

EUROPE AND CENTRAL ASIA (ECA)
INTEGRATED ESG STANDARDS PROGRAM

TRAINING OF TRAINERS REPORTING ON PERFORMANCE

June 23, 2021

Jerome Lavigne-Delville, Senior Consultant, IFC



Creating Markets, Creating Opportunities

IN PARTNERSHIP WITH:

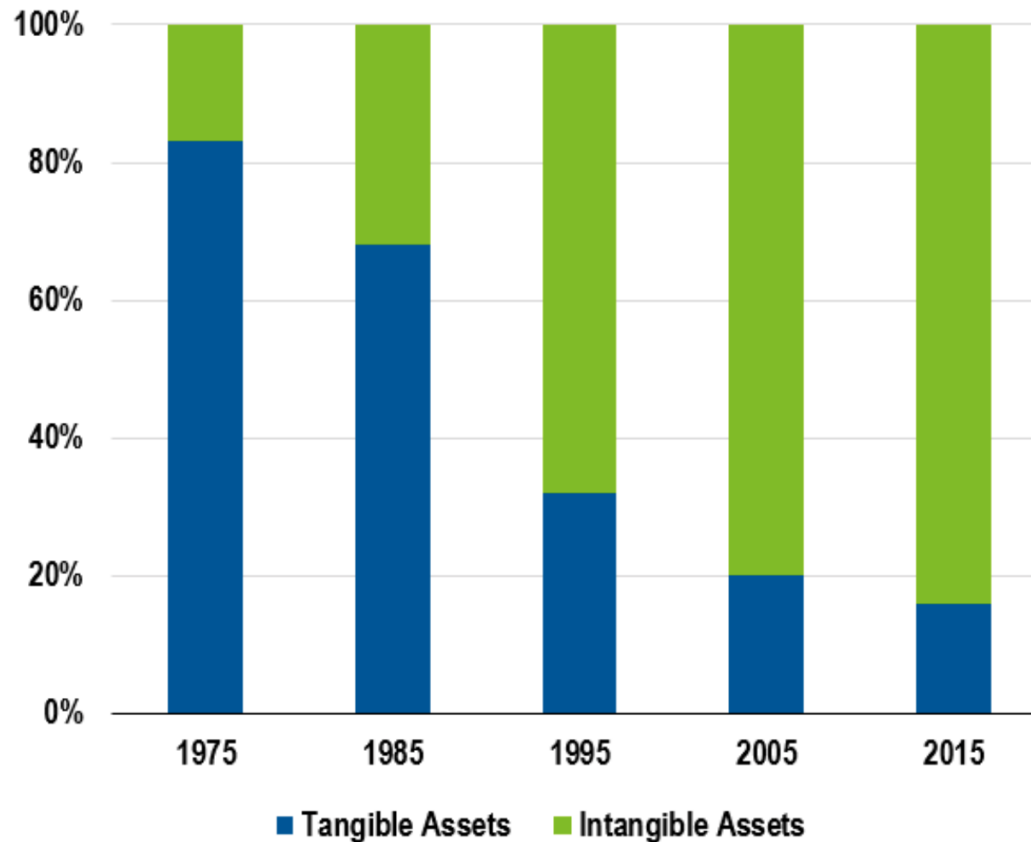


Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

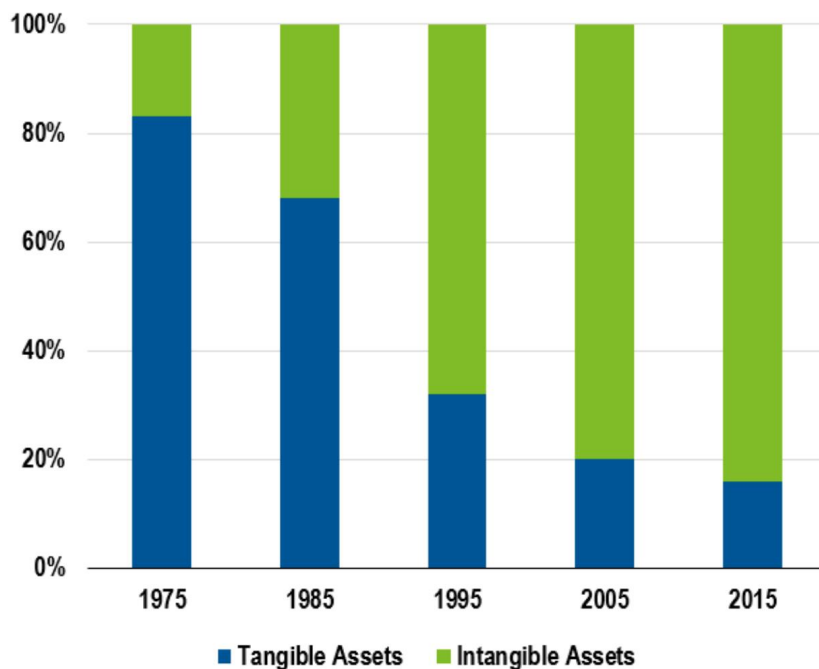
Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

