Ceres

Investors and Environmentalists
for Sustainable Prosperity

Murky Waters:
Corporate Reporting on Water Risk

A Benchmarking Study of 100 Companies

Available at www.ceres.org/waterreport

Brooke Barton
Senior Manager,
Corporate Programs
Ceres

April 16, 2010

Bringing together investors, companies and civil society to integrate sustainability into the market

Company Network

More than 80 members in a range of sectors

Investor Network

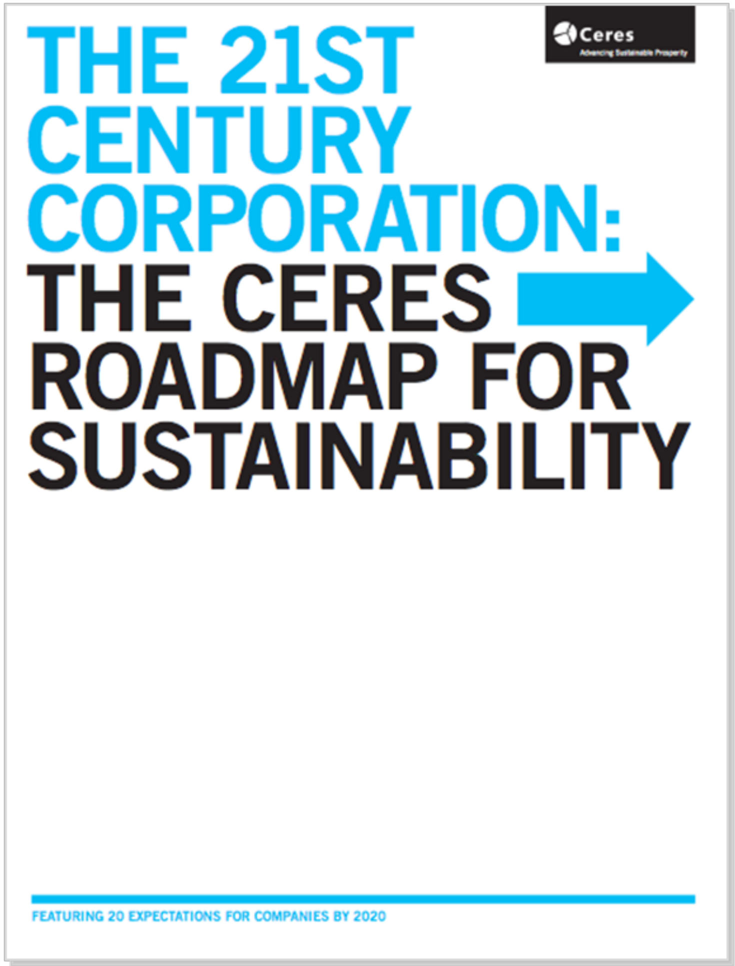
More than 90 members currently representing $9.8 trillion

The Ceres Coalition

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

The Ceres Roadmap

Ceres 20-20



- A comprehensive roadmap to sustainability leadership
- 20 expectations by 2020
- Four sections:
  - ✓ Governance
  - ✓ Stakeholder Engagement
  - ✓ Disclosure
  - ✓ Performance
- Includes **200 company best practice examples,** over 250 tools and resources

Ceres

Investors and Environmentalists
for Sustainable Prosperity

Ceres' Investor Network on Climate Risk

- **Over 90 members and $9.8 trillion in assets.**
- Providing tools for investors to manage the risks and capture the opportunities posed by climate change.

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

Investor Network on
CLIMATE RISK
a project of Ceres

Water disclosure – clearing the waters

- **Investor-relevant** water disclosure is lacking
- Yet water risks are **increasingly material** to many sectors
- **Investor responses to date:** Norges, CDP water disclosure, UNPRI, shareholder engagement & resolutions

SEC's new guidance to companies

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 arability 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*

The study

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

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

Partners

Data provided by
Bloomberg

Analysis by
UBS
Investment Research
SRI & Sustainability

What's inside

- In depth discussions of **water-related risk factors** for each sector
- Key **trends and gaps** in disclosure
- Company **rankings**
- Corporate **best practices**
- **Recommendations** to companies and investors

