UNILEVER N V
Form 20-F
March 11, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark one)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report

For the transition period from __________ to __________

Commission file number 001-04547

UNILEVER N.V.

(Exact name of Registrant as specified in its charter)

The Netherlands

(Jurisdiction of incorporation or organization)

Weena 455, 3013 AL, Rotterdam, The Netherlands

(Address of principal executive offices)

R. Sotamaa, Chief Legal Officer and Group Secretary

Tel: +44(0)2078225252, Fax: +44(0)2078225464

100 Victoria Embankment, London EC4Y 0DY UK

(Name, telephone number, facsimile number and address of Company Contact)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
N.V. New York registry shares each representing one ordinary share of nominal amount of 0.16 each	New York Stock Exchange
4.8% Notes due 2019	New York Stock Exchange
2.2% Notes due 2019	New York Stock Exchange
2.1% Notes due 2020	New York Stock Exchange
1.8% Notes due 2020	New York Stock Exchange
4.25% Notes due 2021	New York Stock Exchange
2.75% Notes due 2021	New York Stock Exchange
1.375% Notes due 2021	New York Stock Exchange
3.0% Notes due 2022	New York Stock Exchange
2.2% Notes due 2022	New York Stock Exchange
3.125% Notes due 2023	New York Stock Exchange
3.25% Notes due 2024	New York Stock Exchange
2.6% Notes due 2024	New York Stock Exchange
3.375% Notes due 2025	New York Stock Exchange

3.1% Notes due 2025	New York Stock Exchange
2.0% Notes due 2026	New York Stock Exchange
2.9% Notes due 2027	New York Stock Exchange
3.5% Notes due 2028	New York Stock Exchange
5.9% Notes due 2032	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

The total number of outstanding shares of the issuer s capital stock at the close of the period covered by the annual report was: 1,714,727,700 ordinary shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer, large accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated filer Accelerated filer Non-accelerated filer Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards* provided pursuant to Section 13(a) of the Exchange Act.

*The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

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CAUTIONARY STATEMENT

This document may contain forward-looking statements, including forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Words such as will , aim , expects , anticipates , intends , looks , believes , vision , or the negative of these terms and other similar expressions of future performance or results, and their negatives, are intended to identify such forward-looking statements. These forward-looking statements are based upon current expectations and assumptions regarding anticipated developments and other factors affecting the Unilever Group (the Group). They are not historical facts, nor are they guarantees of future performance.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. Among other risks and uncertainties, the material or principal factors which could cause actual results to differ materially are: Unilever s global brands not meeting consumer preferences; Unilever s ability to innovate and remain competitive; Unilever s investment choices in its portfolio management; inability to find sustainable solutions to support long-term growth including to plastic packaging; the effect of climate change on Unilever s business; significant changes or deterioration in customer relationships; the recruitment and retention of talented employees; disruptions in our supply chain and distribution; increases or volatility in the cost of raw materials and commodities; the production of safe and high quality products; secure and reliable IT infrastructure; execution of acquisitions, divestitures and business transformation projects; economic, social and political risks and natural disasters; financial risks; failure to meet high and ethical standards; and managing regulatory, tax and legal matters.

These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Further details of potential risks and uncertainties affecting the Group are described in the Group s filings with the London Stock Exchange, Euronext Amsterdam and the US Securities and Exchange Commission, including in the Unilever Annual Report and Accounts 2018.

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MAKING

SUSTAINABLE LIVING

COMMONPLACE

ANNUAL REPORT ON

FORM 20-F 2018

ANNUAL REPORT ON

FORM 20-F 2018

This document is made up of the Strategic Report, the Governance Report, the Financial Statements and Notes, and Additional Information for US Listing Purposes.

The Unilever Group consists of Unilever N.V. (NV) and Unilever PLC (PLC) together with the companies they control. The terms Unilever , the Group , we , our and us refer to the Unilever Group.

Our Strategic Report, pages 1 to 35, contains information about us, how we create value and how we run our business. It includes our strategy, business model, market outlook and key performance indicators, as well as our approach to sustainability and risk. The Strategic Report is only part of the Annual Report and Accounts 2018. The Strategic Report has been approved by the Boards and signed on their behalf by Ritva Sotamaa Group Secretary.

Our Governance Report, pages 36 to 65 contains detailed corporate governance information, our Committee reports and how we remunerate our Directors.

Our Financial Statements and Notes are on pages 66 to 127.

Pages 1 to 147 constitute the Unilever Annual Report and Accounts 2018 for UK and Dutch purposes, which we may also refer to as this Annual Report and Accounts throughout this document.

The Directors Report of PLC on pages 36 to 49, 66 (Statement of Directors responsibilities), 97 (Dividends on ordinary capital), 110 to 115 (Treasury Risk Management), 133 and 137 (Post balance sheet event) and 145 (branch disclosure) has been approved by the PLC Board and signed on its behalf by Ritva Sotamaa Group Secretary.

The Strategic Report, together with the Governance Report, constitutes the report of the Directors within the meaning of Article 2:391 of the Dutch Civil Code and has been approved by the NV Board and signed on its behalf by Ritva Sotamaa Group Secretary.

Pages 148 to 167 are included as Additional Information for US Listing Purposes.

ONLINE

You can find more information about Unilever online at

www.unilever.com

For further information on the Unilever Sustainable Living Plan (USLP) visit

www.unilever.com/sustainable-living

The Annual Report on Form 20-F 2018 along with other relevant documents can be downloaded at

www.unilever.com/ara2018/downloads

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ABOUT US

AT A GLANCE

OUR BRANDS ARE AVAILABLE IN OVER 190 COUNTRIES. THIS GIVES US A UNIQUE OPPORTUNITY TO POSITIVELY IMPACT THE LIVES OF PEOPLE ALL OVER THE WORLD.

Every day, 2.5 billion people use our products to feel good, look good and get more out of life. Our range of around 400 household brands includes Lipton, Knorr, Dove, Rexona, Hellmann s and Omo. We are one of the largest fast moving consumer goods (FMCG) companies globally. In 2018 we had 12 brands with turnover of over a billion euros or more. The strength of our global brands is reflected in Kantar s Brand Footprint report published in May 2018. It found that 13 of the world s top 50 FMCG brands based on market penetration and consumer interactions are owned by Unilever with these brands chosen 36 billion times each year. This is significantly more than any other FMCG company in the study.

Our portfolio also includes iconic local brands designed to meet the specific needs of consumers in their home market such as Brooke Bond in India and Brilhante in Brazil. We are increasingly seeing our local brands and innovations being rolled out to more markets such as Lakme and Breyers Delights. Our geographic reach gives us an unparalleled global presence, including a unique position in emerging markets which generate 58% of our turnover.

From the beginning of 2018, Unilever began operating across three new Divisions created as part of our efforts to accelerate shareholder value creation. The largest by turnover is Beauty & Personal Care followed by Foods & Refreshment then Home Care. Details of each can be found on pages 11 to 12. The sale of our spreads business was also completed in mid-2018. These changes create a strong platform to accelerate our strategy of long-term, sustainable shareholder value creation. Our strategy is explained in detail on page 10.

Our business activities span a complex global value chain which is described on page 9. At the heart of our business is a workforce of 155,000 people (as at 31 December 2018) who are driven by our purpose and empowered to excel in our fast-changing markets. The combination of global scale and local agility has become yet more effective through the continued implementation of our Connected 4 Growth (C4G) change programme to meet consumer trends which are detailed on page 8. Our employees are supported by leadership teams with representatives from over 70 countries. Of our business leaders, 80% are local to their markets reflecting the deep local expertise at the heart of our business. This rises to more than 90% when we include managers who support those teams.

In this volatile and uncertain world, protecting Unilever through the fostering of business integrity is a non-negotiable for all employees. Our Code of Business Principles (the Code), and the 24 policies that support it (Code Policies), set out the behaviour standards required from all our people. The Code Policies cover a number of areas, including anti-bribery and corruption, respect, dignity and fair treatment of people and personal data and privacy. Together, the Code and Code Policies help us put our values of Integrity, Respect, Responsibility and Pioneering into practice. See page 16 for more on our Code and Code Policies.

During the year the Boards withdrew proposals to simplify Unilever s dual-headed legal structure after extensive engagement with shareholders. We remain firmly committed to our 2020 financial programme and are confident of meeting its key targets and objectives as our faster, simpler organisation delivers more efficiency, lower costs and significant operational and financial benefits.

This Annual Report and Accounts provides further detail on our performance during the year and how our business model is delivering strong returns for shareholders and a more sustainable way of doing business for the benefit of all our stakeholders. Find out more about our performance on pages 6 and 7.

OUR PURPOSE

UNILEVER S PURPOSE IS TO MAKE SUSTAINABLE LIVING COMMONPLACE. WE BELIEVE THIS IS THE BEST WAY TO DELIVER LONG-TERM SUSTAINABLE GROWTH.

We believe long-term sustainable growth is best delivered through brands that offer great performance and have a genuine purpose. Washing shirts whiter or making hair healthier and shinier is still vitally important, but product performance by itself is no longer enough. Consumers are looking for more.

At Unilever, we encourage our brand managers to take a stance and make a positive difference to society. Purpose defines a brand in people s minds and is best delivered through action. It s only through action that consumers will see purpose as more than marketing.

Our company purpose To make sustainable living commonplace is unequivocal. We want to help create a world where everyone can live well within the natural limits of the planet. We put sustainable living at the heart of everything we do, including our brands and products, our standards of behaviour and our partnerships which drive transformational change across our value chain.

Purpose takes many forms amongst our brands. Some, like Lifebuoy, take on life-threatening diseases associated with poor hygiene with programmes to change handwashing behaviour. Domestos purpose is to improve sanitation for millions of people who do not have access to a toilet. Our brands can also be a catalyst to promote positive cultural norms. Brooke Bond s purpose Common ground is only a cup away is highly relevant in an increasingly divided world and can be applied well locally. In India, it addresses religious tensions. In the Gulf, divorce. In Canada, same-sex relationships.

Some of our brands take an activist stance, mobilising citizens to change policy or create social movements. For example, Ben & Jerry s builds movements around issues such as climate change and the refugee crisis. Seventh Generation with its plant-based products campaigns for renewable energy. Deodorant brand Rexona s purpose is to help reverse physical inactivity, a big issue for societies facing increasingly sedentary lifestyles. Rexona believes the more you move, the more you live supported by Motion Sense technology which works through movement. Radiant believes everyone deserves an opportunity to shine. It goes beyond bright clothes and helping consumers dress to progress , enhancing skills through its Career Academies. Each market focuses on the skills that matter locally. In Brazil that s entrepreneurial and business skills. In India, English language skills.

All of Unilever s brands are on a journey to becoming purposeful. Sustainable Living brands are those that are furthest ahead. In 2017, 26 of our brands qualified as Sustainable Living brands including our B-Corp certified brands such as Ben & Jerry s, Seventh Generation and Pukka Herbs, which means that they meet high standards of social and environmental performance, transparency and legal accountability. Our Sustainable Living brands grew 46% faster than the rest of the business and delivered more than 70% of Unilever s growth, driven by consumer demand for brands with purpose at their core.

However volatile and uncertain the world is, Unilever s purpose supported by the Unilever Sustainable Living Plan (USLP) and brands with purpose will remain steadfast because managing for the benefit of multiple stakeholders is the best way for us to grow.

We are now looking beyond the current USLP as many of our targets end in 2020. We carried out an extensive listening exercise on the future of sustainable business. We spoke to approximately 300 stakeholders, including more than 130 external experts, and heard from over 40,000 employees through a Have Your Say survey. They gave us their views on the priorities that they would like Unilever to focus on. The results will be used to co-create Unilever s future agenda.

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CHAIRMAN S STATEMENT

2018 PERFORMANCE

I am pleased to report that 2018 was another year of consistent top and bottom line performance for Unilever. Solid revenue growth was combined with good profitability and cash flow delivery. This despite a challenging year for the global economy, with subdued growth and high levels of volatility undermining consumer confidence in many parts of the world.

Unilever is also operating in a sector that is experiencing widespread change and disruption. Although challenging, these changes offer significant opportunities to companies able to move with speed and agility and who can tailor their offering to changing consumer preferences. To that end, the Boards are very confident that Unilever s strategy and the measures it has taken to strengthen its organisation, sharpen its portfolio and digitise its operations make it well placed to capture new and emerging growth opportunities.

The Boards also believe that the Unilever Sustainable Living Plan continues to set Unilever apart as a business highly attuned to the growing desire among consumers for companies and brands that serve a wider societal and environmental need.

In 2018 we also completed successfully the complex disposal of the spreads business. Our Share Buy-back programme delivered on its intention to buy back shares with an aggregate market value of 6 billion, in line with Unilever s objective to return the after-tax proceeds of the spreads disposal to shareholders.

SIMPLIFICATION

Following a thorough review and widespread consultation, the Boards put forward proposals in 2018 to simplify Unilever s dual-headed structure under a new single holding company.

In developing the proposal including a recommendation to incorporate in the Netherlands while maintaining listings in the Netherlands, the UK and the US the Boards were motivated by the opportunity to unlock value by simplifying Unilever and giving it added flexibility to compete effectively over the longer-term.

We recognised however that the proposal did not receive support from a significant group of shareholders and therefore considered it appropriate to withdraw. The Boards still believe that simplifying Unilever s dual-headed structure would, over time, provide opportunities to further accelerate value creation and would serve Unilever s best long-term interests.

Since withdrawing the proposal, I have met with a significant number of PLC and NV shareholders to discuss further ideas and possible next steps. It is clear from all these meetings that there is widespread support for the principles and strategic rationale behind Simplification. In these meetings, I also took the opportunity to reaffirm our commitment to further strengthen our corporate governance. Accordingly, in February 2019, we followed through on our commitment to cancel the NV Preference Shares, in itself a major step towards simplifying the company s share capital.

BOARD COMPOSITION AND SUCCESSION

The 2018 AGMs marked the retirement of Ann Fudge as a Non-Executive Director and Vice-Chairman of the Boards. On behalf of the Boards, I would like to thank Ann for her outstanding and valued contribution to Unilever.

I was also delighted that you elected Andrea Jung as a Non-Executive Director at the same AGMs. Andrea brings highly relevant experience and expertise to Unilever and is a very welcome addition to the Boards.

CEO SUCCESSION

A key focus for the Boards last year was to manage the CEO succession, with Paul Polman stepping down as CEO after 10 years with the Group.

After a rigorous and wide-ranging selection process, the Boards were unanimous in its decision to appoint Alan Jope to the role. Alan became CEO on 1 January 2019 and is being proposed as an Executive Director at the 2019 AGMs.

Alan has led Unilever s largest Division, Beauty & Personal Care, for the last four years and he has been a member of the Group s Leadership Executive since 2011. His previous roles include running Unilever s business in North Asia. Alan has deep understanding and wide experience of Unilever s business and markets. He is a strong, dynamic and values-driven leader with an impressive track record of delivering consistent high-quality performance across both developed and emerging markets. The Boards warmly welcome Alan to the role and look forward to working closely with him in the years ahead.

Unilever has been transformed under the leadership of Paul Polman. He has overseen ten years of consistent top and bottom line growth and very competitive returns to shareholders. He leaves with the company s geographic footprint and brand portfolio stronger and well positioned for future growth.

Paul s pioneering commitment to sustainable and equitable growth have marked him and the company out as leaders in the field. Thanks to his visionary leadership and tireless efforts, Unilever is not only one of the most admired and respected companies in the world today, but also one of the most desired employers.

Paul retired as CEO and as a Board member on 31 December 2018. He will support the transition process in the first half of 2019 and will leave the Group in early July. We thank him for his remarkable contribution to the company and wish him every success in the future.

REMUNERATION

During 2018 we also continued to consult with shareholders on our Remuneration Policy, particularly for the Executive Directors. At the 2017 AGMs you provided your strong support to the implementation of a reward framework that encourages and enhances a strong performance culture by enabling Unilever managers to have an even stronger personal commitment to Unilever share ownership.

