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Part of the PwC network

Sustainable impact, made real. Chemicals

From compliance to value creation
Industry perspective
2020



Sustainability is a highly relevant topic with a substantial impact on businesses and their stakeholders ...

Increasing awareness, expectations and requirements of stakeholders with different priorities



Companies are urged to integrate sustainability into strategy, operations and evaluation

... and can become an issue if not addressed adequately

Siemens' involvement with Adani coalmine

12 January 2020: Due to a supply contract for the new Adani coalmine in Australia Siemens CEO Joe Kaeser issued a statement justifying its commitments

Climate activists had urged Siemens to review its role in the controversial project given its commitment to sustainability – in 2015, Siemens has committed carbon neutrality by 2030



“While I do have a lot of empathy for environmental matters, I do need to balance different interests of different stakeholders, as long as they have lawful legitimation for what they do!”
(Financial Times)

Hot topics discussed
in Davos this year

World
Economic
Forum



Climate lawsuit against large carbon emitting countries

23 September 2019: Five of the countries with the highest carbon emissions in the world – Argentina, Brazil, France, Germany and Turkey – get sued by the Greta Thunberg Association for allegedly violating their children rights by failing to adequately reduce emissions. Angela Merkel and Emanuel Macron distance themselves from Thunberg

BlackRock includes climate change as integral part of investment thesis

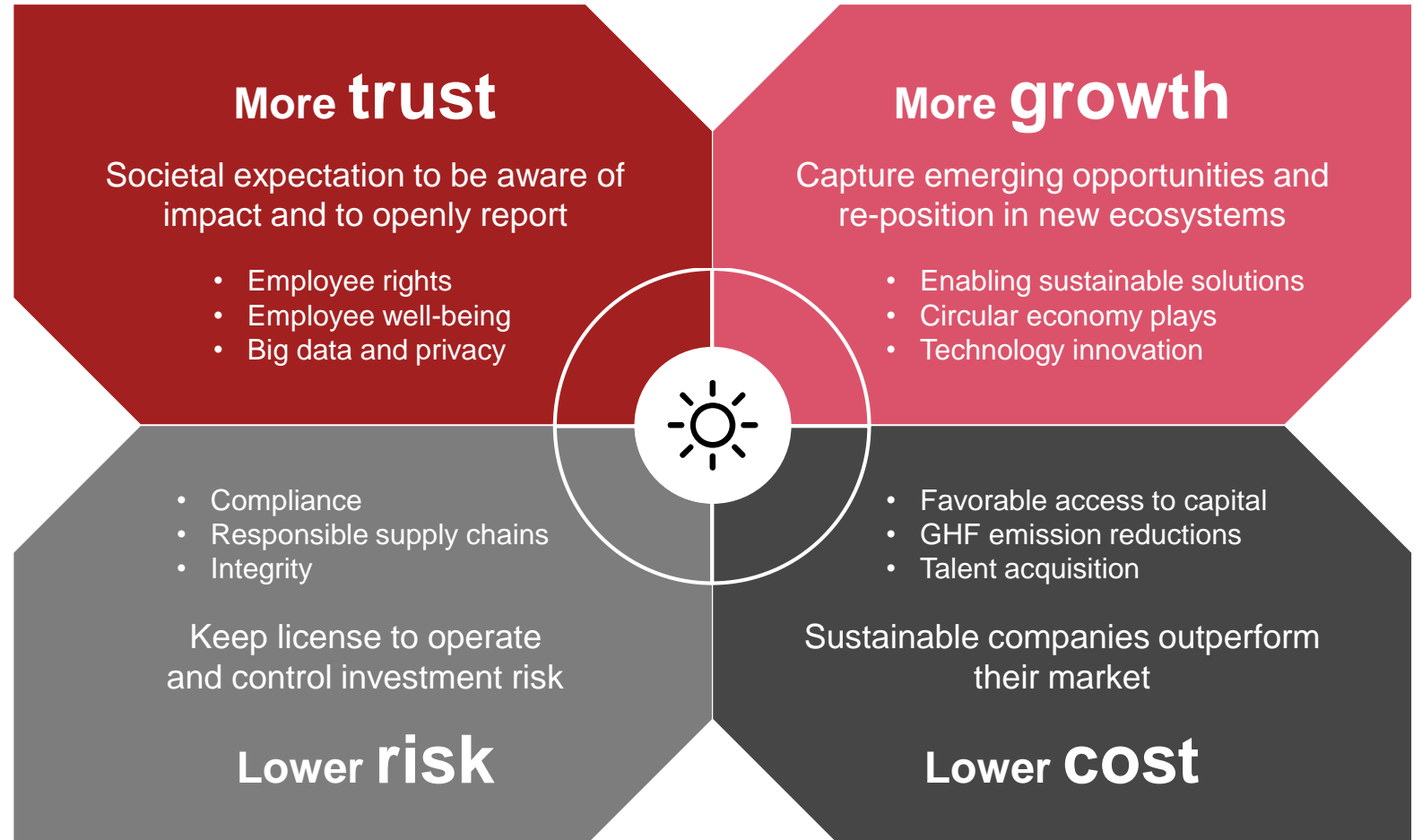
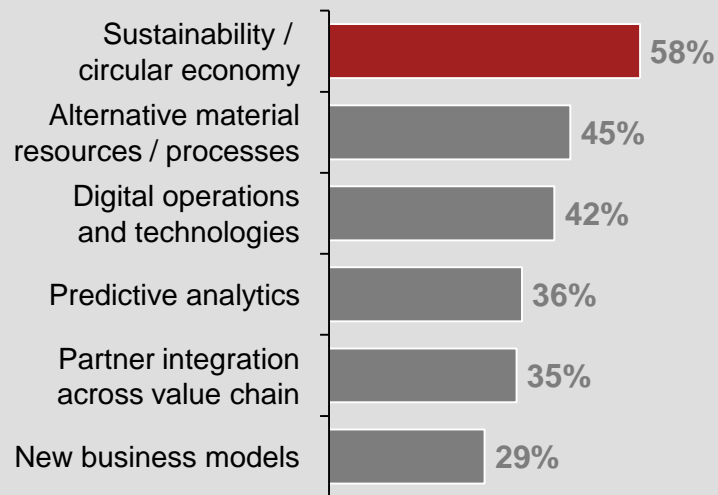
14 January 2020: BlackRock, the world's largest asset manager, says that it will now make climate change central to its investment considerations. And not just for environmental reasons but because it believes that climate change is reshaping the world's financial system