Today, it is estimated that **~80%** of the value of publicly listed companies is attributed to **intangible value!**



Many suggest that **ESG** accounts for a large part.

Intangible Assets Drive Market Value Today



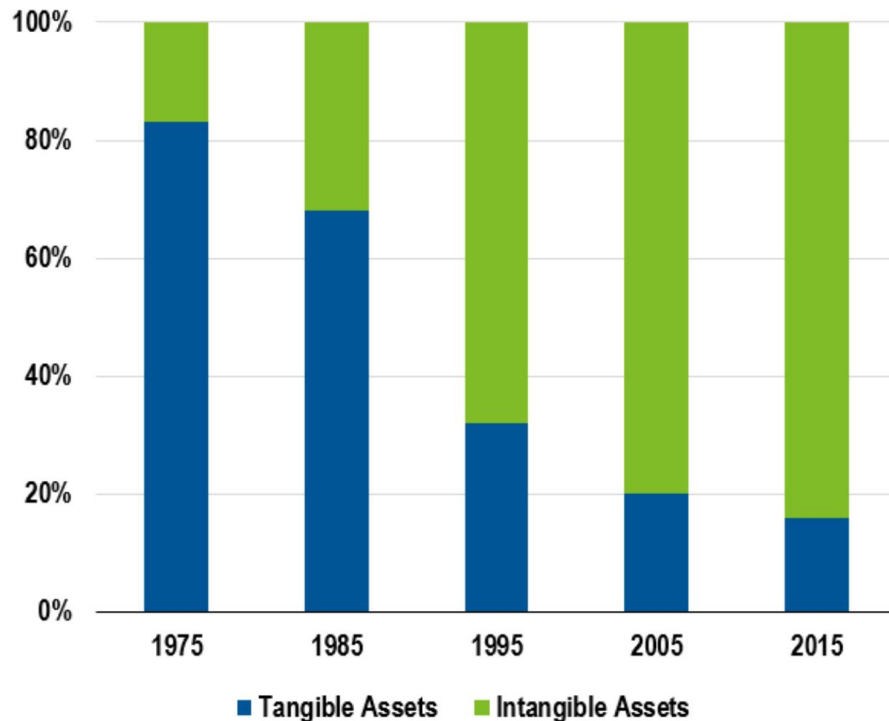
- Brand value (price premium, brand awareness)
- Reputation (social media profile, opinion research)
- R&D pipelines (# patents)
- Customer satisfaction (retention, loyalty programs, boycotts)
- Health and safety record (incidents, accidents, near misses)
- Environmental performance (pollution, penalties, fines)
- Social licence to operate (production delays, cost overruns, labour protests)
- Governance (board composition, bribery, ethics charges)

Source: Ocean Tomo, "Ocean Tomo's Intangible Asset market Value Study," 2015. Most recent data available.

This is confirmed by the **rising interest of**
investors in ESG performance data.

