Unilever PLC

UK, Food, Beverages and Forestry

Accounting		Climate Assumptions		Audit		Date of analysis: Mar. 29, 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in KAMs	Consistency check	Year end: Dec. 31, 2020 Report date: Mar. 10, 2021 AGM: May 5, 2021
Some concerns	Some concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Climate Action 100+ company, so seen by investors as key to driving global net zero emissions.

Summary view:

- Nearly half of the company's in-scope emissions are from raw material supplies and only 2% from its own facilities. Plans to deliver net zero emissions are targeted for all products, from sourcing to point of sale, by 2039.
- Accounting judgements on intangibles are said to include the impact of climate change and activities of the company to reduce emissions, but there remains considerable scope for greater consistency between extensive discussion of climate outside the financial statements, and visibility of uncertainty and related company activities within the financials.
- Climate risk is not referenced by the auditor.

Background

The Business.

- Unilever PLC became the group's single parent company following unification with Unilever N.V. in Nov. 2020. The company operates three product segments, Beauty & Personal Care (skin cleansing, hair care, skin care and deodorants), Foods & Refreshment (ice cream, savouries, dressings, and tea), and Home Care (fabric care and home cleaning).
- Indirect use-phase emissions represent 65% of the emissions profile for the value chain. This, however, is excluded from the company's in-scope emissions targets, as is allowed for by the CA100+ Net Zero Company Benchmark for the sector. Only direct emissions for aerosol propellants and biodegradation of chemicals in the disposal phase, are included.
- Annual in-scope CO2e approximate 32m tonnes. Nearly half are from raw materials and 2% from its own manufacturing facilities, offices and labs. The rest is from logistics, distribution, packaging, retail (ice cream freezers), disposal of waste and packaging, and HFC propellants.

Approach to climate change.

- Climate and emissions targets are in transition, with completion of a measurement period that ran to the end of 2020. Results against targets for this period were mixed.
- The Annual Report noted that in Dec. 2020, Unilever announced it would put its new targets and plan in front of shareholders and seek an advisory vote. The 2021 AGM materials include the Climate Transition Action Plan (CTAP) and agenda item 4 will consider this.
- Net zero emissions are targeted for all products, from sourcing to point of sale, by 2039 – far in advance of 2050. Interim targets include:
  - By 2025: An absolute reduction in scope 1 and 2 operational emissions by 70% against a 2015 baseline. By 2030, this is raised to 100%.
  - By 2030: A 50% reduction in the footprint of products against a 2010 baseline. This is an intensity target based on emissions per consumer use (including all use-phase emissions). It is intended to help guide innovation and monitor progress toward net zero at 2039.
- The 2030 targets were formally approved by the Science Based Targets initiative (SBTi) as being consistent with pathways to limit the global average rise to 2°C. The 2030 emissions target is also approved as being consistent with the 1.5°C ambition of the Paris Agreement.
- Commitments have been made to provide a €1bn Climate & Nature Fund to help remove carbon emissions from both the making and use of the company's products and from the environment, and a further €1bn for a Clean Future programme of work by cleaning and laundry product brands to remove all fossil-fuel derived carbon from products, moving to 100% renewable or recycled carbon. These initiatives both run over the next decade.

- Unilever uses a Sustainability Progress Index (SPI) to assess the business's performance on sustainability, for the purpose of determining a portion of pay to executive directors.

Accounting: judgements and consistency with other reporting

Accounting judgements		Some concerns

- The company applies IFRS as adopted by the EU, and IFRS as issued by the IASB.
- There appears to be just one explicit reference to climate change in the notes to the financials, in relation to the impairment assessment of goodwill and indefinite-life intangibles. These assets are carried on the balance sheet at €34bn. Projected cash flows used in the assessment include specific estimates for a period of five years, based on the Group's three-year strategic plan, which is said to include the impact of climate change and activities the company is undertaking to reduce emissions, extended to years four and five. It is not clear what these climate assumptions are, or their impact on the assessment. No impairment was identified.
- The company has significant defined benefit pension and similar plan obligations, and plan assets set aside to fund these were valued at €24bn at the end of 2020. These are 23% invested in government bonds. The degree to which the value of the other portion of these assets is insulated from climate risk is not clear.

Consistency with other reporting		Some concerns

- Given the significance of climate change, it is concerning that there is no apparent disclosure of associated costs, including R&D and capex, or impacts on margins, etc. of the steps being taken in relation to climate risk commitments. We note that in relation to some of the plans discussed outside of the financials, capex is not expected to be incremental, and many steps are embedded, for example, within management of the ongoing relationship with suppliers. The company has also indicated that its own efforts on reducing its carbon footprint - historic steps on R&D, supplier selection and supplier reduction in emissions - have been cost neutral.
- The CTAP will involve intensified work further into the supply chain, including also the €2bn commitments referenced above, which appear to be incremental. Additional separate disclosure could help investors to assess the impact on financial reporting amounts.
- Unilever confirms that it has adopted TCFD recommendations.

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts		Significant concerns

- There are no apparent climate-related assumptions in the accounts. There is thus no sensitivity analysis. The company has, however, conducted scenario analysis, and use this to inform strategy and financial planning. It has modelled a 2°C scenario, focusing on regulatory changes that could be introduced, and a 4°C scenario focusing on physical impacts. For both, the main impact without action is on raw material costs – costs of carbon pricing and agricultural policies in the 2°C scenario, and of water stress in the 4°C scenario. The 4°C scenario also indicated significant disruption that would reduce turnover.

Paris alignment		Significant concerns

- With no visibility of assumptions in the accounts, there can be no alignment with the goals of the Paris Agreement. Unilever does, however, plan to model a 1.5°C scenario together with the latest science and the company's commitment to play its part in limiting to ideally, no more than a 1.5°C increase. This may form a basis for inclusion in accounting judgements.

Audit: visibility in KAMs and consistency check

Audit firm: KPMG LLP	Responsible partner: Nicholas Frost
Audit standards: International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law	

Visibility in Key Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor’s report.
- KAMs include 1) Revenue recognition – Discounts, 2) Indirect tax contingent liabilities in Brazil, 3) Uncertain direct tax transfer pricing provisions, 4) Valuation of Horlicks brand acquired from GlasoSmithKline, and 5) Unification of Unilever’s Corporate structure.

Consistency check		Significant concerns

- Other information identified includes that appearing within the Unilever Annual Report and Accounts 2020. The auditor did not identify material misstatements.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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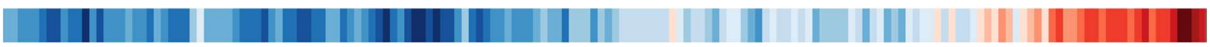

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