“The evidence on climate risk is compelling investors to reassess core assumptions about modern finance. In the near future – and sooner than most anticipate – there will be a significant reallocation of capital.”
(Annual Letter to CEOs)

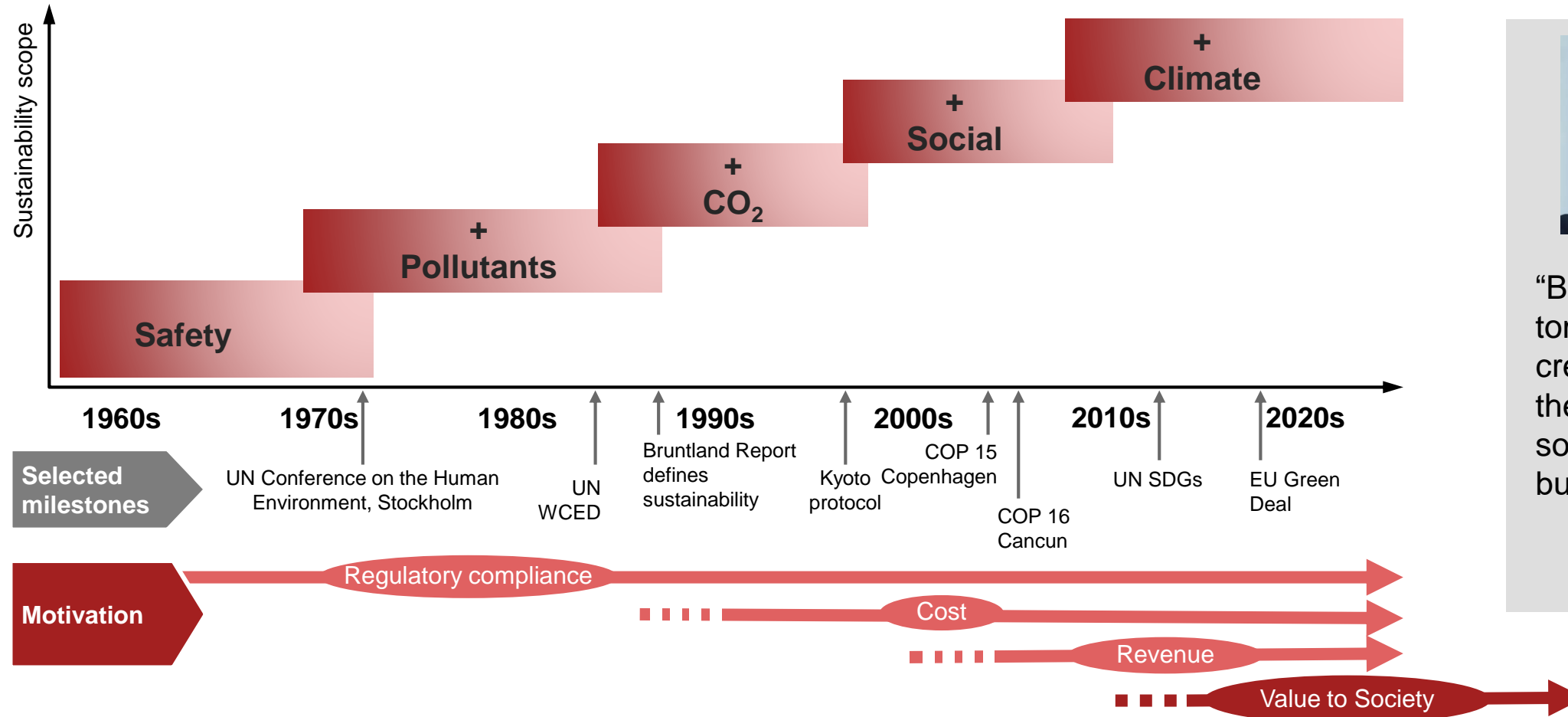
Sustainability can create value in four ways for Chemicals – and thus is high on the C-level agenda

