



Sustainable, Socially Responsible and Ethical PLCs

Guidebook

2

PLC Transformation (PLCT) Programme

Towards a more responsible and high performing
Corporate Malaysia



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How to use this guidebook

"In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders."
- Larry Fink, Blackrock, 2022

The objective of this second guidebook, in a series of five PLCT guidebooks, is to provide PLCs with further insight on how they can enhance their Environmental, Social and Governance (ESG) performance. The guidebook builds links between sustainability and long-term value creation and emphasises the importance of aligning their sustainability strategies and targets with their purpose.

The guidebook provides guiding steps on the key components of a well-defined ESG response and how PLCs can define their strategy, good practice initiatives, and metrics for improved implementation. Key enablers of ESG strategy and drivers for ESG practices, as well as disclosures, are highlighted to support public listed companies (PLCs) to enhance their ESG response.

There are dedicated chapters in the guidebook for the Environmental, Social and Governance dimensions, highlighting key focus topics and issues in each dimension. 'How-to' chapters are deep-dives into selected topics, with the aim of assisting PLCs in implementing these practices within their business.

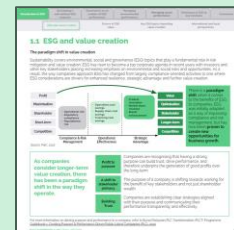
The guidebook also provides insights to the relevance of ESG within key business functions to enable PLCs to better visualise and understand how ESG necessitates a company-wide approach and should be embedded across the whole company. This also applies to business functions that have been outsourced to external providers.

The relevant content, supplemental sources of information and examples are to be read as non-exhaustive. This guidebook encourages PLC Boards and management to take the next steps in their ESG journey by conducting further research and consulting relevant parties.

The guidebook aims to demonstrate that PLCs that firmly commit to sustainable, socially-responsible and ethical business practices will be well-equipped to contribute towards cultivating a more responsible and high-performing Corporate Malaysia.

A quick tour of Guidebook 2

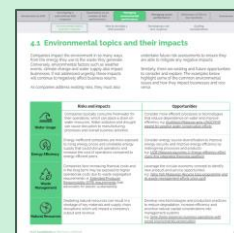
Introduction to ESG



Developing a well-defined ESG Response



Guidance on Governance, Environment and Social topics



Relevance of ESG to key functions



Practical guidance elements

Throughout the guidebook, specific supplemental content and resources have been included to provide practical guidance and support to enable PLCs to enhance their ESG response.

3.4 Guiding considerations

- To drive better governance and ESG performance, strong sustainability governance structure, the process and structure for managing ESG topics.
- To monitor the effectiveness of sustainability disclosure metrics such as the frequency of Board discussions sustainability-related issues.
- To provide comfort to the Board and stakeholder quality of ESG data, task the internal audit function assurance over ESG data and information. As processes mature, to undertake external assurance data and information.
- To drive ESG accountability and performance, KPIs into performance evaluations for Board management.

2.4 Enabling elements

Embedding ESG into any company requires clear sustainability governance structures, policies and processes which in turn supported by its people and infrastructure.

- Sustainability Governance:**
 - Define a clear sustainability governance structure
 - Develop clear Terms of Reference (TOR) e.g. for Board, management, working group
 - Embed ESG considerations in key policies
- Processes:**
 - Implement clear processes for managing ESG topics
 - Develop a sustainability performance scorecard for Board and management
 - Apply ESG considerations across the company
- People:**
 - Upskill workforce with needed ESG skills and knowledge
 - Integrate ESG into performance especially for Board and management
 - Appoint ESG champions across the company
 - Define new roles and company structure changes
- Infrastructure:**
 - Identify new infrastructure needs based on ESG goals
 - Upgrade infrastructure to support ESG performance

Spotlight: Nestlé (Malaysia) Berhad (Nestlé Malaysia)

An account from Nestlé Malaysia Creating Shared Value (CSV) Strategy

Nestlé Malaysia CSV and sustainability strategy is led by its Group Corporate Affairs Department with support from the CEO and strategic partners from its Board of Directors. Group-wide CSV and sustainability initiatives are led by subject matter experts from various business units and support functions with monthly monitoring, reporting and progress reviews against commitments. Additionally, the business team is further engaged with CSV and sustainability strategy to be embedded effectively. Nestlé Malaysia launched their first CSV strategy which outlines the priority action items throughout their value chain to achieve positive financial by 2025, halve emissions by 2025 and carbon neutral by 2050.

Source: Nestlé in Singapore, 2023. <https://www.nestle.com/sg>

3.3 How to define suitable ESG KPIs

Why ESG KPIs?

Practice 4 of the ACCA 2023 states that there should be ESG KPIs tied to the performance Board and senior management. They compare an elaborate list of ESG KPIs provided linked to compensation, especially for the Board and senior management. Completion of each target is set to be 50% as large as the bonus for Board and senior management. Also, the list of ESG KPIs includes local and global metrics, financial, non-financial, and suitable and how they impact long-term revenue plans. L'Oréal Paris 2023 Annual Global ESG Report provides an overview of the company's long-term revenue goals and its business metrics as shown in the chart below. In this chapter, we highlight some published or effective ESG KPIs.

5.3 How to implement good labour standards

Proactive vs reactive implementation of labour rights

In Malaysia, foreign labour is used extensively across key economic sectors and the issues associated with it cannot be ignored. In recent years, there has been heightened scrutiny on the labour practices of local companies. Taking a proactive response from the outset can help companies avoid financial and reputational risks, and to include a proactive response from the outset can help companies avoid financial and reputational risks, and to include a proactive response from the outset can help companies avoid financial and reputational risks.

Spotlight: Adidas

In 2020, Adidas received the top spot in the adidas ranking of global fashion firms' human rights performance. They have had a strong human and labour rights programme for their supply chain by undertaking extensive stakeholder outreach and engagement. Adidas has established supply chain and ethics before labour standards through their Labor Rights Charter and Workplace Standards. They conduct compliance audits, have worker feedback mechanisms and partner with external organisations such as the ILO Better Work and the Fair Labor Association to effectively monitor adherence to human rights policies.

Source: Adidas, 2023. <https://www.adidas.com/sg>

Key steps to consider in establishing good labour standards

1. Define values: Reflect on company purpose and values
2. Define targets: Understand local laws and standards, require, consider the expectations of customers and stakeholders
3. Align to global standards: Align values, commitments and practices with globally recognized frameworks, such as the ILO Declaration on Fundamental Principles and Rights at Work
4. Identify risks and impacts: Based on expectations and external stakeholders to supply chain, identify high risk areas
5. Build grievance systems: Establish avenues for external stakeholders to supply chain, identify high risk areas
6. Build capacity and knowledge: Provide training to all employees and external stakeholders on compliance with regards to respecting human rights and labour standards

Operational: Build robust management systems - for the PLC and its supply chain

1. Define values
2. Define targets
3. Align to global standards
4. Identify risks and impacts
5. Build grievance systems
6. Build capacity and knowledge

Source: ACCA 2023, 2023. <https://www.acca.org/sg>

Guiding considerations and checklists that provide PLCs indicative areas to enhance their ESG response

How-to sections that delve deeper into specific ESG topics and provide practical guidance to implement good practices

Spotlight: Marks and Spencer Group PLC (M&S)

"We will always treat people in our business and supply chain fairly. This means review and improve our policies, procedures so that we can fulfil this."

M&S Promise Principles

- M&S Promise Principles equate human rights policies, practices and actions to be understood by the M&S Supply Chain and Business and customers, and supports the OECD Guidelines for Multinational Enterprises.
- Their approach involves respecting and promoting human rights is provided to their retail services and processes and advisory work.
- In 2023, M&S was ranked fourth in the Corporate Human Rights Benchmark (CHR) which is a testament to its commitment to transparency, human rights policies and policy commitments.
- Human rights standards from the Sustainable Development Goals (SDGs) are integrated into their business strategy.
- M&S has committed to sustainability and

Spotlight: Farm Fresh Berhad (FFB)

ESG disclosures are part of Bank's listing requirements. As a new entrant to the ESG and sustainability landscape, Farm Fresh Berhad (FFB) has disclosed their current structure for sustainability governance and with clear indications of how it is integrated with its management.

How is ESG governed?

The Board of Directors (BoD) forms the highest sustainability governance body. The Audit and Risk Management Committee (ARMC) is appointed by the Board to identify risks related to FFB from the point of view of sustainability & from the financial view.

The RMG, the strategic initiatives and initiatives undertaken from top to the relevant sustainability working group is a cross-functional member of the Board management or employees.

The Board sets the ESG strategy and progress against targets on a quarterly basis.

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The Board sets the ESG strategy and progress against targets on a quarterly basis.