At the 2018 AGMs, we asked shareholders to approve a new Remuneration Policy that would align the pay of our Executive Directors fully with the Reward Framework we introduced following the 2017 AGMs. Whilst shareholders approved the new Remuneration Policy, we recognised that a significant minority of NV and PLC shareholders voted against the proposal. On pages 50 and 51 of the 2018 Directors Remuneration Report, we describe in detail the principal concerns and how we responded to them and other changes to the implementation of the Remuneration Policy.

EVALUATION

Following the external Board evaluation in 2017, we used a simplified internal evaluation this year. While we concluded that the Boards continued to operate in an effective manner overall, the Boards decided that it will maintain a particular focus on portfolio and channel strategies and digitisation. Each Board Committee also performed its own self-evaluation, agreeing areas where it could enhance its effectiveness further. These are described within each Committee Report.

LOOKING AHEAD

Even though trading conditions are likely to remain challenging in 2019, the Boards remain confident both in the outlook and in the strategy for the Group, reflected by an 8% increase in the dividend for the 2018 financial year.

Over the year, Board members have visited Unilever operations in several parts of the world, including China and the United States. We have seen first-hand the depth of talent that exists within the company, as well as the commitment of Unilever people to go on improving the lives of consumers and the societies in which the company operates. On behalf of the Boards, I want to thank all of the 155,000 employees of Unilever for their remarkable efforts.

Equally we have been pleased to engage with many of the company s other stakeholders, without whom Unilever could not be successful. That includes our shareholders, who I also want to thank for their continued support of the company.

MARIJN DEKKERS

CHAIRMAN

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BOARD OF DIRECTORS

OVERVIEW OF EXECUTIVE & NON-EXECUTIVE DIRECTORS

MARIJN DEKKERS Chairman

Previous experience: Bayer AG (CEO); Thermo Fisher Scientific Inc. (CEO).

Current external appointments: Novalis LifeSciences LLC (Founder and Chairman); Quanterix Corporation (Director); Georgetown University (member Board of Directors); Foundation for the National Institutes of Health (Director).

YOUNGME MOON Vice-Chairman/Senior Independent Director

Previous experience: Harvard Business School (Chairman and Senior Associate Dean for the MBA Program); Massachusetts Institute of Technology (Professor); Avid Technology (NED).

Current external appointments: Sweetgreen Inc (Board Member); Jand Inc (Board Member); Harvard Business School (Professor).

ALAN JOPE CEO

Nationality British **Age** 54, Male. Appointed CEO: January 2019. Appointed Director: Alan Jope will be proposed for election as an Executive Director at the 2019 AGMs.

Previous experience: Beauty and Personal Care Division (President); Unilever Russia, Africa and Middle East (President); Unilever North Asia (President); SCC and

GRAEME PITKETHLY CFO

Nationality British **Age** 52, Male. Appointed CFO: October 2015. Appointed Director: April 2016. Attended 6/6 planned Board Meetings and 4/4 ad hoc Board Meetings.

Previous experience: Unilever UK and Ireland (EVP and General Manager); Finance Global Markets (EVP); Group Treasurer; Head

NILS SMEDEGAARD ANDERSEN

Previous experience: A.P. Moller Maersk A/S (Group CEO); Carlsberg A/S and Carlsberg Breweries A/S (CEO); European Round Table of Industrialists (Vice-Chairman); Unifeeder S/A (Chairman).

Current external appointments: AKZO Nobel N.V. (Chairman);

Dressings (Global Category Leader); Home and Personal Care North America (President).

of M&A; FLAG Telecom (VP Corporate Development); PwC.

Current external appointments: Financial Stability Board Task Force on Climate Related Financial Disclosure (Vice Chair).

BP Plc (NED); Dansk Supermarked A/S (Chairman); Faerch Plast (Chairman).

LAURA CHA

Previous experience: Securities and Futures Commission, Hong Kong (Deputy Chairman); China Securities Regulatory Commission (Vice Chairman); China Telecom Corporation Limited (NED); 12th National People s Congress of China (Hong Kong Delegate).

Current external appointments: HSBC Holdings plc (NED); Hong Kong Exchanges and Clearing Ltd (Non-Executive Chairman); Foundation Asset Management Sweden AB (Senior international adviser); Executive Council of the Hong Kong Special Administrative Region (Non-official member).

VITTORIO COLAO

Previous experience: Vodafone Group plc (CEO); RCS MediaGroup SpA (CEO); McKinsey & Company (Partner); Finmeccanica Group Services SpA (renamed to Leonardo SpA) (NED); RAS Insurance SpA (merged with Allianz AG) (NED).

Current external appointments: Bocconi University (NED and Executive Committee member); Oxford Martin School (Advisor).

JUDITH HARTMANN

Previous experience: General Electric (various roles); Bertelsmann SE & Co. KGaA (CFO); RTL Group SA (NED); Penguin Random House LLC (NED).

Current external appointments: ENGIE Group (CFO and EVP North America and UK/Ireland); Suez (NED).

ANDREA JUNG

Previous experience: Avon Products Inc (CEO); General Electric (Board Member); Daimler AG (Board Member).

Current external appointments: Grameen America Inc (President and CEO); Apple Inc (NED); Wayfair Inc (NED).

MARY MA

STRIVE MASIYIWA

JOHN RISHTON

FEIKE SIJBESMA

Previous experience: TPG Capital, LP (Partner); TPG China Partners (Co-Chairman).

Current external appointments: Lenovo Group Ltd. (NED); Boyu Capital Consultancy Co. Ltd (Managing Partner); MXZ Investment Limited (Director); Securities and Futures Commission, Hong Kong (NED).

Previous experience: Africa Against Ebola Solidarity Trust (Co-Founder and Chairman); Grow Africa (Co-Chairman); Nutrition International (formerly known as Micronutrient Initiative) (Chairman).

Current external appointments: Econet Group (Founder and Group Executive Chairman); Econet Wireless Zimbabwe Ltd (Director); The Alliance for a Green Revolution in Africa (AGRA) Not-for-Profit Corporation (Chairman); Rockefeller Foundation (Trustee).

Previous experience: Rolls-Royce Holdings plc (CEO); Koninklijke Ahold NV (merged to Koninklijke Ahold Delhaize NV) (CEO, President and CFO); ICA (now ICA Gruppen AB) (NED).

Current external appointments: Informa plc (NED); Serco Group plc (NED); Associated British Ports Holdings Ltd. (NED).

Previous experience: Supervisory Board of DSM Nederland B.V. (Chairman); Utrecht University (Supervisory Director); Stichting Dutch Cancer Institute/ Antoni van Leeuwenhoek Hospital NKI/AVL) (Supervisory Director).

Current external appointments: Koninklijke DSM NV (CEO and Chairman of the Managing Board); De Nederlandsche Bank NV (Member of the Supervisory Board); Carbon Pricing Leadership Coalition (High Level Assembly Co-Chairman), Climate Leader for the World Bank Group.

NON-EXECUTIVE DIRECTORS

MARIJN DEKKERS	NILS ANDERSEN	LAURA CHA	VITTORIO COLAO	JUDITH HARTMANN	ANDREA JUNG	MARY MA	STRIVE MASIYIWA	YOUNGME MOON	JOHN RISHTON
61	60	69	57	49	59	66	58	54	61
Male	Male	Female	Male	Female	Female	Female	Male	Female	Male
Dutch / American	Danish	Chinese	Italian	Austrian	American / Canadian	Chinese	Zimbabwean	American	British
April	April	May	July	April	May	May	April	April	May
2016	2015	2013	2015	2015	2018	2013	2016	2016	2013

CC, NCGC (Chairman)	AC	NCGC	CC (Chairman)	AC	CC	CC	CRC (Chairman)	CRC	AC (Chairman)

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* AC refers to the Audit Committee; CC refers to the Compensation Committee; CRC refers to the Corporate Responsibility Committee; and NCGC refers to the Nominating and Corporate Governance Committee.

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CHIEF EXECUTIVE OFFICER S REVIEW

Widespread economic and geopolitical uncertainty meant that the global business environment remained challenging in 2018. Currency depreciation in a number of key markets fuelled inflationary pressures and dampened consumer demand, while input costs rose steadily on the back of escalating commodity prices.

A SOLID PERFORMANCE

Against this backdrop, Unilever delivered a solid performance. Underlying sales grew by 3.1%, excluding the recently-divested spreads business (2.9% including spreads). Growth was profitable, bringing our underlying operating margin to 18.4%, up 90 basis points, which also drove a healthy free cash flow of 5 billion for the year.

Importantly, the overall shape and quality of the performance was encouraging. We achieved a good balance of price and volume growth. Growth was broad-based, across each of our three global Divisions Beauty & Personal Care, Home Care and Foods & Refreshment. Our continuing margin progression was underpinned by well-embedded savings and efficiency programmes, and an improving mix from underlying sales growth in Beauty & Personal Care.

Inspired by the Unilever Sustainable Living Plan, we also saw our brands with the most distinct and well-articulated social and environmental purpose grow significantly faster than our other brands.

The performance last year demonstrates I believe that our strategy is working. By empowering our three global Divisions, we are allowing for more strategic allocation of resource and for greater differentiation in meeting changing consumer needs. Beauty & Personal Care, for example, made good progress in moving to more premium positions and expanding in the high growth segments. Home Care built on its already strong emerging market footprint with a strategy of market development and benefit-led innovation for emerging needs. Whilst Foods & Refreshment was combined into a single division bringing more scale and focus to allow faster transformation of our portfolio.

The results in 2018 re-affirm the enduring strength of Unilever s brands and the growing resilience of our organisational model, as well as underlining Unilever s ability to deliver consistent top and bottom line performance even in very challenging conditions. Nevertheless, we are determined to step up the proportion of our business that is winning market share as part of moving our sales growth more consistently into the middle of our multi-year 3-5% targeted range.

A YEAR OF PROGRESS

As well as delivering a solid set of results, we also made good progress in 2018 in strengthening the overall business to be ready for future opportunities:

By empowering those closest to the marketplace, and by linking our global brand teams across the world, our Connected for Growth (C4G) organisational model is helping to increase speed and agility, as well as giving rise to a greater entrepreneurial spirit inside the company. As an illustration of this, time to market with new innovations to meet local trends is now 40%-50% faster compared to 2016. We also launched 19 new brands, including Love Home and Planet, a range of plant-based, home-cleaning products and a follow-up to our successful launch of the natural and sustainable hair and skincare product range, Love Beauty and Planet.

In line with our strategy, we continued to move the portfolio in the direction of the faster-growing segments of the market, especially those that speak to consumers growing desire for more natural products and purpose-driven brands. The vast majority of businesses we have acquired over recent years are now growing by double digits on a yearly basis and we were delighted at the end of last year to announce the acquisition of GlaxoSmithKline s Health Food Drinks portfolio, including its iconic Horlicks brand in India and the rest of Asia, further increasing our presence in the highly attractive health-food category. We also completed successfully the complex disposal of the spreads business, returning the after-tax proceeds to shareholders.

The way people shop and access brands is changing rapidly and we made good progress in 2018 in positioning ourselves effectively in
new and faster-growing channels. Our e-commerce sales were up by 47%, ahead of global e-commerce market growth and putting us well on the road to building a scale e-commerce business. We also accelerated the growth of our business with Discounters, in the Health and Beauty channel and in the out-of-home eating market.

The digital transformation of the company also continues apace. We are working successfully with leading global technology companies to build world-class technology and data analytics infrastructure. Through the sophisticated and responsible leveraging of our data insights, we are close to reaching our goal of being able to connect directly with a billion of our consumers. In our operations, we have already automated over 700 processes saving time and reducing cost and our in-house training programmes are increasingly focussed on the digital up-skilling of our own people.

Our attractiveness as an employer of choice grew still further in 2018. Unilever is now the number one FMCG graduate employer of choice in almost 50 countries. That is a remarkable achievement, and testament to Unilever s values and commitment to be a force for good in the world.

Strengthened by these measures, we are good in shape for the future. We ended 2018 with 58% of our turnover in the emerging markets and enjoying number 1 or 2 positions in 85% of the key markets and categories in which we compete. Our Beauty & Personal Care business where some of the biggest growth opportunities exist now represents 40% of our turnover. All of this makes us well placed to capture the many opportunities that exist across our markets.

LOOKING AHEAD

Building on these strong foundations, I have already made clear that my first priority as CEO will be to accelerate quality growth. For us, that means an investment-led approach based on delivering our 4G growth model consistent growth, competitive growth, profitable growth and responsible growth, with an equal focus on each.

In particular, I want to leave no doubt that I intend to build further on Unilever s century-old commitment to responsible business. Making Sustainable Living Commonplace will remain our purpose as a company and we will use this to keep Unilever at the forefront of ensuring business is a force for good. More and more of our brands will become explicit about the positive social and environmental impact they have. This is entirely aligned to the instincts of our people and to the expectations of our consumers. It is not about putting purpose ahead of profits, it is purpose that drives profits.

Despite the progress we have made in recent years, I am also clear that in a world where the speed of change is relentless we need to quicken the pace of everything we do still further. I want to make speed and skills for a digital age a hallmark of Unilever under my leadership.

If we can do all this then I am confident we can achieve our strategic aims and deliver many years of solid cash flow, further underlying operating margin improvement and good quality growth.

AND FINALLY

I want to thank my colleagues throughout the whole company for their hard work in delivering these results. Unilever is fortunate to have such talented and dedicated people and I am deeply aware of my responsibilities to them and to our many other stakeholders in being asked to lead this wonderful company.

I especially want to thank my predecessor, Paul Polman. Unilever has been transformed under his inspiring leadership. He has worked tirelessly to make the company stronger and the world a better place. It has been a privilege to serve with him and an honour now to succeed him.

I also want to thank the Unilever Board of Directors for their confidence and invaluable guidance as I take on the role. And, finally, to our shareholders, thank you for your ongoing support and belief in the company, which we will always work hard to retain.

ALAN JOPE

CHIEF EXECUTIVE OFFICER

UNILEVER LEADERSHIP EXECUTIVE (ULE) OVERVIEW

FOR ALAN JOPE AND GRAEME PITKETHLY SEE PAGE 3

DAVID BLANCHARD

Chief R&D Officer

Nationality British **Age** 54, Male

Appointed to ULE January 2013 (will retire in April 2019)

Joined Unilever 1986

Previous Unilever posts include: Unilever Research & Development (SVP); Unilever Canada Inc. (Chairman); Foods America (SVP Marketing Operations); Global Dressings (VP R&D); Margarine and Spreads (Director of Product Development).

Current external appointments:

Ingleby Farms and Forests (NED).

MARC ENGEL

Chief Supply Chain Officer

Nationality Dutch **Age** 52, Male

Appointed to ULE January 2016

Joined Unilever 1990

Previous Unilever posts include:

Unilever East Africa and Emerging Markets (EVP); Chief Procurement Officer; Supply Chain, Spreads, Dressings and Olive Oil Europe (VP); Ice Cream Brazil (Managing Director); Ice Cream Brazil (VP); Corporate Strategy Group; Birds Eye Wall s, Unilever UK (Operations Manager).

Current external appointments: PostNL (Supervisory Board member).

HANNEKE FABER

President, Europe

Nationality Dutch **Age** 49, Female **Appointed to ULE** January 2018

Joined Unilever 2018

Previous posts include:

Royal Ahold Delhaize (CEIO & EC);

Royal Ahold (CCO); P&G (VP & GM).

Current external appointments:

Bayer AG (Supervisory Board member), Leading Executives Advancing Diversity (LEAD) (advisory board member).

KEES KRUYTHOFF

President, Home Care

Nationality Dutch **Age** 50, Male

Appointed to ULE November 2011

Joined Unilever 1993

Previous Unilever posts include: President, North America and Global Head of Customer Development; Brazil (EVP); Unilever Foods South Africa (CEO); Unilever Bestfoods Asia (SVP and Board member).

Current external appointments: Enactus (Chairman).

LEENA NAIR

Chief Human Resources Officer

Nationality Indian **Age** 49, Female

Appointed to ULE March 2016

Joined Unilever 1992

Previous Unilever posts include: HR Leadership and Organisational Development and Global Head of Diversity (SVP); Hindustan Unilever Limited (Executive Director HR); Hindustan Lever (various roles).

