# CFO-keskustelutilaisuus: Taloudellinen olennaisuus ja ESG

**24.9.2024 kello 8.30–11.00**

STRATEGISEN KUMPPANUUDEN YHTEISTYÖNÄ

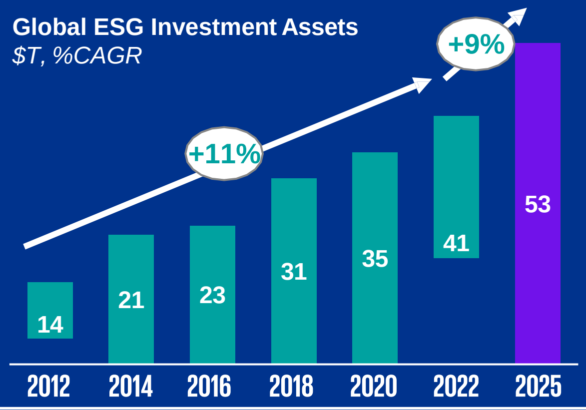
Welcome to the ESG 2.0 world

# Financial markets reward real ESG leaders and punish laggards

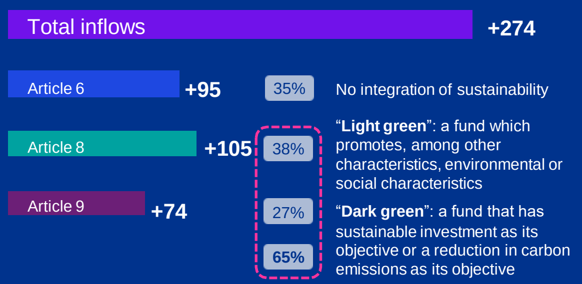
**+2.5x** EBITDA Multiple for ESG Leaders (*MSCI*)[1)]


## Create an ESG equity story, which attracts sustainability driven investors!

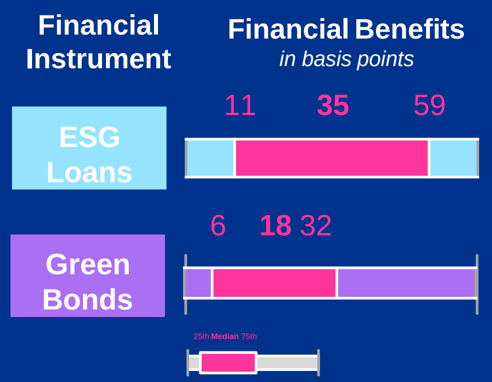
**Global ESG Investment Assets**
*$T, %CAGR*




**European fund flows by SFDR Classification**
*$B, Q2/21 – Q3/22*

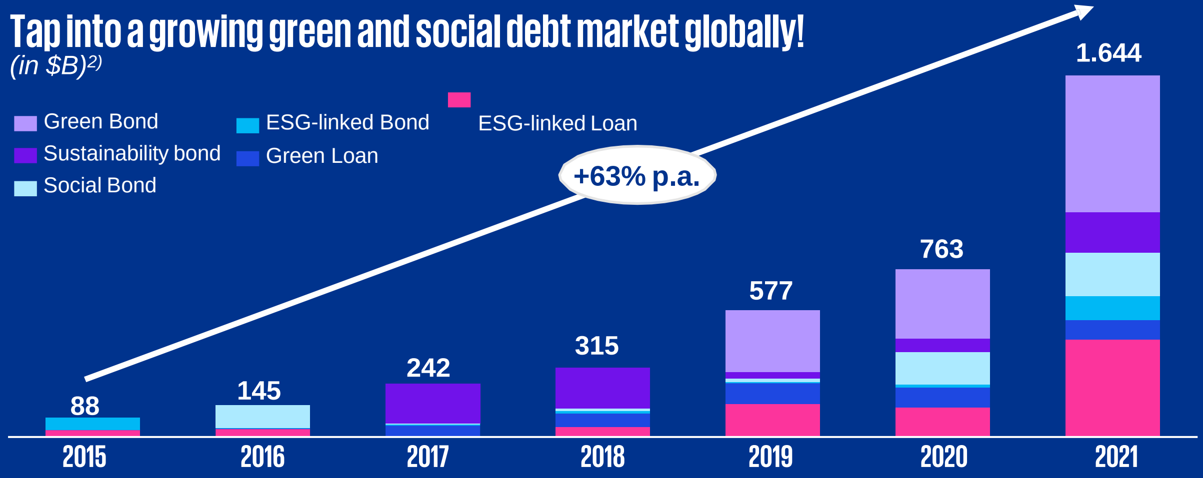



## Profit from lower financing costs!




## Tap into a growing green and social debt market globally!

*(in $B)*[2)]




## Key Implications

**Harmonization of ESG equity story and ESG-driven corporate strategy needed to remain credible on financial markets**

**Staying relevant for investors of SFDR Article 8 and 9 funds is increasingly important**

**Winning sustainable finance strategy is key to profit from redirection of capital flows into sustainable assets**

Note: 1) Classification based on MSCI ESG scores. EBITDA multiple based on the average of the multiples of the companies in the respective peer group over the last 4 years; 2) Estimate by Bloomberg
Source: KPMG Research and Analysis, Capital IQ, Bloomberg [URL], GSI-Alliance, Morgan Stanley, Morningstar, BlackRock, ClimateAction100, KPMG analysis, SustainAbility "Rate the Raters, MSCI, RobecoSam, Sustainalytics, Vigeo-Eiris, Capital Dynamics study based on survey of general partners 2017

# Our solution monetizes the ESG impacts and actions to enable their integration into strategic planning and decision-making

## Levers for ESG-driven value creation

### Top-line potential

**Avoided revenue loss**

Refers to the revenue a company can retain by preventing potential losses caused by changing, not addressed sustainability-oriented customer preferences.

**Revenue upside**

Refers to the incremental revenues a company can achieve by introducing new/ growing existing sustainable solutions or being able to price differentiate.

### Bottom-line potential

**Avoided costs**

Refers to the costs that a company can avoid by taking proactive ESG measures, e.g., by avoiding fines or supply chain disruptions.

**Cost reduction**

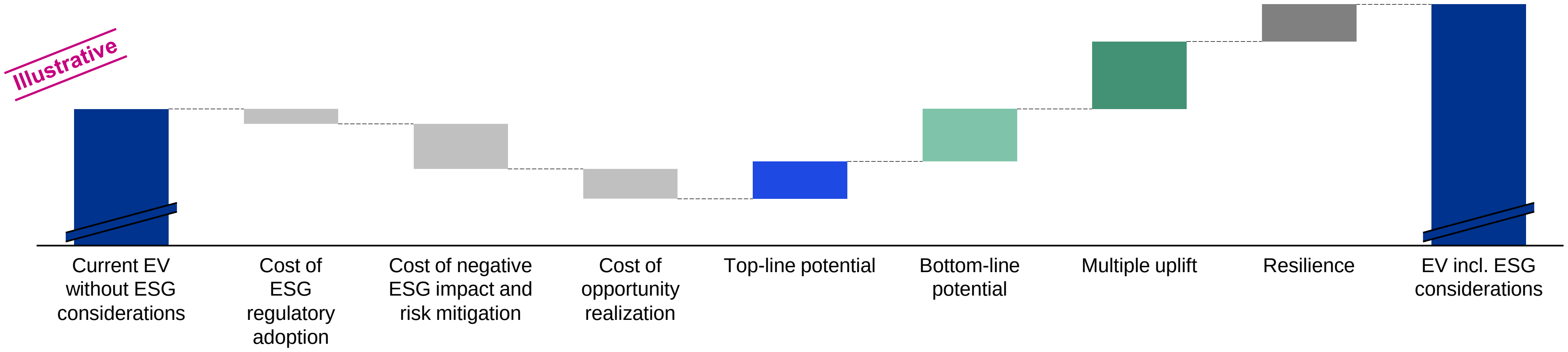
Refers to the increase in a company's net profit from more efficient operations, e.g., by increasing energy efficiency or reducing employee turnover.

### Multiple uplift

Refers to a company being more investible and perceived as having a better prospect due implemented and planned strategic ESG decisions that support resilience and performance.

### Resilience

Refers to the ability to adapt and recover from unexpected events or disruptions, such as natural disasters, economic downturns, cyber attacks or other.



