

Unlocking the Values of ESG Strategy

Section 1

What is ESG strategy?

In today's ever-changing business landscape, businesses are facing increasing pressure from stakeholders to demonstrate a commitment to Environmental, Social, and Governance (ESG) considerations. A ESG strategy provides a framework for businesses to integrate these considerations into their operations and streamlines alignment of values to those of stakeholders, ultimately forging a more sustainable and equitable world.

We are collectively confronting urgent challenges: climate change, social disparity, and ethical governance. Businesses that proactively embrace ESG are well-equipped to navigate these challenges. They are positioned to weather the unpredictable changes and have the potential to emerge as industry frontrunner.

The specific components of an ESG strategy will depend on the positioning of a particular business. However, any effective strategy should cover all three pillars within ESG and aim to achieve five main goals. (see next page)

The E in ESG - 'Environment' pillar within ESG dictates that businesses ensure that their operations have minimal environmental impact. Aspects within this pillar include reducing carbon emissions, lowering energy consumption, protecting biodiversity etc.

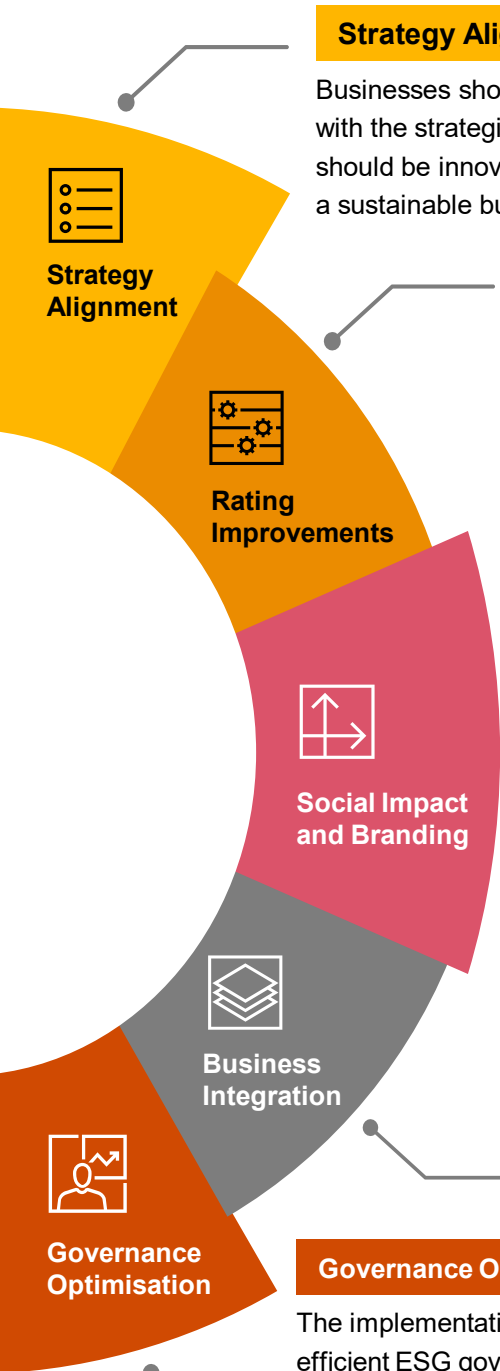
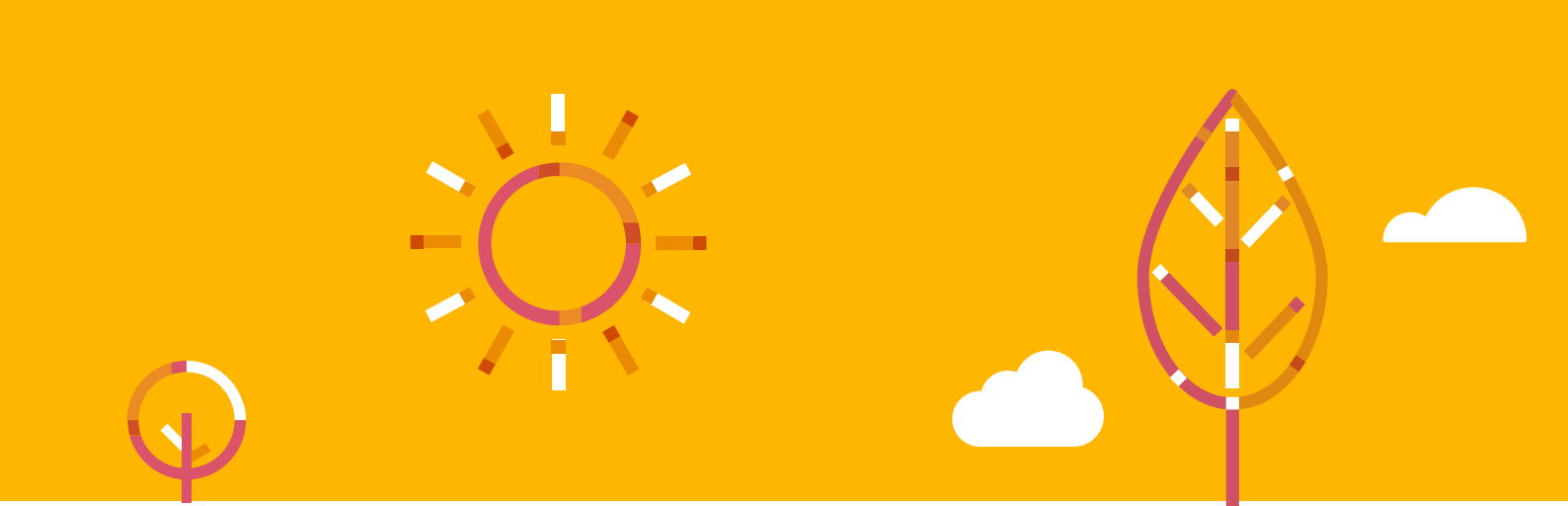
The S in ESG - 'Social' pillar encourages businesses to consider their role in the broader community, with a focus on fair labour conditions, consumer protection, employee benefits and the promotion of eco-system partnership.

