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6<sup>th</sup> February 2019

Dear Investor

## **Unilever's Remuneration Policy**

Unilever's Remuneration Policy was approved at our AGMs in May 2018 with broad shareholder support but also a significant minority of shareholders voting against the policy.

The main concerns were about the increases in the level of former CEO Paul Polman's fixed pay, his annual bonus and maximum pay opportunity.

I am writing to you as the Chair of Unilever's Compensation Committee on behalf of the Committee and Unilever's Board of Directors, to let you know how we propose to deal with our Executive Directors' pay following extensive engagement with many shareholders in the last months.

Firstly, we would like to thank those investors who have already given their time and input during this consultation process. It was important to us to meet as many shareholders as possible and it has been extremely valuable to me personally to hear their views on this important topic. As we have some further meetings with shareholders scheduled in the coming weeks, if you would like to meet or speak with me to discuss our Executive Directors' pay, please do get in touch.

Following my meetings with shareholders, the Compensation Committee has met to review their feedback and consider changes to Unilever's Reward Framework. Paul Polman has also stepped down as CEO and the Board has appointed Alan Jope, formerly President of our Beauty and Personal Care division, as his successor with effect from 1 January 2019.

As you may already have noted, prior to the announcement of his retirement, Paul Polman declined the proposed 5% increase in his Fixed Pay. We have also announced that Alan Jope's Fixed Pay as CEO will be set at a level 14% lower than Paul's, as summarised in the following table:



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## Summary Pay Comparison Table

	Target Total Pay			Maximum Total Pay		
	former CEO <b>Paul Polman</b> Previous Pay Euros M p.a.	former CEO <b>Paul Polman</b> Revised Pay Euros M p.a.	current CEO <b>Alan Jope</b> 2019 Pay Euros M p.a.	former CEO <b>Paul Polman</b> Previous Pay Euros M p.a.	former CEO <b>Paul Polman</b> Revised Pay Euros M p.a.	current CEO <b>Alan Jope</b> 2019 Pay Euros M p.a.
Salary	€ 1.239			€ 1.239		
Fixed Allowance	€ 0.307			€ 0.307		
Supplemental Pension	€ 0.144			€ 0.144		
Fixed Pay	€ 1.689	€ 1.689	€ 1.450	€ 1.689	€ 1.689	€ 1.450
Annual Bonus	€ 1.487	€ 2.534	€ 2.175	€ 2.478	€ 3.801	€ 3.263
MCIP* Match Share Award	€ 0.892	€ 2.534	€ 2.175	€ 2.230	€ 7.602	€ 6.525
GSIP Share Award	€ 2.478			€ 4.956		
Total	€ 6.546	€ 6.757	€ 5.800	€ 11.353	€ 13.092	€ 11.238
Personal MCIP* Investment in Unilever	€ 0.892	€ 1.689	€ 1.450	€ 1.652	€ 2.534	€ 2.175

*Note \*: Management Co-Investment Plan "MCIP"*

As a consequence of the feedback received from shareholders, Unilever's Compensation Committee has also resolved to take the additional actions outlined below, under "**Shareholder Consultation - feedback and response**", to address the concerns expressed at last year's AGMs.

Before outlining these additional actions and the rationale for them, allow me to recap the context I outlined in our recent meetings.

The **guiding principles** for Unilever's Directors' Remuneration Policy are to ensure it is:

- **Simple** - with just three elements
  - **Fixed pay:** one simple single number (with no additional fixed cash allowance or company pension contribution)
  - **Annual bonus:** which must be invested (after having paid tax) in Unilever shares that must be held for at least four years to be eligible for MCIP share incentives
  - **Management Co-Investment Plan (MCIP):** performance-based share incentive which matches the executive's personal investment of their annual bonus, after tax, into Unilever shares. Any MCIP Match shares that vest cannot be sold earlier than five years from the date of grant.
- **Focused** - with distinct measures driving short and long-term incentives
- **Longer-term** - annual bonus followed by a four year performance period for long term share awards (MCIP)



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- **Driven by share ownership** - Executives must invest annual bonus in Unilever shares (after having paid tax) to receive any long-term incentive and must maintain a significant personal shareholding (including after leaving Unilever)
- **Restrained** - Executive Directors must invest more of their personal after-tax funds in Unilever shares to receive the same amount of total target pay as previously. An additional test ensures incentives can only exceed 75% of their maximum potential level if truly justified by sustainable performance.

