

Bringing our European business back to growth

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Warsaw
26th June

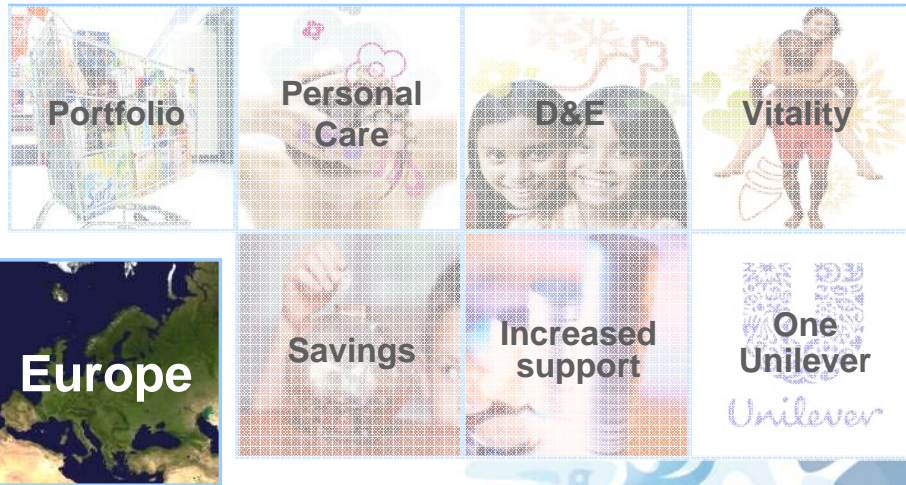


- Good afternoon and also from me a warm welcome to everybody. I am happy to see that you have all made the effort of travelling to Poland to meet with us for what will be a 1-day in-depth review the progress we are making in bringing our European business back to growth. I think we have put together an exciting program, which will expose you to a number of key elements and case studies of our European change program.
- The reason we have invited you to Poland, is because – in many ways - our business here is a good example of the new operating model for our total European business; it has been run like this for a number of years now and, as you will see tomorrow during the case-study on Poland, with great success. As such, it is evidence to us that moving to the new operating model indeed was the right move.
- As you will also see, an important element of the current success of our Polish business is the effective cooperation of the team as established with our trade partners in the Polish market. I am therefore particularly happy that we have found representatives of Tesco and Carrefour ready to share with us their perspective on our industry and on the cooperation with Unilever; I would like to extend a special welcome to them; we are very happy to have you here with us!

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Our priorities



- Today and tomorrow, we will share with you what we have been and are doing to bring our European business back to growth. We do this against the background of what we shared with markets early '05 on our top-priorities.
- You see them once again listed out to you in this slide. Very clearly, regaining momentum in our European business was and is one of the cornerstones.

Bringing our European business back to growth

① Setting the scene

- The challenges facing our business
- Unilever's strengths

② Europe's change agenda

- The case for change
- The European change program

③ Progress to date and Key actions



- Our agenda for today and tomorrow, follows a 3-step structure:
 - 1) Today, we will take a look at the forces that are shaping our business. We will touch on consumers, what's going on in the trade and the trends we see in our industry. We will share with you what we think are our main challenges and what strength and capability we have to successfully face them.

You will see that a number of important developments are directly related to trade and what's going on with our retail customers. Our trade partners from Carrefour and Tesco will give you their inside perspectives; after that, we will take you out on trade visits to find the real-life examples.
 - 2) Tomorrow morning, we will continue and go into detail on where we found ourselves as a business early '05 and what specific issues we needed to address; we will share with you the key-actions that we took and the program we put in place to bring our European business back to growth.

This will be followed by a number of case-studies which we will share with you. These will give you an insight into the actions we have taken and the results we are seeing.
 - 3) Later tomorrow afternoon, I will then share with you the results so far as well as our key messages for the near future.
- Let me now move on and offer you a perspective on some of the main trends we see in our environment.

