

# Disclosing the Business Impacts of Climate Change

## Case Studies from Industry Leaders and Analyses of Trends and Future Requirements

April 14, 2010  
San Francisco, California

Sponsored by:  
Pillsbury Winthrop Shaw Pittman LLP  
MWW Group



## Today's Agenda

- **SEC Reporting Requirements** 2:05 pm – 3:05 pm
  - Explanation of current SEC rules and guidance on reporting
  - The new guidance and predictions of how it might change current practices
  - Anticipated enforcement (private and public)
- **Investor Perspectives and Expectations** 3:10 pm – 4:10 pm
  - What has been missing from previous disclosures and what is the ideal disclosure?
  - How do investors intend to use disclosures?
  - Rating mutual funds
  - Communicating with investors
- **Case Studies from Johnson & Johnson, Cisco Systems and PSEG** 4:20 pm – 5:40 pm
  - Collecting information on climate risks and opportunities
  - Conveying information to senior management, the Board and to the public?
  - Distinguishing between unofficial communications (CSR reports, CDP responses, etc.) and formal SEC filings
  - Impacts of litigation/enforcement
- **Working Group Discussion** 5:40 pm – 6:00 pm

Disclosing the Business Impacts of Climate Change  
April 14, 2010 – San Francisco, California



# Today's Speakers

- Welcome and Introduction 2:00 pm – 2:05 pm
- SEC's Recent Guidance 2:05 pm – 3:05 pm
  - **Brian Wong** – Partner, Pillsbury Winthrop Shaw Pittman LLP
  - **Tony Georgis** – Project Manager, RW Beck (an SAIC Company)
  - **Kathryn Alsegaf** – Senior Climate Change & Sustainability Manager, Deloitte
- Investor Perspectives and Expectations 3:10 pm – 4:10 pm
  - **Leah Stern** – Project Officer, Carbon Disclosure Project
  - **Cary Krosinsky** – Vice President, Trucost
  - **Eric Olson** – Senior Vice President of Advisory Services, BSR
  - **Rich Tauberman** – Executive Vice President, MWW Group
- Case Studies from Johnson & Johnson, Cisco Systems and PSEG 4:20 pm – 5:40 pm
  - **Darrel Stickler** – Sustainable Business Practices, Cisco Systems
  - **Mark Scorsolini** – Environmental Policy Manager, Public Service Enterprise Group
  - **Dan Usas** – Global Energy Manager, Johnson & Johnson
  - *Moderated by:* **Bruce Klafter** – Head of EHS & Sustainability, Applied Materials
- Working Group Discussion 5:40 pm – 6:00 pm
  - *Moderated by:* **Daniel Kreeger** – Executive Director, Assoc. of Climate Change Officers

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CENTER FOR CLIMATE ACTION

# SEC Reporting Requirements

*Presenters:*

**Brian Wong – Pillsbury Winthrop Shaw Pittman LLP**  
**Tony Georgis – RW Beck (an SAIC Company)**  
**Kathryn Alsegaf – Deloitte**



CENTER FOR CLIMATE ACTION

## Climate Change Disclosure for Public Companies

*Brian M. Wong*  
*Partner, Corporate & Securities Group*

*Association of Climate Change Officers | Center for Climate Action*  
*San Francisco, California*  
*April 14, 2010*

### Disclosure Framework for Climate Change

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- Sources of Disclosure Obligations
  - SEC disclosure rules under the Securities and Exchange Acts (Regulation S-K)
  - SEC Guidance re Climate Change Disclosure (Feb. 2010)
  - Accounting standards
  - Legal settlements (e.g., NY AG)
- SEC Reporting Framework for Public Companies
  - Annual Reports (Form 10-K)
  - Quarterly Reports (Form 10-Q)
  - Current Reports (Form 8-K)
  - Companies must institute and evaluate **effectiveness of disclosure controls and procedures** on a quarterly basis

## Materiality

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- Touchstone for all SEC disclosures is concept of materiality
- Information is **material** if there is a **substantial likelihood** that a **reasonable investor** would consider it important in making an **investment decision**.
  - Predictions of impact of information on the market are often difficult.
  - Courts often apply 20/20 hindsight.



## Potential Disclosures on Climate Change in SEC Reports

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- Description of business
  - Effects of environmental laws on cap ex, earnings or competitiveness
- Legal proceedings
  - Government proceedings under environmental laws, unless company believes it will not result in sanctions over \$100,000
- Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)
  - Known trends or uncertainties that the company reasonably expects will have a material (favorable or unfavorable) effect
  - Time horizon of trend may be relevant to assessment of materiality
- Risk factors
  - Significant factors that make investment in company stock risky



## 2010 SEC Guidance on Climate Change Disclosure

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- **Impact of Legislation and Regulation**
  - Estimated expenditures to comply with new laws
    - Capital expenditures
    - Allowances or credits under a cap and trade system
  - Pending legislation: two step analysis
    1. Is the legislation or regulation reasonably likely to be enacted?
    2. Is the legislation or regulation, if enacted, reasonably likely to have a material effect on the company, its financial condition or results?
  - Increases in costs of doing business / production costs
- **International Accords**



## 2010 SEC Guidance on Climate Change Disclosure

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- **Indirect Consequences of Regulation or Business Trends**
  - Decreased demand for carbon-intensive products or services
  - Increased demand for less carbon-intensive competing or new products
  - Reputational issues
- **Physical Impacts of Climate Change**
  - Severe weather
  - Supply chain disruptions
  - Insurance claims or costs



## Survey of Selected Fortune 500 Companies

Industry*	Mentions climate change at least once	Business		Risk Factors		MD&A and Notes to Financial Statements	
		Mentions	Discusses	Mentions	Discusses	Mentions	Discusses
Resource Extraction, Construction, and Manufacturing (n=30)	50%	13%	13%	3%	40%	13%	3%
Transportation, Communication, Power (n=19)	79%	0	37%	16%	58%	16%	42%
Wholesale and Retail Trade (n=30)	30%	3%	7%	13%	7%	3%	0
Finance, Real Estate, and Services (n=21)	38%	0	10%	19%	14%	14%	0
<b>Total (n=100)</b>	<b>47%</b>	<b>5%</b>	<b>15%</b>	<b>12%</b>	<b>28%</b>	<b>11%</b>	<b>9%</b>

Source: Annual Reports on Form 10-K filed after February 2010



## Follow On Issues

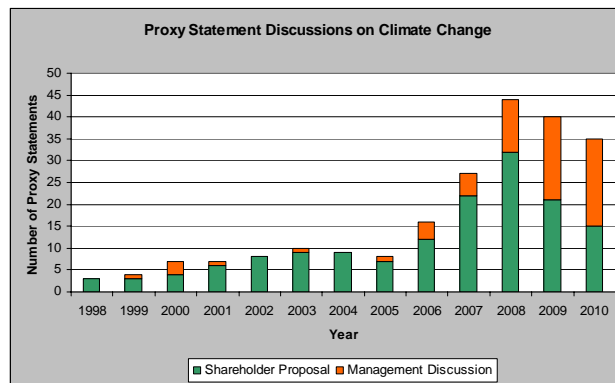
- **SEC staff review process**
  - Documented disclosure controls and procedures
    - Subject matter experts should be included
  - Legislation monitoring
- **Voluntary corporate disclosures / standards**
  - The Climate Registry / Carbon Disclosure Project / Global Reporting Initiative
  - Corporate Responsibility / Sustainability Reports
  - ASTM



## Follow On Issues

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- Shareholder proposals
  - Staff Legal Bulletin 14E
  - Increasing shareholder activism and company voluntary disclosure



Partial 2010 data through April 7



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### Brian M. Wong

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## Association of Climate Change Officers

**SEC Climate Change Disclosure Guidance**  
 April 14, 2010



## Communicating Climate Change to Investors

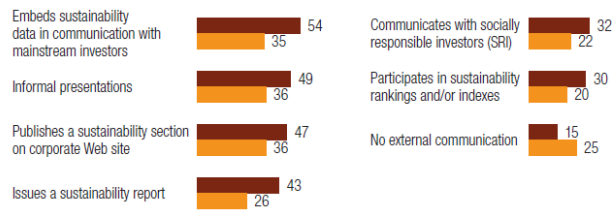
Exhibit 4

### How companies communicate

% of respondents<sup>1</sup>

■ Energy, n = 98  
 ■ Total, n = 1,749

#### Ways in which companies communicate engagement in sustainability activities to external audiences



<sup>1</sup> Respondents who answered "other" or "don't know" are not shown.