FIBS
Kohti kestävämpää maailmaa
Autamme yhdistämään vastuullisuuden
ja liiketoiminnan käytännön tasolla.

# FIBS on Pohjoismaiden suurin yritysvastuuverkosto ja johtava yritysten asiantuntijuuden kehittäjä

**480**

jäsentä

**3/4**
Yritykset

**1/4**
Muut

**Tarkoituksemme on vauhdittaa vastuullisuuden tekijöitä kohti kestävämpää maailmaa**

**Perustettu 2000**

**Tarjoamme parhaat keinot kehittää vastuullista ja kestävää liiketoimintaa**

- ✓ Pysy ajan tasalla
- ✓ Syvennä osaamista
- ✓ Löydä vertaistukea
- ✓ Verkostoidu

WBCSD Global Network

WBCSD:n globaalin verkoston jäsen

# WBCSD:n terveiset

WBCSD:n Council kokoontuu parhaillaan New York Climate Week'in yhteydessä. Yrityksille ajankohtaisimpina kysymyksinä puhuttavat:

- ✓ Muutoksen keskellä on kyettävä rakentamaan resilienssiä
- ✓ Ilmastotoimien kiireellisyys edellyttää nopeampaa päätöksentekoa
- ✓ Kukaan ei voi toimia yksin: uudet innovaatiot edellyttävät nykyistä tiiviimpää yhteistyötä
- ✓ Tarvittavat politiikkatoimet vaativat yritysten vahvaa johtajuutta
- ✓ Koulutukselle ja osaamisen kehittämiselle on huutava tarve

LISÄKSI: Johan Rockström kollegoineen julkaisi uuden datapohjaisen 'Planetary Health Check'in'. Luvut eivät todellakaan näytä hyviltä, eri mittakaavan toimilla alkaa olla kova kiire.

# ESG ja taloudellinen vaikuttavuus

- Vaikuttavuusdata on olennainen osa raportointia ja kestävän liiketoimintastrategian rakentamista
- Kaksoisolennaisuus linkittää nimensä mukaisesti ympäristö- ja yhteiskunnalliset vaikutukset liiketoiminnan riskeihin ja mahdollisuuksiin
- Kaksoisolennaisuus-analyysi auttaa nimensä mukaisesti löytämään yritykselle itselleen olennaiset kehityskohteet
- Analyysit ensimmäisestä CSRD-perusteisesta julkisesta raportointikierroksesta ulkoisine varmennuksineen tulevat takuulla puhuttamaan

# Ohjelma

| | | |
|---|---|---|
| **8.00 – 8.30** | Aamukahvi ja verkostoitumista | |
| **8.30 – 8.45** | Tilaisuuden avaus | Tomas Otterström, Partner, Head of Sustainable Finance and Corporate Sustainability, KPMG<br>Marja Kurkela, Yritysvastuuasiantuntija, FIBS |
| **8.45 – 9.15** | Näkökulmia ESG:n taloudelliseen olennaisuuteen | Martti Ala-Härkönen, CFO, Neste Oyj |
| **9.15 – 9.30** | Keskustelua | |
| **9.30 – 9.50** | Taloudellinen olennaisuus osana CSRD:tä<br>Liittymäkohdat IFRS-raportointiin | Jenni Muttonen, Manager, Sustainable Finance and Corporate Sustainability, KPMG |
| **9.50 – 10.00** | Keskustelua | |
| **10.00 – 10.20** | ESG linkki rahoituksen hankkimiseen | Elina Kamppi, Manager, Sustainable Finance and Corporate Sustainability, KPMG |
| **10.20 – 10.40** | ESG yritysjärjestelyissä | Riikka Weber, Senior Manager, Sustainable Finance and Corporate Sustainability, KPMG |
| **10.40 – 10.50** | Keskustelua | |
| **10.50 – 11.00** | Yhteenveto | Tomas Otterström, Partner, Head of Sustainable Finance and Corporate Sustainability, KPMG |
| **11.00** | Tilaisuus päättyy | |

# CFO’s role in managing ESG financial materiality

Martti Ala-Härkönen, EVP, CFO, Finance, Strategy and IT
KPMG CFO Network on ESG 24 September 2024

# Creating a healthier planet for our children

Neste creates value for society by developing solutions to mitigate climate change and plastic waste challenge.

We are a global leader in sustainable aviation fuel, renewable diesel and renewable feedstock for polymers and chemicals.

**In 2023, we enabled our customers to reduce their GHG emissions by**

**11.0 Mt $CO_2e$**

**with our renewable products**

NESTE

# Sustainability is at the core of Neste's strategy enabling our growth and purpose

## Climate

Neste leads transformation towards a carbon neutral value chain by 2040

## Biodiversity

Neste drives a positive impact on biodiversity and achieves a nature positive[1] value chain by 2040

## Human rights

Neste strives to create a more equitable and inclusive value chain by 2030 in which everyone works with dignity

## Supply chain & raw materials

Neste drives safe and healthy workplace, fair labor practices and increased sustainability commitment across the supply chain

*1) Nature positive aims at halting and reversing nature loss, positive impacts outweighing the adverse impacts*

# Regulatory environment and reporting framework changes towards consistent sustainability data collection

**Regulation**

European Commission

- Non-Financial Reporting Directive (NFRD)
- Corporate Sustainability Reporting Directive (CSRD)

EU Taxonomy Regulations

FINANCING A SUSTAINABLE EUROPEAN ECONOMY

**Reporting frameworks**

GRI · SASB · TCFD · ISSB

**Global goals and principles**

UN Global Compact · Sustainable Development Goals

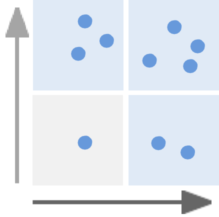
**ESG ratings and indices**

CDP · S&P Dow Jones Indices · Global 100 · ecovadis · MSCI · Sustainalytics · FTSE4Good · ISS

## The European Green Deal

# CSRD: Neste's material topics identified in accordance with EFRAG guidelines, process continues towards CSRD reporting readiness

## Materiality



CSRD requires Neste to disclose material impacts, risks and opportunities based on a Double Materiality Assessment (DMA)

## Policies

*We're committed to reduce our customers' greenhouse gas emissions and emissions in our own production, in alignment with the Paris Agreement and Science Based Targets initiative for carbon neutrality by 2050.*

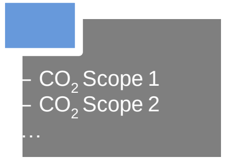
It is required to have a policy in place for each of the material topics, which addresses the material impacts, risks and opportunities

## Targets

**Carbon neutral value chain by 2040**

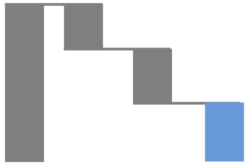
CSRD requires disclosing measurable, time-bound outcome-oriented targets to meet the policy's objectives for each material topic

## Metrics




In addition to the targets, CSRD requires disclosing a set of metrics defined in the ESRS standards: these overlap partly with the targets

## Actions



For each of the targets there needs to be a plan in place of how the company is addressing the material impact, risk or opportunity

## CSRD reporting

CSRD introduces new structure for disclosing the sustainability information. The aim is to integrate current and future compliance requirements under common framework.

