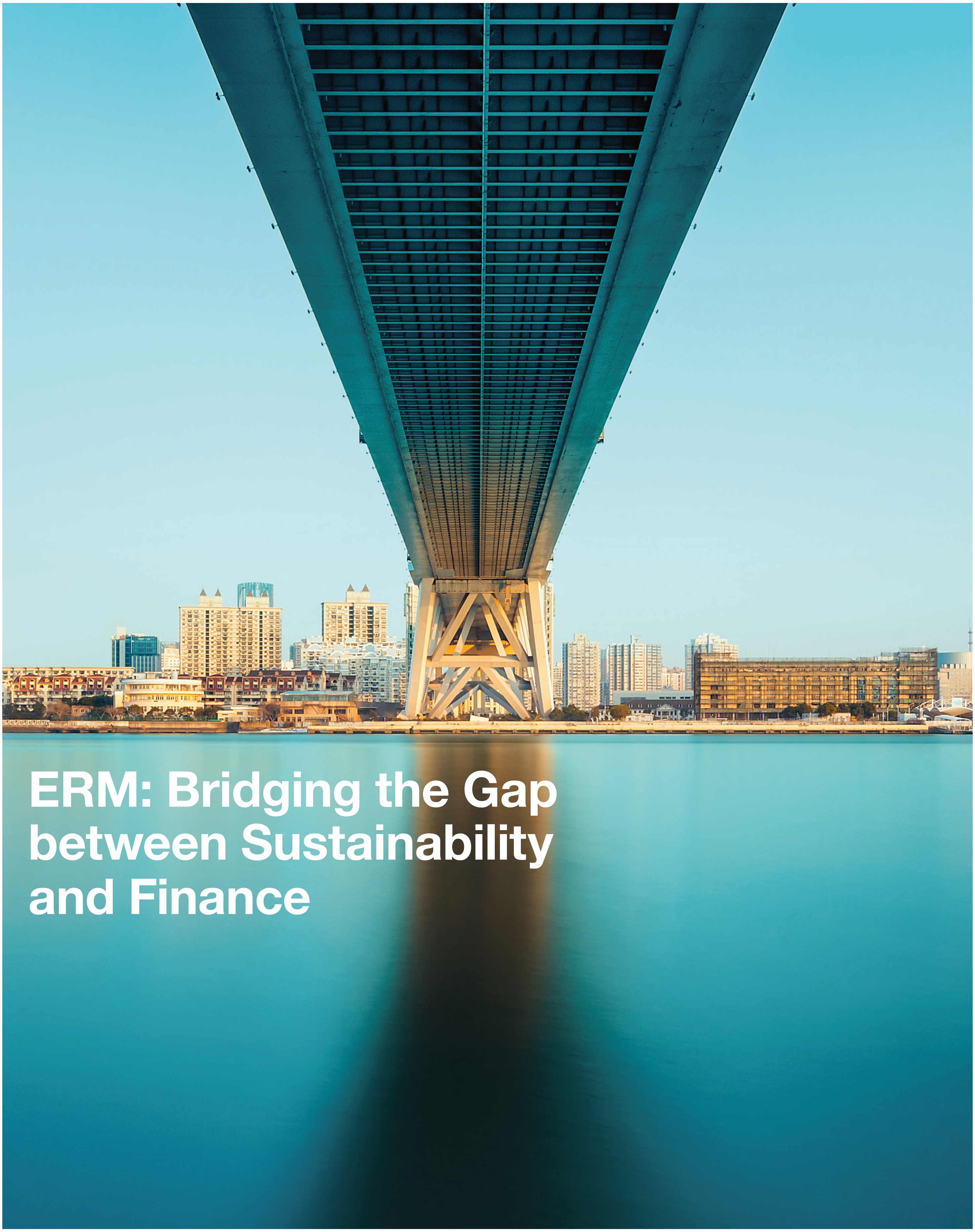


ERM: Bridging the Gap between Sustainability and Finance

The business of sustainability

ERM

We are witnessing an important realignment in the relationship between business and sustainability:

The focus is shifting from a company's impact on the environment and society to the environment's and society's impact on the company itself, including its business model, assets and reputation.

What we are seeing in the marketplace supports this premise:

- Recent shareholder resolutions, such as Exxon Mobil's 62% majority vote in favor of a shareholder proposal calling on the oil and gas giant to assess and disclose how it is preparing its business for the transition to a low-carbon future.
- ERM's own research of Chief Financial Officers and Chief Sustainability Officers (or equivalents) finds this investor pressure increasing with 72%* perceiving more of an increase in the last few years.
- CFOs are expecting, within a few years, to routinely publish disclosures regarding the financial implications of climate related risk and management of performance and future prospects. We are seeing more discussions happening at board level regarding climate risk management, demonstrating a reaction to this pressure.
- Companies, particularly in the US, are having to give greater consideration to what they actually disclose in public filings and reports.