NITIN PARANJPE

President, Foods and Refreshment

Nationality Indian **Age** 55, Male

Appointed to ULE October 2013

Joined Unilever 1987

Previous Unilever posts include: President Home Care; EVP South Asia and Hindustan Unilever Limited (CEO); Home and Personal Care, India (Executive Director); Home Care (VP); Fabric Wash (Category Head); Laundry and Household Cleaning, Asia (Regional Brand Director).

RITVA SOTAMAA

Chief Legal Officer and Group Secretary

Nationality Finnish **Age** 55, Female

Appointed to ULE February 2013

Joined Unilever 2013

Previous posts include: Siemens AG Siemens Healthcare (GC); General Electric Company GE Healthcare (various positions including GE Healthcare Systems (GC)); Instrumentarium Corporation (GC).

Current external appointments:

Fiskars Corporation (NED).

AMANDA SOURRY

President, North America & Global Head of Customer Development

Nationality British **Age** 55, Female

Appointed to ULE October 2015

Joined Unilever 1985

Previous Unilever posts include: President Foods; Global Hair (EVP); Unilever UK and Ireland (EVP and Chairman); Global Spreads and Dressings (EVP); Unilever US Foods (SVP).

Current external appointments:
PVH Corporation. (NED).

KEITH WEED

Chief Marketing & Communications Officer

Nationality British **Age** 57, Male

Appointed to ULE April 2010 (will retire in May 2019).

Joined Unilever 1983

Previous Unilever posts include:

Global Home Care and Hygiene (EVP); Lever Fabergé (Chairman); Hair and Oral Care (SVP).

Current external appointments:

Business in the Community (Board member); Effie (Board member); Historical Advertising Trust (President); Advertising Association (President); Grange Park Opera (Trustee).

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OUR PERFORMANCE

FINANCIAL PERFORMANCE

GROWING THE BUSINESS	2018	2017	2016
GROUP			
TURNOVER GROWTH			
Turnover growth averaged 0.6% over five years	(5.1%)	1.9%	(1.0%)
UNDERLYING SALES GROWTH*			
Underlying sales growth averaged 3.3% over five years	2.9%^	3.1%^	3.7%
UNDERLYING VOLUME GROWTH*			
Underlying volume growth averaged 1.3% over five years	1.9%	0.8%	0.9%
OPERATING MARGIN			
Operating margin averaged 17.3% over five years	24.6%	16.5%	14.8%
UNDERLYING OPERATING MARGIN*			
Underlying operating margin has steadily increased over five years from 15.5% to 18.4%	18.4%	17.5%	16.4%
FREE CASH FLOW*			
Unilever has generated free cash flow of 23.0 billion over five years	5.0 billion	5.4 billion	4.8 billion
DIVISIONS			
BEAUTY & PERSONAL CARE			
Turnover	20.6 billion	20.7 billion	20.2 billion
Turnover growth	(0.3%)	2.6%	0.5%
Underlying sales growth	3.1%^	2.9%^	4.2%
Operating margin	20.0%	19.8%	18.4%
Underlying operating margin	21.9%	21.1%	20.0%
FOODS & REFRESHMENT			
Turnover	20.2 billion	22.4 billion	22.5 billion
Turnover growth	(9.9%)	(0.4%)	(2.2%)
Underlying sales growth	2.0%^	2.7%^	2.7%
Operating margin	35.8%	16.1%	14.0%
Underlying operating margin	17.5%	16.7%	15.6%
HOME CARE			
Turnover	10.1 billion	10.6 billion	10.0 billion
Turnover growth	(4.2%)	5.6%	(1.5%)
Underlying sales growth	4.2%^	4.4%^	4.9%
Operating margin	11.5%	10.8%	9.5%
Underlying operating margin	13.0%	12.2%	10.9%

* Key Financial Indicators.

^ Wherever referenced in this document, 2018 underlying sales growth does not include price growth in Venezuela for the whole of 2018 and in Argentina from July 2018. 2017 underlying sales growth does not include Q4 price growth in Venezuela. See pages 23 and 24 on non-GAAP measures for more details.

The Group has revised its operating segments to align with the new structure under which the business is managed. Beginning 2018, operating segment information is provided based on three product areas: Beauty & Personal Care, Foods & Refreshment and Home Care.

Underlying sales growth, underlying volume growth, underlying operating margin and free cash flow are non-GAAP measures. For further information about these measures, and the reasons why we believe they are important for an understanding of the performance of the business, please refer to our commentary on non-GAAP measures on page 23.

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UNILEVER SUSTAINABLE LIVING PLAN

	TARGET	2018	2017	2016
IMPROVING HEALTH & WELL-BEING				
BIG GOAL: By 2020 we will help more than a billion people take action to improve their health and well-being. See page 13.				
HEALTH & HYGIENE				
Target: By 2020 we will help more than a billion people to improve their health and hygiene. This will help reduce the incidence of life-threatening diseases like diarrhoea.	1 billion	653 million	601 million	538 million[f]
NUTRITION				
Target: By 2020 we will double (ie up to 60%) the proportion of our portfolio that meets the highest nutritional standards, based on globally recognised dietary guidelines. This will help hundreds of millions of people to achieve a healthier diet.	60%	48%	39%[¥]	35%
REDUCING ENVIRONMENTAL IMPACT				
BIG GOAL: By 2030 our goal is to halve the environmental footprint of the making and use of our products as we grow our business. See pages 13 to 14.				
GREENHOUSE GASES				
Target: Halve the greenhouse gas impact of our products across the lifecycle (from the sourcing of the raw materials to the greenhouse gas emissions linked to people using our products) by 2030 (greenhouse gas impact per consumer use).+	(50%)	6%[q]	9%[¥]	8%
Target: By 2020 CO_2 emissions from energy from our factories will be at or below 2008 levels despite significantly higher volumes (reduction in CO_2 from energy per tonne of production since 2008).**	£145.92	70.46	76.77[¥]	83.52[f]
WATER				
Target: Halve the water associated with the consumer use of our products by 2020 (water impact per consumer use).	(50%)	(2%)[q]	(2%)[¥]	(7%)
Target: By 2020 water abstraction by our global factory network will be at or below	£2.97	1.67	1.80[¥]	1.85[f]

2008 levels despite significantly higher volumes (reduction in water abstraction per tonne of production since 2008).**				
WASTE				
Target: Halve the waste associated with the disposal of our products by 2020 (waste impact per consumer use).	(50%)	(31%)[q]	(29%)	(28%)[f]
Target: By 2020 total waste sent for disposal will be at or below 2008 levels despite significantly higher volumes (reduction in total waste per tonne of production since 2008).**	£7.91	0.20	0.18[¥]	0.35[f]
SUSTAINABLE SOURCING				
Target: By 2020 we will source 100% of our agricultural raw materials sustainably (% of tonnes purchased).	100%	56%	56%	51%
ENHANCING LIVELIHOODS				
BIG GOAL: By 2020 we will enhance the livelihoods of millions of people as we grow our business. See page 14.				
FAIRNESS IN THE WORKPLACE				
Target: By 2020 we will advance human rights across our operations and extended supply chain, by:				
Sourcing 100% of procurement spend from suppliers meeting the mandatory requirements of the Responsible Sourcing Policy (% of spend of suppliers meeting the Policy).	100%	61%	55%[¥]	
Reducing workplace injuries and accidents (Total Recordable Frequency Rate of workplace accidents per million hours worked)**.		0.69	0.89[¥]	1.01[f]
OPPORTUNITIES FOR WOMEN				
Target: By 2020 we will empower 5 million women, by:				
Promoting safety for women in communities where we operate.				
Enhancing access to training and skills (number of women).	5 million	1.85 million	1.26 million[¥]	0.92 million
Expanding opportunities in our value chain (number of women).				
Building a gender-balanced organisation with a focus on management (% of managers that are women)**.	50%	49%	47%[¥]	46%
INCLUSIVE BUSINESS				
Target: By 2020 we will have a positive impact on the lives of 5.5 million people by:				
Enabling small-scale retailers to access initiatives aiming to improve their income (number of small-scale retailers).	5 million	1.73 million	1.60 million	1.53 million
Enabling smallholder farmers to access initiatives aiming to improve their agricultural practices.	0.5 million	0.75 million	0.72 million[¥]	0.65 million

Baseline 2010 unless otherwise stated

** Key Non-Financial Indicators.
PricewaterhouseCoopers assured in 2018. For details and 2018 basis of preparation see www.unilever.com/investor-relations/annual-report-and-accounts/
¥ PricewaterhouseCoopers assured in 2017. For details and 2017 basis of preparation see www.unilever.com/sustainable-living/our-approach-to-reporting/reports-and-publications-archive
f PricewaterhouseCoopers assured in 2016. For details and 2016 basis of preparation see www.unilever.com/sustainable-living/our-approach-to-reporting/reports-and-publications-archive
During 2017 and 2018 we amended how we assessed compliance with the Responsible Sourcing Policy, hence year-on-year data is not comparable.
Around 490,000 women have accessed initiatives under both the Inclusive Business and the Opportunities for Women pillars in 2018.
( ) In the table above, brackets around numbers indicate a negative trend which, for environmental metrics, represents a reduction in impact.
+ Target approved by the Science Based Targets Initiative.
q The spreads business was sold in mid-2018 and is excluded from the performance measure (including the baseline) to ensure alignment with the existing business structure.

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A CHANGING WORLD

UNILEVER OPERATES IN THE FAST-MOVING CONSUMER GOODS (FMCG) INDUSTRY, ONE OF THE WORLD S LARGEST, MOST COMPETITIVE AND DYNAMIC.

MARKET OVERVIEW

The top 25 global FMCG players generate sales of over 700 billion in markets characterised by their dynamic nature. A global, digital economy is fuelling rapid change characterised by fragmentation throughout the value chain. This requires fast, innovative, profitable global and local responses in areas such as supply chain, customer development, marketing and brand innovation.

In response, Unilever has reorganised into three Divisions: Beauty

& Personal Care, Foods & Refreshment and Home Care. Each has implemented our C4G change programme which was introduced in 2016 to create a simpler organisation capable of innovating more quickly to evolve our brand portfolios and meet changing trends more effectively harnessing our global scale and local expertise. Acquisitions of new brands have further supplemented our core portfolios.

The use and threat of tariffs for political leverage continues to drive uncertainty in our markets. Currency volatility in Argentina, Turkey and Pakistan as well as major political disruption in markets such as Brazil, continues to demand rapid local responses from our brands.

Our business is shaped by systemic macro forces. We periodically review these to ensure our strategy remains relevant. We believe there are four distinct but overlapping macro trends that will shape the world over the next ten years.

DIGITAL AND TECHNOLOGY REVOLUTION

Business is evolving at a faster pace than ever. Traditional understanding and engagement with consumers is being redefined. Digital technology is transforming relationships with consumers from connectivity and the Internet of Things, to robotics, artificial intelligence and augmented reality. All are linked by more targeted and data-driven marketing.

Fragmentation remains a principal driver of change, impacting consumer journeys, route-to-market channels and media, and brand spend. Consumers are taking different paths to purchase, often combining offline and online channels where influencers are a growing force. Younger consumers continue to prioritise meaning over materialism and are demanding more authenticity, transparency and natural ingredients. The talkability of brands is vital in a fragmented digital media landscape, favouring those with a strong point of view, or purpose, relevant to consumers. The growth of the global workforce and middle class consumers, especially in emerging markets, has resulted in long-term shifts favouring greater convenience and time-saving attributes.

Channels to reach consumers are equally fragmented. There is less reliance on big box retailers with e-commerce growing 13% globally, driven by direct-to-consumer models and platforms such as Amazon and Alibaba. The market is also polarising between specialist channels and discounters and convenience stores, creating both risks and opportunities for FMCG companies.

The proliferation of digital and social media channels has resulted in media fragmentation, with digital advertising now about 40% of the market. However, improving standards and tackling fraud to protect the integrity of digital marketing are major challenges.

POLARISED WORLD

Slow and uneven economic growth, rising inequality, political polarisation and the rise of nationalism within countries is impacting consumer confidence. At the same time, consumers continue to have low confidence in government, business, media and NGOs, according to the Edelman Trust Barometer. However, according to the same study, three out of four people agree a company can take action to both increase profits while improving economic and social conditions in the community it operates in.

ENVIRONMENT UNDER PRESSURE

According to a 2018 Intergovernmental Panel on Climate Change report, the world is on course for warming of 1.5 degrees Celsius by as early as 2030. Drought, floods, extreme heat and poverty for hundreds of millions are threatened if no action is taken to curb emissions. The cost of inaction will be profound, estimated to be about $44 trillion in lost GDP. But the rewards for positive action are substantial and thanks to the Paris Agreement, nearly 200 countries are pursuing carbon reforms. This is helping to open about $23 trillion in opportunities for climate-smart investments in 21 emerging markets alone by 2030.

Climate change also threatens our food system which must produce 50% more food to feed over 9 billion people by 2050. However, changing weather patterns and growing seasons threaten suitable cultivation areas around the world. Business can spur positive change and achieving food security could create 80 million jobs and business opportunities worth $2.3 trillion annually by 2030. Linked to climate change is water scarcity, a threat to 3.2 billion people. If current usage continues the world will have only 60% of its required water by 2030. See pages 30 and 33 to 35 for more on climate change risks.

Other environmental concerns are growing in significance, such as plastic packaging. The Ellen MacArthur Foundation found that 95% of the value of plastic packaging is lost to the economy after one short use, equivalent of $80-120 billion lost to the global economy each year. See pages 14 to 15 and 30 for more on plastic packaging risks and opportunities.

PEOPLE LIVING DIFFERENTLY

Concerns about the planet and society are matched by concerns about our own health and what we eat. Growing urbanisation is shaping new health priorities while the cost of care is also rising, placing health services under increased pressure. Obesity kills more people than hunger, while many populations struggle to find sufficient nourishment in their diets. Sugar is seen as a major threat which has resulted in a number of countries choosing to implement a tax on it. For food companies, this presents a mix of challenges and opportunities. Meanwhile, public awareness around mental health issues continues to grow, particularly with digital connectivity.

Consumers are now living in communities that are becoming more diverse with fragmented identities. Younger generations, especially Millennials and Generation Z, continue to have a powerful influence on cultural norms on issues such as diversity and discrimination. Meanwhile, older generations are exerting a strong economic influence. The number of people aged 80 or over is expected to triple by 2050.

Migration is having a profound effect on national identity. One in 30 people are international migrants living abroad, a 40% rise since 2000. People are encouraged to move, in part, by the rise of global megacities with more than ten million inhabitants. The number of these will rise from 31 to 41 by 2030. Such urbanisation is expected to create an additional 500 million one-person households between 2016 and 2030. Climate change looks set to increase migration even further as populations are displaced due to rising sea levels and changing climates.

The #MeToo movement has encapsulated a major shift in women s rights. The global gender gap in primary school completion and enrolment in secondary school has closed, however barriers and opportunities remain, particularly on equal pay. According to the World Bank, gender equality would enrich the global economy by an estimated $160 trillion if women were earning as much as men in the workplace. Men themselves face changing roles. Time spent with children has almost quadrupled for men since 1965 and in some countries the burden of care is changing in response to improved paternity leave entitlements and shared parental leave. Changing demographics and societal expectations present significant risks and opportunities for FMCG companies.

Find out more about how we are responding to the trends outlined in this section in delivering value for our stakeholders (pages 11 to 18).

OUR VALUE CREATION MODEL

UNILEVER HAS A PROVEN BUSINESS MODEL THAT SUPPORTS LONG-TERM, SUSTAINABLE VALUE CREATION.

Our business activities span a complex, global and cyclical value chain. The start of our value chain is consumer insight. We track changing consumer sentiment through our 27 People Data Centres around the world. Through close collaboration between marketing and R&D, we use our insights to inform product development, leveraging our 900 million annual R&D spend. Our research aims to bring together the best thinking and ideas from wherever they exist within Unilever and beyond, including universities and specialist companies.

We work with tens of thousands of suppliers and spend around 34 billion on goods and services. Our supply chain sources the materials and ingredients that make up our products. Our global manufacturing operations across more than 300 factories in 69 countries turn these raw materials into products with a total volume of nearly 19 million tonnes.

Our products are then distributed via a network of around 400 globally coordinated distribution centres to 26 million retail stores, from large supermarkets, hypermarkets, wholesalers and cash and carry, to small convenience stores, as well as other fast-growing channels such as e-commerce, out-of-home and direct-to-consumer.

