S&P Global
Ratings

Environmental, Social, And Governance Evaluation

Unilever PLC

Summary

British multinational Unilever is one of the largest fast-moving consumer goods (FMCG) companies globally, with more than 400 brands across 190 countries, and about 148,000 employees. Headquartered in London, Unilever is a leader in all its product categories, most recently organized into five business groups: Beauty and Wellbeing (€10 billion turnover in 2021; about 19%), Personal Care (€12 billion; about 23%), Home Care (€10.6 billion; about 20%), Nutrition (about €11 billion; about 21%, or about €13 billion and 25% including ekaterra sold in July 2022), and Ice Cream (about €7 billion; about 13%). In 2021, the company generated revenue of about €52.4 billion, with 58% from emerging markets, and EBITDA of about €10.7 billion. Unilever estimates that about 3.4 billion people use its products daily.

The ESG Evaluation of 89 continues to reflect our opinion of Unilever's commitment to embed sustainability principles across its organization and value chain. We view the company as making good progress toward meeting the ambitious targets outlined in its corporate strategy, the Unilever Compass. This includes increasing action to address scope 3 emissions within the value chain, in addition to continuing to pilot circular solutions and early efforts to address plastic pollution. We believe Unilever's commitment to its long-term vision for purpose-led brands places it among the most prepared companies to benefit from long-term trends within the FMCG sector and navigate potential disruptions. Despite increased pressure on consumer spending and supply chains, we believe Unilever's global scale and operating efficiency have enabled it to take swift and decisive action. That said, amid elevated global inflation, we remain mindful that consumers may be temporarily unwilling to accept the potentially higher prices associated with brands' steps to raise living standards and protect the environment.

PRIMARY ANALYST

Neesha-Ann Longdon
London
+44-7971-893-402
neesha.ann.longdon
@spglobal.com

SECONDARY ANALYST

Beth Burks
London
+44-20-7176-9829
beth.burks
@spglobal.com

Anna Overton
London
+44-20-7176-3642
anna.overton
@spglobal.com

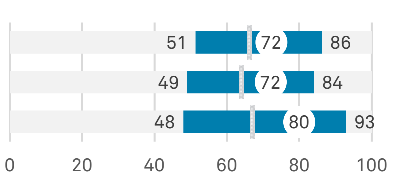
RESEARCH CONTRIBUTOR

Monal Jain
Mumbai

Sofia Singh Digpaul
London

ESG Profile Components (figures subject to rounding)

Entity-specific assessment			Sector/region analysis			Achieved and attainable scores
E (30%)	36	+	E (30%)	36	=	E
S (30%)	38	+	S (30%)	34	=	S
G (40%)	52	+	G (40%)	28	=	G

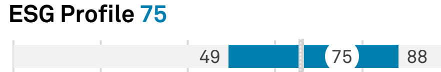


Entity within its primary sector/region

Entity's sectors/ regions versus all sectors/ regions

Min and max scores possible given sectors/regions. The gray line represents performance in line with industry standards.

ESG Profile 75



Preparedness +14

Low	Emerging	Adequate	Strong	Best in class

ESG Evaluation

89

A higher score indicates better sustainability. Figures subject to rounding.

Component Scores

Environmental Profile

Sector/Region Score	36/50
Greenhouse gas emissions	Strong
Waste and pollution	Strong
Water use	Good
Land use and biodiversity	Good
General factors (optional)	None
Entity-Specific Score	36/50
E-Profile (30%)	**72/100**

Social Profile

Sector/Region Score	34/50
Workforce and diversity	Good
Safety management	Strong
Customer engagement	Strong
Communities	Strong
General factors (optional)	None
Entity-Specific Score	38/50
S-Profile (30%)	**72/100**

Governance Profile

Sector/Region Score	28/35
Structure and oversight	Strong
Code and values	Strong
Transparency and reporting	Strong
Financial and operational risks	Neutral
General factors (optional)	None
Entity-Specific Score	52/65
G-Profile (40%)	**80/100**

