

Service & Sustainability Focus Day

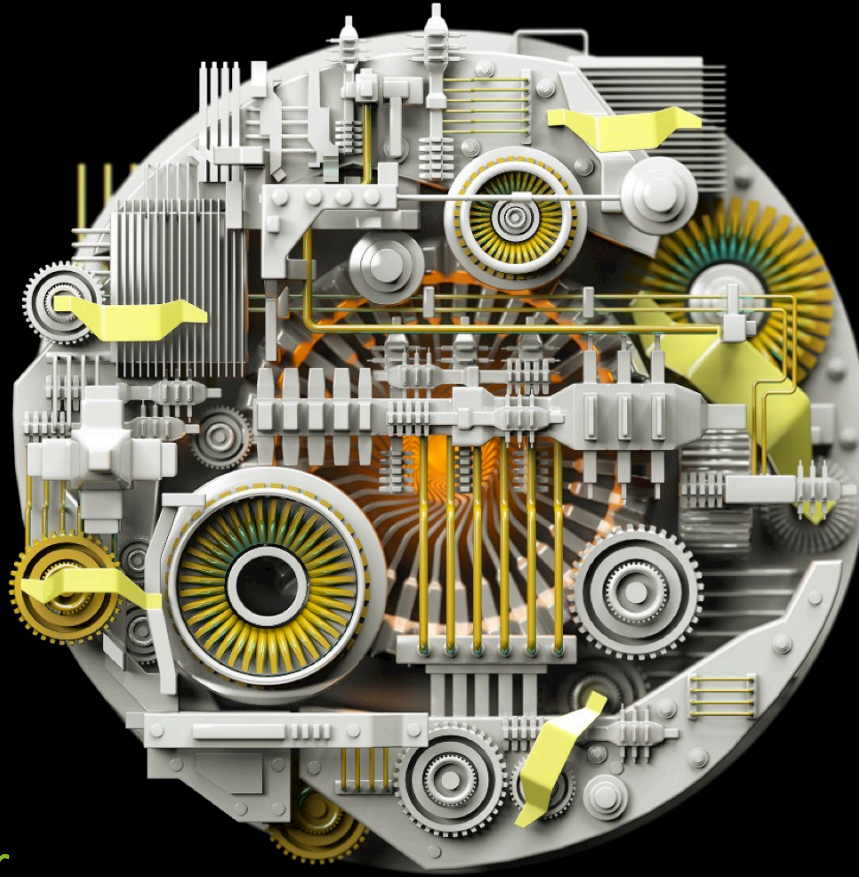
Morning
Session I



ESG as a key differentiator — Adapt your product and service portfolio to the sustainability requirements of the industry sector you serve

Lydia Neuhuber, Sustainability Consulting Lead at Deloitte

Deloitte.



ESG as a key differentiator

Adapting your product and service portfolio to the sustainability requirements of the industry sector you service

I am looking forward to our session today!



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Our plan for today...

In our session I want to share insights on the importance of ESG as a key differentiator for your company and service function

1

Sustainability Basics

What is it all about?

2

Quo Vadis Sustainability

Where are we standing?

3

Time for action?

What does it mean for you?



