

Achieving a Strong ROI On Your Environmental Expenditures

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Understanding the Cost of Your Company's Approach to Managing Environmental Cleanup Liabilities

Presented by:

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Erhardt directs the Guaranteed Business Solutions program at ARCADIS U.S., Inc. He works with Fortune 500 companies, federal and state governments, and the Department of Defense to develop business solutions that provide financially-attractive approaches to resolving environmental liabilities. Erhardt lectures extensively throughout the U.S. and Europe on topics relating to environmental risk elimination through performance-based contract models, accelerating the current process for driving impaired properties to productive reuse and providing the assurances necessary to utilize the redevelopment value of properties to finance or offset their clean-up costs.

A review of environmental remediation expenditures and accruals in SEC filings suggests that many firms are executing a “compliance” strategy rather than a “closure” strategy. The compliance approach seeks to minimize near-term costs by maintaining compliance rather than resolving environmental cleanup liabilities. It’s a status quo strategy that does little to reduce long-term legal obligations or the latent risks associated with lingering pollution conditions. In contrast, a more aggressive closure approach seeks to mitigate environmental risks and close sites in a manner that minimizes life-cycle costs.

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There are two problems with the compliance strategy. First, it allows contaminated sites and related environmental conditions to remain unresolved for an extended period of time. Experience has shown that the longer impacted sites remain open, the greater the likelihood that expensive unforeseen problems will arise to continue to plague them. Second, although the compliance strategy may minimize near-term cash outlays, it provides little or no economic return. By analogy, companies continue to make ever increasing interest payments on a debt without ever reducing the principal. For most sites, only a closure strategy can achieve the best return.

The compliance strategy has a financial accounting corollary: measuring environmental liabilities based on budgeted compliance costs. Rather than reflecting expected life-cycle costs to resolve the company's long-term legal obligations, reported reserves for remediation liabilities often reflect only a fragment of future compliance costs. Consequently, environmental liabilities reported in SEC filings can significantly understate the actual economic value of these claims on company assets.

As the U.S. transitions to International Financial Reporting Standards (IFRS) and "fair value measurement" of environmental liabilities, companies will be required to factor uncertainty about future outcomes into cost estimates using expected present value techniques. The result will be estimates that more closely reflect the actual economic cost to close sites and resolve legal obligations. The increased transparency accompanying these changes will further underscore the serious flaws of the compliance strategy.

TODAY, SAVVY CFOS ARE SEEKING TO BETTER UNDERSTAND:

- The cost of their company's current accounting and remediation policies (compliance mode vs. closure mode):
 - » ROI for remediation expenditures
 - » Magnitude and expected duration of continuing charges against earnings
- The life-cycle costs of environmental liabilities under the current management approach
- Strategies to reduce life-cycle costs
- Implications of IFRS and fair value measurement on debt-to-equity ratios
- Ways to transition away from the compliance approach within existing budgetary and financial reporting constraints

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These uncertainties are clarified in programs like the ARCADIS Guaranteed Remediation Program (GRiP®), which has been developed and enhanced over last 15 years. A GRiP offering commits ARCADIS to resolving remediation liabilities for a fixed price—no change orders—guaranteed. Moreover, ARCADIS' GRiP focuses on closing sites as quickly as possible in order to eliminate lingering risks and minimize life-cycle costs. Not all sites with environmental impacts are well suited for a guaranteed remediation solution, but, for the many that are, you should expect the following benefits:

- A guarantee to obtain closure that:
 - » Is not conditioned by the amount of available insurance
 - » Protects against unknown conditions (presence of previously undetected contaminants; contamination at greater than reported levels)
 - » Protects against changes in regulatory standards (more stringent cleanup levels)
- Cost savings based upon the expected present value of cleanup costs
- No risk transfer premium for the guarantee to obtain closure

If you would like to speak to an ARCADIS expert who can help you develop a closure focused strategy for your company's environmental cleanup liabilities, please call Brian Ribke at 888.245.6154 or email Brian at brian.ribke@arcadis-us.com

For more information about GRiP, visit www.arcadisGRiP.com

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