

Unilever - New Remuneration Policy for approval at the 2021 AGM

Dear Investor,

The Compensation Committee would like to thank all of the shareholders and proxy voting agencies who engaged with us to comment on our proposed changes to our Director's Remuneration Policy with effect from 2021. We have now met to discuss the feedback we received and I would like to confirm the changes we are proposing to make following our consideration of shareholder views. You will find below a summary of the final proposal we intend to submit to the AGM in 2021.

Summary of shareholder feedback received

The Committee was pleased to receive overwhelming support for the main structural changes we propose to make to our Remuneration Policy. In particular, shareholders were supportive of the introduction of:

- A new Performance Share Plan (PSP) to delink the annual bonus from the long term incentive opportunity through the discontinuation of the Management Co-Investment Plan (MCIP);
- The mandatory deferral in shares of half the annual bonus.

Therefore the Committee has confirmed the overall remuneration structure as presented to shareholders during the consultations, simplified and aligned with our investors' views.

In response to investors' feedback, we have made a change to the proposed performance measures for the PSP, details of which are set out below. We also provide below additional information on two areas shareholders highlighted during the meetings in respect of i) the overall quantum available under the new policy and ii) details of the new Business Winning metric in the PSP.

Appendix 1 sets out a summary of the final remuneration policy that will be submitted for shareholders' approval at the 2021 AGM.

Key changes to the proposal discussed with Investors

1) Retaining ROIC as a measure in the PSP instead of relative TSR

During our meetings a significant number of investors expressed a strong view that they would prefer Return on Invested Capital (ROIC) to be retained as a performance measure within the PSP, rather than replace ROIC with relative Total Shareholder Return (TSR) as we had originally proposed. The Board is firmly committed to generating superior returns on capital for our investors and whilst the Committee felt that a relative TSR measure would reflect the shareholder experience over the long-term, we have taken into account the feedback received and will retain ROIC within the PSP and not introduce TSR.

As a result, the four equally weighted measures we are proposing for our PSP are ROIC, Cumulative Free Cash Flow, Competitiveness (% Business Winning Market Share) and Sustainability Progress Index. The Committee will retain flexibility in the Policy to change these measures but will engage with investors on any material changes.

Because of the strong interest we saw from shareholders in the continuation of a ROIC measure, we spoke during our meetings about the impact on ROIC of material M&A activity. The majority of the shareholders we spoke to agreed that we should adjust targets for material M&A and disposals that may dilute ROIC in the short term but benefit Unilever in the long term. Therefore the Committee will retain the ability to make adjustments if deemed appropriate to ensure that all targets remain relevant and equally stretching in light of any material M&A and disposals activity or other corporate events. Any such adjustments would

be fully disclosed in the Directors' Remuneration Report (DRR) as has been the case to date.

2) Removing Discretion limits

Some shareholders asked if we will maintain in our Remuneration Policy the current limits to discretion i.e. that formulaic incentive outcomes can be adjusted upwards and downwards by up to 25% for annual bonus and 10% for the long term incentive. I can now confirm that in line with the UK Corporate Governance Code and best practice we will propose to remove these limits to enable the Committee to use discretion fully to override any formulaic outcome (including to nil) that does not accurately reflect the outcome the Committee considers to be appropriate to the circumstances. Any such use of discretion will be clearly and fully explained in the DRR.

Additional information for other areas of shareholder interest

1) Total quantum available under the new policy

The vast majority of shareholders understood the rationale for our proposed changes to quantum and understood why we believe a 13% decrease at maximum pay and 6% increase at target pay is appropriate for our business given the overall moderate positioning of Unilever's Executive Director pay levels vs the market. Several shareholders asked to see the remuneration benchmarking data that supports this view. This is provided in Appendix 2 and clearly demonstrates that under the proposed new Remuneration Policy target and maximum levels of pay for our CEO and CFO would still be very moderate vs the market.

A minority of shareholders noted that the annual bonus pays out at 67% of maximum for target performance and stated a preference for this to be set at 50% of maximum. Target is set at 67% of maximum because Unilever's maximum bonuses are set at 1.5x target, rather than the more highly leveraged market standard of 2x target. Further, given that the benchmarking data shows our Executive Directors' bonus opportunities and their total pay values are positioned very moderately vs the market, reducing the level of bonus payout at target would erode this competitiveness which instead we are seeking to address through the new Remuneration Policy. For these reasons, having considered this feedback, the Committee believes that the current payout structure remains appropriate and the target bonus should continue to pay out at 67% of maximum, with maximum continuing to be capped at 1.5x target.