Source: McKinsey Quarterly; How companies manage sustainability 3/2010



## Example Issues Influencing Materiality

### State/Fed Legislation:

EPA Endangerment Finding  
EPA MRR  
RGGI  
WCI  
AB 32  
Waxman – Markey (potential or real?)  
Kerry, Lieberman, Graham Proposal  
Title V Tailoring Rule

### International Legislation:

EU ETS  
Kyoto  
Copenhagen Commitments

### Indirect Business Trends:

Customer demands  
Market dynamics (ARRA influence)  
Changing perceptions  
Commodity pass-throughs  
Cap Ex  
Insurance

### Physical Impacts:

Water availability  
Geo-political  
Weather events  
Coastal locations  
Flooding  
Temperature  
Food availability

Energy | Environment | National Security | Health | Critical Infrastructure



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## Example Disclosures

### Federal and International Regulations

Operations regulated  
Direct and indirect costs; cost of compliance

### Indirect Business Trends

CapEx Impacts (IT / EE / DG)  
Re-prioritization of project or product mix that meets hurdle rate  
Market opportunities and threats (market assessment)  
'Carbon' or commodity pass-through contracts

### Physical Impacts

Qualitative (water, weather, coastal)  
Asset impacts (valuation)

### Short Term Impacts:

SEC guidance will drive deeper quantitative and monetary analysis climate change impacts  
Sustainability reporting will start transitioning to 10-k / annual reports

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## Climate Change Impacts - Legislation (Direct)

### Geographic Regulatory Risk

Percent of assets/revenues/COGS exposed to regulations

### Compliance Costs

Systems, monitoring, reporting

Cap and trade

CapEx

### Compliance Related Opportunities

New or increased revenue or profit (e.g. CDM, offsets, RECs)

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## Climate Change Impacts - Legislation (Indirect)

### Energy Risk

Trickle down of compliance costs

Energy costs as a percentage of COGS

### Water Risk\*

Trickle, trickle down of compliance costs

Water costs as a percentage of COGS

### Contractual Risk – Is Carbon a Pass-through?

Surcharges and pass throughs as risk management tool

Concrete, steel, construction related industries have 'surcharges'

Utilities have fuel charge pass-throughs (Net income neutral)

Do current and future contracts (buy and sell) address it?

Percent of applicable contracts with 'pass-through' and monetary exposure (risk or risk mitigation)

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## Climate Change Impacts – Indirect Business Trends

### CapEx

Distributed Generation / Renewables  
Energy Efficiency / Green IT

### Customer and New Product Demands

Low carbon branded products

### Resource Switching

Low carbon/energy/water intensive feedstocks; lower cost  
Recycled feedstocks; 'green' product demand

### Clean Energy Demand

Generation  
Transmission  
Affiliated energy initiatives (Smart grid measures, EVs, Energy Star)

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## Climate Change Impacts – Physical Impacts

### Example Physical Impacts Variables:

Sea levels / coastal regions  
Weather (storms / drought / precipitation / temperature)  
Energy / water resources  
Agriculture and food availability

### Identify Boundaries and Define Exposure to Physical Impact Variables:

#### Boundaries:

Geographic and operational (supply / value chain)

#### Define exposure:

Specific impact exposures and intensities (e.g. coastal, weather, water, resource)  
Resulting asset / revenue / expense impacts

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## Climate Change Impacts – Physical Impacts

### Geographic Risk

Percent of assets/revenues/expenses affected by physical impacts (e.g. coastal, drought/flooding, weather events, agriculture)

Asset insurance costs

Real estate / tourism value and revenues

Infrastructure

Supplier operating geographic risk

### Operational Risk

Natural resource availability risk (Supply and Demand)

Water costs as a percentage of COGS

Level of water resource reliance (hydro, recreation, beverage, Ag, mining, semiconductor)

Ag / food availability

Transportation

Operational insurance costs

Geo-political (war games/scenario planning)

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## Evolution of Disclosure : Long-term

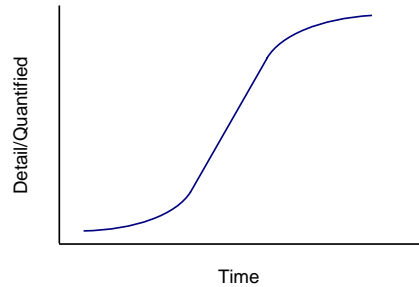
- Benchmarking in Market Segments
  - Compare risk and exposure as a portion of operating costs
  - Leads to development of climate change ratios (e.g. water cost as % of COGS)
- Quantify impacts to and between market segments and companies:
  - Competitive Advantage and Strategy
  - Net Income / Margins
  - Expenses
- Additionality of Climate Change
  - Impacts (costs) attributable to climate change vs. market forces; (e.g. Natural gas commodity costs increase due to climate change vs. supply/demand)

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## Evolution of Disclosure



Short-term (1- 5 years)  
Qualitative

Long-term (5+years)  
Little more quantitative

Uncertainty and reluctance to disclose what others are not – leads to market reaction (undesirable)

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## Conclusions and Reality

Early variability in reporting

Justification for qualitative disclosure

Real and legalese

Qualitative, eventually quantitative

Forces companies to truly quantify climate change risks

Internally, then externally

Identify drivers and boundaries (geography, energy, water, natural resource use)

Additionality

Attributable to climate change vs. market forces

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## More Conclusions and Reality

Much more in-depth analysis required to monetize impacts

No standards, just guidance

65% of companies don't embed any sustainability data in communications with investors

Carbon intensive industries are ready; however, they will disclose little as to not 'upset the market'

Pass – throughs are important

CapEx will begin shifting

Amplified with higher climate change risk companies

Asset valuations – extent of impact / reserves / ratings?

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## Disclosing the Business Impacts of Climate Change

ACCO's Climate Change Leadership Series  
April 14, 2010

**Kathryn Ayan Alsegaf**  
Deloitte Financial Advisory Services LLP



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## Overview

Increasing perception that environmental is relevant to investment decisions

Recent drivers increase financial reporting risk independent of actual environmental risk:

- Accounting standards
- Applicability of Sarbanes-Oxley
- Enforcement activity
  - Restatements
  - SEC comment letters
  - SEC criminal, civil and administrative enforcement actions
  - Material weakness assignments
- Increased scrutiny resulting from "Green Movement"
  - Shareholder resolutions
  - Investor inquiries

## SEC Climate Change Disclosure Guidance

On February 2, 2010 the Securities and Exchange Commission issued an interpretive release which provides guidance on certain existing disclosure rules that may require a company to disclose the impact that business or legal developments related to climate change may have on its business

The Commission's interpretive release does not create new legal requirements nor modify existing ones, but are intended to provide clarity and enhance consistency for public companies and their investors.

The relevant rules address a company's disclosure of its risk factors, business description, legal proceedings, and management discussion and analysis including:

- **Impact of existing and pending legislation and regulation**
- **Influence of international treaties on greenhouse gas emissions**
- **Indirect consequences of legislation and business trends**
- **Actual and potential impacts from physical climate effects**

## Key Questions

Does the Company have adequate Governance structures?

- Accountability supported by appropriate competencies
- Policies, procedures and controls
- Data collection systems

Has the risk been appropriately assessed? How reliable is the supporting data and information?

- Uncertainty regarding legislation and regulation
- Materiality and likelihood threshold and analysis
- Application of relevant frameworks (e.g. regulatory, ISO, ASTM, etc)

Are the Company's disclosures consistent across communication channels?

## Overview of SEC Guidance on Disclosure

**Item 101 of Regulation S-K, Description of Business** - Item 101 requires a registrant to describe its business and that of its subsidiaries. Also, among other things, ***Item 101 expressly requires disclosure regarding certain costs of complying with environmental laws.***

**Item 103 of Regulation S-K, Legal Proceedings** - Item 103 requires a registrant to briefly describe any material pending legal proceeding to which it or any of its subsidiaries is a party. ***Instruction 5 to Item 103 provides some specific requirements that apply to disclosure of certain environmental litigation.***

**Item 303 of Regulation S-K, Management's Discussion and Analysis of Financial Condition and Results of Operations** - Item 303 includes a broad range of disclosure items that address the registrant's liquidity, capital resources and results of operations. ***For example, registrants must identify and disclose known trends, events, demands, commitments and uncertainties that are reasonably likely to have a material effect on financial condition or operating performance.***

## Overview of SEC Guidance on Disclosure (cont'd)

**Item 503 of Regulation S-K, Prospectus Summary, Risk Factors, and Ratio of Earnings to Fixed Charges** - Item 503(c) requires a registrant to provide where appropriate, under the heading "Risk Factors," ***a discussion of the most significant factors that make an investment in the registrant speculative or risky.***

In addition to the above, the Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant ***to disclose "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."***

Sarbanes Oxley – ***CEO's and CFO's must make periodic certifications that appropriate controls and procedures are in place.***

## Impact of existing and pending legislation and regulation

Questions of relevance to this disclosure area may include:

What are the assumptions regarding climate legislation?

Are assumptions reasonable and the uncertainties disclosed?

Are these assumptions consistently applied to all aspects of the disclosure?

What process was followed to identify aspects that would be impacted by legislation and how is the process documented?

## Evaluation of indirect consequences of climate change

Relevant questions in this area may include:

Have internal studies been conducted addressing these indirect impacts and are disclosures consistent with these data sources?

Are any discrepancies the result of reasonable and documented differences in assumptions?

Has the company been part of a larger effort to address the indirect effects?

Are assumptions regarding competitive position and product lines consistent with market conditions?

## Physical impacts of climate change

Questions to consider include:

- What assumptions were made regarding the types of events considered?
- Were any external sources relied upon in formulating these assumptions and, if not, what was the basis for the assumptions?
- What assets or operations were considered in evaluating the impact of these events and what procedures were followed in identifying them?
- Are assumptions and procedures documented?

