

# Capitalizing on a climate of change



# Table of contents

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<b>The heart of the matter</b>	2
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Now more than ever, concerns around environmental outcomes are impacting transactions. It is time to ask: What is the deal with climate change?

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<b>An in-depth discussion</b>	4
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Asking how carbon management links to value helps deal makers make more robust assessments.

How the deal market is responding	11
Reporting on climate change	13

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<b>What this means for your business</b>	18
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Take a proactive stance now: Factoring climate change into your business models and practices can help unlock value.

The heart of the matter

Now more than ever,  
concerns around  
environmental outcomes  
are impacting transactions.  
It is time to ask: What is the  
deal with climate change?

The issue of climate change is evolving from primarily a scientific and public policy concern to one of business risks and opportunities. Effectively managing these risks and capitalizing on the potential opportunities is now crucial to both the environment and the economy. Companies that develop sound strategies around climate change, as well as enhance reporting capabilities to address heightened stakeholder interest, stand to gain the most.

Climate change is particularly relevant for companies looking to pursue acquisitions or raise capital. Until recently, the impact of climate change on the deal market was barely on the radar of most businesses. However, impending national policy action on greenhouse gas emissions requires companies in virtually every industry to think about the impacts of such prospective energy and climate policies on the value of the business when executing a deal.

Companies must first understand where they stand on climate change issues and then evaluate the impact of a target's respective strategy, not only on financial results, but also on reputation, branding, and stakeholder interest. Executives and corporate development teams do not need to be climate science experts, but they do need to appreciate how climate change affects their businesses and the information they report, as well as its impact on deal value.

With the regulatory environment around climate change heating up, companies will need to think about the ongoing reporting implications, beyond the necessary assessments that must be made in the context of a transaction. Stakeholders already are demanding greater disclosure around climate change-associated risks and emissions trading schemes, which are rapidly developing. Regulators and standards setters are likely to continue to push for specific requirements to increase transparency and comparability.

Regardless of the ultimate policy design, the fact remains: When greenhouse gases (GhGs) are regulated at the federal level, the cost of carbon will have a measurable impact on business transactions, ranging from capital allocation decisions to merger and acquisition strategy.

In this context, companies can no longer sit on the sidelines of the climate change discussion. They must be vocal and proactive, asking themselves how they have addressed climate change-related issues impacting their businesses. Such reflection will serve to improve both their bottom line and public perceptions of their corporate citizenry.

An in-depth discussion

Asking how carbon management links to value helps deal makers make more robust assessments.

Issues of climate change, along with questions about corporate social responsibility (CSR), deepen in relevance depending on a company’s sector. A company in a heavy-emitting industry—power generation, chemicals, industrial products manufacturing, or automotive—will absorb the cost of complying with regulations to reduce greenhouse gas emissions.

Regulations will also greatly affect companies in renewable energy and other clean technology sectors, as these companies may be able to capitalize on their investments in new technology to help heavy emitters reach their emissions reduction goals.

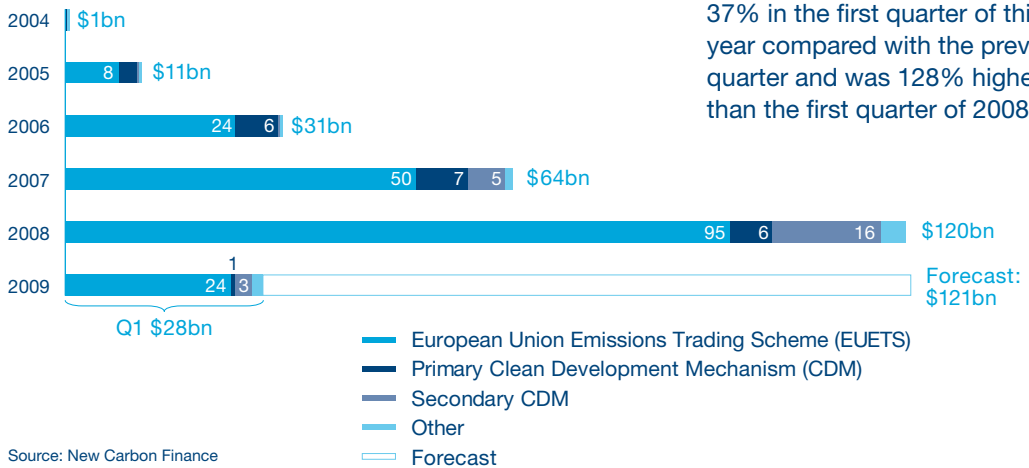
At the same time, companies in all sectors must prepare for higher energy costs and decide how and when to adapt their strategy, operations, reporting, and compliance efforts. Only then will they meet the needs of investors, consumers, and other stakeholders, as well as regulators.

Although climate change is a significant issue for all companies, responses vary based on short- and long-term opportunities and risks. In their role as market makers for various financial instruments, financial service institutions, for example, could reap dividends from the carbon markets. The value of the global carbon markets grew significantly over the past five years and is expected to continue increasing throughout 2009, as noted in the chart below.

