

How can slowing climate change accelerate your financial performance?

EY 2023 Sustainable Value Study Romania

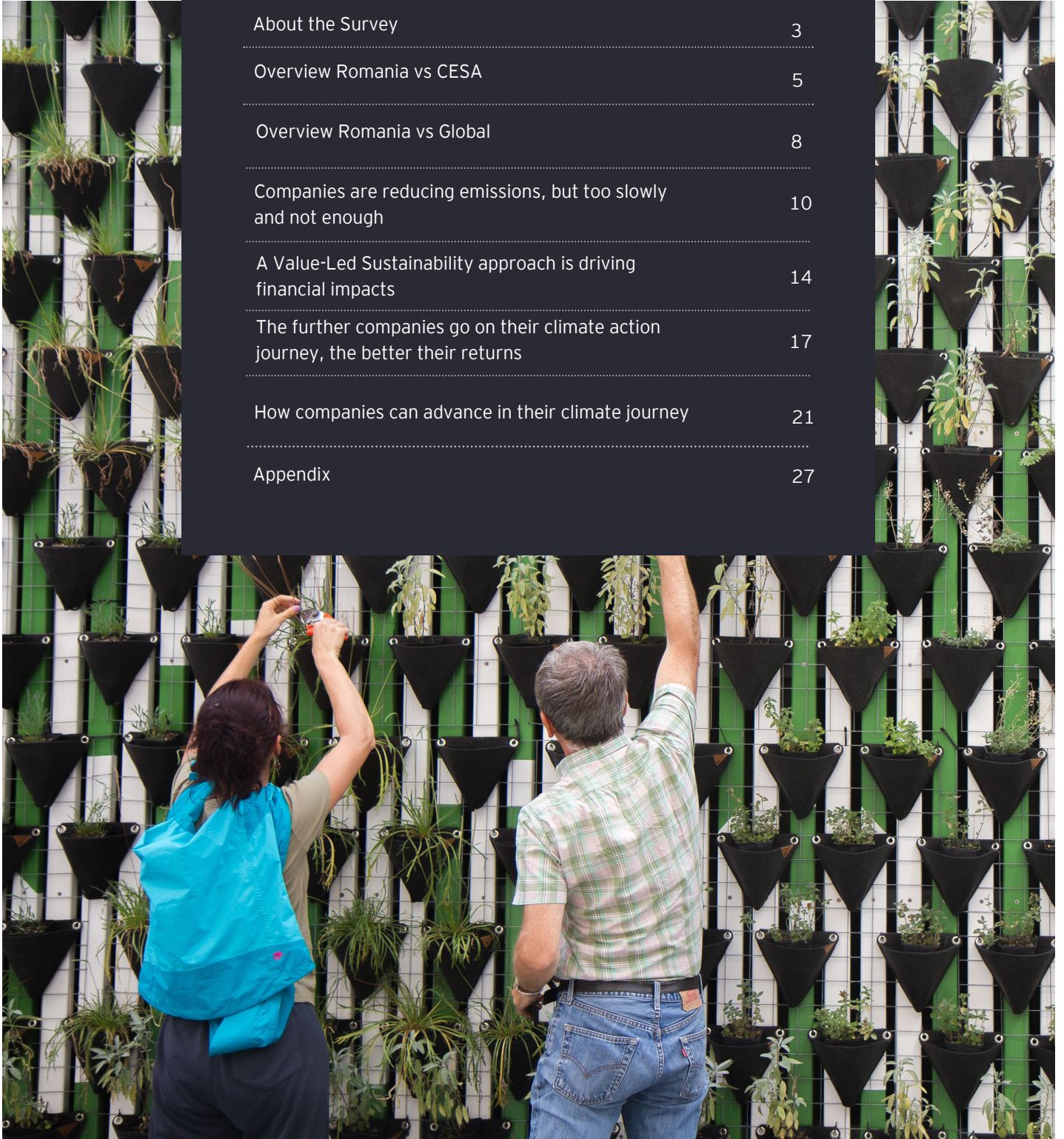


EY

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About the survey

The EY 2023 Sustainable Value Study (CESA) was developed to understand what actions companies are taking to address climate change, what value they expect and are receiving from these actions and barriers to doing more.

The study draws on insights from a global survey of 52 Chief Sustainability Officers (CSOs) in Romania or those with equivalent responsibilities in their organization, with a mix of industries, public and private firms, and country headquarters included.

Survey requirements include:

Respondents are responsible for sustainability strategy
Lead or oversee organization's climate change agenda or major initiative*

*Organizations with these sustainability roles have reached at least a basic level of maturity about addressing climate change. These results are not representative of all businesses but are focused on those who have begun their climate journey.





“

This recent EY survey reveals that companies leading on climate action are capturing more value and are more likely to report significantly higher financial value than expected. According to the survey, taking action to reduce emissions and investing in initiatives that address climate change can accelerate financial performance.

This is a strong message for those organisations which are still hesitant about taking decisive action to reduce their greenhouse gas emissions and prevent the potential consequences of climate change on their business.

Understanding and addressing emerging regulatory requirements and customer expectations as well as optimizing operating costs through energy and resource efficiency, waste minimization and product reformulation, unlock new market opportunities and increase sales and revenues, which ultimately, lead to better financial performance. This survey confirms that climate action is not just a question of proper risk management, but it is also, and maybe even more importantly, a business opportunity that creates value in the medium and long term and enhance a company resilience.

Massimo Bettanin

EY Romania

Partner Sustainability and Climate Change

1

Overview Romania vs. CESA



Key takeaways Romania

Romania v.s CESA region (Poland, Czechia and Greece)

1 Status of the climate change journey

- Poland has the shortest timeline for becoming carbon-negative and Romania has the shortest timeline for reducing emissions and the lowest reduction target to achieve net zero.

By what year has your organization committed to this commitment? Average years to achieve commitment

Become carbon negative



Reduce emissions by a specific amount

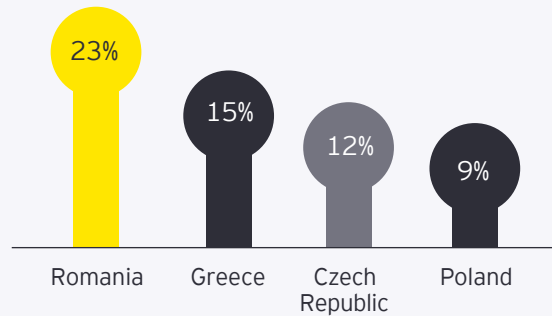


2 Criteria for investment and value creation

- Investment in climate change initiatives varies for each CESA country, with different factors driving their decisions. Poland is more likely to prioritize customer value, while Romania's climate change agenda is driven by employee and planetary values.

Please rank each type of value from most important to least important when deciding whether to invest in a climate change initiative.

Employee value (e.g., recruitment, retention, satisfaction)

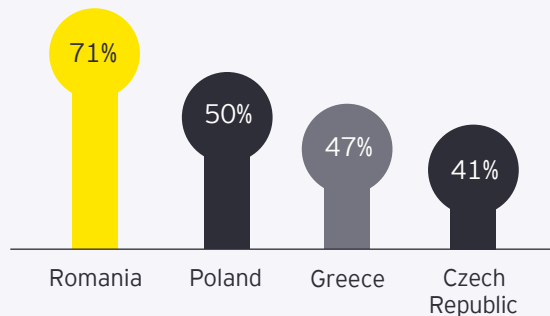


3 Actions companies are taking to address climate change

- Romania is most likely to be ahead of its CESA peers in taking up various actions to address its climate change agenda across multiple domains, especially actions related to suppliers and third parties through partnerships, mergers and acquisitions, and divestments.