The G in ESG - 'Governance' pillar concerns matters related to corporate governance and corporate behaviours, such as business ethics, transparency, accountability, collaboration mechanism, risk management etc.

E

S

G



Strategy Alignment

Businesses should ensure alignment and integration of the ESG strategy with the strategic directions and focus of the business. The strategy should be innovative and leading enough to empower business growth, a sustainable business model, and increased profitability.

Rating Improvements

Ultimately, the ESG strategy should elevate the business, enhancing effectiveness, efficiency and transparency, improving ESG ratings as a byproduct. These improvements will boost trust with major clients, increase the business's attractiveness to the capital market, and facilitate the transition from compliance to business impact.

Social Impact and Branding

Within the ESG strategy, there should be socially meaningful initiatives and programs to create impact, fulfill enterprise responsibilities, and promote a market-leading image. Powerful branding and marketing enhancements associated with these initiatives will help businesses win recognition and increase brand value.

Business Integration

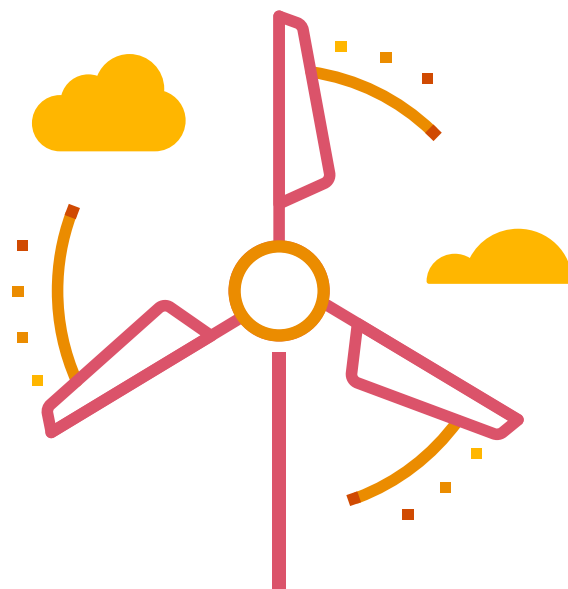
The customisation of the ESG strategy should establish science-based, cost-effective and implementable ESG transformation initiatives, adapt to quantifiable and traceable KPIs, and formulate a short-to-long-term ESG transformation roadmap.