ESG Profile (including any adjustments) **75/100**

Preparedness Summary

We view Unilever's preparedness as best-in class, reflecting the consistent commitment to sustainability within its corporate strategy. Amid recent volatility and uncertain market conditions, we perceive that the Unilever board has taken decisive action. The company has shifted toward more local supply chains and raised prices in the face of global inflation to maintain capital expenditure (capex) and research and development (R&D) investments and optimize environmental efficiencies within its operations. Furthermore, the board maintains strong awareness of emerging industry trends, which underpins the partnership between AXA and Tikehau Capital to encourage investments in regenerative agriculture. That said, Unilever will continue to face scrutiny from stakeholders to prove its sustainability credentials go beyond lipservice through clear, transparent communication. Failure to do so may weaken consumer acceptance of Unilever's brands as purpose-driven and sustainable.

Capabilities	
Awareness	Excellent
Assessment	Excellent
Action plan	Good
Embeddedness	
Culture	Excellent
Decision-making	Excellent

Preparedness Opinion (Scoring Impact) **Best in class (+14)**

ESG Evaluation **89**

Note: Figures are subject to rounding.

Environmental Profile

72/100

Sector/Region Score (36/50)

Consumer goods companies face moderate exposure to environmental risks relative to other sectors. In our view, the sector faces environmental impacts across the value chain, including from packaging waste and products' end of life (including food disposal), land and water due to use of agricultural raw materials, as well as product manufacturing, distribution, and use.

Entity-Specific Score (36/50)

Note: Figures are subject to rounding.

Greenhouse gas emissions	Waste and pollution	Water use	Land use and biodiversity	General factors
Strong	**Strong**	**Good**	**Good**	**None**

Unilever sustains a strong environmental profile as it progresses toward the commitments under the Unilever Compass. Like industry peers, Unilever remains highly exposed to stakeholder scrutiny over plastic waste and has made good progress in its plastic packaging targets, for example, only using reusable, recyclable, or compostable plastic packaging (53% in 2021) and reducing virgin plastic 16% (against a 50% target by 2025). Furthermore, we continue to credit Unilever above peers for its circular economy innovation, with pilots in developed and emerging markets to offer consumers refillable solutions, product innovation, and partnerships with local supermarkets or delivery services. Eliminating plastic exposure remains a challenge, particularly in geographies where recycling infrastructure is weak. To address this, Unilever and other partipants have collectively pledged $100 million to the Ocean Fund, which seeks to enhance infrastructure for collecting and processing plastic packaging in Asia, including India and Indonesia. Furthermore, Unilever's targets to reduce food waste in its operations and the consumer-use phase continue to stand out against peers'. However, they may be constrained by Unilever's somewhat limited influence to drive widespread changes in consumer behaviour.

Unilever remains committed to addressing its more material scope 3 emissions as part of its ambitious target to achieve net zero emissions across the value chain by 2039. It remains on track to meet a 2025 interim target to reduce direct emissions in operations 70% compared to 2015, having achieved a 64% reduction in scope 1 and 2 emissions in 2021 as part of a longer-term target of 100% by 2030. Furthermore, its commitment to a low-carbon portfolio is evident from sales of €250 million in plant-based and dairy alternatives, in line with its €1 billion target over 2025–2027. Yet, it is Unilever's efforts to engage suppliers in emissions reductions that continue to differentiate it from industry peers. This includes increasing supplier engagement, especially with raw material suppliers for inorganic chemicals, where Unilever's most material emissions lie. It is also adopting science-based targets in line with the Paris Agreement goals and replacing petroleum-based chemical formulations. However, progress is still limited and will remain a challenge should Unilever be unable to support smaller suppliers with sufficient financial resources, and if suppliers fail to meet their commitments.

Unilever remains highly exposed to biodiversity risks as one of the world's largest procurers of palm oil and soy. The company remains on track with its 2023 target for deforestation-free supply chains, having invested about $300 million in its oleochemicals facility in Indonesia to enhance supply chain transparency, among other initiatives. Unilever is also piloting blockchain and artificial intelligence technology to improve palm oil transparency.

