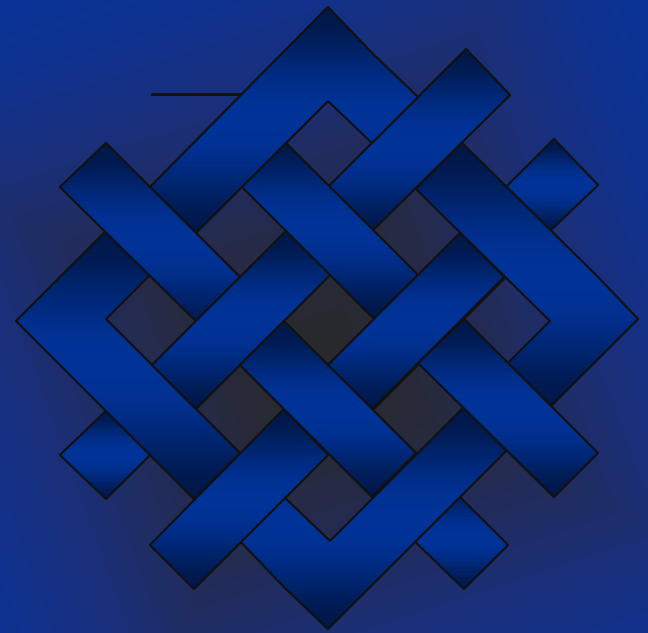


Getting CFOs to “Get It” Revisited

Don Reed, CFA

World Resources Institute



For Capital Markets to Reward Leaders & Punish Laggards...

Goal

⇒ Move social & environmental responsibility on the “right” side of fiduciary responsibility

- Method of translating social & environmental into financial terms
- Companies show how their social & environmental strategies add shareholder value
- The right investors hear this message
- Proof that these criteria work for investors



Evolution of financial value & environmental issues

- Avoid a “dead-weight” expense
- A necessary evil - “end-of-pipe” solutions
- Reducing the cost - “pollution prevention”
- Becoming more efficient - improving yields & margins
- Growing revenue - increasing market share or pricing power through product innovation & market redefinition



The Business Case

| | | | | |
|-------------------------|-----------------------------|--|--|--|
| | Franchise Protection | Process | Product | New Product Development |
| Focus | Reputation | Efficiency | Value Chain | Innovation |
| Business Value | Right to Operate | Cost and Liability Reduction | Customer Loyalty & Reputation | New Markets Market Redefinition |
| Financial Impact | Risk New Markets | Margins Risk Capital Efficiency | Competitive Advantage | Revenue Competitive Advantage Diversification |



Approaches to Green Shareholder Value

- Old School: cost to be lived with; minimize
- New School: sometimes adds shareholder value directly
- Next School: central to our brand value



Showing EHS Value

- Anecdotes
- Income statement approach
 - gather costs & benefits
 - make transparent assumptions & adjustments
- Shareholder value
 - sales, margins, tax rates, cost of capital, fixed capital, & working capital
- Scenarios with probabilities, cash flow estimates, and discounted cash flow