Source: M&S Sustainability Report 2023. <https://www.marksandspencer.com/sg>

Source: FFB Sustainability Report 2023. <https://www.ffb.com/sg>

Appendix 3 Template for GHG inventory (Scope 1)

Facility ID	Year	Fuel	Amount of fuel	GHG Emissions (tonnes CO2e)						
				CO2	CH4	N2O	Other	Total	Intensity	
1	2023	Refined gas	1000	1000	0.001	0.001	0.001	0.001	1000.003	1000

Appendix 1 Step-by-step illustration of management of GHG emissions

Spotlight: The Coca-Cola Company (Coca-Cola)

1 The Coca-Cola Company: Net zero emissions by 2030

Coca-Cola consistently reduces their carbon footprint, and have established zero as the baseline year for their emission reduction targets. Their overall approach to climate action focuses on reducing the impact of their business on climate change, managing risks and impacts climate change has on their business, and forming partnerships with relevant parties to help make a more significant contribution.

2 Setting organisational and operational boundaries

3 Identifying and calculating GHG emissions

Coca-Cola uses the operational control approach when setting organisational boundaries. This means that they account for part of the emissions where they have the authority over operating controls in terms of their operational boundaries. Coca-Cola identifies and calculates GHG emissions from the following Business activities:

- Scope 1:** Direct emissions from fuel combustion from manufacturing, fleet distribution, international transport, corporate aircraft and immediate consumption equipment.
- Scope 2:** Indirect emissions from purchased electricity and steam from manufacturing.
- Scope 3:** Emissions in the value chain from purchased goods and services (e.g. from packaging and ingredient materials) and downstream transport and distribution (e.g. combination of fuel in distribution vehicles not owned by the company) and use of ingredients sold by customers.

To calculate Scope 3 emissions, companies are guided by GHG Protocol and typically make use of templates such as those provided in Appendix 4. <https://www.ghgprotocol.org/>

Source: CO2 Connect, 2023. <https://www.co2connect.com/sg>

Source: Coca-Cola Company, 2023. <https://www.coca-colacompany.com/sg>

Case studies, weblinks and references showcasing ESG good practices and initiatives from local and global companies

Templates for Scope 1 and Scope 2 GHG inventory and illustrations of how companies compute and report their GHG data

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- Fraser & Neave Holdings Bhd
- Heng Hiap Industries Sdn Bhd
- Institutional Investors Council Malaysia (IICM)
- Mega First Corporation Bhd
- Nestlé (Malaysia) Berhad
- Permodalan Nasional Berhad (PNB)
- PETRONAS Gas Berhad
- RHB Bank Berhad
- Securities Commission Malaysia
- Sime Darby Plantation Berhad
- Sunway Berhad

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CONTENTS

How to use this Guidebook

Acknowledgements

	<i>Page</i>		<i>Page</i>
1 Introduction to ESG	9	5 Managing social performance	60
1.1 ESG and value creation		5.1 Social topics and their impact	
1.2 Drivers of ESG value		5.2 Importance of engagement and communication	
1.3 Key ESG topics impacting value creation		5.3 How to implement good labour standards	
1.4 International and local perspectives		5.4 Guiding considerations	
2 Developing a well-defined ESG response	28	6 Relevance of ESG to key functions	69
2.1 Establishing a robust ESG response		6.1 Moving ESG from strategy to execution	
2.2 Defining an ESG strategy		6.2 Strategy	
2.3 Good practice initiatives and metrics		6.3 Finance	
2.4 Enabling elements		6.4 Human Resources	
2.5 Reporting and disclosures		6.5 IT & Technology	
2.6 Stakeholder engagement		6.6 Procurement	
3 Governance as an enabler of Environmental & Social performance	39	6.7 Risk Management	
3.1 Governance in the context of ESG		6.8 Tax	
3.2 Uplifting sustainability governance		7 Conclusion	78
3.3 How to define suitable ESG KPIs		8 Appendices and references	80
3.4 Guiding considerations		9 Glossary	102
4 Managing environmental performance	48		
4.1 Environmental topics and their impact			
4.2 How to develop a GHG baseline			
4.3 Developing a net zero response			
4.4 Guiding considerations			

Malaysia's ESG progress at a glance

IN ASEAN¹



25%

of the top 20 Malaysian PLCs have adopted net zero policies, 3rd in ASEAN²



2nd

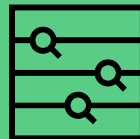
highest overall score in sustainability reporting, behind Singapore



26

Malaysian companies listed in MSCI All Country World Index (ACWI) ESG Leaders Index, behind Thailand

IN MALAYSIA¹



94%

of top 50 PLCs have ESG strategies, only 62% embedded them in their business strategies



17%

of top 100 PLCs have their reports externally assured³



15%

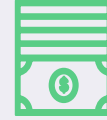
of top 100 PLCs include labour relations a material issue

Source: 1. *Positioning Corporate Malaysia for a sustainable future, 2022*; 2. *Code Red - Asia Pacific's Time To Go Green, 2021*; 3. *Corporate Sustainability Reporting in ASEAN Countries, 2020*

Let's start with a familiar story



The **Board is convinced** that ESG impacts value creation and is instrumental in terms of manifesting their purpose. They are **seeking more insights about how ESG is embedded and operationalised** by the company. Management has provided the Board with information on the policies and practices that have been implemented, but the Board is not convinced that the current practices are comprehensive enough to manage its ESG risks as well as unfolding opportunities effectively.



Access to international finance has become harder in the past 2 years, with calls for more ESG transparency, especially on labour practices, human rights and climate change impacts across a company's supply chain.



Company XYZ

Company XYZ is a manufacturing company, trading within South East Asia (SEA) with international finance providers. They have a **high-level ESG strategy** and publish an annual sustainability statement addressing their material ESG topics. It is their long-term **aspiration to be a constituent of the FTSE4Good Bursa Malaysia Index** but **their current scoring is considerably below the threshold for inclusion**.



The **management are under increasing scrutiny** in terms of:

- Effective management of ESG risks and opportunities
- Having to put in place more concrete plans and strategies to drive ESG performance over the long-term
- Adopting key metrics to track and quantify the impacts of its initiatives. For instance, there is an urgent **need to assess climate risks** and embed internationally recognised labour standards.



How can management uplift the company's ESG performance and satisfy the various demands and expectations of its Board, investors and key stakeholders?



The story above is a typical reflection of where many PLCs in Malaysia are on their ESG journey. While companies have some targets and strategies in place to address some of their material sustainability ESG topics, many have not fully integrated ESG into their operations.

This Guidebook highlights some foundational responses that PLCs can take to further operationalise ESG and support long-term value creation and their purpose, as they respond to the paradigm shift for modern day ethical businesses.

1

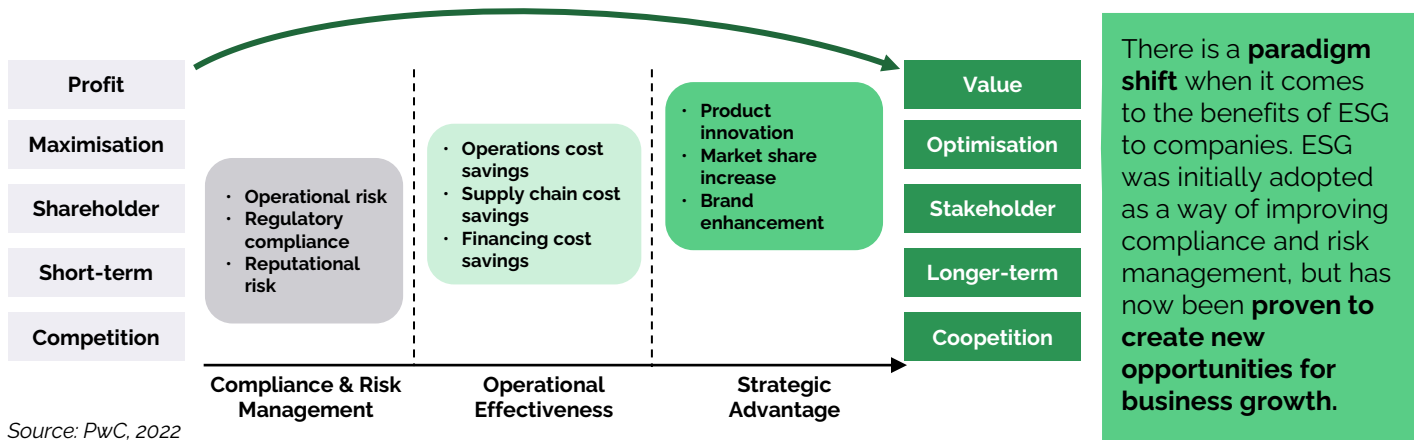
Introduction to ESG



1.1 ESG and value creation

The paradigm shift in value creation

Sustainability covers environmental, social and governance (ESG) topics that play a fundamental role in risk mitigation and value creation. ESG has risen to become a top corporate agenda in recent years with investors and other key stakeholders placing increasing emphasis on environmental and social risks and opportunities. As a result, the way companies approach ESG has changed from largely compliance-oriented activities to one where ESG considerations are drivers for enhanced resilience, strategic advantage and further value creation.



