

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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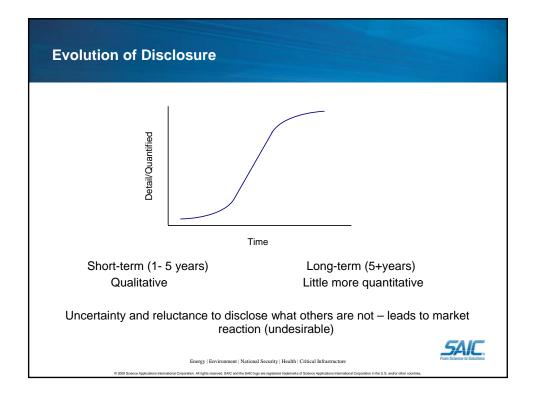
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Evolution of Disclosure: Long-term

- · 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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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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