58% of Chemicals CEOs are prioritizing investments in sustainability in the upcoming year¹



While sustainability per se is not a new topic to the industry, the future lies in its integration into daily business

Evolution of Chemicals sustainability focus



“Business success tomorrow means creating value for the environment, society and business.”

Saori Dubourg
Board member BASF

The Chemicals industry has been accelerating its commitments to invest in a sustainable future for an ever growing population

Examples of commitments in the Chemical industry

Sustainable management

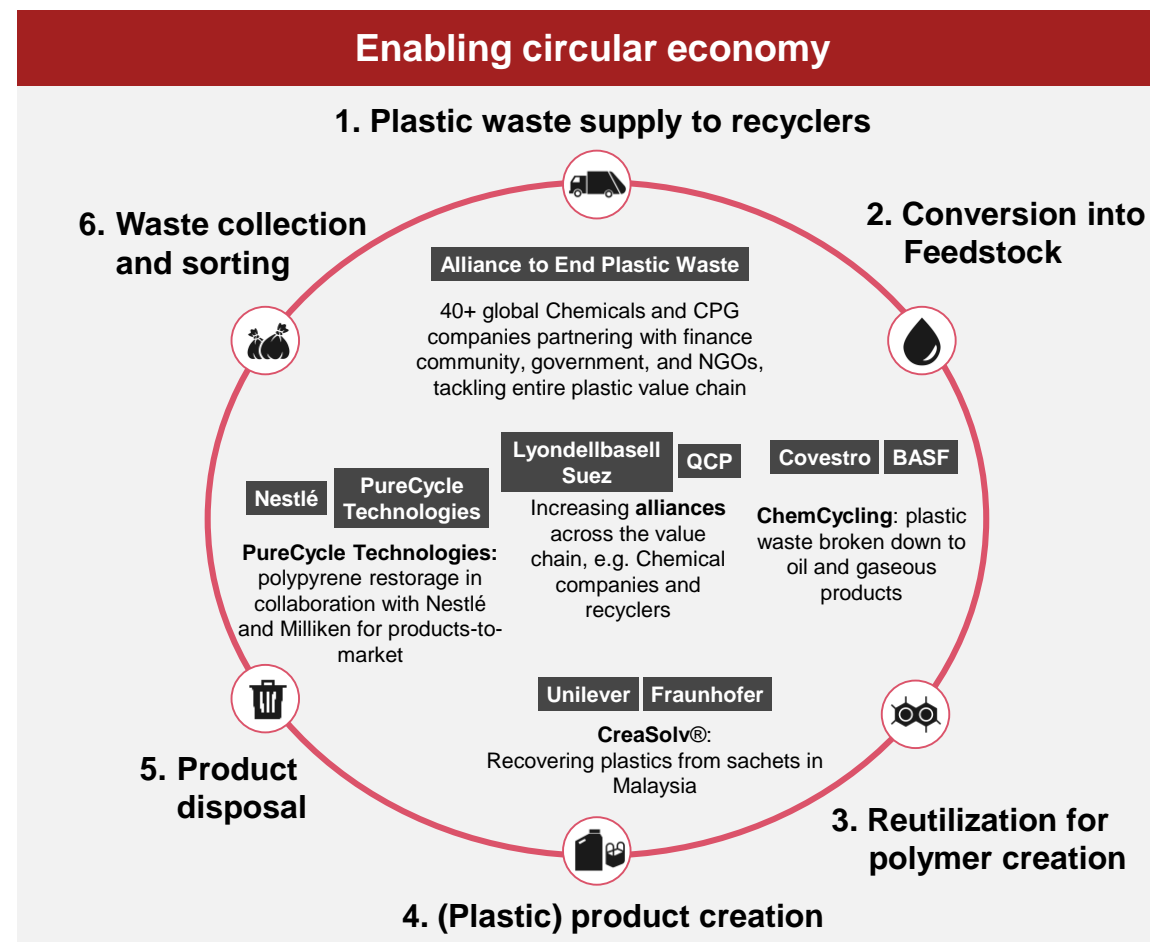
Responsible Care® Fourth decade of “Responsible Care” – advanced by the industry

