

News Release

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INDUSTRIAL COMPANIES FACE HIGHER COSTS AND NEW MANAGEMENT CHALLENGES FROM EMISSION TRADING

Companies covered by the European Union Emission Trading Scheme (EU-ETS) face higher costs, not just from compliance with emission reduction targets, but also from higher energy prices. A new report from PricewaterhouseCoopers, 'Responding to a changing environment: Applying emissions trading strategy to industrial companies', also warns that industrial companies covered by the scheme are generally less well prepared than energy and utility companies in the EU.

Although industrial companies have in the main benefited from less demanding targets for emission reductions, this may be temporary respite. They need to incorporate a robust carbon management programme into their corporate strategy and stress test against a range of regulatory and market scenarios.

The level of preparedness for EU-ETS varies widely across industry sectors. Industrial companies generally do not have the same experience of active market trading as energy and utility companies and so face many new challenges. 'Responding to a changing environment' urges carbon thinking to span the full range of activities within an organisation, including operations, trading, merger and acquisitions strategy, investment planning, legal and environmental compliance, tax and accounting.

Much of the focus to date has been on operational and compliance issues. However companies now urgently need to address trading arrangements and strategy, the implementation of new accounting policies and their impact on reported profits, tax planning and legal and contractual issues. Rules, administrative arrangements and best practice are still developing in many areas, as governments, companies and the market rush to catch up with the aggressive timetable for the launch of the scheme; however, companies cannot afford to wait for clarity on all issues.

Richard Gledhill, Global Climate Change Leader, PricewaterhouseCoopers, said:

"Planning for the EU-ETS should now be well under way, both strategically and at a practical level. Changes are required across the full range of activities in the organisation and there is still a lot to be done. Companies that do not rise quickly to this challenge may ultimately place shareholder value at risk."

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Investors and financial institutions are increasingly alert to climate change risks and the implications of emissions trading and at the consumer level there is increasing interest in these issues. However, much of the attention has focused on energy and utility companies and the potential impact on the industrial sector is less well understood. Companies need to develop a plan for communicating carbon risks and opportunities to all their stakeholders.

The report has been supplemented with the views expressed by a number of major industrial companies in Europe in a pilot survey conducted by PricewaterhouseCoopers in November and December 2004. A general concern expressed by respondents was that the EU-ETS could have a detrimental long-term impact on shareholder value and profitability. Companies were particularly concerned about expected increases in energy prices and the potential impact on global competitiveness. These issues will no doubt be emphasised to governments in the run-up to decisions on the 2008-2012 national allocation plans.

There is also great concern over the dominance of the EU Allowance market by electricity generators, the differences in allocations and rules between EU member states, uncertainties regarding allocations for 2008-2012, the implications of the enactment of the Kyoto framework and the future development of the EU-ETS beyond 2012.

With regard to emissions trading, respondents expected trading strategies varied, but none reported an objective of increasing revenues through active trading. The majority intend to trade periodically, primarily with a view to reducing the cost of compliance, using a combination of forward contracts and spot trades during the period, setting up a limited trading organisation and handling trading on a European or regional basis.

Industrial companies need to demonstrate that they have a robust strategy in place for operating in a carbon constrained world, as well as clear plans to manage both the commercial risks and compliance aspects of the EU-ETS.

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Notes to Editor

1. Copies of 'Responding to a changing environment: Applying emissions trading strategy for industrial companies' can be downloaded at www.pwc.com/ipemissions
2. PricewaterhouseCoopers (www.pwc.com/uk) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 144 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

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