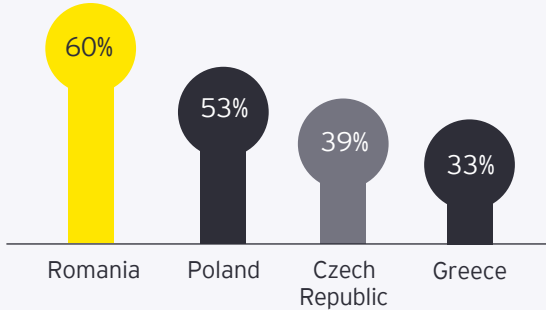
Which of the following actions has your organization taken as part of its climate change agenda - In Progress/- Completed

Publicly disclosing our annual emissions [Measurement and reporting]

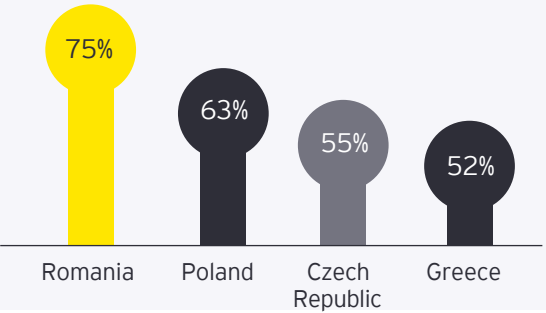


Which of the following actions has your organization taken as part of its climate change agenda - In Progress/-Completed

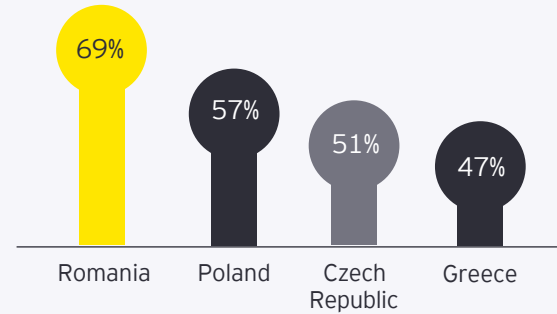
Relocating our operations to areas with better access to clean energy [Operations]



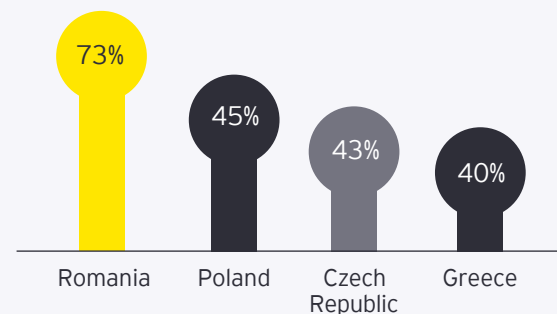
Providing customers with resources to modify their behavior to reduce emissions [Customers and product offerings]



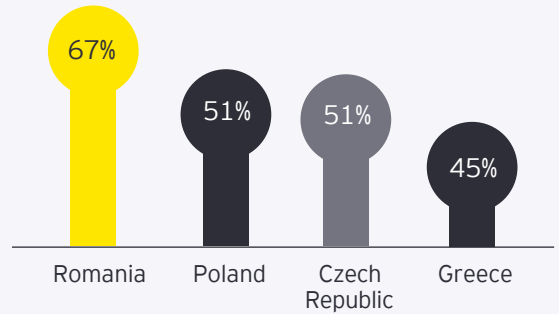
Providing technical or financial assistance to suppliers to help them reduce emissions [Suppliers and third parties]



Establishing strategic partnerships or joint ventures to address climate change [Suppliers and third parties]



Pursuing an M&A strategy that aligns with our climate change ambition [Suppliers and third parties]



4 Barriers to achieving climate change agenda

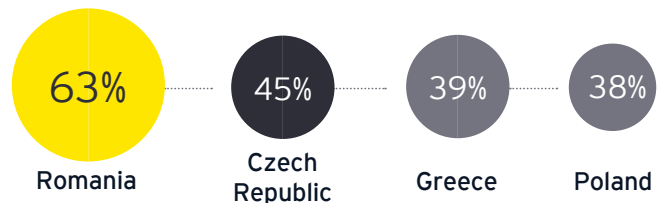
- Romania has found it easier to measure progress on its climate change agenda compared to handling other major business incentives, unlike other CESA countries; however, Romania still needs to improve collaboration across leadership and senior management on the climate change agenda.

How much harder or easier are the following activities for climate change initiatives compared to other major business initiatives - Easier/Significantly easier

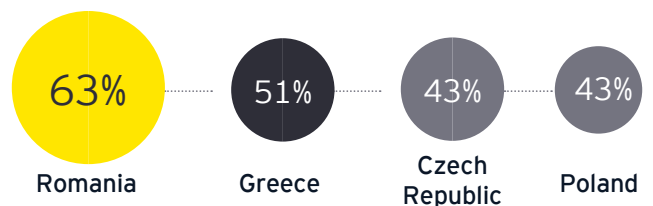


How much collaboration need to improve between the following groups for your organization to effectively execute its climate agenda? Moderate/Significant improvement

Members of the C-suite



The C-suite and teams executing initiatives



2

Overview Romania vs. Global



Key takeaways Romania - Romania vs. Global

1

Companies in Romania are more likely to commit to targeted emission reductions than their global counterparts, but their emission reduction targets are relatively lower than global companies.

2

Romanian companies are less concerned about physical and legal risks associated with climate change and external ESG ratings, but they prioritize actual emission reductions over impact on customer experience.

3

Lack of a data-driven approach or struggle with measuring the value of climate change initiatives is affecting decision-making capability of Romanian companies, which is linked to the need for improved opportunity identification to accelerate the climate change agenda.

4

Romanian companies lack strategic leadership to deal with the climate change agenda, including climate experience in board/management selection and strategic partnerships with the government or policy makers.

5

While companies in Romania do not feel any internal management issues in pursuing climate agenda, they are less optimistic about climate change goals and the role of corporations and governments in related initiatives, along with financing challenges, compared to their global counterparts.

3

Companies are reducing emissions, but too slowly and not enough



Companies are acting on climate change, but not fast enough

Those that do most gain most value

01 Companies are reducing emissions, but too slowly and not enough

- ▶ **92%** of companies surveyed have made a public climate change commitment.
- ▶ On average, they plan to reduce emissions **33%**. So far, they have reduced emissions **19%**.
- ▶ The world needs a 45% reduction by 2030 to keep 1.5°C on track.
- ▶ Most commitments fall short - only **27%** plan to reduce emissions 45% or more and only **38%** have a commitment by 2030.

03 The further companies go, the better their returns

- ▶ Most companies are in the **early stages** of turning commitments into action, with most progress on measurement and governance.
- ▶ Companies leading on action take a **broader approach**.
- ▶ They are more likely to report significantly higher financial value than expected.
- ▶ And have a larger reduction in emissions to-date.

02 A Value-Led Sustainability approach is driving financial impacts

- ▶ Companies' climate investments are turning into **financial value**.
- ▶ **Four in ten** have achieved higher than expected financial value.
- ▶ The **trade-off** between delivering on planetary goals or meeting business objectives is often a false choice.
- ▶ A **holistic approach** to sustainability that includes the financial, employee, and customer benefits, tends to deliver more value to the planet.

04 How companies can advance in their climate journey

- ▶ Organizations taking fewer actions struggle more with **execution**.
- ▶ Organizations leading on action need to improve **coordination and internal collaboration**.
- ▶ Key opportunities to make significant headway on climate change include broader **partnerships and investing in talent**.