Social Profile

72/100

Sector/Region Score (34/50)

Consumer goods companies face medium exposure to social risks relative to other sectors. In our view, the sector is exposed to risks including fast-changing consumer preferences in products and modes of shopping, the manufacturing and use of unsafe products, as well as poor working conditions across the value chain. In addition, Unilever is exposed to risks from human rights violations due to varied regional labor standards across its value chain.

Entity-Specific Score (38/50)

Note: Figures are subject to rounding.

Workforce and diversity	Safety management	Customer engagement	Communities	General factors
Good	**Strong**	**Strong**	**Strong**	**None**

Unilever's strong customer engagement reflects its commitment to developing purpose-led brands that adapt to consumer preferences. Through its network of 37 people data centers, Unilever can track consumers' evolving preferences for sustainable, inclusive brands. This has aided Unilever's expansion toward plant-based and nutritious foods, a feature we believe continues to stand out against peers, in addition to enhancing its e-commerce channels. It is also in line with evolving consumer preferences toward sustainability, wellness, and digital trends. Furthermore, Unilever remains aware of the need to advance responsible marketing and advertising. In 2021 it launched the Act 2 Unstereotype, affirming its commitment to ban digital alterations to models, and encouraging more diversity and inclusion in advertisements.

Despite some product recalls, stemming mainly from concerns over benzene contamination, we believe Unilever has strong safety protocols. We note these recalls were triggered out of caution and benzene levels have been independently determined to not cause human health hazards. Yet, despite most safety metrics being among the lowest in the sector, a recent spike in Unilever's fatality rate undermines its Vizion Zero target and could lead us to revise our assessment if training efforts appear unsuccessful in reversing the trend. Beyond this, Unilever is on track to meet its target to align 70% of its product portfolio to World Health Organization nutritional standards by 2022 (63% in 2021).

Unilever's commitment to support small and midsize enterprise (SME) suppliers continues to surpass peers' and supports strong community relations. This includes the company's progress to support 5 million SMEs by 2025 (1.2 million in 2021), as well as recent actions piloting the Forest Footprint Exercise, a database to help identify human and indigenous rights violations by palm oil suppliers in Indonesia.

We view these trends as supportive of Unilever's good workforce management across its value chain. In addition to comprehensive supply chain due diligence, including training auditors to identify forced labor risks, Unilever is making progress toward achieving a living wage across its supply chain as a member of the IDH Sustainable Trade Initiative. Within its direct workforce, turnover rates have declined in recent years, falling just below the sector median at 12% versus 13%. It continues to fare well in gender metrics, with 36% of the workforce women, in line with the sector average. We view representation of women in management as equal with advanced peers, at 52% compared to the 30% average, with targets to improve diversity.

Governance Profile

80/100

Sector/Region Score (28/35)

Unilever is headquartered in the U.K., a country we view as having high governance standards. We consider the U.K. to be among the more advanced countries in terms of ESG regulations, and in line with advanced economies' governance standards. Unilever's global exposure includes Asia-Pacific (46% of total turnover in 2021), the Americas (32%), and Europe (22%). We note its presence in India, Indonesia, and Brazil, which have higher exposure to governance risks.

Entity-Specific Score (52/65)

Note: Figures are subject to rounding.

Structure and oversight	Code and values	Transparency and reporting	Financial and operational risks	General factors
Strong	**Strong**	**Strong**	**Neutral**	**None**

Unilever's board consists of highly diverse members, in terms of experience, gender, and nationality, and has a high degree of independence. The board comprises 13 members, including an independent chairman, 85% independent directors, and 100% independent members on its committees, which we view as best practice. The board also demonstrates good diversity metrics, with 38% female directors and no more than four directors of the same nationality, reflecting the company's global footprint. This is further enhanced by 77% of directors having emerging market experience, in line with Unilever's expansion strategy. The board's skills matrix also shows most members have strong backgrounds in finance, FMCG, tech, innovation, digital, and corporate social responsibility, in line with Unilever's vision to generate purpose-led brands.

