



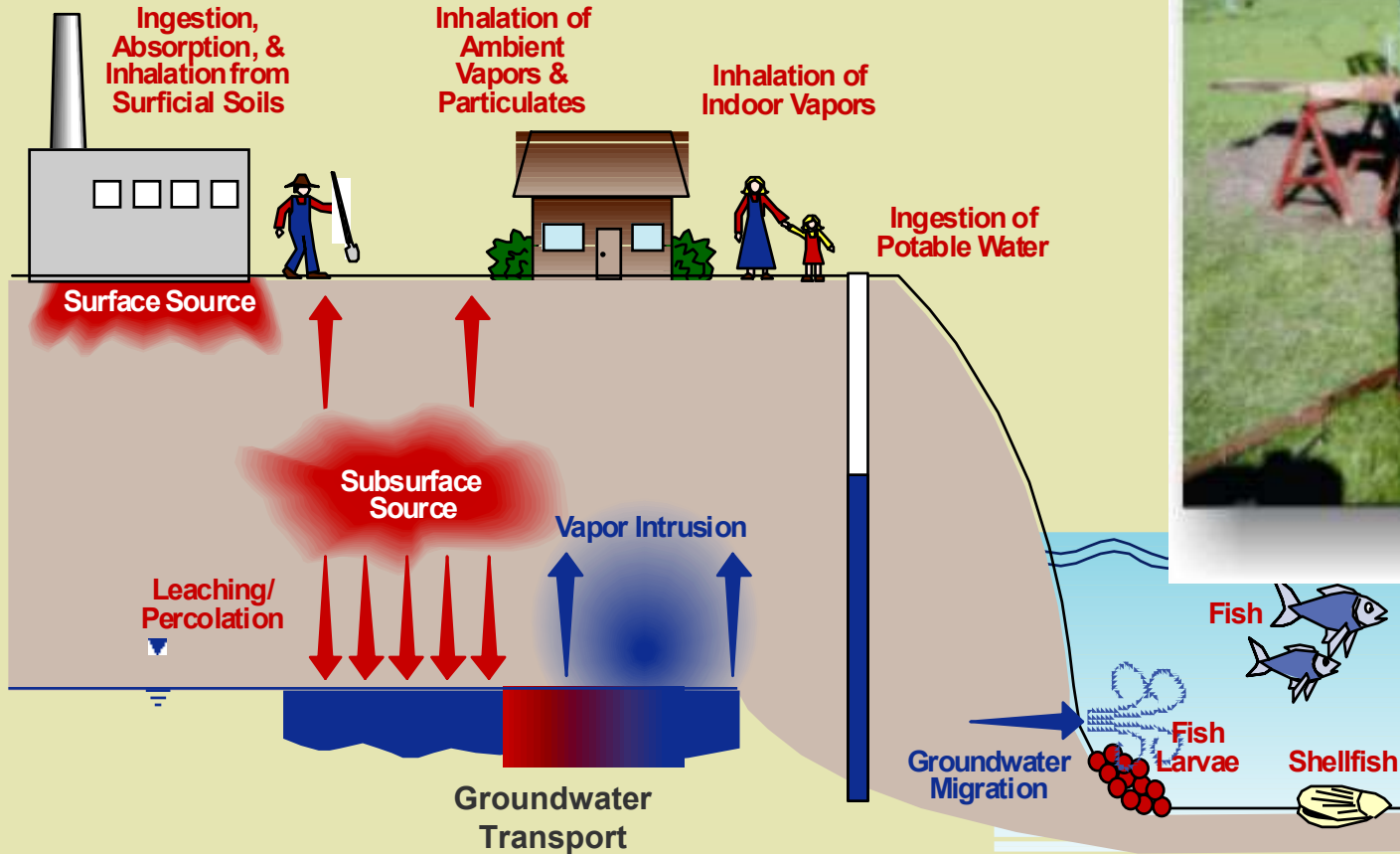
ASRIA July 2004

SRI and Investor Risk in Asia

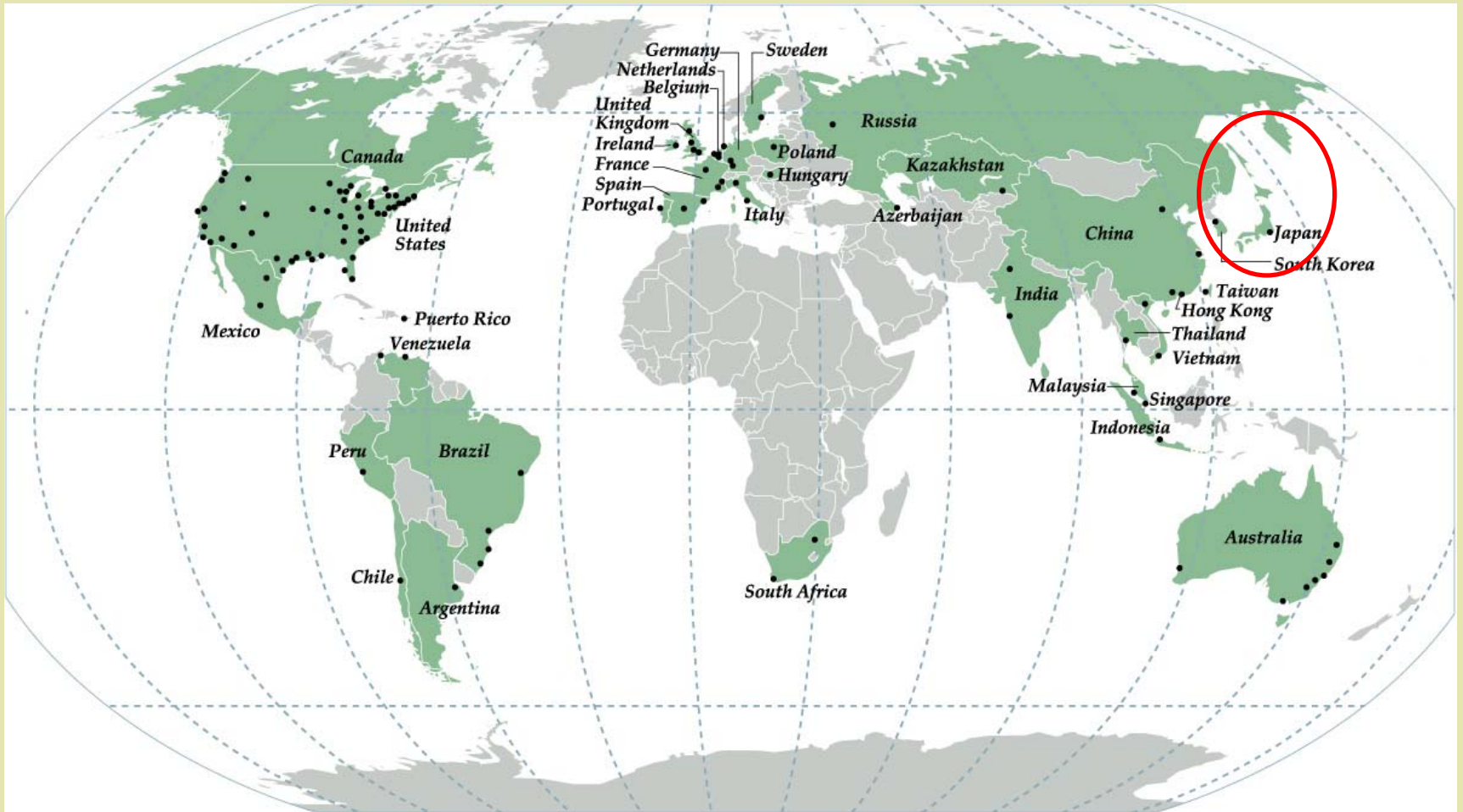
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Environmental Engineering & Consulting



in Japan



This Session

- Why SRI issues are important to investment in Asia
- How to assess these risks – an auditor's viewpoint





Location: South Africa, Myanmar etc.

