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Unilever Presentation

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Chart 1: Title chart

James Allison, Head of Investor Relations and M&A

Good morning. My name is James Allison and I am the Head of Investor Relations and M&A in Unilever.

I want to use this presentation to convey three key messages:

- Firstly - that Unilever is now a much stronger company, becoming fit to compete with the very best. To illustrate this I will give you some examples of changes we have been making to the company, be it in our organisation, our strategy, our performance culture or in the way we are driving innovation.
- Secondly – that Unilever is the Emerging Market company. I will explain why we describe ourselves in this way, and why the opportunity in these markets is so important to our future.
- And thirdly – that exciting opportunities still remain. There is much we can do to drive for further improvement and greater consistency in our performance.

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.

Now - let's get going.

Chart 3: Title chart – H1 2011 results

Some of you are already very familiar with the half year results we announced a month ago. But for those of you who are not let me begin with a short summary of our recent performance.

In so doing I set the context for the rest of my comments. Our first half numbers are clear evidence of a stronger business, driven by innovation and emerging market strength but still with plenty to work on in the months and years ahead.

Chart 4: Good performance against our priorities

We estimate that our markets are growing by 4-5% globally. The underlying sales growth <u>we</u> achieved in the first half was a little ahead of this at 5.7%, with 7.1% in the last quarter.

Our first half growth had 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 remained robust at 2.2%. We see this as broadly in line with the market, and encouraging evidence of our new competitiveness in a difficult environment.

We also saw consistent levels of growth across our category portfolio, with all four achieving underlying sales growth in excess of 5% for the first half of the year.

This is the broad-based, consistent growth that we are working towards. 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.

Chart 5: Underlying operating margin underpinned by lower indirects

As we expected, Underlying Operating Margin was down in the first half, by 20 basis points.

Gross Margin was down quite sharply, by 230 basis points – much as we would expect to see at times of high cost inflation. Pricing and savings provided some positive momentum, but this was more than offset by inflation 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. Our A&P spend in 2011 is more evenly weighted through the year than it was in 2010, when A&P spend was skewed more towards the first half before tailing off in the second. This will not be the case in 2011, and for the year as a whole we will maintain absolute spend at the same level as 2010.

We are helped in doing so by the continued improvements we are making in the effectiveness and efficiency in our A&P spend. This is allowing us to invest more behind our innovations and new market launches and keep our overall level of brand support at fully competitive levels, despite higher media rates in some markets.

We also saw good progress in the first half 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.

Chart 6: Title Chart – Unilever: Fit to Compete

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

Chart 7: Focus on customer and consumer

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 a growing business; in fact our Turnover had remained stuck at roughly the 40 billion Euro level for many years.

We set out to fundamentally change this – to firmly establish growth as our primary goal and driver of value creation. We aim to build a substantially bigger business, reinvesting the benefits of operational leverage in still better products, innovation and brand support.

To help us do this, we are putting the consumer and customer back at the heart of everything we do.

As you have heard we are making good progress towards these ambitions – Unilever is once again a growing business.

How have we done this? Well the improvements we have made have not happened overnight, neither have they been by chance. I will spend the next few minutes discussing a few of the most significant changes we have been making in Unilever.

Chart 8: Alignment around a clear focused strategy

Perhaps most fundamentally 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 many fewer priorities.

In the past a senior manager's list of individual annual targets could run well into double figures. Today, I have just three business targets and one developmental goal – as does every manager throughout the business.

These themes are given structure and depth with something we call the Compass, the clear and simple strategic framework that we use to guide the business and instil the discipline we need.

Chart 9: New leadership

The Compass strategy has been a fundamental change for the business, but there are other areas where Unilever today is very different from the business of a few years ago. Let's start with our people.

Unilever has always had great people. The changes we have made have allowed us to build on the strengths that had given us such a rich heritage. Now we have a sharper, more competitive edge. We have rejuvenated the organisation from top to bottom, with fresh blood, a greater sense of urgency and a renewed determination to win.

For example, we are effectively a business with new leadership. All bar one of the executive team are new in their jobs in the last two years. Four of them have joined Unilever from outside – new people, with fresh ideas and a real appetite for change.

Chart 10: Compensation structure that rewards great performance

We have also been making significant changes to the way that compensation works in Unilever.

In particular, we have made a substantial change to the way overall compensation is split between fixed and variable elements. A few years ago the emphasis was strongly on fixed salary and pensions as the main components. Today, variable reward is a much larger element – driven by individual performance and long term business delivery.

The stakes have gone up sharply and there is potential to earn significantly more – but also, for those whose performance is mediocre – significantly less.