Retail, consumer, transportation, and logistics companies will face financial challenges in managing carbon in their supply chains. At the same time, sustainable strategies to reduce energy use could result in unforeseen benefits to their bottom line. Other organizations, such as insurance companies, may become more exposed to the physical risks of climate change, as seen when a hurricane destroys property along coastal regions.

### Carbon market size, 2004–2009

in US dollars



Despite an uncertain economy, the world carbon market has grown exponentially. It rose by 37% in the first quarter of this year compared with the previous quarter and was 128% higher than the first quarter of 2008.

## What the CEOs are saying

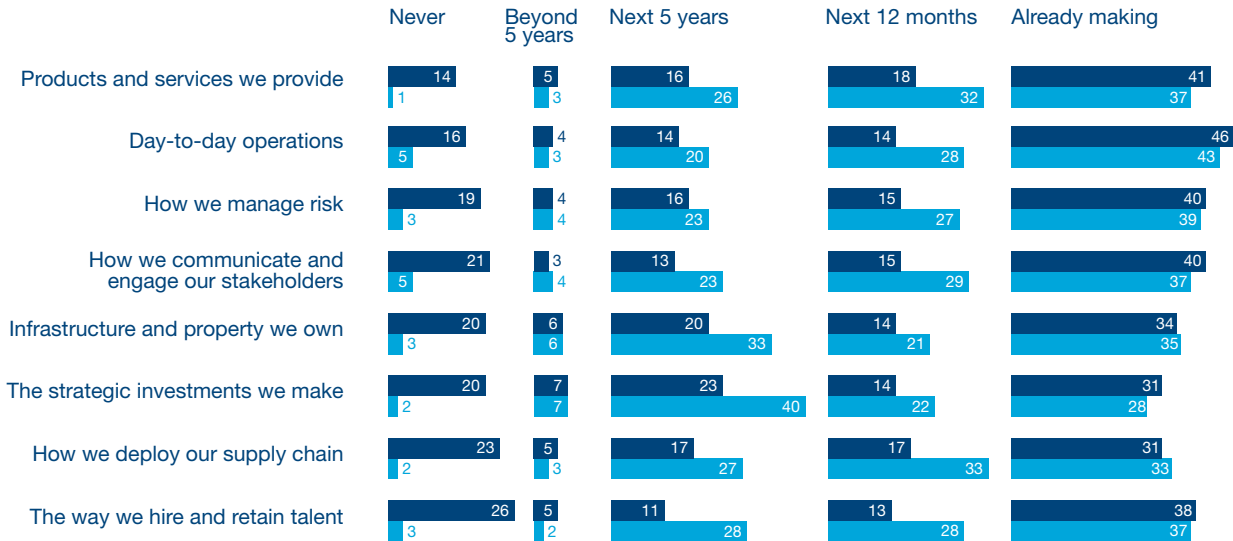
% of respondents

■ When, if at all, do you anticipate making changes to the following areas of your business to respond to the challenges posed by climate change?

Base: 1,124

■ When do you anticipate a return on investment in these areas?

Base: 499-669



Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

As most companies are aware, the Internet has enhanced the bargaining power of consumers, who can easily research a company's stance and behavior on climate change and other CSR issues. In some cases, this can lead to a public relations dilemma. Sound carbon management strategies, such as programs to reduce water use or wasteful packaging, enhance brand value while improving operational efficiency. In the latest PricewaterhouseCoopers annual global CEO survey, nearly one-third of the 1,124 respondents said they are seeing

returns on their investments. Further, one-half of respondents also expect short- to medium-term returns (see chart above).

While climate change affects various companies in different ways, all companies will be impacted by today's increasingly environmentally aware consumer base. The democratization of information has the ability to rapidly influence the public's perception of a company's brand. Devising a strategy to address climate change, then, is essential in managing a company's reputation. More

investors and other stakeholders across all sectors are requesting transparent and comparable information about the impact of climate change and how companies are responding.

### **Climate and energy policy**

Companies in the United States face a major challenge in developing a comprehensive strategy to address climate change because of the lack of a national regulatory framework establishing a set of rules for the reduction of carbon-based emissions. Therefore, transparent and comparable reporting has been slow to develop. Although some US-based multinationals already are subject to various emissions programs and regulatory requirements (such as those in the European Union, Canada, and Australia, as well as certain regions within the United States), more uniform changes are on the horizon. The Obama administration and Congress

appear set to usher in significant reforms in US energy policy, including a new regulatory framework over greenhouse gas emissions.