ESG A DRIVER OF INTANGIBLE VALUE

Intangible Assets Drive Market Value Today



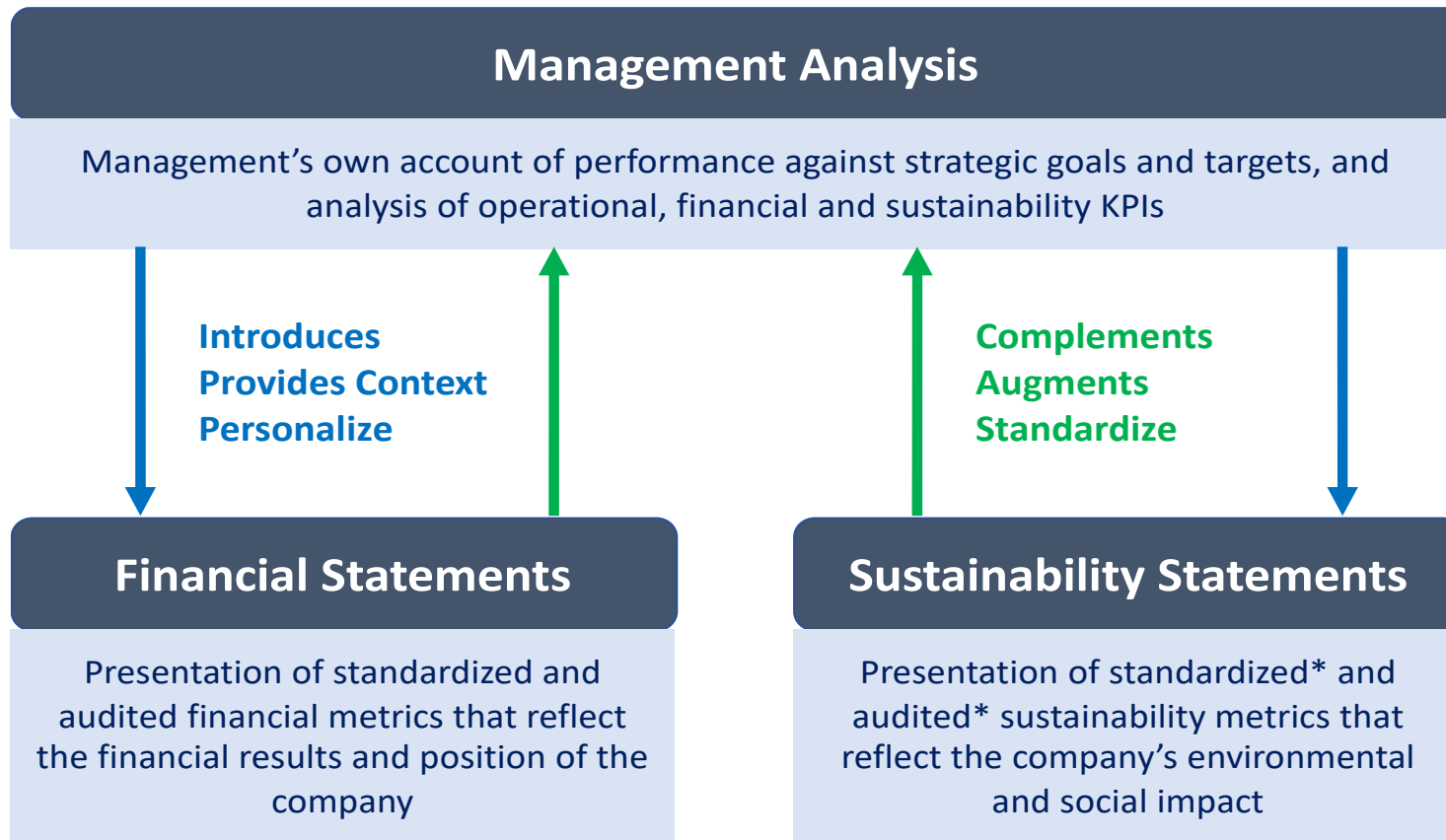
- Brand value (price premium, brand awareness)
- Reputation (social media profile, opinion research)
- R&D pipelines (# patents)
- Customer satisfaction (retention, loyalty programs, boycotts)
- Health and safety record (incidents, accidents, near misses)
- Environmental performance (pollution, penalties, fines)
- Social licence to operate (production delays, cost overruns, labour protests)
- Governance (board composition, bribery, ethics charges)

Source: Ocean Tomo, "Ocean Tomo's Intangible Asset market Value Study," 2015. Most recent data available.

PERFORMANCE REPORTING



WHAT IS PERFORMANCE REPORTING?