We view Unilever as having a strong corporate purpose, centered on its communities and the environment, and consistently reinforced via sustainability-focused investments. Unilever's vision and values to make sustainable living commonplace are well integrated throughout the organization and expressed in its commitment to the U.N.'s Sustainable Development Goals. To support these aims, it is actively investing in impact funds, including the Climate and Nature Fund, which aims to invest €1 billion in climate and nature-based projects. This has been further reinforced through its remuneration policy, ensuring long-term sustainability targets are met as part of executives' performance share plans measured over a three-year period. We view the recent legal proceedings over the sale of Ben & Jerry's Israeli business to a licensee as an isolated incident, reflecting actions taken by the subsidiary's independent board, a feature unique only to Ben & Jerry's. We will continue to monitor developments as Unilever aims to remediate relations with the subsidiary. The company's code of business principles applies across its operations and direct suppliers and defines its expectations for employees and suppliers, while it also actively provides regular training.

Unilever has comprehensive disclosure covering varied financial and nonfinancial metrics. This includes detailed policies, recognized standards, and independent assurances along with disclosure of material issues, which we view as above average for the industry. It reports sustainability in line with various frameworks. The nonfinancial data are regularly audited and there have been no major restatements, which we view as advanced practice.

Preparedness Opinion

Best in class (+14)

Preparedness	Low	Emerging	Adequate	Strong	Best in class

In our view, Unilever remains among the most prepared companies to navigate long-term disruptions and opportunities. Its corporate strategy, the Unilever Compass, is well-aligned to the company's purpose to make sustainability common place and has identified priority areas for each business unit to develop strategies and targets. These include climate action, addressing plastic waste through circular solutions, regenerative agriculture, and a commitment to living wages. Having reorganized its business into five segments--Beauty and Wellbeing, Personal Care, Home Care, Nutrition, and Ice Cream--Unilever has outlined clear strategic priorities, among them, shifting its portfolio into high growth spaces, accelerating growth in emerging markets, and enhancing digital sales channels. We believe this strategy reinforces Unilever's maturity in anticipating sustainability trends, as well as capitalizing on other common industry trends such as rising incomes in emerging markets, wellness, and digitization.

Recent volatility and uncertainty have forced Unilever's senior leadership to take decisive action. For example, persisting supply chain disruptions have made Unilever's leadership aware of a decline in globalization trends. This has influenced strategic decision-making, with a shift toward more local supply chains and spot contracts over longer-term deals. Like industry peers, Unilever is committed to raising the prices of goods in line with high inflation to maintain capex and R&D investments. Although volume declines are inevitable, Unilever's brands benefit from strong brand value and price elasticity. To retain market share among low-income consumers, Unilever is also pursuing a pack architecture approach, providing a selection of goods at affordable prices, and preserving its portfolio mix--split 35% premium, 40% middle, and 25% affordable products.

Unilever continues to develop its sustainability-oriented culture through dedicated capex under the Clean Technology fund to increase environmental efficiency, and strategic partnerships to further product innovation. In addition to partnerships with the Ellen McArthur Foundation in circular innovation, we view positively Unilever's drive to form new ones in novel innovative fields, particularly within biodiversity. This includes a new partnership with Genomatica to explore the development of palm oil alternatives, as well as a new impact fund with AXA and Tikehau Capital to drive investment in regenerative agricultural practices. After strong investor interest, the fund aims to raise €1 billion with each partner investing €100 million over its lifetime. This venture will allow Unilever to improve its supply chain management and bring knowledge from AXA Climate in how to measure the beneficial impacts of its activities.

Unilever continues to demonstrate strong flexibility to shift its brand portfolio to high-growth market segments and develop purpose-led brands. Recent acquisitions include SmartyPants Vitamins and Liquid I.V., reflecting its commitment to positive nutrition, while it has been equally strategic in disposals, opting to sell the ekaterra tea business in 2021. By disposing of brands in markets with lower growth potential, Unilever affirms its commitment to high growth areas such as nutrition, which also supports its vision to be a socially responsible company. That said, it remains challenged by high stakeholder scrutiny on sustainability commitments and is frequently accused by nongovernmental organizations of greenwashing in its climate strategy. Despite attempts to address concerns through regular progress reports under the Unilever Compass, stakeholder skepticism could weaken consumer confidence and acceptance of Unilever's brands as purpose-driven and sustainable. Uncertainty also remains as to customers' willingness to pay for sustainability products, particularly amid high inflation.