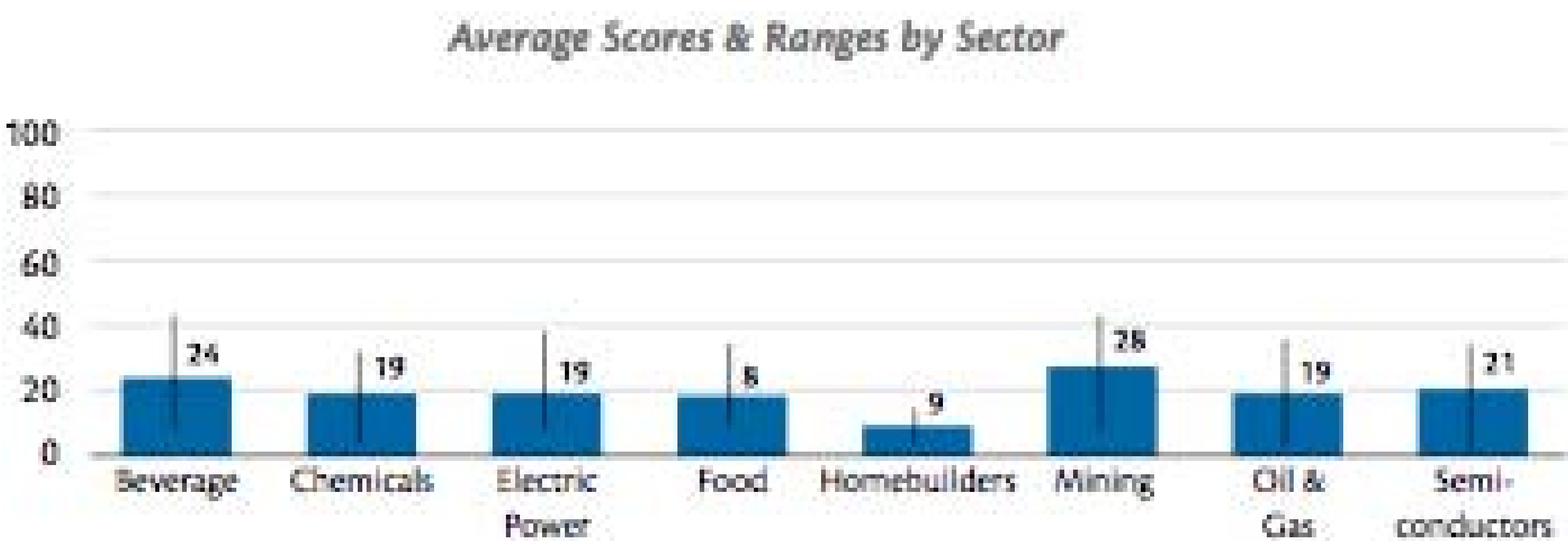
Report methodology

- **Approach.** Evaluated the quality, depth, and clarity of water risk disclosure in both voluntary and mandatory corporate reporting in 6 categories on a 1-100 scale:
    1. Water Accounting (36)
    2. Risk Assessment (24)
    3. Direct Operations (27)
    4. Supply Chain (7)
    5. Stakeholder Engagement (6)
    6. Product Opportunities (12) – *Chemicals & homebuilders only*
- **Documents reviewed**:
    - ✓ 10-K filings (or 20-F/40-F equivalent)
    - ✓ CSR/ sustainability reports
    - ✓ Only materials published BEFORE 6/30/09 covering FY2008

Findings: a disclosure drought

All companies in the study scored fewer than 50 points (out of 100)

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



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**


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K
The Coca-Cola Company

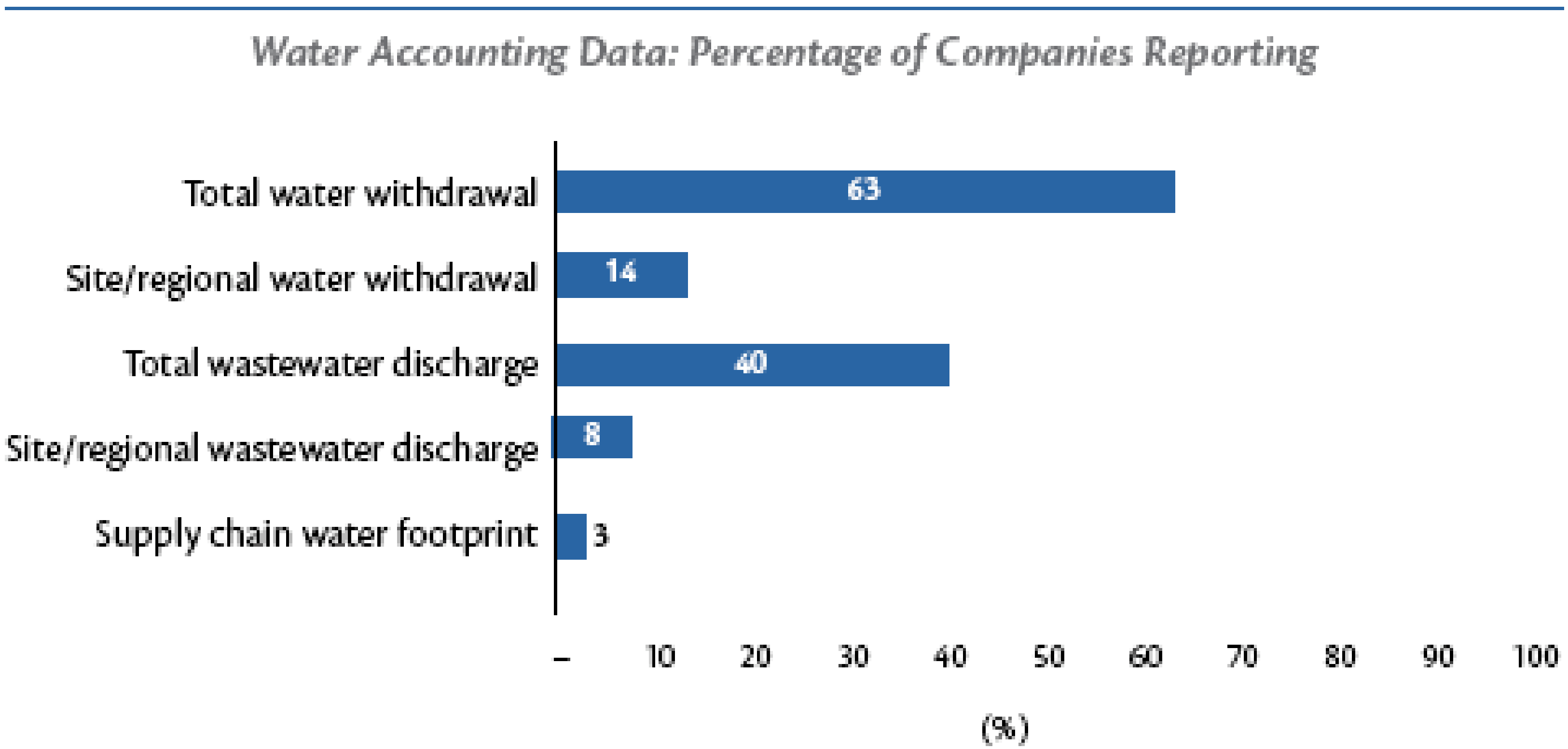
...but the meaningful details are still in CSR reports.