There is a **paradigm shift** when it comes to the benefits of ESG to companies. ESG was initially adopted as a way of improving compliance and risk management, but has now been **proven to create new opportunities for business growth.**

As companies consider longer-term value creation, there has been a paradigm shift in the way they operate.

Profit to purpose

Companies are recognising that having a strong purpose can build trust, drive performance, and therefore underpins the generation of good profits over the long-term.

A shift to stakeholder primacy

The purpose of a company is shifting towards working for the benefit of key stakeholders and not just shareholder wealth.

Building Trust

Companies are establishing clear strategies aligned with their purpose and communicating their performance transparently and effectively.

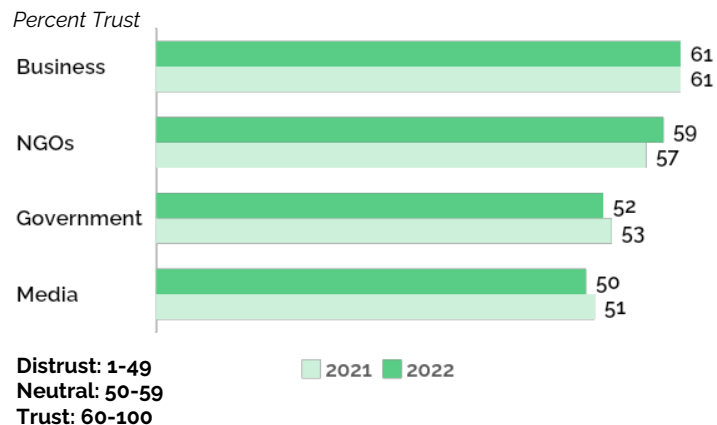
For more information on driving purpose and performance in a company, refer to Bursa Malaysia's PLC Transformation (PLCT) Programme Guidebook 1: Creating Purpose & Performance Driven Public Listed Companies (PLC), 2022

How leading companies measure performance against their purpose

Companies who can show its purpose in delivering value to its customers, employees and communities are better able to compete and deliver long-term profits for shareholders in a sustainable manner.¹ Leading companies are adopting non-financial metrics to complement existing financial metrics to give a more holistic view of their overall performance and contributions. In addition, there is increasing demand for companies to measure their performance based on how well they are meeting their purpose. For example, in 2021 BlackRock asked companies to disclose, specifically, how their business model will be compatible with a net zero economy and how this would be incorporated into their long-term strategy.

In Edelman's 2022 Trust Barometer, businesses emerged as the most trusted institution among the respondents. As such, businesses are under greater pressure to further enhance their responses to ESG issues.

Edelman Trust Barometer^{2, 3}



Source: 1. *BlackRock Annual CEO Letter, 2021*; 2. *Edelman Trust Barometer, 2022*; 3. *Edelman Trust Barometer, 2021*

Society is demanding that companies, both public and private, **serve a social purpose**. To prosper over time, every company must not only deliver financial performance, but also **show how it makes a positive contribution to society**.

- *Larry Fink, 2018*

We are facing a multi-trillion-dollar **climate, water and deforestation crisis** over the coming decades. The 2020s must be the **decade of rapid transition**.

- *Dexter Galvin, Global Director of Corporations & Supply Chains, CDP, 2020*

81%

agree CEOs should be personally visible when discussing public policy with external stakeholders or work their company has done to benefit society.²

68%

expect CEOs to inform and shape conversations and policy debates about global warming and climate change.²

60%

agree when considering a job, they expect the CEO to speak publicly about controversial social and political issues that they care about.²

Companies that **choose to ignore ESG** considerations in their business operations will be **deprived of debt and equity financing**, as well as **face implications** from **insurers, customers and other regulators**.

- *Tan Sri Abdul Wahid Omar, Chairman, Bursa Malaysia, 2022*

On average, **purpose-driven companies** have had an average compound **annual growth rate of 30% or more in the past five years**. And that, in turn, enabled them to overcome the challenges of slowing growth and declining profitability.

Source: *Harvard Business Review, 2019*

A corporate strategy **focusing on sustainability** can **add brand value, meet consumer demands, increase efficiency, attract valuable talent and create new opportunities**.

- *Talal Rafi, Forbes Council Member, World Bank Ambassador on Climate Change, 2021*

1.2 Drivers of ESG value

ESG as a driver of resiliency

Over the last five years, ESG risks have topped the World Economic Forum's (WEF) top risks in its Global Risks Report. Such risks pose long-term challenges to business leaders and policymakers due to their significant impacts on physical assets, human capital and business viability. Companies that manage these risks well are building resilience and future-proofing themselves. This is what really forms one of the primary drivers for companies to act on ESG.

In order to be resilient, companies must be able to effectively adapt, recover and grow in this disruptive landscape. This can be managed by maintaining a comprehensive Enterprise Risk Management (ERM) framework that integrates emerging global risks such as climate and social risks. In Corporate Malaysia, ERM is usually done well, but it can be improved by recognising the significance of these risks and incorporating them accordingly.

As awareness levels continue to rise, ESG risk factors will become more prominent and critical to business success.

- *Datuk Muhamad Umar Swift, CEO, Bursa Malaysia, 2021*

According to the WEF Global Risks Report, climate action failure has been a top 5 global risk since 2018. In 2022, it became the top global risk.

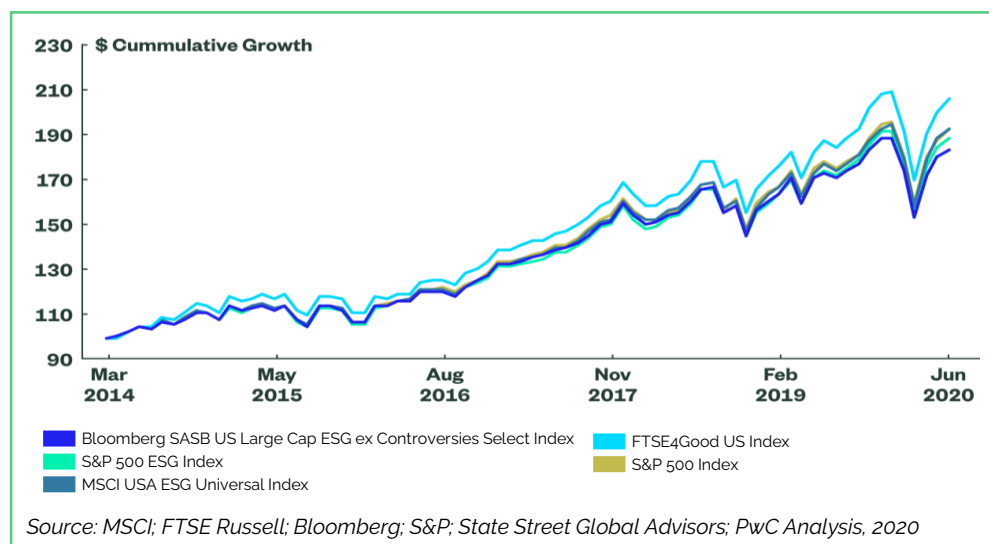
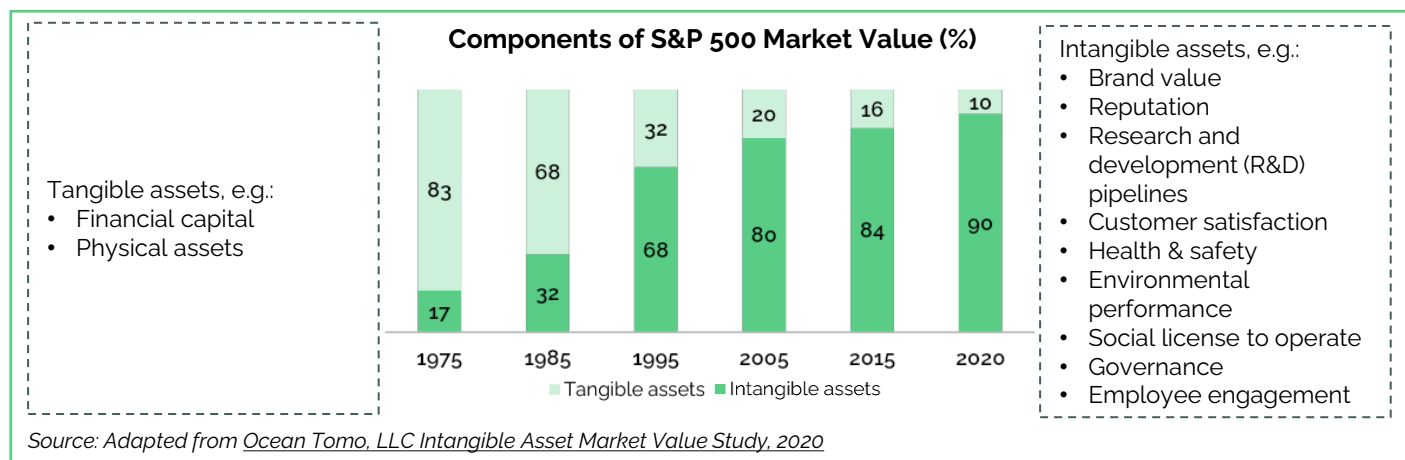
	2018	2019	2020	2021	2022
Top 5 global risks	Extreme weather	Extreme weather	Extreme weather	Extreme weather	Climate action failure
	Natural disasters	Climate action failure	Climate action failure	Climate action failure	Extreme weather
	Cyberattacks	Natural disasters	Natural disasters	Human environmental damage	Biodiversity loss
	Data fraud or theft	Data fraud or theft	Biodiversity loss	Infectious diseases	Social cohesion erosion
	Climate action failure	Cyberattacks	Human-made env't disasters	Biodiversity loss	Livelihood crises

