

Unilever 2008 Full Year and Q4 Results

Presentation and Video cast

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Chart 1: 2008 Full Year and 4th Quarter results

Good morning everyone. Welcome to Unilever's 2008 Full Year and 4th Quarter results presentation.

I am joined this morning by Jim Lawrence, our Chief Financial Officer and by James Allison, our Senior Vice-President for Investor Relations. And in the audience by Vindi Banga, President Categories, Doug Baillie, President Western Europe; Genevieve Berger, Chief R&D Officer, Harish Manwani, President Asia Africa CEE and Mike Polk, President Americas.

This is my first address to investors as CEO of Unilever and I am both pleased and excited to be doing so despite the difficult economic environment. I am convinced that the actions already taken to make the business simpler and more efficient will help us to weather the impact of what has become a global downturn. More importantly, there is scope to build on the strong foundations which have been laid by Patrick and to make Unilever more competitive still.

Later I will share more of my thinking. But first, Jim will run you through our assessment of business performance in 2008 and in Q4.

Jim Lawrence

Chief Financial Officer

Chart 2: Safe harbour statement

Thank you Paul and good morning everyone.

As per normal practice, I draw your attention to the disclaimer relating to forward looking statements and non-GAAP measures. This disclaimer is included here and will be posted with the text of this presentation on Unilever's web-site.

Chart 3: 2008 Key Messages

In 2008 we have been confronted with unprecedented levels of commodity price inflation and an unpredictable and generally deteriorating economic environment.

Against this challenging background we have delivered underlying sales growth well in excess of our 3-5% guidance, and a better underlying operating margin.

This is a solid performance and a continuation of the good performance which Unilever has been showing in recent years.

The actions we have taken have made us sharper, faster, more efficient and more able to win. There is further to travel, but progress is clear and encouraging.

Let me turn to the specifics of our performance in 2008.

Chart 4: 2008 highlights

2008 was our fourth consecutive year of accelerating organic sales growth, to 7.4%, this time strongly price driven with volumes flat.

At the same time we have improved underlying margin by 10 basis points. And this despite rapidly escalating input costs which added €2.7 billion to our cost base – that's equivalent to 640 basis points of margin compression – truly unprecedented and truly exceptional.

In 2008, cash flow from operating activities was €5.3 billion, €100 million up on last year. Particularly satisfying was the improvement in cash flow generation in the second half of 2008 after a weaker first half.

€3.6 billion of cash was returned to shareholders during the year through share buybacks and dividend payments and we are announcing today a total dividend increase of 3% for NV and 19% for PLC – both in respect of 2008.

The completion of the sale of our Bertolli olive oil business in December brought total disposals in the year to approaching €1.6 billion of turnover. In so doing we have raised the long term growth profile of Unilever and generated returns well in excess of the retention value of the businesses we have sold. The after-tax profit on disposals for the year as a whole was €1.6 billion and the after tax cash proceeds from disposal were €1.9 billion.

This brings to a conclusion that part of the transformation programme specifically associated with disposals. Some of the Brands originally identified are performing well and there is no longer a compelling economic case for exit. That said, a number of minor disposals will be progressed and we will continue to keep the portfolio under active review.

At the same time we have acquired businesses more in line with our strategy. Inmarko the leading Ice Cream business in Russia was acquired in April and is progressing ahead of plan. And last week, we strengthened our Personal Care portfolio with the acquisition of the premium salon hair care brands of TIGI.

Let me now look at the numbers in a little more detail.

Chart 5: Sales in 2008

Turnover for the full year was €40.5 billion, 0.8% ahead of 2007. Currency adversely impacted the full year turnover by 4.8%, whilst disposals, net of acquisitions, reduced turnover by a further 1.4%.

The former reflects the strength of our reporting currency, the Euro, against a wide range of currencies, including the US dollar and sterling

Sales in Q4 were €10.2 billion, which is 2.6% ahead of last year. This was again after a 2.7% reduction from disposals net of acquisitions and an adverse currency effect of 1.6 %.

.Chart 6: Strong organic growth

Underlying sales growth was 7.3% in the quarter and 7.4% for the year as a whole.