Unilever has been cascading the New Reward Framework to the top 14,000 Unilever employees worldwide over the last two years. This initiative is making long term personal commitment through share ownership the principal driver for Reward at Unilever. The plan has increased the depth of management's personal investment in Unilever shares with 70% of our 'Top 3,000' executives electing to buy Unilever shares with their bonus through MCIP 2018-2021:

- 100% of Executive Committee invested at the maximum
- 90% of Top 100 invested: 80% of them invested 100% Bonus
- 85% of Next 400 invested: 57% of them invested 100% Bonus
- 66% of Next 2,500 invested: 42% of them invested 100% Bonus
- 36% of 11,000 managers invested: 80% of them investing at maximum 20% Bonus  
(over the next few years we will increase the amount of bonus these managers may invest through MCIP).

For other, non-management staff we have also successfully implemented a global share scheme in 105 of the 109 countries where we employ more than one person.

### Shareholder Consultation - feedback and response

Overall, I was very encouraged that most investors with whom I spoke personally, appreciated the direction our remuneration policy is taking in terms of simplification, increased share ownership commitment and lengthened timeframes for performance measurement. Nonetheless, concerns were clearly raised about some aspects of how we had implemented the new policy. In addition, the extent of the changes we made last year led to an impression of complexity, which we underestimated in our initial communication. I'm pleased to say that as we explained our policy and how it works, investors generally saw more clearly the benefits it will bring.

Summarised below are the main points of concern together with the Compensation Committee's view after having carefully considered these issues:



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### Fixed Pay – consolidation and proposed increase

- Some investors expressed concern about the consolidation of fixed pay into a single number on which the annual bonus opportunity is based. This concern was compounded by the decision to increase the CEO's fixed pay by 5% after consolidation and the knock-on impact this would have on incentive opportunities.

*The Compensation Committee believes that investors' concerns related to the increase in fixed pay have been addressed, firstly by Paul Polman's decision not to accept the 5% increase in his fixed pay and secondly by the decision to position Alan Jope's fixed pay 14% below the previous level of Paul Polman's fixed pay (see comparative pay summary table, above).*

*The Committee has decided to apply no increases to Executive Directors' fixed pay levels for 2019. It is the Committee's intention to review remuneration levels and award fixed pay increases based on the performance of the Executive Directors in future years.*

- Some shareholders continue to feel that it would be helpful to identify a separate pension amount, to enable them to undertake more transparent benchmarking across companies, particularly when comparing pension provisions for executive directors and the wider employee population.

*The Compensation Committee believes in the principle of simplification and greater transparency on executive pay, including in a single figure all components. Moreover, no Unilever Executive Directors - and no ULE member - now has any additional company contribution to pension nor significant allowances. So, while we understand the need to benchmark, we believe that on this item we are already compliant with best practice.*

### Annual Bonus – increase and mandatory investment in Unilever shares through MCIP

- Some investors and proxy voting agencies were critical of the increase in like-for-like annual bonus opportunity.

*The Compensation Committee sees this as a necessary and appropriate feature of the new remuneration policy. Executives must invest their annual bonus in Unilever shares (after having first paid tax) over a longer term to be eligible for any additional performance-based long term share awards. If they do not invest their annual bonus in Unilever shares over the longer term, their total pay opportunity will be significantly reduced vs the previous policy. As indicated in the summary table above, this change in policy requires executives to make a substantially greater personal investment in Unilever shares than before. This emphasis on personal commitment through share ownership is further supported by demanding minimum personal shareholding requirements.*



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- Some people believe this requirement to invest bonus in shares through MCIP should be mandatory (previously, our policy required executive directors to invest at least 25% of their annual bonus in Unilever shares through MCIP).