Governance Optimisation

The implementation of the ESG strategy should be accompanied by an efficient ESG governance structure and organisational framework. Such a framework should promote cross-functional collaboration and create a closed-loop management system for ESG strategy.

Why is ESG Strategy and Transformation so important?

Given the increasing recognition of incorporating ESG considerations into a company's operations, it is clear that ESG strategy and transformation plays an important role for any company looking at future growth. There are various practical reasons for such importance.



As ESG becomes a global consensus, ESG policies and related regulations in different countries are gradually becoming more stringent. ISSB has released the ISDS as a global ESG disclosure baseline; and the European Union recently adopted measures such as the Corporate Sustainability Reporting Directive (CSRD). In the Asia-Pacific region, countries such as China, Japan, and Australia have expanded their ESG-related regulations in recent years. China has incorporated sustainable development such as “dual carbon goals” (China’s “dual carbon” goals— reaching peak carbon emissions by 2030 and carbon neutrality by 2060), and has started to require all companies to practice sustainable development at the regulatory level.

Additionally, different global rating agencies, such as MSCI, CDP, DJSI have placed an increasing emphasis on evaluating a company's ESG performance. These evaluations are respected and widely considered by investors, clients and consumers alike.

Rules and Regulations

ESG glossary & ratings

ISSB

The International Sustainability Standards Board (ISSB) is a proposed global standard-setting body that aims to develop and promote a unified set of sustainability reporting standards.

The International Sustainability Standards Board (ISSB) issued its first two FRS® Sustainability Disclosure Standards (ISDS) on 26 June 2023:

- General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1), which is the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.
- Climate-related Disclosures (IFRS S2), which is the first thematic standard, and sets out requirements for entities to disclose information about climate-related risks and opportunities.

Dual Carbon Goals

China's “dual carbon” goals— reaching peak carbon emissions by 2030 and carbon neutrality by 2060—which were officially set by President Xi Jinping at the United Nations General Assembly in September 2020.

CDP

CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. A CDP score is a snapshot of a company's environmental disclosure and performance. The evaluation is based on a Industry-specific questionnaire for 12 sectors.

Rating scale : A (best) - F (refusal to answer)

MSCI

MSCI offers ESG ratings and research for investors and companies, to access the environmental, social, and governance performance of various entities. It uses a cross-sector methodology with normalisation for 158 sectors.

Rating scale : AAA (best) - CCC

DJSI

S&P global's DJSI score evaluate a company's ESG performance through a quantitative assessment via questionnaire with approx. 100 questions to be filled by the company. It adapts a tailored approach for 61 sectors.

Rating scale : 0 - 100 (best)

Sustainalytics

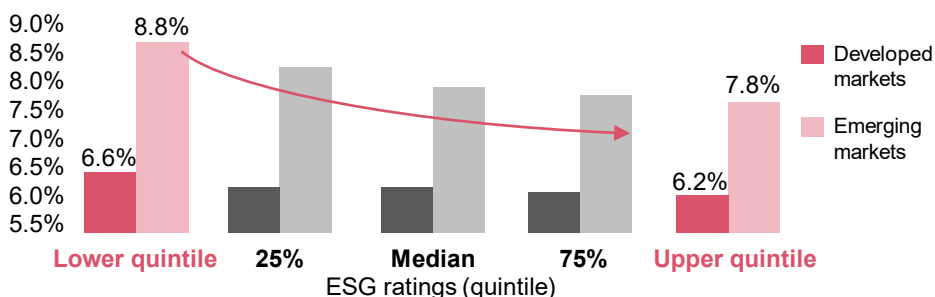
Sustainalytics' ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. It adapts a tailored approach to 40 industries.

Rating scale : 0 - 100 (best)

Within capital markets, major stock exchanges are starting to introduce ESG disclosure requirements for listed companies. This includes major U.S., EU, and Asia-Pacific-based stock exchanges, such as the Hong Kong Stock Exchange, where ESG reporting is mandatory.

