-------------------------------------------------------------------------------------------------------- Unilever 2012

**Volatility and uncertainty – the new normal**

2012 proved to be another challenging year for the global economy. Commodity markets remained volatile and costs rose significantly in excess of expectations. The threat of the world’s largest economy going over a ‘fiscal cliff’ and the euro crisis added uncertainty and undermined fragile consumer confidence.

Overall we continue to see sluggish growth in most developed markets contrasted by relatively healthy consumption and growth in aspiring markets. These both have consequences in terms of the world’s social and environmental equilibrium.

Inequality and rising levels of unemployment – especially among young people – place added strains on social cohesion. But the biggest challenge is the continuing threat to ‘planetary boundaries’, resulting in extreme weather patterns and growing resource constraints. These have an increasing impact on people’s lives.

Put simply, we cannot thrive as a business in a world where too many people are still excluded, marginalised or penalised through global economic activity; where nearly 1 billion go to bed hungry every night, 2.8 billion are short of water and increasing numbers of people are excluded from the opportunity to work.

**Our vision for growth**

We remain convinced that businesses that address both the direct concerns of citizens and the needs of the environment will prosper over the long term. We need to build new business models that enable responsible, equitable growth that is decoupled from environmental impact.

This thinking lies at the heart of the Unilever Sustainable Living Plan and our Compass vision of doubling the size of the business whilst reducing our environmental footprint and increasing our positive social impact. To achieve our vision, we have set clear goals to halve the environmental footprint of our products, to help more than 1 billion people take action to improve their health and well-being, to source 100% of our agricultural raw materials sustainably and to enhance the livelihoods of people across our value chain.

As the thinking becomes embedded in our business, there is increasing evidence that it is accelerating our growth in ways that contribute to positive change in people’s lives.

**Strong business performance**

Unilever performed well in 2012, despite difficult economic conditions.

Turnover increased by 10.5%, taking Unilever through the €50 billion barrier, a significant milestone to becoming an €80 billion company. Emerging markets grew for the second consecutive year by more than 11% and now account for 55% of total business. Personal Care and Home Care showed double-digit growth, in line with our strategic priorities.

**Unilever Sustainable Living Plan**

The Unilever Sustainable Living Plan (USLP) inspires us to grow in line with our new purpose to make sustainable living commonplace. The lens of sustainable living is helping us to drive brands that have a strong purpose in people’s lives, to reduce costs and take waste out of the system and to drive innovation that will make a positive difference to the environmental and social challenges facing us all. The Plan pushes us to think ahead, reducing risk and making the business more resilient for the long term.

In 2012 we continued to make good progress delivering the Plan’s commitments. Our factories made great strides in cutting energy, water and waste. For example all our US operations have moved to purchasing their energy from certified, renewable sources and more than half our sites worldwide have achieved zero non-hazardous waste to landfill.

What makes our commitment unique is that it is across the total value chain. We are not only managing our own and upstream operations, but we are also determined to help people to live more sustainably through the impact of our products in their lives.

We have maintained the momentum towards our target of sourcing all our agricultural raw materials sustainably, reaching 36% by the end of 2012. All our palm oil is now covered by GreenPalm certificates. We have made a start in buying traceable oil. Investment in a new palm oil processing factory in Indonesia, working with partners and other initiatives are all helping us to make progress towards our new commitment to 100% certified sustainable palm oil which is traceable back to the plantations on which it is grown.

We are also helping to improve the livelihoods of farmers while guaranteeing future supplies, and we will increasingly place a special focus on women, due to the multiplier effect we know that women have in developing societies. We are working with many partners, including with Rainforest Alliance on tea for Lipton, with Barry Callebaut on cocoa for Magnum and with vegetable farmers through Knorr’s Sustainability Partnership Fund.

Brands that are starting to put their sustainable living ambition at the heart of their proposition not surprisingly enjoyed strong growth. Lifebuoy soap delivered another year of double-digit growth while scaling up its handwashing campaigns. Our Brush Day and Night oral health campaign, which encourages parents and children to adopt good brushing habits, reached 49 million people and has helped our Signal brand grow by 22% since 2008.

We see an equal acceleration in sustainability-led innovations, such as great-tasting low fat margarines with up to 80% less saturated fat than butter (and less environmental impact) and more concentrated detergents.

**Challenges remain**

We still face challenges in some important areas.