2) Further information on the Competitiveness (% Business Winning Market Share) measure

There was wide support for the Business Winning measure from our shareholders and acknowledgement that Competitiveness is an important area of focus for the business. Some shareholders requested more information on how this measure will be assessed in practice.

Business Winning assesses what percentage of our revenue is being generated in areas where we are gaining market share. A more detailed description is set out in Appendix 1. We fundamentally believe that measuring market share at a local level is the best way to accurately assess our competitive performance and that winning market share in the majority of our portfolio components (indicatively 450 country/category cells, by revenue, covering c.70% of our total revenues) will be the strongest driver of long term success.

Shareholders also asked for assurance regarding the transparency of progress reports on the proposed measure through the period of the plan. Business Winning is a metric that has now been fully established internally and will be part of management's performance updates to investors. By the time the first PSP award with this measure has vested, investors will

have received almost three years of updates on our competitiveness performance, which we are confident will enable a fair and transparent review of any incentive outcomes.

Unilever will provide a presentation of the (methodology of the) Business Winning metric prior to the 2021 AGM for investors interested in further detail.

3) *Sustainability Progress Index (SPI)*

The inclusion of SPI as one of the performance measures for PSP continues to be viewed as positive and an endorsement of Unilever's strategic priorities.

Many investors expressed interest in understanding in greater detail how the SPI is calculated. As a follow up to the consultation we are actively exploring how best to achieve this.

4) *Fixed pay for 2021*

We can confirm there will be no fixed pay increase for the Executive Directors in the first half of 2021. The earliest possible effective date for a fixed pay review will be in the second half of 2021, with any potential changes firmly based on performance, external circumstances and alignment with pay increases for the wider workforce.

Conclusion

Having taken into account investor feedback, the Committee believes the proposed Remuneration Policy will support the long term growth and success of Unilever and is now consistent with a very large part of inputs received.

We look forward to your support for these proposals at the 2021 AGM. If you have any questions or comments on the contents of this letter or require any additional information please do not hesitate to contact me (vittorio.colao@unilever.com) or Margot Fransen (margot.fransen@unilever.com).

Yours sincerely,



Vittorio Colao

Chair of Compensation Committee

Appendix 1 – proposed changes to Remuneration Policy for Executive Directors

Element	Proposed policy – Detail	Changes from current policy
<p>Annual Bonus</p>	<p>Quantum:</p> <p>CEO: 150% of fixed pay at target, 225% at maximum</p> <p>CFO: 120% of fixed pay at target, 180% at maximum</p> <p>Deferral: 50% of annual bonus deferred in shares for three years</p> <p>Leaver provisions: deferred bonus shares are forfeited in the event of termination for gross misconduct or serious breach of the service agreement and vest in full and without accelerated receipt in all other circumstances of termination, without prorating</p> <p>Malus & clawback: Applies for three year deferral period / three years after payment of cash bonus respectively</p> <p>Performance Measures: Underlying Sales Growth, Underlying Operating Margin (current FX rates) and Free Cash Flow (current FX rates), weightings to be determined by the Committee each year</p> <p>Discretion: The Committee has discretion to adjust the formulaic outcome of the Business Performance Multiplier, if it believes this better reflects the underlying performance of Unilever.</p>	<p>No Change</p> <p>No Change</p> <p>No Change</p> <p>Mandatory deferral replaces voluntary investment.</p> <p>No Change</p> <p>Extended and strengthened See details below</p> <p>No Change</p> <p>Limit to the discretion available is removed, the policy previously allowed discretion of +/- 25% only.</p>
<p>PSP</p>	<p>Quantum:</p> <p>CEO: 200% of fixed pay at target, 400% at maximum</p> <p>CFO: 160% of fixed pay at target, 320% at maximum</p>	<p>PSP replaces MCIP</p> <p>Increase at Target with Reduction at Maximum because PSP is delinked from bonus and to reflect emphasis on long term performance</p>

