Improving climate-related and environmental disclosure practice

Baltics region workshop, 27 January 2021
Welcome and introductions

Liene Dubava, Nasdaq Baltic Exchanges
Why Should You Care About ESG?

90% of millennial investors want to tailor their investments to ESG goals:

Growing demographic segments have strong interest in ESG and sustainability efforts by corporate and sovereign entities.

- **Climate Change**
  - Will put a growing premium on good stewardship and low carbon practices as natural assets will appreciate in value over time.

- **Artificial Intelligence**
  - Will allow for better interpretation of alternative financial information related to environmental, social and governance data.

- **ESG Indexes**
  - Favor companies with healthy balance sheets, stronger competitive advantages and lower volatility than their counterparts.

73% of investors responding to a CFA Institute survey said they take ESG issues into account in their investment analysis and decisions.

Global market for sustainable investments has increased in five years over 300% as of December 2017, there were 267 index-tracking sustainable funds, with assets under management of $102 billion worldwide.
## Nasdaq’s Key Sustainability Initiatives

<table>
<thead>
<tr>
<th>Environmental (E)</th>
<th>Social (S)</th>
<th>Corporate Governance (G)</th>
</tr>
</thead>
<tbody>
<tr>
<td>E1. GHG Emissions</td>
<td>S1. CEO Pay Ratio</td>
<td>G1. Board Diversity</td>
</tr>
<tr>
<td>E2. Emissions Intensity</td>
<td>S2. Gender Pay Ratio</td>
<td>G2. Board Independence</td>
</tr>
</tbody>
</table>

Nasdaq’s Key Sustainability Initiatives for Companies

We simplify the reporting of sustainability efforts for listed and private companies globally.

- **Sustainable Debt Markets**
  - We operate one of the leading markets for green, social and sustainable debt products, including bonds, structured products and commercial papers.

- **ESG Data Portal**
  - Nasdaq listed companies release data in portal and showcase ESG efforts effectively.

- **Sustainable Bond Network**
  - Efficient reporting solutions and increased transparency for all issuers of sustainable bonds.

«Green leaf » for Sustainable bonds on Baltic Bond List

- 66 issuers
- 17 countries
- 16 currencies
- 2/3 of all sustainable bonds in the world (~4000)
Nasdaq’s Key Sustainability Initiatives for investors

**ESG Footprint**
Retail-friendly service that lets professional and retail investors see the total ESG impact of their portfolios.

**ESG Data Portal**
Objective and quantifiable Environmental, Social and Governance data directly from listed companies.

**Sustainable Bond Network**
Offers detailed information on sustainable bonds for investment due diligence, selection and monitoring.

**ESG Index & Index Future**
We give investors the opportunity to invest in companies that take responsibility for a more sustainable future.

**Intuitive overview of the sustainability profile of a portfolio**
Data from more than 80 sources.
Analysis benchmarked against any index.

• Data for 7 Nordic & Baltic countries
• Widest range of direct-source environmental, social and corporate governance data
• Captures future looking metrics to understand a company’s ESG roadmap

• Standardised market data in an easy to integrate format
• Simplify green investment decisions
• Analyse impact of your sustainable bond portfolio

• The world’s first ESG compliant ESG index, the OMXS30
Speakers

Anthony Miller
Coordinator, UN Sustainable Stock Exchanges Initiative

Liene Dubava
Head of Issuer Services, Nasdaq Baltic Exchanges

Nontokozo Khumalo
Corporate Engagement Manager, CDSB

Michael Zimonyi
Policy & External Affairs Director, CDSB

Francesca Recanati
Environmental Specialist (Technical Manager), CDSB
Introduction to CDSB

Nontokozo Khumalo, Corporate Engagement Manager
To provide decision-useful environmental information to markets via the mainstream corporate report
CDSB Technical Working Group

Accompanied by 4 independent members
CDSB Board

- World Resources Institute
- World Economic Forum
- IETA (International Emissions Trading Association)
- The Climate Registry
- SASB (Sustainability Accounting Standards Board)
- Ceres
- WBCSD (World Business Council for Sustainable Development)
- CDP (Corporate Knights)
- Climate Group
Workshop interaction

Feel free to interrupt us to ask questions, share your views and experiences

- You can use chat function to make comments or ask questions or raise your hand to speak (remember to unmute yourself);
- If you are not speaking, please remain on mute;
- Slides and recordings will be sent to participants after the event.
Common disclosure questions

What does good practice look like?

Where should this information be disclosed?

What are the tools I can use to disclose?