■ Environmental
 ■ Societal
 ■ Technological

Source: *WEF Global Risks Report 2022; WEF Global Risks Report 2021*

Investor sentiment and drivers of performance

As more and more companies continue to shift their views on what value creation means for them, there has also been a fundamental shift in how companies are valued in the market. A company's market value is increasingly based on its intangible assets such as its brand value, reputation and ESG performance, as outlined in the chart below:



There has been strong evidence over the years that ESG-focused companies outperform their relative peers in the market. As illustrated in the graph below, globally, ESG-focused portfolios have also demonstrated strong relative performance, proving to be more resilient during downturns.

Introduction to ESG	Developing a well-defined ESG response	Governance as an enabler of E&S performance	Managing environmental performance	Managing social performance	Relevance of ESG to key functions	Conclusion
ESG and value creation		Drivers of ESG value	Key ESG topics impacting value creation		International and local perspectives	

The “True Value” of our investee companies is beyond the market value (i.e. what the market ascribes) and beyond the intrinsic financial value (an internal valuation our team does as an active investment house). It also covers whether the company is value generating or value destroying.

- *Tan Sri Azman Hj. Mokhtar, Managing Director, Khazanah Nasional Berhad, 2015*

“While the transition to the low-carbon economy presents many challenges, it also presents many opportunities to earn the returns we need to pay our members’ pensions while more broadly benefiting society and the environment.”

- *Ziad Hindo, Chief Investment Officer, Ontario Teachers’ Pension Plan, 2021*

“History may look back on 2020 as a turning point for environmental, social and governance issues. The pandemic has proven to be a giant ESG stress test for the global economy and shown us that today’s challenges will not respect national borders. Investors have a vital role to play in pushing for change on society’s biggest issues, from climate change to diversity, environmental degradation to human rights.”

- *Mark Versey, CEO, Aviva Investors, 2021*

From an investment perspective, ESG is becoming a critical component of investment decision-making. Investors, lenders, and rating agencies expect greater visibility over a company's non-financial performance to better understand how effectively the company is managing its material ESG risks and opportunities. Issues around human rights, labour standards and climate change are seen as material investment risks that will not only affect a company's bottomline, but also its brand and reputation.

As investors are continuously looking for value in various markets, and different stakeholders expect more of the business community, it is clear that companies need to drive ESG performance to enable their business to thrive in the long-term. Leading investors understand this and are increasingly proactive in engaging portfolio companies to raise their respective environmental and social performance. This is in recognition that portfolio companies that align and adhere to international ESG frameworks and standards will likely perform better and have lower risk, leading to better financial and non-financial outcomes for all stakeholders.

A record **\$649 billion** poured into ESG-focused funds worldwide through Nov. 30, 2021, up from the \$542 billion and \$285 billion that flowed into these funds in 2020 and 2019, respectively, the latest Refinitiv Lipper data shows. **ESG funds now account for 10% of worldwide fund assets.**

Source: *Reuters, 2021*

Spotlight 

Permodalan Nasional Berhad (PNB)

As an investment firm, PNB is cognisant of the impact of ESG on total shareholder returns. PNB has committed to be a Net Zero Enterprise by 2025 and have a Net Zero portfolio by 2050, among others. PNB will be working to rebalance its portfolio and engage portfolio companies to reduce their emissions over time. Labour rights, especially of migrant workers, will also be a focus area as it will have a big impact on some of its portfolio companies, along with decarbonisation.

Source: *The Edge Malaysia, 2022*



Find more information about PNB's [Sustainability Framework here](#).

For ESG issues to be managed effectively, investors expect ESG to be a core part of a company's strategy.

82%

agree companies should embed ESG directly into their corporate strategy.

79%

agree how a company manages ESG risks and opportunities is an important factor in their investment decision making.

76%

consider a company's exposure to ESG risks and opportunities when screening potential investment opportunities.

49%

would divest from companies that didn't take sufficient action on ESG issues.

Source: *PwC's Global investor survey, 2021*

1.3 Key ESG topics impacting value creation

Value can be created or eroded from any ESG opportunity or risk. However, the extent of the impacts depend on how agile and adaptable a company is in mitigating these risk or conversely capitalising on these opportunities. Taking proactive action to address key topics dominating the ESG landscape and leveraging opportunities for green and sustainable growth are key to building a resilient and thriving business.

Critical Topics

These are topics that are currently at the forefront of discussions within leading companies and a wide range of their key stakeholders.



Carbon neutral, Net zero

Climate change poses the biggest long-term threat to sustained value creation. A study by Swiss Re¹ found that the world economy could shrink by 18% in the next 30 years if no action was taken. The recognition for the need for decarbonisation has led to an exponential rise in commitments towards carbon neutrality and net zero emissions. The [Science Based Targets Initiative \(SBTi\)](#) helps companies align and focus their efforts to ensure their targets are achievable.

For more information on carbon neutrality and net zero commitments, refer to page [56](#), [81](#), [84](#), [87](#) and [88](#) of this Guidebook.



Impact Measurement

Impact measurements help quantify the magnitude of impacts from initiatives. Companies are implementing various ESG initiatives, but the question is whether they are achieving what they had set out to do and whether they are creating real value by investing in these initiatives. Measuring impact can help companies better understand both progress made and also areas for further improvement.

Source: 1. [Swiss Re News Release, 2021](#); 2. [Linking executive pay to ESG Goals, Strategy & Business, 2021](#)



Human Rights and Labour Practices

Implementing labour practices that are legal, ethical and fair, safeguards the welfare and well-being of the workforce. A safe and conducive working environment will also boost productivity and elevate business growth. The International Labour Organisation (ILO) and the UN Guiding Principles on Business and Human Rights set the global standards for fair labour practices, which all companies should aim to adhere to.

For more information on human rights and labour practices, refer to page [65](#) and [66](#) of this Guidebook.



ESG KPIs for Board and Management

Companies making progress in their ESG response are going one step further by integrating ESG targets into their key performance indicators (KPIs). 45% of the FTSE 100 companies have set ESG targets for their CEOs² and have started integrating them within executive compensation packages. Companies should aspire to integrate ESG KPIs as a means of incentivising management teams to drive ESG performance.

Emerging Topics

Aside from the critical topics covered in the previous page, the following topics are gaining traction both internationally and locally.



Circular Economy

The circular economy concept is based on three principles:

- eliminate waste and pollution;
- circulate products and materials, and;
- regenerate nature.

This model enables more sustainable production and consumption where less waste is generated. In addition to the environmental benefits, circular economy can boost business growth and sustainability through resource optimisation, cost savings and innovation.



Taskforce on Nature-related Financial Disclosures (TNFD)

There is a growing concern that the loss of natural ecosystems and biodiversity is going to come at a high cost and lead to detrimental impacts across various industries. The [TNFD framework](#) is being developed to provide a risk management and disclosure framework for companies to act on and report nature-related risks and help drive financial flows towards actions that create a positive impact on nature.



Heng Hiap Industries Sdn Bhd

Heng Hiap Industries Sdn Bhd is a fully integrated plastic recycling company that produces superior recycled plastic resin. Their 5Cs framework – Collect, Convert, Co-Create, Champion & Conscientious Consumer drives innovation and embraces the circular economy concept. They have created their own supply chain for recycled plastics with a network of 28,000 domestic recyclers to provide a reliable supply of good quality used plastic. They are the first company in the world to receive the Ocean Bound Plastic OBP certification and aim to recycle more than 100,000 tonnes of plastic by the year 2025.

Source: [Circular Economy Club, 2022](#); [Heng Hiap Industries Sdn Bhd company website, 2022](#); [The Malaysian Reserve, 2021](#)



Nestlé

"As Head of Risk Management at Nestlé, I'm more used to checking spreadsheets than counting bugs. But everything that happens in my job and across Nestlé relies on healthy natural ecosystems. Preserving natural capital and biodiversity is critical to our success – providing consumers around the world with continued access to nutritious, affordable foods and beverages. Unfortunately, nature is under unsustainable pressure. We urgently need to move from an extractive model, where humans take more than the land and oceans can provide. We must prioritise a regenerative approach that seeks to restore and renew nature."

