



Unilever Investor Seminar

14th March 2007

Delivering Shareholder Value

Patrick Cescau – Group Chief Executive

Slide 1

It is almost time to draw a close to proceedings. I hope you have found the past 24 hours useful.

Slide 2

Yesterday I set out a number of objectives for this event. I wanted to put some flesh on the bones of our strategy and to give you a sense of the scale of the change that we are undertaking.

I wanted to introduce you to the people who are driving this change. And I wanted to answer the many questions and challenges that you quite rightly put to us whenever we discuss Unilever's business performance, past, present and future.

Slide 3

We have packed a lot into the agenda. Over the past 24 hours you have heard from a large cross-section of the people – over 20 in fact – charged with the day-to-day running of Unilever.

You have had the opportunity to question the whole of my executive team, just now, and after a glass or two over dinner last night.

You have heard about specific brands, categories and geographies, covering close to three quarters of our business. You have heard out-and-out success stories like Rexona, some emerging successes like Dirt is Good and Knorr and some of our challenges like revitalising European Ice Cream.

And we have almost managed to get through the whole event with only passing reference to Axe or Dove – in deference to those who can't take too much of a good thing.

Slide 4

So a fairly wide ranging overview of our business. And one designed to give you a clear picture of how Unilever is changing and how this change is driving improvement in performance now and for the future.

We have talked about our growth strategy – how this underpins our medium term growth goals and our longer term growth ambition. And we have given you a sense of how we have changed our ways of working fundamentally, giving rise to a simpler organisation, united behind a common business model and with the ability to execute our strategy faster and more effectively.

In doing so, I hope we have answered many of the questions that you may have had coming into this event.

Slide 5

But there are two questions I posed yesterday that I want to come back to

The first of these, is whether we can walk and chew gum at the same time?

Judging by the amount of advertising in the UK at the moment, there are people around who are hell bent on persuading me to chew as much gum as I can. Nevertheless, as I said earlier, I don't like the expression.

Slide 6

I have made no secret of the fact that growth has been my Number one priority. Why? Because it is where Unilever has been deficient in the past and is the reason why we are making such fundamental changes to our business model.

But it is also because I believe that our growth strategy, and the way that we organise to support it, will drive sustainable margin development and not hinder it. I see no tension between growth and profitability. Quite the opposite. I see sustained top-line growth, improved portfolio shape, a simpler, faster organisation and better execution as all part of the same virtuous circle.

It starts with our growth strategy, which directly drives margin expansion in a number of ways:

Slide 7

First, through operational leverage that comes with sustained volume growth.

Second, through the re-shaping of our portfolio towards higher margin businesses. Richard touched on this yesterday. Fernando Fernandez's presentation on Hair gave you a hard and fast example of our focus on a high growth high margin business.

Third, through innovation that drives up the value of our consumer offerings. You heard for example about Small & Mighty leading the market towards higher margin concentrated fabric cleaning liquids.

Upgrading the family spreads segment with Rama idea! is another good example.

Slide 8

During Path to Growth, the combined benefit of volume growth and better mix contributed around 70 bps pa to Unilever's operating margin, partly boosted by disposals of low margin non-core businesses.

More recently we have been running at closer to 50 bps pa. We aim do to this and more going forward, purely through organic development.

Slide 9

Of course, growth has a cost. During 2005, and again in 2006, we stepped up investment considerably, both in A&P and through restrained pricing.

Will there be a need for further additional investment? Quite possibly. But our growth strategy and global category management are steadily improving the return we get on this investment. Simon Clift gave you some pointers as to how we are doing this.

Slide 10

By allocating our resources behind leadership positions in high growth spaces, we spend our money where we get the most 'bangs for our bucks'.

Slide 11

By focusing on fewer, bigger innovations, we can bring our best skills to bear where they really count, while eliminating duplication of effort. Launching an identical mix for Clear anti-dandruff shampoo in three of the world's largest markets is a case in point. Bigger bets – yes, but with a better chance of success and at a substantially lower cost.

Slide 12

Global category management also brings better disciplines in the way that we spend our money.

Integrated Brand Communication is allowing us to target our communication to consumers with much greater precision, and we have tools that allow us to measure the return on our investment, before during and after we make it.