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More challenging than ever before

Demanding Consumers



Harder to reach

Harder to please

Harder to target

Harder to impress

Demanding Retailers



More dominant

More demanding

More competitive

More sophisticated

Industry in Transition



Market saturation

Margin pressure

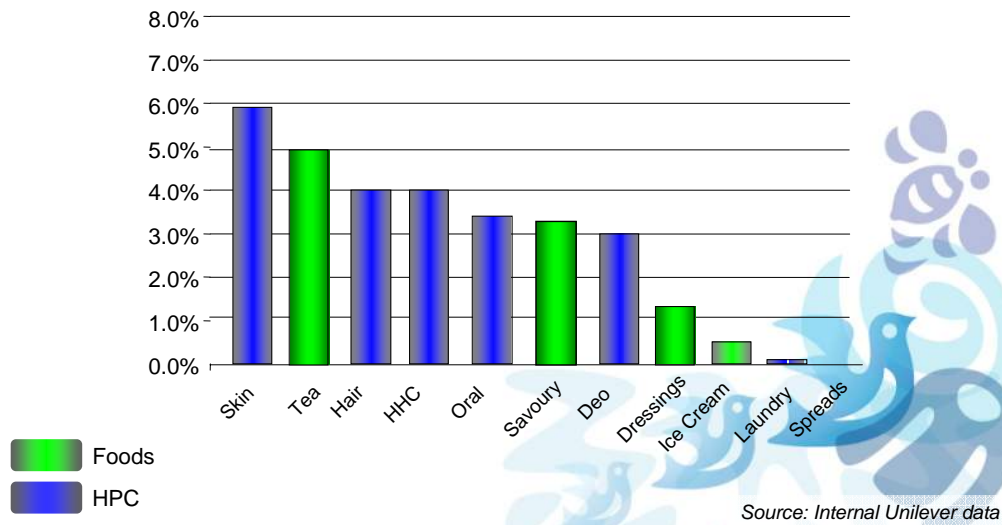
Consolidation
/Alliances

Globalisation

- The current environment is more challenging than ever before. Apart from stagnant economic growth in Western Europe and geo-political instability over recent years, our industry is facing many challenges. Just to name a few:
- Our consumers are presented with more and more options every day and lifestyles are changing. We are living in a fragmented society: In spite of the fact that people are connected in a multitude of ways, consumers are more difficult to reach than ever before. People request individualised solutions and instant availability: Health and Wellness are important drivers of consumption and people care more and more about safety, security and the environment.
- Our retail markets continues to consolidate; as a consequence, competition between retailers is ever intensifying. Retail formats compete through scale, through price and increasingly through shopper loyalty. Channel dynamics are changing, with traditional formats coming under increasing pressure. This means that the dynamics of our dealings with our customers are constantly changing as well, with more and more business going through fewer and fewer customers. At the same time, new channels emerge, requiring different business models and different capabilities from the past.
- In terms of our industry, many companies are facing margin pressure as a result of fierce competition, trade pressure and commodity prices; at the same time globalization presents both threats and new opportunities, all of this resulting in continued consolidation and a constantly changing competitive landscape.

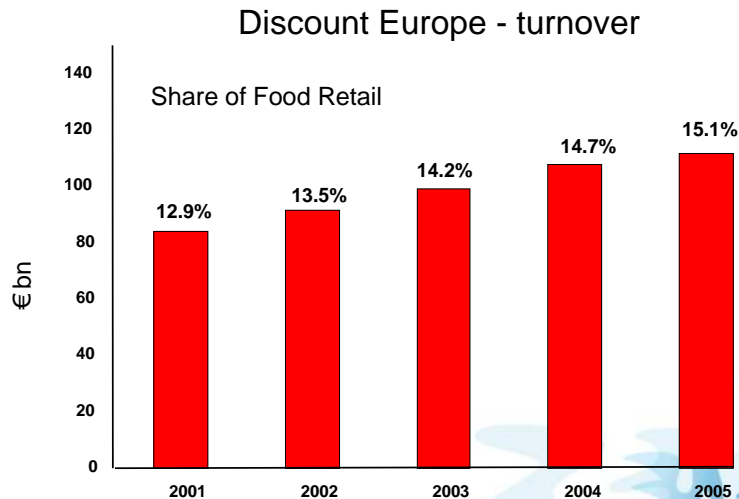
Our markets are growing

European Market Growth (CAGR 2001 - 2005)



- However, there is good news as well
- In spite of all the challenges, we operate in markets which are indeed growing. This graph shows you the compounded average growth rate of some of our key European categories between 2001 and 2005. Performance ranges from almost flat in Laundry to excellent growth in categories like Savoury, Skin and Tea.