Sector And Region Risk

Primary sector(s)	Consumer Goods
Primary operating region(s)	United States India United Kingdom Brazil China

Sector Risk Summary

Our sector analysis is mostly based on the moderate exposure to environmental and social risks of consumer products, a heterogeneous sector where Unilever derives all its revenue, operating within the Beauty and Wellbeing, Personal Vare, Home Care, Nutrition, and Ice Cream subsectors.

Environmental exposure

Consumer goods companies are exposed to material environmental risks across their value chain. First, waste associated with the end of life of the product and its packaging is likely to drive new regulation and result in substantial compliance costs. In addition, consumer goods companies are exposed to environmental risks in supply chains. The sector sources its raw materials from the agricultural, mining, forestry, chemicals, and oil and gas supply chains, which have significant land, water, emissions, and pollution impacts. Finally, we believe that consumer goods companies are exposed to environmental risks associated with product manufacturing, distribution, and use. These activities may result in significant water consumption, pollution, and energy use. The nature and scale of the impact largely depends on the nature of the product sold. New regulation may incentivize companies to reduce single-use products, switch to low-carbon freight, and develop energy- and water-efficient products and processes.

Social exposure

Consumer goods companies are exposed to material social risks across their value chain. First, they are exposed to consumers' fast-changing preferences: innovation and product development are critical to navigating changing consumer preferences, supporting brand value, and maintaining high customer satisfaction and retention. In particular, we expect growing demand for sustainable products, transparent labelling, and responsible advertising to continue, and transition the industry toward purpose-led brands. Second, product safety is a major risk. The manufacturing and use of unsafe products--with harmful components or where a product has malfunctioned--can put the health of employees and users at risk, and result in substantial reputational and financial costs. Finally, they are exposed to risks related to working conditions throughout the supply chain: the manufacturing and distribution of consumer goods, as well as the sourcing of raw materials, rely on a complex and global value chain. This exposes consumer goods companies to human rights breaches and poor working conditions, especially if their suppliers operate in regions with lower labor standards.

Regional Risk Summary

Unilever is headquartered in the U.K. and operates in more than 190 countries, with global exposure to Asia-Pacific (46% of total turnover in 2021), the Americas (32%), and Europe (22%). The countries below are indicative of the countries in regions where Unilever has revenue exposure.

United States

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations. Governance is characterized by a very stable political system, a strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally very good. The U.S. follows a rules-based approach to corporate governance focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. State corporate law is also a key source of corporate governance, particularly Delaware where over half over all U.S. listed companies and close to 70% of Fortune 500 companies are incorporated. Exchanges mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors, with separate remuneration and nomination committees. However, formal requirements on ESG reporting are not as established as they are in European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular. Remuneration continues to be a contentious point because U.S. executive pay dwarves global pay levels. The U.S. ranks 27 of 180 on Transparency International's 2021 Corruption Perception Index.

India

India enjoys stable and mature institutions, particularly the judiciary. India's corruption levels are average compared globally and it ranks 85 of 180 on Transparency International's 2021 Corruption Perceptions Index. India's corporate governance framework is based on the 2013 Companies Act and Securities Exchange Board (SEBI) regulations. Since 2018, SEBI has been implementing the Kotak governance committee's recommendations to improve practices at listed companies. New SEBI rules governing the regime of related-party transactions came into effect in April 2022 to improve disclosure and oversight. This comes in addition to new regulations for banks and financial institutions from the Reserve Bank of India that took effect in 2021, limiting tenure for board directors and specifying best practices for committees. Board diversity has increased since the 2013 Act, which mandated all listed companies have at least one female director. Board effectiveness and succession planning remain common issues, and boards, typically quite large, often comprise long-tenured directors sitting on multiple boards. ESG reporting has strengthened, and more companies are improving their disclosures. Regulators like the Bombay Stock Exchange (BSE) have made ESG disclosures mandatory for the top 500 companies listed on the BSE and National Stock Exchange.