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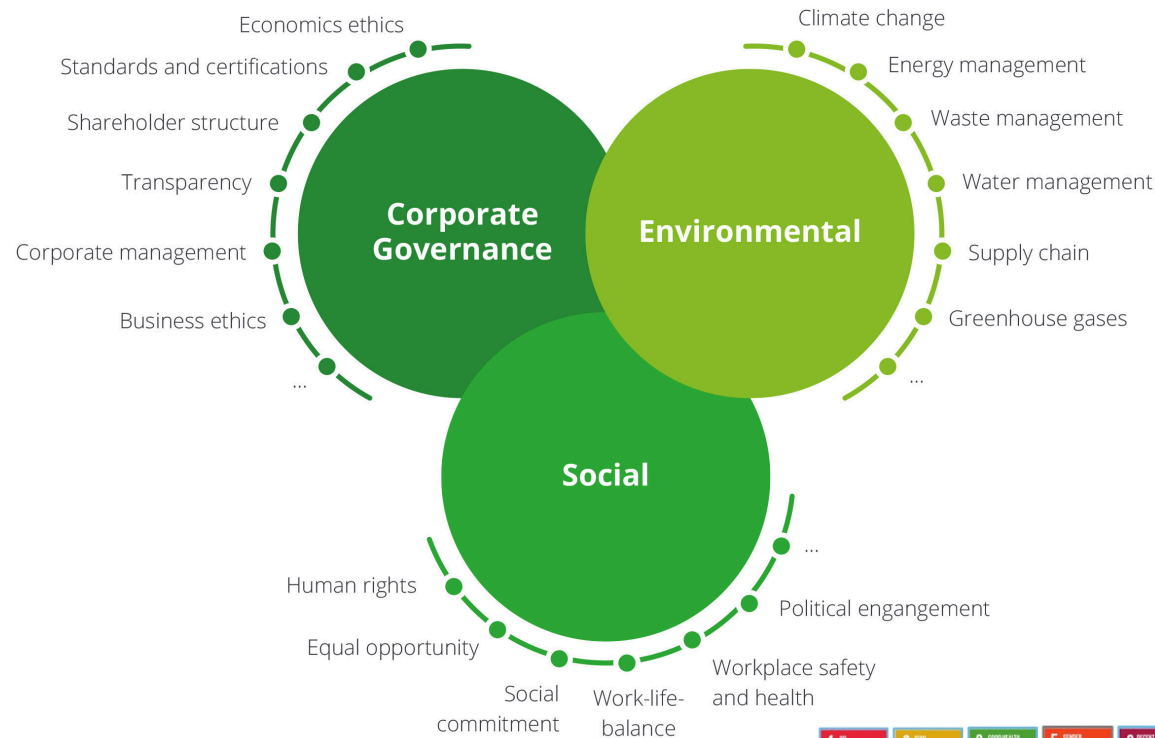
What does it mean for you?



“The quality of causing little or no damage to the environment and therefore being able to continue for a long time.”

What does Sustainability mean?

Sustainability is highly diverse and comprises a multitude of topics around Environment, Governance and Social (ESG) – our clients normally also define sustainability this way



Sustainability in manufacturing industries¹

While focus is still largely on environmental topics, social and governmental topics become increasingly important for the ESG management of manufacturing companies

Environmental

- Sustainable product innovation
 - **new raw materials** & laboratory equipment
 - contemporary **design methods**
- Implementing **modern technology** & **digitizing** work processes



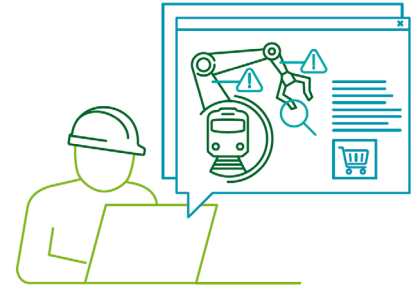
Social

- Protection of human rights, labor relations and employee safety **across every aspect of operations and supply chain**
- Promoting **diversity**
- Addressing economic **inequality**
- Tackling discrimination



Corporate Governance

- Behaving **ethically**
- Open and **transparent** decision-making
- Right escalation protocols, risk tolerance & compensation policies **at every site** everywhere



Sustainability Trends

New upcoming drivers in relation to sustainability will have direct impact on company's processes and strategic decisions



New Regulatory Requirements

- New regulations like the Paris Agreement or EU Green Deal are resulting in additional pressure⁴
- Upcoming regulations as well as those that are already established, require process changes
- Regulations need to be integrated into the company strategy



Increased Importance from Financing Perspective

- Investors increasingly focus on ESG regarding investment and credit decisions¹
- Climate risk is perceived as an investment risk e.g. by BlackRock²
- Increased requirements for data and disclosure matters (e.g. IASB, DRSC, IFAC, IDW)⁵



Bigger Amount of Risks

- Climate change turns out to be the #1 risk for companies (in 2020) based on likelihood and impact³
- Increasing reputational risks especially in relation to CO₂ pollution



Changing Consumer Behavior

- Consumer purchasing decisions will be more and more driven by sustainability factors
- How a company is perceived by consumers is increasingly determined by its sustainability performance



Increasing Demand from Employees

- Employees demand more sustainable actions from their company
- Incentivizing sustainable actions gains importance for employees

Sustainability as differentiator and competitive advantage

Sustainability evolved from being solely a compliance topic to offering companies powerful levers for creating competitive advantage

From “Sustainability” connected to bad press...