* The field of accounting for, and auditing sustainability performance is in a stage of experimentation with multiple existing standards and new ones being developed.

EXAMPLE

Sustainability Highlights

Asahi Group Integrated Report 2019

Environment

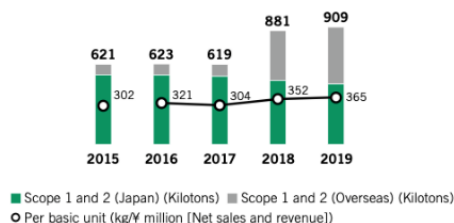


Climate Change Response Measures

CO₂ emissions

909,000 tons

With the establishment of Asahi Group Environmental Vision 2050 in 2019, the Asahi Group defined a list of environmental issues to be addressed, one of which was climate change. We have declared our endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures and are examining initiatives such as analyzing climate change-related opportunities and risks and response measures.



1. The targets of overseas Scope 1 and 2 are Oceania for 2015–2017; Oceania and Europe for 2018; and Oceania, Europe, and Southeast Asia for 2019.
2. CO₂ emissions per basic unit for 2016 onward were calculated using revenue in accordance with International Financial Reporting Standards (IFRS).

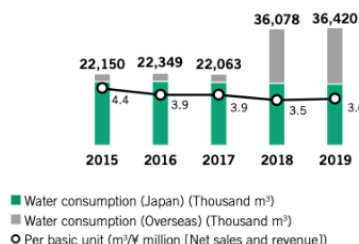


Sustainable Water Resources

Alcohol Beverages and Soft Drinks businesses
Basic unit of water consumption

3.6 m³/kl

We are working to reduce water consumption by cutting back on water use at manufacturing bases and promoting the reuse of water. At the same time, we seek to minimize the environmental burden associated with water intake and exhaust.



- Notes: 1. From 2017, the scope of calculation was expanded to include Japan and overseas (Oceania) companies.
2. From 2018, the scope of calculation was expanded to include Japan and overseas (Europe and Oceania) companies.
3. From 2019, the scope of calculation was expanded to include Japan and overseas (Europe, Oceania, and Southeast Asia) companies.

Human Rights and Human Resource Management



Human Resource Development

8 countries
1,036 people

Numbers of countries and people participating in Engagement Survey

In 2019, an Engagement Survey was implemented at Asahi Breweries Europe Ltd. and Asahi Holdings (Australia) Pty Ltd. In 2021, we plan to issue a standardized Engagement Survey on a Group-wide basis.

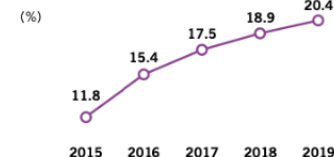


Promotion of Diversity

Ratio of female managers

20.4 %

We have specific goals for promoting the success of female employees at each major operating company, and we are advancing initiatives for accomplishing these goals. As a result of these efforts, the ratio of female managers has been increasing steadily and a female, non-Japanese outside director was appointed in 2019.



Respect for Human Rights

Number of participants in human rights training

372 people
(Group companies in Japan)

In 2019, we advanced training on human rights policies and LGBT sensitivity training for managers in the human resources and general affairs divisions of Group companies in Japan as well as universal manner training open to voluntary participation, with the aim of achieving the goals of the Asahi Group Human Rights Principles established in May 2019. The scope of employees taking part in these training programs will be expanded going forward to foster understanding regarding human rights among employees.