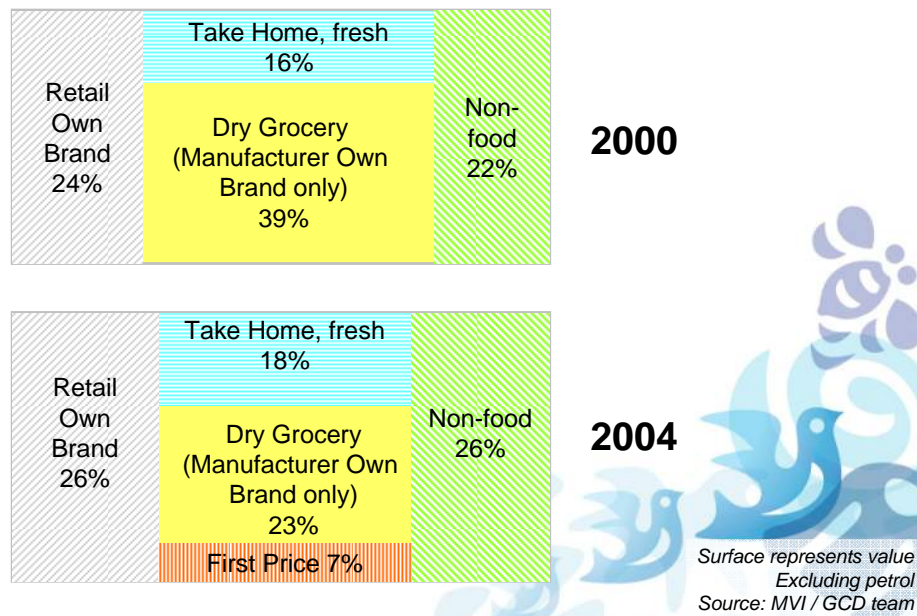
Discounters show continued strong growth



Source: MVI

- The growth of the value discount channel is not a new phenomenon and one that we have discussed in previous seminars as well.
- As you can see from this slide, the growth of this channel continues – mainly through new store openings, financed through existing operations - and it now represents more than 15% share of Foods retail in Europe.
- As to the way we work with these customers, we believe the future lies in collaborative differentiation with all of our customers. Collaborative differentiation is about delivering unique value propositions to different shopper segments at specific occasions, thus creating profitable growth for both Unilever and its customers. Put simply, we explore opportunities to work in different ways with different formats, serving their and our consumers & shoppers in the way they choose to buy our brands, supporting retailers differentiated market positionings.
- We are working together with discounters across Europe, and we have done so for many years. For us, a discounter is just another customer. And therefore we have been working together with Lidl in Europe for many years as well and you will find many of our major brands on their shelves.

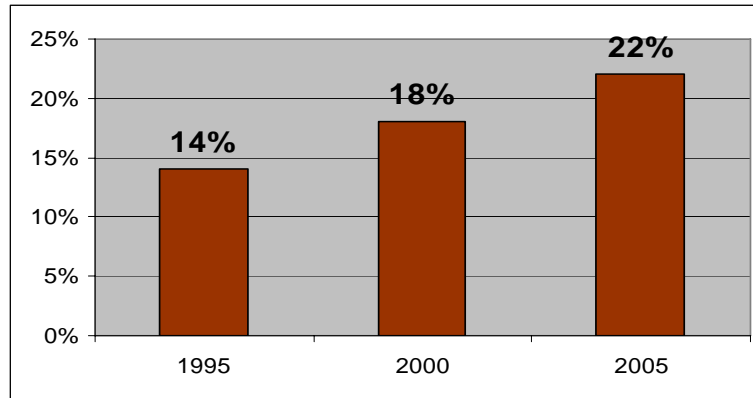
An aggressive fight for shelf space (Carrefour example)