EU Taxonomy | REACH | Paris agreement | CSDDD | Pay transparency

**H2/2023**

- Project organization established
- Gap analysis on the disclosure requirements, data points, and processes
- Sustainability Data Hub development

**H1/2024**

- Assurance provider chosen by AGM
- Report draft created
- Reporting process and data collection build

**H2/2024**

- Policies and targets updated
- Reporting practice rounds and preparing the disclosure
- Annual & sustainability report process and content creation

**2025**

**EFRAG** = European Finance Reporting Advisory Group, **CSRD** = Corporate Sustainability Reporting Directive, **ESRS** = European Sustainability Reporting Standard

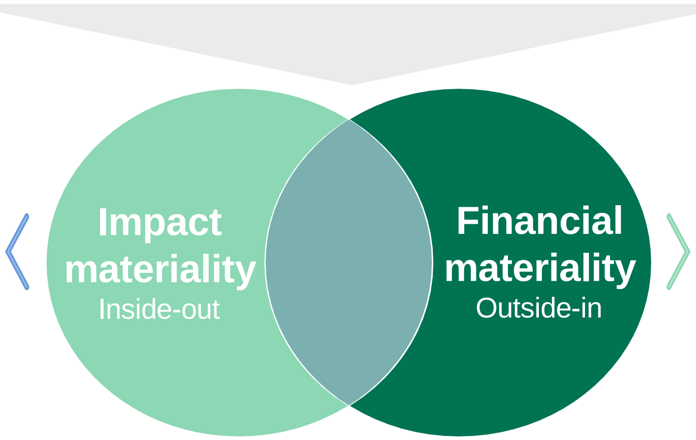
# CSRD brings sustainability reporting to the level of financial reporting

## Double Materiality Assessment (DMA) in accordance with EFRAG guidelines, utilizing Neste’s risk management framework, CSRD requires connecting non-financial and financial reporting through DMA

| *Phase* | 1. Value chain mapping | 2. Impact assessment | 3. Financial assessment | 4. Scoring & determination |
|---|---|---|---|---|
| *Main outcomes* | Neste **value chain mapped** to identify impacts, risks and opportunities from upstream activities, own operations, and from downstream activities | Both positive and negative **impacts of the business activities** identified | **Risks and opportunities** identified that materially influence (or might influence) Neste’s financial performance | Impacts and risks & opportunities scored, calibrated, and a threshold set to **determine final materiality** |

A sustainability matter is material from an **<u>impact perspective</u>**:

- when it pertains to the undertaking’s material actual or potential, positive or negative impacts on people or the environment (environmental, social and governance matters)
- ***Example: GHG emission***




A sustainability matter is material from a **<u>financial perspective</u>**:

- If it generates risks or opportunities that affect (or could reasonably be expected to affect) the undertaking’s financial position, financial performance, cash flows, access to finance, or cost of capital
- ***Example: Assessment of the influence of GHG emissions on the undertaking’s future cash flows, such as the effect of carbon pricing mechanisms***

NESTE

# Green funding provides additional value

## Financial markets perspective

- Despite some controversy on ESG investments, demand for green bonds is expected to remain elevated. “Greenium” provides advantage for issuers in the form of a lower spread
- ECB has highlighted the important role that bonds will play in funding the climate transition and therefore Banks are giving preferential treatment to green bonds in their primary market bidding behaviour
- Sustainable Finance Disclosure Regulation (SFDR) aims at increasing the amount of money flowing into sustainable investments and supports a transition to a more sustainable economy.

## Neste Green finance framework:

- Allocation to eco-efficient and circular economy adapted products, production technologies and processes; as well as renewable energy (e.g. hydrogen solutions)
- The framework excludes fossil fuel refining and fossil-based raw materials (incl. co-processing of fossil and renewable feedstock).
- Neste has issued green loans and bonds under the green finance framework e.g. to support expansions in Singapore and Rotterdam. In addition Neste has negotiated RCF (revolving credit facilities) arrangements with margin linked to greenhouse gas emission reductions.

The Green Bond Principles

The Sustainability Bond Guidelines

The Social Bond Principles

The Sustainability-Linked Bond Principles

# Financing with green instruments supports Neste's climate goals and expansion of renewable and circular solutions

### Production carbon footprint

Reduce emissions in our own production by 50% by 2030 and **reach carbon neutral production by 2035**

### Value chain carbon footprint

Reduce the **use phase emission intensity of sold products** and work with our suppliers and partners to reduce emissions across **our value chain**.

### Carbon handprint

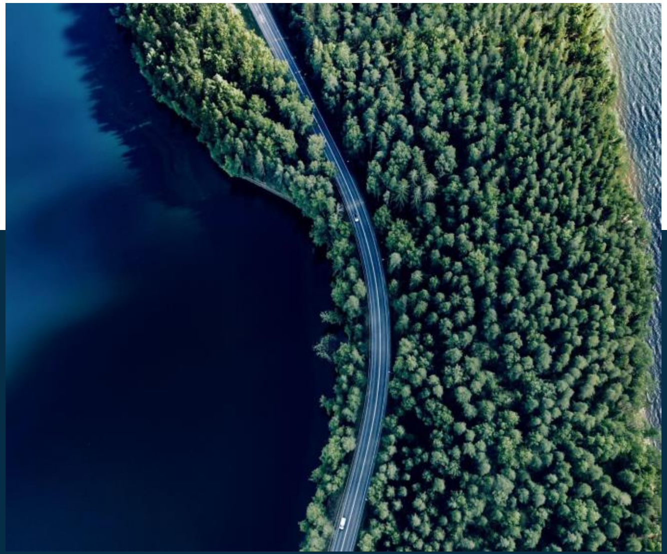
Offer solutions that help **our customers reduce their emissions** and meet their climate targets

| ICMA GBP 2018 Category | Project Name | Eligible Assets & Projects |
|---|---|---|
| Eco-efficient and circular economy adaption products, product technologies and processes | Renewable and circular solutions | Singapore Expansion |
| | | Rotterdam Expansion |
| | | Rotterdam SAF Optionality |
| | | Martinez Renewable Fuels |

- A cumulative EUR 1.96 billion or approximately 41% of taxonomy Eligible Assets and Projects have been financed by green debt instruments.
- Estimated GHG reduction of our customers enabled by Green Finance

**5.7 MtCO2 e/annum**
(at the time of project completion)

# Summary: We are at a new intersection of sustainability and finance



## Towards integrated reporting

Rather than “nice to have”, ESG reporting is nowadays a mandatory part of an integrated reporting package. Finance teams have extremely relevant skill sets to pursue integrated reporting process.

## Focus on aligned targets

CFOs have an eagle eye view on company’s performance both on the financial and non-financial side. CFOs can drive alignment between profitability and sustainability goals. In addition, they are in a unique position to communicate ESG’s impact on the company’s value creation.

## Risks on the radar

As financial stewards of companies, CFOs should be cognizant of the risks that relate to violation of the laws or otherwise harmful business practices. The consequence may be a fine or a lawsuit; negative effects on the share price, the company's reputation and customer loyalty.

NESTE


NESTE
Change runs on renewables

# Taloudellinen olennaisuus osana CSRD:tä Liittymäkohdat IFRS-raportointiin

**Jenni Muttonen**

Manager

Sustainable Finance and Corporate Sustainability, KPMG

24.9.2024

# Our perception of the severity of ESG risks has changed radically

## Top risks in 2007-2013

Top 5 Global Risks in Terms of Impact

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012* | 2013* |
|---|---|---|---|---|---|---|---|
| 1st | Asset price collapse | Asset price collapse | Asset price collapse | Asset price collapse | Fiscal crises | Major systemic financial failure | Major systemic financial failure |
| 2nd | Retrenchment from globalization | Retrenchment from globalization (developed) | Retrenchment from globalization (developed) | Retrenchment from globalization (developed) | Climatological catastrophes | Water supply crises | Water supply crises |
| 3rd | Interstate and civil wars | Slowing Chinese economy (<6%) | Oil and gas price spike | Oil price spikes | Geopolitical conflict | Food shortage crises | Chronic fiscal imbalances |
| 4th | Pandemics | Oil and gas price spike | Chronic disease | Chronic disease | Asset price collapse | Chronic fiscal imbalances | Diffusion of weapons of mass destruction |
| 5th | Oil price shock | Pandemics | Fiscal crises | Fiscal crises | Extreme energy price volatility | Extreme volatility in energy and agriculture prices | Failure of climate change adaptation |

Economic · Environmental · Geopolitical · Societal · Technological

Source: World Economic Forum

This graph has been updated to correct an error in the version from 8 January 2013.

## Top risks in 2024

### Global risks ranked by severity over the short and long term

*"Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period."*

| | 2 years | 10 years |
|---|---|---|
| 1st | Misinformation and disinformation | Extreme weather events |
| 2nd | Extreme weather events | Critical change to Earth systems |
| 3rd | Societal polarization | Biodiversity loss and ecosystem collapse |
| 4th | Cyber insecurity | Natural resource shortages |
| 5th | nterstate armed conflict | Misinformation and disinformation |
| 6th | Lack of economic opportunity | Adverse outcomes of AI technologies |
| 7th | nflation | nvoluntary migration |
| 8th | nvoluntary migration | Cyber insecurity |
| 9th | Economic downturn | Societal polarization |
| 10th | Pollution | Pollution |

Source
World Economic Forum Global Risks Perception Survey 2023-2024.