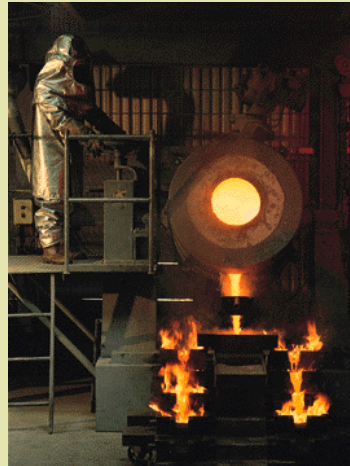


Activities: Nuclear, tobacco etc.

Ethical Screening



e.g. Climate Change Impact



e.g. Worker's Rights

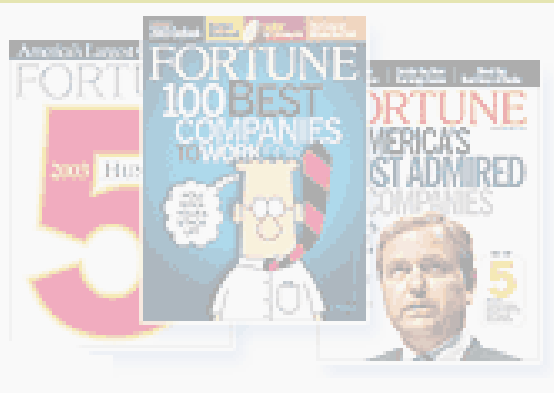


e.g. EHS Risk Management

Screening via Assessment of Quality of Management of Social & Environmental Issues

Positive & Negative Screening

Environmental, Health, Safety, Social
Indicators ARE used extensively by
leading companies to gauge
business risk and performance,
increasingly in Asia





ALCOA Worldwide

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Vision & Values

- Overview
- ↳ Principles
- ↳ Human Rights

At Alcoa, our vision is to be the best company in the world.

At Alcoa, our vision is to be the best company in the world--in the eyes of our customers, shareholders, communities and people. We expect and demand the best we have to offer by always keeping Alcoa's values top of mind:

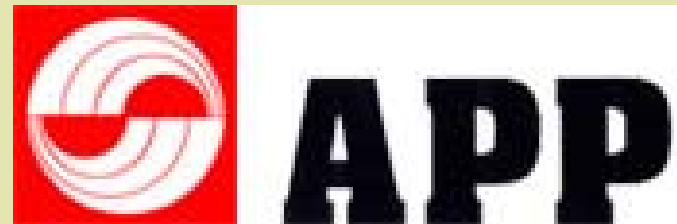
<p>Integrity Alcoa's foundation is our integrity. We are open, honest and trustworthy in dealing with customers, suppliers, coworkers, shareholders and the communities where we have an impact.</p>	<p>Customer We support our customers' success by creating exceptional value through innovative product and service solutions.</p>	<p>Profitability We earn sustainable financial results that enable profitable growth and superior shareholder value.</p>
<p>Environment, Health and Safety We work safely in a manner that protects and promotes the health and well-being of the individual and the environment.</p>	<p>Excellence We relentlessly pursue excellence in everything we do, every day.</p>	<p>Accountability We are accountable - individually and in teams - for our behaviors, actions and results.</p>
	<p>People We work in an inclusive environment that embraces change, new ideas, respect for the individual and equal opportunity to succeed.</p>	<p>We live our Values and measure our success by the success of our customers, shareholders, communities and people.</p>

Alcoa: Worker Health & Safety



A very, very large and acquisitive US industrial:
Merger & Acquisition Due Diligence
EHS Check comes first

There are many examples of companies being damaged due to careless management of social, environmental and H&S issues