Growth was increasingly driven by price as the year progressed. This reflects the strong and concerted pricing action which we took to protect the business in the face of the aforementioned commodity cost inflation. These actions have negatively impacted volume growth. As a number of markets have gone into recession and consumers have adjusted their spending, the effect on volume has been more pronounced. Trade de-stocking in Quarter 4 has been a further drag on volume.

Price growth for the year as a whole was 7.2% with volume growth slightly positive. Volume declined by 1.6% in Q4 as pricing peaked at over 9%.

We are taking action to address volume growth and we will come back to this later in the presentation.

Now let's have a look at regional performance starting with Western Europe.

Chart 7: Western Europe

Underlying sales growth in Western Europe was 1.3% in both the quarter and the full year, with volume down 1.7% in the quarter and down 2.4% for the year as a whole.

Market growth in Western Europe continued to slow and was roughly 2% in the quarter. The growth of Private Label continues to put pressure on Branded players and this is particularly the case in Southern Europe. In Northern Europe Private Label shares are flat.

Our performance in the UK and the Netherlands continues to be strong, up close to 4 and 6% respectively for the full year and both up by more than 7% in the final quarter.

Germany and France remain challenging markets. As does Spain, where the economic situation has deteriorated faster and further than elsewhere in Europe.

The transformation programme in Western Europe has been more intense than in any other part of Unilever. Excellent progress is being made despite the challenges faced in what are very competitive markets. In the year we have seen

- First, the completion of the move to a single harmonised IT system – described by Accenture as one of the most rapid, sizeable and successful ERP roll-outs in which they have been involved. This is a key enabler for supply chain optimisation and simplification and a significant contributor to substantial savings in IT costs in the region.
- Second, the disposal of Boursin and Bertolli Olive Oil and the move of Lipton Ready to Drink Tea in to the Pepsi Lipton Joint Venture
- Third, further progress in the Unilever organisations operating across country geographies – with Belgium now performing well within the Benelux cluster and the UK/Ireland setting new benchmarks for cost efficiency.

And having announced the closure or streamlining of 24 factories, 12 have already been closed or disposed.

Once again, progress is clear and the impact on performance is becoming more obvious. The underlying operating margin of Western Europe increased by 70 basis points in 2008.

Now let's look at the Americas.

Chart 8: Americas

The **Americas** grew by 6.5% in the year and by 6.6% in the fourth quarter. Volume growth was -0.8% in the full year and -3.1% in quarter 4.

In the **US** we grew by 3.8% in the full year and by 3.1% in the quarter – both in line with the market - and both price driven. Whilst market volumes in Food have remained flat, Personal Care markets are down reflecting consumer de-stocking and reduced consumption. However, our shares have held up well.

We also experienced some trade de-stocking in the 4th quarter and this held back volume.

Private label have gained share particularly in Foods, but for the most part, not at our expense.

Latin America grew by around 12% in both the quarter and the year. Volume was positive in the year but negative in the 4th quarter with weaker economies and currencies impacting consumer confidence. We also saw some significant trade de-stocking in Brazil.

The **transformation programme** continued to progress well including:

- The disposals of our North American Laundry Brands and Lawry's Seasonings were completed in Quarter 3, with Bertolli Olive Oil completed in Quarter 4.
- The Ice cream business was integrated in to a single head office for the US based in Englewood Cliffs
- And more recently we announced that the US, Canada and the Caribbean would be managed together as a North American MCO

So, again, we can see clear and pleasing progress on our transformation agenda.

Underlying operating margin was flat for the year with pricing and cost savings offsetting sharply higher input costs. Un-recovered overheads from disposals and lower volumes were also absorbed.

Turning to Asia Africa CEE.

Chart 9: Asia/Africa/CEE

Growth in Asia/Africa/CEE was 14.2% in the year and 13.5% in the fourth quarter.

Encouragingly, growth was broad based with continued strong growth in India and Indonesia – both powerhouse businesses in which Unilever has great scale. Indeed our top 5 countries grew by upwards of 18% in the full year.

Across the region volumes were up by 3.5% in the year but flat in the quarter with some countries seeing signs of a slowdown in consumption and others such as Russia and China impacted by trade de-stocking. Despite this, China continued to post strong volume growth.