We are the second largest advertiser in the world, based on media spend. We create an increasing amount of tailored content ourselves to market our brands, using digital channels.

Underpinning our value chain is a set of defining strengths which set us apart from our competitors: our portfolio of global, purpose-led brands and local jewels; a geographic presence in more than 190 countries with 58% of our turnover in emerging markets; deep distribution capability through ever more complex channels; and a talent pool of local leaders over 80% of our business leaders are local to their markets.

Our strategy (see page 10) and our Divisional strategies (see pages 11 to 12) harness these strengths to deliver competitive top and

bottom-line growth, and capital efficiency which in turn drives underlying operating margin, free cash flow and return on invested capital and ultimately attractive returns for shareholders.

To respond further to the increasing pace of change and accelerate value creation, we have embedded our C4G programme across all Divisions so we are a faster, simpler organisation. We are also rapidly embracing new digital technologies such as the Internet of Things, AI and robotics to get even closer to our value chain partners and consumers.

Our strategy and business model continue to deliver solid growth. From 2014 to 2018 we have delivered average underlying sales growth of 3.3% a year while underlying operating margin increased by an average 70 basis points per year to 18.4%. Longer term, Unilever has grown dividends by an average of 8% per year over the last 38 years, with no reductions.

We are on track to meet a number of targets to accelerate shareholder value since 2017. These include underlying sales growth ahead of our markets, which we expect to translate into underlying sales growth of 3-5% each year up to 2020, projected cumulative savings of 6 billion by 2019 and an expansion of underlying operating margin from 18.4% in 2018 to 20% by 2020. Return on Invested Capital is expected to be sustained in the high teens and dividends will continue to rise, reflecting confidence in the outlook for profit growth and cash generation.

Sustainable value creation also means creating value for the many stakeholders Unilever relies on. The Unilever Sustainable Living Plan (USLP) is at the heart of our multi-stakeholder business model and vision to grow our business, whilst decoupling our environmental footprint from our growth and increasing our positive social impact in turn contributing to the United Nations Sustainable Development Goals (see page 15). The USLP helps us to deliver more growth through our brands with purpose, less risk by future proofing our supply chain, lower costs through eco-efficiency practices and more trust from the stakeholders who we rely on.

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OUR STRATEGY

GROWING THE CORE, EVOLVING THE PORTFOLIO AND DEVELOPING CHANNELS ARE AT THE HEART OF OUR STRATEGY.

Our strategy helps us deliver top and bottom line growth in a fast-changing world. It is underpinned by C4G which aims to create a faster, simpler organisation.

WINNING WITH BRANDS AND INNOVATION

Rapid innovation is critical to respond effectively to the fragmentation we are experiencing in consumer segments, routes to market and media channels. Innovation varies by Division based on market requirements and brand strategies but we split projects into three separate groups. Firstly, we have global roll-outs, such as the Sunsilk Natural Recharge launched in 5 markets in 2018. Secondly, we have local innovations marketed through global brands, such as our partnership with Kinder (owned by Ferrero) which was launched in several European countries following success in France. Finally, we have local brands with local innovation, such as Vim bars with mint extract launched in India.

Our faster response to consumer trends is due to different ways of working to meet the needs of local consumers and customers, and quick decision-making. Global marketing networks called Brand Communities work hand in hand with more than 230 Country Category Business Teams (CCBTs) that operate as multifunctional entrepreneurial units. This allows for more experimentation, responsiveness and scaling up of innovation across markets. We are already seeing an improvement in time to market across our portfolio as a result of a range of initiatives to speed up the innovation process. For example, time to market with new innovations to meet local trends is now 40-50% faster compared to 2016.

Our portfolios are evolving to meet consumer demand for brands that take a stand on issues they care about. Unilever s purpose and our Sustainable Living brands are key to driving purchase preference. Consumer trust in brands is also driven by their experiences of marketing. In 2018 we took a key role in the industry ensuring digital responsibility covering content, platforms and measurement while also campaigning to improve influencer marketing and combat fraud in the digital ecosystem.

Related principal risks (pages 29 to 32): **Brand preference, Economic and political instability, Portfolio management, Safe and high-quality products, Sustainability, Climate change, Plastic packaging**

WINNING THROUGH CONTINUOUS IMPROVEMENT

C4G plays a significant role in driving growth, but is also responsible for margin expansion for profitable growth. Through sharper financial discipline governing overhead spending, and our zero-based budgeting (ZBB) approach, we are reducing costs and uncovering innovative ways of working.

We are applying the 5S smart programme across the Group which cuts costs and examines the business case for improvements more broadly driving savings through smart buying, smart sourcing and a smart product portfolio, as well as leveraging our supplier Partner to Win programme. 5S also drives revenue and margin through smart mix and smart pricing delivered through our Net Revenue Management programme. 5S is delivering over 1 billion of savings per year, with the aim to reinvest two-thirds of these savings.

Brand and Marketing Investment is focused on maximising return on spend. We are increasing spend in the areas driving growth, such as digital media and in-store, whilst reducing production and promotional spend. In 2018 we generated savings in BMI of over 500 million. We are creating more content in-house while making existing assets go further. Our 16 U-Studios in 13 countries create brand content faster and more efficiently than external agencies. Improvements to measurement and verification of digital audiences ensure we maximise value in digital advertising alongside improvements in the measurement of influencer follower data.

Related principal risks (pages 29 and 31): **Brand preference, Supply chain**

WINNING IN THE MARKETPLACE

Every day, 2.5 billion people use our products. We evolve our portfolio to reach consumers in all income brackets from our prestige range in Beauty & Personal Care, built from carefully selected acquisitions, to the roll-out of affordable products, such as Domex Toilet Cleaning Powder in India, for low income consumers. We reach wide into new geographies, with brands expanding into new pockets of growth such as launching Ben & Jerry s Moo-phoria low calorie ice cream in the US and Premium Cif sprays in 15 European markets in 2018.

Data is key and our ambition is to build one billion one-to-one consumer relationships through our People Data Centres which connect us with consumers in a responsible way through real-time analytics. Our 27 People Data Centres identify trends from social listening alongside engaging with consumers on ideas for new launches. Our contact with consumers is governed by our Code Policy on Personal Data & Privacy which sets out the steps we take to protect personal data.

Alongside innovation, customer development is key to growth, ensuring products are available when and where consumers want them, in the format they prefer, at the right price. E-commerce remains a crucial channel. Online is now around 5% of Unilever turnover. In China e-commerce accounts for over 20% of turnover. We are building our business through online channels such as Amazon, Taobao in China, online grocery websites, and direct-to-consumer models deployed by Dollar Shave Club, T2 and our prestige brands.

Related principal risks (pages 29, 30 and 32): **Customer relationships, Economic and political instability, Portfolio management, Sustainability, Climate change**

WINNING WITH PEOPLE

With unprecedented change happening externally, we are taking action in a number of areas to ensure we are more agile, digitally focused and networked. Our C4G programme is empowering our people with an owner s mindset and gives them the licence to take greater responsibility. Through C4G we are already seeing higher levels of empowerment, collaboration, experimentation and increased speed in decision-making.

To develop the capabilities, skills and leadership which support new ways of working, we are investing in continuous, always-on learning programmes. We are particularly focused on digital capabilities. To develop purpose-led and future-fit leaders, in 2018 we launched new Standards of Leadership. Developed in collaboration with thought leaders and groups of young and senior leaders, the new Standards recognise the need for leaders to embrace both the inner and outer aspects of leadership. The outer game is what leaders need to do to succeed; the inner game is about their inner purpose which guides their behaviours and actions.

Attracting and retaining talent is vital to support our growth ambitions. Purpose and our Unilever Sustainable Living Plan (USLP) remain key talent attractors with 75% of employees in our 2018 UniVoice survey believing their role contributes to the USLP and 70% believing they can fulfil their purpose at work. To reinforce this link and give more people a stake in the business we are developing our approach to reward by including more long-term share-based incentives for business performance and progress on our USLP targets.

Related principal risks (pages 29, 31 and 32): **Talent, Business transformation, Sustainability**

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DELIVERING LONG-TERM VALUE FOR OUR STAKEHOLDERS

OUR CONSUMERS

Our three Divisions meet the constantly changing needs of consumers by harnessing our global scale and local expertise. Innovation is the fuel, creating great products that consumers love, from nutritionally balanced foods and refreshments, to affordable soaps that combat disease, luxurious shampoos and everyday household care products. Whatever the brand, wherever it is bought, we re working to ensure that it plays a part in helping fulfil our purpose as a business making sustainable living commonplace.

BEAUTY & PERSONAL CARE

BEAUTY & PERSONAL CARE (BPC) GENERATED TURNOVER OF 20.6 BILLION, ACCOUNTING FOR 40% OF UNILEVER S TURNOVER AND 33% OF OPERATING PROFIT IN 2018.

The Division is our largest and includes five global brands with turnover of 1 billion or above, namely Axe, Dove, Lux, Rexona and Sunsilk, as well as other household names such as TRESemmé, Signal, Lifebuoy and Vaseline. BPC has leading global positions in hair care, skin cleansing and deodorants, and strong local positions in skin care and oral care. The prestige business leads in premiumising our portfolio with turnover of 490 million from brands including Dermalogica and Hourglass.

BPC s strategic ambition is to become the most valuable and admired BPC company, led by its purpose Beauty that cares for people, society and our planet . Its priorities are to continue to grow its core brands, build a future-fit portfolio, lead in high-growth spaces and adopt a new model of marketing. The priorities reflect and respond to key trends shaping the Division. 2018 saw increasing fragmentation across route to market, retail channels and media, alongside growing data, analytic and automation capabilities. Together these trends are creating a more dynamic, complex and sophisticated landscape with greater segmentation, differentiation and personalisation.

BPC s core brands are introducing new innovations and formats quickly and at scale, such as the new shower mousses from Axe, Dove and Radox as well as a growing range of products which respond to the trend for natural and wellbeing products. During 2018 we launched Vaseline Clinical Care and Dove Derma Series in the fast-growing therapeutics segment and Dove Facial Cleansing Series infused with 100% plant-derived botanical oils in Japan. Hair care has created and launched multiple naturals products, creating a business with over 300 million in turnover in 2018.

Succeeding in the hyper-fragmented world demands greater consumer responsiveness and we are proud to have launched nine new brands over the past two years: ApotheCARE Essentials, Hijab Fresh, K-Bright, K-JU, Korea Glow, Love Beauty and Planet, Pure Derm, Purifi and Skinsei. Love Beauty and Planet has expanded from North America into four markets in Europe and is now active across several categories including skin cleansing, deodorants, skin care and hair care.

Our acquisitions play a key role in building the future-fit portfolio. In the last four years, BPC has acquired 13 companies including wellbeing focused Equilibra in 2018. AHC (Carver Korea), acquired in 2017, showed strong e-commerce performance and in 2018, we rolled it out to Taiwan, Hong Kong, Singapore, Malaysia and Russia. Schmidt s Naturals, also acquired in 2017, has extended beyond deodorants into more categories. The acquisition of

Quala S.A completed in February 2018. Within two months of acquisition, its Savile and Ego extensions had brought to market multiple new products in five categories. Strong progress has been made building a highly attractive prestige portfolio which is on track to becoming a 1 billion business. Our most recent acquisition in prestige, Hourglass, is growing fast, expanding into new geographies and with a commitment to become entirely vegan by 2020.

Future growth will depend on accelerating the adoption of a new model of marketing focused on brands with purpose, generating great content, delivered via digital channels using advanced data and analytics. The model is creating many new consumer touchpoints. For instance, Axe collaborated with DJ Martin Garrix to launch his Burn Out video with over 40 million YouTube views to date, celebrating the brand s message of individuality. In Latin America, Sunsilk partnered with an online influencer to co-create products for curly hair.

Our purpose-led brands are well positioned to meet growing concerns about the fragility of the planet and consumer preference for more

sustainable products. In October we joined calls from consumers, NGOs and politicians for a worldwide ban on animal testing of cosmetics and Dove, the Division s biggest brand, achieved PETA accreditation as cruelty free . The PETA cruelty-free logo will start appearing on many packs in 2019 and more brands are set to follow. We are also developing new packaging solutions with less plastic, better plastic and no plastic. REN launched a sea kelp and magnesium body wash in a bottle made from 100% recycled plastic, with 20% from recovered ocean plastic. Simple launched biodegradable face wipes made from renewable plant fibres and sustainable wood pulp. More packaging innovations will be launched in 2019.

Overall, underlying sales growth was 3.1%, driven by skin care and skin cleansing, but partly offset by slower growth in deodorants and oral care due to market and competitive pressures. Profitability progressed with underlying operating margin improving 80 basis points to 21.9%. Geographically, a number of countries grew above the market including US, Canada and the UK while emerging markets such as Pakistan and Bangladesh also had high growth. Brazil underperformed as did Japan and parts of Western Europe, where markets were flat to declining. In our channels, e-commerce remains a key driver of growth alongside the Health & Beauty channel where we would like to see faster growth following a slow year, especially in North America.

Looking ahead, we will continue to build our future-fit portfolio while adopting the new model of marketing, to deliver strong growth, making an accretive contribution to Unilever s top and bottom line.

FOODS & REFRESHMENT

FOODS & REFRESHMENT (F&R) GENERATED TURNOVER OF 20.2 BILLION, ACCOUNTING FOR 40% OF UNILEVER S TURNOVER AND 58% OF OPERATING PROFIT IN 2018.

The Division launched in January 2018 after the previous Foods and Refreshment Categories merged. The integration and relocation of the global teams to Rotterdam is complete. The disposal of the spreads business was also completed in July. F&R now includes the foods, ice cream and beverages categories, as well as Unilever Food Solutions, our dedicated foodservice business. F&R is home to five global brands with turnover of 1 billion or above, namely Knorr, Hellmann s, Magnum, Lipton and Heart brand (eg Wall s) as well as other famous global brands including Brooke Bond and Ben & Jerry s. It also includes local jewels such as Bango and Robertson s plus recent B Corp acquisitions such as Pukka Herbs, Sir Kensington s and Mãe Terra. F&R s ambition is to accelerate growth while improving underlying operating margin. F&R s purpose Taste good, Feel good, Force for good underpins our strategic priorities which are to: transform the portfolio; organise for agility and lower costs; and transform capabilities.

Our efforts to transform the F&R portfolio are driven by consumer insights. For example, we are seeing stronger preference for healthier products with more natural and organic ingredients. F&R has launched a number of products addressing this trend, including Magnum and Hellmann s vegan variants in Europe, meat-free Knorr launches in the Nordics and Ben & Jerry s non-dairy alternatives. Knorr also expanded its organic and 100% natural ranges in Europe. In our beverages category, we continue to grow our good for me tea ranges. Lipton s range, which includes variants such as detox and stress-less, continued its global roll-out with strong performance. Recently acquired brands such as Pukka Herbs are being rolled out at pace. However, given continuous acceleration of the external landscape, we have to step up portfolio transformation further and increase the speed of our response to trends.

Our market-focused organisation and agility supports our portfolio transformation and delivered several new brands in 2018 such as RED RED (UK), Culture Republick (US), and Jawara (Indonesia). We announced an agreement to acquire Horlicks and other consumer healthcare nutrition products in India and other Asian markets from GlaxoSmithKline (GSK), and also acquired the Vegetarian Butcher (Netherlands) and three ice cream brands Adityaa (India), Betty (Romania) and Denny (Bulgaria). After success in the US, Breyers Delights was launched in Europe. In addition, we introduced innovative licensed ice cream brands including Kinder in Europe and Cornetto Oreo in India.

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DELIVERING LONG-TERM VALUE FOR OUR STAKEHOLDERS CONTINUED

Consumers shopping habits continue to change. We launched the IceCreamNow platform in partnership with restaurant delivery services, building a new home-delivery channel. We have also launched a global front-of-house programme to showcase our teas and condiments in restaurants, hotels and bars, and to capitalise on the growth of eating out and out-of-home consumption. These represent significant business opportunities.