Capital
Markets

Exhibit 1 : ESG ratings to cost of capital (2015-2019)

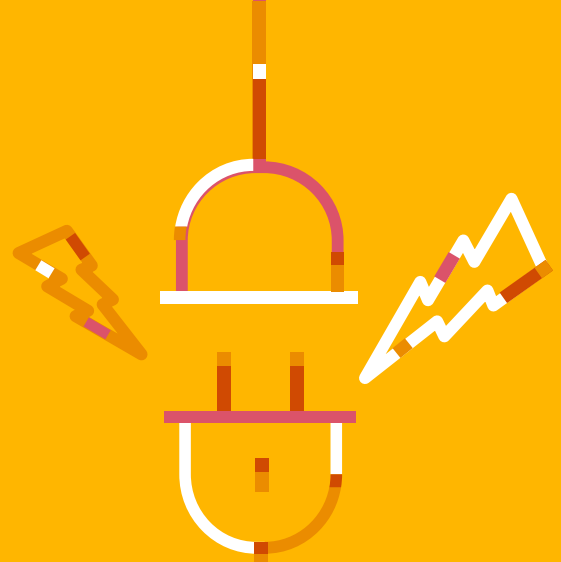


- Companies with higher ESG ratings enjoy **0.4%-1.0% lower cost of capital**
- Companies with strong ESG components are marked with an **increase in earnings and reinvestment of returns** from dividend payouts and share buybacks

As such, there is an increasing trend of investors practicing responsible investment principles. With capital markets being more inclined to long-term sustainable value creation, ESG performance has become a key consideration in the investment divisions of different financial institutions.

What are the challenges and opportunities we see for companies?

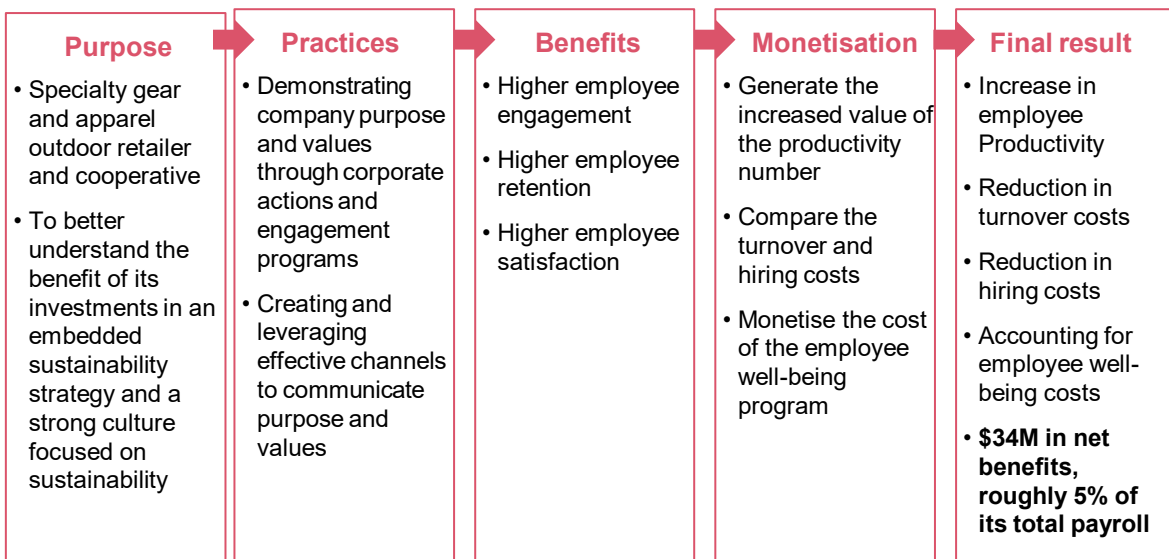
Although ESG is becoming an essential element in the modern business world, in many cases, the adoption process among firms is often not as smooth as expected. Here are some of the common challenges that firms face:



1. Knowledge and awareness of sustainable development remain limited among the associated firms; many perceive ESG as a "costly" endeavor, seemingly disconnected from strategic operational efficiency, customer experience, or business innovation. The struggle is with the perceived trade-off between sustainability and profitability.