The compensation of the Dieselgate scandal has cost Volkswagen so far roughly **32 billion euros**.



Payment of more than USD 65bn to compensate for the effects of biggest oil spill in US history – Effects are still visible & tangible today



Declining stock prices due to collapse of supplier factory in Bangladesh – Local work place safety is still in doubt even years after the accident



...towards a differentiator and force of change across industries



“Creating a world that runs entirely on green energy.”



“There is no way around sustainable logistics in the future.”



“Knorr-Bremse’s approach to corporate responsibility is based on the principle of development, and applies not only to our products and how they are manufactured but to our employees, the environment and society as a whole.”



“Our purpose is to make sustainable living commonplace.”



“Sustainability is a key value of PUMA, deeply integrated in our business operations.”

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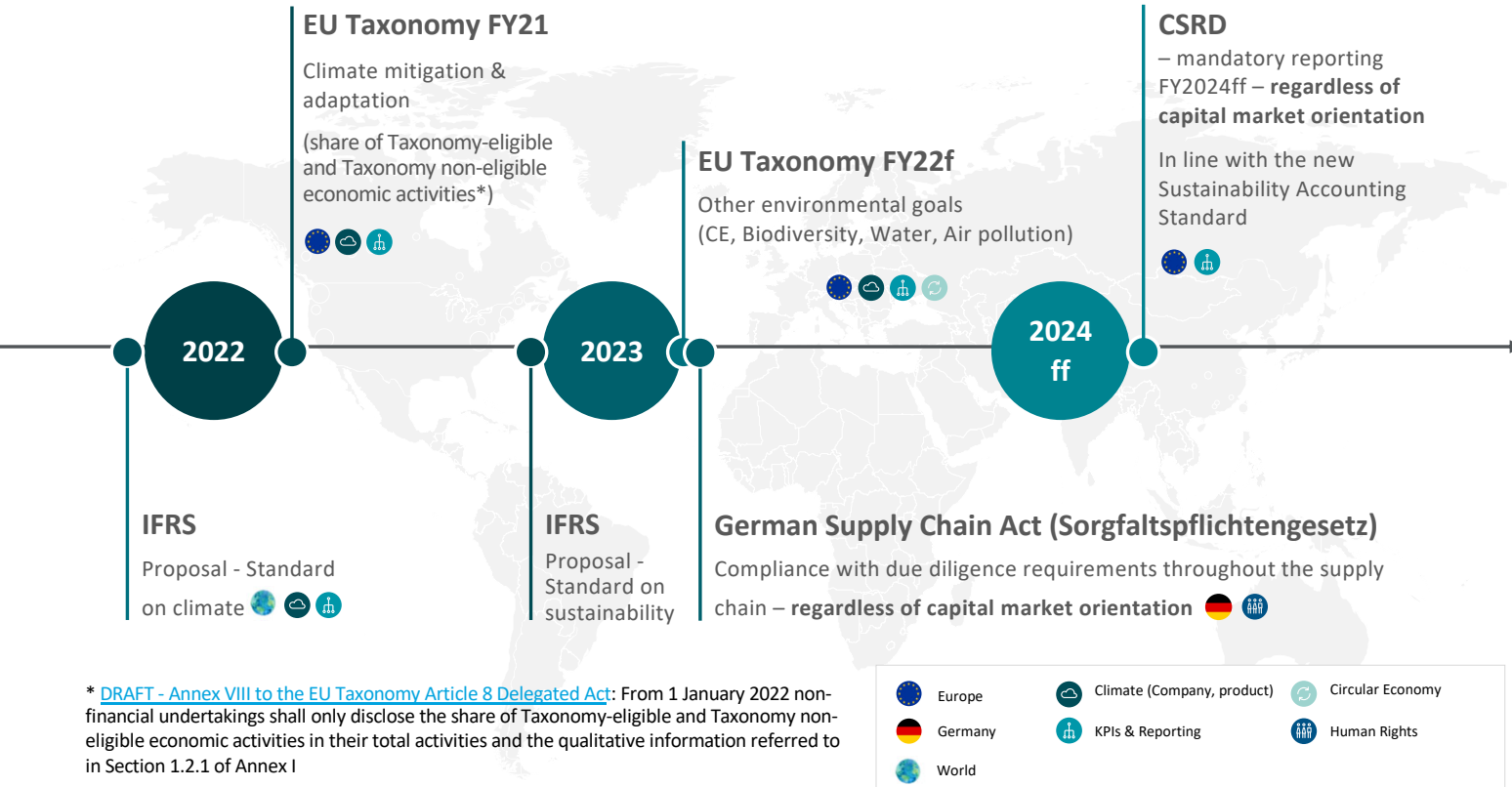
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What does it mean for you?



