

Industry Trends & Opportunities for Collaboration

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Working Together, Advancing Efficiency

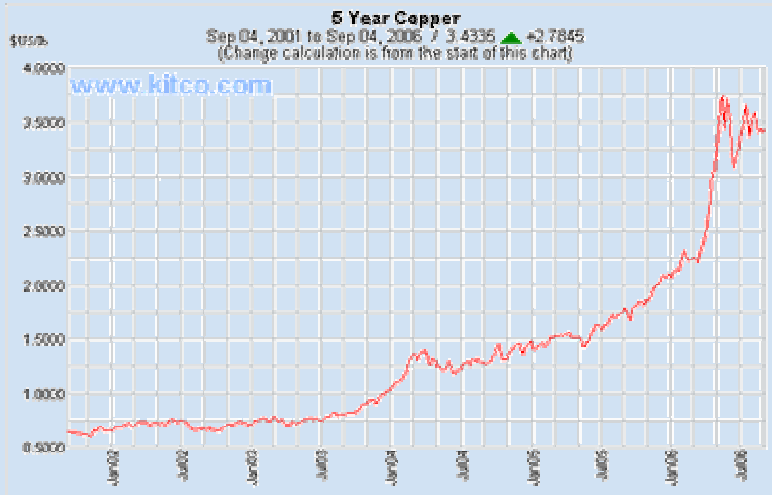
Macroeconomic Forces

- Run-ups in commodity and fuel prices
- Rising interest rates
- Concerns about increased inflation



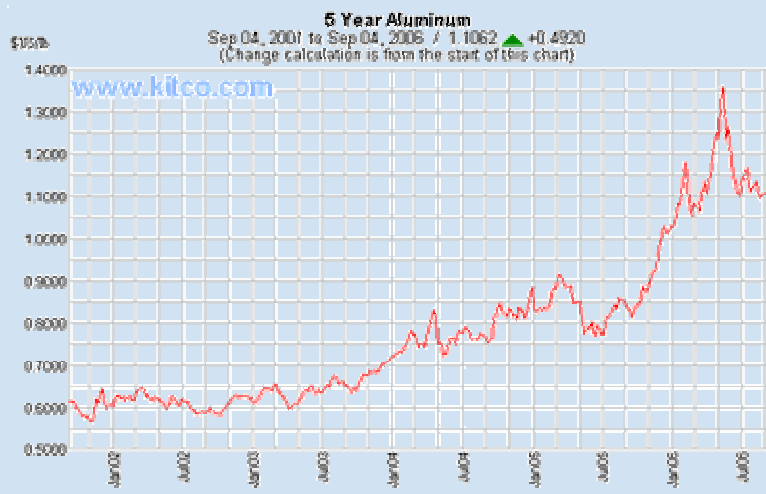
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Copper



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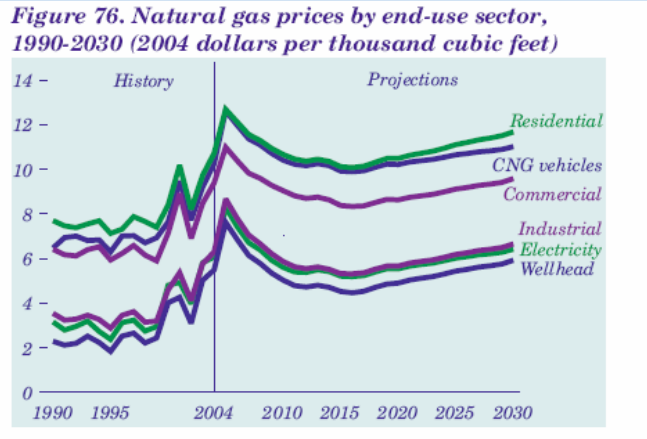
Aluminum



