Adding Business Value Through Effective EHS Liability Management

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Abbott Laboratories Global Environmental, Health, Safety & Energy



Adding Business Value through EHS December 1, 2004



Agenda

- I. Adding Value Through Effective <u>Transactional</u> EHS Liability Management – *Abbott's Global EHS Due Diligence Program*
- II. Adding Value Through Effective <u>Remedial</u> Liability Management – *Abbott's Global Remediation Management Program*



EHS Due Diligence Program *Purpose and Drivers*

Purpose

 Minimize and manage Abbott's EHS liability as a result of real property and business transactions

Drivers

- CERCLA joint and severable liability
- Other global regulatory requirements
- Abbott global Business Integration and Real Property Assessment Standards





EHS Due Diligence Program Real Property Assessments Standard – What it Does

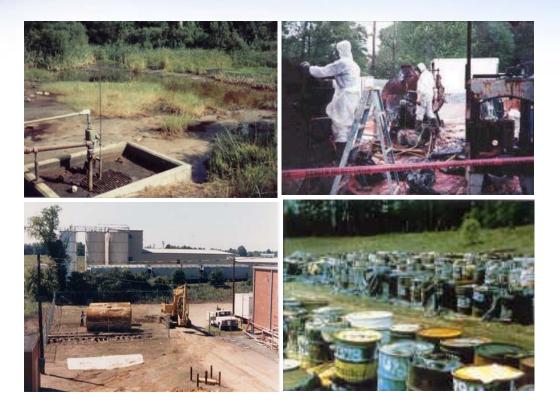
ADDU	OTT LABORATORIESGLOBAL EHS TE	CHNICAL STANDARD	NO. T06-01	
REA	L PROPERTY ASSESSMENTS	ORIGINAL ISSUE DATE: 02/07/02	SUPERSEDES: None	
	References: Management Standard M04-01 ness Integration"	APPROVED: R. D. Morrison	VERSION DATE: 02/07/02	
Th pro exe	plicability and Interpretation e requirements contained in this standard are m operty transactions. These transactions include cluding acquisitions of property related to a bus see contained in applicable laws and regulations	acquisitions and divestitures of any iness acquisition. These requirement	real property,	
en ade site	<u>rpose</u> e purpose of this standard is to establish a proce vironmental risks and liabilities associated with equately characterize the environmental conditi e assessment, then use the environmental site as thing process for the acquisition and divestiture	the ownership and use of real prop on of all real property by conducting sessment information as one factor	erty. Abbott will on environmental	
3. <u>Ke</u>	y Terms and Definitions: For the purposes of t	his standard,	\backslash	
3.1 3.2 3.3 3.4 3.4 3.5 3.6 3.7	such as title, leasehold, right-of-way, easeme Phase I Environmental Site Assessment (Phi- property consisting of a review of available site reconnaissance, interviews with owners, summarizing the findings completes the Pha- Phase II Environmental Site Assessment (Ph property that involves sampling such as soil, chemical analysis to help characterize the na liability. The purpose of a Phase II ESA is tidentified during the Phase I ESA. A writter ESA. Real Property means land, including building property and attached to the land. Site means any location where Abbott condu buildings / structures on land owned or lease boundaries of the land.	bott conveys or relinquishes a real p ent or license. <u>use I ESA</u>] means an investigation o government, company and neighbor occupants, and regulatory officials. se I ESA. <u>use II ESA</u>] means an investigation water, building material or equipm ture and extent of suspected potenti o develop additional information as a report summarizing the findings co gs and other fixtures and improvemen- ted business. Typically a site will b ed by Abbott, and the site will be con-	oroperty interest, f a parcel of real ing property records, A written report of a parcel of real ent sampling and al contamination and a result of issues ompletes the Phase II ents located on the e a group of natined with the	

 Addresses risk of assuming environmental liability, and formalizes processes to quantify liability

