

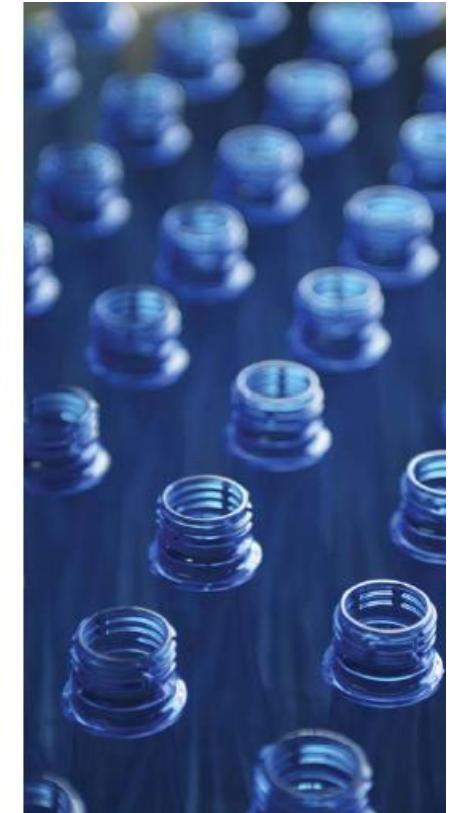
Murky Waters: Corporate Reporting on Water Risk

A Benchmarking Study of 100 Companies

Available at www.ceres.org/waterreport

Brooke Barton
Senior Manager,
Ceres

June 30, 2010



The Ceres Mission: Integrating sustainability considerations into financial and corporate decision-making

Company Network
More than 80 members in a
range of sectors

Investor Network
More than 90 members
with \$10 trillion under
management

The Ceres Coalition

- ➔ More than 130 organizations
- ➔ Environmental NGOs
- ➔ Public interest groups
- ➔ Investors

Select Ceres Companies



Select Coalition Members



Ceres' Investor Network on Climate Risk

- **Over 90 members and \$10 trillion in assets.**
- Providing tools for investors to manage the risks and capture the opportunities posed by climate change and water scarcity .

Key members include:

- § CalPERS
- § CalSTRS
- § Deutsche Asset Management
- § Illinois State Treasurer
- § North Carolina Treasurer
- § NYC Comptroller
- § NY STRS
- § Blackrock Financial
- § TIAA-CREF
- § State Street Global Advisors



Water – a resource at risk

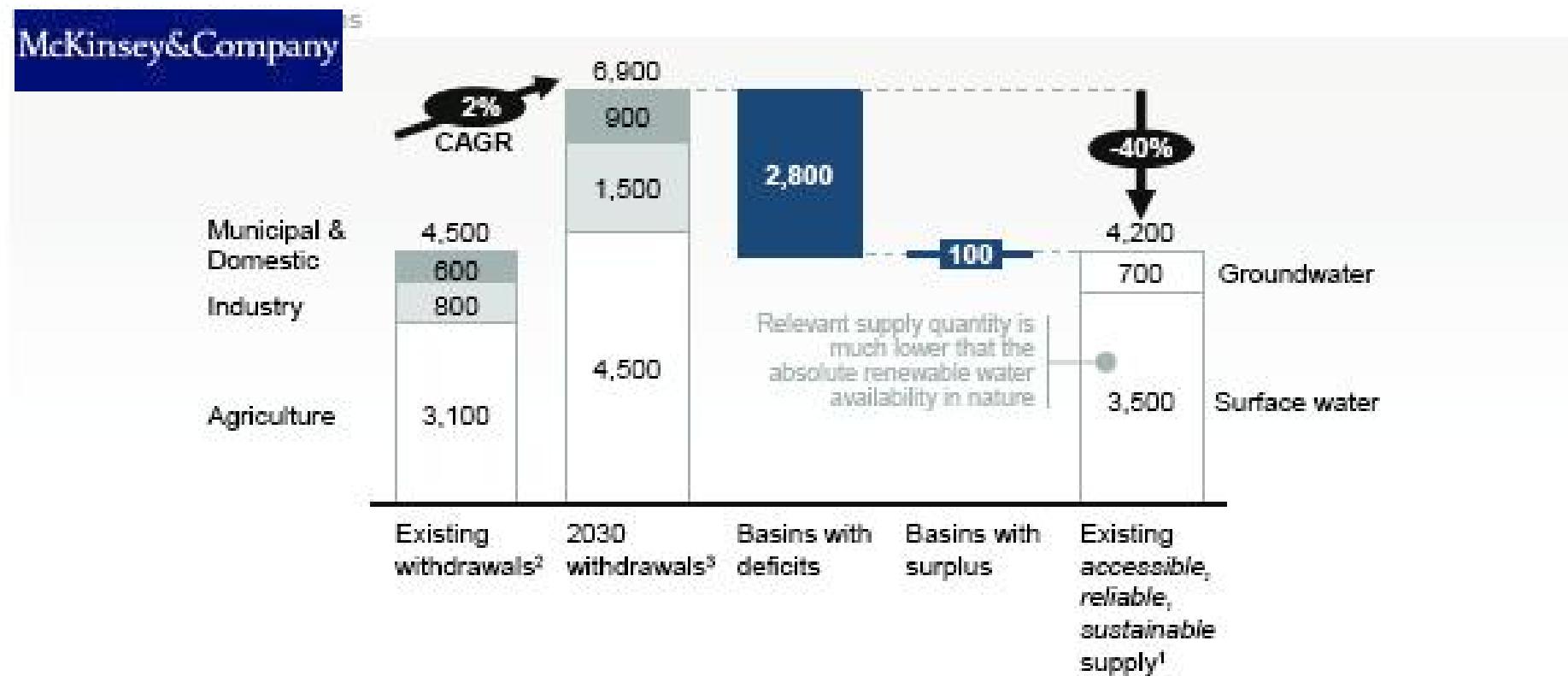
- Water is **our most critical economic resource** – even more important than oil.
- A **critical resource**, threatened by:
 - burgeoning demand
 - declining quality
 - climate change = hydrological uncertainty
- The **business impacts may be far-reaching**.
- Yet, most companies have not examined these risks; **disclosure is extremely poor**.

