

**Winning in D & E Markets
Patrick Cescau
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Opening Speech

Slide 1 – Winning in Developing and Emerging Markets

Good afternoon everybody and welcome to the Unilever Investor Relations event. The theme for the next day and a half is “Winning in Developing and Emerging Markets”.

Slide 2 – The Big Picture (Campinas)

I appreciate you joining us here in Campinas. We’ve prepared an exciting programme that I’m sure you’ll find valuable.

OK. So why Brazil?

Slide 3 – The Big Picture (Brazil)

As you probably know, Unilever Brazil is our seventh largest operating company and is neck-and-neck with India for the number one position in the D and E world.

Indeed, we could easily spend the next two days just talking about Brazil.

Slide 4 – The Big Picture (Latin America)

But there is a bigger picture which is not limited to Brazil, or even to Latin America.

We will, of course, use the people and facilities here in Brazil to bring to life aspects of the bigger picture. But this event is about the totality of Unilever’s operations in the D and E world.

Slide 5 – The Big Picture (D&E)

It is about the strategic importance of Unilever’s D and E businesses as key drivers of growth and shareholder value going forward.

It is about the huge opportunities that these markets offer us and how we can, and will, exploit these opportunities.

And it is about the enduring strategic case for Unilever in D and E markets.

However, before we start the session I want to say a few words about our current business performance.

Slide 6 – Progress on Improving Competitiveness

We remain absolutely focused on our immediate business priority of restoring Unilever's market competitiveness and top line growth.

As we said at both our half-year results and at the third quarter's results, we are seeing real progress on the road to recovery.

In many parts of the business – for instance, across our D and E markets, in North America, and in Personal Care - our growth is returning to competitive levels.

And this is reflected in a stable market share performance.

But the task is not complete, especially in Europe.

I said last February that restoring growth in Europe was a clear priority. And in 2005 we have been very focused on this task.

We have stepped up our innovation, and our investment in A&P.

We have selectively reduced prices or improved quality where our price/value balance was not right.

We have pursued initiatives to improve our 'Go to Market' capabilities in a number of key markets.

And we are implementing a comprehensive programme of change under the banner of "One Unilever". It includes, as you know, a major initiative on outsourcing. And that is under-pinned with changes to management.

Achieving a turnaround in Europe is taking longer than in other parts of the business. This is partly because the challenges are greater, but also because market conditions are not helping us,

However, I can promise you that I will not be satisfied until our business in Europe is back to competitive growth.

Now let me return to our main theme.

Slide 7 – D & E Markets: the long-term strategic case

Let me start by showing you a graphic demonstration of the opportunities in D and E.

Here you see the growth in levels of consumer spending at market exchange rates between 2005 and 2010.

As you can see, consumer spending in D and E is growing faster than in the developed world.

Slide 8 – D & E Markets: the long-term strategic case

And in PPP terms, consumer spending is already bigger in D and E markets and is growing faster.

And all of the population growth over the next 20 years will be in D and E markets.

Slide 9 – Driving demand for Unilever brands and categories

Rising incomes in these markets are having a dramatic effect on the consumption of consumer goods. There are some one and a half billion people in the middle of the consumption pyramid, all of whom have the potential for trading up.

But it doesn't stop there. There are some four billion people whose low income means that they are not normal buyers of consumer products. You will hear later from Harish how every day more people pass through the stages of the consumption pyramid.

And when they can afford it, their needs are no different from ours. They want the consistency of quality and emotional pay-off that brands offer. And they want access to products that give them the very best for them and their families in terms of nutrition, hygiene and personal care. And as William Lever said so many years ago, they want products that help to take the drudgery out of their daily lives.

The process starts with conversion to the most basic products, such as a bouillon cube, or a bar of laundry soap. But it doesn't stop there. As usage grows so does the desire for more added value products. And with that comes their loyalty to branded goods.

Unilever is not only benefiting from this growth in consumption but is also, as you will hear later, actively driving market development in many categories.

But for me what makes the opportunity in D and E markets so exciting is that we are in a great position to make it ours.

Slide 10 – A Winning Formula

To understand why we can make it ours we need to look back at our heritage.

I know that some of you have seen this diagram before. We have used it to show how Unilever was evolving from a federation of operating companies around the world into a more globally driven organisation.

However, let me describe it in a slightly different way.

Historically Unilever grew by laying down roots in each of the markets where it chose to make its business.

Slide 11 – Unilever’s Local Heritage: building on deep roots

Our presence in many D and E markets goes back decades. In some cases like Brazil, back to the early part of the last century.