The one Unilever organisation is in place throughout the region. Supply chain management for Asia/Africa is being centralised in Singapore and the move to a single SAP system is progressing to plan with Indonesia completed in January.

Underlying operating margin declined by 20 basis points in the year reflecting increased investment in building capabilities to drive growth and sharp increases in input costs, partially offset by the benefits of savings programmes.

Now let's spend a few moments on category performance.

Chart 10: Underlying Sales Growth by Category

Savoury, Dressings and Spreads grew by over 7% in the year and by over 6% in the quarter driven by vitality focused innovation – examples include the launch of Knorr Stock Pots, Bertolli frozen meals, and Rama margarine for better taste and less fat supported by the Goodness of Margarine campaign.

Ice Cream & Beverages grew by close to 6% in both the 4th quarter and the year with our premium range of Magnum Temptations and Ben & Jerry's performing well as consumers' desire for indulgent treats continued despite the recession. And Lipton delivered another strong year, particularly in Asia Africa CEE, as consumers up-traded from loose leaf to regular tea bags to pyramid tea bags.

Home Care again performed well, with close to 10% underlying sales growth in the year and 12% growth in the quarter. We continued to roll-out margin enhancing innovation using superior technology including the launch of Dirt is Good with long-lasting freshness, and a new premium range of fabric conditioners and household care products such as CIF actifizz and Domestos Grotbuster.

Personal Care grew by over 6.5% in both the quarter and the year with a good balance between volume and price. Superior technologies deployed to new personal care products are benefiting consumers and driving growth – these include Vaseline new clinical therapy lotion, Signal White Now toothpaste, and Dove and Rexona hair minimising deodorants launched last month.

And finally, it's been another excellent year for Clear Anti-dandruff shampoo and Axe with its chocolate scent now being the most successful deodorant variant ever.

That covers what I wanted to say about the drivers of our top-line performance. Let me now turn to other aspects of our financial performance, starting with operating profit. I'll do this in absolute money and in constant exchange rates because it makes the underlying performance easier to understand. I'll start with the full year.

Chart 11 : 2008 Drivers of Operating Profit

Here's a chart format which we have used before.

- The combined effect from volume, mix and disposals was around €0.2 billion
- Price increases added €2.9 billion
- As I mentioned earlier commodity cost increases reduced operating profit by around €2.7 billion

And other costs, increased by just under €1.0 billion

So whilst pricing covered commodity cost increases it was not sufficient to cover overall cost increases – still less to maintain gross margins.

- However, our savings programmes are on track, delivering €1.1 billion in the year and
- Finally Advertising and Promotional expenditure increased by €50 million.

This has left an underlying increase in operating profit of €370 million, 6% up on 2007.

Now let's look at the quarter, again in absolute money and measured in constant exchange rates.

Chart 12 : Q4 Drivers of Operating Profit

- The combined effect of volume, mix and disposals reduced operating profit by around €100 million
- Pricing peaked in the quarter and contributed around €900 million
- This was not enough to cover commodity cost increases of nearly €800m and other cost increases of around €400 million. This level of other cost inflation is higher than the average for the year reflecting three things :
 - Fixed cost under-recoveries from reduced volume and from disposals
 - The negative impact of currency movements on non- commodity costs
 - The particular phasing of overhead and other costs

So in Q4 you can see that despite the significant level of price increases, costs increased by more.

- Balancing this, our savings programmes continued to accelerate and delivered over €300 million.
- Finally A&P expenditure reduced by around €50 million.

This left an underlying reduction in operating profit of around €40 million, 3% lower than the same quarter in 2007. Before the loss of profit from disposed businesses underlying operating profit would have been + €30m higher in the 4th quarter.

Now let's look at the development of operating margin.

Chart 13: 2008 Operating margin development

Our full year operating margin was 17.7%.

This included just over €0.9 billion of restructuring and impairment charges and disposal profits of €2.2 billion. Together these added 310 basis points to the operating margin.

Excluding restructuring, disposals, and impairments there was an underlying improvement in operating margin of 10bps for the full year, including a 70 basis points decline in Q4.

The lower margin in the 4th quarter reflects the impact of lower volumes, the phasing of overhead costs, negative currency impacts and sharply higher commodity costs. Short term under-recoveries arising from disposals reduced the underlying operating margin by 30 basis points.