“I am convinced that, under present conditions and the way water is being managed, we will run out of water long before we run out of fuel.”

*Peter Brabeck-Letmathe
Chairman, Nestlé*

Our thirsty future?

Aggregated global gap between existing accessible, reliable supply¹ and 2030 water withdrawals, assuming no efficiency gains



SOURCE: Water 2030 Global Water Supply and Demand model; agricultural production based on IFPRI IMPACT-WATER base case

Water risks to business

Nestle Waters

Scrapped plans in 2009 to build the country's largest bottled water plant in McCloud, CA in response to years of community opposition

Atlanta, GA, 2008

Hydroelectric power generation declined 51 percent in 2007 due to drought, forcing Southern Co. to buy \$33 million in fossil fuels to replace lost power.

Homebuilders, US

EPA released new guidelines that limit effluent discharge for the construction and development industry. Compliance estimated to cost the industry \$1 billion.

Newmont Gold

Relinquished access to 3.9 million ounces of gold reserves when local residents in Cajamarca, Peru protested company's water impacts

Coca-Cola & PepsiCo

Accusations of excessive water use and pollution in India in 2006 led to global campaigns

New Zealand, 2008

Rio Tinto cut output at its New Zealand smelter by five percent, or 1,400 metric tons a month, because of power constraints caused by drought.

Mounting investor response

- Water risks are **increasingly material** to many sectors
- Yet **investor-relevant** water disclosure is lacking
- Investors are responding:** Norwegian sovereign fund, CDP water survey, shareholder resolutions



The U.S. Securities & Exchange Commission's new climate guidance

On January 27, 2010, SEC issued **interpretive
guidance** on how companies should disclose the
impacts of climate change in financial filings.



Climate-related risks that should be disclosed where material include **“...decreased agricultural production capacity in areas affected by drought or other weather-related changes.”**

The SEC also notes that **“significant physical effects of climate change, such as effects on the severity of weather (for example, floods or hurricanes), sea levels, the ability of farmland, and water availability and quality, have the potential to affect a registrant’s operations and results.”**

--The SEC's *Commission Guidance Regarding Disclosure Related to Climate Change*

Murky Waters: Corporate Reporting on Water Risk

A quantitative assessment & ranking of water disclosure practices among 100 companies in 8 sectors:

- ü Beverage
- ü Chemicals
- ü Electric Power
- ü Food
- ü Homebuilding
- ü Mining
- ü Oil & Gas
- ü Semiconductors

Partners

Data provided by

Bloomberg

Analysis by



Investment Research
SRI & Sustainability

Report methodology

- 💧 **Approach.** Evaluated the quality, depth, and clarity of water risk disclosure in both voluntary and mandatory corporate reporting in 5 categories on a 1-100 scale:
 1. Water Accounting (36 points)
 2. Risk Assessment (24)
 3. Direct Operations (27)
 4. Supply Chain (7)
 5. Stakeholder Engagement (6)