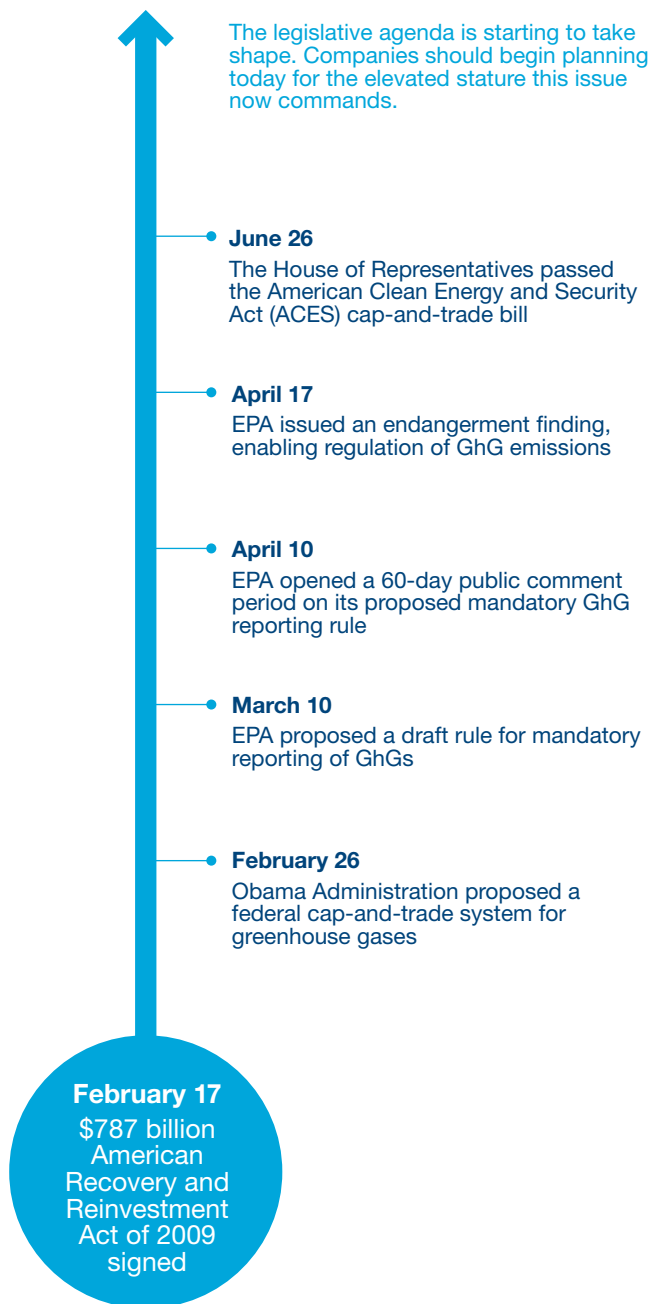
The Obama administration wants to ensure that climate science influences energy policy in a way that makes greenhouse reductions both possible and economically feasible. The American Recovery and Reinvestment Act of 2009, signed into law by President Obama on February 17, provides approximately US \$83 billion in tax incentives, loan guarantees, and government grants for investments in energy-efficient technologies and renewable energy programs—including clean technology sectors such as solar, wind, geothermal, landfill gas, and other resources, as well as weatherization programs. These incentives appear to be only a precursor to a more comprehensive US energy policy, with the climate change agenda expected to be a prominent component.

### **Emissions trading schemes**

Emissions trading schemes (ETS) may be government mandated or voluntary through a contract or accord and vary at the local, state, national, and international levels. They typically take the form of either a “cap-and-trade” scheme or “baseline and credit” scheme. In a cap-and-trade scheme, an overall emissions cap is set for a specified compliance period, and emissions allowances are allocated freely or sold to the scheme’s participants. Upon initial allocation, emissions allowances can be freely traded on the open market. At the end of the compliance period, the participants must remit allowances covering

their actual emissions to the relevant jurisdictional authority. Treatment of excess allowances varies by program, but generally these allowances can be sold in the market or may be banked for future use. In comparison, a baseline and credit scheme establishes a specific baseline emissions limit for each scheme participant. At the end of a compliance period, the participants that have actual emissions below their limit receive credits in the amount of the difference. Those who exceed their limit must purchase credits from those that were below to offset the excess emissions.

## Key developments in the US climate and energy policy in 2009



One of the platforms and goals of the administration is to show US leadership in post-Kyoto discussions at the December 2009 United Nations Climate Change Conference in Copenhagen. To further this objective, the federal budget released by the administration on February 26 proposes a federal cap-and-trade system for greenhouse gas emissions, under which emissions allowances could potentially be auctioned or freely allocated as early as 2012.

Congress has also taken up cap-and-trade legislation in a bill sponsored by Congressmen Henry Waxman of California and Edward Markey of Massachusetts.<sup>1</sup> The bill lays out a timetable calling for domestic carbon emissions to be reduced by 17% by 2020 and over 80% by 2050 compared to 2005 levels. It also requires that 20% of US power be produced by a combination of renewable energy sources and energy-efficient measures by 2020.

On June 26, by a vote of 219 to 212, the House of Representatives approved the bill. It will now move to the Senate for consideration. The bill's passage in the House is a significant sign of progress, but considerable hurdles remain before the bill is likely to be signed into law. The bill could run into opposition in the Senate, where strong geopolitical concerns from both Democrats and Republicans will need to be addressed.