*The Compensation Committee believes that the structure of the new remuneration policy incentivises high levels of participation in MCIP anyhow, without a mandatory requirement (as evidenced by the participation rates for MCIP 2018-2021 outlined above). Nonetheless, in response to the feedback received, the Committee will reintroduce a requirement for members of the Unilever Leadership Executive (ULE), including CEO and CFO, to invest at least 33% of their bonus in Unilever shares through MCIP.*

*As you will note from the arrangements for Paul Polman's retirement outlined in the appendix, the Compensation Committee has also decided that his bonus for 2018 will be delivered entirely in Unilever shares that must be held for at least two years from the date of his retirement.*

#### Maximum Pay and safeguard of the additional performance test

- Some investors were critical of the original proposal to increase former CEO Paul Polman's maximum pay opportunity from €11.4m to €13.7m (+20%).

*The Compensation Committee believes this concern has been addressed, firstly by Paul Polman's decision not to accept any increase in his fixed pay and secondly by the decision to position Alan Jope's maximum pay opportunity below the previous level for Paul Polman (see summary table above)*

*In addition, the Compensation Committee will retain the additional safeguard outlined in the 2017 DRR: if the result of combined (sequential) annual bonus and MCIP performance multipliers exceeds 75% of the maximum total opportunity (excluding the effects of share price change and dividends on share awards) the Committee must review rigorously the quality and sustainability of underlying performance and then may apply its discretion to reduce or cap the MCIP performance multiplier applicable to the Executive Directors. For CEO Alan Jope, this 'handbrake test' consequently will apply when his total pay level would reach approximately €8.8m (a level more than 20% below former CEO Paul Polman's previous maximum pay opportunity).*

#### Sustainability Progress Index assessment (performance measure for MCIP)

- Investors wanted to see how we will assess the Unilever Sustainability Progress Index performance measure for MCIP.

*The Compensation Committee will provide an annual progress report in the DRR providing transparency on the assessment of the Sustainability Progress Index.*



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## Joiner Arrangements – Transition and Buy-out Awards

- Some investors expressed concern about the arrangements for joiners, which would enable an open-ended combination of transition awards and buyout awards (to replace awards forgone on a like-for-like basis).

*The Compensation Committee's intention is to use only transition awards and to discontinue buy-out awards when hiring executive directors from outside the company. The Committee intends to state this position in the remuneration policy when it is next renewed.*

## **CEO transition and benchmarking**

For your information Unilever's announcement in respect of Paul Polman's retirement (430 2(B) UK Companies Act 2006) can be found on our website and for ease of reference is reproduced below (Appendix A) together with a summary of Alan Jope's remuneration arrangements as CEO (Appendix B) and market reference benchmarking data for both CEO and CFO pay (Appendix C).

## **Next steps**

Based on our engagement with shareholders and the feedback received, the Compensation Committee believes that investors' concerns can be addressed through the implementation of the current remuneration policy that was approved by a majority of shareholders at the 2018 AGMs. Therefore, we do not propose to bring a new policy for shareholder approval at the 2019 AGMs. Both PLC and NV shareholders will have the opportunity to vote on the implementation of the remuneration policy at the 2019 AGMs.

In the next few weeks we will be finalising our approach, including determining incentive outcomes for our 2018 plans and setting targets for our future awards. Full detail will be included in the DRR of the Annual Report and Accounts 2018.

We welcome your further input into this process and your support for the Compensation Committee's implementation of the remuneration policy. I reiterate the invitation to reach out to me or Peter Newhouse in case investors have further inputs or comments.

Yours sincerely,

Vittorio Colao

Chair – Unilever Compensation Committee



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## APPENDIX A

### Unilever CEO Change: announcement pursuant to section 430 (2B) Companies Act 2006

As announced on 29 November 2018, Paul Polman stepped down from the Board of Unilever (the "Company") and the role of Chief Executive Officer on 31 December 2018. Alan Jope was appointed Chief Executive Officer with effect from 1 January 2019 and will be proposed for election as Director at the AGMs in May 2019. The information required to be made available pursuant to Section 430 (2B) of the Companies act 2006 in respect of Paul Polman's employment and remuneration is set out below.