Where should we start?
Global trends in ESG guidance and regulatory requirements

Anthony Miller, UN Sustainable Stock Exchanges Initiative
Global context
ESG disclosure now mainstream

Source: SSEinitiative.org/data
ESG disclosure now mainstream

Exchanges with written guidance on ESG Disclosure

Exchanges with mandatory ESG disclosure listing requirements

Source: SSEinitiative.org/data
Key takeaway messages

- Stock exchanges and policy makers recognize the **new policy environment** and are increasingly integrating ESG into their products and services.

- Today, ESG disclosure is a **market expectation** around the world.

- By 2030, it is likely to be mandatory in most markets.
Recent developments in reporting

Michael Zimonyi, Policy & External Affairs Director
Update on EU policy developments on non-financial reporting and beyond

- **11<sup>th</sup> Dec 2019**: European Green Deal published, including review of the Non-Financial Reporting Directive (NFRD);

- **End of January 2021**: European Financial Reporting Advisory Group (EFRAG) to publish final recommendations on the development of EU Non-Financial Reporting Standards;

- **March 2021**: Publication of renewed sustainable finance strategy, including NFRD review and proposals on sustainable corporate governance (directors’ duties and due diligence obligations);

- **January 2022**: Companies expected to report on taxonomy alignment with climate-related objectives (first disclosures expected in 2023 on reporting year 2022)
Comprehensive corporate reporting

Developments

The independent sustainability standard-setters, together with the integrated reporting framework provider, are collaborating to present their frameworks and standards as a coordinated solution.

The IASB Conceptual Framework can be used with minimal adaptations to meet the conditions required for sustainability reporting standards.

There is a necessity for a dynamic materiality to meet the needs of a fast moving landscape act as a filter on non-financial information to reflect both enterprise value creation and financially material impacts.

The TCFD recommendations have been embraced by the market as the way to help investors and others understand how reporting organisations assess climate-related risks and opportunities.
Mainstream authorities join in on ESG
What is driving climate-related and environmental financial reporting?
Climate risk, an "existential challenge"

The OECD estimates that a Business-as-usual scenario could hurt GDP by between 2% and 10% by 2100.

Quote: ‘Climate change is the great existential challenge of our times.’ Christine Lagarde, President of the European Central Bank and former Managing Director of the IMF.
Unprecedented loss of nature

“Biodiversity and nature’s contributions to people are our common heritage and humanity’s most important life-supporting ‘safety net’. But our safety net is stretched almost to breaking point.”

Prof. Sandra Díaz (Argentina), IPBES Global Assessment

100 million hectares of tropical forest lost in 20 years

75% of terrestrial environment “severely altered” by human actions

USD 4-20 trillion per year in ecosystem services lost (1997 – 2011)

1 million species at risk of extinction

50% of live coral reefs lost since 1870s

Business depends on natural capital

Source: Natural Capital Protocol
Environmental risks are financial risks

**Risks**

- **Policy and Legal**
  - Carbon pricing and reporting obligations
  - Mandates on and regulation of existing
  - Products and services
  - Exposure to litigation

- **Technology**
  - Substitution of existing products and services
  - with lower emissions options
  - Unsuccessful investment in new technologies

- **Market**
  - Changing customer behavior
  - Uncertainty in market signals
  - Increase cost of raw materials

- **Reputation**
  - Shift in consumer preferences
  - Increased stakeholder concern/negative feedback
  - Stigmatization of sector

- **Physical**
  - Acute: Extreme weather events
  - Chronic: Changing weather patterns and rising mean temperature and sea levels

**Opportunities**

- **Use of more efficient modes of transport and production and distribution processes**
- **Use of recycling**
- **Move to more efficient buildings**
- **Reduced water usage and consumption**

- **Use of lower-emission sources of energy**
- **Use of supportive policy incentives**
- **Use of new technologies**
- **Participation in carbon market**

- **Development and/or expansion of low emission goods and services**
- **Development of climate adaption and insurance risk solutions**
- **Development of new products or services through R&D and innovation**

- **Access to new markets**
- **Use of public sector incentives**
- **Access to new assets and locations needing insurance coverage**

- **Participation in renewable energy programs and adoption of energy-efficiency measures**
- **Resource substitutes/diversification**

**Financial Impact**

- **Income Statement**
- **Cash Flow Statement**
- **Balance Sheet**

**Strategic Planning Risk Management**

- **Revenues**
- **Expenditures**
- **Assets & Liabilities**
- **Capital & Financing**

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27 January, 2021 | © Climate Disclosure Standards Board | Tweet @CDSBGlobal
Financial impacts

- asset impairment;
- changes in the useful life of assets;
- changes in the fair valuation of assets due to climate-related and emerging risks;
- increased costs and/or reduced demand for products and services affecting impairment calculations and/or requiring recognition of provisions for onerous contracts;
- potential provisions and contingent liabilities arising from fines and penalties; and
- changes in expected credit losses for loans and other financial assets.