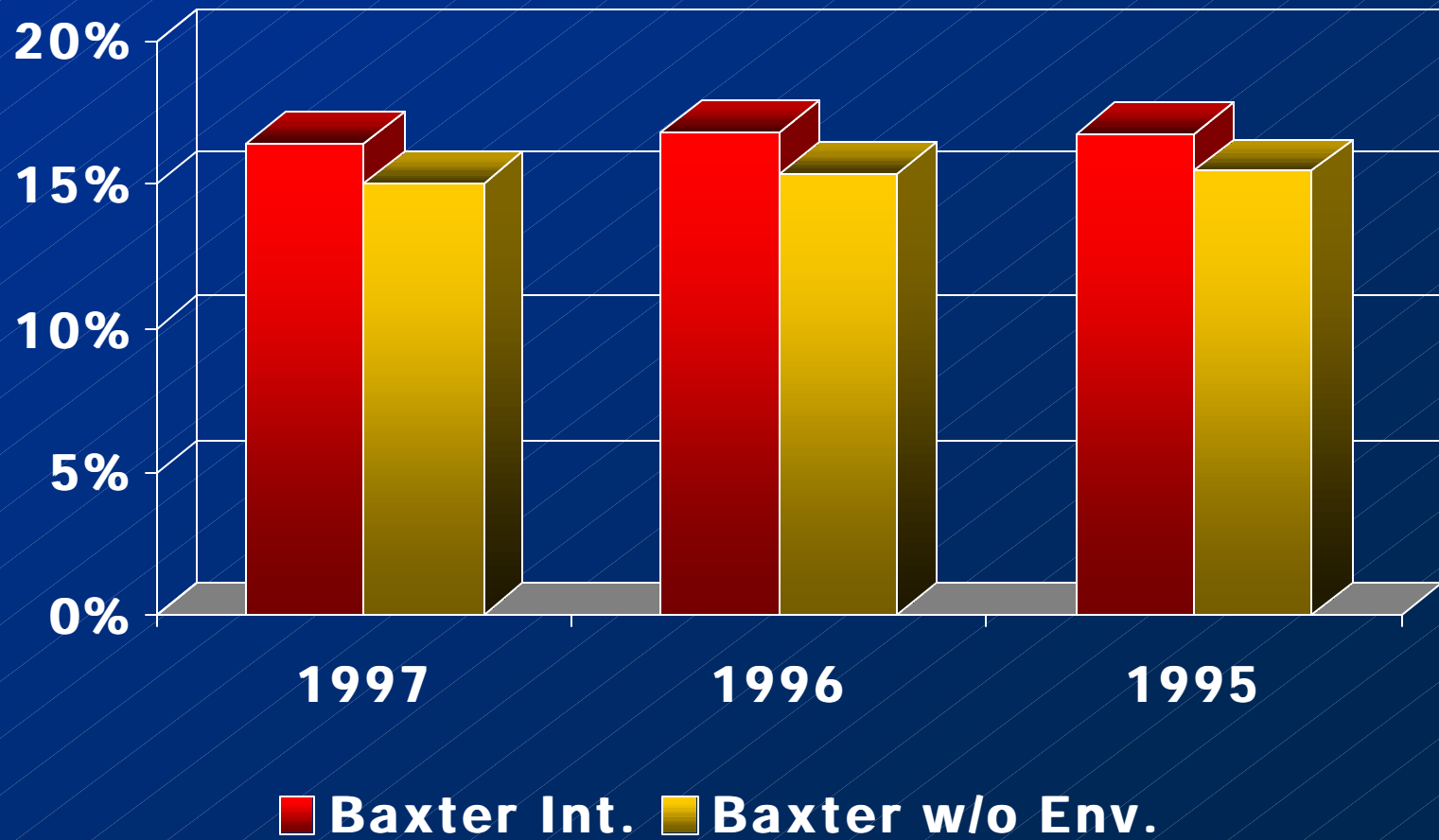
Baxter International - Environment is Material

Net Environmental Contribution for 1997 to:

| | |
|------------------|------|
| Operating Profit | 5.8% |
| Cashflow (EBIT) | 8.5% |