Substantial development of reporting

Companies regardless of capital market orientation will have to disclose the sustainability performance of their activities in relation to revenue, CapEx and OpEx and further sustainability information



Impact on companies

-  **Growing diversity of topics** - increasing requirements for management approaches and scope of data collection
-  **Increasing demands on data** - higher granularity and quality of disclosed data
-  **Increased need for integration** - in functions and processes
-  **Increasing investor requirements** - information needs and management quality

Relevance of ESG aspects in investment decisions

Exponential growth of sustainable investment funds emphasize the importance of ESG aspects in today's investment decisions – both for institutional and private investors

“We believe that sustainable investment will be a critical foundation for client portfolios going forward”

Larry Fink, CEO

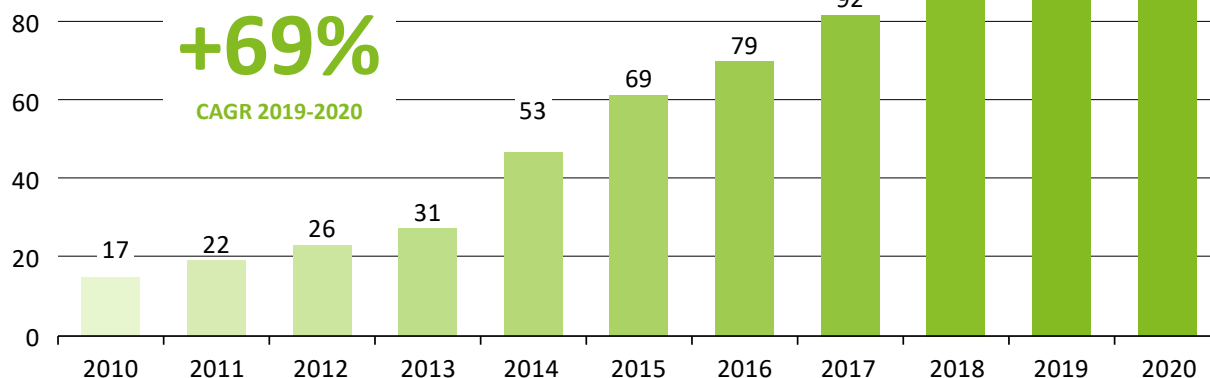
BlackRock

„Nachhaltige Aktienindizes kommen besser durch turbulente Marktphasen“

Claus Hecher, Head of BD ETFs and Index Solutions



Figure: Sustainable investment funds in Germany³ (in bn €)



93

% of **issuers** have either increased their attention to environmental issues, social issues, or both¹

81

% of **sustainable funds**² incorporate **ESG-ratings** in their investment decisions³⁾

117

% growth rate² of **private investments** in **sustainable funds** in 2019³⁾

Quo Vadis?

The “What” is clear – however, “How” is the big challenge

Key Challenges

STRATEGY



77%

of the surveyed financial representatives have a defined **Sustainability strategy**, **BUT**

5%

state that this is **integrated and optimally orchestrated** across the whole company

IT SUPPORT



91%

Works without **sustainability- specific IT tool** support.