Scaling up to reach 1 billion people cost-effectively with hygiene programmes that make handwashing a habit remains a challenge. Equally, we are finding that helping people to use less hot water and energy when washing, showering and doing the laundry is challenging. We continue to experiment with ways to tackle this, such as detergents which perform well in shorter wash cycles, and dry shampoo which might encourage people to wash their hair with hot water less often.

Through working with Oxfam on a study of our business in Vietnam over 2011-12 we have gained important insights into human and labour rights in our own and our suppliers’ operations. The study has implications for our global business. We are identifying how we can promote sustainable livelihoods for all our workers and those in our value chains.

In areas where big breakthroughs are needed, we must step up joint working with others. Making more progress on healthy eating, for example, will require action across the industry whilst governments will need to take a bigger lead on action to combat climate change and decarbonise energy supplies.

Overall it is clear that we will need creative as well as science-based solutions if we are to achieve our full ambition by the end of the decade.

**Working with partners**

Partnerships are key to unlocking these solutions. So I particularly want to thank the partners who are assisting us to deliver this new business model: NGOs who are helping us to address real issues, suppliers who are bringing us solutions for sustainable living, and our customers with whom we share an ambition to reach consumers at scale.

With scale comes responsibility – so we must continue to play a leadership role in seeking solutions for global transformational issues like climate change, food security and poverty alleviation.

This is why we are working with organisations and initiatives such as the Consumer Goods Forum, the World Business Council for Sustainable Development, the World Economic Forum, the Tropical Forest Alliance 2020, Refrigerants, Naturally!, the Global Green Growth Forum and the UN’s Zero Hunger Challenge and Scaling Up Nutrition initiatives. This is also why I agreed to join the UN Secretary General’s High Level Panel to review the Post-2015 Development Agenda.

**Looking ahead**

Despite the scale of the task, I believe we are on track to become a sustainable growth company. But one thing is sure – this will not be possible without the dedication and hard work of our 173,000 colleagues and our many partners around the world. They are demonstrating the power of purpose, making Unilever again ‘fit to win’.

I hope this report gives you a good sense of the progress we are making, and our ambition for the future. Please contact me if you have comments and suggestions that will help us at:

Paul\_Polman.SustainableLiving@unilever.com

Warm regards

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No message

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We are learning how sustainability can generate growth, control costs and manage risk. The economic case is clear.

Through the Unilever Sustainable Living Plan we have committed to halving our environmental impact, improving the health and well-being of more than a billion people, and enhancing the livelihoods of millions working in our value chain – and we’ve set tough targets to make sure we deliver. We’re working with other organisations through partnerships that have the potential to change things on a global scale – with a focus on climate change and deforestation; sustainable agriculture and smallholder farmers; and water, sanitation and hygiene.

Why are we doing this? Because we know the world is changing.

Climate change is taking effect. Water and food supplies are increasingly scarce. Population figures are growing fast. Meeting basic hygiene and sanitation needs is even more of a challenge – and stretching the planet’s resources further still.

We can see how people are already affected by these changes. And we are experiencing similar challenges as commodity costs rise, markets become unstable and raw materials harder to source.

Business as usual is not an option. So we are developing a new way of doing business where sustainability drives everything we do. A business model in which:

■ all raw materials come from sustainable sources

■ people’s health and well-being are a priority

■ workplace rights and opportunities are improved and women get a fair deal

■ the environment is safeguarded for future generations.

Unilever has a history of tackling some of the big issues that society faces. Back in the 19th century our business was founded to provide mass market products such as soap and spreads to improve hygiene and nutrition. Today, the Unilever Sustainable Living Plan is driving sustainability into every corner of our business and generating new opportunities and growth:

■ more people are choosing purpose-driven brands, such as Dove and Lifebuoy

■ as consumers’ needs adjust due to changes in the environment, we’re innovating with new products such as laundry products that use less water

■ training more smallholder farmers in sustainable practices is making our supply chain more secure.

Progress towards our ambitious 2020 goals shows promise. So far we’ve helped nearly 400 million people to improve their health and well-being. The environmental impacts of our own operations continue to reduce, although those associated with the consumer use of our brands are proving much harder to reduce. Meanwhile the number of people whose livelihoods we can enhance is increasing, following the new commitments we made last year.

But progress with our Plan alone is not enough. We are at a turning point in history, a point where we all need to change for human life on the planet to continue to prosper. A new business model with sustainability at its heart is vital for quality of life around the globe to improve. Only the businesses that grasp this will survive. Only those who grow sustainably will thrive.