepped-up innovation and our scale in emerging markets.

Chart 4: Good performance against our priorities

Our markets are growing by around 4-5% globally. The underlying sales growth we achieved in the first half was a little ahead of this at 5.7%, with 7.1% in the second quarter.

Growth in the first half showed a healthy balance between price and volume. Underlying price growth of 3.5% reflected our actions in implementing price increases in those categories where input costs have risen most sharply.

Despite these pricing actions our underlying volume growth was broadly in line with the market at 2.2%. This is encouraging evidence of our new competitiveness in a difficult environment.

This is the broad-based, consistent growth that we aspire to deliver. It also represents another step up from the recent past. As you can see from the chart our underlying sales growth was 3.5% in 2009. Last year we improved this to 4.1%, and now in 2011 we have stepped up again, reaching 5.7% for the first six months.

Underlying Operating Margin was modestly down in the first half, by 20 basis points as expected. Gross Margin was down quite sharply - no surprise given the environment of high cost inflation. Pricing and savings provided some positive momentum, but this was more than offset by increases in both commodity costs and in our factory and distribution costs.

The lower Gross Margin was partly offset by the re-balancing of A&P, which saw costs lower by 150 basis points in the first half. For the year as a whole we will maintain absolute spend at the same level as 2010.

We also saw good progress in driving lower Indirect costs, down by 60 basis points. This improvement comes after a full year reduction of 40 basis points in 2010; consistent progress and invaluable as a source of funding for our brands. I will look at this aspect of our performance in a little more depth later in the presentation.

Chart 5: Title Chart – Unilever: Fit to Compete

So, after that brief review of our first half results let me reflect on why Unilever today is fitter to compete than ever before.

Chart 6: A new vision

Let me first remind you of what we have set out to achieve. After the extensive programme of internal restructuring that dominated much of the last decade we had become a more streamlined organisation. But we were not delivering growth; in fact our Turnover had remained stuck at roughly the 40 billion Euro level for many years.

One of the driving forces for the changes we have made in the business is our compelling new vision. This sets an audacious and energising goal; to double the turnover of Unilever from 40 to 80 billion Euros whilst at the same time reducing our overall environmental impact.

In support of this, earlier this year we introduced the Unilever Sustainable Living Plan, with the aim of bringing to life the many actions we need to take to meet our bold environmental ambitions.

We are also making sharper strategic choices and allocating our resources more selectively. We have clustered categories together into:

- those where we aim to Win Globally, such as Ice Cream or Deodorants,
- those which are Emerging Market led, such as Laundry or Oral Care
- and those where we want to Win Differently, such as Spreads.

Above all, we have put the consumer and customer back at the heart of everything we do.

Chart 7: Alignment around a clear focused strategy

Critically, we have aligned the whole organisation around a small number of priority actions. Simply getting everyone in Unilever to focus on the same things – straight forward actions with an emphasis on quality of execution and speed in everything we do.

As part of this we have made volume growth and market share performance the number one focus of the business. For the first time in many years this is unambiguous, reflecting our determination to re-ignite volume growth in Unilever.

We also dramatically simplified the way we set targets in the business, with much greater alignment around fewer priorities. The achievement of these targets is clearly linked to variable reward - itself a much larger element of total pay. The stakes have gone up sharply and there is potential to earn significantly more – but also, for those whose performance is mediocre – significantly less. This is an example of the new performance culture in Unilever.

These targets are closely linked to the action plans we set out in the 'Compass' - the clear and simple strategic framework that we use to guide the business and instil the discipline we need.

Chart 8: A more agile organisation

More recently we have announced some important changes to make us a more category-driven organisation.

First, we are combining our 11 existing categories into 4 larger category groupings; Personal Care, Home Care, Refreshment and Foods.

We believe this will help us to strengthen further our brand equities and drive the quality of our innovations. For example, putting each Personal Care category under the leadership of the PC President – Dave Lewis – will allow us to put an integrated personal care strategy in place and manage our core brand equities like Dove or Axe in a much more holistic way.

Second, we are eliminating the regional level and moving from 22 MCOs to 8 clusters under the leadership of our newly appointed Chief Operating Officer, Harish Manwani. This allows us to delayer and to dramatically reduce the number of management touch points in the organisation. From 11 categories and 22 MCOs we will move to 4 category groupings and 8 clusters.

Decision making will involve many fewer conversations than it does today. This should drive speed and alignment, particularly in how we innovate and roll out brands into new markets.

It is a great chance for us to change gear again – to further accelerate the improvements we are making to the business.

Chart 9: Innovation underpins our growth

Perhaps the single most important area in which the Unilever of today is a stronger business is innovation.

We set out to launch fewer bigger innovations, to reach more markets more quickly and to improve product quality throughout our portfolio. We are making good progress against these goals.

For example; in 2008 we launched 9 innovations in 10 or more markets; last year we launched 40 in 10 or more markets and this year that figure will exceed 60. Projects are getting bigger, and are being rolled out to more countries. For example, a few years ago a new Axe variant would reach less than 20 countries, mostly in Europe. Today, our Axe Excite variant has rapidly been launched on a global scale, reaching 100 countries in a short period of time.