## Consistency of disclosures

Specific questions to consider include:

- What other climate change disclosures have been made by the company?
- How do the various disclosures differ?
- Are reasons for differences reasonably apparent and are they explained and documented internally in the event of inquiries?
- What controls and procedures are in place regarding public disclosures on climate change?

## Contact Information

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**Deloitte.**

# Investor Perspectives & Expectations

*Presenters:*

Leah Stern – Carbon Disclosure Project

Cary Krosinsky – Trucost

Eric Olson – BSR

Rich Tauberman – MWW Group



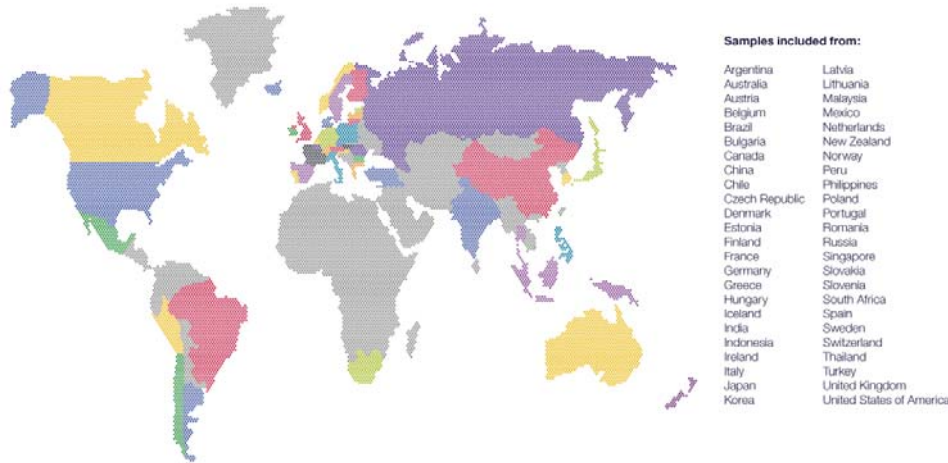
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CARBON DISCLOSURE PROJECT

**Leah Stern, Project Manager  
Carbon Disclosure Project**



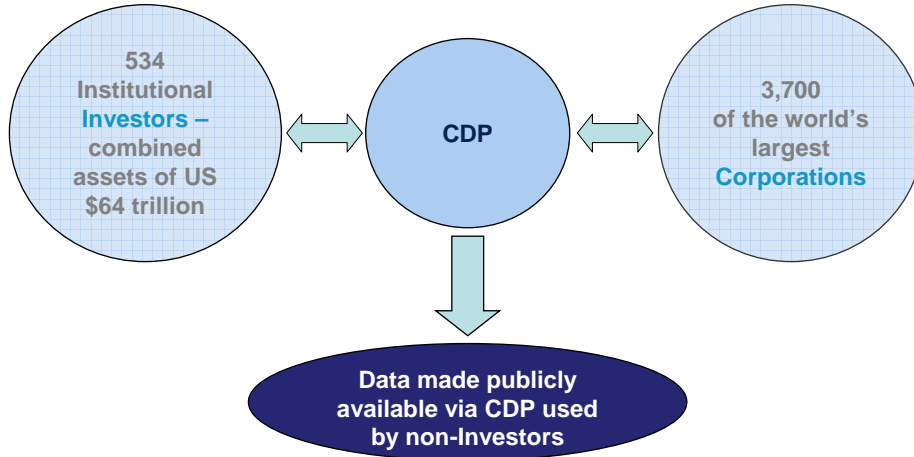
### CDP Operates in over 30 Countries:



### What is CDP?

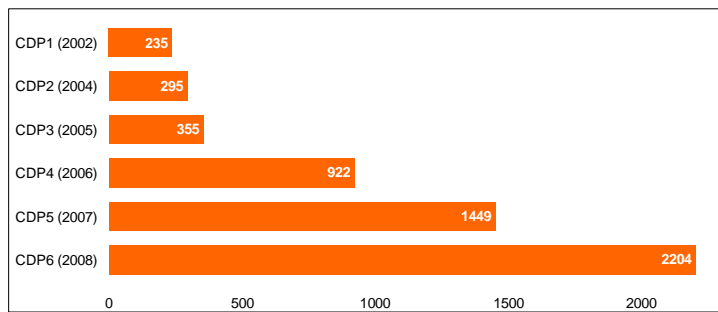
- An independent **not-for-profit** organization which holds the largest **database** of corporate climate change information in the world
- CDP provides a global intersection between **Investors** and **Corporations**
- CDP issues annual climate change information requests issued on behalf of **534 institutional investors**, more than **40 purchasing organizations** and **UK government bodies** to more than **3,700 corporations** across the globe
- On their behalf, CDP seeks information on the business **risks** and **opportunities** presented by climate change and GHG emissions data from the world's largest corporations
- CDP programs include: CDP **Investor**, CDP **Supply Chain**, CDP **Public Procurement**, CDP **Cities**

- CDP provides a Global Intersection between signatory investors and respondent corporations – gathering information from respondent corporations for signatory investor use



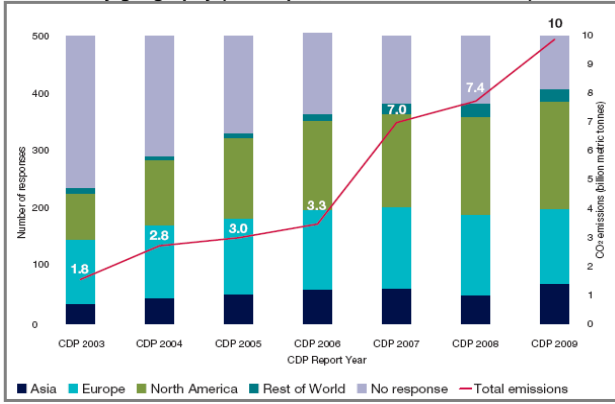
**The Growth of Institutional Support:**

CDP1(2002):	35 signatory investors	\$4.5 trillion
CDP2(2004):	95 signatory investors	\$10 trillion
CDP3(2005):	155 signatory investors	\$21 trillion
CDP4(2006):	255 signatory investors	\$31 trillion
CDP5(2007):	315 signatory investors	\$41 trillion
CDP6(2008):	385 signatory investors	\$57 trillion
CDP7(2009):	475 signatory investors	\$55 trillion
CDP8(2010):	534 signatory investors	\$64 trillion

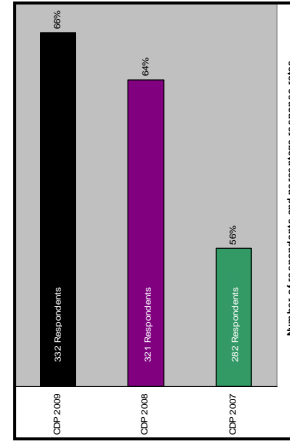


The growth in reporting – both Global 500 and S&P 500

Total response rates and disclosed emissions over time by geography (all Schemes, CDP 2003 to CDP 2009)

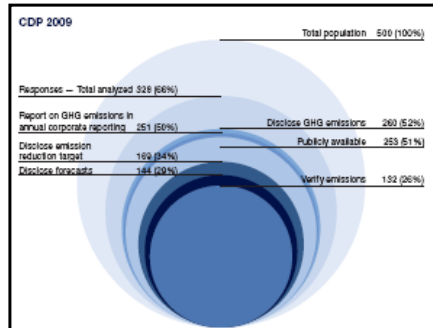


S&P 500 response rate (CDP 2007-CDP 2009)



S&P 500 CDP 2009 results

- 66% (332) of S&P 500 companies responded in 2009; 82% (409) Global 500
- 52% (260) of S&P 500 respondents disclosed GHG emissions
- 34% (169) of S&P 500 respondents disclosed reduction targets
- More S&P 500 respondents saw opportunities 86% (281) than risks 82% (269)
- 39% (129) of S&P 500 respondents disclosed at least one Scope 3 emission source



Proportion of S&P 500 at each disclosure level

CDP 2010	CDP 2009
<b>Governance</b> – accountability and incentives	<b>Risks and Opportunities</b> – process for identification, regulatory, physical, other
<b>Risks and Opportunities</b> – process for identification, regulatory, physical, other	<b>Emissions Accounting</b> – reporting year *, methodology, Scope 1, 2, 3, contractual Scope2, intensity, energy and fuel requirements, verification
<b>Strategy</b> – links with co strategy, emissions reductions/ energy efficiency improvements, engagement	<b>Performance</b> – reduction plans, goal setting, evaluation and achievement, forecasting
<b>Emissions Accounting</b> – methodology, Scope 1, 2, 3, contractual Scope2, intensity, verification	<b>Governance</b> – accountability, incentives, and communications
<b>Communications</b> – other external publications	

## New Questions in the 2010 request

Overall the questionnaire is shorter than in 2009 with a number of sub-questions having been removed. Significant changes from CDP 2009:

- **Risk identification process** - Describe your company's process for identifying significant risks and/or opportunities from climate change and the process for assessing the degree to which they could affect your business, including the financial implications.
- **Link between climate change and strategy** - Please describe how your overall group business strategy links with actions taken on risks and opportunities identified, targets and reporting.
- **More granularity** – Data accuracy and assurance questions broken down by emissions scope.
- **A new specific sector supplement for Oil and Gas companies.**


Thank you for your interest

CARBON DISCLOSURE PROJECT

For further information on CDP please visit [www.cdproject.net](http://www.cdproject.net)

**For further questions, please contact:**

- [Leah Stern](#); Project Manager, CDP USA;  
Email: [leah.stern@cdproject.net](mailto:leah.stern@cdproject.net); phone: (212) 378-2086



TRUCOST<sup>SM</sup>  
Trucost Environmental Register

That which is measured can be managed

What can & should be measured?