	<p>Duration: Three year performance period followed by two year holding period</p> <p>Leaver provisions: unvested PSP shares are forfeited by a bad (voluntary) leaver and are reduced for a good (involuntary) leaver to reflect actual length of service in the performance period to vest subject to actual performance without accelerated receipt.</p> <p>Malus & clawback: Applies for three year vesting period and two year holding period respectively</p> <p>Discretion: The Committee retains the discretion to adjust the formulaic outcome of these performance measures to reflect its assessment of the underlying long-term performance.</p>	<p>No change from award to release (5 years) with performance period cut from 4 to 3 years and holding period increased from 1 to 2 years</p> <p>No Change</p> <p>Extended and strengthened See details below</p> <p>Limit to the discretion available is removed, the policy previously allowed discretion of +/- 10% only.</p>
<p>Share-holding requirements</p>	<p>CEO: 500% of fixed pay while in role CFO: 400% of fixed pay while in role</p> <p>Post employment: 100% of prior in role requirement for two years post employment.</p> <p>Leavers: All post vest holding periods fall away two years post departure</p>	<p>No Change</p> <p>Increased from 100% for the 1st year and 50% for 2nd year post-employment to 100% of in-role requirement for two years</p> <p>Leaver's post vest holding periods now apply for a full two years post vest and are unaffected by departure.</p>
<p>Malus and clawback triggers</p>	<p>Malus:</p> <ul style="list-style-type: none"> ● significant downward restatement of results; ● gross misconduct, gross negligence; material breach of Unilever's code of practice; ● breach of restrictive covenants; ● conduct resulting in significant losses or serious reputation damage ● Error in calculation or misleading data; ● corporate failure. <p>Clawback:</p> <ul style="list-style-type: none"> ● significant downward restatement of results ● error in calculation or misleading data; ● corporate failure 	<p>The following two triggers have been added:</p> <ul style="list-style-type: none"> ● error in calculation or misleading data; ● corporate failure.

Long term performance measures

For PSP we are proposing to change the long term performance measures as follows:

Current performance measures (equally weighted)	Proposed performance measures (for 2021 grant with proposed performance measures probably equally weighted)
<ul style="list-style-type: none"> • Underlying Sales Growth (USG) • Earnings Per Share (EPS) growth (current FX rates) • Return on Invested Capital (ROIC) • Sustainability Progress Index (SPI) 	<ul style="list-style-type: none"> • Competitiveness: % Business Winning Market Share • Cumulative Free Cashflow (current FX rates) • ROIC • SPI

Details on each of the key changes is as follows:

- **Competitiveness (% Business Winning Market Share measure):** Growing faster than the market and winning market share are key strategic drivers for our long term sustainable growth. Competitiveness will be assessed each year as the aggregate turnover of the portfolio components gaining value market share as a % of the total turnover measured by market data. The outcome for the 3-year PSP period is the average of the 3 years % Business Winning performance. A portfolio component is categorised as gaining value market share if average value market share percentage over a 12-month period improves versus the prior 12-month period. As such this measures what proportion of our revenues are being generated whilst growing market share versus our competitors. The Committee will undertake a supplementary evaluation of other factors to ensure that outcomes under the Business Winning metric reflect Unilever's commercial competitiveness.
- **Cumulative Free Cashflow measure:** Free cashflow from operating activities in current currency ensures sufficient cash is available to fund a range of strategic capital allocation choices.
- **Return on Invested Capital (ROIC):** this measures the return generated on capital invested by the Group. ROIC is calculated as underlying operating profit after tax divided by the annual average of: goodwill, intangible assets, property, plant and equipment, net assets held for sale inventories, trade and other current receivables, and trade payables and other current liabilities. In response to our shareholder consultation process, we have decided to retain the ROIC performance measure, rather than replace it with Relative TSR.
- **Sustainability Progress Index (SPI):** Building a sustainable business that benefits multiple stakeholders continues to be Unilever's business model. Consequently, the Committee has resolved to retain SPI as a long term performance measure.