- The fight for shelf space is becoming ever more aggressive. Between 2000 and 2004, the percentage of shelf space allocated to dry-grocery A-brands in Carrefour has shrunk from 39% to 23%.
- This is the effect of
 - Private Label growth
 - As well as retailers getting their growth from non-grocery sales
 - While grocery itself is in deflation
- This not only means that the total amount of space available to A-brands is under pressure, it of course also means that the competition between the branded manufacturers for the remaining space is much stronger.
- As a consequence, we need to do an even better job in customer development and category management and we are seriously upping our game in those areas. Throughout the case-studies tomorrow, we will share some of the examples with you.

Private label is growing

Private label share of global food market
1995 - 2005



Source: M+M Planet Retail; partly based on ACNielsen; Euromonitor

- Private Label is here to stay as well and in many of the more developed markets, private label is starting to behave like A-brands. The big ones command the same loyalty as manufacturer owned brands and have the quality to match.
- The drivers behind this growth have to do with consumer acceptance, ongoing consolidation of retailers as well as manufacturers.
- To address this, we are more and more actively focused on total category performance, and its attractiveness to our retail partners...
- ... because, where we succeed in improving the attractiveness of a category within a retailer's portfolio of categories, Private Label is less likely to thrive...
- ...and, in today's consolidated environment, where we work across our categories in helping the retailer differentiate, we are large enough to make a tangible difference.

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- So, our operating environment is pretty tough and we are facing numerous challenges. However, although competition is intensifying and the pace of change is increasing, the fact that there are challenges out there is not different from the past.
- We are in business to face these challenges and grasp the opportunities that changes in the environment present to us.
- Let us therefore now discuss some of the inherent strengths in our business, which give me the confidence that we can successfully bring our European business back to growth.

Strong category positions

Number one category positions in Europe

Deodorants
Dressings
Fabric Conditioners
Ice Cream
Olive Oil
Savoury
Skin Cleansing
Spreads
Tea



- We have strong category positions in our European markets. We hold number 1 positions in 8 of our categories.
- In Foods we hold leading positions in Yellow Fats, Savoury, Dressings, Tea Based Beverages, Ice Cream and Olive Oil.
- In HPC our European number one positions are in Skin Cleansing and in Deodorants.
- We also have strong local positions in other HPC-categories; for example, we are the category leader in Oral Care in France and Italy.
- Holding leading positions is of course in itself not enough for sustained profitable growth; however, these positions bring us strength in our categories and a thorough understanding of what drives their consumers. This is a capability we can continue to build on.
- Also, they give us the scale and the platform to leverage and drive the turnaround of our total European business.

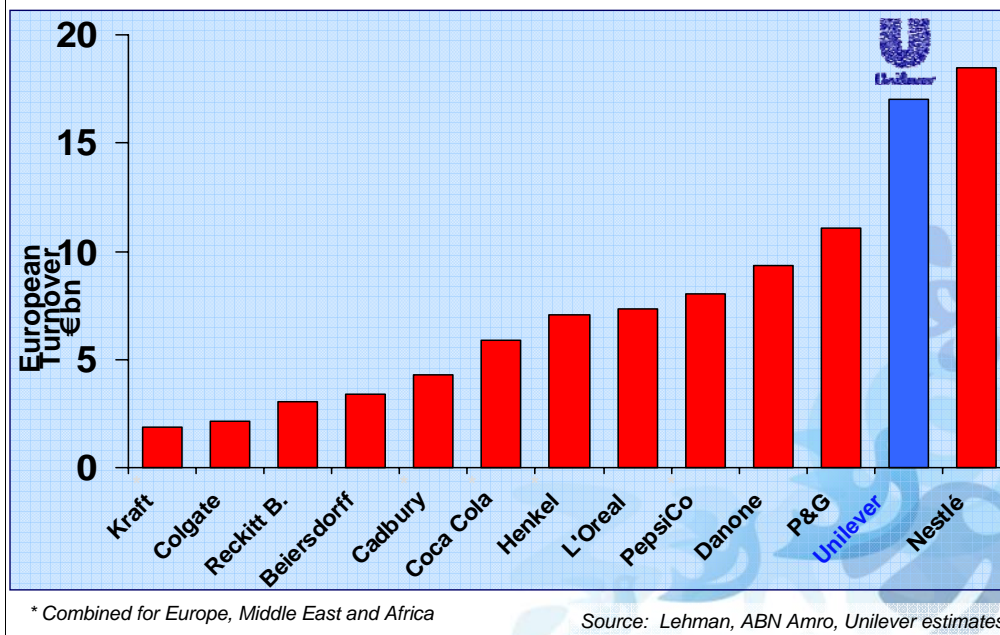
With powerful brands ...

