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Certain sections of the Unilever Annual Report and Accounts 2014 have been audited. These are on pages 84 to 135, 137 to 139, and those parts noted as audited within the Directors’ Remuneration Report on pages 65 to 77.

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The information is given as of the dates specified, is not updated, and any forward-looking statements are made subject to the reservations specified in the cautionary statement on the inside back cover of the Annual Report and Accounts.

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I AM PLEASED TO REPORT THAT 2014 WAS ANOTHER YEAR OF PROGRESS FOR UNILEVER ACROSS A NUMBER OF FRONTS DESPITE A DIFFICULT ENVIRONMENT FOR THE BUSINESS.

OVERVIEW
Tough economic and financial headwinds with continued competitive intensity made 2014 one of the most challenging years that the industry and Unilever have faced for some time. A slowdown in the growth of emerging markets proved a testing environment while consumers in developed markets continued to show caution. Volatile currencies were a further negative.

However, Unilever’s business model and strategy proved robust, delivering a competitive performance with underlying sales growth ahead of the market and solid margin expansion. Our growth model is based on a leaner, more agile Unilever and consistency of delivery in this more volatile market is key. The Boards remain convinced that a clear, purpose-driven business model is the best way for Unilever to continue generating sustainable, long-term returns for all stakeholders, including our shareholders, as proved by a year of strong, dependable cash flow and steadily increasing dividends. The full year dividend paid in 2014 rose to €1.12, a 7% increase on 2013.

HIGHLIGHTS
For me, the Boards’ highlights of 2014 were:

DEEP UNDERSTANDING OF THE BUSINESS
Investing in people and in innovation is crucial in this tough environment. To that end, the Boards were pleased to spend time at Unilever’s new state-of-the-art training facility in Singapore, and to see first-hand the high-quality innovations being developed for the Refreshment category at Unilever’s global R&D laboratory in Colworth, UK.

The volatile currency environment made our review of the Group’s treasury operations particularly pertinent. The Boards also spent time assessing the quality of talent management and Unilever’s competitive environment. Broad exposure to senior managers in 2014 allowed the Directors to gain a deeper understanding of the business and helped in the wider strategy discussions.

STRATEGIC DISCUSSIONS
The Boards held in-depth discussions with management on strategy and portfolio development with particular attention to changing market dynamics especially in emerging markets. Despite the short-term challenges, the Boards believe the growth story in these markets remains intact. The challenges in developed markets are no less important; one response to which is our new Baking, Cooking and Spreading Business Unit in Europe and North America.

The Boards also reviewed the progress made under the Unilever Sustainable Living Plan (USLP). The Directors are confident that the USLP remains hugely relevant in addressing today’s global challenges and will continue to be a long-term driver of profitable growth for Unilever.

BOARD COMPOSITION AND SUCCESSION
We continue to work on succession planning for both the Boards and management, and thorough processes are in place.

Our Directors bring complementary and relevant skills to the Boards. In addition to wide global experience, these skills include expertise on finance and accounting, consumer markets, science and technology, customers and marketing as well as government and legal experience.

I’m delighted that Feike Sijbesma has joined the Boards with effect from 1 November 2014. Feike, who has a wealth of experience as a sustainable business leader and in finance, food and nutrition, has already added considerably to the Boards’ discussions.

DIVERSITY
Over 40% of our Non-Executive Directors are now women. This is not surprising for a Group that has long understood the importance of diversity within the workforce and wider value chain. The progress made in employee diversity over recent years has been among the best in our sector and led to widespread external recognition.

UNILEVER’S AUDITOR
Our shareholders appointed KPMG as our new auditor at the AGMs in May 2014 and a smooth and well managed transition has been completed.

BOARD EFFECTIVENESS
Our Board evaluation in 2014 was externally facilitated and the results were discussed at the November 2014 Board meeting. The Boards continue to function well with good leadership and competent and engaged members. Good progress has been made on the actions agreed in previous evaluations. The actions agreed by the Boards in the 2014 evaluation included the continued focus on overall strategy, portfolio management, and succession and induction planning.

SHAREHOLDER AND STAKEHOLDER ENGAGEMENT
In May 2014 we bought out certain third party rights that were convertible in 2038 into over 70 million PLC ordinary shares. This simplified Unilever’s capital structure and enhanced core earnings per share. In addition, in 2014 we rolled out a new employee share scheme to align our employees’ interests with those of shareholders.

Unilever values open, constructive and effective communication with shareholders. In 2014, I again met with principal shareholders in Europe and the US. Together with management, we explained our strategy to shareholders through meetings, conferences and at our annual investor event.

In line with the focus on simplification in the business, the Boards have decided to simplify the 2015 AGMs. We will revert to holding the NV and PLC AGMs on consecutive days and will host our AGMs at Unilever offices in the Netherlands and the UK. More information can be found within the NV and PLC AGM Notices which will be published on 17 March 2015.
STRATEGIC REPORT
The Boards’ objective is to meet high standards of disclosure and we consider this Annual Report and Accounts to provide a fair, balanced and understandable account of Unilever’s year in 2014 with the information required to assess performance, business model and strategy.