## Climate Change Data

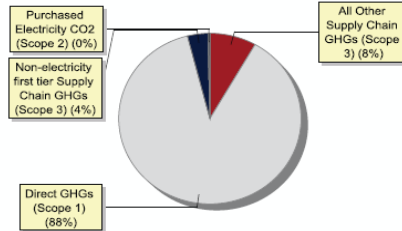
**TRUCOST**<sup>TM</sup>  
Trucost Environmental Register

- Ultimately essential - an understanding of the environmental impact costs that companies & investors will bear going forward
- Scope 1, 2 & 3 analyzed in absolute and intensity terms

### Greenhouse Gas Emissions (GHG)

GHG's are a contributory factor in the growing problem of climate change. The table below shows the quantities of greenhouse gases that Air France emits in tonnes and in carbon dioxide equivalents to aid comparison.

Emission	Source	Quantity Tonnes	CO2 Equivalent (CO2e) Tonnes
<b>Direct GHGs (Scope 1)</b>			
Carbon Dioxide To Air	ENV	26,497,893	26,497,893
Dinitrogen Oxide (Nitrous Oxide) To Air	ENV	1,382	429,277
Methane To Air	ENV	7,745	162,645
HFCs To Air	TC	8.71	20,900
PFCs To Air	TC	-	-
Sulphur Hexafluoride To Air	TC	-	-
Other GHGs	ENV	-	0.0000
<b>First Tier Supply Chain GHGs</b>			
Purchased Electricity (Scope 2) CO2	TC	105,000	105,000
Non-electricity first tier Supply Chain GHGs (Scope 3)	TC	-	1,120,000
<b>All other Supply Chain GHGs</b>			
Sum Of All other Supply Chain GHGs (Scope 3)	TC	-	2,552,000
<b>Total</b>			<b>30,886,716</b>



GHG Damage Costs / Turnover **4.2 %** GHG Damage Costs / EBITDA **27.5 %**

CO2 equivalent (CO2e) is the standard unit for comparing the degree of harm which can be caused by emissions of different greenhouse gases.

Carbon Footprint (Tonnes CO2e/ per million revenue	in USD	in EUR)
Direct GHGs	1,044.44	1,263.97
Direct + Electricity GHGs	1,048.49	1,268.88
Direct + First Tier Supply Chain GHGs	1,091.64	1,321.10
Direct + Total Supply Chain GHGs	1,189.95	1,440.07

## Environmental KPIs

**TRUCOST**<sup>TM</sup>  
Trucost Environmental Register

- In general, the top 7 environmental impacts are:
  - Greenhouse gas emissions
  - Acid rain & smog precursors
  - Volatile organic compounds
  - Water abstraction and use
  - Natural resource use
  - Heavy metals
  - Waste
- It's not just about carbon – in a world with growing population and constrained resources

## Environmental Impacts

**TRUCOST™**  
Trucost Environmental Register

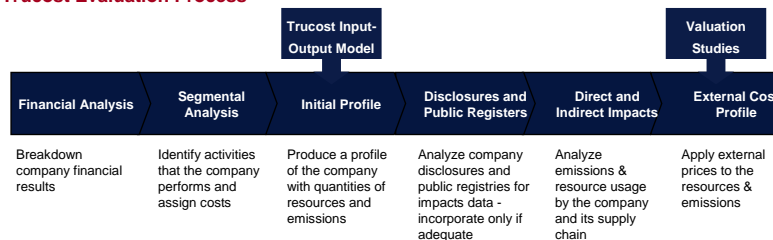
- Over 750 different environmental pollutants / damaging activities
  - **Sink Air** – Acid rain precursors, Greenhouse gases, Heavy Metals, Ozone Depleting Substances, Pesticides, Smog precursors, Volatile Organic Compounds (VOCs)
  - **Sink Land** – Acid Rain Precursors, Fertiliser residues, General Waste, Heavy Metals, Nuclear Waste, Ozone Depleting Substances, Pesticides, Volatile Organic Compounds (VOCs)
  - **Sink Water** – Acid Rain Precursors, Fertiliser residues, General Waste, Heavy Metals, Nuclear Waste, Ozone Depleting Substances, Pesticides, Volatile Organic Compounds (VOCs)
  - **Source Land** – Crude oil, Natural gas, Coal, Metals, Minerals, Stone, Timber, Agricultural products, Water abstraction
  - **Source Water** – Botanical, Zoological

## How Trucost Evaluates Companies

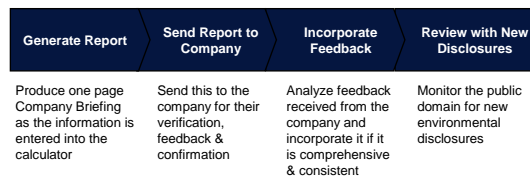
**TRUCOST™**  
Trucost Environmental Register

Trucost generates an external cost profile for each organisation, and then sends this information to the company for verification before it is published

### Trucost Evaluation Process



### Company Verification Process



# Measuring Companies

## Newsweek Green Rankings – 2010

### HOW WE RANKED THEM

OUR GOAL IN THE NEWSWEEK GREEN RANKINGS was to evaluate the top 100 largest U.S. companies based on their environmental impact, as well as their green policies and reputation among their peers and environmental experts.

We started with the biggest companies, as measured by revenue, market capitalization, and number of employees. The Green Rankings are the product of a working collaboration with three of the leading players in environmental research: *The Green*, which calculated each company's Environmental Impact Score, based on 100 metrics, including water use and solid waste emissions; *EPA's Earth and Analytics*, which created the Green Policy Score by analyzing our corporate policies and initiatives; and *Corporate Responsibility*, which conducted an extensive reputational survey of CEOs, environmental officers, and stakeholders.

Each company's overall Green Score is a weighted average of these three components: 40 percent for the Environmental Impact Score, 40 percent for the

- INDUSTRY SECTORS**
- Banks and Insurance
  - Basic Materials
  - Chemicals
  - Financial Services
  - Food and Beverage
  - General Industrials
  - Health Care
  - Industrial Goods
  - Technology, Aerospace
  - Media, Travel Leisure
  - Oil and Gas
  - Consumer Products, Cars
  - Pharmaceuticals
  - Retail
  - Technology
  - Utilities

A comprehensive assessment of environmental performance.

The statistically weighted average of the previous three scores.

Each company's worldwide footprint, based on 100 metrics.

Based on a poll of CEOs, environmental officers, and other green pros.

Total score, in terms of one per 10 million of revenue.

RANK	COMPANY	ENVIRONMENTAL IMPACT SCORE	GREEN POLICY SCORE	REPUTATION SCORE	OVERALL GREEN SCORE	REVENUE (\$ MIL)
1.	Hewlett Packard	84.80	87.80	88.44	100	1,678,000

HP earned the title of greenest company in America largely because of decisions it made years ago. Lately, those efforts have also been helping its bottom line. The company's PC recycling program, in which it pays customers to ship back obsolete machines, has allowed HP to reduce 14 billion pounds of waste over the last decade, including valuable gold and copper, which it recycles. Similarly, a decision in the mid-'90s to reduce packaging material has paid off as fuel costs have risen, by cutting shipping costs. HP finished at the top of our list in part because of its strong program to reduce greenhouse gas emissions and its efforts to using renewable energy. The company's industry-leading policies to encourage its suppliers to go green helped it get green's overall Green Policy Score. We aren't the only ones impressed by HP, which easily got ahead of Dell and Johnson & Johnson in its high reputation score.

RANK	COMPANY	ENVIRONMENTAL IMPACT SCORE	GREEN POLICY SCORE	REPUTATION SCORE	OVERALL GREEN SCORE	REVENUE (\$ MIL)
2.	Dell	87.70	100.00	70.80	88.87	435,400
3.	Johnson & Johnson	56.70	96.17	75.98	86.56	1,152,900
4.	Intel	46.70	87.67	81.88	85.11	3,700,100
5.	International Business	78.80	84.30	77.58	84.08	2,834,800
6.	State Street	95.00	84.38	70.69	83.82	96,100
7.	NIKE	77.10	78.31	89.80	81.58	392,300
NIKE requires over 100 contract factories in 53 countries to have written environmental policies. The entire manufacturing process generates less waste than its retail packaging. New shoes are made from green materials such as recycled polyester.						
8.	Bristol-Myers Squibb	27.80	88.52	64.73	82.82	848,100
9.	Applied Materials, Inc.	50.90	89.51	44.51	81.79	194,000
10.	Starbucks Corporation	30.50	82.01	75.42	81.63	889,800
11.	Johnson Controls, Inc.	34.30	78.81	72.88	80.53	1,712,100
12.	Cisco Systems, Inc.	70.40	72.88	87.70	80.59	496,400
13.	Wells Fargo & Company	93.30	80.12	38.98	88.53	678,100
Wells Fargo has pledged \$1 billion to financing for green investments, including \$145 billion for water and wind projects and \$8 billion for "green" buildings. But CFCs, a mixture of non-renewables and renewables, led it off the 2008 list of top banks.						
14.	Sun Microsystems, Inc.	68.50	77.13	48.88	88.11	257,500
15.	Sprint Nextel	74.20	77.29	46.51	88.06	2,083,300
16.	Adobe Systems	88.80	73.27	58.52	87.89	35,100



The Guardian, Feb 2010 - **World's top firms cause \$2.2tn of environmental damage**

The cost of [pollution](#) and other damage to the natural environment caused by the world's biggest companies would wipe out more than one-third of their profits if they were held financially accountable, a major unpublished study for the [United Nations](#) has found.