Value Balancing Alliance Global impact measurement and valuation standard for monetizing and disclosing impacts of corporate activity

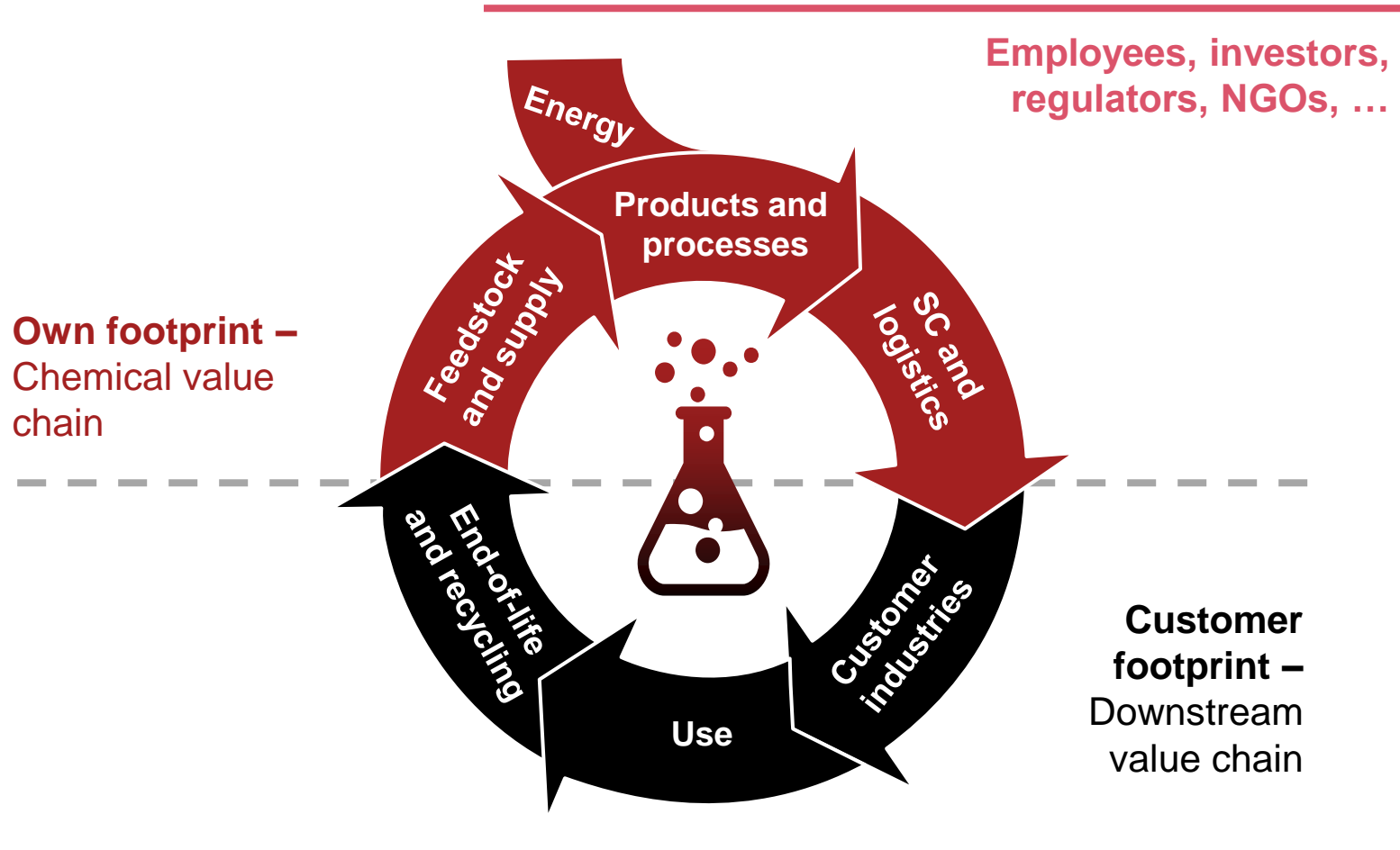
Together for Sustainability A joint initiative and global network of 25 Chemical companies, delivers the de facto global standard for environmental, social and governance performance of Chemical supply chains