Now let's look at commodity costs and A&P expenditure in a bit more detail

Chart 14 : Commodity Cost Impact on Margin

The commodity cost impact on the P&L peaked in Quarter 3 but remained very high in quarter 4, impacting the year by 640 basis points.

Underlying reductions in commodity costs were heavily offset by negative currency impacts – particularly the strengthening of the US dollar and weakening of Sterling.

We expect to see substantial commodity cost headwinds continuing in our P&L throughout quarter 1 before beginning to ease in quarter 2. At the same time we will begin to lap price increases taken in Q1 2008 and so the price component of sales growth will reduce as the year unfolds. In combination this will mean that margins in the first half of 2009 are likely to be lower than the corresponding period in 2008 before recovering in the second half of the year.

Chart 15 : Increased A&P Investment.

Advertising and Promotional expenditure was up by €50 million in the year but down by 70 basis points as a percentage of sales.

Our share of advertising spend relative to competitors in our markets increased in 2008 in both Foods and Home and Personal Care, which indicates that we have continued to invest to strengthen our brands. Something not all competitors have done to the same extent.

Savings from media efficiency programmes have been reinvested and media rates in a number of markets are down and most particularly down in the 4th quarter. This has enabled our A&P spend to go further. We've got more bang for our buck.

Now let's look at Earnings per Share.

Chart 16 : 2008 Drivers of EPS growth

Earnings per share grew by 32% in the year with 26% coming from the net impact of Restructuring, Disposals and Impairments.

The operational drivers together contributed 6% to our EPS growth and the €1.5 billion of share buy backs in 2008 added a further 2%

There was a negative impact of 4 % from currency and a further negative 3% from tax, reflecting the substantial favourable settlement of tax audits in the first half of 2007.

Together this left underlying EPS growth of 1% for the year as a whole.

Chart 17 : Balance Sheet and Cash Flow

Our financial strategy targets a competitive balance sheet with a strong single A credit rating. This continues to serve us well.

Our strong balance sheet and prudent financial management have enabled us to access low cost debt throughout the financial crisis. This ready access to low cost liquidity is a competitive strength.

In 2008 we issued Swiss bonds to the value of 1.0 billion Swiss francs and a € 750 million Eurobond – each at very attractive prices. In addition, we have accessed commercial paper throughout the year at very competitive prices, substantially below Libor.

Net debt reduced to €8.0 billion as at the end of December. Finance costs of net borrowings were 1% lower in 2008 reflecting lower borrowing costs on a higher average level of net debt.

Despite the strong commodity cost driven inflation, working capital increased by less than €200 million in the year.

Cash flow from operating activities was €5.3 billion with a strong improvement in the second half year.

During the year we invested around €1.1 billion in capital expenditure.

Pre tax disposal proceeds were €2.5 billion in 2008 up €2.1 billion versus 2007. After tax proceeds from disposals were €1.9 billion

Our net pension liability at the end of December was €3.4 billion, up from €1.1 billion at the end of 2007. This reflects a reduction in the asset values on world markets, partially offset by a reduction in liabilities caused by increased corporate AA bond rates. In 2009 we expect cash contributions to pension funds to be higher than in 2008 but below the levels of the preceding two years.

Return on invested capital was 15.7% boosted by profits from disposals. Excluding profits from disposals, return on invested capital was 11.2%, broadly in line with 2007 on a comparable basis.

Now let's look at the cash we've been returning to shareholders.

Chart 18: Returning Cash to Shareholders

We are recommending a final dividend of €0.51 per NV ordinary share and 40.19 pence per PLC share, raising our full year dividend by 3% and by 19% respectively.

This will bring the total dividend payment for the year to €2.1 billion and the total cash returned to shareholders to €3.6 billion – including €1.5 billion of share buy backs. From the chart we can see that the cash returned to shareholders over the last two years has been in excess of €7 billion.

Now let me say a few words about quarterly dividends

Chart 19 : Move to Quarterly Dividends in 2010

Our current dividend practice is unnecessarily complex. For example:

- We have different calendars for final dividends for NV and PLC, leading to different ex-dividend dates and temporary share price distortions.