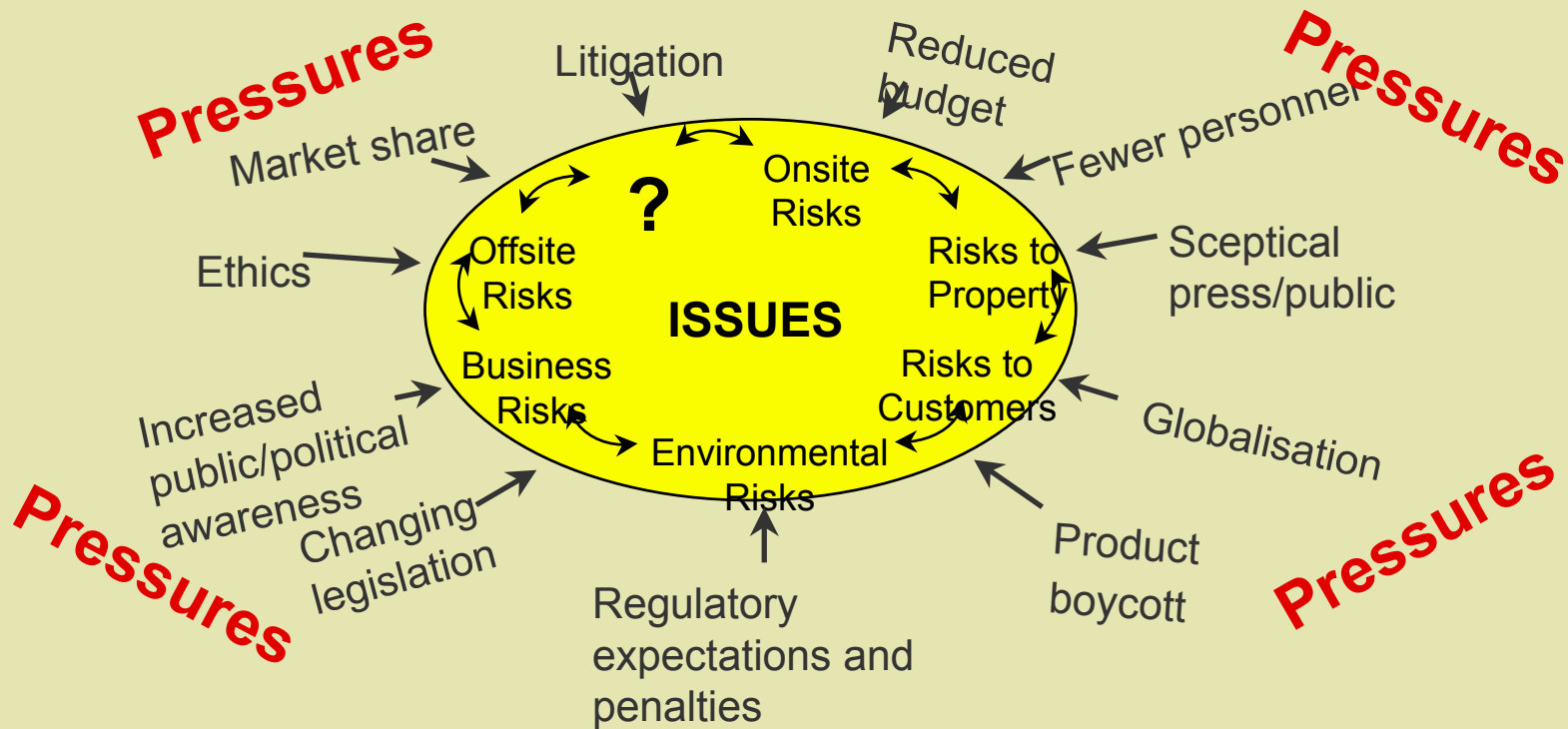
Asia Pulp and Paper, ongoing –
Asia's largest bankruptcy



Snow Brand, 2001 –
Collapse of one of Japan's largest food companies



Plus many “time bombs” in the form of contaminated land, esp. in Japan, Korea, China



So how can an SRI analyst accurately assess EHS &S issues, by company, globally and locally?