“In general, inadequate information about risks can lead to mispricing of assets and misallocation of capital and can potentially give rise to concerns about financial stability since markets can be vulnerable to abrupt corrections.”

TCFD Recommendations Report
Frameworks and tools for management and disclosure
FSB Task Force on Climate-related Financial Disclosures

“In the future, disclosure will move into the mainstream, and it is reasonable to expect that more authorities will mandate it.”

— Mark Carney, Former Chair of FSB, Governor of the Bank of England.

“Increasing transparency makes markets more efficient, and economies more stable and resilient.”

— Michael R. Bloomberg, Chair, TCFD.
TCFD recommendations

- Voluntary
- Report climate-related financial disclosures in the annual financial filings (mainstream report)
- Financial sector & high risk non-financial sectors
- Transition risks & physical risks (and opportunities)
- Scenario analysis & forward-looking information
- Short-term, medium-term & long-term
- Qualitative & quantitative disclosures
<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics and Targets</th>
</tr>
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<tbody>
<tr>
<td>Disclose the organization’s governance around climate-related risks and</td>
<td>Disclose the actual and potential impacts of climate-related risks and</td>
<td>Disclose how the organization identifies, assesses, and manages climate-related</td>
<td>Disclose the metrics and targets used to assess and manage relevant climate-related</td>
</tr>
<tr>
<td>opportunities.</td>
<td>opportunities on the organization’s businesses, strategy, and financial</td>
<td>risks.</td>
<td>risks and opportunities where such information is material.</td>
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<tr>
<td></td>
<td>planning where such information is material.</td>
<td>a) Describe the organization’s processes for identifying and assessing climate-related risks.</td>
<td>a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</td>
</tr>
<tr>
<td>a) Describe the board’s oversight of climate-related risks and opportunities.</td>
<td>a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</td>
<td>b) Describe the organization’s processes for managing climate-related risks.</td>
<td>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</td>
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<tr>
<td></td>
<td></td>
<td>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.</td>
<td>c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</td>
</tr>
<tr>
<td>b) Describe management’s role in assessing and managing risks and</td>
<td>b) Describe the impact of climate-related risks and opportunities on the</td>
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<tr>
<td>opportunities.</td>
<td>organization’s businesses, strategy, and financial planning.</td>
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<td></td>
<td>c) Describe the resilience of the organisation’s strategy, taking into</td>
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<td></td>
<td>consideration different climate-related scenarios, including a 2°C or</td>
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<td></td>
<td>lower scenario.</td>
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**Workshop: Improving climate-related and environmental disclosure practice**
Embedding environmental risks

Risk management process

- Identify
- Measure
- Manage
- Monitor
- Disclose

Transition risks

- Credit risk
- Market risk
- Strategic risk
- Operational risk

Physical risks

Workshop: Improving climate-related and environmental disclosure
# The CDSB Framework

The guiding principles are designed to ensure that environmental information shall be:

<table>
<thead>
<tr>
<th>P1</th>
<th>Prepared applying the principles of relevance and materiality</th>
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<tbody>
<tr>
<td>P2</td>
<td>Faithfully represented</td>
</tr>
<tr>
<td>P3</td>
<td>Connected with other information</td>
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<tr>
<td>P4</td>
<td>Consistent and comparable</td>
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<tr>
<td>P5</td>
<td>Clear and understandable</td>
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<tr>
<td>P6</td>
<td>Be verifiable</td>
</tr>
<tr>
<td>P7</td>
<td>Be forward-looking</td>
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## Reporting Requirements

<table>
<thead>
<tr>
<th>REQ-01 Governance</th>
<th>REQ-07 Organisational boundary</th>
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</thead>
<tbody>
<tr>
<td>REQ-02 Management’s environmental policies, strategy and targets</td>
<td>REQ-08 Reporting policies</td>
</tr>
<tr>
<td>REQ-03 Risks and opportunities</td>
<td>REQ-09 Reporting period</td>
</tr>
<tr>
<td>REQ-04 Sources of environmental impact</td>
<td>REQ-10 Restatements</td>
</tr>
<tr>
<td>REQ-05 Performance and comparative analysis</td>
<td>REQ-11 Conformance</td>
</tr>
<tr>
<td>REQ-06 Outlook</td>
<td>REQ-12 Assurance</td>
</tr>
</tbody>
</table>
From climate to natural capital – the CDSB Water Guidance

Francesca Recanati, Environmental Specialist, CDSB
The CDSB Framework for reporting environmental & climate change information

- Climate Guidance
  July 2020
- Water Guidance
- Future guides
Water and business