- And different exchange rates are used to determine the dividends for the different listings, leading to different dividend amounts in US\$ for NV and PLC shares in New York.

We wish to simplify our dividend practice and we believe that this is best achieved by moving to quarterly dividends with one dividend calendar and one set of exchange rates for all share listings.

This will align dividend payments with the cash flow generation of the business and provide more frequent payments to shareholders.

It is important to note that the total Euro amount of dividend available for shareholders will not be impacted by these changes. It's just that the payment mechanics and exchange rate conventions will be different.

The proposed changes will be brought forward at the Annual General Meetings in May, and – if approved – the new quarterly dividend calendar will become effective from 1st January 2010.

More details on the dividend proposals can be found on the Unilever.com website.

And with that I am now going to pass the baton back to Paul.

Chart 20: Initial observations

Thanks Jim.

Let me start with some initial observations.

I believe that Unilever has made good progress in recent years and now is in a much stronger position to compete. 2008 results are a testimony to that. We have been able to hold volume despite restructuring the organisation and the disruption associated with significant disposals.

That we have done so, in this environment, gives me confidence that we have a solid foundation from which to grow volumes again. And we have delivered an improvement in underlying margin as well - despite €2.7 billion of additional commodity costs. We would not have been able to do these things a few years ago.

However it is also clear that we are facing a tougher economic environment. In many places around the world we have slipped into a recession and the general consensus is that we might not see any significant improvement in the next 18-24 months. We will certainly plan our business on this basis. Better to be proven wrong by being on the conservative side rather than the other way around.

Markets have come under pressure, first in developed economies, but now also in developing markets and we have seen rapid changes in recent months. In developed markets we see consumers trading down, drawing down from their pantry stocks or simply consuming less. At the same time we see retailers increasingly pushing their own brands and driving efficiencies in the supply chain by reducing their inventories. All of this puts pressure on the 'system'.

In developing markets, we still see growth but demand is slowing down as a result of the rapidly changing economic environment and the impact of cost inflation. With currencies weakening in a number of these developing countries we don't see prices coming down significantly in the near future.

Whilst we are certainly not yet fully where we want to be as a company, I believe that the changes Unilever has been making under Patrick's leadership have made us more resilient and more able to compete in this environment.

Chart 21: Good progress in recent years

We now have a more focussed portfolio of Brands as a result of selected disposals. In fact, in the last three years alone, we have disposed of over 3 billion of our turnover.

We have a more competitive cost structure as a result of our restructuring efforts – firmly on track to deliver the targets we set out - €1.5 billion of savings in 2010 against our 2006 cost base.

We have been able to adjust the organisational size from 206,000 at the end of 2005 to around 170,000 at the end of 2008. And senior management levels have halved in the same time period.

We have a leaner, faster organisation with significantly reduced layers and increased clarity of roles and accountability, better leveraging scale with the move to One Unilever.

The change programme in Unilever has been enormous and this has been achieved at the same time as the business results have been improved. You have recognised this by putting us firmly in the middle of the pack in TSR. It's a good achievement and a bit like driving a car faster whilst changing the engine at the same time! I have not seen many companies do that.

Chart 22: We are well placed

We have many elements in our business model that place us well in the current economic environment:

- (1) We have strong brands and category positions, in fact 13 brands are over one billion-euros or more in turnover and 70% of our turnover comes from category or market combinations in which we are leaders. We have the Number 1 position in 7 out of the 11 categories in which we operate.
- (2) With consumers trading down it serves us well to be positioned across a broad spectrum of the market rather than to be overly exposed to the premium sector.
- (3) The fact that we have both Foods and an HPC business is an advantage, especially as Foods seems to be holding up better. We are also able to increasingly leverage our technologies across both segments. Good examples are the ways in which we are deploying our emulsion and extrusion technology.
- (4) We have a balanced D and D&E portfolio with now about half of our business in D&E. It is worth pointing out that although growth in D&E has slowed somewhat, there is ample opportunity to grow in these regions. On top of that we have very strong positions in some of the countries less affected by the current crisis.
- (5) Our significant restructuring efforts over the past few years are beginning to pay off. This will provide significant 'fuel' to reinvest in our business to ensure future growth.
- (6) We have a strong balance sheet, which has served us very well throughout the financial crisis. Cash flow generation is a particular strength – as Jim has already mentioned Cash Flow from Operating Activities was €5.3 billion in 2008. It can be stronger still.