Protects Abbott's interests and minimizes liability

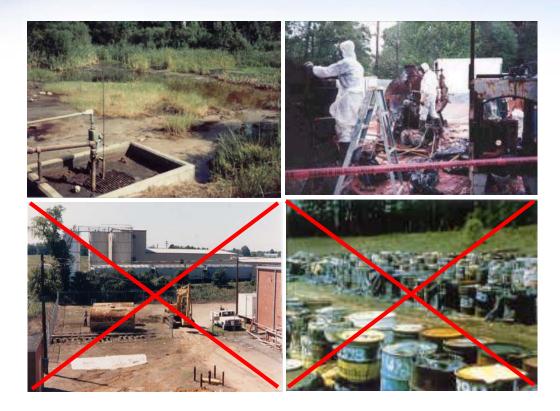


assessment must be performed



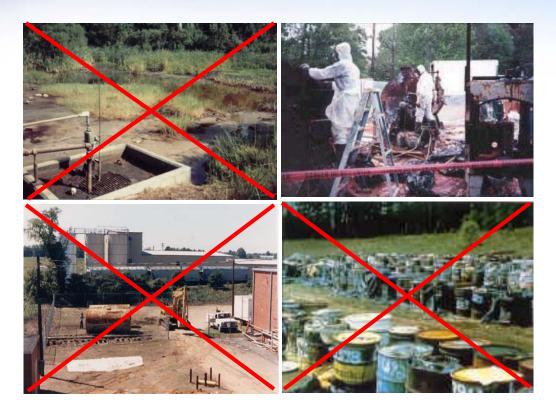


 Protects against environmental liability, exposures, and impacts





- Protects against environmental liability, exposures, and impacts
- Prevents unknowingly assuming EHS liability





- Protects against EHS liability, exposures, and impacts
- Prevents unknowingly assuming EHS liability
- Prevents/minimizes remedial and financial burden





- Protects against EHS liability, exposures, and impacts
- Prevents Abbott from unknowingly assuming EHS liability
- Prevents/minimizes remedial and financial burden
- Helps effectively assess and manage liability and make effective business decisions





EHS Due Diligence Program Real Property Assessments Standard – Applicability

ABBOTT LABORATORIESGLOBAL EHS TECH	NICAL STANDARD	NO. T06-01
REAL PROPERTY ASSESSMENTS	ORIGINAL ISSUE DATE: 02/07/02	SUPERSEDES: None
Cross-References: Management Standard M04-01 "Business Integration"	APPROVED:	VERSION DATE:
	R. D. Morrison	02/07/02

those contained in applicable laws and regulations. 2. Purpose

The purpose of this standard is to establish a process for identifying and evaluating the potential environmental risks and liabilities associated with the ownership and use of real property. Abbott will adequately characterize the environmental condition of all real property by conducting an environmental site assessment, then use the environmental six assessment information as one factor in the decision making process for the acquisition and divestiture of the real property.

excluding acquisitions of property related to a business acquisition. These requirements are in addition to

- 3. Key Terms and Definitions: For the purposes of this standard,
- 3.1 Acquisition means a transaction in which Abbott acquires a real property interest, such as title, leasehold, right-of-way, easement or license.
- 3.2 Divestiture means a transaction in which Abbott conveys or relinquishes a real property interest, such as title, leasehold, right-of-way, easement or license.
- 3.3 Phase I Environmental Site Assessment (Phase I ESA) means an in estigation of a parcel of real property consisting of a review of available government, company and neighboring property records, site reconnaissance, interviews with owners, occupants, and regulatory officials. A written report summarizing the findings completes the Phase I ESA.
- 3.4 Phase II Environmental Site Assessment (Phase II ESA) means an investigation of a parcel of real property that involves sampling such as soil, water, building material or equipment sampling and chemical analysis to help characterize the nature and extent of suspected potential contamination and liability. The purpose of a Phase II ESA is to develop additional information as a result of issues identified during the Phase I ESA. A written report summarizing the findings completes the Phase II ESA.
- 3.5 Real Property means land, including buildings and other fixtures and improvements located on the property and attached to the land.
- 3.6 Site means any location where Abbott conducts business. Typically a site will be a group of buildings / structures on land owned or leased by Abbott, and the site will be contained with the boundaries of the land.
- 3.7 Tank means a stationary receptacle used to accumulate, store, or treat hazardous chemicals.