This lends a rather unique flavour to our businesses in these markets.

For one thing, they have a breadth and depth that more recent entrants sometimes lack. For us D and E is in our DNA.

Slide 12 – Unilever’s Local Heritage: breadth and depth

Our businesses have product portfolios that have evolved to the specific needs of local consumers. They are not just imported mixes that will appeal to only a small cross-section of the population. We sell to the top, the middle and the bottom of the pyramid.

And in each case our products are relevant – working to different classes of need – and affordable.

They have well-established selling and distribution systems that give them unrivalled breadth and depth: in urban centres and rural villages; in traditional ‘Momma and Papa’ stores; and in the growing modern trade.

We have already developed low-cost supply chains and unique ways of doing business that allow them to offer products that are affordable to low income consumers. Harish will tell you more about our extraordinary Shakti scheme later. It reaches out to people who are not normally consumers, but it works because it is relevant to their lives.

In other words, these businesses have been built to serve more than just the affluent minority who sit at the top of the income pyramid.

But well-established local roots bring other advantages that are hard to replicate.

Slide 13 - Unilever’s Local Heritage: local touch

And those advantages go to the very heart of our company.

We are often described as an Anglo-Dutch company. I suppose this is not surprising, given our history, and the number of English and Dutch who have run the business.

But the fact is that the make-up of Unilever’s leadership has changed dramatically in recent years. Now only three out of the seven on my Executive team are from either country.

And there is an important point here. Our operations around the world are seen, first and foremost, as citizens of the countries in which they operate.

It is true of consumers. Ask a Brazilian about Omo and they will tell you that it is a Brazilian brand. They have no idea that this old and respected UK brand is sold all over the world.

It is true of governments. They find it easier to deal with organisations that have a deep understanding of local circumstances, culture and language. They appreciate companies like ours who do not cut and run when the going gets tough.

And it is true of our people. Because we employ mainly local talent.

Slide 14 - Unilever's Local Heritage: local talent meeting local needs

Our people are close to local consumers precisely because they are themselves local consumers.

Our people identify with the local community because they engage with the local community.

And our people understand the challenges of D and E markets because they have grown up in these environments.

A few weeks ago, I saw someone from another consumer goods company quoted as saying that the main bar to D and E markets is cultural, not financial. I could not agree more.

Overcoming these cultural hurdles is difficult. It is not something that can easily be bought, or built quickly. Of course competitors can copy what we are doing. But they can't copy all the things all the time in all countries.

I believe that Unilever's local roots can bring us enduring strategic advantage in these markets compared with other international companies. We have a wealth of learning and skills. We have been actively involved in local communities for many, many years.

I know very well from my time working in different countries how difficult it can be to break into the local way of doing things. Every country and even every town has groups. People who have grown up together, been to school together, go to the same clubs. It's true of business and it's true of politics.

But, on the other hand, you can't rely entirely on local scale and local capabilities. If you do that then you run the risk of being out-gunned by larger and more global competitors.

Slide 15 – Unilever's Global Scale

The fact is that global scale matters more today than it did in the past. And for a business like ours that brings many advantages.

First, we have a global portfolio of brands and categories. And it is around them that we focus all our resources: strategic, financial, creative, and technological. After all,

companies with big brands and globally strong category positions are more likely to win in the long term.

Second, research and development. Unilever spends around 2.6 per cent of sales each year on R&D. That is around one billion Euro. But we do not just create products and then re-formulate them for the D and E markets. We deploy the power of our R and D to develop specific solutions for specific D and E consumers.

There are very few consumer companies that are big enough to employ scientists, technologists and developers on this scale to target specifically local consumers.

Third, cost advantage. Acting globally gives us efficiencies that are not accessible at the local level. For instance, in procurement, in shared services and in centres of excellence.

Fourth, by fostering a common set of shared values which bind the business together. It is worth remembering that those same governments and local communities that appreciate our local touch have also great respect for our corporate standards of honesty and integrity.

Unilever's standards of performance and behaviour are vital for the long-term survival of a business that operates in over 140 countries world-wide. Wherever we operate we do so as responsible corporate citizens. We respect the communities that we become part of. We think socially, we act sustainably, and we always consider the social and economic impact of our actions.

You can find a good example in a recent report we commissioned. Our business touches the lives of some 300,000 people in Indonesia. We commissioned Oxfam to assess the impact of our business footprint. There are always lessons to be learnt but the results show that we are acting as true citizens. It is well worth reading.