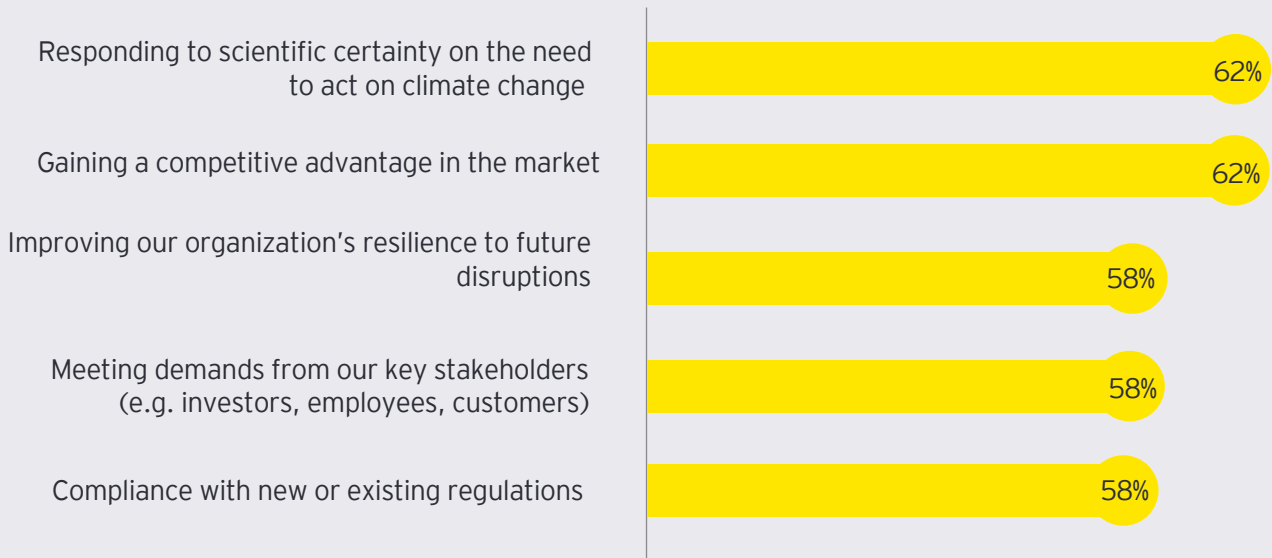


Companies are investing in climate change, motivated by resilience, ratings, and stakeholder demand

Six in ten plan to spend more money next year to address climate change compared to this year, with a quarter planning to spend significantly more.

Value creation is a key consideration, with almost all (99%) of organizations considering more than one type of value when evaluating an initiative.

Organizations' top motivators to invest in climate change initiatives



Companies' targets and timeframes are insufficient to accelerate the path to 1.5°C

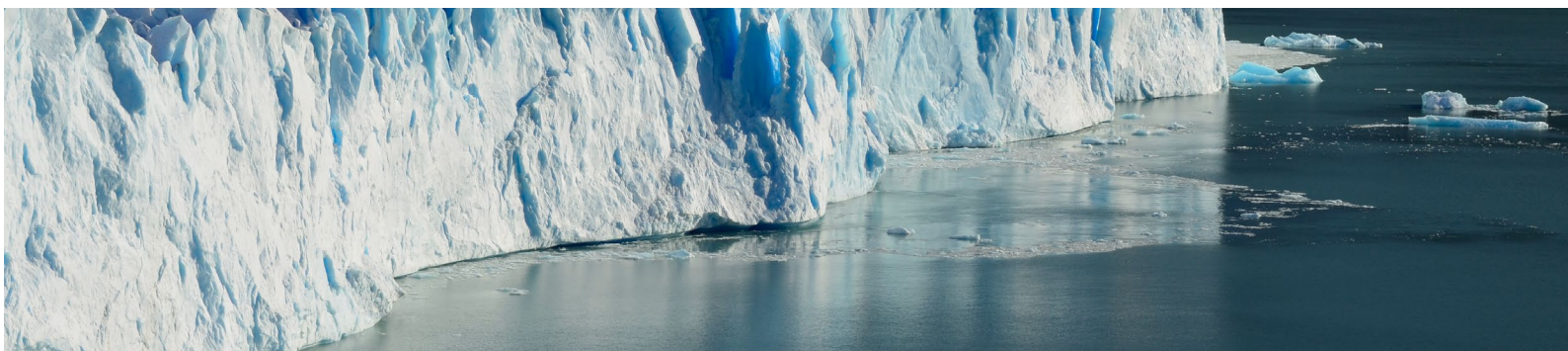
Nine in ten EY survey respondents have made a public **climate change commitment** – a higher rate than Fortune Global 500 companies.¹



¹ Climate Impact Partners, "If not now, when?"
https://info.climateimpact.com/hubfs/IfNotNowWhen_FortuneGlobal500_ClimateImpactPartners_2022.pdf

But there is room for improvement:

- ▶ Just 29% have committed to carbon negative and 15% have committed to net zero
- ▶ Most companies are falling short of a 45% reduction by 2030 to keep 1.5°C on track (as mapped out in the Paris Agreement)
- ▶ 38% have a commitment by 2030
- ▶ Only 27% plan to reduce emissions 45% or more (at any point)



4

A Value-Led Sustainability approach is driving financial impacts

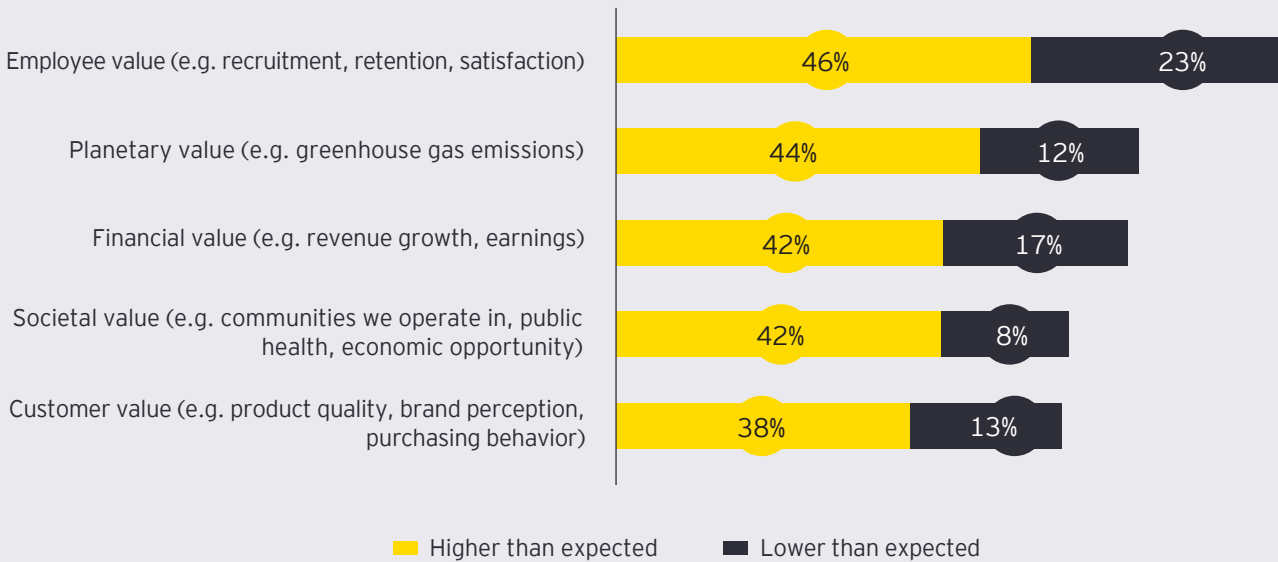


Sustainability initiatives return significantly more value than expected

Companies' climate change investments are delivering **more value** than expected across multiple dimensions. This is despite concerns climate change initiatives will negatively impact financial performance (37%) or reduce their ability to compete in the market in the near-term (19%).