Paul Polman will retire on 2 July 2019 (the "Retirement Date"). Until his Retirement Date he will assist the Company with an orderly transition and handover of responsibilities. In accordance with his service agreement and the Company's Directors' Remuneration Policy, Paul Polman will receive the payments set out below.

- Paul Polman will continue to receive fixed pay and benefits up to the Retirement Date.
- Paul Polman will remain eligible to receive a discretionary bonus in respect of 2018, determined by the Compensation Committee in the normal way and at the normal time, dependent on the Company's performance. After deduction for tax withholding, any bonus will be paid to him wholly in Unilever N.V. shares, which he will be required to hold until the second anniversary of the Retirement Date.
- Paul Polman will not participate in the MCIP 2019-2022 and will not receive any bonus in respect of the 2019 financial year.
- As Paul Polman is retiring, he will be treated as a good leaver and hence his outstanding awards under the MCIP and GSIP long term share incentive plans will remain capable of vesting in accordance with the rules of the relevant plan.
- Consequently, it is anticipated that these awards will be pro-rated as follows reflecting Paul Polman's actual length of service within the vesting period:
  - a) GSIP and MCIP 2016 – 2018 vesting around 11 February 2019: 100%
  - b) GSIP 2017 – 2019 vesting around 13 February 2020: 79%
  - c) MCIP 2017 – 2020 vesting around 17 February 2021: 57%
  - d) GSIP 2018 – 2020 vesting around 17 February 2021: 46%
  - e) MCIP 2018 – 2021 vesting around 16 February 2022: 31%

and will then vest, subject to Company performance, on the respective vesting dates.

- Paul Polman will remain subject to the Company's minimum shareholding requirements and needs to retain Unilever shares worth at least 5 times his annual Fixed Pay level until the first anniversary of the Retirement Date and 50% of that amount until the second anniversary of the Retirement Date. Additionally, the Company will continue to pay Paul Polman's social security obligation in his country of residence on all Unilever source income arising to protect him against the difference between the employee social security obligations in his country of residence versus the UK. The precise cost of this provision will depend on Paul Polman's total earnings (which will primarily be influenced by the value of his outstanding MCIP and GSIP share awards when they vest) and applicable rates of social security.
- Paul Polman will continue to receive tax return preparation services in respect of all future Unilever source income.
- Through to the Retirement Date or to the later date as specified below, after which such benefits will cease, Paul Polman will continue to receive:
  - Family Medical Cover to 31 December 2019
  - Death & Disability Insurance Cover

Full details of all payments made to and receivable by Paul Polman will be disclosed in the DRR within the Company's Annual Report and Accounts for the year ending 31 December 2018, and subsequent years, as appropriate.



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**APPENDIX B:**

**CEO Alan Jope's remuneration arrangements with effect from 1 January 2019**

Fixed Pay: Euros 1,450,000 p.a.

Annual Bonus opportunity: a target of 150% of fixed pay within a range of zero to 225%