# Evaluation of the Financial Materiality

## Magnitude

### Magnitude of financial effects

**Continuation of the use of resources**

- *Will the company be able to continue to use the resources (including labour) required for their business process?*
- *The following factors must be taken into account:*
  - *pricing & margins*
  - *the market & available supply*
  - *remaining useful life*
  - *the ability/cost of preservation or restoration*
  - *political/regulatory constraints*

**Relationship dependency**

- Will the company be able to continue to rely on the relationships needed in its production process on the same terms as before, or will corporate practices trigger a reaction?

✖

## Likelihood

### Probability of the risk/opportunity occurring

**Risk**

*What is the probability of occurrence of a risk after countermeasures (net probability)?*

**Opportunity**

*How high is the probability of occurrence of the opportunities?*

**Opportunity**

**Risk**

### Time horizons

*Short-term:*
Period adopted by the undertaking as the reporting period in its financial statements

*Medium-term:*
From the end of the short-term reporting period to five years

*Long-term:*
More than five years

# Anticipated financial effects from material environmental risks and opportunities

**Reporting on material environmental topics will (eventually) require quantification (in EUR) of *material* risks and opportunities stemming from *material* environmental matters (i.e. climate change, pollution, water, circular economy, biodiversity) in addition to qualitative information**

- Phase-in: Can be omitted during first year of reporting and only qualitative information required during first 3 years, if it is impracticable to prepare quantitative disclosures.

**E1-9: Undertaking shall disclose:**

**(a) anticipated financial effects from material physical risks;**

**(b) anticipated financial effects from material transition risks; and**

**(c) potential to benefit from material climate-related opportunities.**

Resilience analysis (including scenarios) is to inform risk assessments over short-/medium-/long-term

e.g. 1,5 degree scenario vs. 4 degree scenario would likely have different results regarding physical risks

Risks: e.g. **assets** (EUR and %) and **revenue** (EUR and %) under physical and transition risks

Opportunities: e.g. information about **cost-savings** related to climate-change related mitigation and adaptation actions and **potential market size or expected changes to net revenue** from low-carbon products and services or adaptation solutions

# Example: Essity's scenario analysis

## Scenario 1: Global warming of 1.5°C[1]

**Description:** Global warming is limited to no more than 1.5°C by 2100 through, for example, global collaboration between governments, industries, companies and individuals pushing for tougher legislation, green innovation and rising demand for environmentally friendly products, solutions and services. Carbon emissions are strictly limited and carbon tax is extended, which promotes processes with low carbon emissions and greater use of circular material and products.

| Risks | Description and impacts |
|---|---|
| • Shifting regulatory landscape<br>• Changed consumption patterns<br>• Shortage of green energy and sustainable materials | Transitional effects will impose stricter legislation for manufacturing processes, energy sources and material use:<br>• Increased restrictions on carbon emissions through raised carbon taxes impact overall operational costs.<br>• Limitations or stricter post-use solutions for single-use products to reduce waste impact operational costs.<br>• Limitations on water use in production impacts production costs.<br>• Consumer behavior and preferences move toward lower use of plastics.<br>• Continued increase in demand leads to shortage of fresh wood-based fiber, in turn resulting in raw materials shortages and increased prices for raw materials. |

| Opportunities | Description and impacts |
|---|---|
| • Development of new business models<br>• Sustainable innovations | • Competitive advantages through Essity's long-term and robust efforts to achieve lower resource use, innovative green production methods and lower carbon emissions.<br>• Customers, consumers, investors and employees are attracted by changed consumption patterns in the form of increased demand for sustainable solutions with a lower climate footprint, that companies with a strong sustainability profile are rewarded and investments in and development of new business models and environmentally conscious solutions. |

1) The scenario includes consideration of Shared Socioeconomic Pathways (SSP) scenarios 1-1.9 and the International Panel for Climate Change (IPCC) scenario (RCP scenario 2.6).
2) The scenario includes consideration of Shared Socioeconomic Pathways (SSP) scenarios 3-7.0 and the International Panel for Climate Change (IPCC) scenario (RCP scenario 6-8.5).

## Scenario 2: Global warming of 4°C[2]

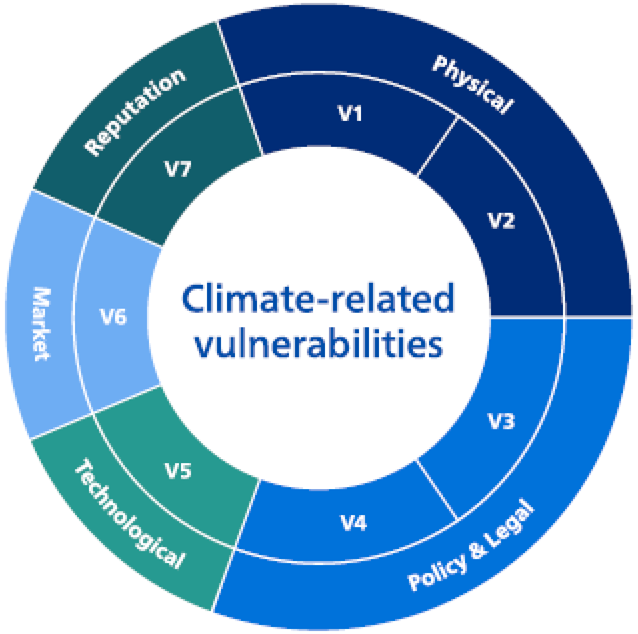
**Description:** Global warming of 4°C in 2100, due to for example the failure to effectively reduce emissions and other negative environmental impacts. Extreme weather becomes more frequent. Sea levels continue to rise, desertification and deforestation continue. Access to key resources such as raw materials, energy, water and food declines, resulting in greater volatility and uncertainty for prices and food security.

| Risks | Description and impacts |
|---|---|
| • Extreme weather<br>• Permanent shortage of key raw materials and access to water<br>• Linear consumption patterns continue<br>• Dynamic and globally disharmonized regulatory landscape | Extreme weather and the continued rise of carbon emissions into the atmosphere may impact Essity's business in areas such as:<br>• Water scarcity and excessively high water temperatures impacting production stability and operational costs.<br>• Rising insurance costs and costs for reconstruction following extreme weather.<br>• Increased investments required to safeguard stable production and supply chain.<br>• Deforestation continues and forest fires limit availability of good quality certified wood fiber, impacting prices negatively and leading to raw material shortages.<br>• Lower living standards and changed consumption behavior.<br>• Permanent scarcity of natural resources, raw materials, energy and water may require site closures in specific areas and generally lead to higher prices for raw materials, energy, water and distribution.<br>• Increasing amount of waste to be managed by communities and countries will impose higher waste costs.<br>• Without bans, plastic use continues to increase resulting in higher costs.<br>• Frequent shifts in the political landscape and regulations may impact cost of compliance and conducting business. |

| Opportunities | Description and impacts |
|---|---|
| • Competitive advantage<br>• Leading hygiene and health solutions are prioritized | • Safeguarded production and sourcing in regions at risk builds trust in and loyalty to Essity's brands. |

Source: Essity Annual Report 2023

# Example: Philips' climate-related risks (transition risks)




**V1**
Acute risks

**V2**
Chronic risks

**V3**
Enhanced reporting obligations

**V4**
Cost of carbon

**V5**
Increased transition to low carbon

**V6**
Resource scarcity

**V7**
Increased stakeholder concern and pressure

Source: Philips Annual Report 2023

Philips Group

**Pricing of GHG emissions**

| | Short-term[6] | Medium-term | Long-term |
|---|---|---|---|
| **Carbon Price (EUR/ tonne $CO_2$e)** | EUR 0.00 | EUR 282.41 | EUR 605.46 |
| **Full Value chain Emissions (tonnes $CO_2$e)** | 4,995,174 tonnes $CO_2$e | 4,995,174 tonnes $CO_2$e | 4,995,174 tonnes $CO_2$e |
| **Cost of GHG emissions for Philips full value chain (million EUR)** | EUR 0 | EUR 1,411 | EUR 3,024 |

Source: Philips, Publication of the Task Force on Climate-Related Financial Disclosures (TCFD) 2023