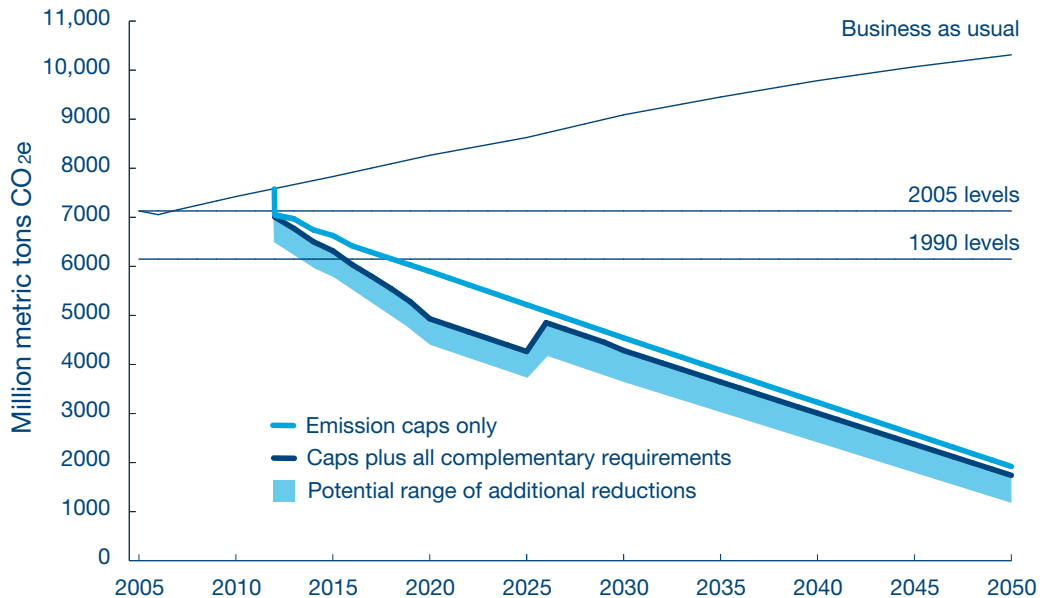
Although using cap-and-trade has long been viewed as more politically palatable than imposing a tax on carbon-based emissions, it is nonetheless possible that as the debate progresses on climate change, Congress could elect to impose a carbon tax as an alternative.

Legislative inaction on the issue of cap-and-trade does not preclude mandates to reduce greenhouse gases. On April 17, the

<sup>1</sup> H.R. 2454, the American Clean Energy and Security Act of 2009.

**Emission reductions under the Waxman-Markey  
Discussion Draft, 2005–2050**

April 22, 2009



Source: World Resource Institute

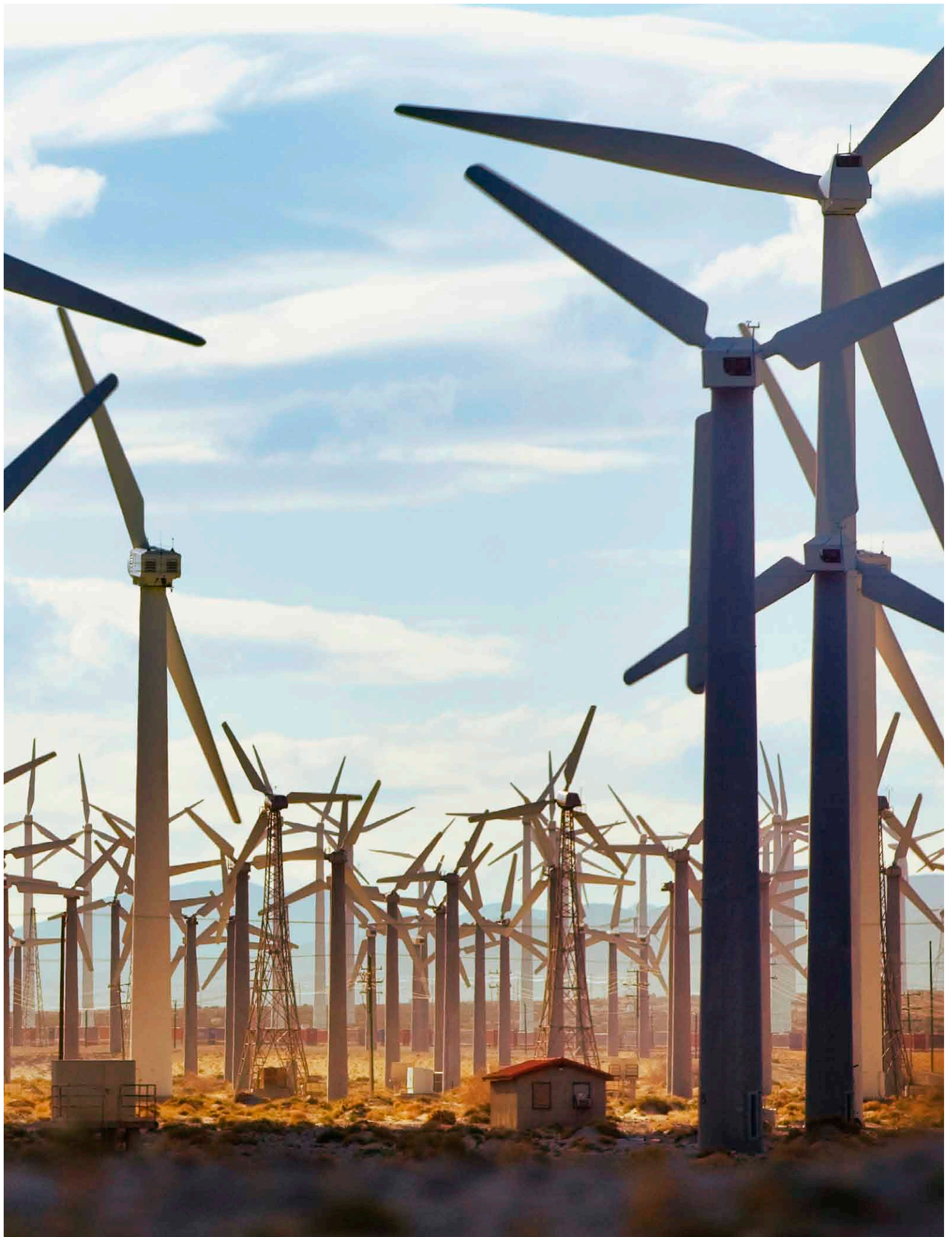
Environmental Protection Agency (EPA) issued an endangerment finding (in response to a 2007 Supreme Court decision requiring it to investigate the effects of greenhouse gas emissions) stipulating that greenhouse gas emissions are pollutants that endanger public health. Although new regulation is not automatically triggered by the finding, it will enable the EPA to regulate greenhouse gas emissions under the 40-year-old Clean Air Act. Such a move would not require legislative approval. The administration has stated its preference of congressional action to address climate change, but the finding is significant in that it provides the administration with bargaining power in