United Kingdom

The U.K. benefits from strong corporate governance practices. Brexit-related policy uncertainties still linger, including disagreements with the European Union on the implementation of the Northern Ireland Protocol which may lead to frictions. Still, in our view, UK benefits from robust and independent institutions and high rule-of-law standards, as well as very low actual and perceived levels of corruption. Governance guidelines are primarily based on the U.K. Code of

Appendix

Corporate Governance published by the Financial Reporting Council (FRC) and updated in 2018. The revised and strengthened code provides a broad set of recommendations including executive remuneration and board composition, follows a comply-or-explain model, and is widely regarded as best practice internationally. The recent version strengthened provisions on the role of the audit and nomination committees, chair tenure, and stakeholder engagement. An updated version of the U.K. Stewardship Code published by the FRC also came into effect on Jan. 1, 2020. It sets out principles for investors. Overall levels of corporate disclosure on ESG are strong and the country benefits from a very active institutional investor base, which has been fuelling the demand for better disclosure and corporate engagement. Legislation that took effect in 2019 will also require pension funds to disclose the financial risks they face arising from ESG factors. The U.K. ranks 11 of 180 on Transparency International's 2021 Corruption Perceptions Index.

Brazil

Brazil has comparatively strong laws and regulations, particularly on corporate governance. The main challenge is implementation. We expect this to improve following significant improvements such as stronger B3 stock exchange listing rules on governance (Novo Mercado segment), new governance guidelines for state-owned enterprises, and greater shareholder-rights protection. For instance, instruction 614 from the Brazilian Securities Exchange Commission (CVM), which came into effect on Jan. 1, 2020, improves shareholders' rights in relation to the election of directors. Concentrated ownership is common and the use of multiple-class share structures with unequal voting rights may negatively affect minority shareholders. The Brazilian Institute of Corporate Governance's Corporate Governance Code is the market's best-practice reference document. It is not mandatory, but since 2017 companies must report on its recommendations on a comply-or-explain basis. Despite improvements to board independence and diversity, Brazil lags developed markets. There are limited formal requirements for ESG disclosure, but companies, particularly large ones, tend to report widely on their environmental and social efforts. In terms of corruption, Brazil is in the bottom half of South American countries, ranking 96 of 180 on Transparency International's 2021 Corruption Perceptions Index.

China

The Chinese Central Government's recent push to reform state-owned enterprise structures in line with good governance practices is a major development. In 2018, China revised its Code of Corporate Governance for listed companies, accounting for OECD requirements and particularly focusing on ESG disclosure and board diversity. Draft amendments to Chinese Company Law were published in January 2022, aimed at improving corporate governance at companies including state-owned enterprises. Notable changes were made on related-party transactions regulation, companies' capital structures, and provisions clarifying directors' duties. These changes follow the issuance in 2021 by the China Banking and Insurance Regulatory Commission of a new Corporate Governance Rules of Banking and Insurance Institutions, which consolidates existing guidance. Official corruption has lessened over the past few years due to the central government's anti-corruption drive. This effort has also been extended to government-related companies and financial institutions. Still, corruption among private enterprises remains an issue. Although judicial reforms are ongoing, the private sector has yet to trust that the rule of law is significantly improving. The country ranks 66 of 180 on Transparency International's 2021 Corruption Perceptions Index.

Related Research

- "The ESG Risk Atlas: Sector And Regional Rationales And Scores," published July 22, 2020
- "Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide," published July 22, 2020
- "Environmental, Social, And Governance Evaluation: Analytical Approach," published December 15, 2020
- "How We Apply Our ESG Evaluation Analytical Approach: Part 2," published June 17, 2020

This report does not constitute a rating action.