• **US$ 4.2 tln** is the annual economic activity of major world cities at risk due to water-stress (World Bank);

• **US$ 425 bln** is combined business value at risk reported by companies reporting to CDP in 2019; and

• **25%** of investments by Dutch financial institutions is dependent on freshwater ecosystems (~€ 350bln; DNB)

Water is an essential resource for business

- Direct inputs into operations
  - Energy (e.g. hydropower, cooling)
  - Agriculture
  - Tourism
  - Recipient of effluents

Baltics

- **Overfishing** and **pollution** - alteration of Baltic sea ecosystem and depletion of renewable resources;
- **Eutrophication** (97% of Baltic Sea) - due to agriculture
- Effects of climate change exacerbate these issues and affect **freshwater availability** (!)
The CDSB Water Guidance

Overview

The CDSB Water Guidance:

• supports companies
  1. in reporting **material** water-related information in the mainstream report;
  2. in providing decision-useful water-related information for **investors**;

• adds a layer of practical detail to the CDSB Framework by drawing **water-specific** challenges and **reporting elements** from existing water-specific reporting standards and frameworks; and

• is **aligned with TCFD** recommendations and other global standards
Alignment

Mapping CDSB to TCFD and other reporting standards
CDSB Technical Working Group on water

Over 60 members in the Technical Working sub-Group on water-related disclosures.

https://www.cdsb.net/about-cdsb/technical-working-group/technical-working-group-water-related-disclosures
Content overview and tools
REQ-01 to REQ-06 of the CDSB Framework

• Detailed reporting suggestions and guidance to compliment the CDSB Framework requirements;
• Disclosure checklists;
• References to useful external resources; and
• Examples of good practice from corporate mainstream reports

<table>
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<tr>
<td>REQ-06 Outlook</td>
</tr>
</tbody>
</table>
The timeline

- **Literature Review**
- **1st Draft**
- **Roundtables**
- **Pilot groups with companies**
- **Final version**
- **Public consultation**
  - Nov. 25th - Mar. 1st
- **Report_templates**
- **Case studies**

- **2020**
  - Jul
  - Sep
  - Oct
  - Nov
  - Dec
- **2021**
  - Mar
  - May
  - Jul

Legend:
- engagement
- report/publication
How to contribute (1)

Open Consultation

Download the draft guidance and the feedback form on CDSB’s website

Answer 18 optional questions

• Two questions specific for reporting companies
• Five questions specific for investors

Submit your comments by 1 March 2021

www.cdsb.net/WaterConsultation

info@cdsb.net
How to contribute (2)

Testing the Guidance – pilot groups

1. Contact francesca.recanati@cdsb.net
2. Go through the guidance and test it to prepare your mainstream report.
3. Fill the attached feedback form and send it back to us.
4. Feedback session (optional)
The state of EU environmental disclosure in 2020
CDSB conducted a detailed review of 50 EU companies’ reports

- US$ 3.5 trillion market capitalisation
- Manual review of reports in detail
- NFRD content categories and TCFD
- Mainstream reports

Distribution of company sample by jurisdiction:

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials</td>
<td>2</td>
</tr>
<tr>
<td>Communication Services</td>
<td>2</td>
</tr>
<tr>
<td>Utilities</td>
<td>3</td>
</tr>
<tr>
<td>Information Technology</td>
<td>3</td>
</tr>
<tr>
<td>Energy</td>
<td>3</td>
</tr>
<tr>
<td>Health Care</td>
<td>5</td>
</tr>
<tr>
<td>Industrials</td>
<td>6</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>8</td>
</tr>
<tr>
<td>Financials</td>
<td>9</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>9</td>
</tr>
</tbody>
</table>

Sample distribution by industry sector:

- 1 Finland
- 3 Sweden
- 1 Ireland
- 3 Denmark
- 6 Netherlands
- 1 Belgium
- 6 Germany
- 16 France
- 6 Spain
- 4 Italy
Findings summary

- Some aspects of disclosure have improved, but other aspects of disclosure have not progressed since 2019;
- Key gaps remain on TCFD aligned risk disclosure, use of scenario analysis and disclosure on topics beyond climate;
- Information on policies and risks relating to deforestation and forest degradation or biodiversity not commonly provided;
- Overall improvements are still required to completeness, coherence and clear application of materiality to support informed investor decision-making.
Business model
A growing number of companies are able to demonstrate strategic integration of environmental issues into their business model

- Growth in the number of companies providing clear and specific disclosures on their business model;
- However 48% continue to provide no or only generic information which did not fully explain the significance of environmental matters for overall value creation;
- 78% included information at the outset of their mainstream report.

