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CLIMATE CHANGE ERODING ASX 200 VALUE

Melbourne, Australia. Overall, Australia's top 200 listed companies (ASX200) are unprepared to mitigate risks posed by climate change – and this is impacting financial value and performance, according to new research released today by investment research and ratings firm, RepuTex.

For the first time RepuTex research shows:

- Only 20 per cent of Australia's top 200 companies are positioned to manage climate change risk.
- A direct correlation between a company's level of preparedness and its financial performance on the stock market.

In its white paper, "*Identifying carbon value: The Carbon Responsiveness of ASX 200 Stocks*," RepuTex analyses the impact of macro economic factors such as regulatory and physical risk, along with each company's management response through effective strategy, such as energy efficiency and technology adoption.

Head of Research at RepuTex, Hugh Grossman, said that although business leaders acknowledge the rules of the game are changing as the world moves to a low-carbon economy, many companies are yet to fully understand the financial impact of carbon risks and opportunities on their competitive position and bottom line.

"Climate change is no longer purely an environmental risk issue, but a significant opportunity for the corporate and investment communities.

"Australian companies must understand their carbon risk and quantify bottom-line impacts in order to remain competitive as new drivers—such as carbon intensity, energy efficiency and credit generation capacity—begin to impact company value.

"For investors, understanding a company's capacity to deal with these risks and maximise opportunities is the most important means of identifying company value and growth," he said.

RepuTex's Carbon Valuation Model values companies on a scale from -1 (low) to +1 (high). In its evaluation of the ASX 200, RepuTex's research shows that Australian companies are unprepared overall, with the market average valuation standing at negative 0.08.

A positive rating indicates that a company has the risk management strategies in place to respond to carbon risks, and is positioned to deliver value to shareholders.

"The overall negative valuation shows that Australian companies are unprepared to mitigate carbon liabilities or capitalise on potential revenues," said Mr Grossman.

"A lack of understanding of the impact of carbon risk on company value is resulting in an oversight of significant risk, as well as missed opportunities, for both companies and investors.

"Our research shows that companies that receive a positive valuation have outperformed ASX benchmarks. For example, the RepuTex Climate Change Growth Index, consisting of positively valued stocks, has outperformed the S&P/ASX 300 Index by 11.37 per cent over the last three years ending 12 November 2007 (total returns), and 11.96 per cent year to date.

"The significance of these findings is that despite the recent hype on climate change, the Australian market is still quite immature. Company performance represents a considerable risk for the market, yet conversely also presents an opportunity for astute investors and business leaders who are able to take early action," said Mr Grossman.

KEY CONCLUSIONS

Overall, Australia's top companies are unprepared to mitigate risks posed by a low carbon economy or realise associated opportunities, according to new research by RepuTex ratings and research firm.

- The overall RepuTex Carbon Valuation for ASX 200 stocks is -0.08, illustrating that companies are unprepared to mitigate carbon liabilities or capitalise on potential revenues.
- Only 20 per cent of ASX 200 companies have positive RepuTex Carbon Valuations. Within this group only 3.5% are considered "growth leaders".
- The Materials and Financial sectors are leading the pack and have best anticipated carbon risks, while the Utilities and Energy sectors are the worst prepared.

RepuTex research shows that a correlation exists between a company's level of preparedness to operate in a carbon economy and its financial performance on the stock market.

- According to RepuTex research, companies with a positive RepuTex Carbon Valuation ranking are outperforming both low valued stocks and local ASX benchmarks.
- The RepuTex Climate Change Growth Index, consisting of positively valued stocks, has outperformed the S&P/ASX 300 Index by 11.37 per cent over the last three years ending 12 November 2007 (total returns), and 11.96 per cent year to date.

A company's level of preparedness is based on the effectiveness of its internal risk management strategies and its capacity to take advantage of profit opportunities.

- RepuTex's *Carbon Valuation* Model analyses carbon macro economic factors such as regulatory, physical and geo-political exposure, along with the capacity of management to offset and leverage exposure via specific strategy, such as energy efficiency, improved carbon dependence and adoption and investment in technology.
- Although an industry may be carbon intensive, its overall contribution to climate change may vary according to the size of the industry within the market.
- The Utilities sector has the highest carbon intensity, yet only represents 3.41% of the ASX 200's contribution to the carbon footprint. Conversely the Materials sector has lower carbon intensity, yet it represents 26.2% of the ASX contribution to the carbon footprint.
- Highly exposed sectors, generally those with a high carbon intensity have the greatest value to be gained by managing risk and maximising opportunities.
- Given the potential scope for an Australian Emissions Trading Scheme (ETS) to include only large direct emitters, currently only four industries (Energy, Utilities, Materials, and Transportation) would face a real EBITDA impact risk should the carbon price be set at \$15 per tonne.
- A carbon price signal of more than \$40 per tonne has major implications on these industries, as impact on EBITDA could range from 10% to 18%.
- Should the ETS be expanded to include both high carbon emitters and large indirect contributors, there would be significant financial consequences for sectors such as Real Estate, Banks and Capital Goods.

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About RepuTex

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RepuTex is Australia's leading investment research and ratings firm, specialising in emerging risks such as carbon, energy and geopolitical and governance issues for the investment and corporate sectors.

Established in 1999, RepuTex has offices in Melbourne, Shanghai and Hong Kong and has ratings in the market for over 2,000 companies globally, covering the MSCI World Index, the S&P ASX 300, the CSI 300 (China A Class) and H class and Red Chip stocks in Hong Kong.

RepuTex is chaired by Mr Graeme Lee, former Managing Director of Standard & Poor's Australia. The company employs over 30 analysts globally.

RepuTex delivers its research to the investment community via a range of products including its family of Indices, and the REXmetrics[®] platform which distributes "real time" risk data to brokers, analysts and fund managers globally.

RepuTex analysis is made available to corporate clients through a range of reporting options.