## Measuring Investors



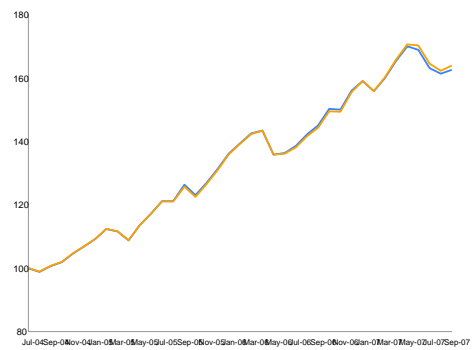
### Carbon Impact on US Portfolios

Style	Carbon Intensity (tCO <sub>2</sub> -e/\$M)
• Sustainability/SRI	226
• Sector	233
• Growth	294
• Value	305
• Core	342
• Index	370
• <b>S&amp;P 500</b>	<b>384</b>
• Equity Income	408
• Country/Regional	460

# Low Carbon Investing

## UBS ECO – Carbon Optimized

- European Carbon Optimised (ECO) STOXX 600 launched Q1 2008
- Sector neutral
- Buys every company in the index and re-weights company within the sector by relative carbon efficiency
- Risk averse strategy with significant carbon savings in a region specifically affected by new and pending regulation and customer demand
  - 0.7% tracking error
  - 39% carbon savings



— Stox600 Benchmark — Stox600 CO2 Weighted

	DJ Stoxx 600 Benchmark	DJ Stoxx 600 CO2 Weighted
Annualised Performance	16.7%	17.1%
Annualised Realised Volatility	8.0%	8.1%

## S&P – Carbon Optimized Indices

**TRUCOST**<sup>TM</sup>  
Trucost Environmental Register

- Trucost data forms **S&P US Carbon Efficient Index** – launched Spring 2009
- Trucost partners with S&P/IFC to create **Emerging Markets Carbon Efficient Index** – launching December 2009 – watch for a series of ETFs and other products
- Trucost carbon footprint data has been used by S&P to drive **a series of global low carbon indices** to meet growing investor demands for environmentally focused indices.
- The S&P US Carbon Efficient Index selects large cap US companies with relatively low carbon risk for their sector. The carbon footprint of the index is 48% lower than that of the S&P 500, while seeking to closely track benchmark returns.
- **Create environmentally focused investment products**
- The S&P index demonstrates how Trucost's carbon footprint data can be used by Fund Managers to create innovative environmentally focused investment products, while maintaining and enhancing returns - and provides invaluable input into stock selection across existing portfolios.

## Cost Implications

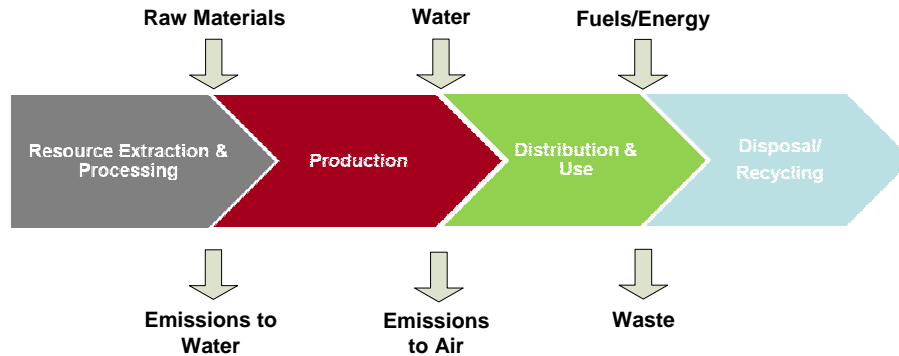
**TRUCOST**<sup>TM</sup>  
Trucost Environmental Register

Company	% diff. in carbon intensity vs. MSCI World sector average*	EBITDA before carbon costs (£ mn)	EBITDA after carbon costs (£ mn)	
			£12/tCO <sub>2</sub> -e	£57/tCO <sub>2</sub> -e
<b>Utilities</b>				
RWE AG	+4%	6,598	4,445	-3,628
Intl Power Plc	+353%	983	172	-2,869
AEP	+346%	2,000	13	-7,439
<b>Oil &amp; Gas</b>				
BP	-8%	19,831	18,005	11,158
Shell	+1%	31,730	29,260	19,997

## Environmental Benefit Analysis

**TRUCOST**<sup>TM</sup>  
Trucost Environmental Register

The environmental benefit model is the compilation and evaluation of inputs, outputs and the environmental impacts associated with a product, process, or activity which includes the identification of energy, materials and substances used and emissions and wastes released to the environment, over the established life cycle of the product, process or activity.



**TRUCOST**<sup>TM</sup>  
Trucost Environmental Register

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BSR<sup>®</sup>

The Business of a Better World

## ESG in the Mainstream

The Role of Companies and  
Investors in ESG Integration

Selected BSR Report  
Findings and  
Discussion

ACCO  
April 14, 2010

## What Is ESG Integration?

- **ESG Integration** refers to the incorporation of environmental, social, and governance criteria into investment analysis **based on the belief that ESG issues are a driver of financial returns.**
- **This differs from Socially Responsible Investment (SRI)**, which is the integration of social and environmental criteria into investment decisions with **the goal of aligning financial activities with social and environmental objectives, values, or beliefs.**



BSR

## Integration is Increasing

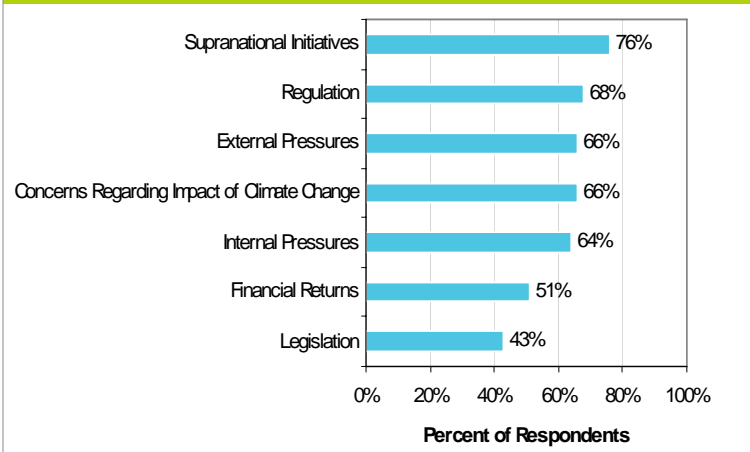
While the market size of ESG Integration is hard to measure, estimates range from 4% to 20% of the global market

- UN PRI signatories have increased from 50 to 500 in last 3 years, representing US\$18 trillion in assets
  - 25% increase in UNPRI asset owners putting responsible investment criteria into contracts with external managers
- RI Landscape 2009 Survey respondents indicated:
  - 60% use an ESG strategy for at least some portion of assets under management – a 12% increase over 2008 responses
  - 67% believed the financial crisis would not have an impact on ESG integration
  - 33% believed the crisis would drive an *increase* in assets invested according to ESG criteria



## What's Driving Integration?

RI Landscape 2009 Survey: Asset Manager Perception of ESG in the Next 3 to 5 Years Drivers



## Yet, Integration Limited to Certain Areas

### Pension funds are leading the way

- Expanded view of fiduciary duty and longer-term focus
- At greater risk of being sued for negligence if not proactive in incorporating ESG criteria
- Represent investors who may be predisposed to ESG issues (e.g. government employees, teachers, unions, etc.)
- Especially true in Europe, where institutional investors represent a larger portion of the market and ESG fills unmet market need resulting from lack of SRI firms

### Integration is strongest in listed equity investments

- 70% of investment strategies incorporating ESG were in listed equities (Mercer)
- 94% of UN PRI investment managers claimed integration of responsible investment criteria for at least some listed equity in developed markets (UN PRI Annual Survey)



## ...And is Characterized by Niche Products

### Growing number of niche ESG products from mainstream institutions

- **Deutsche Bank:** distinct funds that use ESG as a first screen
- **Goldman Sachs:** GS Sustain global equity strategy
- **State Street Global Advisors:** integration into some equity models to control for risk
- **S&P:** U.S. Carbon Efficient Index, ESG India Index

"We haven't been able to demonstrate an overall positive correlation between ESG issues as a whole and financial performance, but we still have enough client demand to continue to develop ESG investment strategies."