<table>
<thead>
<tr>
<th>Business model disclosure</th>
<th>% of companies reviewed</th>
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</thead>
<tbody>
<tr>
<td>No disclosure on environmental aspects</td>
<td>12% 6%</td>
</tr>
<tr>
<td>Referenced environmental aspects at a high-level only</td>
<td>54% 42%</td>
</tr>
<tr>
<td>Provided clear and specific disclosure on environmental aspects</td>
<td>34% 52%</td>
</tr>
</tbody>
</table>
Principal risks

Great specificity and quantification in environmental and climate risk disclosures is required

- Majority do disclose at least one principal environmental risk and 74% now consider both physical and transition climate risks;
- Risk descriptions often generic;
- 96% do not clarify risk time horizons;
- Business-specific impacts of identified risks often not quantified or clarified; and
- Cross reference and integration between non-financial and other risk disclosures key to ensuring coherence.

<table>
<thead>
<tr>
<th>Disclosure of climate-related risks</th>
<th>% of companies reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearly described impacts over short, medium and long-term</td>
<td>6%</td>
</tr>
<tr>
<td>Specifically address the impact of risks on the business model</td>
<td>42%</td>
</tr>
<tr>
<td>Considered both physical and transition climate risk types</td>
<td>54%</td>
</tr>
<tr>
<td>Disclosed principal environmental or climate risks</td>
<td>90%</td>
</tr>
</tbody>
</table>
Recommendations for companies

1. Accompany policies with specific and measurable commitments which can then be used to structure non-financial disclosures and provide transparent progress updates;

2. Disclose information on environment and climate risks in a business-specific manner, clarifying impacts and time horizons

3. Focus disclosure of performance indicators in the mainstream report on those which are used to measure progress on environment and climate policies and that are linked to material risks

4. Adopt the TCFD recommended disclosures in full, in particular integrating information into the mainstream report where it is deemed material

5. Clarify the materiality of environmental and climate-related issues to the business, explaining how mainstream, and wider sustainability reporting if appropriate, is informed by this; and

6. Disclose environmental and climate-related information deemed to be financially material in the mainstream report, to ensure it is available to an investor audience and can be considered holistically alongside overall strategic and financial performance.
Practical implementation
What does good practice look like?

Nontokozo Khumalo, Corporate Engagement Manager
Business model: **Eni**

Eni’s business model is focused on creating value for its stakeholders and shareholders through a strong presence along the whole value chain. Eni, as an integrated energy company, contributes, directly or indirectly, to achieve the goals of Sustainable Development (SDGs) of the UN 2030 Agenda, supporting a socially equal energy transition responding through concrete, quick and economically sustainable answers to the challenge of combating climate change and giving access to the energy resources in an efficient and sustainable way, overall. To manage this effectively, Eni integrates organically its industrial plan with the principles of environmental and social sustainability, enlarging its actions along three directives:

1. **operational excellence**, 
2. **carbon neutrality in the long term**, 
3. **alliance for development**.

**VALUE CREATION FOR STAKEHOLDER AND SHAREHOLDER THROUGH AN INTEGRATED PRESENCE ALONG THE ENERGY VALUE CHAIN**

**OPERATIONAL EXCELLENCE**
- Hse, Human Rights & Integrity
- Efficiency
- Resilience
- Capital discipline

**CARBON NEUTRALITY IN THE LONG-TERM**
- Life cycle GHG emissions approach
- Set of concrete levers for portfolio decarbonisation

**ALLIANCE FOR DEVELOPMENT**
- Dual Flag approach
- Public-private partnership
- Jobs creation and know-how transfer

**FLEXIBLE PORTFOLIO EVOLUTION AND ORGANIC GROWTH**

**NET CARBON EMISSIONS AND NET CARBON INTENSITY REDUCTION**

**LOCAL DEVELOPMENT PROGRAMME IN ACCORDANCE WITH 2030 AGENDA**

Refer to p.4 of **Eni Annual Report 2019**

Eni includes a business model description at the start of the annual report which is cross-referenced in the non-financial statement. The description highlights the company’s aim to play a role in the transition to a low carbon future and how goals are aligned to SDGs and combating climate change.
Due Diligence: Telefónica

Telefónica’s Consolidated Annual Report 2019 includes and clear yet succinct articulation of its governance model, clarifying the issues it pertains to and responsibilities at different levels of the organisation.