Case study

How a top-brand clothing company's employee well-being programs delivered positive financial outcomes



2. Even though some are fully aware of the potential of ESG, they might lack the necessary tools or systematic planning for the transformation and roadmap, causing the integration with corporate strategy, governance and business model innovation to be limited. Thus, the overall ESG initiatives remain fragmented and disjointed.

According to the 2022 Global Risk Survey¹:

56% of executives are investing in risk culture and considering behavioral risk¹ in 2022

54% of executives are complementing risk technology investments with people and process changes

3. The extent of companies adopting the framework may not be sufficient to fully utilise its benefits; **most companies have not yet established ESG governance structures and systems at the board, management, department, and subsidiary company levels.** The lack of effective organisational support for sustainable development hinders the progress of transformation efforts.

Identify the strengths and weaknesses of your organisation's environment, social and governance (ESG) strategies with a gap analysis :

Exhibit 2 : MSCI ratings benchmarking in textile industry

■ Leading (AA-AAA) ■ average (BB-A) ■ Behind (CCC-B)

MSCI ESG (proportion)	MSCI ESG Key issues	Industry Average	MSCI ESG performance									
			Client A	Client B	Client C	Client D	Client E	Client F	Client G	Client H	Client I	Client J
E (27%)	Sourcing	4.2	6.8	5.6	3.6	2.4	2.0	3.8	8.5	1.5	0.3	3.3
	Product Carbon Footprint	5.9	8.9	5.9	6.9	5.5	5.7	3.9	9.0	1.8	2.9	3.8
S (36%)	Labour management	4.5	4.8	4.1	5.5	3.6	6.9	5.4	2.9	5.4	4.5	4.7
	Chemicals Safety	3.9	4.0	4.8	5.5	4.3	0.5	4.0	3.0	3.0	1.2	0.0
G (37%)	Corporate Governance	6.3	7.7	7.8	7.8	6.9	5.8	6.2	4.9	5.2	5.9	3.1
	Corporate Behaviour	6.1	7.4	5.7	6.0	7.6	7.4	6.5	7.0	7.1	7.4	5.0
	MSCI ratings	Industry Average	AAA	AA	AA	A	A	A	BBB	BB	B	B

■ strong ■ average ■ below average

Many companies have not put sufficient effort in disclosing their quality ESG data; currently the integrations of ESG KPIs with operational metrics among companies remains low, leading to a disconnection between ESG value creation and lean operational excellence. Besides, the lack of digital tools makes it challenging to collect and track subsequent indicators effectively. As the ESG framework emphasises on the importance of data transparency and accuracy, companies, especially multi-national companies might face difficulties in maintaining the balance between their own cyber security and their obligation to disclose data to the public.

- Ratings measure companies' performances and/or exposure to ESG risks that may have financial implications by denoting in an associated score (e.g., AAA, C).
- Different ESG ratings have varying methodologies and coverage – such as different assessment approach , sectorial approach and weighted indicators on “E”, “S” or “G”.

Exhibit 3 : ESG ratings peer comparison in telecommunications industry

	Company A	Peer B	Peer C	Peer D
ESG reports available	2016 – 2022	2016 - 2022	2006 - 2022	NA
WIND ESG	-	-	AAA	AA
S&P global ESG score/ S&P CSA/ DJSI	47	51		
CDP score	F	E	A-	F
Sustainalytics	30.7 high risk	25.8 medium risk	26.7 medium risk	23.8 medium risk

4. Furthermore, advantageous policies have been established in different leading economies to support green financing programs and/or certifications, making ESG strategy and transformation a lucrative option for many companies.

What can companies do proactively?



At PwC, we are dedicated to assisting our clients to implement the transformation professionally and practically. Our services cover a wide range of methodologies from reviewing your company's ESG readiness to developing an ESG strategy with a clear mission, targets and directions, to providing detailed suggestions on each aspect of the transformation.