EXAMPLE

Sustainability Statements

Royal DSM Sustainability Report 2019

Sustainability statements – Planet

	2019	2018	2017	2016	2015
Energy and greenhouse gas					
Primary energy use (in PJ)	21.2	20.8	23.6	22.6	20.9
Energy efficiency improvement (year-on-year)	2.3	1.4	0.7	2 ¹	-
Greenhouse gas emissions scope 1 + 2, market-based (in CO ₂ equivalents x million tons)	1.17	1.23 ²	1.50	1.57 ¹	-
Electricity purchased from renewable resources (%)	50	41	21	8	-
Total purchased renewable electricity (GWh)	632	446	229	79	-
Emissions to air					
Volatile Organic Compounds (x 1,000 tons)	2.7	4.9	6.6	8.9	3.1
Nitrogen oxide (NO _x) (x 1,000 tons)	0.4	0.5	0.7	0.8	0.4
Sulfur dioxide (SO ₂) (x 1,000 tons)	0.06	0.09	0.28	0.33	0.04
Discharges to water and landfill					
Chemical Oxygen Demand discharges to surface waters (x 1,000 tons)	2.1	2.2	2.5	2.4	2.1
Waste recycled (in %)	88	83	84	83 ¹	-
(Landfilling) Non-hazardous waste (x 1,000 tons)	15	18	16	17.5	12.9
Total process-related waste (x 1,000 tons)	222	177	-	-	-
Water					
Water consumption (x million m ³)	23	22	23	22 ¹	-
Water use (x million m ³)	111	114	114	104	101
Raw materials					
Renewable raw materials (in %)	14.7	14.3	15.4	16.5	16
Biodiversity					
Sites in or adjacent to protected areas (in %)	25	66	61	60	58
Fines (in €)	115,100	23,500	128,400	27,900	35,600
Non-monetary sanctions	2	6	4	2	5
Environmental incidents	60	71	101	109 ³	257
Environmental complaints	58	53	35	21	31

1 The baseline emissions for 2016 were recalculated due to the inclusion of nine acquired sites in the reporting scope.

2 Including a one-time effect of large plant shutdowns, estimated at roughly 150 kt. These effects did not occur in 2019.

3 As of 2016, the Loss of Primary Containment on non-hazardous substances is no longer included in this number.

USE OF PERFORMANCE DATA FOR FINANCIAL ANALYSIS

Integration of sustainability in financial analysis

	Strong ESG proposition (examples)	Weak ESG proposition (examples)
Top-line growth	<p>Attract B2B and B2C customers with more sustainable products</p> <p>Achieve better access to resources through stronger community and government relations</p>	<p>Lose customers through poor sustainability practices (eg, human rights, supply chain) or a perception of unsustainable/unsafe products</p> <p>Lose access to resources (including from operational shutdowns) as a result of poor community and labor relations</p>
Cost reductions	<p>Lower energy consumption</p> <p>Reduce water intake</p>	<p>Generate unnecessary waste and pay correspondingly higher waste-disposal costs</p> <p>Expend more in packaging costs</p>
Regulatory and legal interventions	<p>Achieve greater strategic freedom through deregulation</p> <p>Earn subsidies and government support</p>	<p>Suffer restrictions on advertising and point of sale</p> <p>Incur fines, penalties, and enforcement actions</p>
Productivity uplift	<p>Boost employee motivation</p> <p>Attract talent through greater social credibility</p>	<p>Deal with "social stigma," which restricts talent pool</p> <p>Lose talent as a result of weak purpose</p>
Investment and asset optimization	<p>Enhance investment returns by better allocating capital for the long term (eg, more sustainable plant and equipment)</p> <p>Avoid investments that may not pay off because of longer-term environmental issues</p>	<p>Suffer stranded assets as a result of premature write-downs</p> <p>Fall behind competitors that have invested to be less "energy hungry"</p>

Source: McKinsey & Company

EXAMPLES

Financial Analysis of Climate Risks

SASB

SECTOR	INDUSTRIES	REVENUE IMPACTS	OPERATING COSTS	ASSET VALUE	FINANCING COSTS
Health Care	Biotechnology				
	Pharmaceuticals				
	Medical Equipment & Supplies				
	Healthcare Delivery				
	Healthcare Distribution				
	Managed Care				
Financials	Commercial Banks				
	Investment Banking				
	Asset Management				
	Consumer Finance				
	Mortgage Finance				
	Security & Commodity Exchanges				
	Insurance				
Technology & Communications	Hardware				
	EMS & ODM				
	Semiconductors				
	Software & IT Services				
	Internet & Media Services				
	Telecommunications				
Non-Renewable Resources	Oil & Gas - Exploration & Production				
	Oil & Gas - Midstream				
	Oil & Gas - Refining & Marketing				
	Oil & Gas - Services				
	Coal Operations				
	Iron & Steel Producers				
	Metals & Mining				
	Construction Materials				
Transportation	Automobiles				
	Auto Parts				
	Car Rental & Leasing				
	Airlines				
	Air Freight & Logistics				
	Marine Transportation				
	Rail Transportation				
	Road Transportation				

USED OF PERFORMANCE DATA FOR SUSTAINABLE FINANCE

What is it?