Net Impact on Margins



Eco-Investing goes Mainstream

Stora Enso Oyi

Dofasco

BMW

Fuji Photo Film

Unilever

Bristol-Myers Squibb

Suncor Energy

Enbridge

Credit Suisse

Skandia

Norsk Hydro

Maruben

Honeywell

Tomra Systems

Fujitsu

ST Microelectronics

Transalta

Deutsche Telekom

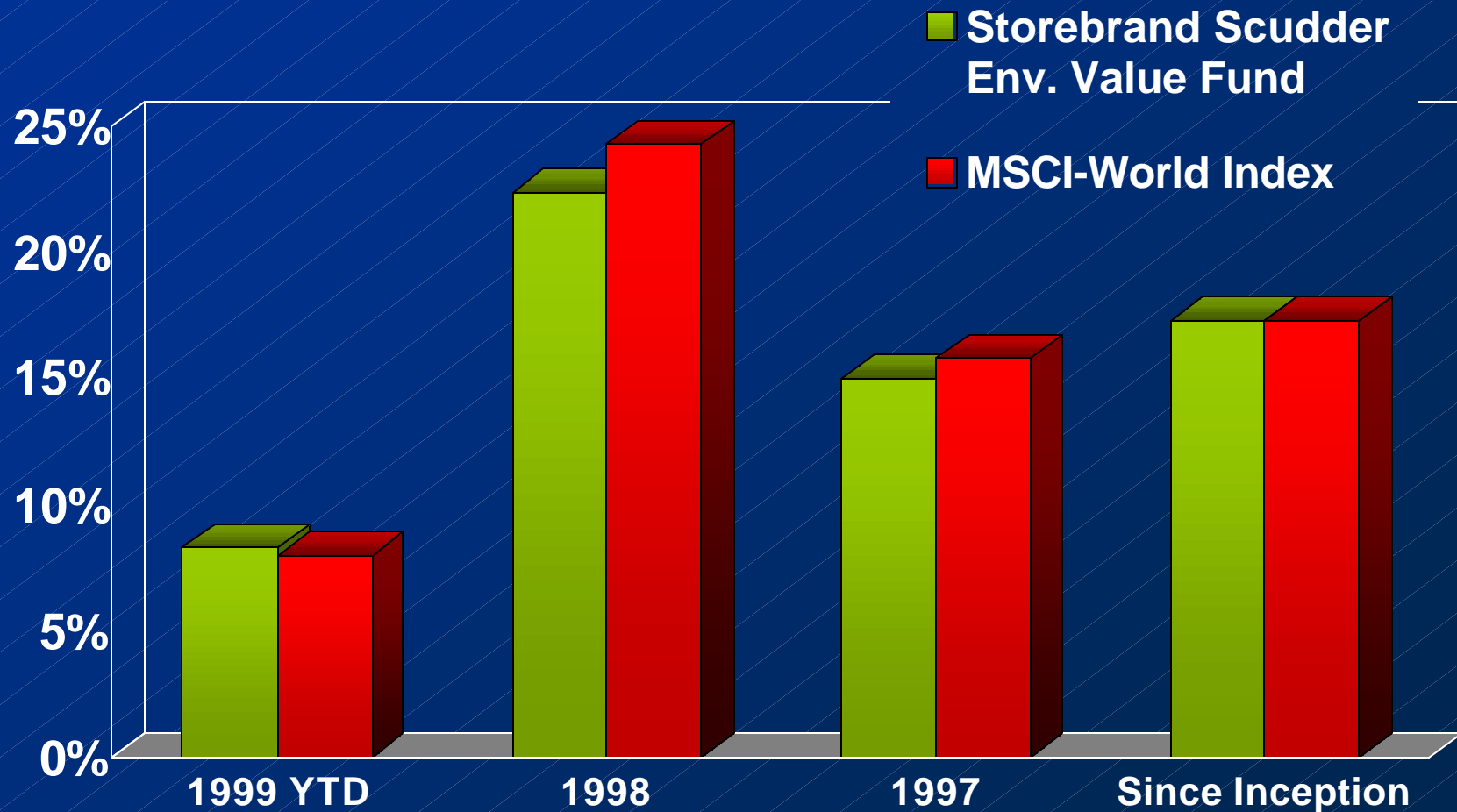
➤ Eco-Efficiency funds by Storebrand-Scudder, UBS, Credit Suisse, Robeco

➤ Bloomberg publishes *Investing with your Values* on socially responsible investing

➤ Dow Jones partners with SAM Group to offer Dow Jones Sustainability Group Indexes



The Financial Results



More Value, Less Material

$$\text{KNOWLEDGE INTENSITY} = \frac{\text{SVA}}{\text{VOLUME}}$$



Discussion Questions

- What's worked for you in communicating the shareholder value of your sustainable development initiatives?
- Integrating social and environmental strategies versus examining their value independently
- Examples of communicating with investors