Need to assess the quality of the top management on EHS&S issues

- Awareness of the details/trends of the EHSS risks, global issues
- Existence of robust EHSS risk management systems
- Top level support for and interaction with these systems/tools



So how to focus the assessment?

- Questionnaires/desk research
- Management interviews with pre-researched, specific questions
- General risk ranking based on results
- Interaction with the company?

Financial analysis

Downgraded

NEW YORK

DEATH threats were received by Jonathan Joseph, an analyst at Salomon Smith Barney who dared to downgrade shares in semiconductor companies earlier this month. This will send a strong signal to his fellow professionals, who hardly need more reason to be nice about the firms they follow. In recent years, analysts' opinions have increasingly been guided by the needs of their investment-banking bosses. As Arthur Levitt, the chairman of the Securities and Exchange Commission, has complained, "all too often, analysts are falling on the side of protecting the business relationship at the cost of fair analysis".

A new study* by three economists takes this debate a step further. They looked at the returns earned by investors in American shares between 1982 and 1997, and calculated how much of the differences in returns could be predicted from traditional financial indicators based on company accounts. They then repeated this analysis adding as an extra crystal ball analysts' profit forecasts.

At first, the economists found the profit forecasts very helpful in predicting differences in share returns. However, they then

looked at whether analysts were still useful if investors also relied on past changes in share prices to guide their expectations. It turned out they were not much help. In general the contribution of analysts was "modest at best". Indeed, the economists reckon that analysts making forecasts mostly took their lead from changes in market values. As share prices rose (or fell), the analysts raised (or lowered) their profits forecasts.

Analysts were not completely useless, however. They had a more significant impact in predicting share returns for companies that were loss-making, and for relatively small firms. And they were more useful for understanding the sorts of companies for which traditional financial indicators do not work well—such as those in fast-changing high-tech industries. In particular, analysts appear to be quite good at understanding the importance of research and development activity within the companies they follow—something that most investors have little opportunity to find out about. According to the study, the greater a company's R&D spending, the more useful analysts were in valuing it. But overall, the study is hardly a ringing endorsement of Wall Street's finest. Share analysts: underperforming; sell.

*"What value analysts?" By Eli Amir, Baruch Lev and Theodore Sougiannis. New York University Stern School working paper, July 2000

Risk Indicator – Paper Sector, Japan

<i>Hazard Classes</i>	Financial Impact	Reputation Impact	Regulatory Impact	Market Impact
	1=material impact, 2=significant impact 3=minor impact			
Environment				
Climate Change	3	3	3	3
Air Emissions	2	2	1	3
Water Emissions	3	2	1	3
Solid Waste Management	3	3	2	3
Land Contamination etc.	2	3	2	3
Worker Safety				
Chemicals Management	3	2	3	1
Fire Safety	3	3	3	3
Worker Insurance etc.	3	3	3	3
Social Issues				
Supplier Management etc.	1	1	2	1

Start with a simple risk indicator tool

Risks – Asia vs. the West

- In West (esp. US) EHS & S Regulatory framework is strong, risks are real
- In Asia, reputation and market risks are more important for EHS & S issues (e.g. loss of customers)

Product and Plant Safety Risk Assessor – Japan, Paper

Hazard Classes

*Response
Score*

Environmental Emissions

Please describe your use of chemicals in the paper bleaching

Supplier Management

Describe your supply chain management system

What level of suppliers does this cover in terms of geographic coverage, product coverage

How do you ensure your supply chain does not contain illegal

How do you consider worker health and safety in your supply chain?

Product Transport and Storage

Describe your method of transporting and storing your products, and precautions taken



**Focus the top management
interview on high risk issues.....**



More detailed investigation or engagement
on risks material to the share price

Summary

- Social, EHS issues are significant to the share price, & investment risk in Asia, depending on issue
- Analysing real risks requires local knowledge, social/EHS understanding, detective skills.
- Can add real value to mainstream investment industry, and progress the SRI agenda