Corporate debt instruments – bonds, loans, credit lines

Linked to the issuer's performance on sustainability goals and targets

Allowing general-purpose uses of funds

Based on integrated management & governance of sustainability.

ICMA's Sustainability-linked Bond Principles



Selection of Key Performance Indicators (KPIs)

The KPIs chosen should be relevant, material, follow a consistent methodology and able to be benchmarked



Calibration of Sustainability Performance Targets (SPTs)

SPTs should be ambitious using benchmarks and should consistent with the issuer's sustainability strategy



Bond characteristics

Disclose how the bond financial and/or structural characteristics are adjusted depending on the SPTs being met or not met



Reporting

Transparently report on the KPI performance on an annual basis



Verification

Issuer's should seek independent and external verification of the SPTs

EXAMPLES

Sustainability linked bonds

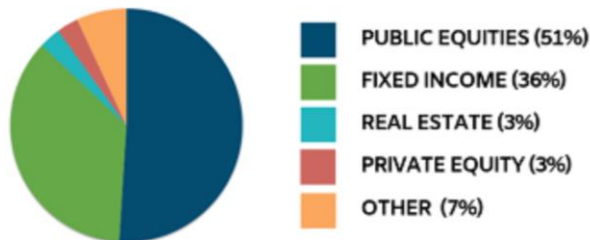
		Deal information				Sustainability-linked bond characteristics			
Issuer	Sector	Date	Amount	Maturity	Coupon	KPI	SBT	Tenor	Step-up
Enel	Utilities	Sep '19	USD 1.5bn	Sep '24	2.650%	Installed capacity in renewable energy sources	At least 55%	Dec '21	+25 bps
		Oct '19	EUR 1bn	Jun '27	0.375%				
		Oct '19	EUR 1bn	Jun 24'	0.000%				
		Oct '19	EUR 500m	Oct '34	1.125%	Direct GHG emissions	125 gCO ₂ /kWh	By '30	
Suzano	Forest & Paper Products Manufacturing	Sep '20	USD 750m	Jan '31	3.750%	Carbon intensity of products	Reduce by 10.9% compared with a baseline of 2015	Dec '25	+ 25 bps
Novartis	Pharmaceuticals	Sep '20	EUR 1.85bn	Sep '28	0.000%	Strategic Innovative Therapies Patient Reach	Increase patient reach in low- and middle-income countries by at least 200%	By '25	+25 bps
						Flagship Programmes Patient Reach	Increase patient reach in leprosy, malaria, Chagas disease and sickle cell disease, by at least 50%	By '25	+ 25 bps
						Scope 1 and 2 greenhouse gas (GHG) emissions (measured in tCO ₂ e and tCO ₂ e per unit sold)	Decrease CHANEL's absolute scope 1 and 2 emissions by 50% (compared with a 2018 base year) - equivalent to 66% per unit sold	By '30	+75 bps
Chanel	Apparel & Textile Products	Sep '20	EUR 300m	Jul '31	1.000%	Scope 3 GHG emissions (measured in tCO ₂ e and tCO ₂ e per unit sold)	Decrease scope 3 absolute GHG emissions by 10% (compared with a 2018 base year) – equivalent to 40% per unit sold	By '30	+ 75 bps
		Sep '20	EUR 300m	Jul '31	0.500%	Percentage of renewable electricity in operations	Shift to 100% renewable electricity in its operations	By '25	+ 50 bps

USE OF PERFORMANCE DATA FOR PORTFOLIO INVESTMENTS

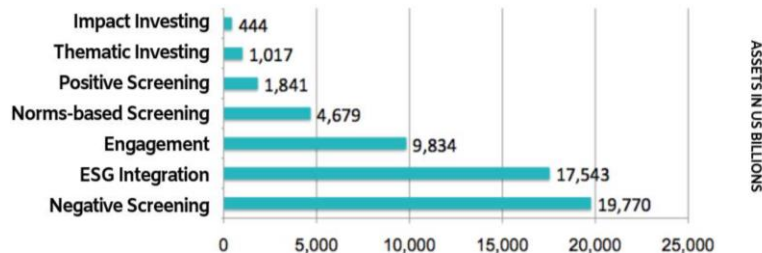
34%

Global sustainable investment assets reached **\$30.7 trillion** at the start of 2018, a **34 percent** increase from 2016!