And even more importantly, the portfolio as a whole is delivering more. The proportion of our turnover coming from products launched in the last two years continues to be above 30%.

Chart 10: We continue to rollout our brands into more markets

As well as innovating faster we are also taking our brands into more markets. In the first half of 2011 for example, we have:

- Launched the Axe brand and Dove Hair into China.
- We've extended the Café Zero concept from its successful base in Italy into Spain, Greece and the Benelux.
- Magnum ice cream has been launched in Indonesia and the US
- We've launched Sunlight dishwash in emerging markets including Bangladesh and Pakistan.

By the second quarter of this year we had 130 examples of brands present in markets they were not in a year earlier - a clear acceleration from the past and a key driver for our growth.

Chart 11: M&A capabilities improved: from source of funds to use of funds

I also want to highlight the contribution from our M&A activity. For years we were only focused on divestments – selling assets and streamlining the portfolio.

Now we are putting more emphasis on acquisitions – successfully acquiring brands within our existing categories to strengthen our portfolio and accelerate our growth. This year, for the first time since 2001, the contribution from M&A will be positive to the top line. This has been driven by:

- The Inmarko ice cream business in Russia and a number of smaller ice cream acquisitions
- The Sara Lee body care business or
- more recently, the acquisition of Alberto Culver

We will continue to seek bolt-on acquisitions to further strengthen our portfolio.

Chart 12: Seventh successive quarter of negative working capital

Finally, our progress in reducing working capital has been excellent. We have now had negative working capital for seven successive quarters.

Whilst we saw a seasonal outflow in the first half of 2011, we remain confident that the second half will be stronger.

Chart 13: Title chart – Unilever; the emerging market company

So, I have explained why I believe Unilever is now a stronger business, becoming fit to compete with the very best.

Let me now explain why we describe Unilever as <u>the emerging market company.</u>

Chart 14: Emerging markets : consistent growth over 20 years

Twenty years ago Unilever had around 30% of its total Turnover in emerging markets. Since then we have seen sustained growth in our businesses in Latin America, Africa and above all, Asia. In the first half of this year, 54% of Unilever's business was in emerging markets, a higher proportion than any of our major competitors.

And we have depth as well as breadth. Our strong category positions and powerful brands combine with deep distribution channels to give us a strong platform to develop the business further.

We believe that the vast majority of our future growth will come from these dynamic and exciting markets.

Chart 15: Large populations, low per capita consumption

Let's remind ourselves for a moment of the fundamentals, the key trends that are so pivotal to the emerging market opportunity.

Firstly, emerging market countries are already home to around 5.8 billion people, that's 85% of the world's population. On current trends this figure will have grown to around 95% by 2020. In other words, when we talk of emerging markets we are speaking about the vast majority of the world's consumers.

Secondly, economic growth rates in most emerging markets are robust, well ahead of what we are used to in North America or Western Europe. There will always be exceptions, but we are optimistic that this robust growth will continue to characterise emerging markets in the years ahead.

Thirdly, current levels of per capita consumption in these markets are generally modest. The chart shows one simple example – the per capita consumption of bath and shower products. The size of the prize is obvious, even if we can push consumption levels towards those in Brazil, let alone those in the US or UK.

Chart 16: Unparalleled leadership across emerging markets

So these markets clearly have inherent attractions for FMCG businesses. The good news for Unilever is that we start from a position of considerable strength, with an impressive number of our businesses occupying number 1 or 2 positions in their respective markets.

This platform of healthy brands in strong category positions combines with our deep distribution channels to give us an excellent foundation from which to grow our emerging market business further.

In the BRIC countries we have large and powerful businesses in India and Brazil, both occupying leading positions in most of their categories. In China and Russia we are smaller, and not yet optimal in scale. But in both cases we are catching up – in China rapidly so.

We are particularly strong in all the MIST countries – Mexico, Indonesia, South Africa and Turkey, with leadership positions in the majority of categories we compete in across all four markets.

Perhaps uniquely to Unilever, our strength in depth in the emerging markets extends way beyond the BRIC MIST countries. Take for example our next 8 markets – Argentina, Bangladesh, Pakistan, the Philippines, Vietnam, Thailand, Egypt and Nigeria.

Here again we have strong market positions more or less across the board. Together, these businesses grew by 14% in the first half of this year, and have seen 60 basis points of share gain over the last two years.

So I think there can be little doubt - the emerging market opportunity is hugely exciting, and Unilever as the emerging markets company is ideally placed to benefit from this.

Chart 17: Title chart – Unilever a mindset of continuous improvement

Now let me turn to review the key actions we are taking to ensure we embed a mindset of continuous improvement across the business.

Chart 18: Driving the virtuous circle of growth

You will have heard me talk before about our clear and simple business model, the virtuous circle of growth. This model depends critically on the ability to deliver consistent volume growth and at the same time to drive costs down and efficiency up.