Among many other things, this Strategic Report explains how Unilever fulfils its core Purpose of making sustainable living commonplace for consumers, society and people and how that delivers sustainable value for shareholders.

Finally, on behalf of the Boards, I would like to thank all Unilever’s 172,000 employees for their hard work in delivering good results in a challenging environment.

Michael Treschow
Chairman

For more information on Board evaluation and shareholder engagement, see pages 42 and 45 of the Governance and Financial Report.

For Directors’ biographies, please see page 54 of the Governance and Financial Report.
Chief Executive Officer’s Review

Unilever continued to grow ahead of its markets in 2014 and re-affirmed its reputation for consistent top and bottom line growth, ensuring continued returns for investors. Paul Polman, Chief Executive Officer, answers the key questions about 2014.

Q: How would you summarise 2014 for Unilever?
A: In a volatile environment consistency of results is key. Our model calls for consistent, competitive, profitable and responsible growth. With 2.9% underlying sales growth, and good profit progress, this is the fifth consecutive year of top and bottom line growth. This was achieved despite a challenging external environment.

Our business is growing ahead of our markets with 60% gaining share and we believe this growth is also competitive. The Unilever Sustainable Living Plan (USLP) helps to ensure growth is responsible. The consistency of our delivery is underpinned by the fact that our average growth over the last five years is 4.9%, making us one of the most reliable performers in our industry.

Q: How would you characterise the external environment in which you have had to operate over the last year?
A: Very challenging and among the most difficult I can remember. We certainly faced more headwinds than tailwinds. For the first time in many years, for example, we had to confront the reality of largely flat developed markets and markedly slowing emerging markets. Indeed, markets slowed from some 3.5% in 2013 to around 2.5% in 2014.

At the same time, the world continued to be rocked by a combination of geopolitical instability and natural, climate-related disasters that have sadly become the norm.

All of these add a cost to doing business, which is why we believe that confronting these issues and looking for solutions to them – rather than just being buffeted by events – is the only long-term viable growth model. Agility is equally important in this environment and we have worked hard once again to reduce complexity and evolve the organisational model for speed and efficiency.

Q: What pleased you most about the company’s performance in 2014?
A: The ability to deliver results while balancing the needs of our multiple stakeholders. The consistency of our delivery, even in these unusually volatile and uncertain conditions, helps. It reassures me that the fundamental pillars of the business are strong and that we have developed the resilience needed to compete even in the most difficult circumstances.

What pleased me specifically was that we were able to take the short-term measures necessary to respond to events – further tightening our belts, for example, and simplifying the organisation through initiatives like Project Half for Growth – while at the same time continuing to invest in the long-term drivers of growth. The launches of some of our biggest brands into new markets – like Omo in the Gulf, Clear in Japan or Lifebuoy in China – were great examples of this.

We also made a number of strategic acquisitions over the year to help strengthen our portfolio further: the Talenti super-premium ice cream business in North America, for example, and the Qinyuan water purification business in China, both take us into some attractive segments of the market.

Q: What did all this mean for the Group’s financial performance?
A: Weakening consumer demand certainly impacted our underlying sales growth yet it provided a great opportunity to accelerate our efficiency effort. Growth was therefore profitable, with an improvement in core operating margin of 0.4 percentage points, driven by strong savings programmes. Tight control of working capital contributed to another year of healthy cash flow delivery (more than €3.1 billion) which – combined with the improvement in operating margin – contributed to earnings per share (EPS) growth of 2% (or 11% adjusted for currency impact).

I was equally delighted by the progress we made during 2014 in increasing our proportion of female managers. There is much still to do, but beating our stretching targets and ending the year with women representing 43.3% of all managers was a great achievement and a real sign of the commitment felt across Unilever to make progress in this area. Finally we have made further progress on sustainable sourcing, decoupling growth from environmental impact and increasing positive social impact throughout our value chain.

This has further enhanced our corporate reputation and lowered risk and costs.

Reshaping our Portfolio

We continued to reshape our portfolio in 2014 to ensure resources are best utilised for growth. In June we sold the Ragu and Bertolli pasta sauces business in North America for approximately US $2.15 billion. We invested capital in growth opportunities by acquiring a majority stake in the Qinyuan Group, a leading Chinese water purification business. This doubled our size in this sector, addressing a fast-growing consumer need and furthering our aim to grow our business sustainably. More details of our mergers and acquisitions activity can be found on page 29.
Q: ARE THERE AREAS IN WHICH YOU WOULD LIKE TO HAVE SEEN MORE PROGRESS?