4. Requirements

- 4.1 Prior to the completion of any real property acquisition or divestiture, an environmental site assessment must be performed.
- Page 1 of 3

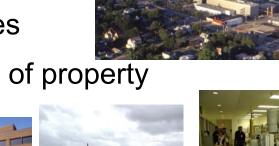
- Abbott world-wide
- Property and business transactions
 - ✓ Acquisitions
 - ✓ Divestitures
 - ✓ Leases
- All types of property











EHS Due Diligence Program *Program Implementation – Overview*

- Formal global program managed by GEHS&E
- Assessments conducted internally and externally
- Degree of assessment transaction specific - findings factored into business decisions and transaction strategy:

Real Property	Business Transaction	
Review	Comp. EHS Assessment	
Phase I	Phase I	
Phase II	Phase II	











EHS Due Diligence Program *Program Implementation – Enhancements*

Full-service consultants with global capabilities +

Fixed pricing and set schedules +

Standard protocols and report formats +

Routine meetings to identify projects +

Technology-driven approach

- Comprehensive, consistent, and timely
- · Allows development and implementation of deal-specific strategy
- Facilitates integration activities
- Increase in asset value by proactively managing liabilities internally
- Reduces time and cost to complete due diligence and transaction (20-25%)

Stream-lined process and increase in the effectiveness of the program and value to business



EHS Due Diligence Program *Program Implementation – Enhancements – Technology-Based Approach*

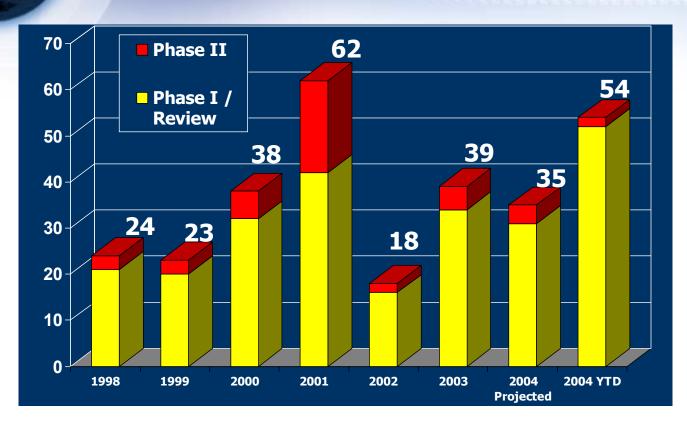
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- Secure web-based system to collect real-time EHS information
- Ability to track identified issues
- Library of reference guides and assessment support tools
- Delivery of media-enriched items (photographs, drawings, and file attachments)
- Produce standardized reports
- Ability to quickly sort, analyze, and communicate real-time data around the globe – more time for business decisions
- Less time and cost to complete

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Auditor: Curt Michols	uner Debie under einense	
Report Rem No.: ACM-1 (2)		
Current Priority: Moderate	r -	ant • healty
Primary Finding Topic: Asbestos		anment with
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ere has been no asbestos survey condi	ucted at the site. However, as the site bu	aldings were initially constructed in 1967, the potential exists for asbestos-
ntaining material (ACM) to have been ct work insulation covering, and roofing	used during building construction. Surpe g material. No finable surpect ACM was	set ACM observed during the site inspection included floor tile, ceiling tile, drywall, s observed. Non-fitable ACM appeared to be generally in good condition. As a
stalled prior to 1981 must be considered	d presumed ACM (PACM) unless peop	per sampling and analysis determines that they do not contain asbestos. These
gulations require PACM to be manage	d property, which includes labeling, trans	ing, and notification. Based on the age of the buildings (constructed prior to 1981),
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it, the potential for worker exposure, ording to Occupational Safety and B alled prior to 1981 must be considere alations require PACM to be manage-	should any of these materials contain as lealth Administration (OSHA) regulations of presumed ACM (PACM) unless prop	bentor, is low , nutricing material, floor the, and thermal systems inclusion that have been or mandping on leadaries determines that they do not contan adventor. These

EHS Due Diligence Program *Program Implementation – Volume of Projects*



Since 1998, 258 due diligence projects have been completed at 212 sites in 29 different countries and territories



Communication differences

 Written communication
 Verbal communication



- Communication differences
 -Written communication
 -Verbal communication
- Cultural differences





- Communication differences
 -Written Communication
 -Verbal communication
- Cultural differences
- Increased project costs
 - -Higher consultant fees



- -Foreign exchange rate differences
- -VAT
- -"Local customs" clearance time and costs



Technical expertise and equipment availability and quality











18

EHS Due Diligence Program *Program Value to the Business – Value Provided to Several Business Groups*

- Corporate Real Estate
- Corporate and Divisional Legal
- Corporate and Divisional
 Finance and Business
- Business
 Development
 Groups



- Identify liabilities that could impact transaction
- Accurately assess market value
- Allows "deal-specific" evaluation, strategy, and control in advance of transaction
- Input in development of terms of transaction
- Increase in asset value
 - Transactional costs
 - Purchase price