**Risk type & Primary climate-related risk driver**

| | |
|---|---|
| Emerging regulation | Mandates on and regulation of existing products and services |

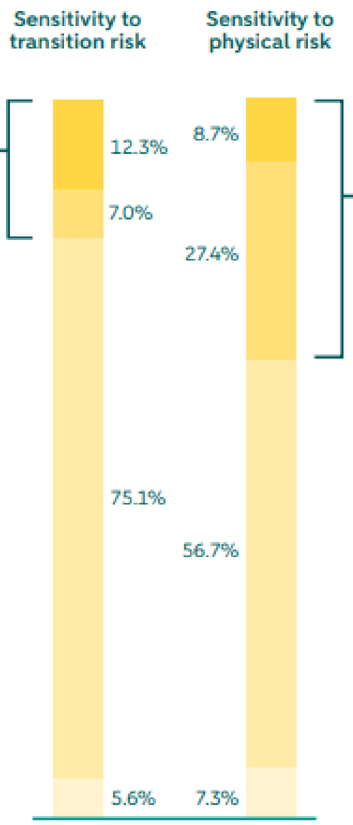
plastics for our "Alexa 2100" hairdryer is EUR 61,80, a 76% change in CO2 emissions. Based on internal market research, as a result of not meeting our Green Products requirements, Philips could experience a sales decrease of approximately EUR 162 million per year for our more energy-intensive products, such as our Beauty products.

Source: Philips CDP Report 2023, CDP

# Example: ABN Amro's environmental risk heatmap covering investments by sector

## Environmental Risk Heatmap[1]

| Sub-sector (incl NACE sector letter) | (EUR million) |
|---|---|
| **Moderately high sensitivity to environmental transition risk** | |
| Manufacture of prepared feeds for farm animals (C) | 325 |
| Other agriculture, forestry and fishing (A) | 1,024 |
| Raising of cattle (A) | 3,094 |
| Raising of poultry and swine/pigs (A) | 658 |
| Sea and coastal freight water transport (H) | 5,551 |
| | **10,651** |
| **Moderate sensitivity to environmental transition risk** | |
| Air transport (H) | 10 |
| Arable farming (A) | 1,037 |
| Freight transport by road (H) | 943 |
| Indoor growing of crops (A) | 715 |
| Inland freight water transport (H) | 484 |
| Manufacture of animal protein food products (C) | 498 |
| Manufacture of basic metals (C) | 211 |
| Manufacture of chemicals and chemical products (C) | 625 |
| Manufacture of other food products and beverages (C) | 1,143 |
| Other transportation and storage (H) | 437 |
| | **6,102** |




| Sub-sector (incl NACE sector letter) | (EUR million) |
|---|---|
| **Moderately high sensitivity to environmental physical risk** | |
| Arable farming (A) | 1,037 |
| Indoor growing of crops (A) | 715 |
| Inland freight water transport (H) | 484 |
| Manufacture of animal protein food products (C) | 498 |
| Raising of cattle (A) | 3,094 |
| Raising of poultry and swine/pigs (A) | 658 |
| Other agriculture, forestry and fishing (A) | 1,024 |
| | **7,509** |
| **Moderate sensitivity to environmental physical risk** | |
| Air transport (H) | 10 |
| Fishing and aquaculture (A) | 400 |
| Food and beverage service activities (I) | 405 |
| Fossil electricity production (D) | 22 |
| Manufacture of chemicals and chemical products (C) | 625 |
| Manufacture of construction materials (C) | 150 |
| Manufacture of other food products and beverages (C) | 1,143 |
| Mining and quarrying excluding fossil fuel extraction (B) | 165 |
| Non-fossil electricity production (D) | 1,329 |
| Other construction (F) | 1,297 |
| Other electricity, gas, steam and air conditioning supply (D) | 756 |
| Other manufacturing (C) | 1,326 |
| Real estate activities (L) | 11,067 |
| Support activities for transportation (H) | 700 |
| Telecommunications (J) | 2,527 |
| Transport via pipelines (H) | 257 |
| Water supply; sewerage, waste management and remediation activities (E) | 702 |
| Wholesale of agricultural raw materials and live animals (G) | 422 |
| Wholesale of construction materials (G) | 463 |
| | **23,765** |

High sensitivity (H) · Moderately high (MH) · Moderate (M) · Moderately low (ML) · Low sensitivity (L)

[1] Some sub-sectors deviate from NACE. This is due to the fact that for some sub-sectors NACE classification was not useful for sector experts to provide relevant input about the sub-sector characteristics.

Source: ABN Amro, Integrated Annual Report 2023

# Liittymäkohdat IFRS-raportointiin

# What & when?

## IFRS S1

**General Requirements for Disclosure of Sustainability-related Financial Information**

## IFRS S2

**Climate-related Disclosures**

## June 2023

ISSB issued the first two IFRS Sustainability Disclosure Standards

## 1 Jan 2024

Standards effective for annual reporting periods beginning on or after 1 January 2024

### ISSB and IFRS

**IFRS Sustainability Disclosure Standards** are issued by the International Sustainability Standards Board (ISSB).

### Target

The ISSB is developing standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.

### Demand

Standards were developed in response to strong market demand for more consistent, complete, comparable and verifiable information about companies' exposure to and management of sustainability-related risks and opportunities.

### Applicability

Companies can apply IFRS Sustainability standards irrespective of whether their financial statements are prepared in accordance with IFRS Accounting Standards or other generally accepted accounting principles or practices (GAAP).

# Comparison between IFRS S1+S2 and CSRD

**Difference is the scope of materiality: IFRS S1 and S2 focus on *financial materiality***

- Definition of financial materiality is however the same in both standards

**Similarities include structure and metrics under S2**

- Structure: Governance – Strategy – Risk Management (IFRS) / Impact, Risk and Opportunity Management (CSRD) – Metrics and targets
  - Familiar structure from the TCFD framework
- Metrics: almost all the disclosures in ISSB Standards related to climate are included in ESRS

**More information:** ESRS–ISSB Standards, Interoperability Guidance

Direct link: [esrs-issb-standards-interoperability-guidance.pdf (ifrs.org)]

# Considerations in financial reporting

**Do Net-Zero commitments have effects on current financial statements?**

- Liabilities under IAS 37 (e.g. carbon offsets?)
- Useful lives of assets (e.g. early disposals?)
- Goodwill impairment under IAS 36 (e.g. future cash flows?)

**More information:** KPMG Talkbook ”Net-Zero Commitments – When to disclose a liability and how to tell a connected story”?

Direct link: Net-zero commitments (kpmg.com)

# ESG-linkki rahoituksen hankkimiseen

**Elina Kamppi**
Manager
Sustainable Finance and Corporate Sustainability, KPMG

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24.9.2024

# ESG factors as risks

## Examples of climate-related risks that materialise in other risks

### Illustration of potential risk drivers

- Climate-related and environmental risks are not considered a distinct type of risk but are realized in other risks
- Climate-related and environmental risks must be considered for each type of risk

Example

**Climate-related and environmental risk drivers**

- Increase in credit costs for the sectors with high greenhouse gas emissions
- Increase in credit costs attributable to wind and water-related damages
- Risk that assets decrease in value
- New energy standards lower property values.
- Risk of obstacles to financing or increase in financing costs.
- Impact on the company's continuity due to loss of or damage to assets.
- Compliance with regulatory changes.
- Outsourced services cannot be performed.
- Reputation damage as a result of financing of fossil fuel projects.