On average, respondents say 2.8 times as many of their organization's climate initiatives will have a **positive financial impact** than a negative one (39% vs 14%).

Value organization captured



Note: Answer choices also included "About the same" and "Too early to tell"

Key takeaway

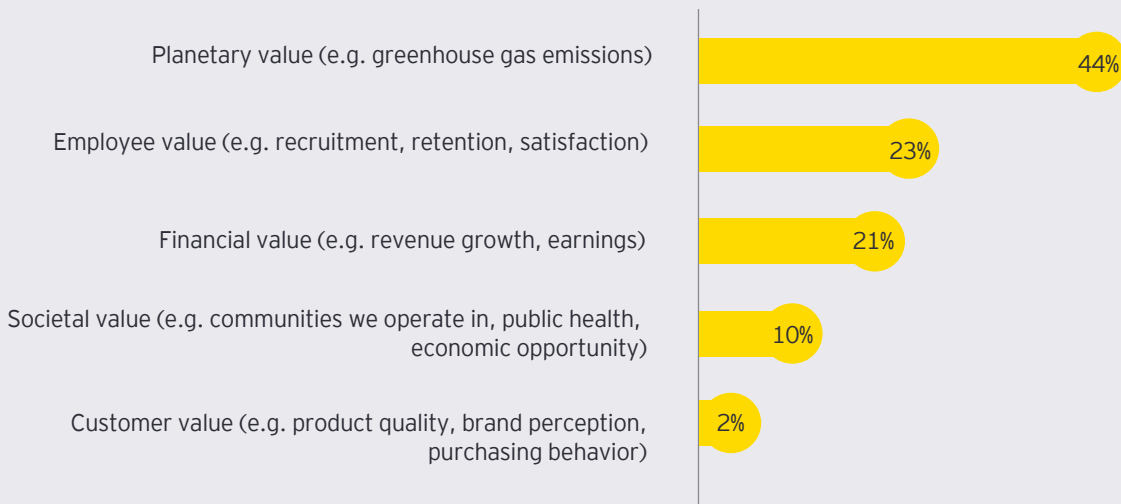
The value captured should **motivate** those at the start of their climate action journey to increase their investments.

Financial and planetary value are not mutually exclusive

Companies are 0.5 times more likely to **prioritize financial value** than planetary value as the number one consideration when evaluating an initiative.

Considering the impact of climate initiatives across **multiple types of value** can benefit businesses, society and the planet. Long-term sustainability planning makes it easier for companies to **stay the course** or find **new opportunities** to create value.

#1 value considered when evaluating a climate change initiative

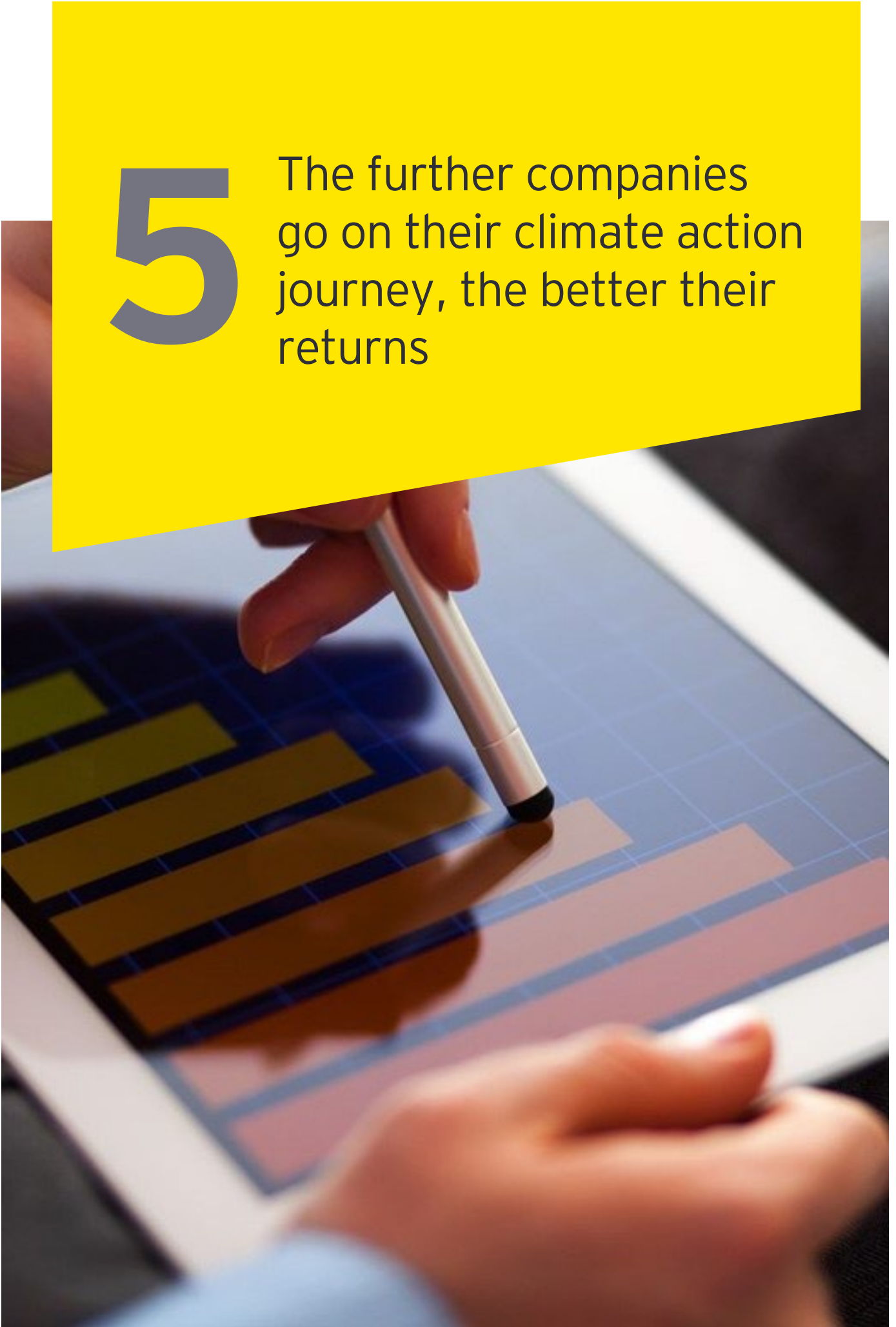


Key takeaway

Being intentional about the connection between financial and other forms of value can make it easier for companies to embark on **holistic, ambitious climate strategies**.

5

The further companies go on their climate action journey, the better their returns



Most companies are in the early stages of turning commitments into action

Overall, companies average **8 completed actions** (out of 32 action measured).

But the most frequently completed actions are often in **governance or measurement** – typically actions that require less financial outlay.

Climate change actions taken

✓ Top 5 most completed

✗ Bottom 5 least completed

<p>Governance and oversight</p>	<ul style="list-style-type: none"> ✓ Setting intermediate targets to achieve our long-term goal ✓ Assigning climate change oversight responsibilities to a board committee ✗ Conducting climate scenario analyses every year, such as TCFD
<p>Measurement and reporting</p>	<ul style="list-style-type: none"> ✓ Identifying the major sources of our emissions ✗ Publicly disclosing our annual emissions
<p>Customers and product offerings</p>	<ul style="list-style-type: none"> ✓ Implementing circular economy design principles ✗ Establishing new lines of business to capture market opportunities related to climate change
<p>Operations</p>	<ul style="list-style-type: none"> ✗ Relocating our operations to areas with better access to clean energy ✗ Investing in-house to develop new climate-related technology (e.g., carbon capture)
<p>Suppliers and third parties</p>	<ul style="list-style-type: none"> ✓ Switching to suppliers with low or no emissions

Key takeaway

Interviews revealed that many companies **continuously develop** their measurement and governance processes, then revisit their targets and **use interim targets**, milestones and scenarios to accelerate action.