We are starting to see these changes have a strongly positive impact on the motivation of our people. Our regular surveys tell us that our people are more engaged than ever before, this despite the fact that base salaries for many of our managers have been held for the last three years.

Chart 11: A more agile organisation

More recently we have announced some important changes to make us a more category-driven organisation.Let me briefly summarise the changes we are making.

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

Let me share just one example to illustrate the immediate benefits of this approach. Our new Personal Care unit, run by Dave Lewis, the former President of the Americas Region, will over time be able to compete fully with companies such as L'Oréal, who are already focused in this way. This allows us to put an integrated beauty strategy in place and manage our core brand equities like Dove or Axe in a much more holistic way.

Secondly, 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 12: A new vision

The driving force for all of these changes is the compelling new vision that we have recently articulated. This sets an audacious and energising goal; to double the size 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 Sustainable Living Plan, with the aim of bringing to life the many actions we need to take to meet our bold environmental ambition. You can find details of this on our website, which incidentally has just been re-launched and is well worth a little of your time.

We are also now 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.

Chart 13: 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 had 40. 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%.

But let me bring this to life by giving you real examples from each of our four new category groupings. I will start with Personal Care.

Chart 14: Innovating in Deodorants

I will start with what is undoubtedly our strongest example of consistent innovation success – Deodorants. This is an intensely competitive category, with several competitors making a determined effort to reduce the scale of our global leadership.

We have responded by sticking to our proven approach of building the equity of brands such as Axe, Rexona and Dove, with tireless innovation and regular new market launches. You can see a few examples of our innovations on the chart. Be it:

- the series of successful annual variants of Axe, most recently the Excite range,
- the recent re-launches of Rexona for both men and women, both with new and even more effective formulations,
- or be it the launch of our Dove Men+Care deodorant in 40 markets, including here in the US.

Given this, it is no surprise that our performance in Deodorants has been consistently strong. Our shares continue to increase steadily on a global basis and in most key countries, including the key battlegrounds of Western Europe and North America.

Chart 15: Innovating in Hair

Hair is a category where we have found life rather more difficult in recent years. Now, driven by an improved innovation programme we are starting to grow again. In some markets we are also seeing share gains, China being an important example. This is not yet widespread however, and there remains much for us still to do.

Perhaps more importantly, we are starting to position ourselves to challenge more seriously in the future, with our M&A programme building on the benefits we are already enjoying from innovation. The Alberto Culver deal in particular has enriched our portfolio with brands such as TRESemmé and Nexxus allowing us to meet a wider range of consumer needs.

In the past our innovation in Hair had a patchy record. We had success in some countries, but never the scale or consistency we wanted. Today things are very different:

- Dove Damage Therapy for example has raised the bar in the care of damaged hair, with a successful launch now across more than 40 markets.
- More recently we introduced a nourishing oil range, also under the Dove brand. This uses new weightless oil technology to give enhanced care for dry or frizzy hair.

- And let’s not forget that our recently re-launched Clear brand is also a relatively new part of our Hair portfolio. In less than 15 years we have built a half billion Euro business with a presence in 38 mostly Asian and Latin American markets, and are now a credible challenger to the market leader in anti-dandruff.

Chart 16: Innovating in Laundry

Let me turn now to Home Care and look at our Laundry business. 80% of Unilever’s laundry business is in the emerging markets. It is a category where we have seen particularly intense competition with high levels of pricing and promotional activity.

Despite this we are making good progress, with recent share data showing improvement in both volume and value share globally, with the key emerging markets of India and China leading the way.

Much of our success in Laundry is built on a platform of significantly improved innovation performance and entry into white space. Here are a few recent examples:

- Our Dirt is Good range has been re-launched globally, with an improved formulation giving enhanced cleaning qualities. By the end of 2011 the roll out will have reached 45 countries in total.
- The launch of the radiant range with patented whitening technology has brought improved product performance to

consumers in many emerging markets, including India, Brazil and South Africa.

- More generally, we have driven market development with the introduction of fabric cleaning liquids and concentrates.
- We have also developed products which require less water such as the Comfort one rinse range of fabric conditioners recently introduced in South East Asia. A great example of how our sustainability goals are aligned with consumer trends, driving innovation and growth as a result.

Chart 17: Innovating in Ice Cream

Let me turn now to our Refreshment business, where I will focus on Ice Cream.

Here we continue to strengthen our global leadership position, using a business model that is largely built around innovation.

There are many examples:

- The Magnum brand is perhaps our biggest success story, with a steady flow of new variants and formats, including the hugely successful Gold variant and the mini range. New market launches have also been important, not least our entry here in the US. Many thanks to all of you who have bought the product – you have helped in making the launch a great success.
- Cornetto has also seen regular success in innovation, most recently with the Enigma range in Europe. This is a premium

version of the familiar Cornetto cone, with a rich chocolate-based core running from top to bottom.

