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Paul Polman, CEO

Results

Q: How do you feel about the full-year performance given the global economic downturn?

A: I think we can in all honesty be fairly pleased with the performance we've put in. As you've seen, a top-line growth of 3.5%, an operating margin improvement of 20 basis points and a significant step change in cashflow. So we've hit all the targets we've set ourselves of reigniting volume growth whilst maintaining operating margin and in cashflow we've actually done even better.

More pleasing is actually that our market shares are starting to grow again across the board and that's true of all the regions that we're operating in.

So I think they are good results.

Q: What for you were the key financial numbers in these results?

A: The key financial number that you see is the volume growth; we started the year with a minus 2 percent, more or less, and at the end of the year it was plus 5 percent. So we see a clear acceleration on volume growth and that's the key driver for long-term value creation.

A&P is up. We've continuously invested in A&P: last quarter alone up nearly 250 basis points, the whole year 80 basis points, and still coming out with a strong improvement in operating profit.

Our capital discipline obviously is another important element for us because it shows you the discipline we are applying to our costs and efficiencies; working capital, but also other elements of our operating structure.

Q: But aren't you just buying volume through lower prices, and is that set to continue?

A: Well for the whole year our pricing still is up. The 3.5% overall growth has 1.2% of pricing in there. What we look at is our volume shares and our value shares and they're both improving. So our relative pricing stays the same.

If you look at the last quarter, where the pricing is a minus 3.1 percent, it really is the carryover affect of price adjustments we made over the beginning of the year.

What I always like to point out to people is that if you look at the last quarter of 2008, it might seem a long time ago, but in the last quarter of 2008 we had pricing of over 9 percent. Perhaps with the economic environment, we've been quicker to adjust that and that is what you see, but being able in the last quarter

to grow our volumes 5 percent, invest nearly 250 basis points in A&P and improve our operating margins by 100 basis points, proves the point that those are good investments.

Q: If commodity prices should increase, might that cause you to rethink your pricing strategy?

A: Our pricing strategy has never changed actually. Our pricing strategy is to stay competitive with the market. What we do see now, with the best knowledge that we have, is that price inflation on commodities is starting to pick up again over the second half of 2010 and I think you'll see some pricing behind that as well.

Q: What about your cost reduction plan? Are you going to deliver the €1.5 billion that you've set out this year?

A: We're on target to do that. We're actually a little bit ahead on that and we feel good about it. If you look at the 2009 results, the numbers that I can share with you, we have total savings of €1.4 billion in the forecast, which is a tremendous effort. That's obviously done with pure cost savings and with restructuring, but also with discipline on our indirects and that helped us to invest in our brands to strengthen them.

Innovation and advertising & promotion

Q: You've talked in the past about bigger and bolder innovations. How is that all going and where's the focus?

A: That obviously takes a little longer, as I've told you before, but we focused on two things. First of all, the innovations that we already have: can we make them bigger and expand them into more countries? The average size of the innovations in 2009 has actually doubled in terms of incremental turnover and we're rolling them out to more countries simultaneously: Dove for Men - 25 countries, Clear - 40 countries, Temptation - 35 countries. So we are rolling out our innovations to more countries.

At the same time we've obviously focused on making our pipeline more robust and there I'm also pleased to see that we have some good innovations coming in.

Q: As you say, you're increasing your advertising and promotional spend. But given media rates are falling, are you getting good value from it? What tangible results are you seeing?

A: Actually it was Lord Lever who said I've spent a lot of money on advertising, I don't know which 50 percent is effective. We do spend a lot of time ensuring that our return on the marketing investment is done with discipline and that we have the appropriate techniques in the organisation.

I felt that some of our brands were under-supported and as a result, our brand equities were probably not as strong as they should have been. So last year alone we significantly invested, as you've seen 80 basis points, more in a

market where the rates are actually down. And we will continue to do that over 2010 as we try to get back to sustainable top- and bottom-line growth.

Business initiatives and strategy

Q: You're working towards closure of the Sara Lee acquisition. Given that you're generating so much cash will we see more acquisitions like this or even a transformational deal?

A: Well we've had good discipline around costs, as we mentioned, and around working capital and that got translated into a €1.4 billion improvement in our cashflow and that is indeed a very good result for the company.

The way I look at it, to be honest, is I think in this environment we should not forget what has happened over the last year and a half, two years. We do value our A+ rating, the dividends that we pay, the Sara Lee acquisition we still have to pay for and, again, the normal €1-2 billion bolt on acquisitions which I think we will maintain moving forward. So we're pretty happy with our current management of our capital structure.

Q: Can you talk a little bit about the initiatives with the big retail groups and how you're going to drive sales from here?

A: I'm very pleased to see that at the end of 2009 we have significantly improved our relationships with our retailers. We focused on a few things to really get there and the organisation really should be congratulated on that.

The first one is get the basics right, which is customer service and on-shelf availability. Frankly, at that level we weren't competitive. We've seen significant improvement in both of these metrics and the retailers have rewarded us for that.