Sustained Outcomes				
an organisation that is resilient and creates sustained value				
Status-Quo Assessment	Strategic Directions	Transformation Roadmap	Governance	Reporting & Assurance
Benchmarking	Strategic Development	Business Case	Products & Services	Continuous Improvement
Ecosystem Analysis	Capital Management & Financing		Operating Model	Stakeholder Communication
Materiality/ Risk & Reg. Assessment			Culture & Change	
			ESG Digital Platforms	

At the first stage, the focus will be on knowing more about your company. We will assess the ESG maturity of your company using our internal sustainable development framework, which is based on our long-term tracking and insights into global ESG and industry best practices, development trends, and external benchmarks. Meanwhile, we will also conduct a regulatory analysis on your case to understand the current ESG regulations or policies in your key business regions and industry. We will plan and ensure the compliant operation of the company's global business.

After understanding the ESG circumstances of your case, we will benchmark substantive issues, ESG indicators, and industry-specific initiatives with reference to the practices of the leading companies (which are identified through mainstream ESG rating agencies) in the field. The final step of the first stage is a materiality assessment, in which we will clearly identify your case's internal and external stakeholders and how they can engage with the new framework. Besides, a comprehensive and industry-specific ESG topic list (the content of which based on interviews with stakeholders) will be created to provide insights and scores and analyse the high-priority issues.

The second stage will focus more on formulating an ESG development strategy for your company. Based on the review results (on your company's current situation, external and internal development requirements) from the first stage, we will conduct root cause analysis for high-priority issues, exploring business improvement and operational efficiency optimisation along the value chain to establish a distinctive ESG strategic vision and objectives for the company. Taking the ambition and priority setting of your company into account, our experienced advisors will list out all the possible scenarios of your company's upcoming ESG reform and provide the most suitable overall strategic options for your careful consideration. You should note that the overall strategic option acts as a general outline for the reform, determining the direction and rationale behind all actions. We understand that financing and capital management are crucial factors for your company's success. To ensure a long-term high financial performance (both during and after the ESG reform), our experts will assist you in developing an asset management strategy for your specific case and provide investment options and financing plans for you to choose.

In the third stage, we will be deciding the scope of the transformation and designing the path of the reform. After clarifying all the issues and prioritising ESG transformation initiatives based on their importance and feasibility, we will develop a short-to-long-term roadmap for your company to follow. At the same time, we will carefully examine the possibility of risk occurrence during the transformation and the operational readiness of the current structures (which includes existing data, technology in effect and the personnel involved) to undergo the reform. To track the process, a comprehensive and accurate ESG KPI system for each initiative and the organisation as a whole shall be established and distributed as the new infrastructure of your company. Integrating and complementing it with major operational metrics are keys to driving implementation and improvements in ESG practice and performance.

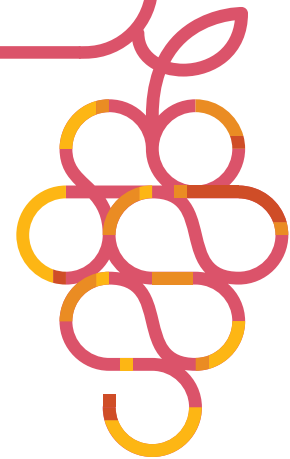
The fourth stage concerns implementing the designed plan in different aspects of the company. Our team of experts provide insights on how to enhance the governance framework and management system, clarifying each shareholder's roles, responsibilities and capabilities to enhance the overall ESG performance.

In the final stage of our service, we will be helping you to deliver sustained outcomes through quality reporting, continuous improvement and effective stakeholder communication. We need to be careful we have the right balance of information from individual agendas in our reporting methodology. Last but not least, we will set up both internal and external communication channels and plans to increase internal awareness and promote engagements with both key clients and end consumers to better understand our ESG efforts and achievements. We will guide you throughout this meaningful process.

Success Client Stories

Client 1:

We provided ESG strategy formulation services for a household consumption MNC, by identifying suitable ESG strategies and integrating them into their established business operation. By establishing a high-level ESG committee and working groups, we worked closely with their senior management to upgrade the firm's organisational structure and risk management system. On an annual basis, we delivered reporting and rating services for the firm to keep track of the overall progress of the transformation. To ride on the policy opportunities of "3060" in China, we helped our client to launch strategic research on carbon neutrality feasibility and pathways.