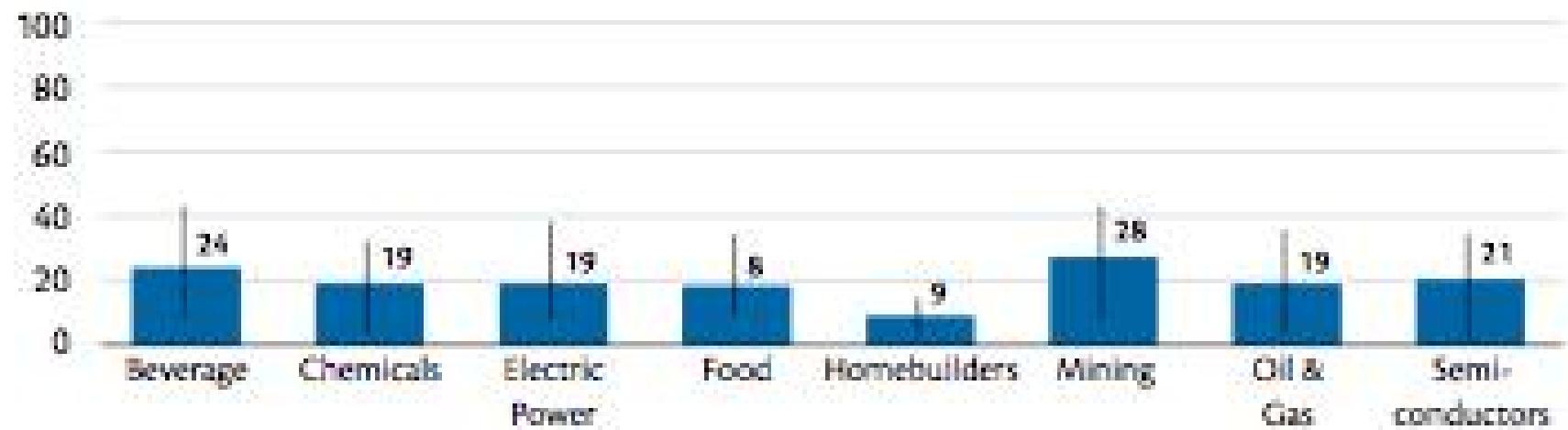
- 💧 **Documents reviewed:**
 - ü 10-K filings (or 20-F/40-F equivalent)
 - ü CSR/ sustainability reports
 - ü Only materials published BEFORE 6/30/09 covering FY2008

Findings: a disclosure drought

80 out of 100 companies scored fewer than 30 points.

- **Strongest sectors:** mining, beverage
- **Weakest:** homebuilding
- **Top scoring companies:** Diageo, Xstrata, Barrick

Average Scores & Ranges by Sector



Many companies are reporting exposure to water risk in their financial filings...

- 💧 73% reported **exposure to physical risks** in 10-Ks or annual reports.
- 💧 Information provided is **boilerplate**; little reference to specific **at-risk operations or supply chains**
- 💧 In select cases disclosure of physical risk found **only in CSR reports**



...but the meaningful details are still in CSR reports.

