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76 percent of ASX Top 200 companies' carbon exposure hidden

Business must act now to get full picture by 2010

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New research released today on the indirect emissions risk of S&P ASX 200 companies, reveals that on average, direct emissions account for only 24 percent of a company's overall carbon emissions risk.

The research, released by climate change research firm RepuTex, reveals that on average, scope 1 (direct) emissions constitute only 15 percent of a company's entire value chain emissions risk. Scope 1 and scope 2 (electricity consumption) emissions collectively are on average only 24 percent of a company's total emissions exposure, the balance attributed to upstream and downstream supply chain emissions. Research was carried out on S&P ASX 200 companies.

Head of Research at RepuTex, Hugh Grossman, said that companies and analysts that assess only direct emissions may be ignoring significant indirect effects and liabilities due to the passing on of costs by upstream suppliers.

"While direct emissions determine a company's liability under the Australian CPRS, research indicates that most companies have less than 24 percent of their total carbon footprint represented by scope 1 and 2 emissions. Instead, the majority of emissions risk (76 percent) is found either upstream or downstream.

"The introduction of the CPRS will inevitably result in the passing on of direct costs by companies to their end markets. If the average Australian company has 76 percent of its emissions exposure attributed to its upstream and downstream supply chain then we are likely to see carbon liabilities having a significant impact on the cost structures of many companies," he said.

RepuTex and KPMG have a strategic alliance to provide businesses with the in-depth level of detail required to assess their total carbon exposure and develop and implement an appropriate business response.

KPMG's Head of Sustainability, Climate Change and Water practice, Jennifer Westacott, said "If there is one message that this research sends it is that Australian companies need to begin to understand and assess their total exposure to carbon now before the CPRS commences in 2010.

"Even companies that are not high direct emitters such as financial institutions and property businesses need to act now as they may be blind to the significant carbon liabilities that lie for them in their downstream profile.

"Only five percent of the financial sector's carbon footprint is attributed to their direct emissions, 95 percent of their carbon risk lies in downstream emissions through their investment/ lending portfolios. Financial institutions are directly exposed to asset

underperformance and concerns over credit worthiness as increased costs flow through the market.

“Financial institutions that lend to, or invest in, highly carbon intensive companies could be exposed to loan defaults and loss of other investments if their risk management infrastructure including risk grading models and portfolio limits fail to incorporate a carbon intensity filter,” said Ms Westacott.

RepuTex research indicates that over 91 percent of the S&P ASX 200’s direct CO₂e emissions come from four sectors; Materials, Industrials, Utilities and Energy. The interaction between these sectors and companies downstream is therefore likely to represent a significant cost to companies depending on each firm’s specific value chain profile.

When scope 1, 2 and 3 emissions are consolidated, RepuTex research indicates that Energy, Property, Materials and Industrials sectors have the highest overall carbon intensity. The Property sector in particular standing out due to its high downstream exposure (91 percent) as a result of indirect emissions through the life of a building arising from heating, cooling, ventilation, hot water, lighting and refrigeration.

Consumer Staples and Consumer Discretionary as well as Health Care, Telecommunications and Information Technology sectors all demonstrate a high exposure to upstream supply chain emissions due to the input of emissions intensive materials, logistics and supplier exposures.

“All Australian companies are in some way exposed to direct or indirect costs under the CPRS. The challenge remains for companies to break down their value chain emissions, identify their points of obligation and quantify their competitive position.

“Without this sort of information firms are unable to accurately identify and value carbon impacts, or pursue the most cost effective carbon mitigation strategies,” said Mr Grossman.

The research paper *“The Hidden Carbon Risk of Australian Companies”* assesses the emissions intensity (tonnes of CO₂e per million dollar revenue) of S&P ASX 200 sectors across the entire value chain, examining scope 1 (direct), scope 2 (electricity consumption) and scope 3 (supply chain) emissions.

For the first time, research breaks down scope 3 supply chain emissions into ‘upstream’ and ‘downstream’ emissions, enabling more detailed analysis of where companies are likely to be impacted, directly or indirectly, by the CPRS and the flow-on costs of carbon.

About RepuTex (www.reputex.com.au)

RepuTex is a leader in the field of quantitative carbon analysis and modelling. The company has developed world-class emissions modelling capabilities built on rich databases and systems for analysing the emissions of Asia Pacific economies.

The company provides data solutions to assist companies and financial institutions quantify new exposures such as emissions, water and physical risk.

With offices in Melbourne, Hong Kong and Shanghai, RepuTex has established itself as a pioneer in the quantitative measurement of new risks, applying its research for top tier consulting and accounting firms, top 100 corporates, local and international fund managers and broking houses.

The company is chaired by Mr Graeme Lee, former Managing Director of Standard & Poor’s Australia.

About KPMG's Sustainability, Climate Change and Water practice

KPMG's Sustainability, Climate Change and Water practice provides a comprehensive suite of services to assist Australian businesses create value and competitive advantage in a carbon-constrained world. A dedicated team with diverse and deep experience provides a range of services including carbon health check, climate change response strategies and carbon auction permit simulation.

For further information please call:

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