The second F&R strategic priority is to organise for agility and lower costs. In 2018, our 5S and ZBB programmes stepped up fuelling our gross margin and marketing support. We will continue our savings programme to reduce structural costs, while providing funding for portfolio transformation and margin expansion. Our speed to market has improved by almost a third, reflecting how C4G is helping to unlock speed and agility. We are also piloting new ways of working across our teams.

Our final strategic priority is to transform our capabilities with a focus on R&D, lean innovation and precision marketing. The creation of our state-of-the art global Foods Innovation Centre in Wageningen (Netherlands) will further strengthen our innovation capability. It is scheduled to open in 2019. We are also enhancing our capabilities in digital-driven marketing through extra resourcing across key markets, upskilling our current teams and hiring digital savvy marketeers.

These strategic priorities are underpinned by the development of more purpose-led brands. Knorr, Hellmann s, Lipton, Brooke Bond and Ben & Jerry s continued to grow, each fuelled by a unique purpose which is resonating with consumers. Brooke Bond for example continued its work tackling cultural taboos through its campaigns, addressing same-sex relationships in Canada and divorce in the Gulf markets. Meanwhile, Hellmann s launched a major focus on food waste with an activation in Brazil to inspire people to use Hellmann s to transform leftovers into tasty meals. Action on plastic packaging is another priority for F&R. We have partnered with Ioniqa and Indorama Ventures to pioneer a technology which converts PET waste into virgin grade material for use in food packaging. In the UK, PG tips started to introduce 100% biodegradable plant-based pyramid bags. More innovations and new technologies are in the pipeline.

During 2018 F&R turnover declined 9.9% to 20.2 billion, due to the sale of spreads and currency devaluation. Underlying sales growth was 2.0% while our underlying operating margin improved by 80 basis points to reach 17.5%. Europe returned good results in ice cream, underpinned by good weather and innovations such as Magnum pints and Kinder ice cream. However, developed markets overall remain difficult and are seeing slower volume growth due to increasing segmentation of consumer preferences, especially in foods, where our efforts on portfolio transformation were not enough to offset the headwinds. Traditional channels in Europe such as supermarkets and hypermarkets continue to discount, creating deflationary pressure. Latin America had a challenging year due to tough economic conditions, a truckers strike in Brazil and currency headwinds in Argentina which affected growth in these two markets. Excluding Latin America, emerging markets generally delivered a strong performance. Several key markets including India, China and Turkey saw double-digit growth reflecting the strong potential in emerging markets.

F&R will continue to drive growth and margin by focusing on its strategic priorities. Our portfolio transformation, step-up in capabilities and shift in culture are of paramount importance to meet these objectives.

HOME CARE

HOME CARE GENERATED TURNOVER OF 10.1 BILLION, ACCOUNTING FOR 20% OF UNILEVER S TURNOVER AND

9% OF OPERATING PROFIT IN 2018.

Home Care is home to two global brands with turnover of 1 billion or above, namely Dirt is Good (eg Omo and Persil) and Surf. Other leading brands include Comfort, Domestos, Sunlight, Cif, Seventh Generation as well as our air and water purification brands Blueair, Pureit and Truliva/Qinyuan. 79.5% of our turnover is in developing and emerging countries. Home Care s ambition is to deliver sustained underlying sales growth and step up underlying operating margin.

The rapid change of consumer habits, media, competitors and channels, as well as heightened environmental stress, has redefined Home Care s

growth opportunities. The Division responded to these changes by creating four consumer-centric categories: Fabric solutions which focuses on ready to wear clothes (eg Omo, Surf, Radiant); Fabric sensations which focuses on fabrics, fashion and lifestyle (eg Comfort, Snuggle); Home & hygiene (eg Sunlight, Sun) which focuses on delivering care for a cleaner world; and life essentials which unites our air and water purification brands (eg Pureit, Truliva, Blueair). Home Care s purpose Making your home a better world. Making our world a better home underpins the Division s strategic priorities: strengthening further the foundation of the business; making Home Care fit for the future; and investing in capabilities.

Home Care strengthened the foundations of the business by delivering superior products and benefits. We launched Cif Specialist sprays across 15 countries in Europe whilst continuing to roll-out our toilet blocks to 11 more markets. We expanded our product portfolio into high potential geographies, building on our most established brands such as Omo-branded floor cleaners in Brazil. Our Comfort Intense ultra-concentrated fabric conditioners are now in 20 markets and continue to enjoy strong growth.

Our brands made progress in embracing purpose to connect more meaningfully with consumers in particular millennials. In India, Domex enrolled renowned movie stars in its Pick up the brush campaign to help overcome the social stigma associated with cleaning toilets, a key barrier to improve sanitation. Seventh Generation, acquired in 2016, stepped up its advocacy for Climate Justice together with the Sierra Club to move cities to commit to 100% renewable energy. Home Care s biggest brand, Omo/Persil, joined forces with National Geographic, IKEA and Lego to promote the developmental benefits of play in children.

The second pillar of our strategy is to future-proof our business to lead new trends. We intensified our efforts and increased our footprint in the fast-growing natural segment through the launch of Omo naturals in New Zealand, France and Brazil among others, the roll-out of Seventh Generation in more markets and the launch of Sunlight Naturals across South-East Asia and South Africa. Our brands such as Cif, Omo/Persil and Seventh Generation responded to growing concerns about plastic by including recycled plastic in their packaging. Home Care launched Day2, a dry wash spray that revives clothes between washes saving time and water. Our ultra-concentrated laundry gems, a new format launched in the UK in 2017, performed below expectations. In South Africa we reacted quickly to the drought in Cape Town with Domestos Flush Less, a toilet spray that disinfects and eliminates odours without the need to flush. We increased our presence in e-commerce, crossing 500 million of sales and continued to experiment with new business models such as peer-to-peer laundry services.

The third strategic pillar is investing in our capabilities. This includes partnering to tap into the opportunities that data brings to make Home Care more efficient and better able to seize growth opportunities. In China, our water purification brand, Truliva, partnered with Alibaba to develop an online leasing market for water purifiers. We also joined forces with Ms Paris, the Chinese dress rental platform, that allows consumers to hire designer dresses and return without laundering. To support our R&D efforts, we have inaugurated the Materials Innovation Factory at the

University of Liverpool, a world-class centre of excellence in advanced material chemistry and an ecosystem that brings together innovation partners and leading academics to develop more sustainable and superior formula and packaging for our brands.

Home Care delivered underlying sales growth of 4.2% while our underlying operating margin improved by 80 basis points to reach 13.0%. Key drivers of growth were North and South Asia with South East Asia, Middle-East, Turkey and the US also performing strongly. By contrast, our performance in Latin America was challenged by a trucker s strike and extreme inflationary pressures. Our home & hygiene and fabric sensations categories delivered strong, broad-based profitable growth whereas life essentials performed below expectations largely driven by a significant decline in category growth in air purification in China and intense competitive pressures. Margin expansion in fabric solutions was hampered by inflationary headwinds and competitive pressures on pricing.

Home Care will continue to drive growth and margin by shifting our portfolio and footprint towards the higher growth, more profitable market segments, formats, channels and geographies while continuing to address with agility changing consumer preferences.

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SOCIETY AND ENVIRONMENT

OUR MULTI-STAKEHOLDER MODEL AIMS TO REWARD OUR SHAREHOLDERS WHILE POSITIVELY IMPACTING SOCIETY.

Our impact on society starts with our 155,000 employees who received 5.3 billion in pay in 2018, and extends across our value chain including the millions of retailers and distributors who sell our products in more than 190 countries, generating income and employment for many more. Our suppliers also benefit from the 34 billion we spent on goods and services in 2018. The taxes we pay are another important contribution to society. Total tax borne by Unilever in 2018 was 3.7 billion, of which 2.3 billion was corporation tax. Unilever fully complies with the tax laws in the countries where we operate. Where tax law is unclear, or has not kept pace with modern business practice, we interpret our obligations in a responsible way, guided by our Tax Principles.

UNILEVER SUSTAINABLE LIVING PLAN

Our impact on society is significant but we want our impact to go beyond business as usual, delivering value for multiple stakeholders at the same time as growing our business. This idea is encapsulated in the Unilever Sustainable Living Plan (USLP) which represents a simple idea that business growth and sustainability are not mutually exclusive. By focusing on sustainable growth, we believe we will generate consistent and profitable long-term shareholder returns. The USLP has three big goals: improving the health and well-being of more than one billion people by 2020; halving our environmental footprint by 2030; and enhancing livelihoods for millions by 2020. These goals are supported by over 50 time-bound stretching targets and a transformational change agenda which aims to create change on a systemic scale. We are making good progress overall against our targets although some remain a challenge to achieve by the end of 2020. Our Sustainable Living Report includes extensive disclosure on progress against our USLP targets including challenges we have faced, some of which are summarised in this section of the Annual Report & Accounts.

Our actions on sustainability are creating value in numerous ways, generating more growth, lower costs, less risk and more trust in the business. Our Sustainable Living brands, which combine a powerful purpose with products contributing to the USLP, are a key driver of growth. In 2017, 26 of our top 40 brands were Sustainable Living brands including Ben & Jerry s, Dove and Lifebuoy. Our Sustainable Living brands grew 46% faster than our other brands and accounted for 70% of total growth. Product innovations which respond to water scarcity and climate change at the same time as helping consumers, continue to create growth opportunities for us. Recent sustainability innovations which deliver consumer benefits include our new Love Beauty and Planet range in the US which uses fast-rinse technology in its conditioners thereby requiring less water. Domestos Flush Less, available in water-scarce South Africa, keeps toilets clean while saving nine litres of water per flush.

The USLP strengthens our business by helping us to save costs. Since our baseline year of 2008 we have saved over 600 million on energy costs in our factories; and by using fewer materials and producing less waste we have avoided costs of approximately 234 million.

Through the USLP, we are also responding directly to a number of macro forces (see page 8) that are both risks and opportunities in our markets such as a lack of access to water and sanitation, strains on the food system, climate, the environment, and rising inequality. We have identified the broad issue of sustainability, related to the achievement of our goals in the USLP, as a principal risk (page 29) as well as a number of specific risks including climate change (page 30) and plastic packaging (page 30). Mitigating the physical impacts of climate change is critical because we depend on raw materials sourced from countries that are particularly vulnerable to rising sea temperatures and changing weather patterns. See pages 33 to 35 for our response to the risks and opportunities from a low-carbon economy.

Trust is essential for any business, but it must be earned. The USLP is a key driver of trust among our employees and potential recruits. We are the number one FMCG graduate employer of choice in around 50 countries where we recruit. We have been ranked first in the annual GlobeScan survey of sustainability leaders for eight years and also came top of the Dow Jones Sustainability Index Personal Products sector in 2018.

IMPROVING HEALTH & WELL-BEING

Our activities impact the health and well-being of millions of people through brand-led health and hygiene, and nutrition interventions. Significant progress has been made against our first USLP goal of helping more than one billion people improve their health and well-being by 2020. By the end of 2018, we had reached 653 million people, making a significant contribution to the Sustainable Development Goal on Clean Water and Sanitation (SDG6).

In order to increase the reach and social impact of some of our biggest health & hygiene programmes we continue to explore the potential of using mass media and digital to drive behaviour change at greater scale, as well as scaling up partnerships to increase the reach of more conventional on-ground programmes. Dove, one of Unilever s biggest brands which grew at 7.8% in 2018, has reached around 35 million young people since 2004 through its Self-Esteem Project. To expand its reach, Dove has partnered with the Cartoon Network to create Steven Universe mini episodes which bring to life the proven themes from our on-ground programmes to boost self-esteem for young people. Our aim is that this will reach 20 million young people over the next two years. This series is supported by a music video which has so far received over 1.8 million views on YouTube. As well as reaching more young people with body confidence messaging, this activity is helping to raise overall awareness of Dove s work to improve self-esteem which correlates with higher purchase intent.

Since 2010, Lifebuoy s programmes have reached 458 million people through schools, health clinics and community outreach. Lifebuoy has recently expanded its behaviour change programme on the importance of handwashing with soap using mobile technology. The new service aims to reach out to women in media dark areas, providing free advice to mothers on their child s health. Another recent Lifebuoy partnership with Gavi (the Vaccine Alliance) ties together the importance of handwashing with soap and immunisation, using a variety of channels including home visits and mobile communications. While our programmes have focused on reaching children and mothers on-ground, we have long believed that TV advertising can drive behaviour change. To test this, we ran a study in India to assess the effectiveness of specific Lifebuoy TV adverts. The study showed a significant increase in the frequency of handwashing with soap after people watched the adverts. We are progressing with peer review publication of our study.

For more than a decade, we have been working to make our products even healthier by increasing goodness and reducing nutrients of concern like sugar, salt and saturated fat. We aim to double the proportion of our portfolio that meets the highest nutritional standards, based on globally recognised dietary guidelines. So far 48% of our products have reached this standard and we are on track to meet our 2020 commitment. We are also using the power of our brands to empower people to make responsible choices. In support of our Code Policy on Responsible Marketing, in 2018 95% of our Foods and Refreshment portfolio had full nutrition labelling on pack that aligned with Unilever s product labelling criteria (based on 96% of global sales from 1 April 2018 to 30 June 2018). We continued our efforts to improve the goodness in our products and set out the ambition to provide 200 billion servings by 2022 containing at least one of the 5 key micronutrients: iron, iodine, zinc, vitamin A or D. We are developing plans to deliver against the ambition.

REDUCING ENVIRONMENTAL IMPACT

Our activities impact the environment, principally through the use of water, energy and land as well as the production of waste and greenhouse gas emissions, largely as a result of consumer use. These impacts are reflected in the USLP environmental pillar and are supported by our Environmental Policy which is available on our website. Our environmental big goal is by 2030 to halve the environmental footprint of the making and use of our products as we grow our business. This is a challenging target requiring action across our value chain on waste, water and greenhouse gas emissions in turn contributing to the Sustainable Development Goals.

As a consumer goods company, we are acutely aware of the causes and consequences of the linear take-make-dispose model of consumption. We are taking action across our value chain to reduce, reuse, recycle and recover post-consumer waste and move towards a more circular model. Our manufacturing operations have seen a reduction in total waste disposed to landfill, or incineration without energy recovery, of around 97% per tonne of production since 2008.

DELIVERING LONG-TERM VALUE FOR OUR STAKEHOLDERS CONTINUED

Furthermore, we achieved zero non-hazardous waste to landfill across our global factory network in 2015 and have maintained this every year since. We are more than half way towards meeting our 2020 commitment to reduce waste associated with the disposal of our products. This has reduced by about 31% since 2010 due to increases in consumer recycling and changes in our portfolio.

In 2017, we made a further commitment on waste, ensuring that all our plastic packaging will be fully reusable, recyclable or compostable by 2025. We are moving in the right direction to make all of our packaging recyclable but there is more work to do. Find out more on page 15. Seventh Generation is eliminating virgin petroleum plastic (new plastic made from oil) and virgin fibre (virgin wood pulp) from its packs and has committed that all its packaging will be fully recyclable or compostable by 2020. In Brazil, Omo is launching its first plant-based detergent in a 100% recyclable pack containing recycled plastic.

We have reduced the water used in manufacturing by 44% per tonne of production since 2008. Our biggest water impact occurs when consumers shower, bathe and clean clothes with our products. In 2018, our water impact per consumer use reduced by around 2% compared to 2010. We recognise that we are a long way short of halving our water impact and we will not achieve this very challenging target by the end of 2020. This is due in part to our portfolio being made up of more products that have a higher than average water footprint than in 2010 and the significant consumer behaviour change needed to reduce water consumption when our products are used, where the vast majority of our water footprint resides. Going forward we want to broaden our water strategy by recognising the role of water in our consumers lives and its importance as a growth driver for our business. We are developing and launching innovative products which deliver the benefits people need with less water, or even no water at all, as well as products that improve the quality of water.

As with water, our biggest greenhouse gas impact comes through consumer use. The greenhouse gas impact of our products across their lifecycle has increased by about 6% since 2010. We are having more success in areas that are within our direct control such as manufacturing where we have cut CO_2 from energy by 52% per tonne of production compared to 2008. Similarly, we continue to make savings through the ongoing roll-out of freezer cabinets that use more climate-friendly natural (hydrocarbon) refrigerants. Our ability to meet our target partly depends on changes in the energy markets worldwide, such as the rate of installation of renewable electricity in many countries. We have a role to play as an industry leader to help shape those markets. We are committed to implementing the recommendations of the Taskforce on Climate-related Financial Disclosures (see pages 33 to 35). Two of our carbon reduction targets have been officially approved by the Science-Based Targets Initiative.

