Managing Environmental Liabilities During Acquisitions

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Sustainability – Risks and Opportunities for Polish Financial Institutions

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RISKS MANAGEMENT FACES DURING AN ACQUISITION

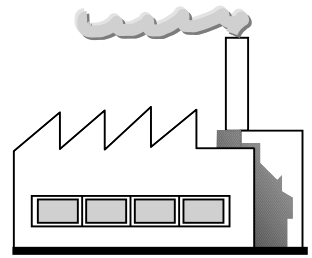
- Talent retention
- Organizational resistance
- Unexpected cash outflow
- Data security
- Contingent liabilities
- **Environmental liabilities**

Focus of our discussion

Source: CII Group

TYPES OF POLLUTION AND TARGETS THEY AFFECT

CONCEPTUAL



Now

Past → **Future**

Target

Site specific
- Soil
- Ground water
- Workers

Type 2

General environment
- Topsoil
- Water
- Human

Type 3

- Air pollution
- Water pollution
- Solid waste

Type 1

LEVEL OF AWARENESS OF INVESTORS DURING TRANSACTIONS

		Tom's subjective judgment
Type 1	**Current pollution**	• Generally an area that one expects lawyers to check during due diligence • Financial modeling might include some capex to reduce emissions
Type 2	**Site specific past liabilities**	• Very rarely a deal killer. Full site environmental audits might be done – although not common, and if so usually just a screening and not an audit • Liabilities rarely included in financial models
Type 3	**Off-site past liabilities**	• Not usually discussed

PROBLEMS IN VALUING AN ENVIRONMENTAL LIABILITY

CONCEPTUAL

Environmental damage occurs

Identify damage → **~~Determine legal definition of clean~~** → **Choose remediation technology** → **Value of liability**

- In Central and Eastern Europe soil contamination laws are not as robust and stringent as in the West
- Management generally not trained to deeply understand this issue

- Environmental ”liabilities” do not exist
- In order to estimate the value of an environmental liability, assumptions need to be made about what future standards will be

Source: CII Group