negotiations around the final provisions of climate change legislation.

Furthermore, the EPA on March 10 proposed a draft rule for the mandatory reporting of greenhouse gas emissions. The draft rule represents an initial step toward a comprehensive national system for reporting emissions of carbon dioxide and other greenhouse gases. It also establishes a mechanism for a baseline measurement that the US government will use to drive policy decisions on reductions in the years to come.

According to the EPA, the proposed rule<sup>2</sup> would apply to facilities that directly emit

<sup>2</sup> EPA "General Provisions—Proposed Rule: Mandatory Reporting of Greenhouse Gases," <http://www.epa.gov/climatechange/emissions/downloads/GeneralProvisions.pdf>.



GhGs and to suppliers of fossil fuels and industrial GhGs. The EPA has set forth source category criteria and carbon dioxide equivalent emissions thresholds that would determine the direct emitters and suppliers that must report under the provisions. An estimated 13,000 facilities, which account for approximately 85 to 90% of US emissions, will be required to comply.

Despite the difficulties associated with trying to fully anticipate the outcome of any new regulatory regime at this point, the legislative agenda is starting to take shape, and companies should begin planning today for the elevated stature this issue now commands. Those that have already seriously begun addressing climate change should reevaluate their positions and activities continuously. The risk of falling behind has simply become too great.

### How the deal market is responding

Historically, most deal activity related to climate change has been between investors and renewable energy developers. Investors would inject capital into a joint venture with a wind or solar energy developer, and returns would be supported, in part, by renewable energy-related tax benefits.

Until recently, the impact of climate change on the deal market, including mergers and acquisitions (M&A), capital-raising activity, and other transactions such as leasing and refinancing, was insignificant. However, because of the pending policy action and heightened stakeholder interest in climate change, companies in virtually every industry will need to think about its impact when executing a deal.

### Climate change can be a driver behind certain deals

Although climate change needs to be considered in any deal, it is now becoming one of the drivers behind certain deals, especially in heavy-emitting sectors—in anticipation of both demand for alternative energy and regulatory demands for emissions reductions. For example, in 2007, E.ON, the German integrated power and gas company, acquired the US assets of Airtricity, a wind farm developer, for US \$1.4 billion. In another significant deal, the Portuguese power company Energias de Portugal (EDP) sold a 25% stake in its wind power division, EDP Renovaeis, to a group of institutional investors for US \$2.8 billion.<sup>3</sup>

Another prominent case, in 2008, was that of CONSOL Energy, a large coal and gas producer, which reacquired<sup>4</sup> the previously spun-off CNX Gas Corporation as part of its energy asset diversification strategy. The president and CEO, J. Brett Harvey, explained how it was becoming increasingly apparent that carbon constraints will become a part of energy regulation in the United States. Such constraints pose challenges for all fossil fuels, he said, but would affect gas to a lesser extent than coal or petroleum.

“Substantially reducing carbon dioxide emissions produced when coal is consumed will become an essential predicate to its continued use,” he said. “From the CONSOL Energy stockholders’ perspective, increasing the portion of gas in our energy portfolio is a prudent step to manage the risk associated with carbon controls, because with its lower emissions, gas will become more valuable in the near term.”

<sup>3</sup> PricewaterhouseCoopers, “Renewables Deals 2008 Annual Review,” based on published transactions from the Dealogic M&A global database and the John S. Herold Inc. M&A database, December 2008.