**Financial risks**

- Credit risk
- Market risk / Liquidity risk

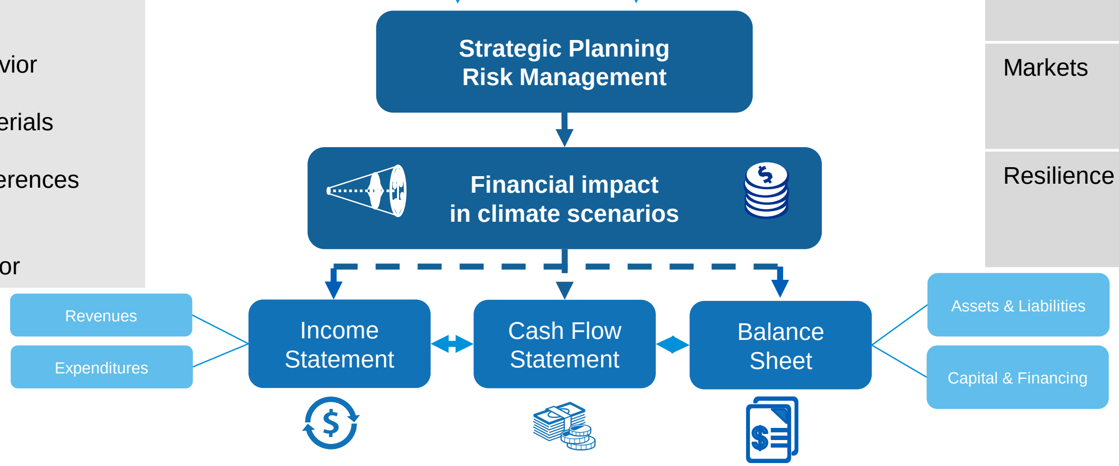
**Non-financial risks**

Operational risks

- Operational risk
- Regulatory risk
- Reputational risk
- IT risk

# Climate risks and opportunities

| Risks | |
|---|---|
| Physical risks | **Acute**: Extreme weather events<br>**Chronic**: Changing weather patterns, rising temperatures, droughts and water scarcity |
| Transition risks | **Policy and legal**<br>• Increase in regulative obligations and restrictions<br>• Carbon pricing<br>• Allowances and carbon regulation on existing products<br>• Exposure to litigation<br>**Technology**<br>• Replacing existing technologies with lower-carbon solutions<br>• Failed investments in new technologies<br>**Market**<br>• Changing customer behavior<br>• Uncertain market signals<br>• Price volatility of raw materials<br>**Reputation**<br>• Change in customer preferences<br>• Increasing concerns from stakeholders<br>• Stigmatization of the sector |




| Opportunities | |
|---|---|
| Resource efficiency | • Use of more efficient transportation, and production and distribution processes |
| Energy source | • Increased use of modern biomass |
| Products & services | • Increase in regulative obligations and restrictions<br>• Increased demand for energy and water efficient solutions<br>• Increased use of reparation services Development of new products and services through collaboration and innovation |
| Markets | • Access to new markets<br>• Use of public incentives<br>• Attraction and lower cost of capital |
| Resilience | • Participation in climate programmes<br>• Diversification of resources |

# KPMG's ESG Insurance Benchmarking Survey 2024 results*

**60%** of the respondents have set up a **board-level committee** to manage **ESG responsibilities**. Close to **35%** have employed a **dedicated CSO** while in **22.2%** of the cases, the **CEO** manages the function. In **17%** of the cases, the responsibility rests with the **CFO**

**~57%** have **developed products** under **article 8 and 9** of **SFDR rules**. **63%** of the respondents mention **ESG features** in their **product related documentation**

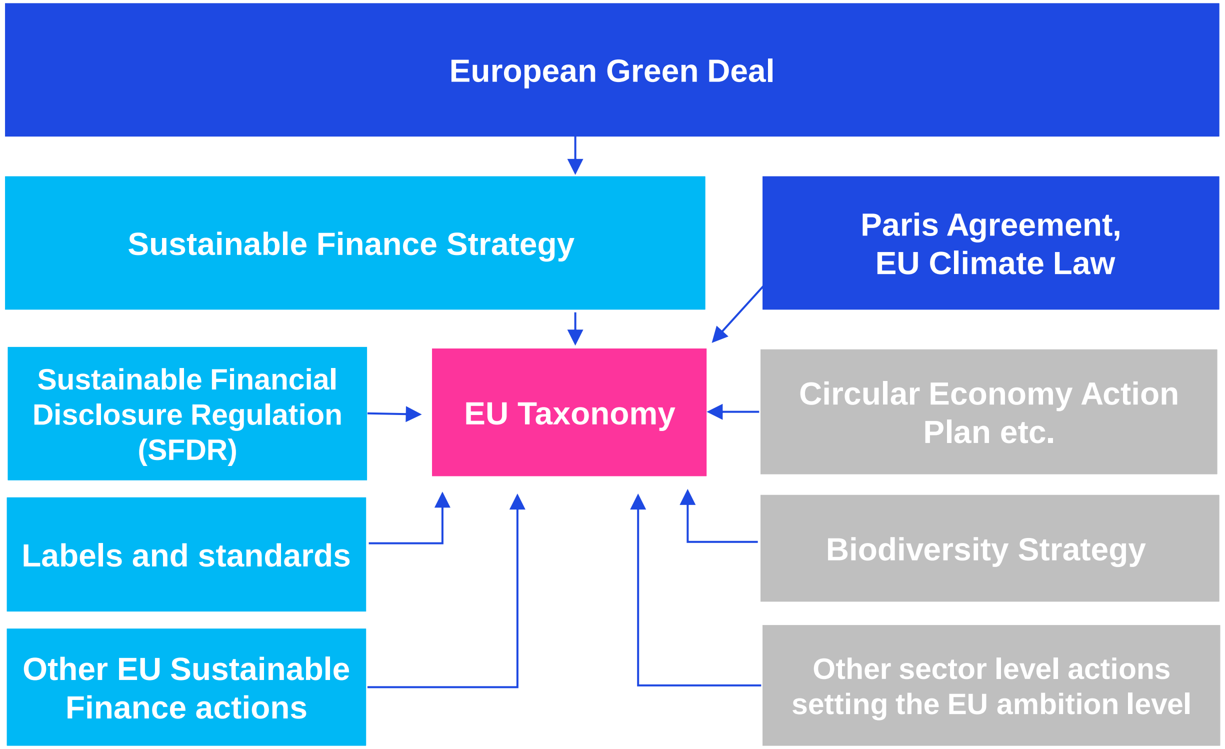
**~57%** **consider historical and forward-looking risks while modeling climate risks in underwriting**

**46%** of the respondents **focus on reduction of scope 1 emissions and decarbonization of investment portfolio**, with respect to their **net zero goals**

*The survey received 72 responses from mostly European countries, but also from the U.S.A., South Africa, Malta and Bermuda.

# EU taxonomy – a common definition of sustainability for financial markets

- A classification system for what activities make a sustainable contribution to EU environmental objectives
- Creates transparency and security for investors and companies and reduces risk of greenwashing
- Is based on legislation and provides a basis for development of sustainability labels, standards and potential prudential rules
- Enforces reporting on taxonomy alignment but does not limit investment decisions
- Is science based, ambitious and harmonized




**Directing funds to sustainable growth**

**Reducing risk to the stability of the financial system that may be caused by climate change and other environmental hazards**

# EU Commission's factsheet on taxonomy's uptake in the markets*

### Increased CapEx since 2023

In 2023, around 600 European companies reported CapEx into Taxonomy-aligned activities of **€191bn**. Thus far in 2024, companies have already reported **€249bn**, signaling significant growth. These numbers are expected to grow further as companies start to report on the four environmental objectives of the Taxonomy, increasing the scope of eligible companies.