– [Alison Bewick, Head of Group Risk Management, Nestlé, 2021](#)



Just Transition

There is a need to ensure that the benefits of a green economy transition are shared widely, while supporting those who stand to lose economically (e.g. industries, communities, workers). Just Transition has been deemed as a key consideration in the Paris Agreement by the ILO's Guidelines for a just transition towards environmentally sustainable economies and societies for all. While this concept requires significant country-level commitment and direction, there are various ways that companies can adopt this and integrate it with their long-term climate action plans.

As part of BP's 10 new aims for people and the planet, aim 12 focuses on **supporting a just energy transition** that advances human rights and education. They have **set 2025 and 2030 targets**.

Source: *BP Aim 12: Just Transition, 2021*

As we progress towards a low carbon future, we **must be cognisant** of the **potential consequences** of climate transitions **on our society**.

- *Datuk Muhamad Umar Swift, CEO, Bursa Malaysia, 2021*

Adopting Just Transition in business

The Just Transition Centre and The B Team collaborated to release a guide that outlines the considerations, steps and processes that companies should adhere to ensure a Just Transition for their workers as well as the communities they operate in.

Various businesses across the globe have applied this concept within their transition to a low-carbon economy. For instance, Enel Green Power, plans to increase their renewables capacity to 60 GW by 2022. As part of this shift, they developed a just transition agreement framework with Italian union partners to ensure there were provisions for redeployment and reskilling of employees. The Enel Foundation also collaborated on a study called "Just E-volution 2030" which confirmed that there are multiple benefits from the green transition which include employment from green investments, reconversion and repurposing of old power plants and professional reskilling of people who are most impacted by this change.

Malaysia has also embraced this concept on a national level, and more companies that go through rapid innovation and green economy transitions are conducting reskilling and upskilling initiatives. Examples include Celcom Axiata Berhad's Vendor Development Programme 2.0.

During this green economy transition, it is important to ensure that no one gets left behind.



For more information on Celcom's Vendor Development Programme, [click here](#).

Opportunities for green and sustainable growth

With an increase in appetite for more sustainable products and services, industries are emerging where there are opportunities to promote and accelerate growth towards a green and sustainable economy.



Renewable Energy

Expansion of solar farms and other renewable energy to aid in net zero transition.



Green Infrastructure

Initiatives supporting sustainable infrastructure development, e.g. energy and water management etc.



Green Household Products

Producing more energy efficient household goods, e.g. kitchen appliances.



Food Shifts

Shift to plant-based food and managing food waste in products and services.



Sustainable Development related-4iR Technologies

Innovation and digitisation to build a digital, interconnected economy.



Affordable Healthcare

Providing affordable healthcare, especially for the underserved community, and improving the quality of life.



Affordable Housing

Development of green and affordable housing.



Social Enterprises

Initiatives supporting ESG driven social enterprises.



Aged Population Services

Initiatives and facilities across sectors that improve the lives of the elderly community.



Nature Based / Natural Climate Solutions

Initiatives supporting nature-based solutions e.g. restoration of forests; working with native communities to cultivate bio-resources sustainably and elevate economic well-being.



For more information on Nature Based / Natural Climate Solutions, click [here](#).

Note: The above list is non-exhaustive.

1.4 International and local perspectives

At both the international and local levels, addressing ESG topics has become a key priority for governments and companies alike. Overall, three key themes are becoming increasingly prominent in recent years – the need for stronger sustainability governance, a global shift to net zero commitments, and improving human rights and labour standards. As pressure mounts from international investors and customers, Malaysia is ramping up to meet these demands at both the country-level and company-level.

Under Malaysia's **Perkukuh Pelaburan Rakyat (PERKUKUH), government-linked investment companies (GLICs)** and their portfolio companies are expected to **proactively manage climate-related risks** to safeguard shareholder value.

Source: *Strategic transformation of GLICs for enhanced resilience and socioeconomic impact, 2021*

In the past five years, **approximately 115 institutional investors** with more than US\$13 trillion of assets under management (AUM) **have engaged with 100 companies** through UN-PRI led collaborative engagements to improve human rights practices and disclosure.

Source: *UN PRI, 2020*

At the beginning of 2020, **63 million girls and 97 million boys were in child labour**, accounting for about one in 10 children worldwide.

Source: *World Vision, 2021*

Since its inception in 2019, the **Climate Governance Initiative** has **grown to 19 chapters with networks across 30 countries**, including Malaysia, UK, US, France, Germany, Canada and Singapore. The chapters work to support effective climate governance in their jurisdictions.

Source: *Climate Governance Initiative (CGI), 2022*

From 2008 to 2020, the **average percentage** of companies **linking ESG metrics to CEO pay increased from 3% to 34%**.

Source: *Diligent Institute, 2021*

Net zero commitments from local governments and businesses have **doubled in less than a year**.

Source: *United Nations Climate Change, 2020*

Malaysia, along with 110 other countries including the **European Union, Japan and the Republic of Korea**, have **pledged carbon neutrality by 2050**.

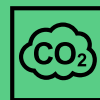
Source: *UN, 2020; 12th Malaysia Plan (12MP) 2021-2025*



A push for strong governance



Spotlight on human rights and labour standards



Global shift towards net zero commitments

A push for stronger sustainability governance

There is a strong call for better governance over ESG topics. Boards are increasingly expected to play a more proactive role in driving the ESG agenda of the company and ensuring that they are cognisant of the various ESG risks and opportunities that may impact the long-term value of the company. Similarly, stakeholders are pushing for metrics beyond profit.

There are several global, widely-used ESG frameworks that are setting the standards for good sustainability governance. A common expectation across the frameworks is the need for the Board to be skilled and knowledgeable on ESG topics to support management on delivering a good ESG response.

There are also increasing expectations for companies to link remuneration to non-financial metrics, specifically tied to ESG.

CEOs of Asia Pacific companies ranking highest on perceived trust were **1.6x more likely to have non-financial outcomes** (including specifically gender diversity targets) tied to their executive compensation.

Source: *PwC's 25th Annual Global CEO Survey – Asia Pacific, 2022*

For companies to be **resilient**, **Boards need to take a much more holistic view of the business** coupled with proactive and effective measures to **anticipate and address material ESG risks and opportunities**.

Source: *Malaysian Code on Corporate Governance, 2021*

The recommendations for achieving good practice for the "Governance" pillar of the TCFD framework are highlighted below:

- Ensure that the distinction between board and management-level accountabilities is efficiently distinct and the connection between the two levels is addressed
- Clarify the specific aspects of climate-related risk and opportunities each governing body has oversight for, and how this oversight is provided
- State the frequency with which each body reviews climate-related information

Source: *TCFD Good Practice Handbook, Climate Disclosure Standards Board (CDSB) 2021*

According to the Asian Corporate Governance Associations (ACGA)'s CG Watch, Malaysia is among the top performers in terms of Governance in the region. In this regard, Malaysia has implemented regulations to strengthen governance functions among business entities. The 2021 update of the Malaysian Code on Corporate Governance (MCCG 2021) and Bursa Malaysia's Corporate Governance (CG) Guide (4th Edition) have played a key role in guiding companies to high governance standards, which are aligned to global trends.

Malaysia has been ranked within the top 5 in Asia Pacific since 2018.

Asia's CG Watch Ranking

Country	2018	2020
Singapore	3	2
Malaysia	4	5
Thailand	6	8
Philippines	11	11
Indonesia	12	12

Key recommendations for Malaysia:

- Boards should establish sustainability committees with public terms of reference
- Companies should provide a strategic approach to ESG, particularly climate change, with appropriate plans and targets

Source: *CG Watch 2020, Asian Corporate Governance Association*

Key practices related to ESG outlined by the MCCG 2021 and Bursa Malaysia's CG Guide

- Board and management takes responsibility for the governance of ESG
- Board communicates ESG measures to internal and external stakeholders
- Board stays on top of understanding ESG topics relevant to the company
- Performance evaluation of Board and senior management considers how they address material ESG risks and opportunities
- Board identifies a designated individual from management to manage ESG

ASEAN Climate Governance Network

- Launched by Climate Governance Malaysia in February 2022, the focus of this network is to raise awareness of climate risks in the ASEAN region and prompt Boards and directors to prioritise climate crisis and climate transition priorities
- The Board needs to have a good understanding of climate change and how to implement climate governance principles

The Malaysian Chapter of **World Economic Forum's Climate Governance Initiative (CGI)** was launched in 2019, with Malaysia being the 2nd country globally to do so. This is being driven by Independent Non-Executive Directors of companies who are addressing climate change in their business.

Global shift towards net zero

Global decarbonisation rates are far below the required 12.9% per year required to reach the 1.5°C Paris Agreement Goal (PwC [Net Zero Economy Index, 2021](#)). The recent COP26 was a key moment that fuelled global discussions and shifted momentum towards net zero.

Regionally, net zero commitments have been complemented by the rise of voluntary carbon markets. This has played a key role in helping capital market regulators to advance the green financing agenda.

9x Increase in **regions** globally committed to net zero, with an additional 101 in 2020 from 11 recorded in 2019.