EHS Due Diligence Program Program Value to the Business – Value Provided to Several Business Groups

- Divisional Operations
- Divisional EHS
- Facility Operations
- Facility EHS



- Identify liabilities that could impact facility operations
- Facilitate and support integration and longrange planning
 - Reduction of costs
 - Reduction of time



EHS Due Diligence Program *Program Value to Business – Cost vs. Value of Liabilities Identified/Mitigated*

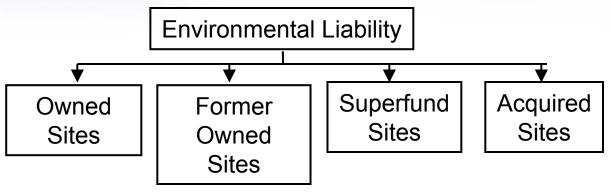


\$7.75MM total EHS liabilities identified and factored into business deals since 2001 – Internal management has saved approximately 25% of cost (or \$1.94MM) and other savings on purchase prices have been realized

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Remediation Management Program Program Overview

Abbott assumes remedial liability at several types of sites



Program managed by GEHS&E

-Internal expertise

-External consultants / contractors

-Responsibilities:

✓Technical project management

✓SEC reporting

✓Environmental Reserve



Remediation Management Program *Program Overview – Environmental Reserve*

Maintained through Corporate Manufacturing Accounting

- Provides site-specific funding where actions are "probable and reasonably estimable"
 - \checkmark 7 remedial sites
 - ✓ 11 Superfund sites
- Formal process of active review and management

Compliance with GAAP and SEC

 \checkmark Reduces potential for fines and penalties

✓ Public image



Remediation Management Program Value of Program to Business – *Ludwigshafen Remediation*



Aerial photograph of site

Areas impacted by bombs

Subsurface impact across the site

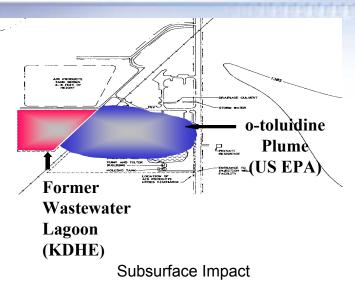
	Former	Alternative		
Remedial Approach	Soil and groundwater E&T	Risk-based in-place management		
Time to Complete	30+ yrs	1.25 yrs		
Savings	28 yrs + \$4.5 MM			



Remediation Management Program Value of Program to Business – *Wichita Remediation*



Filled wastewater lagoon





Filled Evaporation Pond

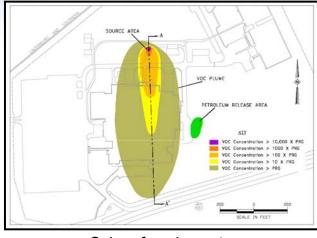
	Former	Alternative	
Remedial Approach	Groundwater and leachate E&T	Regrading and MNA	
Time to Complete	30+ yrs	8 yrs	
Savings	22 yrs + \$4.2 MM		



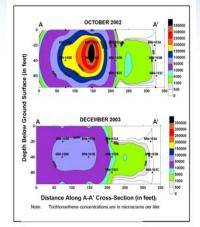
Remediation Management Program Value of Program to Business – *Laurinburg Remediation*



Aerial photograph of site







Phase I TCE Reduction

	Former	Alternative	
Remedial Approach	Groundwater E&T	Insitu Bioremediation	
Time to Complete	15+ yrs	9 yrs	
Savings	6 yrs + \$2.7 MM		



Remediation Management Program Value of Program to Business – Spartanburg Remediation

The tograph of site		VOC Groundwater Plume				
	Photograph of site		Subsurface Impact		Extraction Well	
			Former		Alternative	
	Remedial Approach	Gro	undwater E&T		u Bioremediation mited groundwater	
	Time to Complete	15+	yrs	5 yr	S	conmer