In addition, businesses are wrestling with challenges that transcend the line between sustainability and finance:

- Investors are realizing that company risk and growth are increasingly tied to Environmental, Social and Governance (ESG) understanding and management. This can become acute during transactions.
- Driving and deriving value through better environmental and social responses should become integral to the DNA of companies – such that the heads of Finance and Investor Relations become key drivers of sustainability.
- Innovation and disruptors require a company to look at its business model in a different light. Take Tesla's market value which has surged to $49Bn while Ford's has slumped to $45Bn – despite the founder of mass motoring having sales more than 20-times as big.

How do companies stay ahead of these changes impacting its business now and into the future?

The drivers are growing but gaps in corporate strategy to deal with these challenges are apparent:

Requirements of business are becoming quite clear. There is a need for:

Greater transparency

The drive from investors, customers, regulators and other stakeholders pushing for more robust action and disclosure on climate change is evident. This involves not just simply reporting by investor relations, but increasingly more in-depth future scenario analyses, such as how the actions of a business will manifest themselves on the organization in changing conditions. This is brought to life by the recent developments from the Task Force on Climate Related Disclosure (TCFD) initiative recommending forward financial analysis of the impact of climate change on the business. This is now more than simply reporting actions, it's providing the data and analysis under different scenarios to show an understanding of future risks and opportunities to give a greater comfort to a variety of stakeholders.

"Any efficient market reaction to climate change risks as well as the technologies and policies to address them must be founded on transparency of information."

Mark Carney, Governor of Bank of England, London 29th September 2015

Optimizing transactional value

Transactions provide a range of opportunities to enhance value, just as they can erode value if not appropriately managed. ESG issues are increasingly factored into the determination of risk and opportunity in any deal. For example, post-merger integration around climate risk, if not managed well, can also erode deal value very quickly. In addition, the unwinding of assets also presents additional issues. A greater understanding and robust diligence process in this changing environment can add significant value across all aspects of the transaction portfolio.

Transposing your position on sustainability

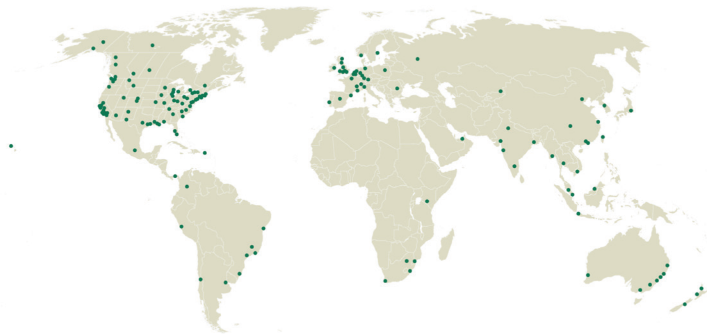
Given the changing dynamic of investor interest in forcing action by companies in addressing climate risks, the role of the Chief Financial Officer (CFO) is being driven to understand and act on broader sustainability issues. Our own research from 2017* suggests there are gaps in understanding between the finance function and those with a responsibility for the sustainability agenda of the firm. This manifests itself in a number of mismatches in organizational thinking, such as what is deemed material in different corporate reporting disclosures. As a result of this potential misalignment, companies may need to understand and, in a number of situations, merge their position on managing their sustainability agenda to align with their business strategies, operations and reporting & disclosure..

Bridging the Gap: ERM helps companies thrive in this dynamic reality.

In this nexus between sustainability and finance, ERM holds a unique position. We have the strategic and technical expertise that business management needs to navigate the environmental and social issues – while meeting business objectives.

ERM is helping clients to achieve:

- Greater transparency through disclosure and reporting such as on climate risk and opportunity.
- Overall value gained through acquisitions and divestitures, by taking an interdisciplinary approach to identify, prioritize and mitigate environmental, social and governance (ESG) risks and liabilities.
- Safe and successful unwinding of assets, by understanding and assessing non-technical risks and providing technical expertise on topics ranging from stakeholder engagement, planning and environmental characterization to project execution.
- Productivity in a capital-constrained world, through data efficiency, system streamlining, supply chain management, resource management, information solutions and capital project execution.
- Health and safety competency and leadership, through major incident and accident prevention, improved risk management and a focus on saving lives and keeping workers injury-free.



Environmental Resources Management (ERM) is a leading global provider of environmental, health, safety, risk, and social consulting and sustainability related services. We have more than 4,500 people in over 40 countries and territories working out of more than 160 offices. ERM is committed to delivering solutions while providing a service that is consistent, professional and of the highest quality to create value for our clients.
We have worked with many of the Global Fortune 500 companies delivering innovative solutions for business and selected government clients, helping them understand and manage the sustainability challenges that the world is increasingly facing.

* ERM/Meridian West research of 60 CFOs and 60 CSOs, or equivalent. August/September 2017

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