8x Increase in **cities** committed to net zero, with 823 more in 2020 from 100 recorded in 2019.

3x Increase in **companies** committed to net zero, with 1,541 in 2020 from around 500 recorded in 2019.

Source: [UNFCCC Press Release, 2020](#)



China

- Scaled up its Nationally Determined Contribution (NDC) in an effort to:
 - Peak carbon dioxide emissions before 2030
 - Reach carbon neutrality before 2060



Malaysia

- Committed to a 45% reduction of GHGs by 2030
- Committed to become carbon neutral as early as 2050
- Established the Joint Committee on Climate Change to build climate resilience within the Malaysian financial sector
- Recently established a mandate to develop a voluntary carbon market to promote offsetting



Thailand

- Set a target of achieving a 20 - 25% greenhouse gas emission reduction against 'business as usual' by 2030
- Has been operating its own carbon offset market overseen by the Thailand Greenhouse Gas Management Organization (TGO)



Singapore

- Implemented a carbon tax scheme that affects all industrial facilities that emit 25k tonnes or more of greenhouse gases annually
- Recently established the Climate Impact Exchange, a global offset exchange programme



Japan

- To implement rules that limit financing of overseas coal power plants
- Committed to reach net zero emissions by 2050



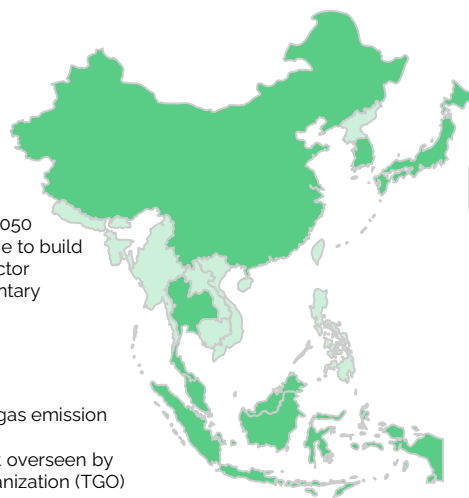
South Korea

- Committed to a 2050 carbon neutrality goal and is set to implement Green New Deal, which will include the following:
 - Large-scale investments in renewable energy
 - Introduction of carbon tax
 - End coal financing
 - Creation of a Regional Energy Transition Centre to support workers transition to green jobs



Indonesia

- Pledged a 29 - 41% reduction in emissions by 2030, compared to "business as usual"
- Has been operating a forestry-based offsetting market overseen by the National Registry System (or *Sistem Registri Nasional* (SRN))



Source: *Various sources, 2022*

Malaysia's journey towards net zero

Malaysia has committed to become carbon neutral as early as 2050 and has developed a number of plans and initiatives under the 12MP and Budget 2022 to encourage further investment and action towards a low-carbon economy. At a company level, a number of Malaysian companies are showing leadership in their commitment towards reducing emissions.

Malaysia is focusing on the following areas to facilitate the transition to carbon neutrality:

Encourage low-carbon economy transition:



Implement carbon pricing policy



Implement the Low Carbon Mobility Blueprint 2021-2030 which outlines low-carbon alternatives (e.g. hybrid and electric vehicles, cleaner aviation fuel)



Increase renewable energy generation capacity to 31% in 2025 and 40% in 2035



Transform cities toward low-carbon pathway outlined in the National Low Carbon Cities Masterplan

Protect the environment and biodiversity:



Implement nature-based solutions to lower GHG with planting up to 100 million trees



Maintain at least 50% forest cover



Adopt Zero Waste through the Waste to Energy programme and improve recycling rate to 40% by 2025

Climate change adaptation:



National resilience to climate change through the National Adaptation Plan

CIMB has committed to **phase out coal from its portfolio by 2040**

The Employees Provident Fund (EPF) has committed to two overarching Sustainable Investment targets – a **fully ESG compliant portfolio by 2030** and a **climate neutral portfolio by 2050**. In conjunction with that, the EPF has **launched** several **Sustainable Investment Policies** in **2022** that outlines ESG expectations for portfolio companies and fund managers to address the issues of climate change and workers wellbeing as well as priority sectors

PETRONAS announced its aspiration to achieve **net zero carbon emissions by 2050** as part of its holistic approach to sustainability that balances ESG considerations

Spotlight on human rights and labour standards

On an international level, human rights and labour standards are key issues. Businesses have come under growing scrutiny regarding both employees and workers across their supply chains. For companies whose supply chains span across the world, the exposure to human rights-related issues and associated risks is especially high.

Regulations around mandatory human rights due diligence are tightening across the world. In 2021, Canada, Germany and Norway announced various legislations for companies to conduct mandatory due diligence on their company and supply chains. The European Union (EU) is also on the precipice of adopting a legislative proposal on mandatory human rights and environmental due diligence.

Failing to act responsibly can create significant costs to business, such as delays to operations caused by strikes or protests, lost productivity and reputational harm. The global call for more efforts in this area has led to a rise in global frameworks and benchmarks that aim to raise the bar and establish accountability.



UN Guiding Principles on Business and Human Rights offer guidance on how to manage human rights risks associated with their business activities and value chains.



ILO Conventions and Recommendations establish minimum levels of protection relating to specific labour issues, such as child labour, forced labour, gender equality and many others.



The Corporate Human Rights Benchmark assesses the human rights disclosures of 230 global companies across five sectors identified as presenting a high risk of negative human rights impacts.

Respecting human rights and doing what is required according to internationally agreed standards is not a gift to be bestowed by business, it is a baseline expectation of all companies, wherever they operate.

Source: *World Benchmarking Alliance, 2021*

40.3

million people in modern slavery at any given time (2016).

1 in 4

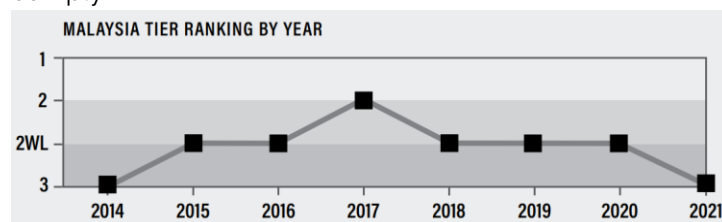
victims of modern slavery are children (2016).

7,500

people die from unsafe and unhealthy working conditions everyday.

Source: *Global Estimates of Modern Slavery 2017, United Nations Global Compact*

In Malaysia, a key issue is the treatment of migrant workers and meeting minimum labour standards. Malaysia was recently downgraded in the 2021 US Trafficking in Persons (TIP) ranking to Tier 3. Tier 3 signifies a failure to comply with the minimum standards for eliminating trafficking or making significant efforts to comply.



Source: *US Trafficking in Persons Report: Malaysia, 2021*

Businesses cannot afford to ignore this issue. With the US being Malaysia's third largest trading partner, these issues may have a direct or indirect impact on access to the US market. In the past two years, seven Malaysian firms have faced US import bans as a result of labour abuse allegations. Additionally, the EU is finalising legislation to implement a ban on import of goods produced using modern forms of slavery and forced labour. This will further impact businesses who currently export to the EU.

The Malaysian government has launched the National Action Plan on Forced Labour (NAPFL) 2021-2025 with an aim to eliminate forced labour in Malaysia by 2030. The management and enforcement of issues related to forced labour will be strengthened and improved through this plan. In March 2022, the Malaysian government also ratified the ILO's Protocol of 2014 to the Forced Labour Convention, 1930 (i.e. Protocol No.29) to reinforce measures to combat forced labour.

Malaysia has committed to be an Alliance 8.7 pathfinder country and to ratify the ILO Forced Labour Protocol. Pathfinder countries commit to go further and faster to achieve SDG Target 8.7.

Source: *ILO, 2019*



Local Insights

Key responses taken by companies to address the foreign labour-related issues include:

- Engaging independent human rights experts to conduct detailed audits
- Investing in improving social conditions for migrant workers
- Creating whistleblowing channels in workers' native languages to ensure greater accessibility
- Establishing clear recruitment guidelines that commit to paying all official costs



For more information on Malaysia's efforts to address forced labour, click [here](#).