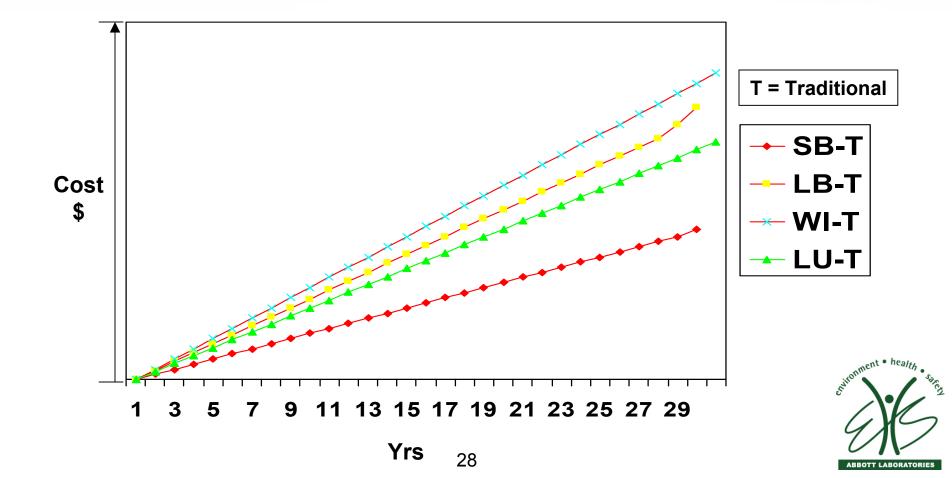
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Savings

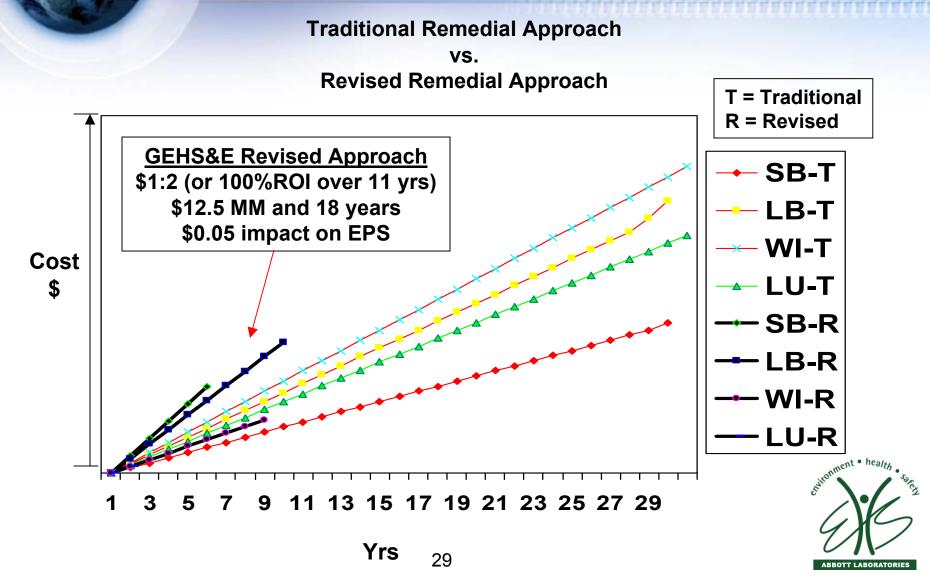
10 yrs + \$1.1 MM

Remediation Management Program Value of Program to Business – Savings

Traditional Remedial Approach



Remediation Management Program Value of Program to Business – Savings



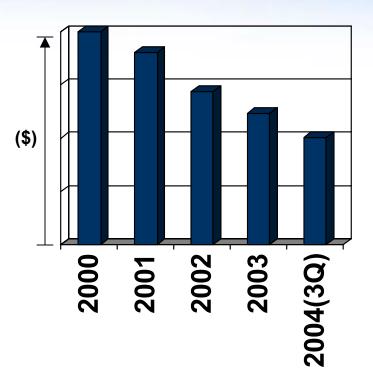
Remediation Management Program Value of Program to Business – *Other Values and Savings*

- SEC reporting and SOX compliance
- Image and public perception "Brand and Reputation"
- Environmental Reserve has been effectively reduced
 - 12 new projects added since 1Q00
 - Reduced 50% since 2000

✓ 25% – Costs incurred

✓ 75% – Proactive management

\$avings to "Bottom Line"



Abbott's Environmental Reserve



Adding Business Value Through Effective EHS Liability Management Does it Really?

Yes – through several functions

Transaction Management

 \checkmark Liability identification and quantification

- ✓Transaction and legal strategy
- ✓Increase in asset value
- Risk Management

 \checkmark Identifies, communicates, and manages unknown risks

Business Operations

 \checkmark Planning and integration

Financial Management

✓ Understand "real risk" and spend accordingly

- \checkmark Spending now can save more in long run
- ✓Contribute\$ to the "bottom line"



Adding Business Value Through Effective EHS Liability Management

Thank You