<sup>4</sup> Consol Energy news release, <http://phx.corporate-ir.net/phoenix.zhtml?c=66439&p=irol-newsArticle&ID=1101131&highlight=>

Harvey has also stated that the integration of CNX Gas into CONSOL Energy is expected to result in cost savings and certain business synergies. As climate change regulation becomes more pervasive in the United States, this type of deal activity in which industrial enterprises look to capture operational and technological efficiencies, cost savings, or revenue growth through investments in renewable energy or energy-efficient technology is expected to increase.

**Climate change is also a component of acquisition strategy where businesses expect market disruption**

Businesses are seeking deals that enhance their ability to compete in a lower-carbon economy. When Porsche initially announced in 2005 that it would purchase a stake in Volkswagen and then ultimately became the majority stakeholder in 2008, many questioned Porsche's acquisition strategy. In his speech at the 2008 LA Auto Show, Klaus Berning, a member of Porsche's board, stated, "Our VW strategy is part of protecting Porsche. ... It is our guarantee that Porsche will remain Porsche."

Berning was alluding to the fact that the acquisition would allow Porsche to rely on Volkswagen's technology and considerable engineering capabilities to develop more efficient models for its vehicle lines. In the European Union (EU), there is a plan to limit auto-based carbon emissions in 2012, with penalties for those companies that exceed the threshold. Based on Porsche's current fleet, it would have to pay a penalty of approximately US \$517 million annually (€400 million). But as a result of this acquisition, Porsche is able to offset its fleet's high emissions with the more efficient and low-emissions VW line, as well as obtain

significant cost savings in developing new technology.

**All companies should recognize emerging trends in M&A and key issues for future deals**

Understanding how a target's business is affected by climate change should be an integral part of an acquirer's risk management strategy and the due diligence process. Financial institutions are already assessing the effects climate change may have on a business for which they are contemplating financing. Companies looking to complete an acquisition should do the same. In more and more deals, the potential impacts of climate change on earnings, cash flow, and target valuation, as well as any opportunities for cost reductions through synergies, will have to be thoroughly evaluated.

In anticipation of a federal cap-and-trade system, climate change considerations will likely be a key consideration in M&A activity. For example, companies that are likely to exceed a cap will look to acquire more energy-efficient companies or entities holding large portfolios of tradable rights that would enable them to offset their own emissions. M&A activity is also likely to be driven by companies seeking tax credits from renewable energy producers and other offsetting activities.

Furthermore, valuation is also likely to be a significant issue in renewable energy deals. The valuation of renewable energy development assets can vary considerably depending on the stage of the development and likelihood of commercialization of the pipeline (for example, wind, geothermal, or biomass generation). Companies are likely

to be less willing to pay for assets that are early stage and have not obtained the initial required consents. These factors not only can be overlooked in the diligence process, but also should be thoroughly assessed for valuation purposes.

### **More capital-raising transactions foreseen**

In addition to the increasing importance of carbon in M&A activity, capital-raising transactions can be expected to increase in the clean technology field. In 2008, several initial public offerings (IPOs) were made in the renewable energy and clean technology space, primarily in solar energy, such as those of GT Solar International Inc. and Real Goods Solar Inc.<sup>5</sup> It is becoming progressively more apparent that the public perceives clean technology companies as investments capable of generating a profitable return. Over the past two years, venture capitalists have made significant investments in the clean technology industry.

In 2008, venture capital clean technology investments reached US \$4.1 billion,<sup>6</sup> a 54% increase from 2007 investments of \$2.7 billion. Although through the first quarter of 2009 investment in clean technology was stagnant, it can be expected that with a more sensitive climate change regulatory environment, clean technology will continue to be an attractive investment once the economy recovers. With broader investor interest in the field, venture capital firms will be increasingly likely to seek exit from their investments through IPOs. Accordingly, the US IPO market should continue to serve as a source of capital needed to advance the “green revolution.”

Beyond the clean technology field, companies in a variety of sectors looking to raise capital in the public markets will need to consider the importance of disclosure around climate change–related risk. Inclusion of company-specific disclosure related to the risks posed by climate change, particularly in energy-intensive industries, may be warranted in registration statements. To maximize their ability to raise capital, companies must have a good understanding of climate change-related risks and form a view with respect to how they should be managed.

### **Reporting on climate change**

#### **A company should assess its accounting and financial reporting methods to understand the impact of climate change both on the diligence process and post-deal**

As issues surrounding climate change become increasingly material to investors and, therefore, to a company’s value, they can be expected to have a considerable impact on financial reporting. Furthermore, as the impacts of climate change on financial reporting rise in significance, investors, stakeholders, and regulators will demand greater transparency and comparability of companies’ financial information.