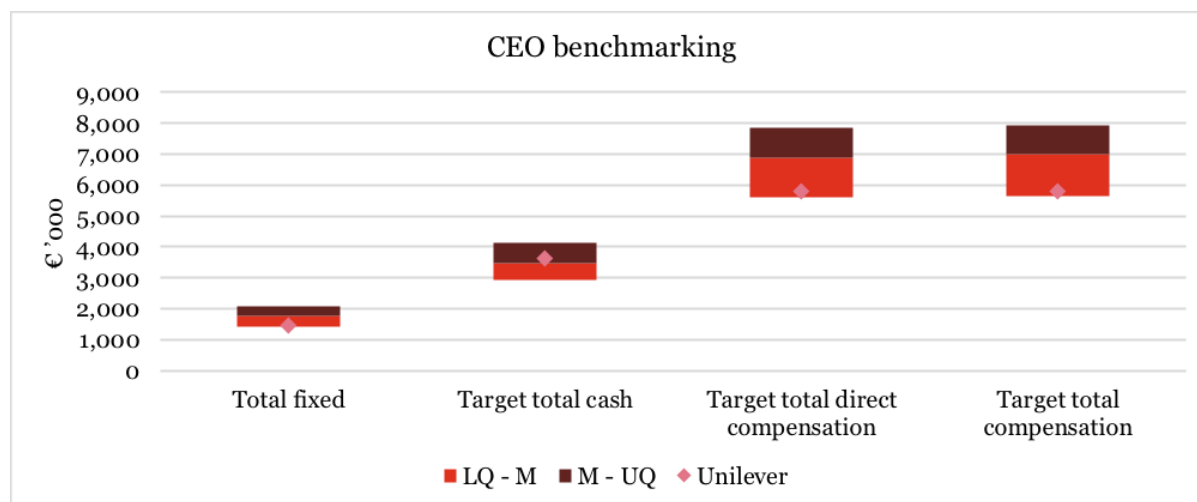
MCIP: may invest from 33% to 67% of annual bonus in Unilever shares to be eligible for an award of 1.5 MCIP Match shares for every share purchased, vesting in the range of zero to 200% based on four-year performance targets. MCIP Match shares may not be sold before the fifth anniversary of grant.

Benefits: Medical, Death and Disability cover, tax return preparation services.

Directors' Remuneration Policy: see pages 53 through 58 of Unilever' Annual Report and Accounts 2017.

**APPENDIX C:**

**CEO Alan Jope - benchmarking at target level**







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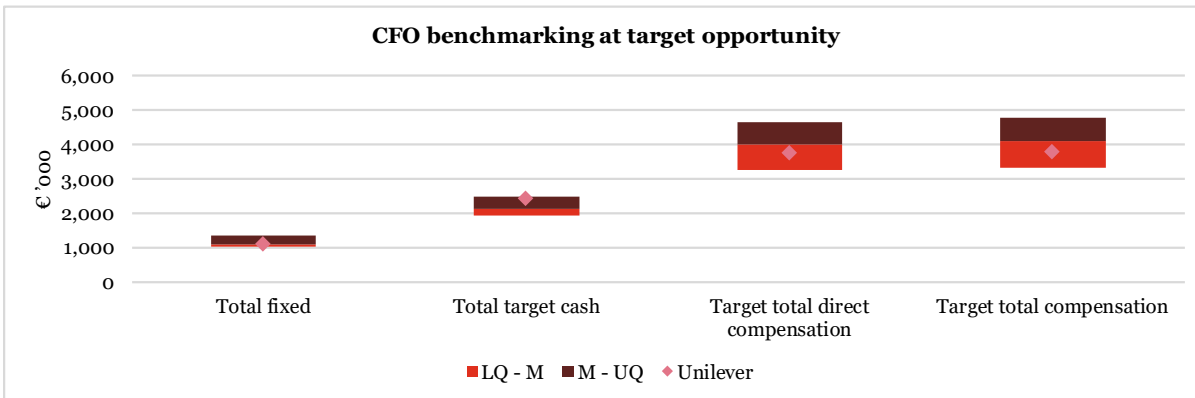
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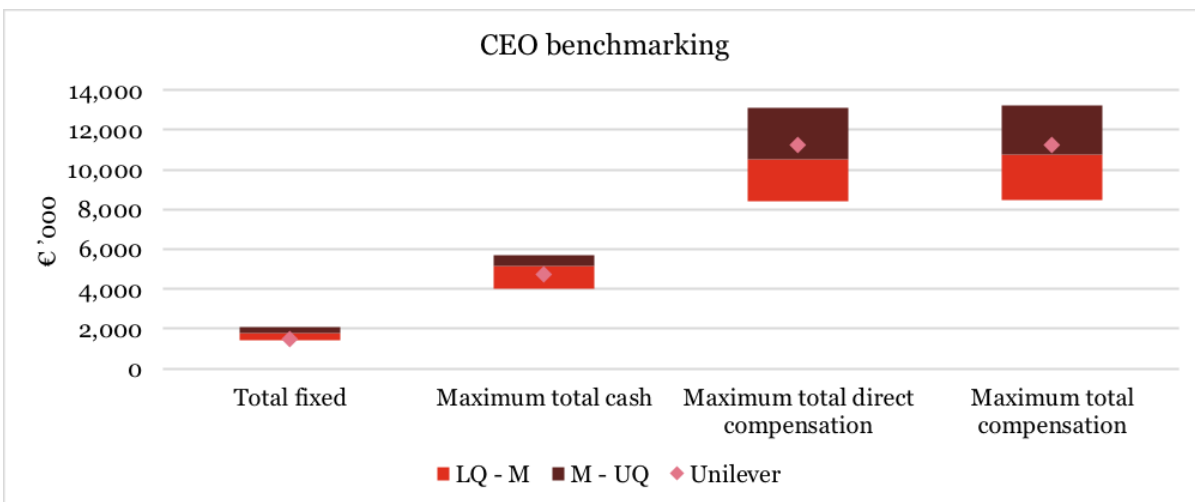
## CFO – Graeme Pitkethly - benchmarking at target level