2

Developing a well-defined ESG response

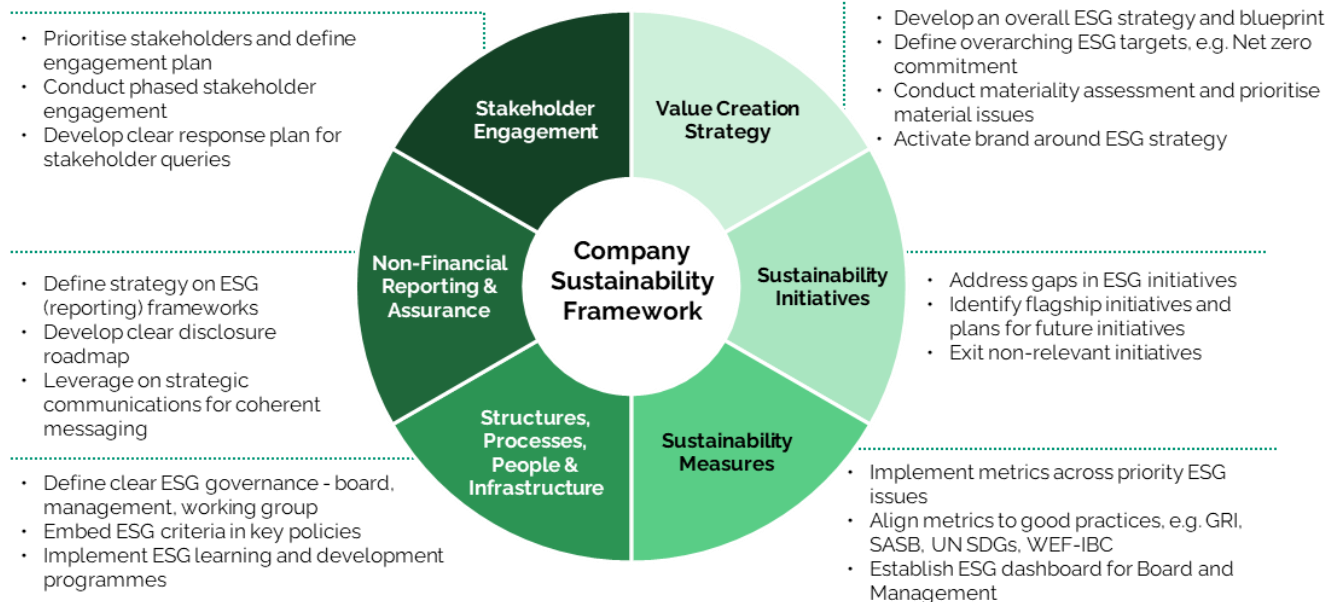


2.1 Establishing a robust ESG response

As ESG topics gain ever increasing attention, PLCs need to form their own response as to how they will address them. While there are many topics to address, it comes down to the PLC's purpose, strategy, operational footprint, and what is relevant to the company. Developing a well-defined ESG response requires a company-wide approach. Leadership needs to have a coherent view to understand how the agreed strategy is being implemented and whether it is effective. Boards are increasingly asking for this next level of detail, including how corporate functions are embedding ESG, what the progress is on addressing capability gaps, which policies have incorporated ESG considerations, and how is ESG data being managed.

Boards are also setting the tone on balancing shareholder interests with the company's key stakeholders. While PLCs today are already addressing many ESG issues, they must also stay ahead of the quickly evolving landscape. Failure to mitigate and manage ESG risks can lead to lawsuits, fines, restricted market access, perceptions of greenwashing, and reputational impact. On the flipside, there are many opportunities in green growth sectors and industries built on solving ESG issues that can spur value creation.

Addressing ESG is a continuous cycle that requires all components to be aligned to a PLC's purpose. **There is no start or end point** and PLCs should assess their performance across all six components in a continuous improvement cycle.



Source: Adapted from "Powering Business Sustainability, A Director's Guide, Bursa Malaysia, 2010"

2.2 Defining an ESG strategy



A well-defined ESG strategy will drive the focus of PLCs and clearly communicate to stakeholders its sustainability position and how it supports the PLC's overall strategy. This helps to align the PLC's efforts across subsidiaries and departments, and increase buy-in from all levels, including management and the Board.

A good strategy clearly communicates a PLC's material topics, core focus areas (sometimes labelled as themes or pillars) and its long-term goals and targets.

Establishing an ESG strategy



Align to the PLC's overall purpose and strategy



Identify material ESG risks and opportunities to respond to



Define strategic ESG themes in a concise and clear manner to support stakeholder engagement



Set overarching goals or targets that are quantifiable and timebound



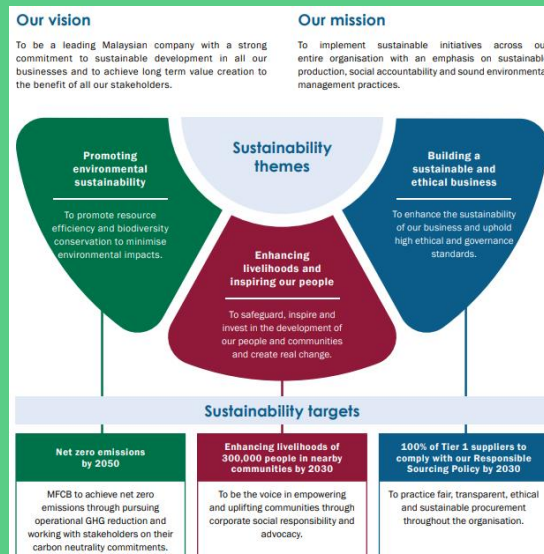
Mega First Corporation Berhad (MFCB)

MFCB is a diversified conglomerate in the renewable energy, resources, packaging, property and plantation sectors.

In 2021, MFCB reviewed their sustainability ambition and set a goal of being a leader on the sustainability agenda. As such, they wanted to define a clear sustainability strategy. They viewed this as an opportunity to structure their ESG response at a Group level and improve their communication on ESG topics to key stakeholders.

They identified their material ESG topics across three divisions – renewable energy, resources and packaging, defined their overarching sustainability targets and themes, developed a 3-year sustainability roadmap and determined the key reporting frameworks to adhere to and the pilot metrics to report on.

MFCB's sustainability framework sets the tone for their overall sustainability narrative and guides their value creation process.



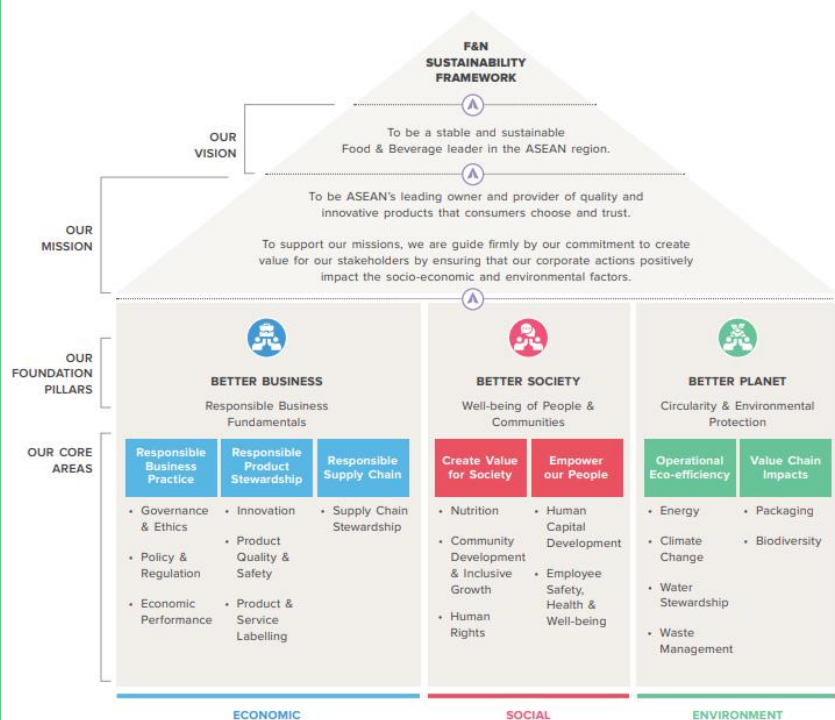
Source: *MFCB Annual Report, 2021*



Spotlight Fraser & Neave Holdings Berhad (F&N)

As a more mature company in its sustainability journey, F&N has clearly defined its sustainability framework through three foundational pillars and seven core areas. Each material ESG topic has been mapped to the respective core areas of the sustainability framework, as well as their contribution to the UN SDGs. F&N has also defined 12 sustainability targets to be achieved by 2025, which are quantitative and timebound.