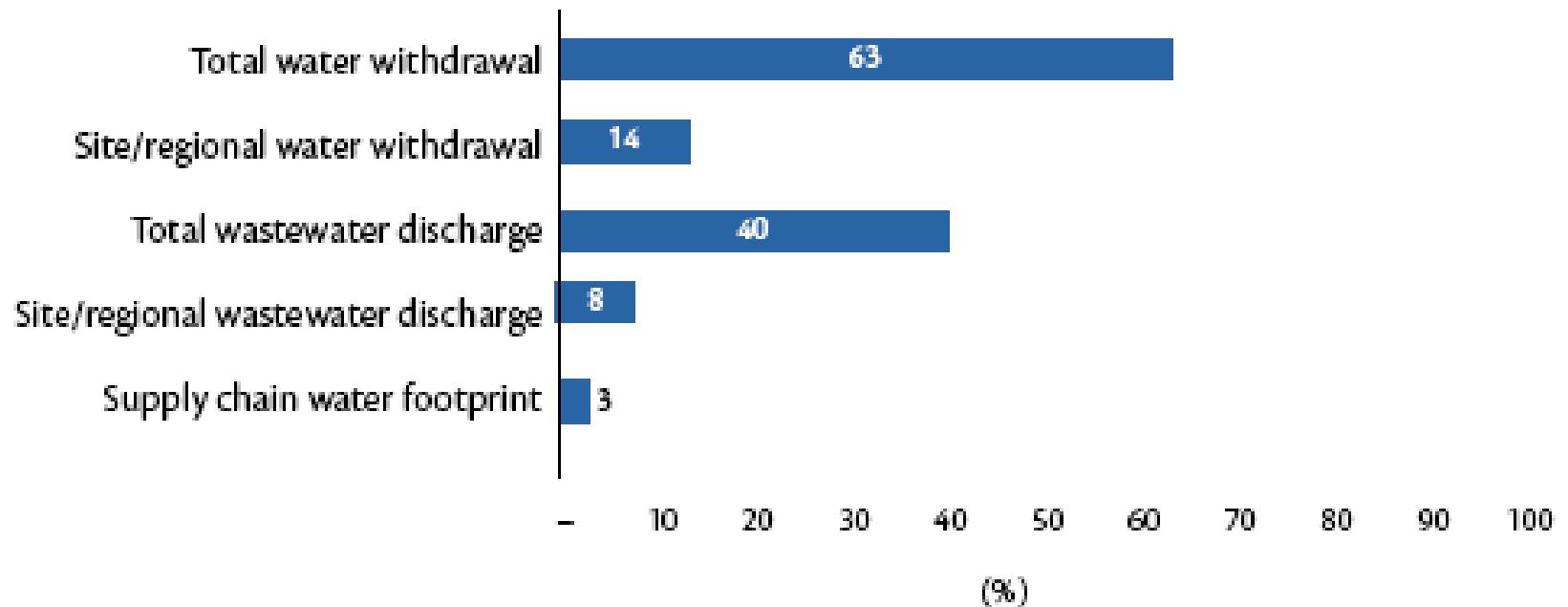
	Number of sites in regions currently or forecasted to suffer stress or scarcity	Where disclosed?
BP	Of BP's forty-nine sites, four are in an area where local community fresh water supplies have been assessed as more scarce or of a poorer quality than in most other parts of the country.	BP website: HSE charting tool
Diageo	11 Diageo production sites are located in areas where the UN forecasts water supplies will be stressed in the next 20 years, with a further 3 in areas predicted to suffer water scarcity	Corporate Citizenship Report
Nestle	49 of Nestlé's 481 factories are in 13 countries which are amongst the 45 most water- stressed countries in the world, as noted by the World Water Council's Water Poverty Index.	2006 Water Management Report
SAB Miller	30 sites are in areas at risk of long-term water stress	2009 Sustainable Development Report
Intel	Many of our operations are located in semi-arid regions, such as Israel and the southwestern United States.	2008 10-K

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Water accounting data is inconsistent, aggregated, and lacking context.

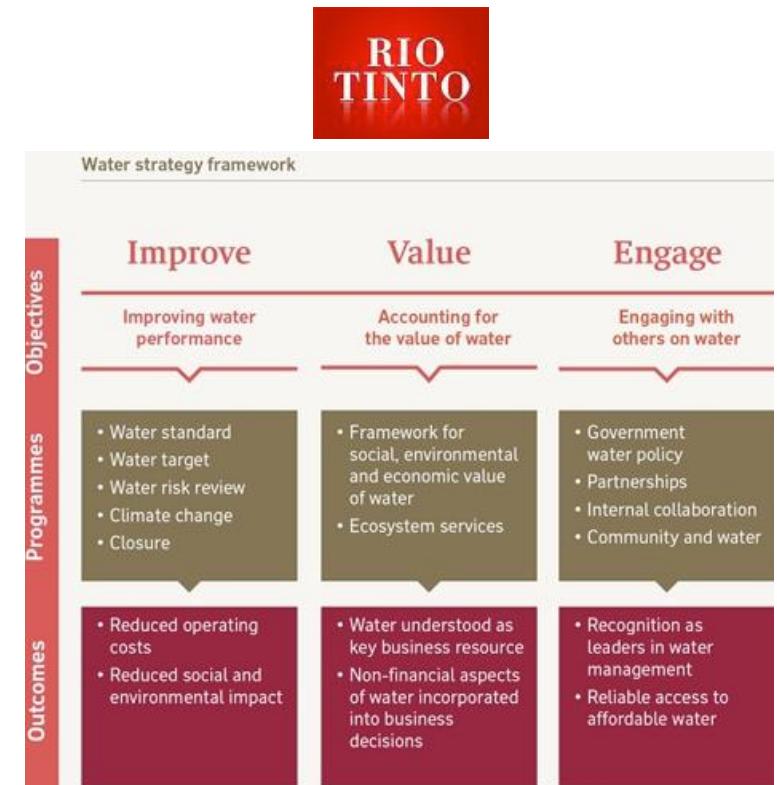
Water Accounting Data: Percentage of Companies Reporting



Limited evidence of strategic oversight of water risks.

