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Evangelical Lutheran Church in America
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September 17, 2010

An open letter to the investing community:

As members of the Interfaith Center on Corporate Responsibility and the Investor Environmental Health Network, we are writing in advance of the Toys R Us initial public offering to alert you to Toys R Us' sale of toys made with polyvinyl chloride (PVC) plastic, a toxic plastic that poses dangerous risks to children's health. With a public campaign against Toys R Us' toxic toys intensifying, and with consumer rights advocates commissioning a report to Congress on Toys R Us' failure to phase out PVC, this alarming business practice threatens to put the world's leading dedicated toy retailer at the center of controversy during the critical Christmas season.

The Interfaith Center on Corporate Responsibility is a coalition of nearly 300 institutional investors with more than \$150 billion in assets, and the Investor Environmental Health Network, is a coalition of over 20 institutional investors with over \$30 billion in combined assets. As members of these organizations, we want investors to know the full story behind Toys R Us' sale of toxic toys and the related protests against the company so that potential shareholders can make an informed, responsible investment decision.

We urge investors not to participate in Toys R Us' IPO without a firm commitment from the company to label toxic chemicals in toys it sells and phase-out the sale of toys made with PVC. We are concerned that absent such commitment, providing fresh capital to Toys R Us and its current private equity owners, Kohlberg Kravis Roberts & Company (KKR), will further entrench Toys R Us' irresponsible business practices that put children's health at risk and threaten to destroy shareholder value over the long-term.

PVC is the most toxic plastic for human health and the environment and there is no safe way to manufacture, use, or dispose of PVC products, according to scientific experts. Chemicals released in PVC's lifecycle have been linked to chronic diseases on the rise in children, impaired child development and birth defects, cancer, disruption of the endocrine system, reproductive impairment, and immune system suppression.

Under pressure from concerned parents and product safety advocates, in 2008 Toys R Us announced a new policy to reduce PVC plastic in children and infants' toys and set a goal of offering PVC-free products, but recent testing has found the company has failed to fully implement this commitment. Recent independent testing by the Ecology Center in Ann Arbor, Michigan, found that Toys R Us is selling Toy Story 3 merchandise made with PVC. Toys R Us sells thousands of toys and the company generally does not disclose PVC presence on its products.

The Center for Health, Environment & Justice and the Teamsters Office of Consumer Affairs has commissioned a report to Congress on Toys R Us' Toy Safety Policy and Practices.

Toys R Us' failure to phase out PVC products and label toxic chemicals in toys could potentially lead to a consumer backlash during the critical Christmas season, which accounts for roughly 40% of Toys R Us' annual revenues. This risk raises serious questions about Toys R Us' ability to meet sales expectations and build trust among its consumer base.

We list below further financial, legal, health, environmental, and reputational risks tied to the use of PVC.

RISKS TIED TO PVC AND TOYS R US' TOYS

PVC Facing Increasing Regulations: The use of PVC is facing increasing governmental regulations around the world, which may pose financial and regulatory risks to Toys R Us. On July 20, 2006, the U.S. Food and Drug Administration notified retailers to stop marketing PVC lunchboxes containing lead. Cities around the United States such as New York City, Boston, Seattle, San Francisco, and Buffalo have enacted procurement policies to avoid the purchase of materials such as PVC that lead to persistent toxic pollution. PVC has been banned or restricted in a number of countries including Canada, the Czech Republic, Germany, South Korea, Spain, and Sweden. Restrictions or bans have been placed on phthalates in PVC toys in the entire European Union - Austria, Denmark, Finland, France, Germany, Greece, Italy, Japan, Iceland Mexico, Norway, and Sweden. In 1998, the U.S. Consumer Product Safety Commission (CPSC) reached a voluntary agreement with manufacturers to remove two phthalates from PVC rattles, teething rings, pacifiers and baby bottle nipples. San Francisco became the first city in the U.S. to ban phthalates used in soft PVC children's toys in June 2006. The States of California, Washington and Vermont have enacted legislation banning phthalates in children's toys, and similar legislation is pending at the federal level. Congress enacted federal legislation banning phthalates in children's toys in 2008. Legislation to ban PVC packaging passed the CA State Assembly in 2009, and will likely be re-introduced in 2010. 19 states across the country have laws restricting heavy metals in packaging. A July 2009 study by the Toxics In Packaging Clearinghouse found over 50% of PVC packaging tested violated these laws.

