Managing Environmental Liabilities During Acquisitions

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
- Air pollution
- Water pollution
- Solid waste

Type 1

Type 3
- Topsoil
- Water
- Human

General environment
LEVEL OF AWARENESS OF INVESTORS DURING TRANSACTIONS

- **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

Identify damage  Determine legal definition of clean  Choose remediation technology

- 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