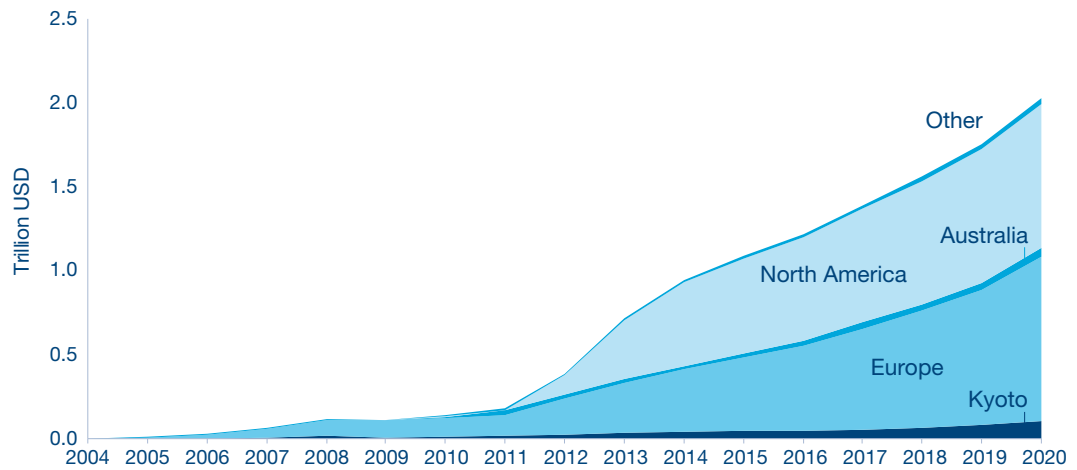
Worldwide, there has been rapid growth and expansion in various emissions trading schemes<sup>7</sup> aimed at reducing greenhouse gas emissions. This is likely to continue on an even greater scale as the Obama administration and Congress push forward with their plans for a federal cap-and-trade program.

5 Source: [www.IPOhome.com](http://www.IPOhome.com) (Real Goods Solar: offer price: US \$10—Offer Shares: 5.5mm; GT Solar: offer price: US \$16.50—offer shares: 30.3mm).

6 Point of view, “Cleantech Nation: Cleantech playing a central role in the national recovery agenda,” [http://www.pwc.com/images/us/eng/about/pov/PwC\\_PointofView\\_Cleantech.pdf](http://www.pwc.com/images/us/eng/about/pov/PwC_PointofView_Cleantech.pdf).

7 The most prominent of these schemes is the European Union Emissions Trading Scheme (EU-ETS) developed in response to the Kyoto Protocol, but others, such as the Regional Greenhouse Gas Initiative in the United States (which applies to 10 Northeastern and Mid-Atlantic states’ utilities) and the Western Climate Initiative, are also gaining strength. Further complicating some of these schemes are flexibility mechanisms that enable the generation of project-based credits that can be used as an emissions offset or sold on the open market. In addition, the generation of electricity through designated renewable energy sources can give rise to renewable energy credits that can impact the market.

## Potential growth in the carbon market 2004–2020



Source: New Carbon Finance

In connection with this growth, liquid markets have developed to facilitate ETS participants buying and selling emissions allowances to manage their carbon footprint. As a result of the increased liquidity, financial institutions, brokers, and other market participants are actively purchasing, selling, entering into forward contracts, and maintaining speculative portfolios with respect to these tradable rights. With the greater prominence of and participation in these programs, formal guidance to shape a comprehensive accounting and regulatory framework is critical.

Financial reporting<sup>8</sup> of emissions trading schemes is diverse in practice since no US or international standard or specific authoritative guidance exists. Emissions trading schemes impact diverse sectors with contrasting business activities: direct emitters that are subject to the regulations and may receive freely allocated emissions

credits; brokers and traders that are not subject to any regulation but facilitate increasing liquidity in the emissions credits marketplace by building a portfolio based on price speculation in regard to supply and demand; and other socially responsible corporations that may want to offset their carbon footprint.

The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) are undertaking a joint project, *Emissions Trading Schemes (ETS)*, to provide comprehensive guidance on the accounting issues related to emissions trading schemes. At the March 19, 2009, IASB Board meeting, initial recognition and measurement of tradable offsets that have been issued freely in an emissions cap-and-trade scheme were deliberated. The IASB Board decided that freely issued offsets meet the definition of an asset and should be measured at fair value;

<sup>8</sup> The Securities and Exchange Commission maintains the position that it would not object to an entity choosing either an inventory model or intangible asset model for its accounting for emission allowances, as long as the application was consistent. The Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts is the only source of official accounting and financial reporting requirements for interstate transmission of energy by utilities under its jurisdiction. The FERC requires entities to recognize emissions allowances on a historical cost basis and expense emissions allowances used on a weighted-average cost basis.

furthermore, the IASB Board decided that there is a performance obligation that an entity must fulfill to realize income from the offsets. Accordingly, a corresponding liability will also be recognized and measured upon initial allocation.

At the April 8, 2009, FASB Board meeting, the FASB Board did not come to the same conclusion. FASB Board Members directed the staff to conduct additional research to understand the interaction with other projects and standards since the accounting for assets and liabilities in an emissions trading scheme involved issues that are being discussed in the Boards' development of a joint conceptual framework and the IASB project to amend International Accounting Standard (IAS) 37, *Provisions, Contingent Liabilities and Contingent Assets*.