Our sustainable sourcing strategy focuses on a set of key agricultural crops, which are not only crucial to our brands, but also where we can drive measurable impact for sustainable transformation of the industry. By the end of 2018, the total volume of our agricultural raw materials that were sustainably sourced was 56%. In line with our strategy, sustainably sourced volumes for our 12 key crops increased by over 4% including significant increases for palm oil and tea, whilst our sustainably sourced volumes for non-key crops reduced. As a result, our performance versus 2017 was flat. The sale of our spreads business during 2018 had a slight downward impact on overall sustainable sourcing performance given the substantial volume of sustainable palm oil used by our spreads business.

A number of key activities moved our sustainable sourcing agenda forward in 2018. We deepened our commitment to transparency with the publication of our palm oil mill list and the creation of a grievance tracker for our palm oil supply; and we, along with key NGOs including WWF, initiated a new jurisdictional approach to palm oil in Malaysia. The additional programmes were also supported by digital solutions like leveraging satellite data for deforestation detection and risk assessments, mapping of smallholder parcels in Indonesia, sending critical weather alerts to farmers mobiles in India, and using the Internet of Things to optimise tea production in Kenya. We are also piloting innovative approaches to achieving upstream traceability in several supply chains.

ENHANCING LIVELIHOODS

Our activities have the potential to positively impact the livelihoods of not only our employees, but the millions of people who are involved in our value chain notably smallholder farmers and small-scale

retailers. By 2020, we aim to enhance the livelihoods of millions of people as we grow our business. In 2018, we made steady progress across the three pillars of our Enhancing Livelihoods goal.

We believe that women s empowerment is the single greatest enabler of development and economic growth. We are building a gender-balanced organisation (page 16) while improving women s safety in the communities in which we operate, and developing employment opportunities through the Shakti programme which has provided work for around 113,000 women, equipping them to sell Unilever products in low income rural communities. Shakti continues to scale up in India, Sri Lanka, Pakistan and Nigeria and is now being rolled out to new countries, including Colombia. By 2018, we had also enabled about 1,724,000 women to access initiatives aiming to develop their skills.

As well as directly creating wealth and jobs, our business supports millions of people who source, make and sell our products we call this inclusive business. By 2018, we had enabled 746,000 smallholder farmers and over 1.7 million small-scale retailers to access initiatives to improve agricultural practices or increase incomes. The Philippines Kabisig programme, for example, has reached over 165,000 small retailers, training them in stock control, financial management, sales and customer service increasing the earning potential of small-scale retailers at the same time as growing turnover for Unilever.

Our Responsible Sourcing Policy (RSP) is at the heart of our ambition to source 100% of procurement spend responsibly and through suppliers that meet our RSP requirements. In 2018, we focused on completing the onboarding of high risk suppliers into our compliance database and programme. Over 20,000 suppliers have now completed their registration and are undergoing review processes allowing us to verify their compliance to the RSP and identify areas for remediation. In 2018, 61% of procurement spend was through suppliers who were assessed as meeting the mandatory requirements of the RSP.

We continued to embed human rights with a focus on our eight salient issues (ie those at risk of the most severe negative impact through Unilever s activities or business relationships). We also began a process to review these through a series of global and regional consultations. This year, one of our primary areas of focus has been on the eradication of forced labour in our supply chain through training, capacity building and driving a robust vetting process for temporary labour agencies. We launched and are rolling out our Land Rights Principles and Implementation Guidance. Human rights risks are included as part of our sustainability and ethical principal risks (see pages 29 and 33). See our website and our latest Human Rights report for more on our activities and due diligence processes.

Safety is a critically important part of our USLP. Our Vision Zero strategy continues to aim for: Zero Fatalities; Zero Injuries; Zero Motor Vehicle Accidents; Zero Process Incidents; and Zero Tolerance of Unsafe Behaviour and Practices. This is supported by our Code Policy on Occupational Health & Safety. Our Total Recordable Frequency Rate from 1 October 2017 to 30 September 2018 went from 0.89 accidents per 1 million hours worked in 2017 to 0.69, thanks to a continuous focus in high risk areas. See page 47 for more on safety.

DRIVING TRANSFORMATIONAL CHANGE

Our USLP is a bold ambition to achieve change within our company. However, we are just one company among many and the problems our society faces are urgent, large and complex. Our transformational change agenda combines direct action on the SDGs with partnerships and external advocacy to create change on a systemic scale while unlocking business opportunities at the same time.

We are working on a number of areas where we believe we can make the biggest difference: climate change and forests; sustainable agriculture, land use and food security; health and well-being including water, sanitation and hygiene; and improving livelihoods and creating more opportunities for women. Many of these issues relate directly to the SDGs. We are stepping up our engagement with governments, NGOs and others in our industry on these issues. We are also developing a range of partnerships that will accelerate and scale new solutions.

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UNLOCKING GROWTH OPPORTUNITIES FROM THE SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) are fundamental to future economic and business growth. The Business & Sustainable Development Commission, co-founded by Unilever, concluded that successful delivery of the SDGs will create market opportunities of at least $12 trillion a year. By using our resources as a business to address issues such as sanitation, hygiene, nutrition, gender equality and climate change among other interconnected growth opportunities covered by the SDGs we are delivering benefits for our business, shareholders and society. Partnerships (SDG17) play a key role in unlocking these opportunities. Business, governments and civil society must work together, through innovative partnerships, with new types of funding and new business models. We are working with a range of partners across many of the SDGs, often through our brands. Below we provide three examples where we have taken action in 2018. There are many more on our website.

SDG1 NO POVERTY: EMPOWERING SMALL-SCALE RETAILERS FOR GROWTH

> Our products are sold in more than 190 countries, generating income and employment for millions of retailers and distributors who bring our brands to consumers. Inclusive distribution models such as Shakti and our retailer training programmes such as Kabisig in the Philippines help small-scale retailers to grow while strengthening our own sales and supply networks.

For any small retailer, selling out of a product line is a missed opportunity. But for retailers who are stuck in cash economies without access to credit, especially in the developing world, running out of stock can be a routine event.

In 2017, we began a strategic partnership with Mastercard in Kenya. Together, we ve launched the Jaza Duka (fill up your store) initiative, which uses a combination of innovative technology, targeted training and the strength of our relationships with our distribution network to free retailers from the constraints of cash, helping them fulfil their potential.

By digitising the processes of buying supplies and selling goods, small-scale retailers can build the credentials they need to access short-term working capital loans from Kenya Commercial Bank. This gives them better control of their inventory, so they can keep their shelves full and meet consumer demand. They are also able to access training and essential financial tools to help them grow their sales and incomes. Our research found that stores that fully moved to the new platform grew their sales of Unilever products by up to 20%. These are still early days. But if the partnership keeps succeeding, we believe it could help drive growth and improve incomes.

Our partnership with Mastercard is just one of a number of exciting new innovative last-mile distribution projects which harness the power of digital and e-commerce to create positive social impact at the same time as helping retailers grow.

SDG6 CLEAN WATER AND SANITATION: ADDRESSING BASIC NEEDS THROUGH OUR PRODUCTS

Nearly a billion people defecate in the open and around 2.3 billion people live without adequate sanitation. Addressing water, sanitation and hygiene needs is a significant opportunity for Unilever. A number of our health and hygiene brands directly address these needs through products and innovative partnerships which drive growth and deliver positive impact at scale, including Lifebuoy, Domestos, Vaseline, Signal and Pureit.

Domestos, which is one of our fastest growing brands, has committed to help 25 million people gain improved access to a toilet by 2020 in countries such as India. By partnering with UNICEF, over 16 million people between 2012 and 2017 gained access to a toilet through behaviour-change interventions and capacity-building initiatives. In 2018, Domestos went one step further and refocused its brand and marketing investment around its purpose. The new Unstoppable campaign, now live in the UK and Poland, is showcasing how Domestos is helping to fight germs while improving sanitation conditions for millions around the world.

Pureit, our water purification business, is another brand that is well positioned to address clean water needs in South Asia. It has provided 106 billion litres of safe drinking water since 2005 through the sale of water purifiers. Pureit is looking at different models to serve communities with accessible and affordable clean drinking water where it is most needed. One model is community water plants, which provide 20 litres of clean drinking water from a central point for just 8 to 10 rupees. In 2017, we began partnering with Water Health International (WHI) who are global experts in community water systems. So far, we have set up four pilot plants in the city of Tumkur in India, managed by WHI.

These examples show that everyday products can help prevent disease and improve people s wellbeing, while helping us grow our business.

SDG12 RESPONSIBLE CONSUMPTION AND PRODUCTION: RETHINKING PLASTIC PACKAGING

Plastic has become an integral part of our lives. It protects products and makes them easy to dispense or reseal after use. But with that has emerged the enormous and growing problem of plastic waste. It is littering our environment, polluting our seas and killing aquatic life. The challenge is that so little plastic packaging is currently recycled, recyclable or reusable. The result is a significant economic loss for society and business. It is for these reasons that we have singled out plastic packaging as a principal risk for our business in 2018 (see page 30 for more).

In 2017, we were one of the first multinational companies to make a public commitment to address plastic packaging waste. By 2025, all our plastic packaging will be reusable, recyclable or compostable and at least 25% of it will come from recycled plastic content. To help deliver these commitments we have an internal framework: Less plastic. Better plastic. No plastic. Less plastic is about cutting down how much we use in the first place. Since 2010 we ve reduced the weight of our packaging by 18% through lightweighting and design improvements. For example, several years ago we launched MuCell technology which uses gas-injection to create gas bubbles in the middle layer of a bottle wall. This cuts the amount of plastic by at least 15%.

Better plastics is about making our products recyclable and eliminating problematic materials. Specifically, how we get recycled content in our packaging a number of our brands are working to incorporate post-consumer recycled (PCR) plastic in their products including Love Beauty and Planet, TRESemmé, Sunlight and Omo. Better plastics is also about how we work with governments and partners to build infrastructure so we can help keep plastic in the economy and out of the natural environment. Our Community Waste Banks and CreaSolv® Sachet recycling technology pilot plant in Indonesia are at the heart of these efforts. The plant is currently processing around three tonnes of discarded sachets per day with an aim to scale up this process.

No plastics is about thinking differently using alternative materials such as aluminium, glass, paper and board where possible and removing plastic where it is not necessary, such as plastic stiffeners from soap bars. We re also looking at reuse, encouraging shoppers to refill or reuse through vending machines. It s early days but we are committed to finding non-plastic packaging solutions.

We re putting significant resource into tackling the issues associated with plastic packaging. It makes business sense to keep plastic in the economy and is imperative for the planet.

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DELIVERING LONG-TERM VALUE FOR OUR STAKEHOLDERS CONTINUED

OUR PEOPLE

UNILEVER EMPLOYEES ARE EMPOWERED TO ACT LIKE BUSINESS OWNERS IN A PURPOSEFUL CULTURE.

The world of work is rapidly changing. Automation, flexible resourcing and new business models continue to impact our business and workforce. The workforce expects more flexibility and is increasingly freelance. A job for life is no longer the norm. Once employed, people must regularly reinvent themselves with new skills. The digital transformation of work and growth of automation is bringing both great benefits, but also great disruption. The composition of the workforce is changing too. By 2020, Millennials will make up around 35% of the global workforce. Just over half of Unilever s own workforce in 2018 were Millennials.

CREATING A FUTURE-FIT WORKFORCE

In response to the trends outlined above, we are taking action across our business, including simplifying processes and ways of working to free people from non-value adding tasks so they can focus on key priorities. 2018 saw the continued implementation of Connected 4 Growth (C4G), our organisational change programme, and the creation of three new Divisions to bring further focus and simplicity. Our regular surveys show that 74% of our people now feel more empowered to make decisions. Our time to bring innovations to market is now 40-50% faster than in 2016.

With the advance of AI and robotics, it is more important than ever that we strike the right balance between the use of technology and more human-centred approaches. We have invested in Una Hub, an AI-based platform, which automates responses to all general employee enquiries so People Experience Leads and HR Business Partners can focus on more complex queries, and provide face-to-face support where relevant.

Our research shows that a focus on purpose helps attract talent and binds us together for growth. Through our People with Purpose programme, more than 30,000 employees have joined workshops to help them define their purpose, with 50,000 targeted by 2019. Our global Univoice survey results reinforce the importance of these workshops 92% of employees who believe they can live their purpose at Unilever, also say that their job inspires them to go the extra mile.

As the workplace changes it is important that we continue to prioritise mental wellbeing. In 2018, we officially recognised World Mental Health Day in October and continue to invest in the mental wellbeing of our people, alongside their physical wellbeing. This builds on the roll-out of a mental wellbeing framework globally several years ago which guides us in tackling the health risks across our business.

Another area of focus is on personalising training and capability building to develop the right leaders and teams who are fit for the future. We are responding to demands for new skills through continuous learning. Since the launch of Degreed, our online learning platform in 2017, 76,000 people have access to 2.3 million pieces of learning content, with 55,000 pieces being consumed on a monthly basis, including PowerUp, our digital upskilling programme. We are also accelerating impact through new agile ways of working. In the UK and US we are piloting more agile team structures to ensure we have the right people, doing the right job at the right time, while breaking down silos.

RECRUITMENT AND RETENTION

Our attractiveness as an employer is improving amongst Millennial and Generation Z recruits. We are the number one FMCG graduate employer of choice in around 50 countries and the most followed FMCG employer on LinkedIn with over 4 million followers as at the end of 2018.

In 2018 we introduced more ways to give our employees a voice, through monthly pulse surveys and global and local surveys on a range of topics, reaching around 70,000 people. Our largest listening exercise is the annual engagement survey called UniVoice which covered a representative sample of almost 25,000 office-based employees in 2018. We maintained high levels of employee engagement 90% of employees said they were proud to work for Unilever and our Engagement Index remained at 74%. The survey also reinforced the

importance of focusing on speed and responsiveness to the market. We use survey results to help us take action in areas where there is room for improvement. For example, last year we implemented the new Standards of Leadership in response to feedback we received. Alongside our UniVoice survey, we use Glassdoor to benchmark our employee experience. As at 31 December 2018, our rating of 3.9 out of 5 was above the site average of 3.2.

DIVERSITY AND INCLUSION

We want our culture to be inclusive, promoting gender balance and respecting the contribution of all employees regardless of gender, age, race, disability or sexual orientation as set out in our Code Policy on Respect, Dignity and Fair Treatment.

The USLP sets out clear targets for expanding opportunities and enhancing access to skills and training for women in our value chain. It also sets out our ambition to build a gender-balanced workforce within Unilever, with 50% of women in management positions by 2020. By the end of 2018, 49% of total management were women (47% in 2017). Among the top 92 executives, 23% were women (22% in 2017). If you include employees who are statutory directors of the corporate entities whose financial information is included in the Group s 2018 consolidated accounts in this Annual Report and Accounts, the number increases to 474 (71%) males and 190 (29%) females. 38% (5 out of 13) of the Board were female (38% in 2017). Of our total workforce of 154,848, 101,383 (65%) were male and 53,465 (35%) were female at the end of 2018.

We run programmes across Unilever aimed at attracting, retaining and developing female talent. This includes developing candidates for potential future roles, aiming for balanced slates so that we interview equal numbers of men and women for roles, and practical help such as a minimum 16 weeks paid maternity leave as a global standard more than the regulatory requirement in over 50% of countries where we operate. In 2018, we also committed to introduce by the end of 2019, three weeks of fully paid paternity leave as a benefit to all new fathers, adopting partners and parents in same-sex couples.

Unilever has a commitment to gender equality and fairness in the workplace based on equal pay for equal work and achieving greater gender balance. Pay and overall reward is intended to be gender neutral, with any differences between employees in similar jobs reflecting performance and skill. Gender pay gaps develop where there is a representational imbalance between genders. When we look at our worldwide business as a whole, in countries with more than 250 employees, the average female pay was 26% higher than male pay in 2018 (2017: 25%). This is largely due to the fact that 80% of our lower paying blue-collar roles are held by male employees. Equal pay for equal work is our primary ambition and is a crucial part of fair compensation. Our Framework for Fair Compensation reviews the average pay differences between genders at each work level and in each country. The most recent analysis highlights that there is more work to do to continue improving our gender balance, and related gender pay gaps, at various levels and in various countries throughout the business.