Top 14 brands representing 65% of Unilever Europe turnover







- The main thrust behind our strong category positions are of course our brands. All of these brand-names are household names and most European consumers are exposed to them in some way or another on a daily basis.
- It is this focused portfolio of strong brands that drives our turnover: Our 14 biggest brands as you find them on this chart, represent 65% of the total turnover of Unilever Europe.
- Each of these brands individually represents a turnover of Eur. 200m. or more and half of them sell more than half a billion Euro's on an annual basis in Europe! They are our powerhouses.

Scale in our competitive set ...



- Size, or rather scale, does matter these days. It is therefore good to know that we do have the critical mass within our competitive set to compete effectively and reap the benefits of scale.
- This is especially true, now that we are leveraging the scale of our businesses to our full advantage through the 1-Unilever program. I will share some more details on progress with you tomorrow and throughout the case studies you will also see how we benefit from leveraging our Unilever scale.

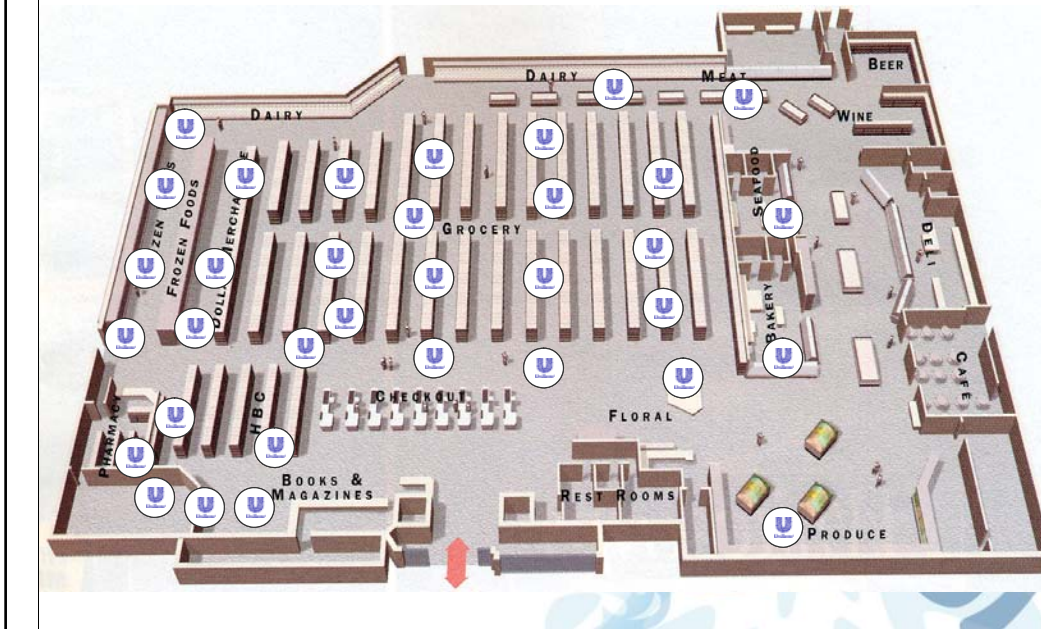
Strength in our geography...