Refer to pg. 63 of Telefónica’s Consolidated Annual Report 2019
Due Diligence: Kering

Governance and organization
Kering’s Sustainability Department defines the Group’s Sustainability Strategy and policies, and supports the Houses by operating as a resource platform and sounding board, with a view to setting out and building on the initiatives taken individually by each brand. More than 20 specialists, who report to the Chief Sustainability Officer and Head of International Institutional Affairs, a member of the Executive Committee, assist the Houses with the implementation of the Group’s Sustainability Strategy by systematically looking for potential synergies and continuous improvement. A dedicated team has also been established within Kering group Operations, the entity tasked with managing supply chain, logistics and industrial operations on behalf of the Group’s Luxury Houses. In addition, each House has at least one Sustainability Lead and for the larger Houses, entire Sustainability teams. As a result, Kering’s Sustainability team numbers more than 60 people.

From a governance standpoint, a Sustainability Committee was established at Board level in 2012. Comprising four Directors (François-Henri Pinault, Jean-François Palus, Daniela Riccardi and Sapan Sood), it provides advice on and guides the Group’s Sustainability Strategy.

On February 11, 2019, the Board of Directors designated Sophie L’Hélias as Lead Independent Director. In coordination with the Chairman, Sophie L’Hélias represents the Board in its dealings with investors concerning environmental, social and governance (ESG) matters.

The Sustainability Committee met on November 13, 2019 to review progress on ongoing projects and initiatives, and the outcomes already achieved in relation to the 2025 objectives, with a particular focus on the Group’s goals in terms of carbon offsetting and the activities of the Ethics Committees. The Committee’s review of the objectives of the Group’s managers in terms of non-financial sustainability teams. As a result, Kering’s Code of Ethics, which was updated at the end of 2018 and circulated for the second time to all employees worldwide in 2019, was approved by the Board of Directors on March 14, 2019. Lastly, a meeting providing a broad overview of progress on the Sustainability Department’s projects was held for non-executive members of the Board of Directors on February 11, 2020.

In 2019, in response to growing interest for non-financial issues in the financial sector, Kering held its first ESG roadshow for key investors to present the Group’s approach. The event was organized with the assistance of Sophie L’Hélias, the Group’s Lead Independent Director, who also attended.

Kering’s 2019 Universal Registration Document details the roles with regards to ESG strategy and policies including the Sustainability Committee established at board level. Detail on board member roles including with regards to investor ESG engagement are outlined. The disclosure in addition provides information on topics addressed in the Sustainability Committee meeting, e.g. carbon offsetting.
Outcomes: Banco Santander

We believe that we can support our customers by helping them make the transition to the green economy. So we aim to raise or facilitate the mobilization of 120Bn euros between 2019 and 2025, and 220Bn euros between 2019 and 2030 in green finance to help tackle climate change.\(^A\)

A. SCIB’s contribution to green finance target includes: Project Finance (lending): 5Bn; Project Finance (advisory): 6.1Bn; Green bonds (OCM): 1.9Bn; Export Finance (ECA): 0.3Bn; M&A: 3Bn; Equity Capital Markets: 2.2Bn. This information was obtained from public sources, such as lead tables from Dialogic or TFX. All roles undertaken by Banco Santander in the same project are accounted for. Other aspects related to sustainable finance in a social manner, such as financial inclusion or entrepreneurship, are not included.

To evidence the outcomes of its policies, Banco Santander clearly discloses quantitative targets and performance in a consistent manner against each of its policy commitments in the Annual Report 2019 for example Green Financing Activities.
**Principal Risks: Vinci**

**Climate change and increasing scarcity of resources**

Climate change has made extreme climate events more frequent and more severe, making environmental risks more significant for the Group’s activities. These risks include:

- **“Storms”,** a general term that includes weather events causing high winds and precipitation (rain, snow and hail);
- Wide variations in temperature (heat or cold waves);
- Flooding, from rivers overflowing their banks, run-off from heavy precipitation, or rising sea levels, which can cause landslides and exacerbate erosion;
- Landslides or other ground movements, such as the expansion and contraction of clay, which can affect buildings and infrastructure.

At the same time that the natural climate change is taking place, certain raw materials (minerals, rare metals, fossil fuels) are becoming more scarce, and regions subject to water stress are expanding. The Group’s activities depend on the availability of these resources. Their increasing scarcity has a direct impact on the Group’s ability to obtain the materials it needs for its projects and concessions.