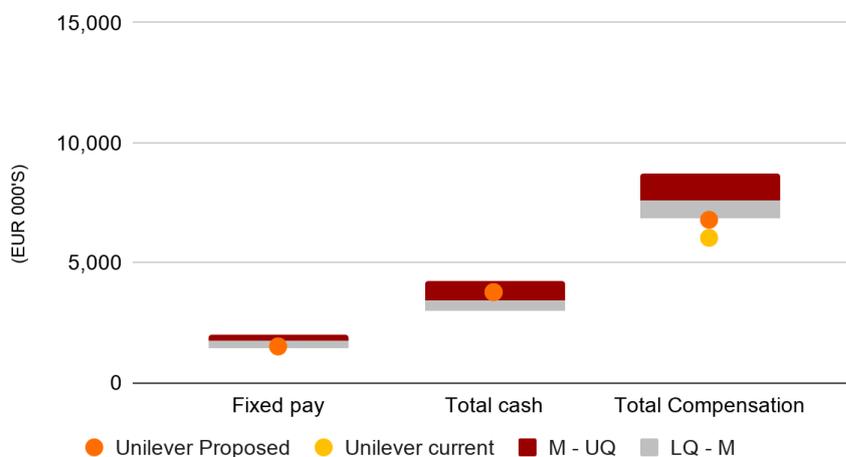
Appendix 2 - Remuneration Benchmarking

A) CEO remuneration benchmarking

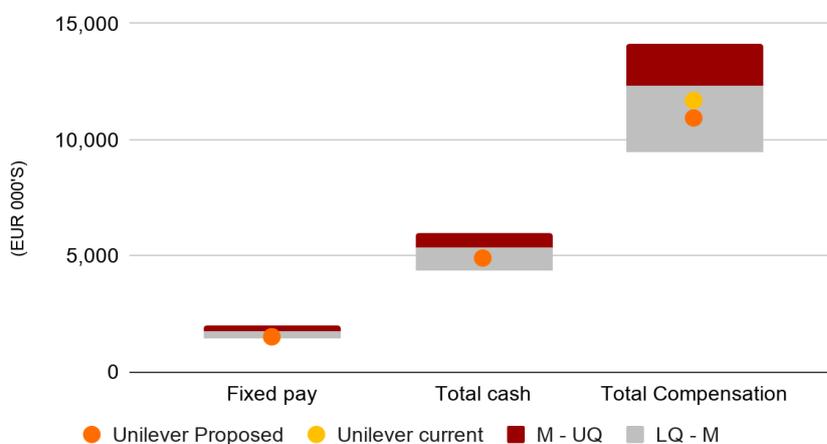
The graphs and tables below set out the remuneration benchmarking for the Chief Executive Officer of Unilever, versus the peer group at target and maximum opportunity. Full details of the Benchmarking methodology and benchmarking peer group are set out in Appendix 2C.

CEO			Target		Maximum	
€ '000	Base salary	Fixed pay	Total cash	Total Compensation	Total cash	Total Compensation
Lower Quartile	1,275	1,415	2,981	6,853	4,345	9,469
Median	1,463	1,747	3,407	7,586	5,350	12,337
Upper Quartile	1,643	2,005	4,215	8,732	5,961	14,138
Unilever Current	-	1,508	3,770	6,032	4,901	11,687
Unilever Proposed	-	1,508	3,770	6,786	4,901	10,933
Unilever Current (position)	-	LQ - M	M - UQ	<LQ	LQ - M	LQ - M
Unilever Proposed (position)	-	LQ - M	M - UQ	<LQ	LQ - M	LQ - M

CEO Benchmarking at Target Opportunity



CEO Benchmarking at Maximum Opportunity

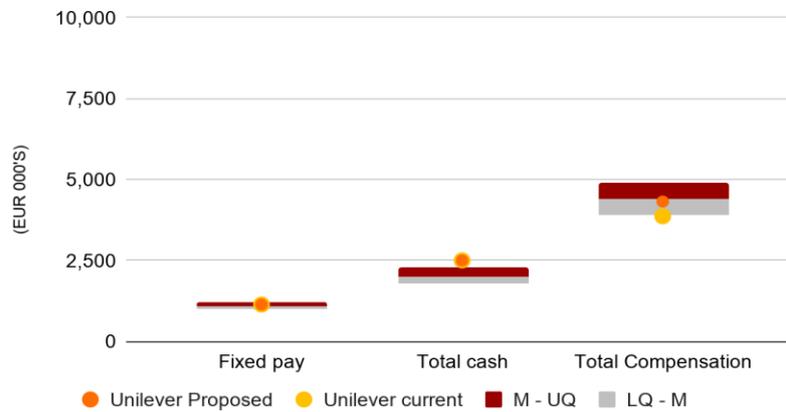


B) CFO remuneration benchmarking

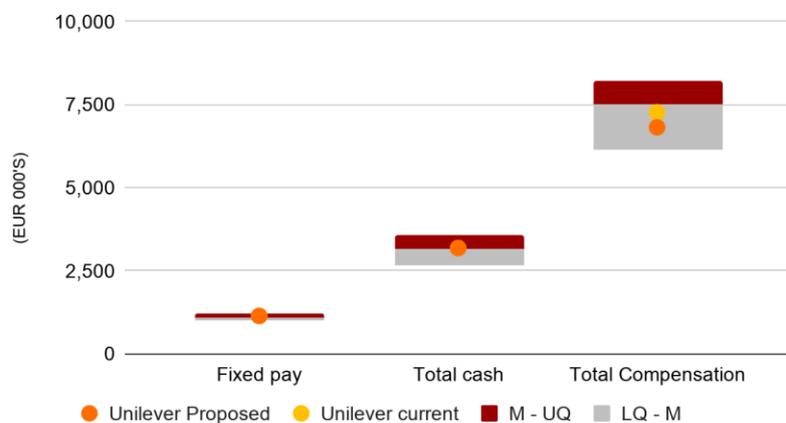
The graphs and tables below set out the remuneration benchmarking for the Chief Financial Officer of Unilever, versus the peer group at target and maximum opportunity. Full details of the Benchmarking methodology and benchmarking peer group are set out in Appendix 2C.