Companies leading on action are capturing more value

To segment companies, we measured and scored the status of 32 actions to address climate change across five areas. Our highest scoring group, "**pacesetters**" completed an average of 20 actions, compared to six in the middle group, "explorers," and one in the lowest group, "observers."

Pacesetters are 2.2 times more likely than observers to report significantly higher financial value than expected.

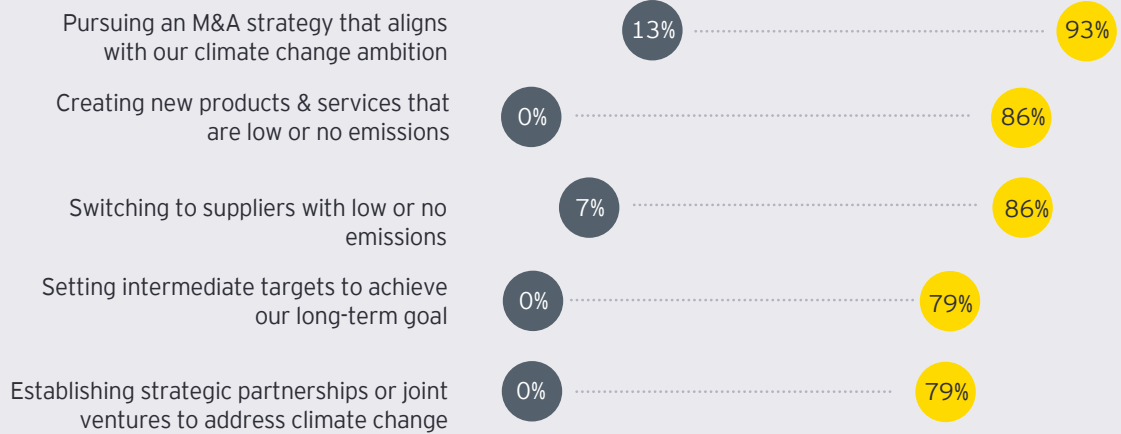


Leading companies are taking a holistic approach

On average, pacesetters have **completed 20 actions** and are in progress on another 9. Pacesetters' most common climate actions range across all the categories and show a more holistic approach.

Climate action leaders' most common actions

● Pacesetters ● Observers



Key takeaway

To lead on the sustainability agenda and capture more value for business, society and the planet, companies need to consider a **transformative approach** across the whole organization.

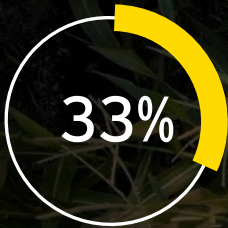
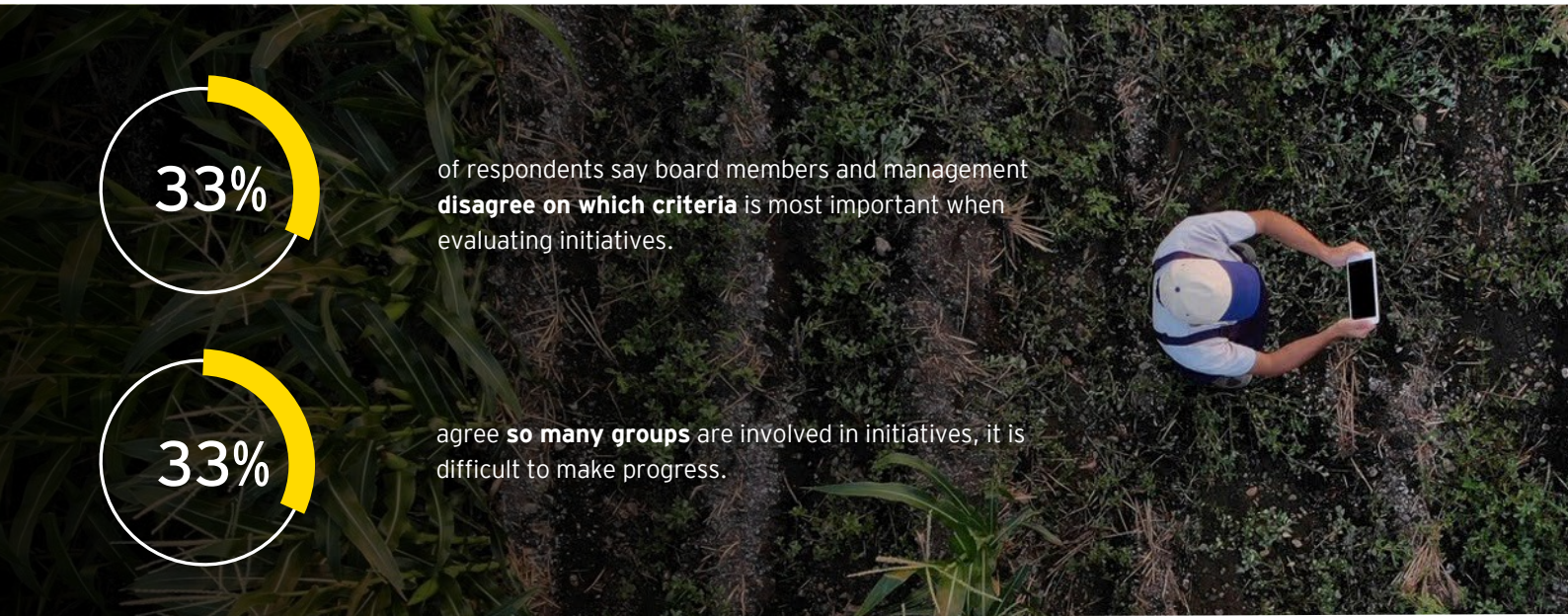
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How companies can advance in their climate journey



External barriers and internal collaboration and are preventing more action

Respondents believe a **lack of collaboration** within company leadership teams is impacting the ability to take effective action.



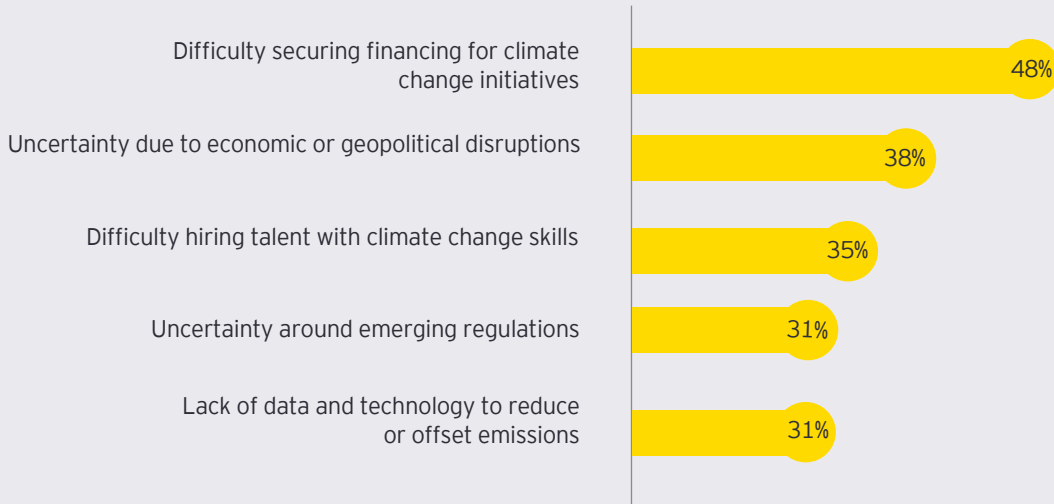
of respondents say board members and management **disagree on which criteria** is most important when evaluating initiatives.



agree **so many groups** are involved in initiatives, it is difficult to make progress.