**Identifying risks**

- Damage to installations and equipment
- Deterioration in health and safety conditions for employees
- Financial impact resulting from increased expenses necessary to maintain or repair damaged infrastructure and equipment, operating losses and construction delays
- Increasing scarcity of resources, expansion of regions subject to water stress
- Financial impact resulting from possible increases in the cost of certain materials
- Impacts on the Group’s image and reputation in the event of deficient quality of service, such as substandard work or missed delivery deadlines

**Risk management procedures**

- Prior identification of the risks affecting the specific area and implementation of technical facilities to mitigate extreme weather events (cofferdams, pumps, retention basins, cooling equipment, etc.)
- Establishing a business continuity plan (BCP) for certain assets (e.g. Kansai International Airport in Japan)
- Emergency procedures, in cooperation with local actors, to respond to extreme climate events (inclement weather, work stoppages for employees, equipment removal, etc.) and cooperation with local officials to implement appropriate emergency and work resumption measures
- Managing unplanned events with the appropriate insurance company departments
- Implementing ecologically designed solutions to reduce the use of certain raw materials and to reuse or recycle construction materials after demolition in a circular economy approach
- Identifying project sites facing water stress so as to adapt construction and operation methods
- Reducing water consumption and development of solutions to reuse water at certain sites

In Vinci’s Annual Report 2019 climate change is disclosed as a risk factor with a helpful description of impacts and risk management procedures.
Principal risks: **Business model impacts**

### Airbus

1. **Climate Change Risk on Aircraft and Industrial Operations**

   The air transport market and Airbus business and operations may be disrupted by climate change, air emissions related impacts and stakeholders expectations including those of society, regulators and customers.

   **Climate Change Mitigation**

   Developing lower emission products and services to satisfy those expectations will require breakthrough advances in technology research (e.g. development of energy storage for electric aircraft, electrical distribution in the aircraft, power to weight ratio of electrical machines, etc.).

   Airbus pursues incremental improvement of its programmes and has developed a dedicated organisation aimed at developing the future technologies that will be required. However, these technologies may not be available on time or may not deliver the required improvements to meet the climate objectives.

   The Company’s reputation may be affected if its or the sector’s expected contributions on GHG emission reduction are not delivered as defined by ATAG to support the Paris agreements. Society’s sensitivity to climate change leading to a change in passengers’ behaviour including preference for alternative means of transport may change the market and demand for air travel. The Company may face reduced demand for its products and may need to adapt its business model in consequence.

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### Danone

- **Fast changes in consumer preferences**

  - **Sustainability**
    - The evolution of consumers’ preferences and habits requires constant innovation and adaptation of Danone’s product range and overall supply chain. The diversification of tastes, eating & drinking habits and an increasing health, social and environmental awareness of consumers drive their purchases. Among the key trends in food and beverages, the most notable are:
      - the nutritional quality of the product;
      - packaging and recycling (risk included in the packaging part);
      - presence or absence of certain ingredients (for example sugar, protein, additives);
      - sustainable sourcing of ingredients with known social or environmental impact;
      - origin of products and transparency on companies behind the brand (strong trend on local); and
      - the carbon and water footprint of products.

   Authorities and retailers are also paying increasing attention to health, social and environmental concerns of consumers, in particular on the labeling of the nutritional quality and/or environmental footprint of products and packaging, as well as food waste.

   If Danone is unable (i) to anticipate rapidly enough changes in consumer expectations in terms of tastes, eating & drinking habits and environmental impacts, (ii) to identify such consumer trends, (iii) to translate such trends into appropriate product offerings and/or (iv) to keep pace with consumer preferences, the demand for the Company’s products and its sales could fail, the Company may incur losses and its activities, results and reputation could be negatively impacted.

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Refer to: pg. 56 of Airbus Universal Registration Document 2019 and pg. 22 of Danone Universal Registration Document 2019
Strategy – Scenario analysis: Iberdrola

Iberdrola has analysed its strategy in relation to various future climate scenarios, which analysis reveals that, generally, the group’s business model is sufficient to face the challenges arising from the energy transition, as well as the physical impact of climate change. Specifically, the scenarios described below have been analysed:

- **Two transition scenarios**, based on plausible projections prepared by the International Energy Agency within the framework of the [World Energy Outlook (WEO)](https://www.worldenergyoutlook.org), regarding the development of climate policies and the deployment of technologies to limit emissions of greenhouse gases.
  - Sustainable Development Scenario (SDS): scenario aligned with the achievement of the climate change goals agreed to in the Paris Agreement (<2°C), improvement in air quality and universal access to electricity in accordance with the UN SDGs. It is Iberdrola’s base strategy, and entails opportunities for the Company.
  - Stated Policies Scenario (STEPS): provides the path towards where the energy sector probably trends based on policies and measures that have already been implemented or announced. It is the base scenario for the World Energy Outlook (WEO) 2019 and involves opportunities for the Company.

Iberdrola provides a detailed description of both transition and physical scenarios used to assess climate impacts with conclusions on resilience of the business model.

Using Water Efficiently

Water is essential to the ongoing operation of our business and we rely on the availability of sufficient quantities of clean, fresh water to produce our products. From raw materials through to maintaining product safety and quality, water is a critical ingredient for our future success. Currently over two billion people live in countries experiencing high water stress and this is likely to increase as populations and their demands for water grow, and the effects of climate change intensify (UN World Water Development Report 2019).