- Chris McKnett,  
State Street Global Advisors

### Very few large, mainstream investors have integrated ESG criteria across portfolio

- ESG integration viewed as one type of strategy rather than a fundamental component of every strategy
- Notable exceptions of **Robeco** and **APG**



## Investors Focus on Material Issues

### Not all issues are considered equal

- Mainstream investors focus on the extra-financial issues most likely to influence company products, clients, and market share
- ESG is being used as a proxy for management quality or risk
- Investors look to companies (IR) to signal which issues are material

### Climate Change and Governance issues predominate

- Policy impacts of climate change are likely to impact most companies
- Good governance has risen in investor analysis as critical to a company's ability to manage risks

"Understanding the industry context in which companies operate is critical to understanding the potential materiality of environmental, social, and governance issues, and the appropriate assessment of company response."

– "Introducing GS Sustain", Goldman Sachs



## Barriers to Integration Remain

- Value of ESG integration is still not fully understood by investors
- Short-term emphasis on investment performance hampers demonstration of long-term value
- High quality ESG data is still lacking, or not easily accessible to investors
- Investor capacity to analyze and integrate ESG criteria into decision-making remains low
- Business value of sustainability is not being integrated into IR strategies



## What Can You Do?

- Ensure that both IR and senior management can speak to the company's material ESG risks and opportunities and build internal awareness
- Measure ROI of ESG investments where possible to further the business case for CR from an investor perspective
- Develop a strategy for proactively communicating ESG performance to investors *in terms of impact on business*
  - Provide investors access to business leaders
  - Reference ESG issues in annual report
  - Complete third-party survey requests (DJSI, FTSE4GOOD, CDP)



## Questions?

Download the report at  
[http://www.bsr.org/reports/BSR ESG Integration Report Sept 2009 final.pdf](http://www.bsr.org/reports/BSR_ESG_Integration_Report_Sept_2009_final.pdf)

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## Communicating and Engaging Investors and Others on Climate Change

April 14, 2010

 MWWGROUP

### Audiences

---

- Investors
- Consumers/customers
- Employees/potential employees
  - Unions
- Vendors/partners
- Communities
- Public interest groups
- Government officials
- Media

## Climate Change Reporting

- Securities & Exchange Commission
  - 2010 “Interpretive Guidance” for communicating with investors on how company will be impacted by climate change
- Carbon Disclosure Project
  - Annual voluntary submissions – 2,400 global companies respond to questionnaire
- UN Global Reporting Initiative
  - Develops and disseminates guidelines and framework for company reporting on sustainability
- US EPA GHG Inventory
  - In 2011 will start covering more than 10,000 facilities that emit more than 25,000 tons of GHG annually

## Climate Change Reporting

- National Association of Insurance Commissioners
  - May 1, 2010 deadline for reports from 300 insurers on climate risk preparedness
- CERES – Climate Risk Reporting in SEC Filings
  - Network of investors and environmentalists regarding sustainability and climate change
  - 2009 Analysis of 10K reporting by oil & gas, insurance, coal, transportation and electric power companies
  - Grading disclosures, best practices, case studies
- Investor Network on Climate (Project of CERES)
  - Climate Resolutions (Proxy) Toolkit
  - Resolution tracker, proxy communications, news

## Company Communications

- Corporate Citizenship/Social Responsibility Reports
  - Sustainability
  - Climate Change
- Corporate Websites
  - Sustainability sections
  - Global warming pages
  - Environmental policies
- Membership/partnerships/third party endorsements
  - US Climate VISION Program (Industry associations)
  - BICEP – Business for Innovative Climate and Energy Policy (Best Buy, Nike, Starbucks, Levi Strauss, Ebay)
  - Pew Center Climate Report (Dow, IBM, Pepsi, Toyota)

## Investor Initiatives

- Proxy resolutions
  - Institutional investors, unions, public interest groups
  - Most seek reports on GHG emissions and goals
  - AFL-CIO – adopt set of principles on GHG emissions
  - Energy companies – financial risk reporting
- 2010 numbers (from Risk Metrics and Investor Network on Climate Risk)
  - 39 on climate risk reporting
  - 55 on other environmental issues
  - 36 on sustainability reporting w/better climate change disclosure
  - 40% increase over 2009
- Many resolved before being put to vote

## Thank You

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rtauberman@mww.com



## Case Studies from Johnson & Johnson, Cisco Systems and PSEG

### *Presenters:*

Darrel Stickler – Cisco Systems  
Mark Scorsolini – Public Service Enterprise Group  
Dan Usas – Johnson & Johnson

*Moderated by:* Bruce Klafter – Applied Materials



## Outline

- Introductions
- Who is responsible for the process?
- How are potential disclosures evaluated?
- What have your disclosures looked like?
- What timeframe is utilized?
- What are your views on the new guidance? Do you anticipate changing your practices?
- What do you believe your stakeholders expect?
- Your questions + discussion

Disclosing the Business Impacts of Climate Change  
April 14, 2010 – San Francisco, California

**ACCO**  
ASSOCIATION OF CLIMATE CHANGE OFFICERS



CENTER FOR CLIMATE ACTION



## Business Impacts of Climate Change

Risks and Opportunities



Darrel Stickler  
Sustainable Business Practices  
Cisco Systems

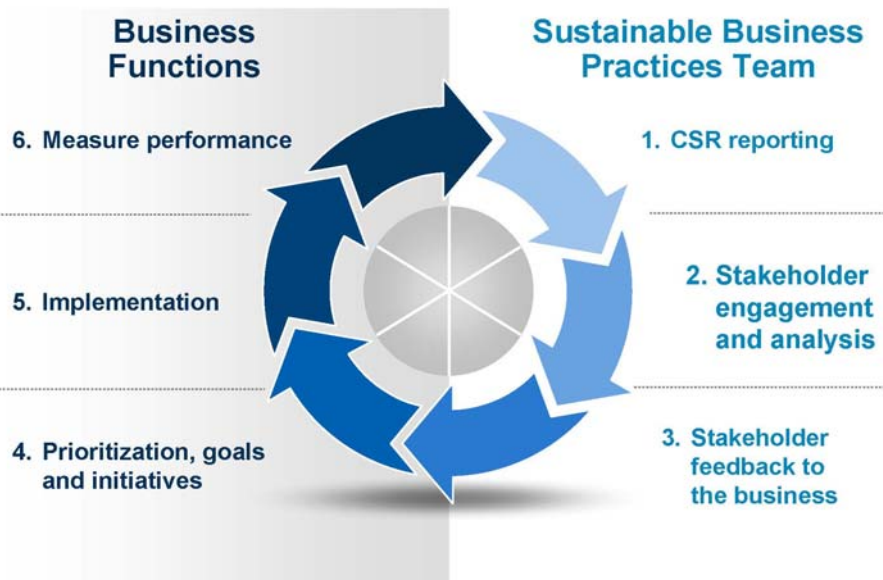
April 14, 2010

## Cisco Corporate Social Responsibility

### Terminology

- Corporate Social Responsibility (CSR)
  - Building sustainable business practices into the business functions
- Sustainability at Cisco includes “ESG”
  - Employees
  - Environmental
  - Social
  - Corporate Governance/Financial Performance

## CSR Business Process



## CSR Reporting

### Annual Report and Stakeholder Inquiries

- Customers
  - Proposals
  - Account teams
  - Executive briefings
  - Legal
  - External mailers
- Analysts — industry, SRI, financial
  - Direct (SRI)
  - AR/IR
  - Mailer (citizenship)
- Shareholders
  - IR
- National labs, industry groups
- Employees, CEC, media
  - Comms (CEC/PR)
  - Direct
  - Online forum
- Public, universities, students
  - External mailers (citizenship)
- NGOs, community groups
  - Direct
  - External mailers (citizenship)

## Sustainable Company Operations

- Energy
  - Using technology to reduce our overall GHG emissions
  - Reducing business air travel
  - Labs, data centers and office buildings
  - Renewable energy
- Water
- Waste
- Employee awareness



## Cisco GHG Performance

Indicators	FY06	FY07	FY08	FY09
<b>GHG EMISSIONS</b>				
Total gross* GHG emissions: Scope 1 (metric tonne CO <sub>2</sub> e)	27586***	52,498	52,084	53,216
Total gross* GHG emissions: Scope 2 (metric tonne CO <sub>2</sub> e)	317666***	467,478	550,312	579,183
Total contractual* GHG emissions: Scope 2 (metric tonne CO <sub>2</sub> e)	316,893***	403,188	310,961	226,733
Total air travel GHG emissions: Scope 3 (metric tonne CO <sub>2</sub> e)	190,940	205,797	197,872	115,995
Change in air travel GHG emissions from FY06 (CGI global goal: 10% absolute reduction against FY06 baseline)		+8%	+4%	-39% (goal met)
Total contractual* GHG emissions: Scope 1, 2, and 3 metric tonne CO <sub>2</sub> e	535,419***	661,483	560,917	395,944
Change in Scope 1, 2, and 3 from FY07 EPA global goal: 25% absolute reduction against CY07 baseline**			-15%	-40% (goal year is 2012)

**Revenue ↑ 27% (FY2006 → 2009)**

Source: 2009 CSR Report, p. C32

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Cisco Public

jds-6

## Cisco TelePresence Deployment



Cumulative, as of end of fiscal year	Total number of TelePresence rooms	Total number of cities	Total number of countries
2007 (general use units)	72	50	20
2008 (general use units)	179	109	37
2009 (general use units)	369	156	44
2007 (private or EBC units)*	26	6	3
2008 (private or EBC units)	53	12	7
2009 (private or EBC units)	179	47	21

\*EBC stands for Executive Briefing Centers, regional meeting facilities that Cisco uses for presentations to customers.