Achieving ‘net zero’ by 2050

BASF Grow CO ₂ -neutrally until 2030	Covestro Specific GHG emissions -50% by 2025
DSM -30% emission reduction by 2030	Bayer Carbon-neutral operations by 2030
SABIC Energy, water usage, GHG -25% by 2025	Lyondellbasell 15% reduction by 2030



Unlike other industries, Chemicals has a unique position for value creation and positive impact



Using renewable energy sources

Bio-based or recycled feedstock

Product and process innovation for circularity, less toxicity ...

Social standards in transparent E2E supply chains

Product substitution

Process efficiencies

Integrated solutions and platform

Positioning in circular economy ecosystem

Investors' increasing reflection of non-financial performance is raising the bar for measuring and reporting value contribution

Sustainability-driven dynamics in capital markets

Market dynamics and ESG reporting drivers



Increased awareness of benefits of responsible investment

- Portfolio protection / risk management
- Portfolio enhancement



Change in values of investor groups

- Institutional investors
- Millennials
- Women



Better opportunities to assess ESG performance

- New reporting standards
- Ratings and Rankings
- PRI / SDGs

High pressure on companies to provide **transparency on their ESG performance by ...**

... defining meaningful KPIs and measures, incl. impact data and data in supply chain and customer industries

... embedding impact data into management and accounting systems

... demonstrating the connectivity of non-financial to financial performance

... reporting results according to new standards that will evolve

Now is the time to act – to address the unprecedented changes sustainability measures are to bring to the Chemical ecosystem



- New and stricter regulations, e.g. ban on single-use plastics to come into force by 2021 in the EU
- Further regulation defines that plastic bottles should be made of 90% recycled content by 2029



- High speed of the development of new technologies, e.g., chemolysis, bio-technology in recycling and bio-based raw material production



- New players entered the market, e.g., recyclers, re-processors

External changes

How does your company currently respond to the sustainability discussion?

Reactive

Active



License to operate

Capture opportunities

Chemicals companies which are at the **forefront of the sustainability discussion** can benefit from **growth opportunities** rather than reacting to purely **keep their license to operate**

Achieving leadership in sustainability will imply a significant transformation effort for Chemical players

Implications for Chemical players

Call for a step change

- Change in industry value chains will significantly **impact Chemicals contribution** and footprint / portfolio
- **Sustainability is not an option** – yet taking a leadership role implies transformational effort in major decision making processes and steering of the organization
- An integrated approach is needed to embrace the **level of disruptiveness** and the way it will change culture, operating model, and customer interaction

