

Avery Dennison's EHS Sarbanes-Oxley (SOX) Program

Presented by -

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Presented for -

NAEM

Sarbanes Oxley and the EHS Professional
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- Manufacturer of Pressure-Sensitive Materials, Office & Consumer Products and Retail Information Services
- Founded in 1935
- \$5.3 billion sales (2004)
- 21,400+ Employees
- Operates in 44 countries; 275+ manufacturing facilities and sales offices worldwide
- Active Product sales in 89 countries
- Fortune 500 (2005) ranking: 366
- Forbes 2000 (2005) ranking: 1,035

EHS Structure & Organization - **“Cooperative distributed network”**

- Corporate staff 6
- Group staff 9
- Facility staff 43

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- **Strong alignment with Company Culture and Business Strategies**
 - **Existence of Philosophy, Policies, Guidelines**
 - **EHS mantra - “Enhance, Protect & Comply”**
 - » Implement and enhance business strategies / initiatives
 - » Management of EHS risk
 - » Sustainable compliance
 - **Heavy reliance on;**
 - **Management Support, Metrics & Communications**
 - **EHS Management System**
 - **IT based systems - 9 significant databases**
 - **Addition of proactive efforts when they can demonstrate tangible value**

- **Avery Dennison's SOX System**
- **EHS & SOX - Key Considerations**
- **Integration of SOX and EHS Management Systems**
- **Learnings - the Good, the Bad and the Ugly**

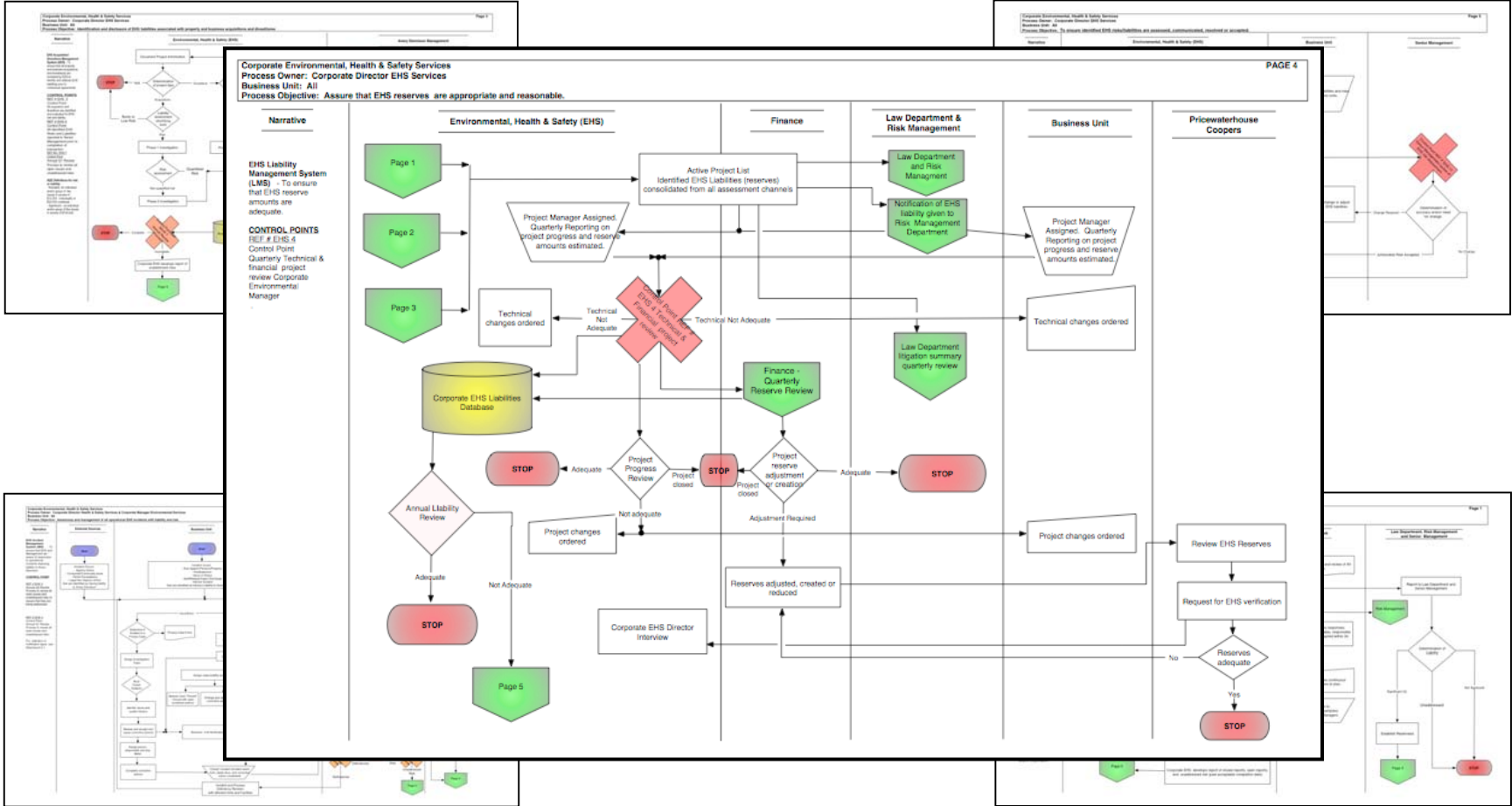
Sarbanes-Oxley requires the demonstration that all internal financial reporting controls are annually documented and tested to assure that they are working properly at all sites worldwide.