BUSINESS INTEGRITY

Our principles and values apply to all our employees through our Code and Code Policies. Our employees undertake mandatory annual training on these Policies via online training modules and an annual business integrity pledge. Our Business Integrity guidelines include clear processes for managing Code breaches. For more information on Business Integrity see our website.

In 2018 1,206 whistleblowing incidents were opened (defined as Code Policy cases raised). We closed 1,252 incidents across all areas of our Code and Code Policies, with 662 confirmed breaches. In 2018, we terminated the employment of 330 people. Business integrity risks are included as part of our ethical and legal and regulatory principal risks (see page 30). The Code and Code Policies reflect our desire to fight corruption in all its forms. We are committed to eradicating any practices or behaviours though our zero-tolerance policy.

Our Responsible Sourcing Policy and Responsible Business Partner Policy help to give us visibility of our third parties to ensure their business principles are consistent with our own.

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OUR PARTNERS

WE WORK WITH MANY PARTNERS TO SUPPORT THE SUSTAINABLE GROWTH OF OUR BUSINESS.

ENGAGING STAKEHOLDERS

We have many interactions with our stakeholders on a daily basis. Our Code of Business Principles and Code Policies guide how we interact with suppliers, customers, governments, Non-Governmental Organisations (NGOs) and trade associations in particular. Only authorised and appropriately trained employees or representatives can engage with these groups and we require that a record should be kept of all interactions and that all engagement must be conducted: in a transparent manner with honesty, integrity and openness; in compliance with laws and in accordance with Unilever s values. Our website contains further disclosure on how we engage with our stakeholders.

SUPPLIERS

Our supply chain is very diverse and highly dynamic as we respond to changing consumer preferences, in line with our C4G programme. Our suppliers help us meet consumer needs by innovating, creating capacity and delivering quality materials and services for our products. We work with a large range of suppliers in over 160 countries from multinational companies through to SMEs and smallholder farmers.

We screen suppliers in relation to their supply chain capabilities and the level of associated environmental and social risk. Managing supplier risk is a key role of our Supply Chain function. All suppliers must complete our registration process to assess compliance with the mandatory requirements of our Responsible Sourcing Policy which includes anti-bribery and corruption. We conduct audits and follow up issues identified where necessary.

Partner to Win is our approach to building long-term relationships with selected key strategic supplier partners in order to achieve mutual growth. It focuses on five key areas: quality and service, innovation, value, sustainability and capacity and capability. Partner to Win helps us strengthen supplier and customer collaboration and improves operational efficiency. In 2018, we had 175 Partner to Win suppliers, representing 35% of total procurement spend.

We came first in the annual Gartner Supply Chain Top 25 for the third year running, emphasising our leading practices in the area of supply chain management, in particular on sustainability and digitalisation.

CUSTOMERS

In a fragmented channel landscape, those companies that best serve their shoppers and customers with bespoke solutions will benefit most. Unilever serves consumers through ten different channels: hyper and supermarkets, e-commerce, out of home, drug stores, small stores, discounters, Food Solutions, Unilever International, prestige channel and global retail.

We serve around 26 million retail stores globally of which we cover eight million directly and another 18 million indirectly through wholesale and cash & carry.

In 2018 we focused on developing our e-commerce channels, digitising our value chain to respond to the rapid fragmentation of traditional routes to market. We are actively driving B2C and B2B e-commerce in our top 30 markets. Our focus is to build a balanced e-commerce business model, growing across e-retailers, bricks and mortar online sales and direct-to-consumer businesses. In 2018 we signed a logistics partnership with JD.com, China s largest retailer. JD will help to bring our most popular products to the most hard-to-reach communities in China, securely and quickly.

Health & Beauty channels have been an area of focus for Beauty

& Personal Care. In Europe we have been increasing our presence and share with the discounter channel, which continues to see growth, contributing to top line growth for Unilever while delivering incremental gross profit.

We are collaborating with hyper and supermarkets to win with omni-channel shoppers and evolve new experiential concepts with these large-scale retailers to ensure Unilever brands enjoy the best positioning in store and online.

We continue to engage with small-scale retailers by professionalising their store operations through capability training. Our Rise Sales Academy is currently being piloted in Nigeria and Sri Lanka to deliver store operations retail training for micro retailers across the world. In turn, this will help contribute to our USLP target to improve the incomes of 5 million small-scale retailers in our distribution network.

GOVERNMENTS

We co-operate and engage with governments, regulators and legislators, both directly and through trade associations, in the development of proposed legislation and regulation which may affect our business interests. All employees involved in political engagement must comply with our Code of Business Principles and Code Policies. We do not support or fund political parties or candidates or any groups that promote party interests.

Our participation in policy discussions is varied, covering macro topics such as climate change, nutrition and plastic packaging. We engage with government stakeholders directly or through membership of representative organisations, including trade associations.

TRADE ASSOCIATIONS

We are members of and support a number of trade associations and similar organisations which help us to advance our public policy interests. We keep a record of our trade association memberships and membership fees, which is regularly updated. We also engage with peer companies, both individually and in coalitions, on issues of mutual interest. This includes working together to implement sustainable business strategies and drive change.

These associations reflect our global scale and presence across several product categories. We list our global memberships in the Engaging with stakeholders section on our website. We are registered in the Transparency Register of the European Union. Our US trade association memberships can be found on the FAQ section of the Unilever USA website.

NON-GOVERNMENTAL ORGANISATIONS

We are building transformational partnerships in collaboration with NGOs who share our vision for a more sustainable future. These partnerships are instrumental in improving the quality of people s lives, driving growth, achieving our USLP targets and contributing to the Sustainable Development Goals.

In collaboration with NGOs, we build programmes on the ground to implement our brands purpose in addition to advancing our efforts in areas such as sustainable sourcing and distribution often in partnership with governments and other businesses. We drive scale through new business models, digital technologies and external financing.

Our leadership engages with stakeholders through platforms such as the World Economic Forum, UN Global Compact, the World Business Council for Sustainable Development and the Consumer Goods Forum, championing a more inclusive model of capitalism and the pursuit of long-term value creation for the benefit of multiple stakeholders. Partnerships with NGOs are crucial to deliver the United Nations Sustainable Development Goals (see page 15).

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DELIVERING LONG-TERM VALUE FOR OUR STAKEHOLDERS CONTINUED

OUR SHAREHOLDERS

WE DELIVERED SOLID PERFORMANCE IN 2018 AND REMAIN ON TRACK FOR OUR 2020 TARGETS.

We aim to build long-term relationships with our shareholders through positive engagement for the benefit of all our stakeholders. We engage directly with our shareholders on a broad range of financial and environmental, social and governance (ESG) matters. During 2018 we engaged with shareholders on a number of topics including our Remuneration Policy and on the simplification of Unilever. See page 39 and our website for more details. In addition to direct engagement we regularly engage indirectly via ESG ratings organisations such as MSCI, Sustainalytics and ISS, as well as investor-focused sustainability rankings such CDP and the Dow Jones Sustainability Index.

PERFORMANCE IN 2018

Underlying sales growth for 2018 was 2.9% and underlying operating margin was 18.4%, a rise of 90 basis points. Turnover declined by 5.1% due to the sale of spreads and currency devaluation; operating margin was 24.6% due to profit on the spreads disposals.

Emerging markets saw a good performance in underlying sales growth of 4.6% including improved price growth in response to commodity inflation. Notable improvements were in India, which was strong across all categories, and China where strong volume growth was seen particularly in e-commerce. Argentina was classified as hyper-inflationary and price growth was excluded from underlying figures from July; any volume growth or decline is included within underlying figures. North America saw an improvement in underlying sales growth and there was acceleration in the US, helped by our acquisition programme in recent years, particularly in BPC. Europe remains challenged by a deflationary environment generally. We delivered solid volume-driven growth across our business with good margin progression.

We generated 5.0 billion of free cash flow and 18.8% return on capital. Underlying earnings per share was 2.36, a rise of 5.2%, and dividends were increased 8%, reflecting Unilever s confidence in future profit growth and cash generation. Diluted earnings per share was 3.48. Our share price has fallen 0.42% for PLC shareholders and risen 0.98% for NV shareholders. For information on our non-GAAP measure, see pages 23 to 26.

PROGRESS AGAINST OUR 2020 FINANCIAL TARGETS

In April 2017, we set out financial targets for 2020 to further accelerate shareholder value. In 2018 we maintained a strong delivery of savings with over 2 billion of savings from the supply chain, ZBB and change programmes. As a result, we are on track to meet our cumulative savings target of 6 billion by 2019 and a 2020 underlying operating margin target of 20%, compared to 16.4% in 2016.

We continue to maintain our leverage by targeting a Net Debt to underlying EBITDA ratio of 2x, consistent with a credit rating of at least A/A2. During 2018, we returned 6 billion to shareholders through our share buyback programme following the sale of spreads.

During the year the Boards decided to withdraw proposals to revise Unilever s dual-headed legal structure after extensive engagement with shareholders. We remain firmly committed to our 2020 improvement programme and are confident of meeting its key goals. To simplify our capital structure, we cancelled the NV preference shares in February 2019 (see page 38).

BUSINESS TRANSFORMATION

Our brand portfolio continues to evolve to match our Divisions strategic priorities, resulting in the sale of assets that no longer fit our growth model or the acquisition of assets that take us into new market segments and build new market positions. This active portfolio management means that in the past nine years we have sold 6.8 billion of turnover, mainly in the lower growth foods businesses. During that same period, we have acquired approximately 5.3 billion of turnover. The spreads disposals in July allow Foods & Refreshment to focus on growth.

Actively managing our brand portfolio through acquisitions and disposals remains an important strategic growth driver. In December we announced an agreement to acquire the Health Food Drinks portfolio of GlaxoSmithKline (GSK) in India, Bangladesh and 20 other predominantly Asian markets. Further details of the transaction can be found on our website. The acquisition includes iconic brands such as Horlicks and Boost, and a product portfolio supported by strong nutritional claims. The transaction is aligned with our strategy to increase our presence in health-food categories and in high-growth emerging markets. The transaction is subject to customary regulatory and shareholder approvals, with expected completion around 12 months from the announcement.

In October we completed the acquisition of a 75% stake in the Italian personal care business Equilibra which has a growing presence in the natural skin and hair care segments. We also completed the acquisition of Quala s Beauty & Personal Care and Home Care brands. We acquired a number of exciting new businesses including the Vegetarian Butcher (Netherlands) which expands our portfolio into plant-based foods, and three ice cream brands Adityaa (India), Betty (Romania) and Denny (Bulgaria). With the exception of brands launched in countries where they were not previously sold, acquisitions and disposals only contribute to underlying sales growth from 12 months after completion.

A key part of our 2020 programme is faster portfolio evolution in order to focus Unilever on more rapidly growing segments. This process continued at pace during 2018 with the focus on new brand launches and evolving our core brands. Our C4G organisation means we can respond to consumer trends more quickly. We have launched nearly 30 brands in the last two years. Local brands are also being launched more quickly followed by rapid global roll-out, for instance Breyers Delights, Love Beauty and Planet and Lakme all responding to the trend for more natural and healthy products.

Evolving our core brands has also accelerated. Brands such as Dove, Lifebuoy and Sunsilk in Beauty & Personal Care all launched new variants responding to consumer trends. In Home Care there were new launches of Domestos, Cif and Comfort while Foods & Refreshment extended the Knorr, Hellmann s and Lipton brands with new on-trend variants (for more information on brand launches see pages 11 to 12).

Realising the opportunities from digital technology to help deliver further growth and margin improvement is another key part of our business transformation. We have launched a digital transformation programme across all aspects of our value chain. We have 30 platforms across Unilever which power our business using digital technologies. Our Enterprise & Technology Solutions team is set up to deliver a technologically enabled Unilever for the future while ensuring that processes and activities are shared and scaled across the business. This will allow us to use technology as a competitive advantage rather than a cost.

Digital technology changed our approach to marketing some time ago but the transformation of Unilever more broadly has begun at pace. AI, machine learning and voice related technologies are being used to deliver personalised and immersive experiences to our consumer platforms such as Recipedia and Cleanipedia websites. We are also driving digital through our R&D organisation, introducing new tools to increase the speed, efficiency and quality of our innovation processes.

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NON-FINANCIAL INFORMATION STATEMENT

In accordance with sections 414CA and 414CB of the Companies Act 2006 which outline new requirements for non-financial reporting, the table below is intended to provide our stakeholders with the content they need to understand our development, performance, position and the impact of our activities with regards to specified non-financial matters. Further information on these matters can be found in our online Sustainable Living Report, Human Rights Report as well as policy documents contained on our website.

Non-financial matter and relevant sections of Annual Report	Annual Report page reference
Environmental matters Relevant sections of Annual Report & Accounts:	
Reducing environmental impact In focus: climate change risks and opportunities	Policy: Pages 13 and 33 to 35 Position and performance: Pages 7 and 13 to 14 Risk: Pages 30 and 33 to 34 Impact: Pages 13 to 15 and 33 to 35
Social and community matters Relevant sections of Annual Report & Accounts:	
Improving health and well-being Enhancing livelihoods Safety Engaging stakeholders	Policy: Pages 13 and 15 Position and performance: Pages 7, 13 to 15 Risk: Page 31 Impact: Pages 13 to 15
Employee matters Relevant sections of Annual Report & Accounts:	
Developing a future-fit workforce Diversity and inclusion Recruitment and retention Enhancing livelihoods	Policy: Pages 14 and 16 Position and performance: Pages 10 and 16 Risk: Page 29 Impact: Page 14 and 16
Human rights matters Relevant sections of Annual Report & Accounts:	

Diversity and inclusion	Policy: Pages 14 and 17
Enhancing livelihoods	Position and performance: Pages 7 and 14
	Risk: Page 29
	Impact: Pages 14 and 17

Anti-corruption and bribery matters
Relevant section of Annual Report & Accounts:

Business integrity	Policy: Page 16
	Position and performance: Page 16
	Risk: Pages 29 and 31
	Impact: Page 16

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FINANCIAL REVIEW

FINANCIAL OVERVIEW 2018

CONSOLIDATED INCOME STATEMENT

Turnover declined by 5.1% to 51.0 billion including an unfavourable currency impact of 6.7% (2017: 2.1% unfavourable currency impact) mainly due to weakening of currencies in key emerging markets such as Brazil, Argentina and India. Underlying sales growth^ was 2.9% (2017: 3.1%), with a positive contribution from all divisions. Underlying volume growth was 1.9% (2017: 0.8%) and underlying price growth was 0.9% (2017: 2.3%). The net impact of acquisitions and disposals was a reduction in turnover of 1.0% (2017: 0.9% increase) with the impact of recent acquisitions such as Carver Korea and Quala outweighed by the disposal of the spreads businesses. Emerging markets contributed 58% of total turnover (2017: 58%) with underlying sales growth of 4.6% (2017: 5.9%) coming from price growth of 1.7% and volume growth of 2.8%. Developed markets underlying sales growth was 0.5% coming from volume growth of 0.7% slightly offset by price decline of 0.2%.

Underlying operating margin improved by 0.9 percentage points to 18.4%. Gross margin improved by 0.5 percentage points driven by margin-accretive innovations and continued strong delivery from our 5-S savings programmes. As a percentage of turnover, overheads and brand and marketing investment were down by 0.3 percentage points and 0.1 percentage points respectively as a result of productivity gains from zero-based budgeting.

Operating profit was up 41.5% to 12.5 billion (2017: 8.9 billion) as a result of 3,176 million from non-underlying items. Non-underlying items within operating profit comprised a gain on spreads disposal of 4,331 million, a credit from the early settlement of contingent consideration related to the Blueair acquisition of 277 million, partially offset by restructuring costs of 914 million, acquisition and disposal related costs of 201 million and impairment and one-off items of 317 million.

