

# Applying Sarbox S404 in Practice

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## Playing Pass the Parcel



**Will we ever  
find the present?**



## A Present from Enron



## Or is there a Nugget in there?



## Agenda

- **What is Unilever?**
- **Why SarbOx?**
- **What did we do?**
- **Where are we?**
- **What did we learn?**
- **Challenges**
- **Observations**



## You may not know us....



but you know our brands



Unilever's mission is to add vitality to life.  
We meet everyday needs for nutrition, hygiene,  
and personal care with brands that help  
people feel good, look good and  
get more out of life.



## Scale and Geographic Reach

Present in 150 countries around the world  
223,000 employees

2004 Turnover: €39.1 billion, US\$48.4 billion

Europe: €17.0 bn 43%

Asia/Africa: €9.6 bn 25%

The Americas: €12.5 bn 32%

## Portfolio of categories

Meeting everyday needs for nutrition,  
hygiene and personal care

Home Care 17%

Spreads 12%

Savoury &  
Dressings 21%

Personal Care 26%

Ice Cream  
&  
Frozen Foods 16%

Beverages 8%



## Where did we come from?

### ■ Multiple operating units

- ▶ little correlated risk
- ▶ few shared services operations

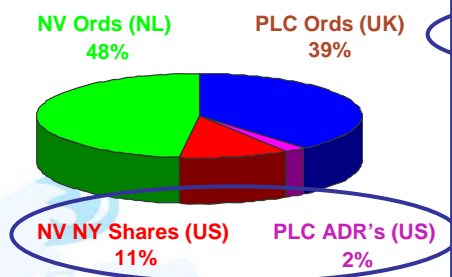
### ■ Risk-based self assessment OCA

- ▶ 5-10 years experience
- ▶ annual process + compliance return

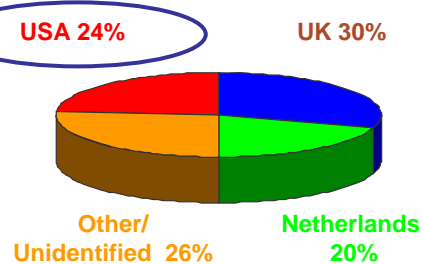


## Why SarbOx?

### Share listings as a percentage of capital



### Share ownership\* by country at the end of 2004



\* estimated



## What did we do?

### ■ **Attempt 80+% compliance in 2004**

- ▶ full “dry run” of Control Activities assessment
- ▶ pilot of Entity Level assessment at Corporate level
- ▶ flush out multiple ‘deficiencies’

### ■ **Step back to 17 big countries in 2005**

- ▶ focus on the emergent big issues
- ▶ increase effort on IT General Controls
- ▶ extend Entity Level assessment to regions & countries



## Where are we?

### ■ **We have much of the business to ‘almost in compliance’**

- ▶ there is little doubt we can fully comply in 2006
- ▶ but so much is changing that this requires new work
- ▶ we need to focus on ‘raising the floor’

### ■ **Concentrate on process improvements**

- ▶ learning across the business
- ▶ we need to drive for quality at source
- ▶ focus on building automated “prevent” application controls into our ERP and other systems



## What did we Learn?

- **Multiple sites and OpCos is a disadvantage**
  - vast testing regime does not add value
- **No correlation for SarbOx 'performance'**
  - management attitude and attention
- **We need to concentrate on Key FCs**
- **The real risks are very few**
  - and highly concentrated
- **Regulators' / Profession's guidance**
  - too little, too late



## Planned Changes for 2006

- **Reduce Controls Activities coverage**
  - further to 14 big countries
- **Increase emphasis on Entity Level controls**
  - (in particular monitoring) at all levels
- **Mandate a minimum set of risks**
  - with recommended controls for each
- **Give more training and guidance on assessing the impact of deficiencies**



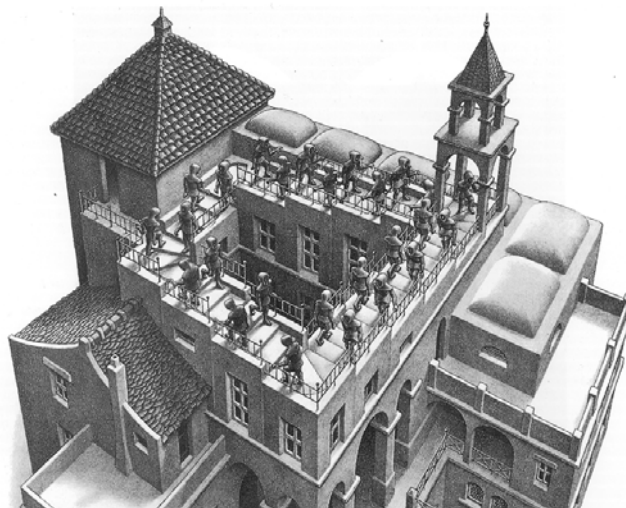


## Challenges

- **Maintaining commitment**
  - during initiative overload
  - against a moving deadline
- **Moving from basic compliance to systematic improvement**
  - this is where the 'nugget' lies



## Beware



## Man's Appetite for Risk



Which of these is higher risk?