So more investment perhaps but better investment certainly.

But the growth strategy and our new ways of working improve cost effectiveness in other ways.

Slide 13

You heard from David Duncan how eliminating unnecessary complexity from our product portfolio leads to more efficient buying, sourcing and distribution.

Slide 14

We know we have room for improvement compared with world class benchmarks for overheads and productivity, but you heard from Sandy how we are simplifying our organisation in support of the growth strategy.

In doing so, we are getting out of non-added value activities and raising productivity across the business.

I am not going to give new savings targets today, but I am confident that the new business model is going to allow us to access new efficiencies for some time to come.

Slide 15

If I look across our industry, I see some companies with operating margins below Unilever's but many with higher margins. And it is no coincidence that many in the latter group include those who have a large domestic base business in the US.

I don't believe US consumers are any less value conscious than their counterparts elsewhere in the world. I do believe that scale matters and that by leveraging Unilever's scale across markets, we can replicate some of the margin advantage enjoyed by many of our US peers.

All part of the virtuous circle.

That is why I believe a 15% plus operating margin by 2010 is a realistic target and one that is a consequence of our focus on growth and not in conflict with it.

The 2nd question that I would like to address is – are we going hard and fast enough?

Are we being sufficiently radical in the way in which we are driving our portfolio, simplifying the organisation and improving execution in order to position ourselves as a top performer within our industry.

This is perhaps a more difficult question to answer. Because here there really is a tension – between the desire to push ahead with change as fast as we can – and the absolute necessity to keep our people focused on the market place.

Slide 16

During the course of the seminar, you have seen many examples of how the business is embracing change. We are transforming our portfolio – mainly organically, but accelerated where possible through acquisitions and disposals.

In the past two years alone we have sold businesses with a combined turnover of €2.3 bn, or 6 % of the business we had at the end of 2004.

Sandy gave you the view from the top on organisational simplification, but also how we are bringing about a cultural shift in the business, by putting the right people, with the right behaviours in the right place.

And Mike and Kees gave you a flavour of how these changes are affecting their regions.

Slide 17

One way to get a sense of the scale of the restructuring activity taking place is to put some numbers around it.

With €500m of restructuring provisions on the balance sheet at the end of 2006, and taking into account our guidance of between 50 and 100 basis points restructuring going forward, – that's potentially up to €2bn of restructuring activity over the next 4 years.

That is big by any standards – a lot of people – a lot of factories and offices – a lot to manage without getting distracted.

But it is a judgement that we are continually revisiting.

Slide 18

There are no artificial limits being placed on what we are prepared to do – only a determination to do what is right for long term value creation.

If I believe I have an opportunity to accelerate change in one form or another without undue risk, then I will come back to you and explain how and why.

But I will not do so if I believe that our focus on our market competitiveness, the delivery of our growth plans or the consistency of our execution might be put in jeopardy.

For example, it is clear that we still have some way to go to reach benchmark standards for overhead costs and productivity, especially in Europe.

Equally, we have also seen very starkly over the past few years the heavy price to be paid for taking our eye off the ball in an environment as competitive as Europe.

As I go around the business, talking to the operators, getting a feel for the morale across the business, seeing how 'strategy into action' is reflected in individual work plans, I get a pretty good feel for how the organisation is coping with the pace of change.

My judgement today is that we have got it about right. But I am alert for possibilities to accelerate the transformation. It is certainly a theme for discussion with Michael when he comes on board as our new chairman in May.

Slide 19

With that, I want to leave you with three key messages.

One, the changes that are taking place in this business go wide and deep. In effect we are changing Unilever's business model.

Slide 20

Two, that our growth strategy and new ways of working are not only helping us to deliver our medium term goals, but are fundamental to building a high performance business for the long term.

Slide 21

Three, that we have a business that is united behind a single common understanding of what needs to be done. One business model, one strategy, one management team, One Unilever.

Slide 22

We know that we still have a lot to prove but I hope that we have been able to give you a better sense of the direction we are following, and why.

Equally, I hope we have conveyed to you the energy and the determination with which we are pursuing it.

Many thanks for coming and I wish you all a safe journey.

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