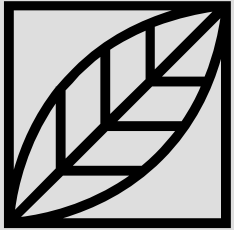
Enhance capabilities

- Part of Chemicals shift from a volume to a value business (accelerated by digital) requiring **new commercial capabilities** – while other parts will need **concepts to secure business** endangered by substitution
- Regulatory and consumer decisions are not necessarily rationally comprehensible, which needs to be dealt with in portfolio steering and investment decisions – moving closer to end consumers to **anticipate dynamics**
- Stakeholder **communication** and **reporting standards** become more important – requiring players to create transparency and credibility

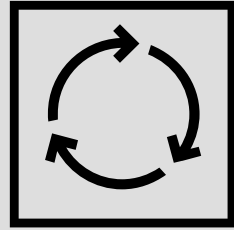
New way of operating

- The industry does not seem to be fully prepared yet for **tough trade-off decisions** that interfere with business goals
- Sustainability and digital might jeopardize current business models – **if you don't disrupt, others will**
- **Integrated P&L** will form the foundation for transparency and drive investors' view on the company
- **Collaboration in the ecosystem** will become a necessity to realize Chemicals potential sustainability impact

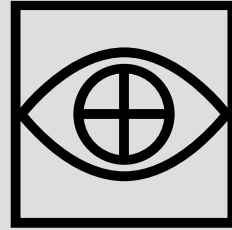
There is a multitude of opportunities – What's the contribution of your company?



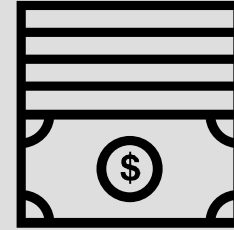
What is your **long-term** sustainability **ambition** – and is it integrated with your strategy?



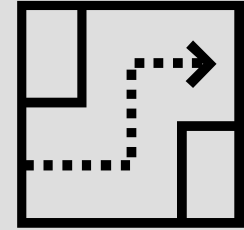
In which **steps** of the **sustainable value** chain are you already **active**?



Do you have **full transparency** on what your **competitors** are doing?

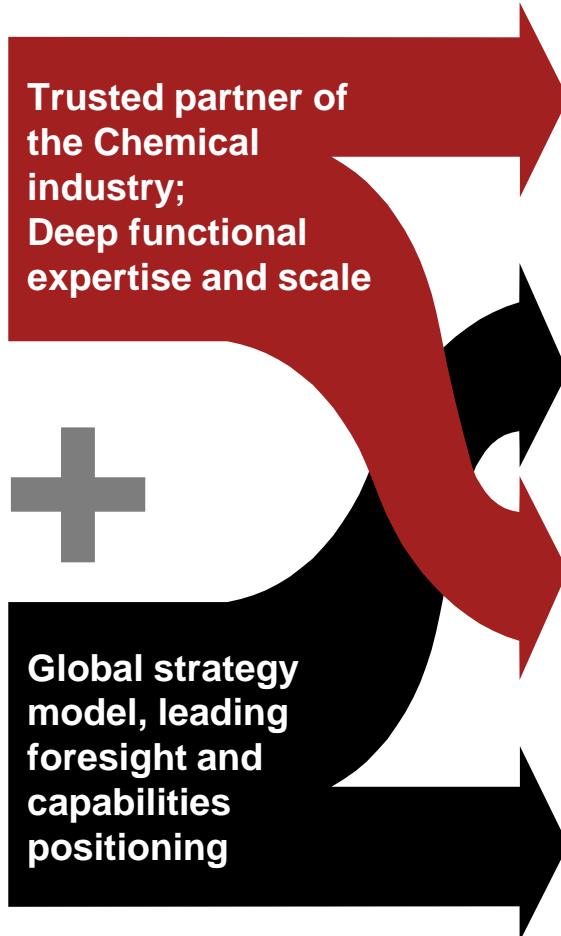


How are your activities currently **impacting** your **growth and profitability**?



Do you have a clear **roadmap** to achieving your **sustainability goals** in each step of the value chain?

We are the right advisor for you to turn your sustainability ambition into reality



strategy&



We offer **full coverage** of all **transformation aspects from strategy to implementation**, tools, legal, and reporting



We are well **connected with diverse industry stakeholders**, e.g. regulators, legal bodies, NPO, CE alliances, and global / regional forums. And we are able to **detect directional changes** fast



We are **experienced** in the **high complexity in energy industry** incl. regulations, etc.



We **create sustainable value on triple bottom-lines**: financial performance, social welfare, and environmental benefits

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