CFO			Target		Maximum	
€ '000	Base salary	Fixed pay	Total cash	Total Compensation	Total cash	Total Compensation
Lower Quartile	803	982	1,794	3,902	2,673	6,151
Median	926	1,075	2,008	4,417	3,160	7,505
Upper Quartile	992	1,188	2,299	4,904	3,567	8,221
Unilever Current	-	1,136	2,499	3,862	3,181	7,270
Unilever Proposed	-	1,136	2,499	4,317	3,181	6,816
Unilever Current (position)	-	M - UQ	>UQ	<LQ	c.M	LQ - M
Unilever Proposed (position)	-	M - UQ	>UQ	LQ - M	c.M	LQ - M

CFO Benchmarking at Target Opportunity



CFO Benchmarking at Maximum Opportunity



C) Executive Director remuneration benchmarking methodology

Data sources

The information and quantitative data presented in this analysis has been sourced from PwC's database of pay, incentives and benefits. Where this information was not available (i.e. for non UK companies), data was manually sourced from Proxy and Annual Reports.

Definitions

Element	Market data valuation approach
Fixed pay <i>Base salary plus pension</i>	<ul style="list-style-type: none"> Forward looking base salaries are included (where disclosed). Where forward looking salaries are not disclosed we have used the latest single figure (pro rated to 12 months where incumbents have worked less than a full year). Pension based on employer contributions for DC / salary supplement or actuarial value of DB contributions as in the latest single figure table for DB plans.
Total cash: <i>Fixed pay plus annual bonus</i>	<ul style="list-style-type: none"> The target value of the annual bonus is taken as (in order of preference): <ul style="list-style-type: none"> The company's stated target value; or 50% of the maximum bonus potential.
Total Compensation: <i>Total cash plus expected value of long term incentives</i>	<ul style="list-style-type: none"> The value of long-term incentives includes share options, deferred annual bonus matching and performance shares and is determined using option-pricing models and adjusted for performance conditions. To calculate the expected value of awards with performance conditions we take, (in order of preference): <ul style="list-style-type: none"> Fair value at grant (if disclosed); 60% of the policy award level for performance Share Plans; and/or 20% of the grant value for Share Options.

Exchange rates

In order to allow for comparability between the peer groups, we have used a 3 month average exchange rate to 30 June 2020 to calculate EURO equivalent figures, using the following FX rates. This has been sourced from Datastream by Refinitiv.

- GBP : EUR – 1 : 1.127
- USD : EUR – 1 : 0.908
- CHF : EUR – 1 : 0.942

Peer groups

The peer group used for the purpose of this benchmarking comprises UK and European listed companies, reflecting Unilever's size and industry. These are consumer / healthcare companies, with some Pharmaceuticals excluded to avoid over representation in the group.

The table below sets out companies in the benchmarking peer group used throughout this analysis, alongside market capitalisation and revenue figures. FTSE and STOXX ranks and market capitalisations are based on the spot rate as at 17 June 2020. Revenue is based on most recent year end results. Source: Datastream by Refinitiv

Company name	Market Capitalisation (€ millions)	Revenue (€ millions)
Anheuser-busch Inbev*	94,187	46,816
Bayer (Xet)	67,414	43,545
British American Tobacco	80,318	30,539
BP	72,877	257,000
Danone*	43,377	25,287
Diageo	74,130	14,380
Glaxosmithkline	91,546	39,835
Heineken	48,396	23,969
Hermes Intl.*	78,797	6,883
L'oreal*	152,180	29,874
Lvmh*	190,294	53,670
Nestle*	291,261	85,157
Novartis	190,700	44,426
Reckitt Benckiser Group	56,088	15,160
Royal Dutch Shell	118,689	309,000
Sanofi*	114,393	37,631
Total*	93,698	158,000
Volkswagen (Xet)	71,626	253,000

*Companies for which CFO remuneration data was unavailable.

CEO	Market Capitalisation (€ millions)	Revenue (€ millions)
Lower Quartile	71,939	26,434
Median	85,932	41,690
Upper Quartile	117,615	77,285
Unilever	128,841	51,980

CFO	Market Capitalisation (€ millions)	Revenue (€ millions)
Lower Quartile	68,467	25,612
Median	73,504	41,690
Upper Quartile	88,739	200,857
Unilever	128,841	51,980