A: Even though we have made significant strides over recent years in improving our organisational agility and our ability to respond quickly to events, there is still room for improvement. I would like to have seen us react a little quicker, for example, to the slowdown in a number of markets, particularly China, where frankly we were caught off-guard by the speed and scale of weakening consumer demand. In terms of our categories, all of them contributed – albeit in different ways – to the overall performance of the Group and I have confidence in the strength and long-term growth potential of our portfolio.

We took steps last year to sharpen the portfolio even further with a number of strategic acquisitions and disposal of non-core brands, although there is always scope to do more and I would like to see the level of activity accelerate in the year ahead. It is also clear that we still need to do more to get our Foods category growing again, although we are winning market share.

This is a tough business to be in – with much of our portfolio in flat or even declining developed markets – but we have to do more to leverage the strength of our wonderful Foods brands and bring back the growth momentum. By contrast, while our Home Care and Refreshment categories delivered good or solid growth, we need to increase the levels of cash and profitability if we are to invest in the many growth opportunities. These will all be priorities in 2015.

Q: HOW DID UNILEVER SERVE THE INTERESTS OF ITS VARIOUS STAKEHOLDERS IN 2014?

A: Meeting the diverse interests of multiple stakeholders is a challenge for a company of Unilever’s size but also a great opportunity given our Vision to grow in a sustainable and socially inclusive way. Once again, we made good progress.

INVESTING IN EMERGING MARKETS

Unilever’s strategic commitment to emerging markets continued in 2014 with significant investments in brand launches, new production facilities and our operations.

We undertook major launches of brands including Lifebuoy into China and Omo into Saudi Arabia and the Gulf region. Brazil saw the entry of the Baby Dove range and Omo stain removers.

In China we undertook large capital expenditure, building a new dry savoury plant and a new washing powder factory. In Indonesia, large-scale capital investment was made in Siliwangi, creating a plant for Cikarang Foods, adding significant capacity to dry and wet savoury production. In the Philippines a new dry savoury factory was built. Detergent and ice cream factories were built in Africa.

We are extending our distribution reach in the outer islands of Indonesia, rural India and the north and central west of Brazil, while Singapore continues to be a major hub for our development of Unilever people at our Four Acres training campus.

There is no doubt that over the long term our investors have benefited from their continued belief in Unilever, with total shareholder return increasing by a further 18% in 2014. Our employees remain a key priority of course and, despite the constrained economic environment, we did not compromise on our investments in training, personal development, safety and other employee support programmes. It was heartening to see employee engagement scores remain at historically high levels in our annual Global People Survey (GPS), with improvements across all five metrics.

It is also clear that the demand to join Unilever has never been greater. We received over 2 million applications or expressions of interest in 2014 and for the second year running Unilever was ranked the third most in-demand employer among jobseekers on LinkedIn, behind only Apple and Google, as more and more young people want to work for purpose-driven organisations.

We also made progress in our commitment to serve a wider group of stakeholders through the USLP and our Vision of growing the business while reducing our environmental footprint and increasing our positive social impact, not only in that part of the business under our direct control but throughout the whole value chain. This manifests itself in many different ways – everything from playing our part in putting an end to deforestation to ensuring we embrace and advance human rights principles throughout the length of our supply chain. You can see a number of examples set out in other parts of this report.

It was pleasing to see our efforts recognised once again in 2014, including regaining sector leadership in the prestigious Dow Jones Sustainability Index (DJSI) and being ranked – for the fourth year running – as the Number One Company in the Globescan/SustainAbility index of leading sustainability experts around the world.
Q: WHAT DO YOU SEE AS THE PRINCIPAL CHALLENGES FOR UNILEVER IN THE YEAR AHEAD?

A: Operating in an environment of almost unprecedented volatility and complexity will remain a big challenge for everyone. Few people predicted that in 2014 we would see such a sharp slowdown in some of the major world economies or the escalation of geopolitical conflicts or the outbreak of pandemics like Ebola and oil prices ending the year at less than US $50 a barrel. We must be prepared for a similarly unpredictable year in 2015.

The key is to have a model that responds to people’s needs and concerns, and an organisation that is both resilient and agile in the face of growing economic and geopolitical uncertainty. We achieved that again in 2014 and I want to thank – and recognise – the supreme efforts of our 172,000 colleagues and the many more partners around the world.

Q: WHAT IS YOUR OUTLOOK FOR 2015?

A: We expect the economic pressures to continue. Consumer demand in emerging markets is likely to remain subdued for some time to come. There is still little sign of a recovery in Europe and, while conditions in North America have improved, any increase in consumer demand is likely to be slow and shoppers will remain focused on value.

We are also prepared for managing any continuing volatility on the world’s currency markets and for what could be fluctuations in commodity costs as a result of the reduction in oil prices. At the same time, we expect the levels of competitive activity – both from global competitors and, increasingly, from local players – to remain high in 2015.

Despite these pressures, we are confident that with the many positive changes we have already made to Unilever we are well placed to continue delivering our objectives of volume growth ahead of our markets, steady and sustainable improvements in core operating margin, and strong cash flow.

Paul Polman
Chief Executive Officer