In the coming months, both Boards will further deliberate asset and liability recognition, impairment, subsequent measurement, timing of profit and loss recognition, financial statement presentation, and disclosure of ETS. Both the FASB and IASB have decided to scope the *ETS* project broadly to encompass all participants in emissions trading schemes, as well as nonparticipants that purchase and sell tradable rights.

Valuation of tradable offsets in an emissions trading program is another area where guidance is insufficient. Although those instruments that are exchange traded will clearly have market observable data that can be used for valuation purposes, illiquid instruments will require some type of valuation model that derives value based

on certain entity-specific assumptions. Accordingly, a risk exists that diversity in practice with respect to valuation methodology will develop.

### **Reporting to your stakeholders**

Because of the lack of authoritative guidance and consistency in application of accounting requirements and valuation, both financial and nonfinancial disclosures around climate change risks and financial reporting have become heavily requested and scrutinized by the public. The Securities and Exchange Commission (SEC), under certain provisions of Regulation S-K, addresses the disclosure of environmental liabilities, and US GAAP requires disclosure of significant risks and uncertainties that could have a material effect on a company's financial condition.

A 2008 investigation into the disclosures of publicly traded utilities by New York Attorney General Andrew Cuomo resulted in Xcel Energy and Dynegy entering into a settlement to provide detailed disclosures<sup>9</sup> of their climate change-associated risks in their annual SEC filings. Furthermore, the National Association of Insurance Commissioners (NAIC) recently mandated that property and casualty and health and life insurers with annual premiums exceeding US \$500 million disclose their exposure to climate change risks.

Investors and other stakeholders across all sectors, partially driven by heightened media scrutiny of business transparency, are increasingly requesting information on companies' strategies for sustainability and reduction of carbon-based emissions. The Carbon Disclosure Project (CDP),<sup>10</sup>

<sup>9</sup> The climate risk disclosures include an analysis of the following: the potential impact of present and probable future climate change regulation and legislation; climate change-related litigation; physical impacts of climate change; current carbon (or greenhouse gas) emissions; projected increases in carbon emissions from planned coal-fired power plants; company strategies for reducing, offsetting, limiting, or otherwise managing its global warming pollution emissions and expected global warming emissions reductions from these actions; and corporate governance actions related to climate change, including whether environmental performance is incorporated into officer compensation.

<sup>10</sup> The Carbon Disclosure Project is an independent, not-for-profit organization that holds the largest database of corporate climate change information in the world. The organization's mission is to collect and distribute high-quality information that motivates investors, corporations, and governments to take actions to prevent dangerous climate change. (Source: <http://www.cdproject.net>).



supported by 475 leading institutional investors representing more than US \$55 trillion in assets under management, has sought information from more than 3,000 of the world's largest corporations regarding climate change-related risks; emissions accounting; carbon management opportunities; and corporate governance.

Nearly half of S&P 500 companies say they are now disclosing greenhouse gas emissions to their stakeholders. The 2008 proxy season alone saw a record 57 shareholder resolutions related to climate change,<sup>11</sup> nearly double the number of resolutions in 2006. Furthermore, investors, state officials, and environmental groups have petitioned<sup>12</sup> the

SEC to require publicly traded companies to assess and fully disclose their financial risks from climate change.

US companies are beginning to factor climate change into their assessment of financial well-being, future business opportunities, and risks. Climate change has become an investment theme in carbon-tilted bond indexes and public equity portfolios and a major opportunity in private equity. In addition, the Dow Jones Sustainability Indexes,<sup>13</sup> launched in 1999, are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide.

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<sup>11</sup> <http://www.ceres.org/Page.aspx?pid=428>.

<sup>12</sup> <http://www.incr.com/Document.Doc?id=187>.

<sup>13</sup> <http://www.sustainability-index.com/>.

What this means for your business

Take a proactive stance now:  
Factoring climate change  
into your business models  
and practices can help  
unlock value.

Climate change and sustainability are becoming key drivers in organizations' operations and profitability. The trends carry significant implications for deal makers looking to capture added value from an acquisition, divestiture, or capital-raising transaction or for companies seeking to better engage with investors or stakeholders.

Certainly, financial institutions are assessing how climate change affects the businesses they plan to finance, and companies looking to complete an acquisition should follow suit. New laws and growing stakeholder interest in the subject are forcing industries to factor climate change into every deal, and understanding the impact of new policies should be part of short- and long-term strategy. For those companies contemplating a transaction, the ways in which climate change can affect deal value should be thoroughly understood.

With the strong commitment from government and regulatory authorities to address disclosure and financial reporting around these issues, companies cannot afford to ignore them any longer. They must start to ask themselves how climate change is relevant to their businesses and to develop an effective response. Business as usual means risk, such as penalties, less profitability, and damaged reputations. Falling behind also will result in missed opportunities for growth.

In short, companies must focus on the qualitative and quantitative impacts of climate change on their businesses. Inaction is no longer an option. Political momentum will create more regulation, and businesses that capitalize on the opportunities not only will fine-tune their operations, but also will most likely succeed where others fail.

[www.pwc.com](http://www.pwc.com)

To have a deeper discussion about the implications of climate change risk on your organization's diligence process and financial reporting, please contact:

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