Organizations perceive many external barriers to addressing climate change, including **lack of data and technology** to reduce or offset emissions and difficulty securing **financing**.

Top external barriers to doing more to address climate change



Key takeaway

Many of these may risk creating a culture of “committing” but not “acting” in addressing climate change.

The different barriers faced by organizations show a sustainability learning curve

Companies taking fewer actions struggle with **executing climate initiatives**.



Say improving "executing the initiative" would accelerate organization's agenda the most

Pacesetters face challenges with **collaboration and coordination** of initiatives.



Pacesetters are engaged in a wider range of strategic partnerships

Half of pacesetters have **entered in a strategic partnership or joint venture** (79% vs 0% of competitors). They are more likely to have already formed partnerships with (vs. observers):

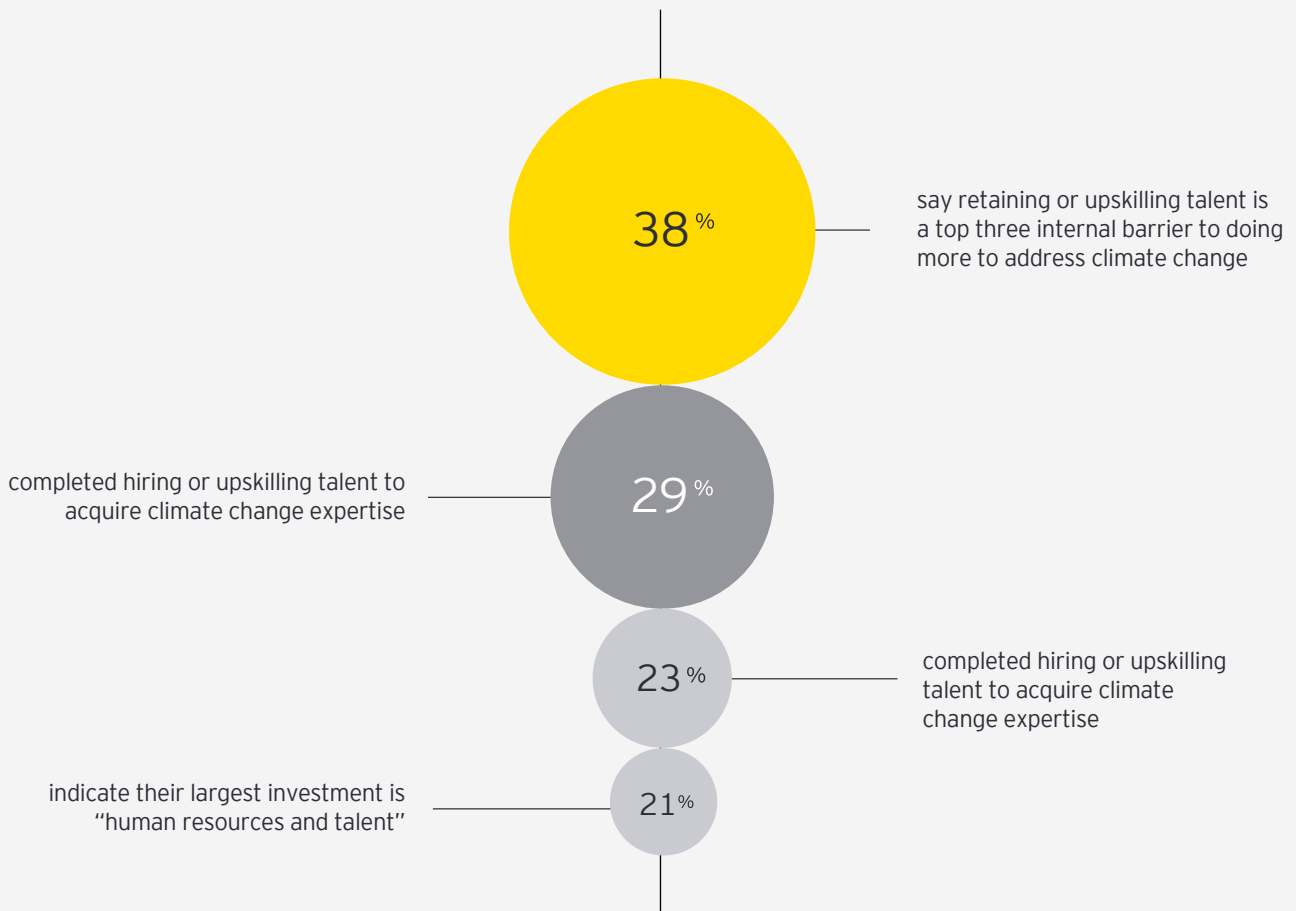
	Pacesetters	vs.	Observers
Direct competitors	64%	vs.	7%
Government or policy makers	57%	vs.	0%
Academic institutions	57%	vs.	7%
Suppliers	57%	vs.	20%
Non-governmental organizations	43%	vs.	27%
Start-ups focused on climate change	50%	vs.	20%

Note: Excludes the less than 1% of respondents who indicated that "Establishing strategic partnerships or joint ventures to achieve climate change objectives" is not relevant to their organization

Key takeaway

In addition to providing more benefits and allowing companies to achieve more around sustainability than they could alone, **collaboration at a global scale** will be required to meet our 1.5°C target.

Investing in talent is an opportunity to accelerate transformation from within



Key takeaway

Companies should consider making bolder investments in improving financial value via **employee value** that contributes to sustainability.

As companies seek to **embed sustainability across functions**, they will need education, capacity building and knowledge sharing, and a tailored strategy for developing the skillsets they need.

Ways to adopt value-led sustainability

Looking at lessons from pacesetters, as well as acknowledging where they and others still need to improve, we see several actions companies should take to create more value from their climate agenda.

1 **Challenge your ambition.** Even for companies committed to change, we are not seeing ambitious enough targets to meet the goals set forth in the Paris Agreement.

2 Recognize the complexity of **driving true impact** on emissions reduction and build in **measurements** to track progress and assess ROI from the onset.