Source: PwC | Total fixed = Base Salary + Pension | Total cash = Fixed Pay + Annual Bonus | Total direct compensation = Fixed Pay + Annual Bonus + MCIP | Total compensation = Fixed Pay + Annual Bonus + MCIP + Benefits

The peer group comprises large Global FMCG companies of similar size and complexity to Unilever, as per the 2018 Unilever remuneration policy (see page 53 Unilever Annual Report and Accounts 2017 under “FIXED PAY”). In terms of market capitalisation, Unilever is above the upper quartile of this group.

## CEO Alan Jope - benchmarking at maximum level





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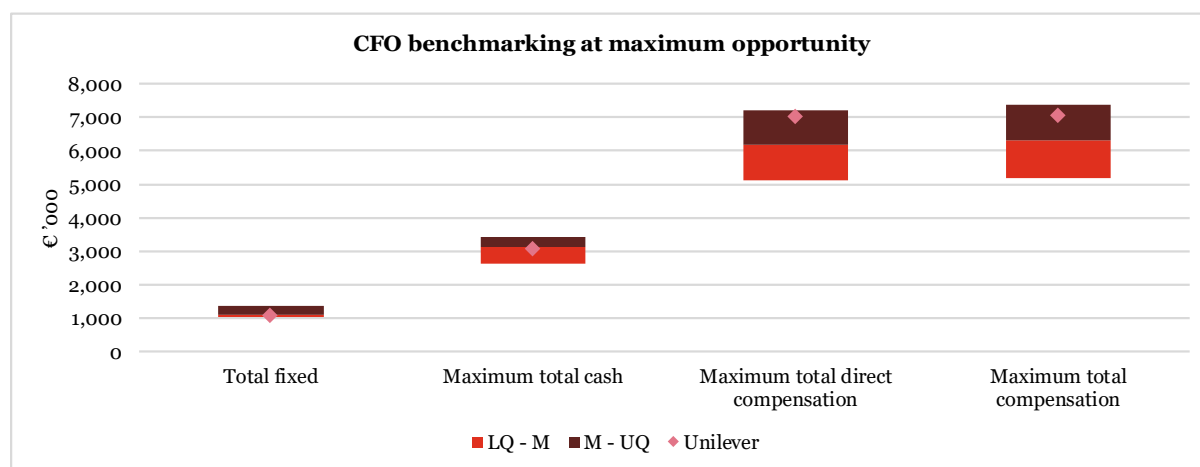
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## CFO – Graeme Pitkethly - benchmarking at maximum level



Source: PwC | Total fixed = Base Salary + Pension | Total cash = Fixed Pay + Annual Bonus | Total direct compensation = Fixed Pay + Annual Bonus + MCIP | Total compensation = Fixed Pay + Annual Bonus + MCIP + Benefits

The peer group comprises large Global FMCG companies of similar size and complexity to Unilever, as per the 2018 Unilever remuneration policy (see page 53 Unilever Annual Report and Accounts 2017 under “FIXED PAY”). In terms of market capitalisation, Unilever is above the upper quartile of this group.