Environmental, Health and Safety (EHS) functions are captured by this activity given its potential impact on financial reporting devices such as Annual Reports, 10-K reports, 10-Q reports, etc.

SOX is not SO_x - air pollution in the form of oxides of sulfur!



- Managed by an internal database - Lotus Notes based
- Core process elements
 - Basic information for impacted functions
 - Flow charts with control points
 - Internal control grid (assessment, remediation, testing)
 - Process control SOPs (EHS department)
 - Test plans (external to department) twice per yr
 - Process review (Corporate) twice per yr
 - Verification (External auditors) twice per yr



This is where we define the process



1. Liabilities vs. Reserves

- Do you have adequate reserves to address your EHS liabilities?

2. Deficiencies/Risks vs. Liabilities

- How do you evaluate and manage your deficiencies/risks in terms of their potential as liabilities?

3. Activities vs. Deficiencies/Risks

- How do you know that all deficiencies or risks have been identified?

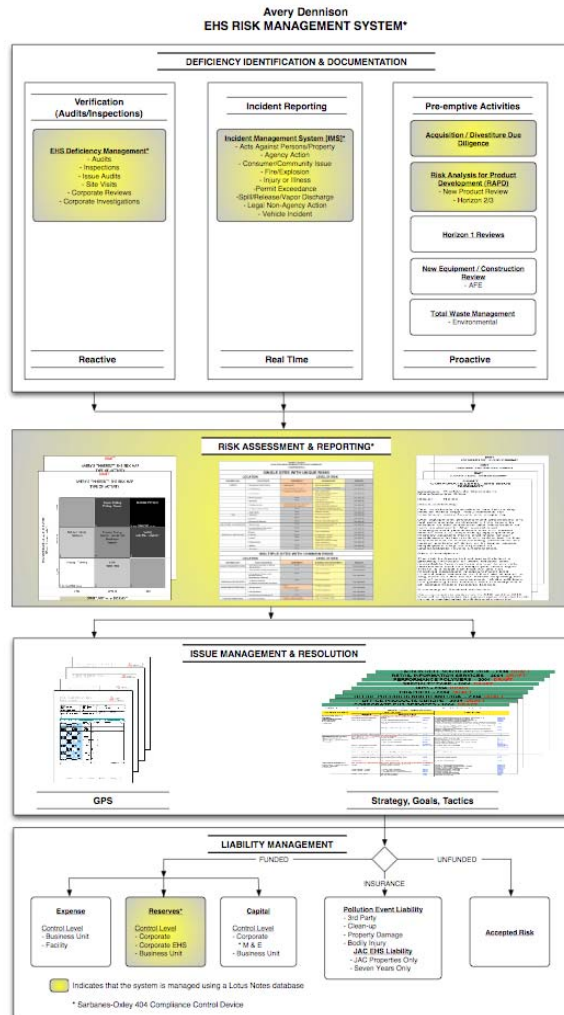
These questions are typically asked in the wrong order or they stop after Question #1.

- Avery's EHS function's 5 SOX Processes
 - EHS Deficiency Management (Audits) Type 3
 - EHS Incident Management Type 3
 - EHS Transaction (Acquisition/Divestiture) Management Type 3

 - EHS Risk Management Type 2

 - EHS Liability Management Type 1

These 5 EHS processes are intended to address the 3 key SOX considerations



- Deficiency Identification & Documentation
- Risk Assessment & Reporting
- Issue Management & Resolution
- Liability Management

- SOX ties your EHS systems further into your core business systems
- The entire process helps bring order & clarity to your overall EHS management system
- SOX processes are more likely to be funded, supported & preserved

**If there is one thing to understand and remember
SOX = Support and Funding**

- It is a lot of work, a whole lot of work
- It is the kind of work that generally must be done with your existing resources
- Because of the potential exposure both internally (BoD) and externally, there is no room for failure and very little forgiveness

Before you start, make sure that you can reasonably expect to successfully complete the process

- SOX will show many of your systems flaws and weaknesses
- There is no limit to the level of detail that could be included in the process
- There are no clearly defined limits on cost thresholds, the concept of materiality is different in SOX

**You need to understand and manage the process
or it will manage you**