Highlights for the year ended 31 December

	2018	2017	% change
Turnover (million)	**50,982**	53,715	(5.1)
Operating profit (million)	**12,535**	8,857	41.5
Underlying operating profit (million)*	**9,359**	9,400	(0.4)
Profit before tax (million)	**12,383**	8,153	51.9
Net profit (million)	**9,808**	6,486	51.2

Diluted earnings per share ( )	**3.48**	2.15	62.0
Underlying earnings per share ( )*	**2.36**	2.24	5.2

Net finance costs were 481 million in 2018 compared with 877 million in 2017, which included a one-off cost of 382 million for the buyback of the Unilever NV preference shares. The cost of financing net borrowings was 57 million higher than 2017. The increase was primarily driven by an increase in net debt which was partially offset by lower interest rates and a prior year one-off in Brazil relating to the interest element of an indirect tax amnesty programme. The average interest rate on net debt reduced to 2.2% from 2.7% in 2017. The pensions financing charge was 25 million, down from 96 million in 2017 reflecting a lower pension deficit at the beginning of 2018.

A monetary gain of 122 million was recorded following adoption of IAS 29 Financial Reporting in Hyperinflationary Economies in Argentina (see note 1) from 1 July 2018.

The effective tax rate was 21.1% compared with 20.8% in the prior year. In both years the rate was low relative to longer term norms, due to the significant impact on tax of the disposals of our spreads businesses in 2018 and US tax reform in 2017.

Net profit from joint ventures and associates was up 19% at 185 million, with the increase coming mainly from a gain on disposal of the spreads business of the Portuguese joint venture. Other income from non-current investments was 22 million versus 18 million in the prior year.

Diluted earnings per share were up 62.0% at 3.48. The increase was mainly driven by the 4,331 million gain on disposal for the spreads businesses, improvement in operating margin and the impact of the share buyback programmes.

The independent auditors reports issued by KPMG Accountants N.V. and KPMG LLP on the consolidated results of the Group, as set out in the financial statements, were unqualified and contained no exceptions or emphasis of matter. For more details see pages 67 to 74.

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by the International Accounting Standards Board. The critical accounting policies and those that are most significant in connection with our financial reporting are set out in note 1 on pages 79 to 82 and are consistent with those applied in 2017.

* Certain measures used in our reporting are not defined under IFRS. For further information about these measures, please refer to the commentary on non-GAAP measures on pages 23 to 26.
^

Wherever referenced in this report, underlying sales growth (USG) and underlying price growth (UPG) do not include price growth in Venezuela for the whole of 2018 and in Argentina from July 2018. USG and UPG for 2017 do not include Q4 2017 price growth in Venezuela. See pages 23 and 24 on non-GAAP measures for further details.

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The Group has revised its operating segments to align with the new structure under which the business is managed. Operating segment information is now provided based on three product areas: Beauty & Personal Care, Foods & Refreshment and Home Care.

BEAUTY & PERSONAL CARE

	2018	2017	% change
Turnover (million)	**20,624**	20,697	(0.3)
Operating profit (million)	**4,130**	4,103	0.7
Underlying operating profit (million)	**4,508**	4,375	3.0
Operating margin (%)	**20.0**	19.8	0.2
Underlying operating margin (%)	**21.9**	21.1	0.8
Underlying sales growth (%)	**3.1**	2.9	
Underlying volume growth (%)	**2.5**	1.4	
Underlying price growth (%)	**0.6**	1.5	

KEY DEVELOPMENTS

Turnover declined by 0.3% including a negative currency impact of 7.0%. Acquisitions contributed 3.9% and underlying sales growth was 3.1%. Dove delivered another year of broad-based growth. Skin care grew strongly helped by innovations such as the new Vaseline range with clinical strength moisturisation and other brands addressing the fast growing naturals trend including Love, Beauty & Planet. Growth in skin cleansing was helped by innovations such as the relaunch of Lifebuoy with active silver, new premium formats including Dove exfoliating body polishes and our new cleansing brands such as Korea Glow. Deodorants delivered good volume growth helped by strong performance on Dove but pricing was muted. The newly acquired Schmidt s grew strongly. Sales in oral care were flat due to ongoing competitive pressures. Prestige performed well with double digit growth on Hourglass, Ren, Living Proof and Kate Sommerville as well as improved momentum on Dermalogica and Murad. Dollar Shave Club grew double digits and continued to build scale in the US.

Underlying operating profit increased by 133 million. Underlying operating margin and underlying sales growth improvement added 302 million and 136 million respectively, offset by a 484 million adverse impact from exchange rate movements. Acquisition related activities contributed 179 million. Underlying operating margin improvement reflects brand and marketing efficiencies from zero based budgeting.

FOODS & REFRESHMENT

	2018	2017	% change
Turnover (million)	**20,227**	22,444	(9.9)
Operating profit (million)	**7,245**	3,616	100.4
Underlying operating profit (million)	**3,534**	3,737	(5.4)

Operating margin (%)	**35.8**	16.1	19.7
Underlying operating margin (%)	**17.5**	16.7	0.8
Underlying sales growth (%)	**2.0**	2.7	
Underlying volume growth (%)	**1.3**	(0.2)	
Underlying price growth (%)	**0.7**	3.0	

KEY DEVELOPMENTS

Turnover declined by 9.9% including a negative currency impact of 5.6%. Acquisitions and disposals had an unfavourable impact of 6.4% reflecting the disposal of the spreads business. Underlying sales growth was 2.0% coming from volume growth of 1.3% and price growth of 0.7%. Ice cream had another strong year helped by innovations on our premium brands which included a new Magnum praline variant and a non-dairy range of Ben & Jerrys. The launch of Kinder® ice cream and good weather helped to drive strong ice cream growth in Europe. Sales in tea grew modestly: emerging markets growth was driven by good performance on core brands like Brooke Bond in India whilst in developed markets challenges in black tea offset good growth from Pukka and the new organic Lipton
range. In savoury, Knorr was helped by good performance of cooking products in emerging markets and more organic and natural innovations such as a new soup in glass range. In dressings, campaigns centred around Hellmann s purpose to fight food waste helped to increase brand equity, but sales were held back by promotional intensity particularly in the US. Our actions to transform the portfolio are working: strong innovations including Knorr rice and pasta pots as well as our new brands Red Red, PrepCo and Mãe Terra helped us build scale in the fast growing snacking segment.

Underlying operating profit declined by 203 million including a 236 million adverse contribution from exchange rate movements. Underlying operating margin improvement added 247 million and underlying sales growth contributed 56 million. Acquisition and disposal related activities had an overall negative impact of 270 million mainly due to loss of profit of the spreads business from the date of its disposal on 2 July 2018. Underlying operating margin improvement reflects strong gross margin improvement and lower overheads despite an adverse impact from the spreads disposal.

HOME CARE

	2018	2017	% change
Turnover (million)	**10,131**	10,574	(4.2)
Operating profit (million)	**1,160**	1,138	1.9
Underlying operating profit (million)	**1,317**	1,288	2.3
Operating margin (%)	**11.5**	10.8	0.7
Underlying operating margin (%)	**13.0**	12.2	0.8
Underlying sales growth (%)	**4.2**	4.4	
Underlying volume growth (%)	**2.3**	2.1	
Underlying price growth (%)	**1.9**	2.3	

KEY DEVELOPMENTS

Turnover declined by 4.2% including an adverse currency impact of 8.3%. Underlying sales growth was 4.2%, coming from volume growth of 2.3% and price growth of 1.9%. Home and hygiene grew strongly led by Sunlight which was helped by a new communication focussed on building functional awareness, as well as the continued success of Domestos toilet blocks. In fabric sensations, Comfort was helped by market development in India and China as well as the launch into Germany. Fabric solutions grew strongly helped by our strategy to encourage consumers in emerging markets to uptrade to premium formulations like Surf Excel Matics in India, and innovations such as Omo eco active with recycled packaging, plant extracts and naturally derived fragrances. Seventh Generation also grew well.

Underlying operating profit increased by 29 million, including a 144 million adverse contribution from exchange rate movements. Underlying operating margin improvement contributed 113 million. Underlying sales growth and acquisition and disposal related activities added 55 million and 5 million respectively. Underlying operating margin improvement was mainly due to lower overheads and brand and marketing efficiencies.

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FINANCIAL REVIEW CONTINUED

CASH FLOW

Cash flow from operating activities was 9.0 billion, a decline of 0.5 billion compared to the prior year. Free cash flow was 5.0 billion, a reduction of 0.4 billion on the prior year. The reductions reflected the impact of currency devaluation and higher working capital, including a 0.4 billion increase arising from the disposal of spreads.

	million 2018	million 2017
Operating profit	**12,535**	8,857
Depreciation, amortisation and impairment	**1,747**	1,538
Changes in working capital	**(793)**	(68)
Pensions and similar obligations less payments	**(128)**	(904)
Provisions less payments	**55**	200
Elimination of (profits)/losses on disposals	**(4,299)**	(298)
Non-cash charge for share-based compensation	**196**	284
Other adjustments	**(266)**	(153)
Cash flow from operating activities	**9,047**	9,456
Income tax paid	**(2,294)**	(2,164)
Net capital expenditure	**(1,424)**	(1,621)
Net interest and preference dividends paid	**(367)**	(316)
Free cash flow*	**4,962**	5,355
Net cash flow (used in)/from investing activities	**4,644**	(5,879)
Net cash flow (used in)/from financing activities	**(11,548)**	(1,433)

* Certain measures used in our reporting are not defined under IFRS. For further information about these measures, please refer to the commentary on non-GAAP measures on pages 23 to 26.

Net inflow from investing activities was 4.6 billion, an increase of 10.5 billion compared to the prior year. The increase reflects proceeds of 7.2 billion from the disposal of spreads and higher spend on acquisitions during the prior year.

The net outflow from financing activities was 11.5 billion, compared with 1.4 billion in the prior year. In 2018 there were repayments of financial liabilities of 6.6 billion compared with 2.6 billion in 2017; and an outflow from changes in short-term borrowings of 4.0 billion, compared with an inflow of 2.7 billion in 2017. The cash outflow in respect of the repurchase of shares in 2018 was 6.0 billion, compared with 5.0 billion in the prior year.

BALANCE SHEET

At 31 December 2018, Unilever s combined market capitalisation was 121.8 billion compared with 127.9 billion at the end of 2017.

Goodwill and intangible assets increased by 1.1 billion mainly coming from the acquisition of Quala and restatement of goodwill in relation to adoption of IAS 29 Financial Reporting in Hyperinflationary Economies in Argentina (see note 1 and note 9). The increase was partially offset by impairment of Blueair. All material goodwill and indefinite-life intangible assets have been tested for impairment with no charge recognised during the year other than for Blueair. Other non-current assets decreased by 0.4 billion mainly due to a reduction in the value of pension assets.

	million 2018	million 2017
Goodwill and intangible assets	**29,493**	28,401
Other non-current assets	**14,482**	14,901
Current assets	**15,481**	16,983
Total assets	**59,456**	60,285
Current liabilities	**19,772**	23,177
Non-current liabilities	**27,392**	22,721
Total liabilities	**47,164**	45,898
Shareholders equity	**11,572**	13,629
Non-controlling interest	**720**	758
Total equity	**12,292**	14,387
Total liabilities and equity	**59,456**	60,285

Current assets decreased from 17.0 billion to 15.5 billion mainly reflecting the reduction in assets held for disposals as a result of the completion of the spreads transactions on 2 July 2018. Current liabilities were 19.8 billion, a decrease of 3.4 billion compared to the prior year. The decrease was due to repayment of short-term liabilities which were replaced by long term borrowings. Non-current liabilities were 27.4 billion, an increase of 4.7 billion on the prior year. During the year the Group issued bonds worth over 6.0 billion and repaid notes of about 1.0 billion. See note 15C for analysis of bonds and other loans.

The table below shows the movement in net pension liability during the year. The increase from 0.6 billion at the beginning of the year to 0.9 billion at the end of 2018 was primarily due to reduced pension assets, driven by adverse equity markets towards the end of 2018.

	million 2018
1 January	**(561)**
Current service cost	**(220)**
Employee contributions	**17**
Actual return on plan assets (excluding interest)	**(1,108)**
Net interest cost	**(25)**
Actuarial gain	**671**
Employer contributions	**383**
Currency retranslation	**26**
Other movements[(a)]	**(57)**
31 December	**(874)**

(a) Other movements relate to special termination benefits, past service costs including losses/(gains) on curtailment, settlements and other immaterial movements. For more details see note 4B on pages 87 to 92.

FINANCE AND LIQUIDITY

Approximately 0.8 billion (or 26%) of the Group s cash and cash equivalents are held in the parent and central finance companies, for maximum flexibility. These companies provide loans to our subsidiaries that are also funded through retained earnings and third party borrowings. We maintain access to global debt markets through an infrastructure of short and long-term debt programmes. We make use of plain vanilla derivatives, such as interest rate swaps and foreign exchange contracts, to help mitigate risks. More detail is provided in notes 16, 16A, 16B and 16C on pages 110 to 115.

The remaining 2.4 billion (74%) of the Group s cash and cash equivalents are held in foreign subsidiaries which repatriate distributable reserves on a regular basis. For most countries, this is done through dividends free of tax. This balance includes 154 million (2017: 206 million, 2016: 240 million) of cash that is held in a few countries where we face cross-border foreign exchange controls and/or other legal restrictions that inhibit our ability to make these balances available in any means for general use by the wider business. The cash will generally be invested or held in the relevant country and, given the other capital resources available to the Group, does not significantly affect the ability of the Group to meet its cash obligations.

We closely monitor all our exposures and counter-party limits.

Unilever has committed credit facilities in place for general corporate purposes. The undrawn bilateral committed credit facilities in place on 31 December 2018 were $7,865 million.

CONTRACTUAL OBLIGATIONS AT 31 DECEMBER 2018

	million Total	million Due within 1 year	million Due in 1-3 years	million Due in 3-5 years	million Due in over 5 years
Long-term debt	**24,428**	2,950	4,533	4,683	12,262
Interest on financial liabilities	**3,723**	467	800	628	1,828
Operating lease obligations	**2,464**	481	758	501	724
Purchase obligations[a]	**520**	421	94	1	4
Finance leases	**187**	20	37	34	96
Other long-term commitments	**1,390**	678	590	95	27
Other financial liabilities	**150**	149	1		
Total	**32,862**	5,166	6,813	5,942	14,941

[a] For raw and packaging materials and finished goods.

Further details are set out in the following notes to the consolidated financial statements: note 10 on pages 100 and 101, note 15C on page 108 and 109, and note 20 on pages 120 to 122. Unilever is satisfied that its financing arrangements are adequate to meet its working capital needs for the foreseeable future. In relation to the facilities available to the Group, borrowing requirements do not fluctuate materially during the year and are not seasonal.

AUDIT FEES

Included within operating profit is 21 million (2017: 20 million) paid to the external auditor, of which 16 million (2017: 14 million) related to statutory audit services.

NON-GAAP MEASURES

Certain discussions and analyses set out in this Annual Report and Accounts (and the Additional Information for US Listing Purposes) include measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS. We believe this information, along with comparable GAAP measurements, is useful to investors because it provides a basis for measuring our operating performance, and our ability to retire debt and invest in new business opportunities. Our management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance and value creation. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Wherever appropriate and practical, we provide reconciliations to relevant GAAP measures.

EXPLANATION AND RECONCILIATION

OF NON-GAAP MEASURES

Unilever uses constant rate and underlying measures primarily for internal performance analysis and targeting purposes. We present certain items, percentages and movements, using constant exchange rates, which exclude the impact of fluctuations in foreign currency exchange rates. We calculate constant currency values by translating both the current and the prior period local currency amounts using the prior period average exchange rates into euro, except for countries where the impact of consumer price inflation rates has escalated to extreme levels. In these countries, the local currency amounts before the application of IAS 29 are translated into euros using the period closing exchange rate.

The table below shows exchange rate movements in our key markets.

	Annual average rate in 2018	Annual average rate in 2017
Brazilian real (1 = BRL)	**4.282**	3.573
Chinese yuan (1 = CNY)	**7.807**	7.608
Indian rupee (1 = INR)	**80.730**	73.258
Indonesia rupiah (1 = IDR)	**16831**	15011
Philippine peso (1 = PHP)	**62.379**	56.596
UK pound sterling (1 = GBP)	**0.884**	