Companies and Competitors Phasing out PVC: Major retailers all around the world are enacting restrictions on PVC packaging and products, potentially putting Toys R Us at a competitive disadvantage. Over the past few years, Target, Sears Holdings, Wal-Mart Stores, Bed Bath and Beyond, Best Buy, and JCPenney have all announced major initiatives to significantly reduce and/or phase out PVC in products and packaging.

JCPenney announced in their Corporate Social Responsibility report the company has formed a Product Stewardship Committee and that the company is, "currently evaluating our products to determine where PVC is being used and examining alternatives. Our overall approach will be to work toward replacing PVC where we can identify safer, more sustainable and cost-effective alternatives. For example, our vinyl shower curtains are being switched to ethylene vinyl acetate (EVA). The Product Stewardship Committee is currently developing a policy on PVC." As reported in the November 6, 2007, *Wall Street Journal*, Target announced that the company was reducing its use of PVC in products and packaging, and noted that Target's brands of children's lunch boxes and utensils were now PVC-free. On December 12, 2007 Sears Holdings (Sears and Kmart) announced the company is phasing out PVC in products and packaging and would label such products as PVC-free. On July 28, 2006, Wal-Mart announced, "the company will no longer sell soft sided lunchboxes with PVC linings". In October 2005, Wal-Mart committed to phasing out their private label PVC packaging over the next 2 years.

Many supermarkets and/or retail chains in Austria, Denmark, Germany, and Japan are restricting or eliminating PVC use. Many other companies such as Ikea, H&M, Marks & Spencer, Microsoft, Johnson & Johnson, Gerber, Nike, SC Johnson, Limited Brands, Dell, Toyota, Honda, Hewlett Packard, and Sony have made commitments to phase out PVC in products and/or packaging.

Dangerous Additives May Pose Legal and Financial Risks: PVC is useless without the addition of toxic chemical stabilizers - such as lead, cadmium and organotin - and phthalate plasticizers. These leach, flake or outgas from PVC over time, raising risks that include asthma, lead poisoning and cancer. Companies have been sued for selling PVC products including lunchboxes and bouncy houses laden with elevated levels of lead. Between 80-90% of all phthalates are used to soften PVC products such as school supplies. Phthalates in PVC toys have now been banned by Congress and a number of states. Some

products, such as PVC toys, may expose customers to toxic chemicals released from the product. A June 2008 study by the Center for Health, Environment and Justice found one new vinyl shower curtain can release over 100 chemicals into the air – chemicals that can damage the lungs, brain and even cause cancer. The levels of chemicals violated the U.S. Green Building Council’s recommended guidelines for indoor air quality for no less than seven days. This new study received substantial media coverage across the country including a prominent article in the LA Times.

Until adequately addressed, concerns about toxicity, safety and human rights of Toys R US supply chain will continue to resurface, exposing the company to legal and reputational risks.

PVC Health Risks: PVC is produced with extremely toxic chemicals, including chlorine and vinyl chloride, known to cause cancer. Dioxin, ethylene dichloride and vinyl chloride are unavoidably created in the production or disposal of PVC and can cause severe health problems including cancer, neurological damage, reproductive and immune system damage, and impaired child development. PVC poses significant risks to both workers and fenceline environmental justice communities, which was recently featured in June 2010 by CNN’s Dr. Sanjay Gupta in an hour-long investigative special, Toxic Towns, USA.

PVC Cannot be Readily Recycled: The multitudes of additives required to make PVC useful make large-scale post consumer recycling nearly impossible for most products and interfere with the recycling of other plastics. Of an estimated 7 billion pounds of PVC thrown away in the US, only 14 million - less than 1/2 of 1 percent - is recycled. The Association of Post Consumer Plastics Recyclers declared efforts to recycle PVC a failure and labeled it a contaminant in 1998.

Safer Alternatives are Available: Safer, cost-effective, alternatives to PVC are readily available. From safer, recyclable plastics, to bio-based materials, there is a growing market replacing PVC in products and packaging.

Conclusion

For the reasons listed above, we believe Toys R Us’ sale of toxic toys creates serious financial, legal, safety, environmental, and reputational risks that could negatively impact shareholder value over the long term.

We believe that phasing out PVC not only has significant environmental and health benefits, but also helps to build public trust, protect brand reputation, and safeguard and grow market share by anticipating further regulation and recall/legal liabilities. Such actions can significantly and positively raise Toys R Us environmental profile, enhance its reputation and competitive position.

We therefore urge investors not to participate in Toys R Us’ IPO absent a firm commitment from the company to label toxic chemicals in toys it sells and phase-out the sale of toys made with PVC.

Thank you.

Sincerely,

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