- Our Fruttare brand, a long-standing success in Latin America has now been successfully introduced to Asia – a great example of the transfer of ideas from one part of the emerging markets to another.

Chart 18: Innovating in Savoury

Finally, in our Foods category let’s look briefly at our Savoury business.

Here again we have seen improved performance in most markets, built primarily on a base of stronger innovation, rolled out much more quickly than was the case a few years ago.

The best example is our Knorr Stockpot range of jelly bouillons, which have brought a big step forward in quality in this segment of the savoury market. With rapid rollout to more than 30 markets we are on track to hit 100 million Euros turnover in 2011.

Launch activity continues – Australia and here in the US being recent examples. We are also launching in new formats, such as the affordable sachet version recently introduced in China.

Innovation has also been effective in Savoury on a more local basis, including the PF Chang range of restaurant quality meals here in the US, Knorr Soupy Noodles launched in India and Royco low-priced seasonings in Nigeria.

Chart 19: 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 into China, in both Deodorants and Skin Cleansing.
- We've extended the Café Zero concept from its successful base in Italy into Spain, Greece and the Benelux.
- We've launched Dove Deodorants in Thailand.
- And we've launched Sunlight dishwash in emerging markets including Bangladesh and Pakistan.

Let's now pause for a moment to look at some examples of the advertising that has supported our innovation and launch activities in the recent past.

Run video; Clear, Dove Hair, Axe Excite, Lynx China, Magnum US

Chart 20: Title chart – Unilever; the emerging market company

So, I have shared plenty of evidence of 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 21: Emerging markets : consistent growth over 20 years

Back in 1990 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.

We believe that the vast majority of our future growth will come from these dynamic and exciting markets. Given this, that current figure of 54% is sure to rise significantly in the coming years.

Chart 22: 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 big. They 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 here in North America or in 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 23: 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.

To give you a sense of the sheer scale of our business in the emerging markets; on any given day we estimate that 1.7 billion people use a Unilever product.

Chart 24: Growing ahead of the markets in BRIC MIST

This broad-based strength is reflected in our businesses in the key emerging markets sometimes known as BRIC MIST.

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.

Taken together, our BRIC MIST businesses have achieved double digit growth in the first half of 2011, with a healthy balance between volume and price. We are also seeing strong and consistent share gains; up by 70 basis points across the portfolio as a whole over the last two years.

Chart 25: And in the next 8 emerging countries our performance is even better

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.

Chart 26: Competition stimulates market growth : Indonesia Face

So, these markets are getting bigger, and we will make them bigger still through our brands and innovation. This is very different to the battle for market share which we are more familiar with in the developed world.

But what about the increasing levels of competition in these markets? In fact the impact of such competition is often beneficial, acting to stimulate market growth. Let’s look at an example:

A leading competitor entered the Face care market in Indonesia in 2005, at which point the market size was less than $200m and Unilever had a 13% share. By 2010, the market had grown rapidly to reach more than $700m, and whilst the competitor had achieved a 13% share, the Unilever share had grown to 47%.

So, I hope I have been able to remind you about the emerging market opportunity and why Unilever is <u>the</u> emerging markets company.

Chart 27: Title chart – More still to do

Let me finally look forward – what are the key actions that are next on our agenda? Where is our focus today as we look to continue to make Unilever a stronger and more competitive business?

Chart 28: Opportunities to raise the bar further

The good news is that there is still plenty left for us to do – many ways in which we can improve our performance 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, whether it be:

- increasing the pace of our savings programmes to drive efficiencies in our indirect cost base,
- 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,
- simplifying in those areas where we are still too complex,
- or pushing further in making improvements to customer service or on-shelf availability.

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

Chart 29: Summary

In summary, the Unilever of today is a much stronger business. We are able to compete with the very best and our results reflect this. Many changes have been made over the last few years, to our organisation, strategy, culture, leadership and compensation structure to name just a few.

Innovation has been at the heart of our improved business results. Our innovations are fewer in number, but are much bigger and rolled out with greater speed to many more markets. We see this across our business, and I have illustrated this with examples from our four new category groupings.

One of the most exciting aspects of Unilever as a potential investment is the strength of our emerging market business. I have explained to you why we see ourselves as <u>the</u> emerging market company, and why this is such an attractive characteristic.

Finally I have given a few insights into the many actions that remain ahead of us. There is plenty for us still to do, plenty of scope for us to improve further.

On that encouraging note I will conclude my comments and open the floor for your questions.

Chart 30: Questions