Approximately one-quarter (24%) disclose how water is integrated into governance or management systems and policies

- 💧 **Rio Tinto** – Water standard & strategy
- 💧 **Danone** – Senior management compensation link
- 💧 **Coca-Cola** – Standard for Source Water Protection
- 💧 **PepsiCo** – Policy on the Human Right to Water



Reduction goals for water use and wastewater discharge are lacking.

Most goals are global in nature, but risks are highly regionalized.

- 💧 21% reported quantified **water use reduction goals**. Of these, 3 companies set reduction targets **differentiated by level of water stress**
- 💧 15 companies had goals to **reduce wastewater discharge**



Dupont has a 10-year goal to reduce absolute water consumption by at least 30 percent at company facilities located in water-scarce or stressed regions. Also commits to holding its company-wide water consumption flat on an absolute basis through the year 2015.

Supply chain disclosure was limited, even in sectors with water-intensive inputs.

This is a nascent area of reporting, even for food and beverage sectors.

- 💧 Only **12% disclose assessing or collaborating** with suppliers on water use or quality issues
- 💧 **Most efforts conveyed as anecdote** – risk prioritization process murky



Through **Unilever's** Sustainable Agriculture program, the company has developed supplier guidelines with 11 indicators, including water use.

Stakeholder engagement – a key risk mitigation tool -- was under reported as well.

- 💧 **Beverage and mining** companies lead in this area
- 💧 32% report collective action on **watershed management** (much anecdotal)
- 💧 Only 5 companies discuss engagement with stakeholders in relation **to water impacts of siting/expanding operations**



Recommendations for companies

- ü Inclusion of material water risk in financial filings
- ü Water accounting data that puts performance in context
- ü Disclosure of management strategies & systems
- ü Setting and disclosing reduction targets
- ü Addressing water risks in the supply chain
- ü Engagement of critical stakeholders

Opportunities for this group

- **Government.** Raising corporate awareness and providing the data necessary to inform solutions.
- **Academia.** Cases studies on best practices; research partnerships to better inform our understanding of water stress, accounting, and risk assessment
- **Companies.** Best practices, sharing the efforts you are undertaking to manage water risk, and capturing the business case.

Thank You

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APPENDIX: Scores

Beverage	
Diageo	43
Anheuser-Busch InBev	34
The Coca-Cola Company	34
SABMiller	30
PepsiCo	29
Heineken	25
Pernod Ricard	18
Brown-Forman	14
Constellation Brands	9
Dr Pepper Snapple	8

Chemicals	
Mitsui	33
Sumitomo Chemical	32
PotashCorp	31
DuPont	23
Monsanto	23
Syngenta	22
Dow	21
BASF	20
Reliance Industries	17
Mosaic	15
Praxair	13
PPG Industries	11
Air Liquide	10
Linde	10
Saudi Basic	5

Scores

Electric Power	
APS/Pinnacle West	38
American Electric Power (AEP)	36
PG&E	26
Exelon	21
Dominion Resources	18
Southern Company	17
Entergy	16
Duke Energy	16
Xcel Energy	14
Constellation Energy	14
NRG Energy	12
AES Corporation	11
Florida Power & Light Group	8

Food	
Unilever	34
Nestlé	29
Smithfield Foods	25
Danone	20
General Mills	19
Tyson Foods	17
Kellogg	15
Kraft Foods	15
ConAgra	12
Dean Foods	12
Sara Lee	12
Archer Daniels Midland	9
Bunge	9

Scores

Homebuilding	
KB Home	15
Pulte	13
Toll Brothers	13
Beazer Homes	11
Lennar	10
Centex	6
D.R. Horton	4
Hovnanian	4
NVR	4
Ryland	4

Mining	
Xstrata	42
Barrick	38
Rio Tinto	37
Alcoa	35
Anglo American	33
Freeport-McMoRan	31
BHP Billiton	30
Teck	27
Vale	27
Newmont	25
Consol Energy	15
Massey Energy	15
Peabody Energy	8

Scores

Oil & Gas	
BP	35
Suncor Energy	27
Total	27
Nexen	26
Royal Dutch Shell	25
Exxon	23
Chevron	16
ConocoPhillips	16
Devon Energy	16
Canadian Natural Resources	12
Chesapeake Energy	7
Range Resources	7
EnCana	4

Semiconductors	
Toshiba	35
Intel	34
Samsung	29
United Microelectronics	27
Taiwan Semiconductors	25
ST Microelectronics	22
Advanced Micro Devices	17
Analog Devices	15
Texas Instruments	15
Infineon Technologies	8
Micron	1