Chart 23 : Stepping Up Performance

Despite the progress we have made on implementing One Unilever, it is also clear that we are not yet where we want to be. We still have gaps to close. On top of this the environment is changing and our competitors are not standing still either. In Fast Moving Consumer Goods you simply do not succeed by closing gaps. You only win by creating gaps versus your competitors. To do that we will need to raise our game.

There are several areas where we will need to set the bar higher. First of all we have to get our volumes growing again. As I have said before, you cannot save your way to prosperity. We are definitely in better shape as a result of the restructuring of the organisation but long term value will only be built if we consistently grow our volumes.

Whilst we have done reasonably well holding value shares, we have seen pressure on our volume shares. Once more, even allowing for the very strong headwinds that we are facing, I believe that the surest way to build long-term shareholder value is to get volume growth back firmly on the agenda. So now, with the majority of the restructuring programme behind us we need to increasingly focus our energy externally versus internally.

It requires us to put the consumer and customer firmly back at the heart of all we do. We will certainly use the current economic pressures to galvanise faster action so that we can emerge from the recession stronger and more competitive than ever before. I am confident that we can do that, just as we have done that in previous cycles. Don't forget that this company was created in the recession of the '30s and has faced several crises since, either in Latin America, the Far East or Europe. Each time we come out stronger.

Chart 24: Priorities for 2009

Whilst we can talk lofty long term goals I believe it is important that, in the current climate, we simply stick to 2009 and its priorities. Managing the business real time, maintaining a high degree of flexibility and reacting fast to the external environment. This will all be key. Our priorities are simple:-

- (1) First and foremost we will reignite volume growth and
- (2) Second we will protect our cash flow and margin whilst we do this. I believe it can be done.

Let's look at these priorities in more detail. I make no apologies for starting with volume growth.

Chart 25: Priorities for 2009 – Reignite volume growth

As I have mentioned, we need to reignite volume and put everything in place to get to sustainable growth again. To do this we need to drive costs down faster and reinvest part of that back in the business. We need to strengthen our brands. Let me briefly share some of the actions we are taking.

They focus on:

1. improving our brands and portfolio
2. strengthening our go-to-market capabilities
3. continuing to evolve our organisation and culture.

Chart 26: Priority 1: Reignite volume growth – Strengthen our brands and portfolio

On our brands and portfolios. First priority is staying competitive in the tough environment. It is about basic competitiveness. We are looking more aggressively at where we have gaps versus our competitive set and correcting them fast. In fast moving consumer goods there is no such thing as holding share. We need to get more of our strategic brands and categories in the mode of growing share and developing plans and support behind that. We have identified those areas in our top ten countries and categories where we have outages and have put 30-day fix-it plans in place.

Second we need to drive innovation faster. This includes pulling innovations forward where we can and faster expansion across multi-countries of successful innovation. We know how to do this. Dove 'Go Fresh', launched in January in the UK and Netherlands was in 8 markets by June and in 55 markets by December.

Third, we have to get into the mindset of growing everywhere, not only in Developing & Emerging Markets. Around 50% of our business is still in Europe and the US and there is no good reason why we cannot hold or grow our volumes in these regions either. After all, some of our biggest inventions, like Axe and Magnum were born in Europe!

Fourthly, we need to strengthen our portfolios again by ensuring that we also have stronger offerings in the value segment. We need to better communicate the inherent value of our products; play the full price piano; offer choice, including different formats and variants. And we need to be where the shoppers are shopping.

And Fifth, some of the developing countries that will, according to the OECD, be more affected by the current crisis happen to be countries where we have a relatively weaker market position. I see this as good news as this will allow us to invest and strengthen our portfolios and Brands in these countries like china and Russia.

We are also putting in place the elements which will support our longer term growth aspirations. An example is the new single R&D organisation which we spoke about in Port Sunlight. Under Genevieve Berger's leadership this new organisation is effective as of 1st January this year. Not surprisingly, with this agenda, no compromise on A&P and R&D.