With increasing pressure on this shared resource, we are aware of the importance of protecting water sources and using water as efficiently as possible. We ensure that we protect natural water sources by meeting all requirements relating to waste water from our sites and aim to reduce the amount of water we use by 7%, versus a 2013 baseline. We have a water reduction target at each site across the Group and continuously look for ways to conserve and reuse our water volumes. In 2019, we exceeded our target with a 9% reduction in water intensity, delivering on our Towards 2020 goal.

Against the backdrop of rising water demand, we continue to view our water footprint within the broader context of global water risk. Given the uneven distribution of water resources, some of our locations are potentially more vulnerable to physical water risk. To help determine how increasing competition for scarce water resources may impact Kerry, we use the World Resources Institute’s Aqueduct Tool to help in our assessment.

Using this tool, we have identified nine locations globally as priority water sites. We carefully monitor water usage at these facilities and our efficiency across these locations significantly exceeds that for the Group. In 2019, total water withdrawals across the nine sites was 15% lower than our 2013 base year as outlined in the graph above, although we have seen some increases in water withdrawals at a number of these sites, driven primarily by changes to product mix.

Refer to pg. 56 of Kerry Group’s Annual Report 2019.
Tips for effective disclosure
## TCFD recommendations: checklist

1. Secure the support of your board of directors and executive leadership team
2. Integrate climate change into key governance processes, enhancing board-level oversight through audit and risk committees
3. Bring together sustainability, governance, finance, and compliance colleagues to agree on roles
4. Look specifically at the financial impact of climate risk and how it relates to revenues, expenditures, assets, liabilities, and capital
5. Assess your business against at least two scenarios
6. Adapt existing enterprise-level and other risk management processes to take account of climate risk
7. Solicit feedback from engaged investors to understand what information they need regarding climate-related financial risks and opportunities
8. Look at existing tools you may already use to help you collect and report climate-related financial information (e.g., CDP, CDSB, SASB)
9. Plan to use the same quality assurance and compliance approaches for climate-related financial information as for finance, management, and governance disclosures
10. Prepare the information you report as if it were going to be assured
11. Look at the existing structure of your annual report and think about how you can incorporate the recommendations
Business model

Articulate climate and environmental impacts fully

- Include a diagrammatic representation of the business model, which demonstrates inputs, outputs and impacts of the organisation;
- Explain how the business generates not just financial value for its shareholders, but also economic, social and environmental value for society,
- Ensure the articulation is company-specific, for example by referencing specific products, services and the associated environmental and climate-related matters that are relevant to these; and
- Explain the wider ESG trends which inform the business model.
Policies and due diligence

Provide a clear framework with commitments linked to KPIs

- Include company and context-specific ambition statements within the policies, accompanied by timebound qualitative and/or quantitative targets to enable progress to be tracked over time;
- Use the policies as the basis to structure subsequent disclosures on due diligence, outcomes, risks and KPIs;
- Clearly specify both board and management-level accountabilities regarding environmental and climate-related matters and ensuring the linkages between them are disclosed; and
- Ensure direct linkages between due diligence arrangements and stated policies.
Outcomes

Ensure clear linkages between outcomes and policies

- Ensure outcomes are clearly linked to the stated policy objectives, providing balanced updates which address both achievements and challenges, to avoid simply listing positive highlights only;

- Focus progress updates on performance in the reporting year, or against clearly defined multi-year objectives; and

- Accompany narrative updates with simple summary tables or bullet points, to ensure readers can easily determine what the key outcomes are.
Principal risks

Avoid generic descriptions and consider business impacts

- Provide business-specific examples of how identified risks may impact the organisation’s operations, business model and financial performance as applicable;
- Clearly state the time horizons over which risks have been considered and ensure risk descriptions state the likely impacts over the short, medium and long-term; and
- Link risks and their management to environmental and climate-related policies, due diligence and outcomes.
Company support and resources
Key CDSB resources

www.tcfdhub.org

www.cdsb.net/publications
Enhanced reporting Europe campaign

Access to experts
Access regular support from experts in climate and environmental mainstream disclosure.

Disclosure feedback
Improve climate and environmental disclosure using CDSB feedback.

Policy briefings
Understand the policy context and improve preparedness for regulation and application.

Workshops
Learn from peers and experts through country and region-specific workshops.

Resources
Obtain resources directly post-launch and notifications on upcoming publications.

Internal support
Receive tailored briefings for reporting teams focused on sustainability and/or finance functions.
Questions or comments?
Thank you!

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