GLOBAL SUSTAINABLE INVESTING ASSET ALLOCATION 2018



GLOBAL SUSTAINABLE INVESTING ASSETS BY STRATEGY 2018



\$30.7 trillion sustainable investments in 2018
(now estimated at \$40.5T)

Majority of investments in corporate equity & bonds

Main investment strategy is ESG integration

USE OF PERFORMANCE DATA FOR VARIABLE REMUNERATION

2020 annual bonus scorecard measures and weightings

Performance measure	Weighting
Financial	30%
Operational excellence	50%
Sustainable development	20%
	Link to strategy
Financial <ul style="list-style-type: none"> ■ Cashflow from operating activities 	Aligned with our financial priorities, reflecting our ability to generate cash to service and reduce debt, pay the dividend and fund capital investment.
Operational excellence <ul style="list-style-type: none"> ■ Production ■ LNG liquefaction volumes ■ Refinery and chemical plant availability ■ Project delivery 	<p>Representative performance metrics from our main business lines to drive focus on the operational delivery critical to our success and inspire a shared culture and alignment with our purpose, strategy and values.</p> <p>These metrics measure the effectiveness with which we operate our assets and portfolio base. This operational performance underpins the successful delivery of our financial framework and ambitions to progress in the energy transition. Shell's longer-term strategic ambitions are measured in the LTIP metrics.</p>
Sustainable development <ul style="list-style-type: none"> ■ Safety ■ Environmental performance 	We must maintain focus on safety and environmental performance, as this provides assurance to shareholders, employees and society of our commitment to safety and progress in the energy transition.

Source: Shell

PERFORMANCE DATA USED TO CALCULATE IMPACT ON THE SDGS

Performance Summary

SDG target	KPI	Unit	2019/20	2018/19
7.1 Universal access	Networks customers on the Priority Services Register (PSR)	Number	746,821	707,198
	Customer minutes lost – SHEPD/SEPD	Average per customer	56/46	59/50
	Customer interruptions – SHEPD/SEPD	Per 100 customers	63/47	69/52
	Total renewable generation output ¹	GWh	10,753	9,777
7.2 Renewable energy	Total renewable generation output (inc. constrained off GB wind) ¹	GWh	11,442	10,464
	Renewable generation output – proportion of SSE's total output	%	37.7	31.7
	Total renewable generation capacity ¹	MW	3,992	3,767
	SSE's onshore and offshore wind development pipeline	GW	> 7	> 8
7.3 Energy efficiency	Business Energy smart meter operating volumes (gas and electricity) ²	Number	157,409	121,175
	Meter Point Administration Numbers (MPANs) supplied with SSE	Number	49,080	44,834
	Green 100% renewable electricity ³			
	Energy saved as a result of energy efficiency measures targeted to fuel poor households in Ireland	Million kWh	5.8	2.1

¹ Figures include pumped storage and biomass.

² SMETS1, SMETS2 and AMR meters at 31 March in each year. SMETS1 meters installed before 5 December 2018 are counted as compliant

³ Individual companies may have more than one MPAN so figures are not representative of customer numbers.

INTEGRATED SUSTAINABILITY MANAGEMENT AND REPORTING

IFC Framework for Disclosure and Transparency

As contemplated in emerging models for sustainable finance and investments, the framework guides companies to:

- Set **strategic goals and targets** on material sustainability issue;
- Incorporate sustainability in **corporate governance oversight and controls**; and
- account and report on **performance**



ROLE OF CFOS IN MEASURING AND COMMUNCATING PERFORMANCE

CFOs have an important role to play in managing sustainability performance:

- Measuring performance
- Manage internal investments
- Raise capital for the company
- Primary interlocuter for investors



▶ Webinar

Leading the Change:
The CFO's role in
sustainable business



Questions

- How can performance data be used in your markets
- With smaller or privately-owned company
- What are some challenges with preparing performance data