Chart 27: Priority 1: Reignite volume growth – Improve our go-to-market capability

Next to strengthening our brands and portfolios we also have to sharpen our go-to-market capabilities.

Firstly, with the appointment of David Blanchard as of January, we have appointed a Global Supply Chain leader and integrated all the different supply chain functions, from buying, manufacturing, distribution, into one organisation. This not only results in a more cost-efficient supply chain but also will allow us to significantly improve service levels and consumer and customer satisfaction.

We will also strengthen our customer development operations, putting sharper focus against our more successful, faster growing customers to be sure that we get our fair share of this growth. And we are putting increased capabilities in place to drive shopper knowledge into our plans. In the US we have just opened our new Customer Innovation Centre and the first customers are already coming through the door.

Chart 28: Priority 1: Reignite volume growth – Sharpen organisation and culture

Finally: organisation and culture. Shortly we will announce some leadership changes which will strengthen key category and country operations. We will further increase the focus on consumers and customers as we move to the next phase in our development.

We are also simplifying and sharpening our reward structure to further drive our performance culture. And we are putting in place clearer responsibility and accountability for delivery. Finally, we will continue to drive external focus and speed.

Now let me look at the second of my two key priorities – cash flow and margins. Recognising that the achievement of both is not mutually exclusive.

Chart 29: Priorities for 2009 – Protect cash flow and margins

Let me start with cost savings since it underpins both.

Simply put, I think it is essential to remove costs which the consumer is not prepared to pay for. Lots of progress has been made but there is a lot more still to be done – indeed there are a number of areas where we are not yet cost competitive.

As someone once said, ‘there is nothing better than leveraging a good crisis’, and we shall use the economic downturn to create a new sense of urgency in our approach to cost and organisational efficiency. Here are a few examples of what we are doing:

- On Indirects, we have frozen management salaries, reduced external hiring and cut many parts of our discretionary spending
- In our cost structure we will use our scale to buy better. We have appointed Marc Engel as Global Procurement Officer.
- And we will improve the efficiency of our spending in marketing and in sales.

This comes on top of the savings we will generate from our existing restructuring programmes and as a result, this will provide additional fuel for growth. In short, we will use the economic crisis as a catalyst to act faster and more decisively. And let me be clear, these are changes borne out of aspiration and not desperation.

Our cash flow remains strong with cash flow from operations of €5.3 billion for the full year. A good performance given the input cost headwinds. We have a reputation for strong cash flow generation and I am determined that this will remain.

We have made good progress in working capital management over the years and consider ourselves to be towards the top of our peer group. In 2008 as you will have seen our working capital increased by €200m – not bad in a high inflation environment. We think we can do better still.

The actions on cost and capital management will provide the opportunity to better support our brands whilst protecting overall cash generation.

Chart 30: Use of cash

Let me also clarify how we intend to use cash. Our priorities are clear. First we use cash to reinvest in the business. Then we will provide dividends to our shareholders and meet our obligation to fund pension plans – higher incidentally in 2009 than in 2008 but lower than the levels of 2006 and 2007. The final priority is value creating bolt-on acquisitions. We have no further plans for share buybacks in the foreseeable future.

Chart 31: Outlook

I am certainly excited and energised by the potential we have in Unilever. Since I have arrived I have not seen anything that really concerns me. In fact, just the opposite. Lots of opportunities from a solid base. We have the technology, the brands, the people, and the values to succeed consistently, long-term, but the short-term economic outlook is volatile and the impact on consumers unclear. In these exceptional times I believe that it is not helpful to provide top and bottom line guidance for 2009 let alone for 2010. And it is unhelpful for two reasons.

First, no-one can be clear about the exact extent of the current recession or the speed of recovery.

Secondly the 2010 targets were set at a very different time in very different circumstances. We need to ensure that we focus on creating the long term value in today's climate.

I firmly believe that the short term priorities I have set for the business in terms of growing volume whilst protecting cash flow and margin are very much in the long term interest of our shareholders.

Finally, looking further out I am confident that Unilever will be able to lift the growth profile of the business whilst steadily improving margins each year. That is why I joined the business. And I hope that you are as excited about it as I am.

With that, we will be happy to take questions.

Chart 32 : Q&A's.