The latter component cannot be achieved by occasional cost-cutting sprees or one-off improvement projects. A mindset of continuous improvement needs to be embedded in the business be it

- Rigour in operational execution
- Cost discipline throughout the business, driving out all costs that the consumer is not willing to pay for, and
- Developing a culture that is never satisfied and never complacent

Chart 19: A mindset of continuous improvement

Let me highlight three areas where this mindset is critical to taking Unilever from a company that is merely fit to compete to one which is starting to open significant gaps to competition.

- Supply Chain, and in particular savings in our product costs
- Efficiency in our marketing investments
- Reductions in the level of Indirect costs whilst improving service and quality

Chart 20: Strong track record of savings delivery

The contribution of the Supply Chain to our savings delivery has been critical to Unilever's improved performance, never more so than in today's inflationary climate.

We have leveraged our scale by implementing global procurement and extending its scope to cover a greater proportion of our purchases. You do not have to go back many years to a time when most of Unilever's buying was local with small pockets of regional or global coordination. Now around 60% of our purchasing is contracted globally and most of the remainder is contracted on a regional basis.

We have also been disciplined in our pursuit of materials efficiency improvements, seeking ways to deliver products that the consumer prefers whilst reducing un-necessary raw and packaging materials.

We continue to rationalise our logistics network and streamline our manufacturing processes; we are lowering energy consumption, reducing water consumption and cutting waste. In so doing we are starting to achieve some of the key goals of the Unilever Sustainable Living Plan.

Chart 21: Media efficiencies releasing consumer facing funds

But continuous improvement is not only deeply embedded in our supply chain. We also see it at work in our advertising spend.

Firstly we have been leveraging our global scale to improve our media buying and to ensure that we get better service at a lower overall cost. We have been improving the quality of our advertising so that we can be more confident that the right message is getting through strongly and clearly to consumers.

And more recently we have taken action to reduce the proportion of our advertising spend that is non-productive. For example, we found that we were making more adverts than we needed because we were getting tired of them before the consumer was. So far this year alone we have generated €60m of savings by being more selective and working our advertising assets harder.

Chart 22: Indirects: Driving a continuous improvement mindset

And last but by no means least let me turn to Indirects. I mentioned before the progress that we have made and the chart highlights the key areas that we are driving and which underpin our progress to-date:

Firstly the new organisation will allow us to remove layers in our structure.

Secondly we are driving our Enterprise Support organisation to deliver lower costs, better services and improved transparency and control. Be it

- a 50% reduction in the financial reporting timetable
- 25% reduction in travel costs
- 18,000 fewer management reports, or
- the divestment of 20% of the real estate portfolio

Thirdly we are aligning our Information Management and IT strategy behind growth. We are now completing the roll-out of our SAP systems and are focusing on delivering real time information through a standard, single enterprise data warehouse.

The progress we have made on systems will enabled us to integrate Sara Lee and Alberto Culver in less than 6 months, far faster than would ever have been possible in the past.

Finally, streamlining the support functions. We are tracking our progress towards best in class benchmarks for Finance, IT and HR and we will not stop when we hit the benchmarks.

Chart 23: Continuous improvement in Finance

Specifically in Finance, I am already clear on the next steps.

We are still too heavy in terms of headcount. Despite all the good progress made, I still want to see a further 10% reduction in headcount each year as part of our continuous improvement.

Whilst we have made really good progress on moving to the three regional SAP platforms and a single datawarehouse, it is not enough. I want to see us make the final step to a single enterprise-wide SAP implementation quickly. This challenge is currently being addressed by our CIO, Willem Eelman.

Finally, I want to continue to harmonise internal and external accounting measures. The different definitions of Gross Margin for external & internal reporting, Cashflow measures that are unique to Unilever and – something that you do not see – completely separate reporting streams for financial and management purposes.

We have already made good progress and we will eliminate the remaining differences in 2012. As a result we will drive simplification, transparency and improved understanding of underlying business performance.

Chart 24: Title Chart – More still to do

So, there is much more to do in Finance and across the business as a whole.

Chart 25: Opportunities to raise the bar further

Let me briefly describe four actions that we think will really make a difference.

Firstly - sharper choices. We now have a series of clear category strategies in place and an organisation structure that leaves us well placed to implement them. Now we need to be uncompromising in aligning ourselves around these strategies and in allocating our resources accordingly.

Secondly, we need to implement the new organisation structure quickly and efficiently. If we do so we will raise the bar further still on innovation capability and the speed with which we roll out our brands into new markets.

Thirdly, we need to drive further the many actions we need to take in the area of sustainability. Our ambition is captured in the Unilever Sustainable Living Plan, which outlines our specific commitments together with a series of clear measurable targets. We are starting to bring this plan to life, but we can and will need to push it much harder.

Finally, there is much more we can do in driving rigour and discipline throughout the business. We are starting to build a continuous improvement mindset, but it is not yet universal. There are many opportunities for us to push harder, be it in:

- pushing further in making improvements to customer service or on-shelf availability
- increasing the pace of our savings programmes
- moving to the next level in improving the effectiveness and efficiency of our A&P spend,
- extracting greater value from our Enterprise Support organisation or from our increasingly global IT systems,
- or in simplifying in those areas where we are still too complex,

So you can see that there is still more than enough juice in the system to go after.

Chart 26: Questions

On that positive note, let me now take any questions.