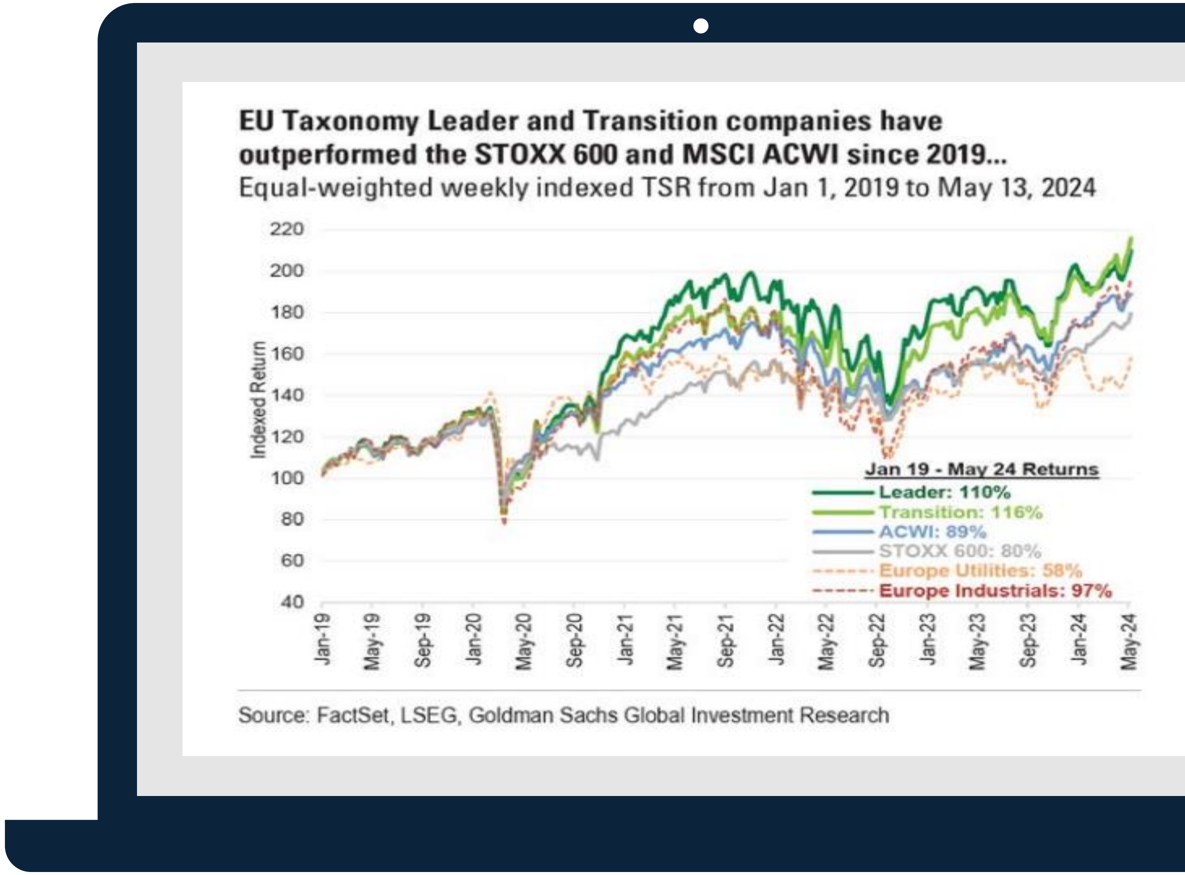
### 56% of EU funds promote sustainability

These funds either promote environmental or social characteristics or have a sustainable investment objective as disclosed according to the Sustainable Finance Disclosure Regulation (SFDR). The assets aligned with the Taxonomy form a small, but growing part of what these funds invest in.

### Reference for public sector green bonds

In 2023, **90%** of green bonds issued by EU public actors referenced the EU Taxonomy to illustrate their commitment of using the raised funds for green projects.

Stock market data indicates that alignment to the Taxonomy correlates with positive market performance as companies disclosing high Taxonomy figures have outperformed the overall market in recent years (see graph below).








*Published on June 2024. [Factsheet: The EU Taxonomy's uptake on the ground (europa.eu)]

# Large U.S. companies plan to increase spending on sustainability reporting

EcoOnline, a SaaS technology company for chemical safety, EHS and ESG, conducted a survey for 95 C-suite executives, vice presidents and directors from Californian companies with 500m$+ revenue.

**The survey shows that:**

| 59% | 85% | 0% | 80% |
|---|---|---|---|
| of respondents view sustainability as a way to drive revenue growth, with 94% seeing it as a means to increase brand value. | of respondents plan to increase their sustainability budgets within the next three years. However, only 25% of companies have specific budgets fully funded and prioritized by the C-suite and board. | respond that they are waiting for laws before putting capabilities in place. | provide suppliers and partners with template and requirements for reporting to collect data on scope 3 emissions. |

**Source:** Survey Reveals 80% of US Companies Building To Net-Zero | EcoOnline US

# Ways of integrating sustainability into financing

## 01

### Specified Use of Proceeds

- The funds raised are used for projects that benefit the environment and are announced in advance
- Based on the use of funds, it is possible to quantify and report on the impact of the investment on the environment
- Independent verification of the use and impact of funds increases credibility
- The investment’s greenness must be determined by the company and the advisers/verifiers, or it can be based on certificates and/or standards (e.g. EU taxonomy, Green Bond Principles, Climate Bond Principles)

## 02

### Sustainability-linked loans/ bonds

- General purpose financing, i.e., the funds received can be used for all kinds of business needs
- The lending margin is linked to the achievement of pre-determined sustainability objectives
- Sustainability targets and metrics are defined by the company
- The achievement of the targets is publicly reported

## 03

### Sustainable investment strategies

- Negative screening (exclusions)
- Positive screening (best in class)
- ESG integration
- Thematic investments
- Impact investments
- Active ownership / engagement

# Sustainable Finance Best Practices:

Public reporting and 3rd party verification

Science-based scenarios

Measurable, time-bound and outcome-oriented targets

Do No Significant Harm: Consider the wider environmental and social impacts

Decarbonization pathways aligned with the goal of limiting global warming to 1.5 degrees

Metrics to track development

# ESG yritysjärjestelyissä

**Riikka Weber**
Senior Manager
Sustainable Finance and Corporate Sustainability, KPMG

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24.9.2024

# KPMG Global ESG due diligence+ study

**KPMG performed the first global study on ESG due diligence in M&A transactions during 2024. It builds on our 2022 landmark international study on ESG due diligence — the first in this space — that covered the Europe, Middle East and Africa (EMEA) region. A US follow-up study was released in 2023.**

The report is based on three main sources:

- A global online survey with over 600 active dealmakers across 35 geographies
- An interview series with 50 interviewees
- Complimentary market observations from KPMG solution leaders across our global network
- A total of 617 responses were collected via the online survey

[Global ESG due diligence study 2024 - KPMG Finland]

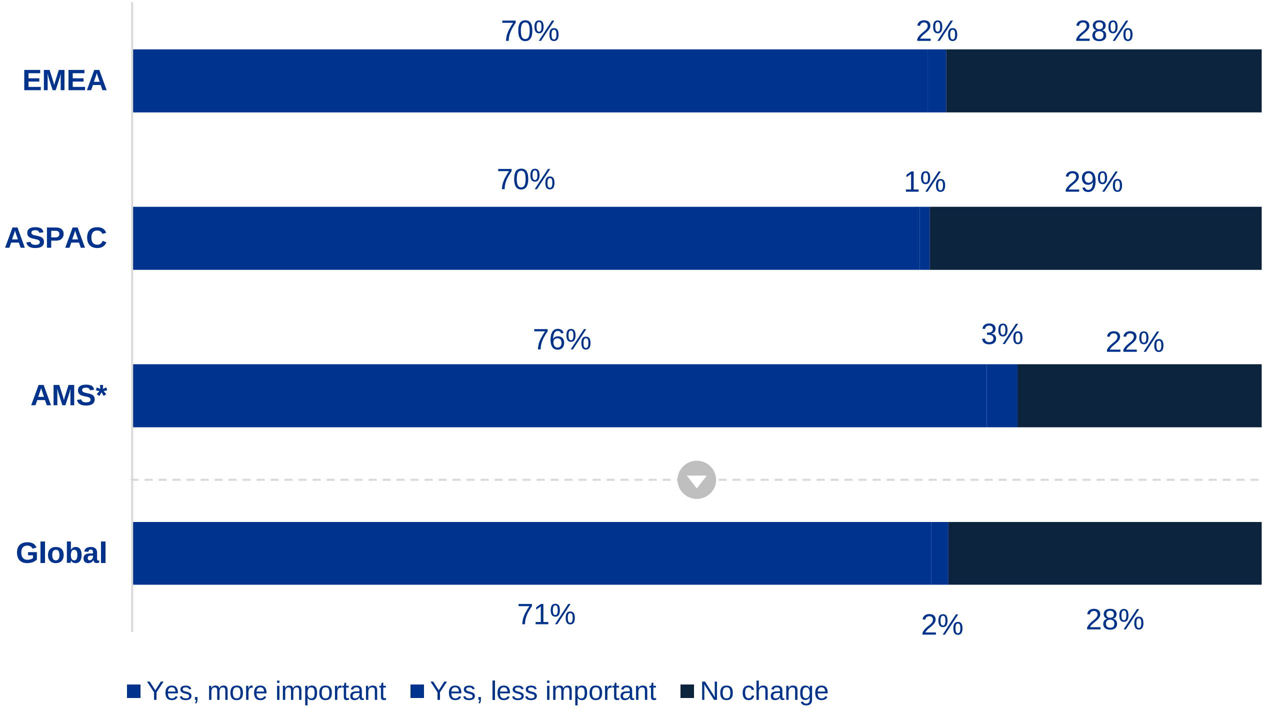
# Global insights at a glance

**ESG due diligence continues to rise in importance, despite headwinds.**

Dealmakers report an increased importance of ESG due diligence over the past 12 to 18 months, and expect further increases soon.

