

# Unilever Framework for Fair Compensation

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## Introduction

'Fair Compensation' means ensuring the pay for employees is set at a level that is both fair and liveable, and provides equal pay for equal work. A 'Framework' for Fair Compensation covers the overall compensation process. It provides a structured way for a company to outline how the various elements of their compensation packages deliver fair compensation to their employees.

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## The Unilever Framework for Fair Compensation

Our Framework for Fair Compensation covers our own direct employees. We also extend the concepts of this to the numerous organisations that supply Unilever with materials, services or contingent labour through our Responsible Sourcing Policy.

Our Framework applies globally and has a number of over-arching principles detailed below. We base these on our existing Unilever fundamental reward principles and policies (Appendix 1), our commitments to both Diversity and Inclusion, and Free and Fair Representation, and now explicitly include a Liveable Wage commitment. We have also referenced the work of the Fair Wage Network (Appendix 2) in developing our Framework. The application of our Framework is through the various compensation policies and procedures applicable in each country in which we have employees.

Since we made our Living Wage commitment in 2016, we have systematically reduced the number of employees who are below Living Wage year on year, and achieved full compliance by the end of 2020, with 100% of Unilever's direct employees globally paid at or above a certified living wage level. Our goal is to continue to maintain this standard through an annual review of our direct employees, and even enhancing our position by working towards achieving this compliance with cash components of pay only and less reliance on in-kind benefits. The following pages explain our monitoring process.

| <b>Over-arching Principle</b>   | <b>Fair Compensation delivery</b>   |
|---|---|
| <b>Fair and Liveable compensation</b>                                     | <ul style="list-style-type: none"> <li>• Lowest grades of full-time employees in any country will at least receive fixed compensation (fixed cash amounts and fixed non-cash benefits) sufficient for their needs and provide some discretionary income (using a Living Wage comparison).</li> <li>• Fixed compensation amounts will be achievable without need to work excessive hours (e.g., overtime), or rely on any non-guaranteed compensation (e.g., bonus).</li> <li>• Part-time employee compensation based on the full-time fixed compensation prorated for hours worked</li> </ul>                             |
| <b>Market Based compensation</b>  | <ul style="list-style-type: none"> <li>• Compensation will be market based and fairly reflect employee's skill, education and experience.</li> <li>• Fixed compensation amounts meet or exceed any legal minimum standards or appropriate prevailing industry standards.</li> <li>• There will be a regular review of the compensation amounts</li> </ul>   |
| <b>No Discrimination in compensation</b>                                  | <ul style="list-style-type: none"> <li>• Equal compensation for equal work with no discrimination on the grounds of race, age, role, gender, colour, religion, country of origin, sexual orientation, marital status, dependants, disability, social class or political views.</li> </ul>   |
| <b>Performance Focus compensation providing alignment to our business</b> | <ul style="list-style-type: none"> <li>• Employees benefit from the improved performance of their local Unilever business through participation in appropriate business performance linked bonus plans</li> <li>• Employees (where possible) will have the opportunity to take a financial interest in Unilever through acquiring shares</li> </ul>   |
| <b>Open and Explainable compensation</b>                                  | <ul style="list-style-type: none"> <li>• Employees have sufficient information to understand how their compensation package is calculated, what amounts to expect and how they will receive these amounts.</li> <li>• Where our employees have chosen to be represented by Trade Unions then collective bargaining will be the mechanism for pay reviews. Where employees have chosen not to be represented then appropriate mechanisms will be used.</li> <li>• Answers always provided to any employee compensation queries.</li> <li>• Employees receive their compensation regularly, in full and on time.</li> </ul> |

## Identifying Liveable Wage Amounts

Our over-arching Principle to provide Fair and Liveable Wages requires us to be aware of what is a credible Living Wage amount for each country in which we have employees. In some countries, however, there are different Living Wage amounts quoted by different organisations and often based on different criteria. To overcome the issue of deciding what is the most appropriate amount to use Unilever has contracted the Fair Wage Network, an independent recognised authority on fair and living wages, to provide a global solution. They have developed a global database based on all known Living Wage amounts for each country, cost of living data and local market surveys, along with summary details

of the calculation basis for each Living Wage. To recognise there may be different dates when some country Living Wage amounts were developed or the amount based on different family unit sizes, etc. they have (without losing the core essence of the original Living Wage methodology) normalised these varying amounts using sophisticated calculations to:

- a. A common date (June 2015-reflecting inflation since the original amount was developed)
- b. A standard family unit size (2 adults + 2 dependants) \*
- c. The local currency (if the original amount was quoted such as USD or EUR)

Then, based on these normalised amounts, they have developed a mean Living Wage amount for each country. Where any country region or city level Living Wage amount is available, this data is also included in their database. The Fair Wage Network will update their database on at least an annual basis to reflect any changes to Living Wage levels for each country based on inflation and improved data sources. Approved Unilever managers will be able to access the Fair Wage Network's database through a secure online portal to identify the Living Wage amount (or mean amount) for their countries.