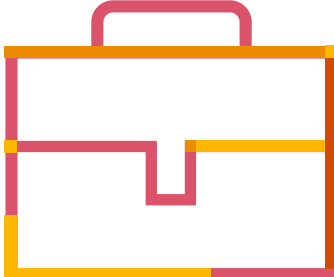
Client 2: We delivered an ESG rating improvement service for a major household consumption company, which included the preparation of recommendations, measures and a roadmap to improve its overall ESG performance. First, we guided our client through the most relevant rating agencies with respect to their business portfolio. Following the selection of a rating agency, we guided them through the entire rating process to ensure the best possible outcome. Finally, we provided them with a roadmap to improve the evaluation and their position within the peer group rating. The results of the transformation were impressive; our clients have seen significant improvement in their MSCI rating, especially in the past three years: In 2020, the rating of one of our clients was boosted to A and further moved up to AA, being included on the list of MSCI China ESG Leaders 10-40.



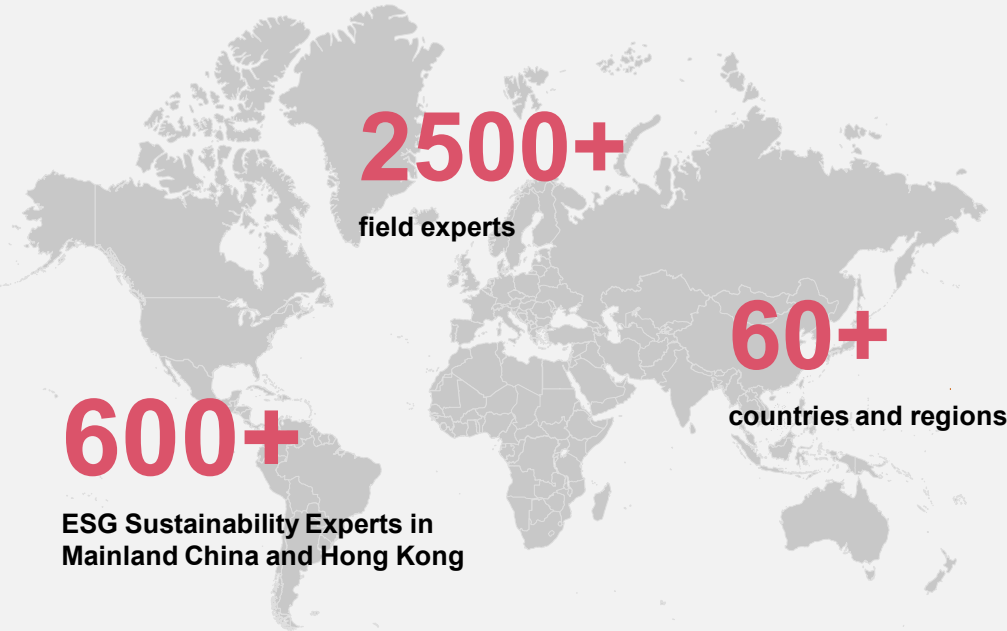
In conclusion, as companies reset in the wake of the COVID pandemic, those that adopt ESG strategies are best positioned to weather the unpredictable storms of change and emerge as leaders in their respective industries.


To get there, we recommend a systematic approach encompassing three stages: assessment, strategy formulation and transformation. With the right expertise and methodology, companies will be able to unblock the ESG values and create sustainable competitive advantages.


PwC are leaders in sustainability advisory services, and partners to your circular business model journey





PwC Global ESG Services Network





 Recognised sustainability ecosystem **insights and proven thought leadership**

 **Broad scope of services** beyond consulting (regulation, technology and digital)

 Deep **strategic and operational expertise** in sustainability

 Experienced **sustainability team** that works together cross-functionally

 Relations and experience with relevant **stakeholders in the sustainability arena**

 Proven **approaches and methods** that have been applied successfully on many projects

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