At the same time we've rolled out what we call our customer innovation centres, where we bring the latest insights into shopper knowledge which is increasingly more important and we work with the retailers in co-operation to drive the categories etc. As you probably know, one of the biggest opportunities that we have in the business is market development. Not taking share from our competitors or any other thing. It really is market development, especially in the emerging markets and working closely with the retail environment to do that is obviously a very important area of focus for us.

Q: What about the culture within the company? How are you changing the mindset and the performance within the company?

A: Well we come from a very strong culture and obviously we want to maintain the good parts. But I've also said that the areas that we want to address are in increased consumer and customer focus, i.e. external focus, increased bias for action and stepped up accountability and responsibility. If the results that we're putting in are any indication of that, we're certainly moving forward. But I've also said it takes three or four years to get that really truly embedded in the organisation.

We're just coming forward with a new more challenging compensation plan. It requires more investments from the individuals, a higher upside for outstanding performance and more downside, especially to drive this performance culture.

We're continuing to drive the consumer and the customer in all we do and with our 30 day plans and other things, we're injecting a sense of urgency in the organisation that has served us well for 2009.

Q: And all that has also has been obviously extended to your senior management too. You have a new CFO in Jean-Marc Huet. Will there be any more heavy hitters coming into the business?

A: Yes, we have a good team and as our ambitions grow and the size of the business grows, we obviously need to be sure that we have the capabilities to deliver on that. So we are continuously looking inside and outside the organisation to strengthen our management team. In the top 100 people, we have reassigned about 60 of them to new positions over the last nine, 12 months. Jean-Marc [Huet] in finance being an example on that, or Pier Luigi [Sigismondi] in customer service, the area we just talked about, and we will continue to look both inside and outside for upgrading the organisation.

Sustainable growth

Q: You've said that you want to double the size of the business. How can you do that and not add to your environmental impact? How do you balance the two?

A: Yes, we have launched a very challenging vision for the company, that I was able to share at various podiums in Davos and which has been received extremely positively, which is to double our business whilst reducing the environmental impact.

It's very clear to many people and especially consumers to whom we cater that we cannot continue to live off more than the current planet that we're in. In fact, WWF would predict that we're currently living off 1.3 planets. With the lifestyle of the UK, we would be living off three planets already, so that's unsustainable. And I think consumers are increasingly disappointed by the role of governments and businesses in taking charge of some of the issues that we have in poverty and malnutrition, in climate change. So they want to take charge themselves.

I think the only companies that have permission to grow long-term are companies that can do that in an environmentally responsible way, i.e. growing your business whilst reducing your environmental impact.

Now we're doing that in many areas already. We've built it into our innovation programme, our brand imprint. We're taking the lead on things like sustainable tea. We're trying to move the world to sustainable palm oil; we're one of the founding members of the Roundtable on Sustainable Palm Oil. We're moving to sustainable sourcing. Then obviously with plans like in the laundry brands, our greener planet plan and many others, we're trying to change consumer behaviour to get there.

I cannot tell you how enthusiastically our employees have grabbed onto this and how motivating and energising it is for them. So I'm sure that we will get that back in the business results as well over time. It is in fact the only permissible model to grow, in my opinion, as we move forward.

Outlook

Q: Do the quarterly numbers imply that trading is getting easier for you? Even Western Europe is growing, as you've said. Do you see better times ahead?

A: Well I've always been conservative and I continue to be conservative. I just came back from Davos last week and it's very clear to me that the amount of deleveraging that still needs to be done in the financial world, the consumer world, the government world, but also in the company world, where some of these balance sheets were over-leveraged, is taking a lot of consumption away. One of the key drivers for us, at least in the developed markets that we're talking about, is consumer confidence and unemployment and, unfortunately, I don't see any significant improvements in the year ahead.

At the same time, our competitors are clearly stepping up their activities as well, which is good. That's why I like fast-moving consumer goods. But we have to continue to set the bar higher.

We've been fortunate as a company that we have now over half of our business in the emerging markets and what we've clearly seen and learned over the last 18 to 24 months is that there is a decoupling of these economies. I take the last quarter, Q4 for example, where you see that emerging markets have growth rates close to double-digit, 8%-9%. So these are very robust growth rates for us.

Q: The market has been raising its estimates and you've been counselling against it getting too far ahead of itself. So what's the outlook for 2010?

A: Indeed we should be realistic and not to run ahead of ourselves. What I've said is we should continue to focus on reigniting our volume growth to make that consistent; not just one year, we've been there before.

So our outlook will really be focused on driving volume growth the way we're doing it, slight improvement in operating margin and continuous management of our cashflow in a positive sense and that's what we're focused on.

Q: Still no financial guidance?

A: No, I don't see any reason for that and I don't think we'll go back to that in the near future. We'll just manage our business, explain our strategies, and hopefully attract the investors that are willing to stick with us during that journey.