This is despite a decline in the importance of ESG factors due to softer M&A activity, economic uncertainty and an ESG backlash in some geographies.

## Has the priority of ESG in transactions changed for you over the past 12 to 18 months?




*Note: The statistics presented for the Americas are based on respondents in Canada, South America and the Caribbean Islands. See notes in the Methodology section of the report.

# Why perform an ESG DD?

## The 2024 KPMG DD global study indicated that ESG plays a crucial role in the M&A process due to its ability to mitigate risks, enhance performance and ensure regulatory compliance

### Risk Mitigation

Assessing ESG factors helps identify potential risks that could affect the financial performance and reputation of a company.

### Long – Term Value Creation

Addressing ESG practices can contribute to operational efficiency, reduce costs, and enhance the overall performance of a company.

### Stakeholder Expectations

Addressing ESG considerations in M&A helps companies meet stakeholder expectations and maintain or enhance their reputation.

### Regulatory Compliance

Ensuring that a company aligns with all relevant regulations is crucial to avoiding legal and financial consequences post-acquisition.

### Access to Capital

Companies with strong ESG practices may have improved access to capital. This can include favourable terms for financing and a lower cost of capital.

### Employee Engagement

Companies that prioritize a positive workplace culture, diversity and inclusion are more likely to attract and retain top talent and be known as an employer of choice.

**Sources:** [1] KPMG global due diligence study 2024

# Benefits of ESG due diligence

**59%**

of survey respondents are willing to pay a premium of between 1%-10% for assets with high ESG maturity[1].

**44%**

Agree that ESG due diligence supports them in their ability to meet regulatory requirements[1]

**71%**

Agree that prioritising ESG considerations has become more important in the past 12-18 months[1]

**Sources:** [1] KPMG global due diligence study 2024

# Leading investors tie ESG to the investment thesis and drive financial value from it

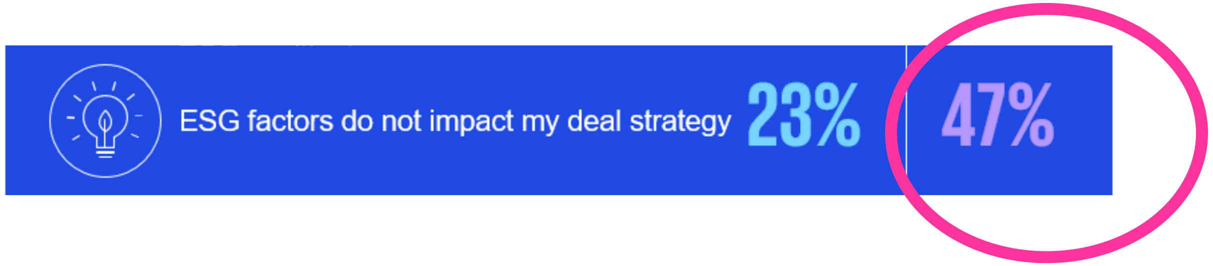
> ESG in deal is rapidly maturing. The ESG lens is becoming increasingly important to investors and customers. The difficulty lies in the breadth of the topic, making it critical to know how to look at it in a focused manner. That's why we focus on value not values."
>
> **Craig Mennie**
> Global Head of Transaction Services
> KPMG Australia

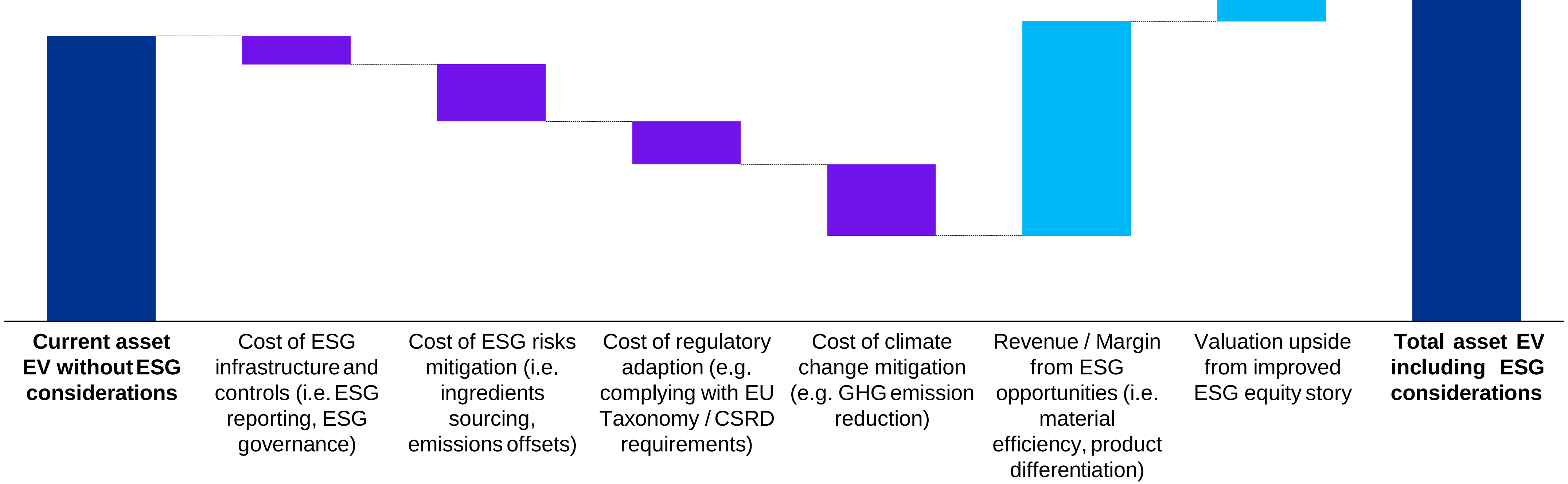
## How do ESG considerations impact your deal strategy?

| | Financial investor | Corporate investor |
|---|---|---|
| We have acquired/are looking to acquire targets that have ***potential for an "ESG transformation"*** (even in the face of low current ESG performance) | 61% | 28% |
| We have acquired/are looking to ***acquire targets due to their (superior) ESG performance*** or potential future return profile in connection with their ESG positioning | 45% | 24% |
| ESG factors do not impact my deal strategy | 23% | 47% |
| We have divested/we are considering divesting assets due to their (sub-par) ESG performance or expectation of future sub-par ESG positioning | 11% | 24% |

Note: The statistics presented for the Americas are based on North American respondents in Canada, South America and the Caribbean Islands. See notes in the methodology section of the report.

# Monetizing the ESG impacts and actions



# Valuation Approach

**Identify** ESG risks and opportunities. Use  e.g. the SASB materiality matrix to identify the ESG factors relevant to the business.

**Define** the value drivers of a business. Develop an understanding of the operational, investing, and financing activities of the business.

**Prioritize and match** the ESG factors to key value-drivers based on materiality maps and other considerations (Qualitative exercise). Match the ESG factors to revenues, costs, and investments based on information from management inputs, SASB matrix, ESG due diligence report(s), amongst others.


**Perform** sanity checks based on capital market insights. Apply discounts/premiums to market multiples based on the relative ESG position of the business vis-à-vis the peer group**.**

**Quantify** the impact of ESG factors on key value drivers (quantitative exercise). Seek information from client inputs (if-then analysis), industry/peer group benchmarking and input from sustainability teams.

**Determine** scenarios based on materiality. Attach probabilities and weightings to the various ESG scenarios based on materiality by using simulation tools.

**Adjust** the discount rate. Determine if ESG factors are already factored in the discount rate and cash flows; if not, the application of discount/premiums can be considered though it is not a preferred approach.

# Tulevat tapahtumat

**2.10.2024 KPMG, FIBS ja Finsif yhteistilaisuus**

Kestävän liiketoiminnan rahoitus ja tietotarpeet

**20.11.2024 CXO keskustelutilaisuus**

Teema tarkentuu myöhemmin