32%

Already planning to **find a standardized solution** on a medium and long-term.



Sources: Deloitte Study 'Quo Vadis Nachhaltigkeit im Finanzbereich (2021)'

Deloitte 2022

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Lessons learned

Key considerations for sustainability transformations of manufacturing companies

Key focus areas



Reporting

Get your reporting right - Make sure to **meet at least the minimum regulatory requirements** – a transparent starting point is key



Decarbonization

Focus on the **decarbonization of your production** - Especially via digitization and modern technology - **there is no way out of decarbonization; take it serious**



Suppliers / Users

Get a grip on your entire value chain - Gain insights into the ESG management of all up- and downstream counterparts



Narrative

Work on your personal narrative – **Drive forward the ESG topics important to you**, to position yourself in your industry – **do not focus on external drivers only**



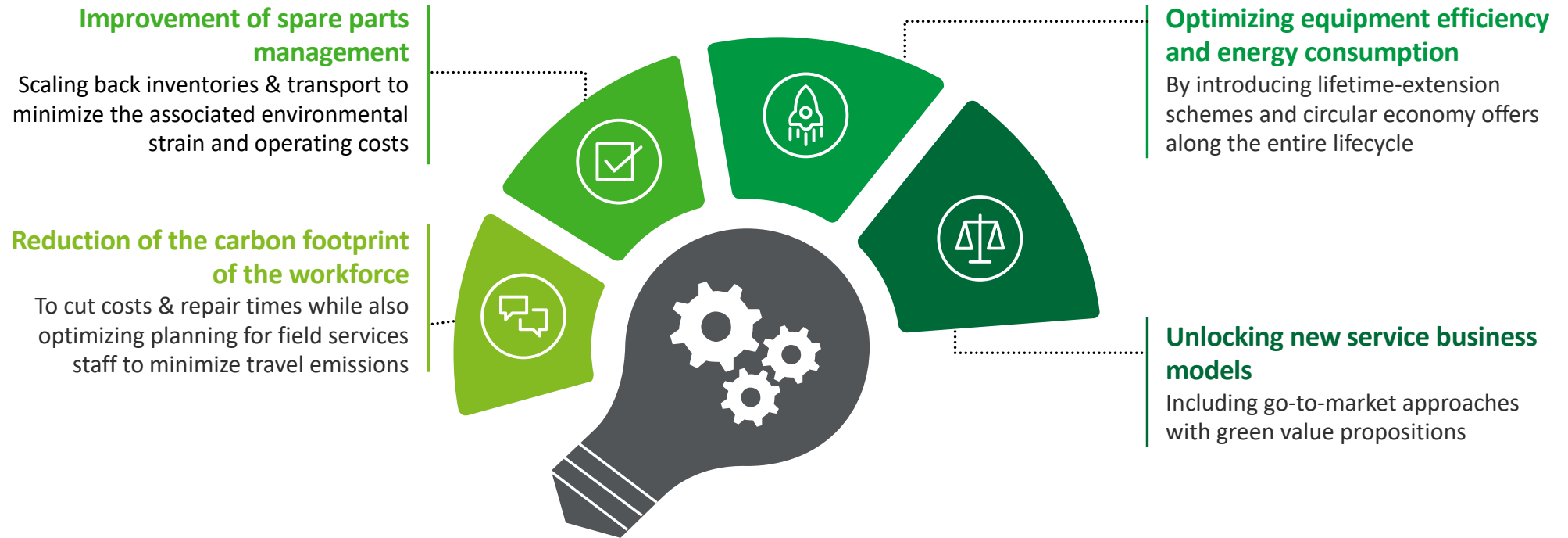
Focus

Don't try to steer 150 ESG KPIs at once but rather **focus on key KPIs** that have the greatest impact for you.

Improvement potentials for sustainable industry services¹

Industrial manufacturers have enormous potential to design and implement smart ESG solutions for themselves and their customers through their industry services

Possible levers of a sustainable industry service transformation



**Time for your
questions!**