Unilever has scale. We are one of the largest consumer products businesses in the world. However, much of Unilever's recent strategic development has been about finding ways of leveraging this scale more effectively.

Chart 16 – Local Roots with Global Scale

During the Path to Growth period we focused on strengthening our global portfolio of brands and categories. We focused on accessing scale efficiencies in the supply chain, through factory rationalisation and through global buying programmes.

More recently, the new organisation and 'One Unilever' are bringing scale advantages at the front end. Scale at the front-end of the business, in innovation, in 'Go to market' and with a leaner and simpler management structure.

At the same time, Unilever's Vitality mission and the Unilever brand are helping to reinforce our corporate identity and our relationship with consumers, customers and other stakeholders.

Clearly some of this is still work in progress. However, I do believe that we are rapidly converging on the right balance between local roots and global scale. We know how to

bring our global scale to bear in each of our markets, and our new organisation is helping us to do this.

So what does this all mean for Unilever's business performance?

Slide 17 – Our presence in D&E markets

The fact is that our categories in D and E markets are growing at 2–3 times the rate of the developed world.

We have a bigger presence in D and E than most of our major competitors.

And this presence is built around high relative market shares in many key markets. You will hear specific examples during this meeting of where our market shares are more than twice our nearest competitor, There are many other examples to select from; Ice Cream in Turkey, Laundry in South Africa, Soups and sauces in Indonesia, to name but few.

This strength is being translated into strong financial performance.

Slide 18 – Seizing the Opportunity

Unilever's organic growth in D and E markets averaged around 8% over the past 15 years. As a result, the percentage of Unilever's sales from D and E markets has risen steadily from under 20 per cent in the early '90's to 37 per cent today.

And it is profitable growth. Our D and E businesses have operating margins which are only slightly below the Unilever average.

This means that we can grow rapidly in these markets without margin dilution.

D and E growth therefore creates a lot of value for us. In fact, taken together, our top 17 D and E markets have an unbroken record of economic added value stretching back to the early 70's.

Unilever has a powerful presence in D and E markets, and this existing business base will provide us with exceptional opportunities for growth for some time to come.

However, that is not to say that there is no room for improvement in our D and E portfolio.

I foresee three specific opportunities for us to build further our strength in D and E markets.

Slide 19 - Opportunities Ahead

First, we are underweight in China. After a couple of false starts, we have now established a sound business in China. We have sales of half a billion Euros and we are currently growing at nearly 20 per cent per annum.

However, by our standards, our share of wallet of the Chinese consumer is well below what we have in most other D and E markets.

Our main priority will be to drive as hard as possible within the brand and category portfolio that we already have in China.

Second, we have a great opportunity to build a Foods business in Asia/Africa alongside our powerful HPC business. We have shown that this can be done in Latin America, where our Foods business is 40 per cent of regional sales, compared with around 30 per cent in Asia/Africa.

We have the right ingredients with brands such as Knorr, Lipton, and Brooke Bond and I am confident that we will see real progress in this area over the next few years.

Finally, I believe that we can make even better use of our D and E business base not just to receive from our developed businesses but to provide.

Also, sourcing of materials and manufacturing out of D and E markets represents a very small part of our overall business activity. This is, therefore, a major opportunity in the future.

And, despite our well-established R&D centres in Mumbai and Shanghai, the contribution of these parts of the world to Unilever's science, technology and development capabilities can and will grow.

This is not about accessing low labour costs. It simply recognises the fact that Europe and North America no longer have a monopoly on world class capabilities. In fact, over time a greater contribution from these centres will go towards not just supporting D and E markets but the rest of the world as well.

Slide 20 – Winning in D&E

As you can tell I am passionate about our D and E business. I have spent a great deal of my Unilever life not only visiting and working in D and E markets, but living there with my family. My children spent their formative years there.

I found it a privilege to have had my life enriched by such experiences. To see how other people live, how they care for their families, how they aspire to a better future, and how companies such as Unilever can play a very real part in their lives.

I am also passionate about the opportunities for our business in D and E markets.

We have great business, great brands, and great people. In fact, I believe that we have all the right ingredients to make a great success in the parts of the world that are of such growing importance. Importance not just to Unilever, but geo-politically and economically.

We are extremely proud of our business. And I am very excited at this opportunity to showcase our achievements.

We have designed what I think is a good representation of our business in D and E.

And to start I am going to ask Alberto Sobredo, our Group VP for Latin America, to tell you about Unilever in the region.

In particular he will tell you about 'One Unilever' and how the new organisation is helping us to win in Latin America.

Thank you and I hope you enjoy the event.

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