	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

...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

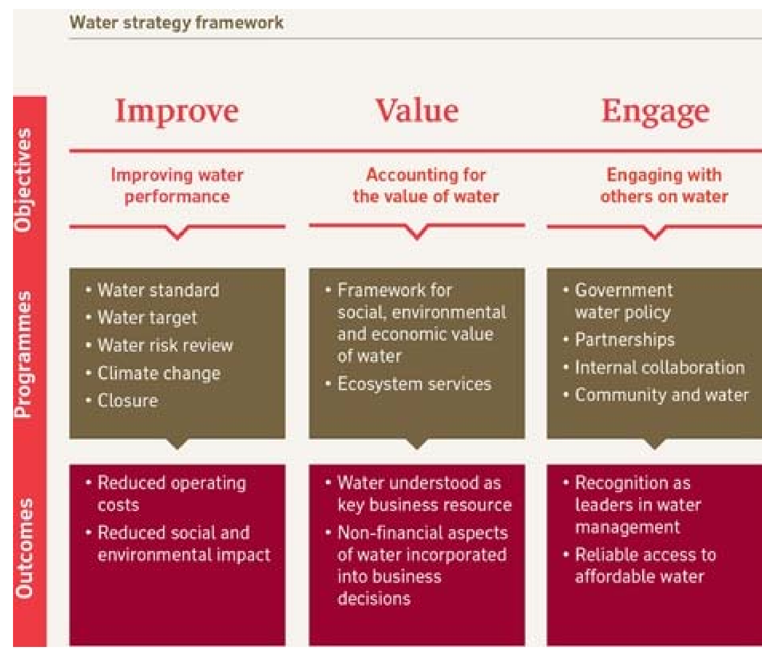
Water accounting data is inconsistent, aggregated, and lacking context.



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

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

Unilever

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

Stakeholder engagement 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

- ✓ **Inclusion in financial filings.** As underscored by the SEC's new interpretive guidance, companies should include material water risk factors in financial filings.
- ✓ **Water accounting data that puts performance in context.** Companies should put the company's risk exposure in context by disclosing the percentage of facilities operating in areas of water stress, and provide data broken down to the facility level for operations in these regions.
- ✓ **Disclosure of management strategies & systems.** Corporate reporting should provide detailed explanation of how water risks are being assessed, addressed by key policies, and integrated into governance and management systems from the boardroom to the facility-level.

Recommendations for companies (cont.)

- ✓ **Setting and disclosing reduction targets**. Companies should set wastewater and water use reduction targets, with more aggressive targets for operations in high risk regions.
- ✓ **Addressing water risks in the supply chain.** Where water use embedded in the supply chain accounts for a significant portion of water footprint, companies should disclose how they are evaluating suppliers on water performance, and set related performance goals
- ✓ **Engaging critical stakeholders.** Companies should provide investors with an understanding of how they are working to mitigate significant water risks by engaging critical stakeholders on watershed management and protection, drinking water and sanitation issues, and on the water impacts of siting and expanding operations.

Recommendations for investors

- ✓ **Engage companies in water-exposed sectors** about how they are assessing and disclosing water risks and related performance information.
- ✓ **Ask asset managers to assess and engage companies on water and other ESG risks and opportunities**. Institutional investors should stipulate this to asset managers in RFPs and in annual performance reviews.
- ✓ **Support investor and corporate initiatives to achieve increased water disclosure** like the CDP's water disclosure initiative and UNPRI's efforts to encourage more companies to sign on to the CEO Water Mandate.

Thank You

Brooke Barton
Ceres
barton@ceres.org
617-247-0700 x139