\*Where the fertility rates are greater than 2 for a country, the Living wage will be based on fertility rates to provide a more representative value.

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### **Unilever Fixed Compensation' Amounts for comparison against Living Wages**

The Fair Wage Network have guided us that for fair and liveable wage comparison purposes we should compare the 'fixed compensation' amount of our lowest grade of employee in a country to the Living Wage amount in their online database. This 'fixed compensation' amount would typically include:

- i. The employee's contractual full time fixed cash pay
- ii. Any fixed additional cash allowances
- iii. The cash equivalent value of any fixed benefits in-kind provided (e.g., medical, food, accommodation, transport, etc.)

Item 'iii' reflects that most Living Wage methodologies assume employees have to fund medical care, accommodation, food etc. themselves therefore if Unilever provides these as benefits it is fair to include a cash equivalent value in the fixed compensation amount. However as advised by the Fair Wage Network, the weighting of these in-kind benefits should ideally not exceed 30% of an employee's Living wage calculation. In-kind benefits should supplement cash salary and allowances.

Overtime and bonus amounts are not included in any 'fixed compensation' comparisons as these are neither fixed nor guaranteed. Long-term benefits, such as pensions, are not a source of current liveable income so the cash equivalent value of these is also not included in 'fixed compensation'.

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## **Internal compliance monitoring of the Unilever Fair Compensation Framework**

The Global Reward function (part of Global HR) established a Fair Compensation Framework Register of all countries in which Unilever has employees. This has been used to record the status of each country's compliance with the Framework since 2016, with the country HR lead responsible for each country being required to certify to Global Reward, annually, that:

1. The fixed compensation elements for employees are developed and then regularly reviewed in accordance with company reward principles and policies.
2. The sum of fixed compensation elements for the lowest grades of full-time employees in the country:
  - a. Is at or above any legal minimum standards or appropriate prevailing industry standards.
  - b. At least equals the Living Wage amount for the country available from the Fair Wage Network database.
3. The fixed compensation elements do not discriminate between employees due to their race, age, role, gender, colour, religion, country of origin, sexual orientation, marital status, dependants, disability, social class or political views.
4. The fixed compensation amount is achievable without the need to work an excessive number of hours.
  - a. The contractual basic working hours for an employee would not exceed the country legal standards.
  - b. Any additional (overtime) hours worked are on a voluntary basis, and are compensated at premium rates.
5. The payroll process in the country delivers the employee's full pay correctly and on time.

Country Reward teams will support the country HR lead in preparing for their compliance certification submission.

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## Appendix 1

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### Unilever Reward Principles, Policies and Procedures

Our fundamental **Reward Principles** are that:

- Fixed pay is *Market based, Fair and Competitive*
- Variable pay is used to drive both employee and business improved *Performance*
- Exceptional individual employee contributions are appropriately *Recognised*
- Employees have the opportunity to take a financial interest in Unilever through acquiring shares, providing perspective, belonging and *Alignment*.
- All elements of reward will be *Open, Fair, Consistent and Explainable*

We translate these Principles into the reward policies, procedures and systems. The detail of these will vary by country. The annual compliance certification process will ensure each country complies with both the wording and the spirit of our 'Fair Compensation Framework':

- A. Fixed Pay policies and procedures that:
  - a. Fairly group 'equivalent value' jobs to the company into appropriate grades/work levels
  - b. Use objective analysis of independent surveys to identify the 'pay market' rate for such jobs including where relevant any fixed levels of allowances
  - c. Set, or negotiate as appropriate, the pay rate and any relevant allowances for our employees in such grades to broadly match the median 'pay market' rate for similar types of jobs
  - d. Establish a fair and objective 'skill and performance' based process for an employee's pay progression from any entry pay level in a grade to the pay rate, or even above the pay rate.
  - e. Do not discriminate between employees due to gender, age, ethnicity, etc.
  - f. Ensure that the lowest graded full-time employees receive fixed pay that both complies with any relevant government or industry standard minimum wages and any known credible Living Wage amounts.
  