- TelePresence deployment — **doubled** last two years



Source: 2009 CSR Report, p. C36

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Cisco Public

jds-7

# Cisco Web Conferencing Usage

Year	Total web conferencing (millions of people-hours)
FY07	3.7
FY08	7.2
FY09	15.0

Participants: (of 14 total) 1000  
 Daniel Sticker (host)

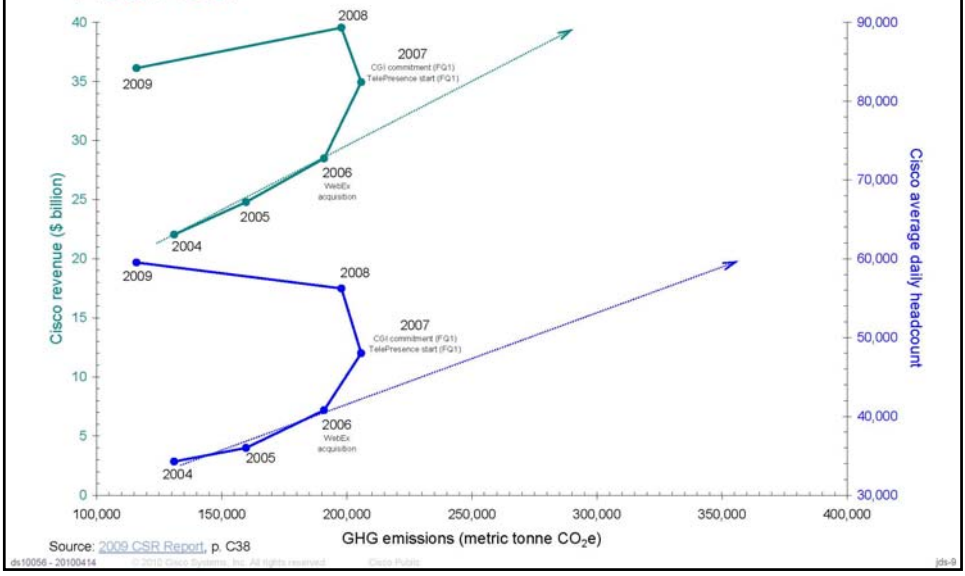
- TelePresence deployment — **doubled** last two years
- Web conferencing — **doubled** last two years

WebEx and MeetingPlace

Source: 2009 CSR Report, p. C36

# “Avoided” GHG Emissions

## Fiscal Year



## Cisco Virtual Office (CVO) Installations

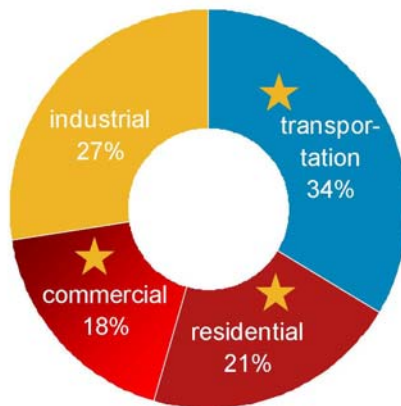


Calendar Year	Total users
2005	1,467
2006	5,006
2007	8,234
2008	13,052
2009 (through October)	16,890

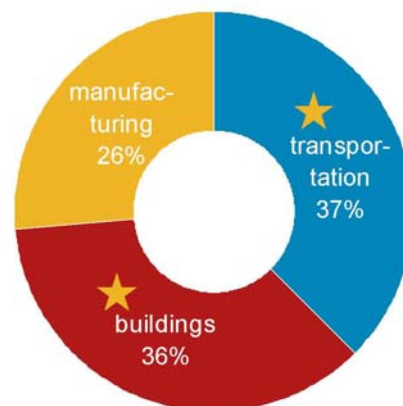
- TelePresence deployment — **doubled** last two years
- Web conferencing use — **doubled** last two years
- CVO installations — **on average doubled** last 4 years

## Sustainability

### Greenhouse Gas Sources (energy-related)



Source: U.S. Energy Information Agency (EIA)  
Emissions of Greenhouse Gases Report  
[Table 6](#) (U.S., 2007, preliminary)



Source: International Energy Agency (IEA)  
Energy Use in the New Millennium  
[Figure 2.3 and p. 24 description](#) (IEA14, 2004)

## Reporting Challenge...

Cisco Solution	Buildings	Transportation
Cisco TelePresence		✓
Cisco WebEx		✓
Cisco Virtual Office		✓
Data Center Virtualization	✓	✓
Cisco EnergyWise	✓	
SmartGrid	✓	✓
Cisco Connected Workplace	✓	
Smart Connected Buildings	✓	
Smart+Connected Communities	✓	✓
Planetary Skin	✓	✓
Connected Urban Development (CUD)	✓	✓

## Checklist

### Assessing/Disclosing Climate Change Business Impacts

- Who is responsible for the process?
- How are potential disclosures evaluated?
- What have your disclosures looked like?
- What timeframe is utilized?
- What are your views on the new guidance?  
Do you anticipate changing your practices?
- What do you believe your stakeholders expect?



## **Disclosing the Business Impacts from Climate Change**

Case Study of Public Service Enterprise Group, Inc.

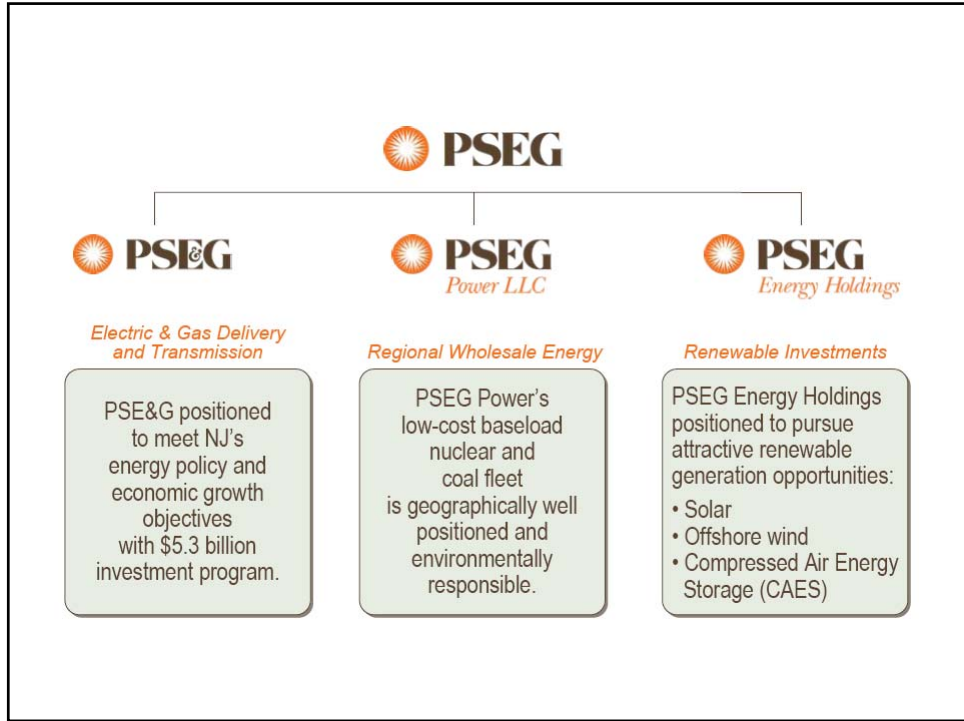
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Association of Climate Change Officers  
Climate Change Leadership Series

April 14, 2010

Mark Scorsolini, Environmental Policy Manager  
PSEG Services Corporation





## About PSE&G

**Transmission by Voltage**

- Electric Territory
- Gas Territory
- 138KV
- 115KV
- 230KV
- 345KV
- 500KV

	Electric	Gas
Customers	2.1 Million	1.7 Million
Growth (2004 – 2009)	3.0%	3.2%
Electric Sales and Gas Sold and Transported	41,961 GWh	3,500 M Therms
Historical Annual Load Growth (2005 - 2009)	(0.6%)*	(0.4%)*
Projected Annual Load Growth (2009 – 2012)	0.4% - 1.3%**	0.4%**
<b>Sales Mix</b>		
Residential	31%	60%
Commercial	58%	36%
Industrial	11%	4%

Transmission	Network Circuit Miles	Historical Annual Peak Load Growth 2005-2009	Projected PJM Peak Load Growth 2009-2012
Key Statistics	1,442	0.5%*	2.1%**

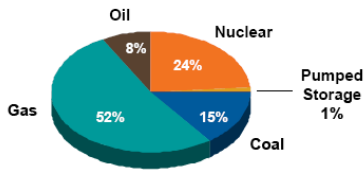
Renewables and Energy Efficiency	2009	Total
Solar Loan	11.6 MW	81 MW
Solar 4 All	1 MW	80 MW
Energy Efficiency Initiative (lifetime equivalent)***	230 GWh	13,512 GWh