## Seat Belts



## Air Bags



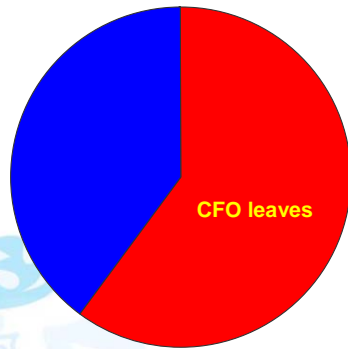
## Message 1

- **(Y)our interventions are in a complex system**
- **They can have unintended consequences**
- **Man works to his own risk-reward balance**
  - ▶ managers
  - ▶ entrepreneurs
  - ▶ regulators
  - ▶ auditors

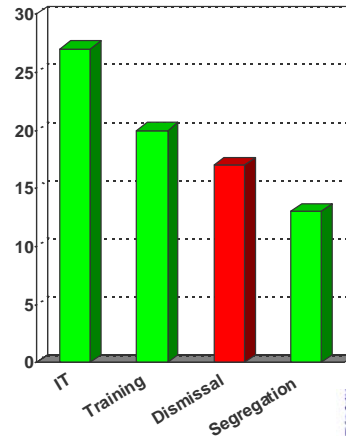


## Reaction to Disclosure

350 US Companies  
disclosing material weakness, 2004



Most Frequent  
Disclosed Remediation  
Jan - Feb 05

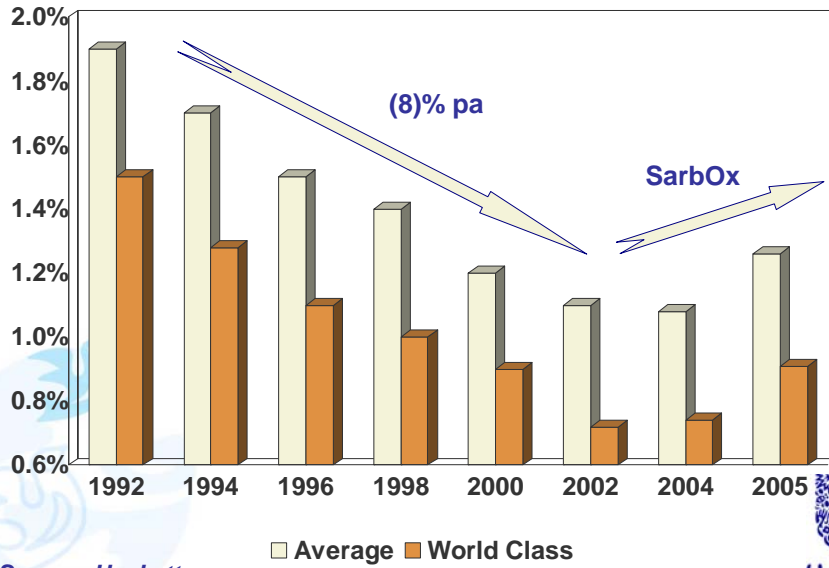


## The Oversight Fallacy

- **“There is a persistent belief in this culture that when you have a problem, the way to solve it is to find blame, institute controls and watch it more closely”**
- **“The oversight function in this culture may be designed to provide a service, but it often costs much more than it benefits”**



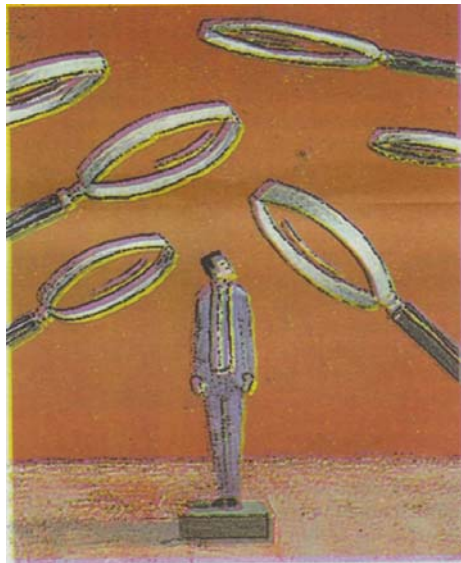
## Benchmark Cost of Finance



Source: Hackett



## Beware!



## Unintended Consequences

- **Competitive advantage to the unregulated**
- **Impede global scale in capital markets**
  - drive to private equity?
- **Rebalance reward from wealth creators to regulators**
  - not from criminals to policemen
- **Overall cost to society**
  - (Y2K cost \$1,500,000,000,000)



## Message 2

- **The costs of SarbOx are clear**
- **The rewards are not**

But the  
might  
be a  
nugg



Thank you for listening