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Natural Gas

- Prices expected to remain above historical levels



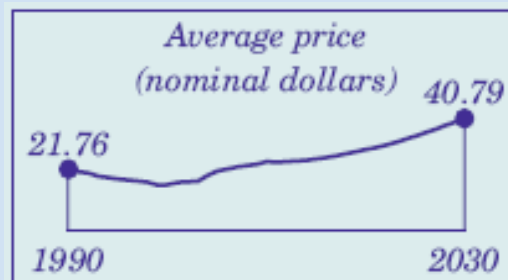
Source: EIA



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Coal

- Anticipated slow but steady rise after a decade of declines



Source: EIA



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Macroeconomic Forces

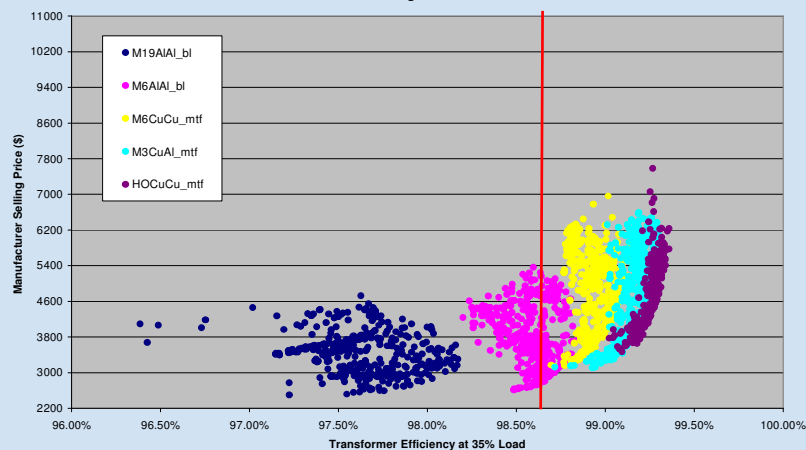
- Implications of trends
 - Increased awareness & concern about cost of product operation
 - Greater demand for high efficiency products
 - Higher commodity prices and additional materials necessary to produce products means higher prices for certain high-efficiency products



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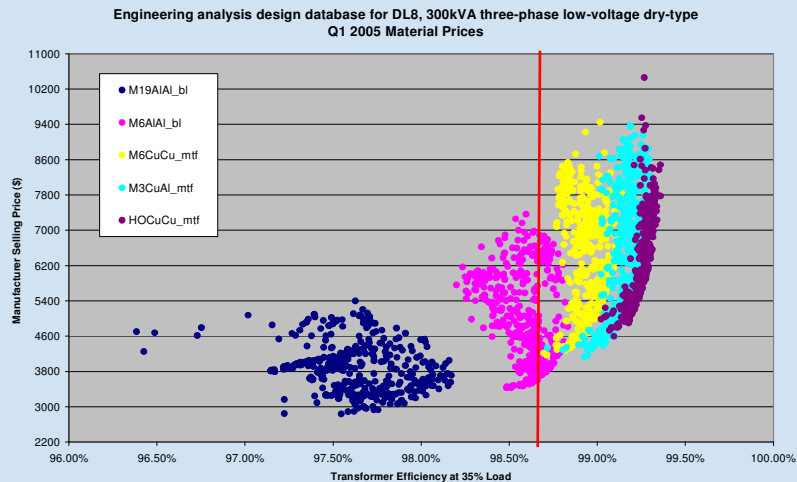
Example: Avg. Transformer MSRP, 2000-2004 Material Prices

Engineering analysis design database for DL8, 300kVA three-phase low-voltage dry-type
2000-2004 Average Material Prices



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Example: Avg. Transformer MSRP, Q1 2005 Material Prices



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Globalization: Economic

- Prices are set in global markets; internet leading to increasing price transparency
 - Expect prices for manufactured goods to remain highly competitive even as raw materials costs rise
- To stay competitive, manufacturers will have to differentiate goods on more than just price
 - Efficiency can be a goods differentiator



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Globalization and Emerging Markets

- Major market growth is occurring in less developed countries (LDCs)
- Potential for time compression of market sophistication due to internet may mean LDCs will also look for non-price differentiators
- Efficiency is a ripe area for innovation & product distinction
 - ENERGY STAR® label is already positioned as global efficiency standard



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Greening of Consumer Industries

- Retailers expect consumer environmental concerns to be a significant driver of retailing trends in the next decade
 - Already evident in US & Europe
 - Possibly in LDCs as growing middle classes meet their basic needs, begin to value the environment
- Manufacturers can respond by linking product efficiency with environmental stewardship and leadership



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Greening Across Commercial & Industrial Sectors

- Drivers of greener business
 - Shareholder demands for more environmental accountability
 - Getting ahead of the curve on emissions
 - Desire to distinguish from competition
- Commercial/industrial customers expect suppliers to get on board
- Producing & promoting efficient goods . . .
 - Helps customers green while saving money
 - Paints manufacturers green



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Political/Regulatory Pressures Related to Global Warming

- States are moving ahead with their own efforts to establish CO₂ markets & limit production
- Should lead to more attention to energy consumption at all levels of use
- Likely results
 - Increased funding for energy efficiency programs
 - Increased demand for high-efficiency products across all categories



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Alternative Energy Sources

- Some states are subsidizing household & business energy independence through use of alternative fuels
- High efficiency can be especially important with alternative fuels
 - For residences & businesses going off grid, it's cheaper & more reliable to buy more efficient products than to add generating capacity



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