<u>Country</u>	<u>Ranking</u>	
UK	# 1	
Germany	# 1	
France	# 1	
Italy	# 1	



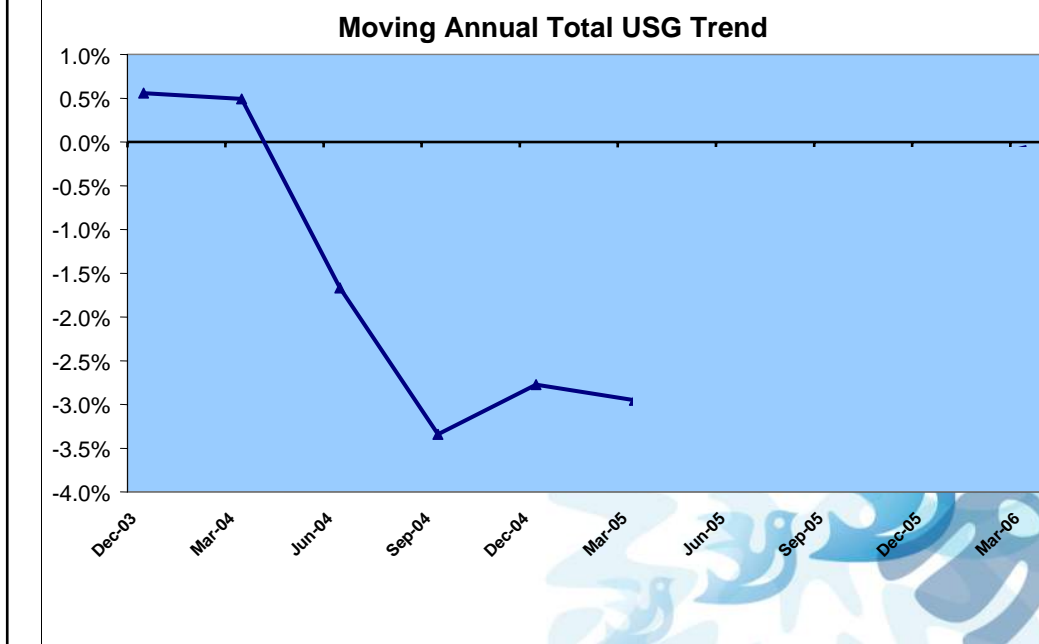
- Another illustration of the strength of our European business vis-à-vis our competitors; we are the number-1 FMCG company in 4 of the biggest European markets; the UK, Germany, France and Italy.
- We also hold number 1 positions in such countries as the Netherlands, Belgium, Portugal, Greece, Poland and Hungary.

... and a strong in-store footprint



- Finally, if you look at our in-store footprint, you see that Unilever products are well represented throughout the store. As we will go on a trade visit this afternoon, you will be in a position to see for yourself that as a shopper, you will find Unilever products in almost all of the aisles in the store.
- This of course helps us in the cooperation with our retail-customers, where the challenge is to leverage these positions to our mutual benefit.
- Taking you back to what I said earlier about working across categories to build their attractiveness and help the retailer differentiate, this to me illustrates why we are uniquely positioned to do so.

However



- This concludes my today's introduction to our markets and our business.
- As said, we are operating in an environment which is more challenging than ever before. Economic growth in Western Europe is sluggish, competitive pressures in our own industry and in the retail sector are huge, relative positions are continuously changing as result of consolidation, etc, etc.
- At the same time however, we do hold some strong positions, we do have scale and strong brands and we do have reach. Also, the markets we operate in are growing.
- Having said that, I will be the first to acknowledge that – over recent years - we have not been able to sufficiently leverage our strengths and our performance. Momentum in Unilever Europe has not been where we want it to be. This is clearly visible from the looks of our growth momentum curve early last year.
- I wouldn't however be here with you today, if I were not confident that we can turn this business around, and in fact are doing so. Tomorrow we will talk about the reasons behind the decline in 2003/2004 as well as the actions we took in 2005 and what has happened since.

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- After this general introduction and setting the scene, we will spend the rest of the afternoon and early evening to focus outside.
- We will take a closer look at what is happening in the Polish trade and what we are doing together with our trade partners to build our businesses.
- I will therefore now hand you back to John Rothenberg.