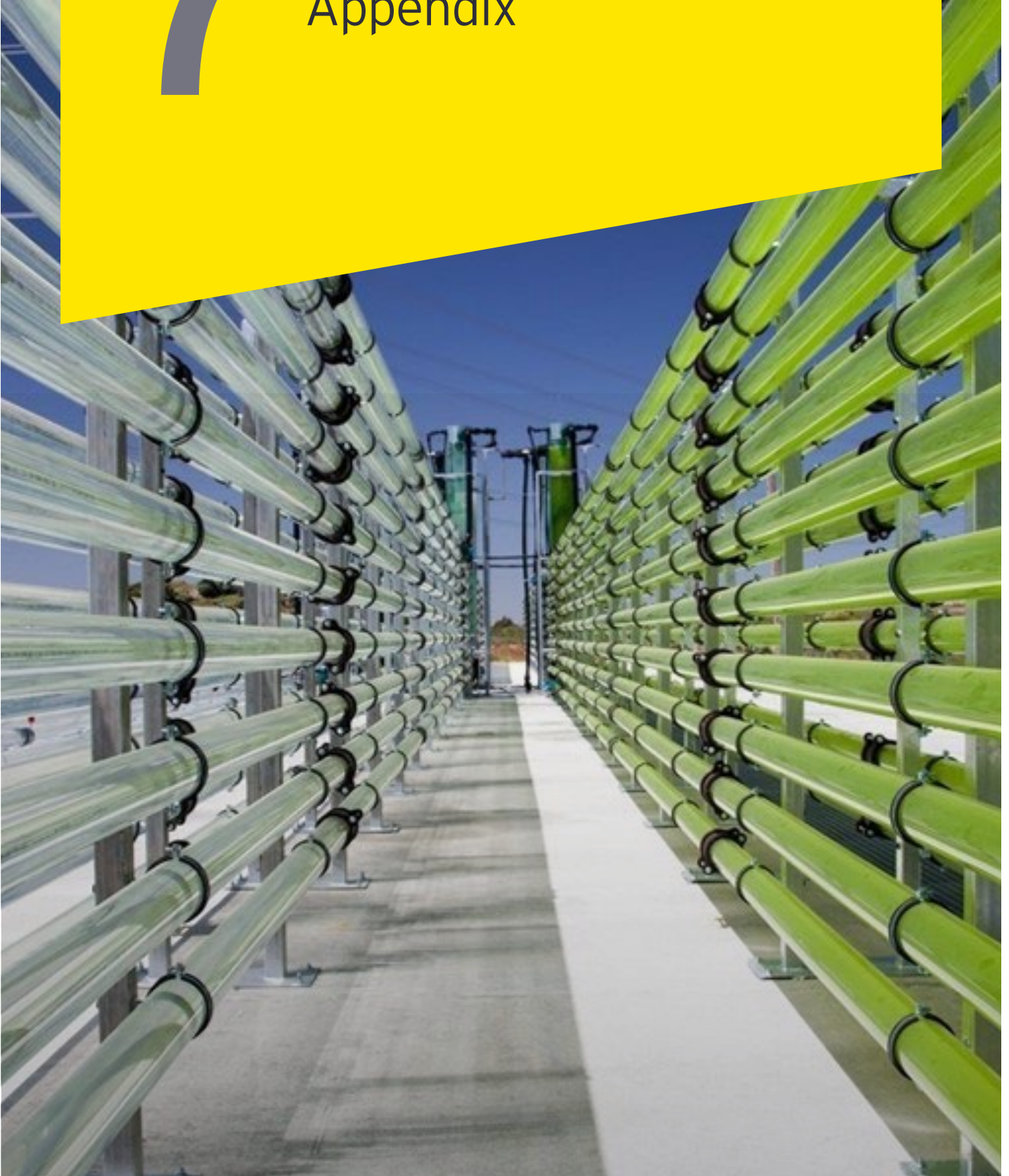
3 **Collaborate** within your sector and across sectors. This is a collective challenge and working with industry groups will accelerate change.

4 **Influence your supply chain.** Many organizations have more opportunity to influence emission reduction through their supply chains than their own organization.

5 **Invest in talent** to meet the needs of this challenge. Prioritize hiring specialists as well as upskilling across organizational functions.

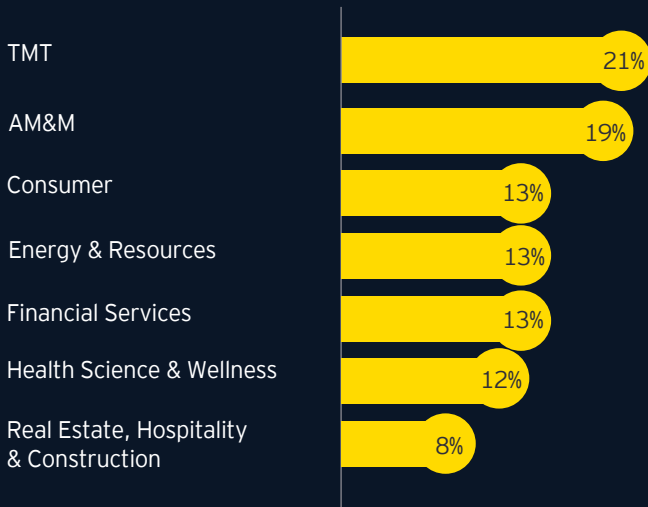
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Appendix

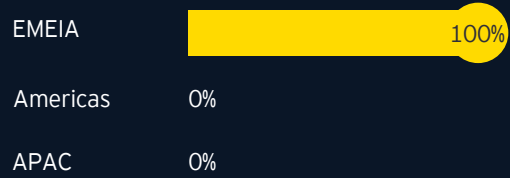


Demographics (Romania, n = 52)

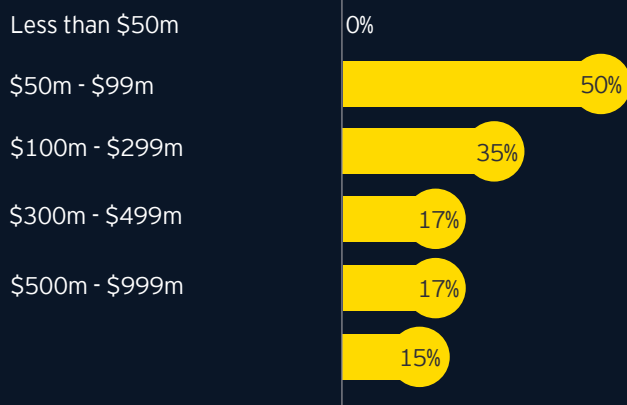
Primary industry



Regions



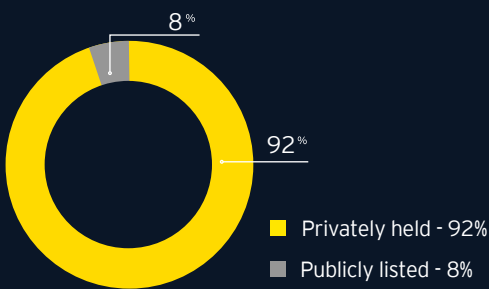
Revenue



Areas of responsibility



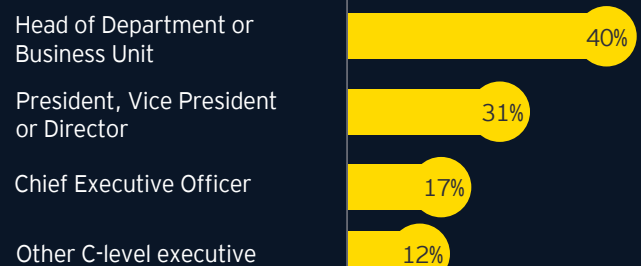
Ownership structure:



Climate change responsibilities



Primary role



Chief Sustainability Officer 17%

How we identified pacesetter companies in Romania

Methodology

Measured status of 32 actions to address climate change in five areas:

1. Measurement and reporting
2. Governance and oversight
3. Operations and supply chain
4. Customers and product offerings
5. Suppliers and third parties

Scored each action based on level of progress:

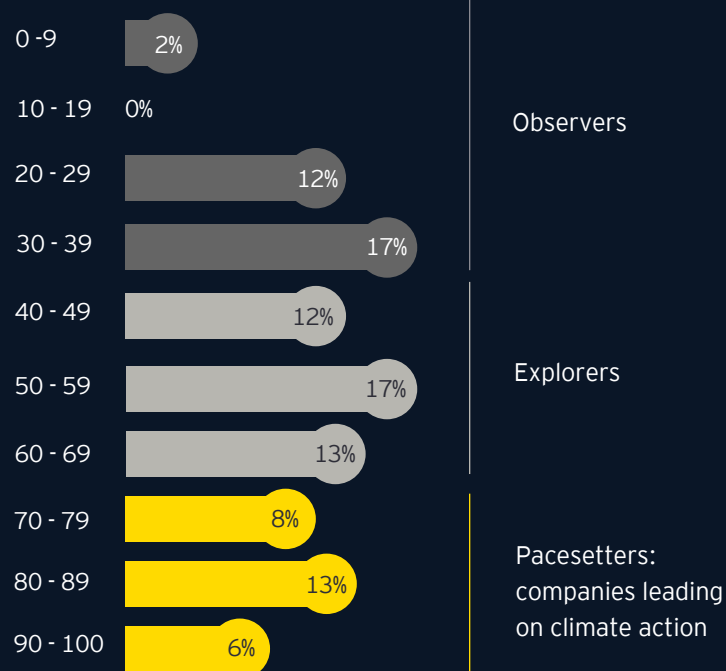
- ▶ Completed - 10
- ▶ In progress - 5
- ▶ Plan to do in the next year - 2
- ▶ No plans - 0