- B. Payroll procedures and systems which ensure that:
  - a. The amount of fixed pay, allowances and any earned additional hours pay is paid in full, on time and in the manner agreed with employees or their representatives
  - b. The amount payable has no deductions other than those legally required for employee tax and social security, or those previously contracted with

the employee for any contribution to the provision of a benefit such as pension or healthcare or similar

- c. Variable Pay (bonus) policies and procedures that:
  - a. Motivate employees to improve both their own and the company's performance through an opportunity to earn additional variable pay through an appropriate bonus plan
  - b. The bonus is linked to a number of key business performance measures applicable at the location where the employee works
  - c. The bonus plan provides the employee with a direct line of sight to the business results they can impact by their own and with their colleagues, their collective team performance
  
- D. Recognition policies and procedures that:
  - a. Are additional to the Fixed and Variable pay and acknowledge exceptional individual employee contributions to the business beyond the expectations of their normal work duties
  - b. Use a fair and consistent assessment process to identify such exceptional contributions
  - c. Provide a range of recognition options depending on the significance of the contribution to the business varying from a simple thank you, or gift vouchers to one off bonus amounts
  
- E. Share ownership policies and procedures that encourage employees to own an equity stake in Unilever through voluntary participation in a Unilever Shares programme.
  
- F. Benefits policies and procedures that:
  - a. Where appropriate provide appropriate medical, healthcare and other similar facilities at costs cheaper than employees can purchase individually
  - b. Provide retirement saving plans to allow employees to prepare for their long-term future
  
- G. Compensation communication arrangements that:
  - a. Provide employees with ready access to all the relevant information about their total employment package, delivered through either formal employment contracts or union agreements (Social Dialogue) or employment policy manuals and accessible policy websites
  - b. Provide the information in the employee's own language to ensure they are aware of not only their fixed pay amount but also their total compensation package
  - c. Provide employees with the opportunity to raise queries and have these suitably answered.

## Appendix 2

### The Fair Wage Network

#### Fair Wage Definition

“Wage levels and wage-fixing mechanisms that provide a living wage floor for workers, while complying with national wage regulations (such as minimum wage, payment of wages, overtime payments, provision of paid holidays and social insurance payments), ensure proper wage adjustments and lead to balanced wage developments in the company (with regard to wage disparity, skills, individual and collective performance and adequate internal communication and collective bargaining on wage issues).”

#### Wage Dimensions

|                                      |   |
|--------------------------------------|---|
| 1. Payment of wages                  | A wage which is regularly and formally paid in full to the workers.   |
| 2. Living wage                       | A wage that ensures minimum acceptable living standards.  |
| 3. Minimum wage                      | A wage which respects the minimum wage regulations.   |
| 4. Prevailing wage                   | A wage which is comparable to wages in similar enterprises in the same sector.  |
| 5. Payment of working hours          | A wage that does not generate excessive working hours and properly rewards normal working hours and overtime.   |
| 6. Pay systems                       | <p>A wage that leads to a balanced wage structure/composition between the basic wage and additional bonuses and benefits.</p> <p>A wage that reflects different levels of education, skills and professional experience, as well as rewarding individual and collective performance.</p> <p>A wage that complies with regulations on social insurance payments and paid holidays and is not dominated by disciplinary wage sanctions.</p>   |
| 7. Communication and social dialogue | <p>A wage on which workers receive sufficient information in advance (through an individual work contract), in the course of the production process (through regular communication channels) and at the time of the wage payment (with a detailed pay slip).</p> <p>A wage that is negotiated individually (with individual employers) and collectively – notably through collective bargaining – between the employer and the workers’ representatives who are freely accepted in the company.</p> |

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|--|---|
| 8. Wage discrimination and wage disparity      | A system of equal wages for equal work that does not lead to wage discrimination and does not generate unjustified, too high and too rapidly growing wage differentials within the company. |
| 9. Real wages                                  | A wage that progresses at least in proportion to price increases.   |
| 10. Wage share                                 | A wage that progresses proportionally along with enterprise sales and profit growth and which does not lead to a fall in the wage share in enterprise performance growth.                   |
| 11. Wage costs                                 | A wage whose progression does not lead to a dramatic reduction in wage costs within total production costs and as a percentage of employment.   |
| 12. Work intensity, technology and up-skilling | A wage that progresses along with changes in intensity at work, technological contents and the evolving skills and tasks of the labour force.   |