# About PSEG Power



## Fuel Diversity

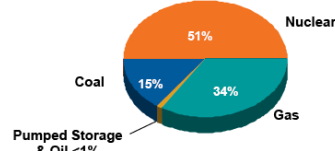
Total MW: 15,548



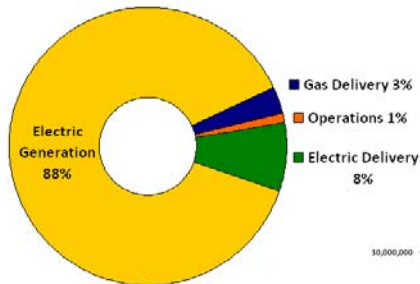
## Energy Produced

(Twelve months ended December 31, 2009)

Total GWh: 59,808

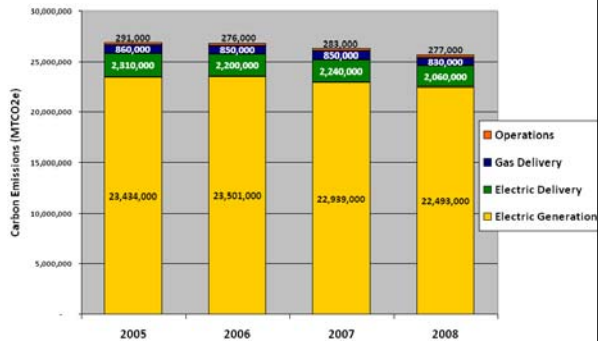


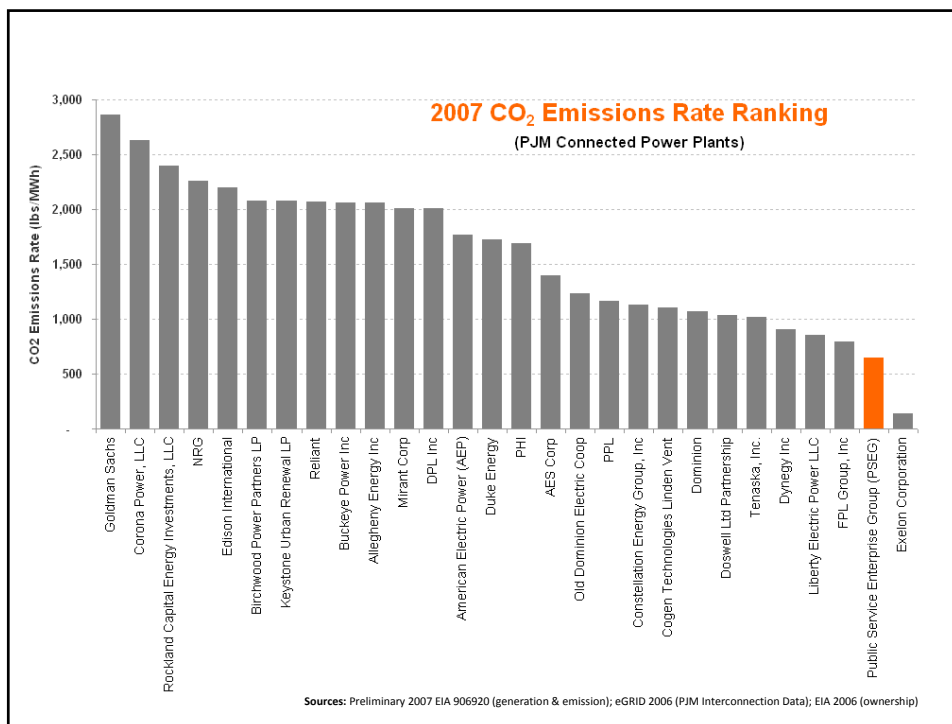
## PSEG 2008 GHG Emissions



Emissions from Electric Generation Units comprise the majority of our carbon footprint, followed by Indirect (Scope 2) emissions associated with Electric Delivery line losses and fugitive natural gas methane leaks from our Gas Delivery pipeline distribution network.

- All values Metric Tons CO<sub>2</sub>e (MT CO<sub>2</sub>e)
- Values account for combined Direct and Indirect Emissions (Scopes 1 and 2) from PSEG US Operations, representing over 98% of PSEG global emissions
- Inventory prepared pursuant to US EPA Climate Leaders guidelines and WRI/WBCSD GHG Protocol
- PSEG GHG Inventory independently reviewed and quality assured





## Climate Disclosure at PSEG

- Process
  - Roles and responsibilities
  - Evaluation
  - Timeframe
- Documentation
  - Annual Report – 10K
  - Investor Meeting Presentations
  - Carbon Disclosure Project
- Stakeholder Expectations

**PSEG** Public Service Enterprise Group

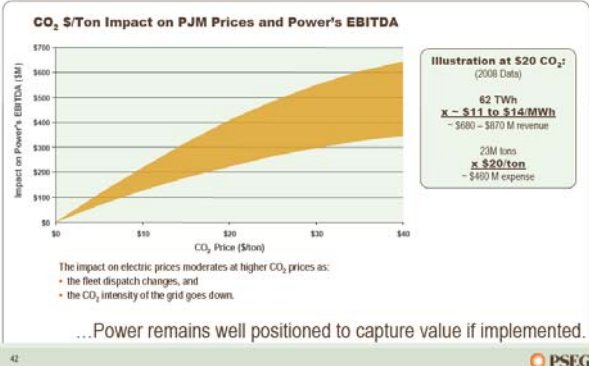
New York Investor Meetings  
New York, New York

**PSEG Investor Website:**

<http://investor.pseg.com/>

**March 31, 2010**

While the prospects for a cap and trade program may be delayed...



**ACCO**  
ASSOCIATION OF CLIMATE CHANGE OFFICERS

**CENTER FOR CLIMATE ACTION**

## Disclosing the Business Impacts of Climate Change: A Company Perspective On The Issues and Process

*Johnson & Johnson*

Daniel Usas

Global Energy Manager

April 14, 2010, San Francisco



## Who is responsible for the process? How are potential disclosures evaluated?

- Business Representatives for respective areas evaluate impact in committee with Finance, Corporate Secretary, Risk Management, Corporate Communications, Investor Relations



## What have your disclosures looked like?

- J&J currently and will continue to report:
  - Carbon Disclosure Project ([www.cdproject.net](http://www.cdproject.net))
  - Annual Sustainability Reports ([www.jnj.com](http://www.jnj.com))
  - Socially Responsible Investment questionnaires (SAM, FTSE4GOOD, CERES, Oekom, KLD)



## What have your disclosures looked like?

- Form 10-K
  - Raw Materials, Patents and Trademarks, Seasonality, Competition, Research and Development, Environment, Regulation
- Exhibit 99 to the Company's Annual Report on Form 10-K
  - List of some important factors that could cause the Company's actual results to differ from the Company's expectations in any forward-looking statements



## What have your disclosures looked like?

- (Form 10-K 3/1/10) Environment
  - Johnson & Johnson's operating companies are subject to a variety of U.S. and international environmental protection measures. Johnson & Johnson believes that its operations comply in all material respects with applicable environmental laws and regulations. Johnson & Johnson's compliance with these requirements did not during the past year, and is not expected to, have a material effect upon its capital expenditures, cash flows, earnings or competitive position.



## What have your disclosures looked like?

- (Exhibit 99) Currently recognize several factors that can cause changes in actual results from expectations:
  - General Industry Conditions & Competition
  - Economic Conditions (Interest Rate, Currency Exchange Rate Fluctuations)
  - Technological advances & patents attained by competitors
  - Challenges inherent in new product development (obtaining regulatory approval)
  - Domestic & Foreign health care reforms and governmental laws & regulations
  - Trends toward health care cost containment



## What are your views on the new guidance?

- New Guidance serves as the SEC's acknowledgement of the discussion and efforts taking place on the issue of climate change and that businesses need to evaluate and disclose its impact



## Do you anticipate changing your practices?

- New factor added that could cause the Company's actual results to differ from the Company's expectations in any forward-looking statements. (2009 Annual Report, Ex99, 10-K, Filed 3/1/10):
  - The potential impact of climate change concerns on the design, manufacturing, marketing and sale of health care products
- Additional discussion to happen in 2010



## Do you anticipate changing your practices?

- 2009 Sustainability Report:
- Cited several general risks that will require attention and mitigation strategies: changing regulations; forecast of more extreme weather events; climate implications that could affect the availability of raw materials or water and alter migration patterns; and increased cases of disease.
  - Regulatory risks could include increased energy costs due to taxes and renewable-energy directives, higher costs due to additional requirements for tracking and managing climate change issues, and increased investment in CO2 reduction projects. These costs are not anticipated to be material to the cashflow of J&J, as our businesses are not energy intensive.
  - Of the risks to our business related to climate change, the most significant in the next decade is an extreme weather event, such as a hurricane or flood that would cause the closing of a manufacturing facility, disruption in the supply chain or loss of product inventory.



## What do you believe your stakeholders expect?

- **Transparency & Continued Evaluation**
  - Views and Actions
    - J&J believes in climate change and is taking action to reduce its footprint. J&J believes that responsible domestic and international climate policy is a necessary part of the solution.
  - Risks & Opportunities
    - J&J is well-positioned to compete in an energy and carbon constrained environment.