For each respondent, created an index based on:

- ▶ **Sub-scores:** Total score in each area, normalized from 0 to 100
- ▶ **Overall score:** Average score across all 5 areas, on scale from 0 to 100

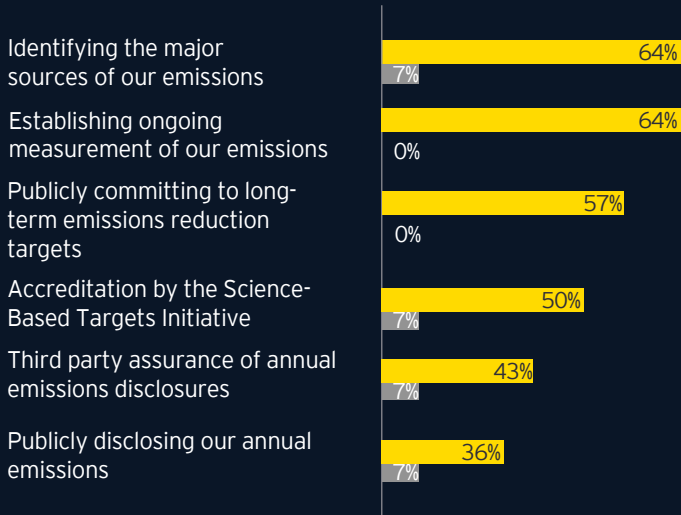
Overall score

% of companies in each bin; n= 52

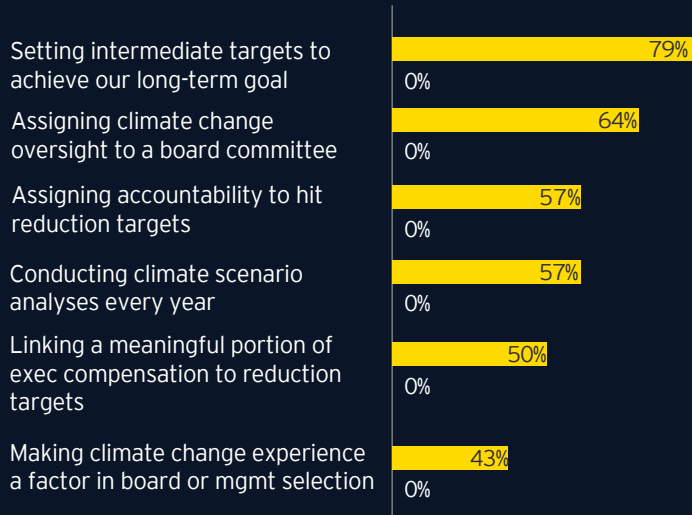


Actions organization completed as part of its climate change agenda (full list)

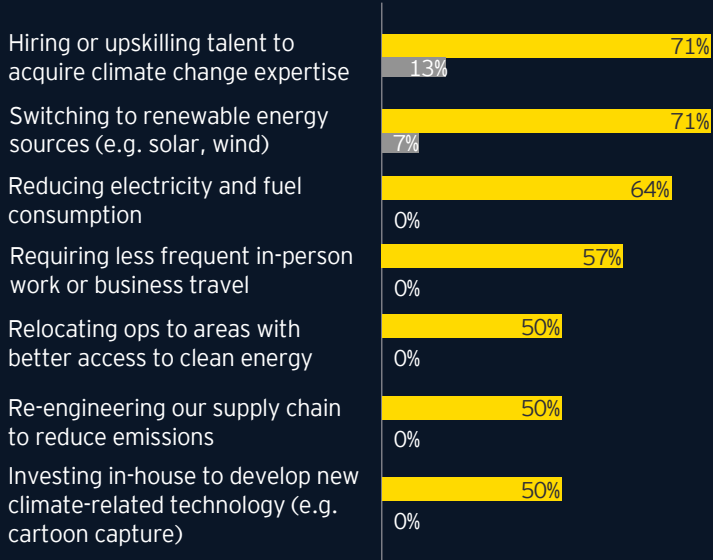
Measurement and reporting



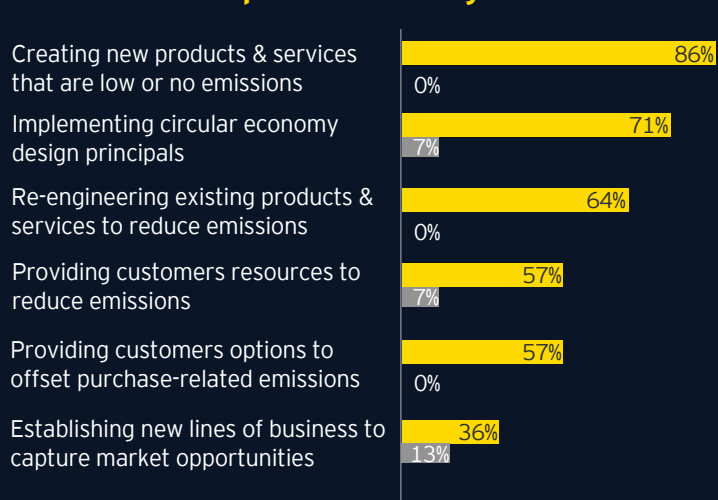
Governance and oversight



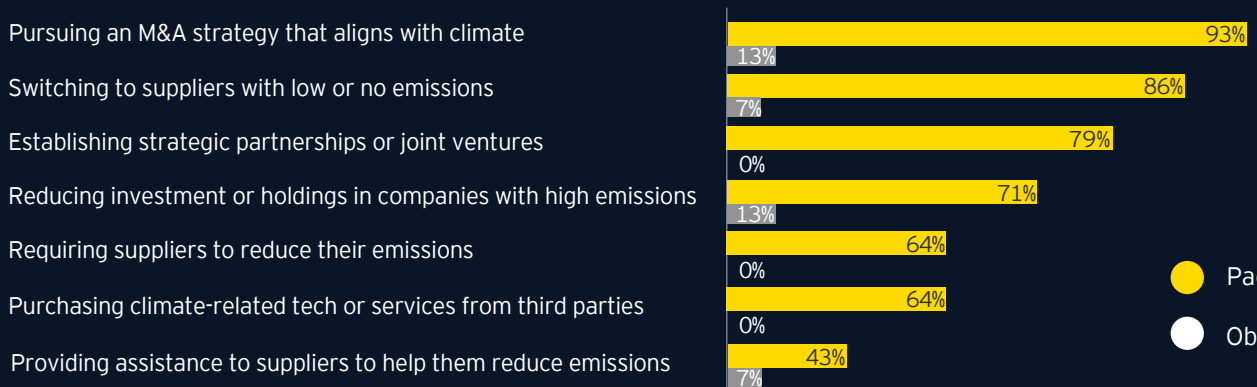
Operations



Customers and product offerings



Suppliers and third parties



● Pacesetters
● Observers

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