F&N GROUP'S MATERIAL ISSUES MAPPED TO SUSTAINABILITY FRAMEWORK



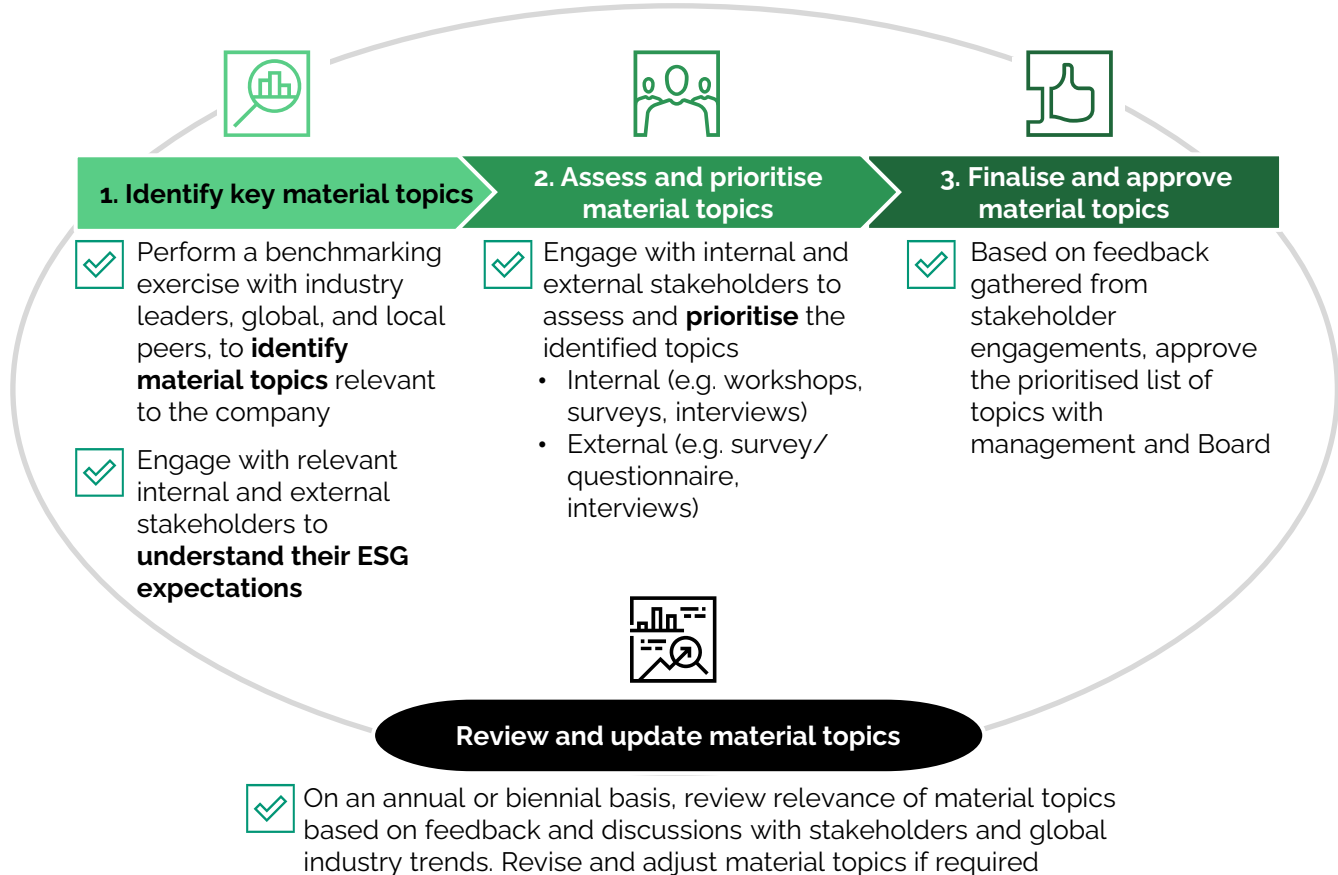
Material Issue	2025 Target
 Product Quality & Safety	100% of our plants and production processes certified with the Food Safety System Certification scheme 22000 and Halal Standard (or equivalent)
 Innovation	Achieve 10% product innovation for commercialised F&N products
 Supply Chain Stewardship	100% of our active key suppliers that accept and comply with F&N Group's Supplier Code of Practice
 Nutrition	At least two third of beverage and dairy product ¹ comply with the Nutritional Guidelines
 Community Development & Inclusive Growth	Increase in the number of annual community programmes to 11
 Human Capital Development	Provide an average of at least 18 hours of training to executive level employees and 11 hours of training to non-executives
 Employee Safety, Health & Well-being	Reduce the Lost Time Injury Frequency Rate (LTIFR) to 0
 Energy	Reduce the Group's energy intensity ratio at our plants (from a 2020 baseline) by 8%
 Climate Change	Reduce the Group's GHG emissions intensity ratio at our plants (from a 2020 baseline) by 8%
 Water Stewardship	Reduce the Group's water intensity ratio at our plants (from a 2020 baseline) by 8%
 Waste Management	Reduce the solid waste sent to landfill (from a 2020 baseline) by 30%
 Packaging	Increase the average recycled content in our packaging to 25%

Source: F&N Sustainability Report, 2021



High-level materiality assessment process

A robust ESG strategy defines a PLC's overall response to its material ESG topics. Whilst there are common ESG topics for each sector, a combination of material ESG topics are unique to each PLC given their operational footprint, stakeholders, specific business focus and industry trends. Undertaking an ESG materiality assessment process is a cornerstone of enabling a good ESG response. There is a common recognition that PLCs do not have infinite resources and must prioritise efforts, but stakeholders want to understand how PLCs arrive at their list of priority ESG topics. The diagram below illustrates an overview of the material assessment process:



Note: In the event of a significant change to the company's operating environment (e.g. a merger), then materiality should be revisited

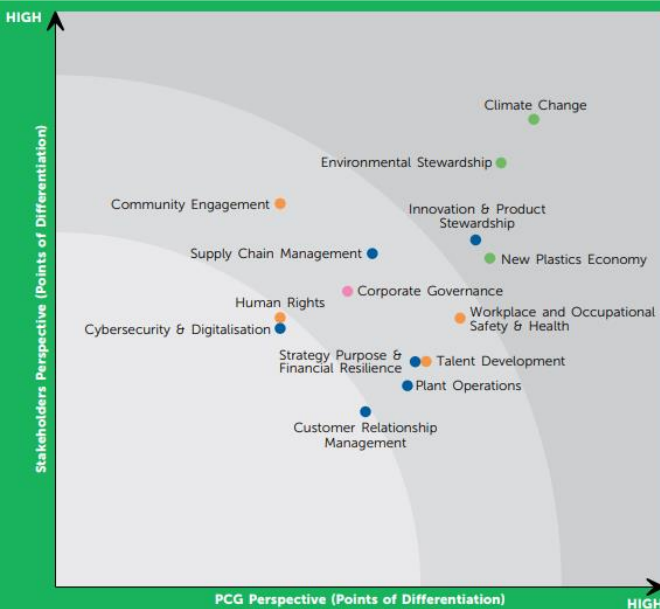


Spotlight

PETRONAS Chemicals Group Berhad (PCG)

Like many companies, PCG discloses a materiality matrix showing the level of priority of each identified material ESG topic.

PCG also provides rationale on why certain material ESG topics are important to them, and links each ESG topic to risks, opportunities, stakeholders affected and the relevant UN SDGs.



Material Matters

- Climate Change
- Environmental Stewardship
- Innovation & Product Stewardship
- New Plastics Economy (NPE)
- Workplace and Occupational Safety & Health (OSH)
- Supply Chain Management
- Community Engagement
- Talent Development
- Corporate Governance
- Strategy Purpose & Financial Resilience
- Plant Operations
- Human Rights
- Cybersecurity & Digitalisation
- Customer Relationship Management

The Materiality Matrix impacts value creation in PCG within the three areas according to the colour shades below:

- **Points of Differentiation:**
Topics where PCG can lead
- **Value Enhancement:**
Topics that can add operational value to PCG
- **Value Protection:**
Foundation topics for PCG

SUSTAINABILITY PILLARS	MATERIAL MATTERS	WHY IT IS IMPORTANT	RISKS	OPPORTUNITIES	STAKEHOLDERS AFFECTED	OUR APPROACH, PERFORMANCE & KEY INITIATIVES	SDGs
ENVIRONMENTAL	Climate Change	Climate change, directly and indirectly, affects our profitability and sustainable growth. It is crucial to protect these by mitigating and adapting to climate-related risks.	<ul style="list-style-type: none"> Inability to meet new climate-related regulations causes non-compliance and financial costs Reallocation of capital to green investments by financial institutions impacts business funding Poor climate change adaptation exposes our physical assets to severe damage and high financial losses 	<ul style="list-style-type: none"> Effective emissions management improves stakeholder trust and public perception Lower resource consumption contributes to cost savings and better performance Secure positioning in low carbon solutions market in order to meet increasing demand 		<ul style="list-style-type: none"> Read more on pages 50 to 54 	
	Environmental Stewardship	Responsible environmental practices protect our business from regulatory, reputational and operational costs. It also protects society and the planet from pollution and degradation.	<ul style="list-style-type: none"> Environmental non-compliances lead to regulatory penalties and fines Unsustainable environmental practices negatively impact public trust and confidence 	<ul style="list-style-type: none"> Waste reduction and resource efficiency reduces operational costs Environmentally responsible activities attract investors and funding opportunities 		<ul style="list-style-type: none"> Read more on pages 57 to 59 	
	New Plastics Economy (NPE)	The current linear economy is unsustainable for environmental and social health. We need to transition to NPE and circular economy to ensure the sustainable consumption and production of plastic.	<ul style="list-style-type: none"> Lack of action to address plastic waste damages the company's reputation Slow transition to a circular economy lowers our competitive advantages in the long-term 	<ul style="list-style-type: none"> Rapid advancements in NPE reinforces our role as a leader in Malaysia's NPE Conversion of plastic waste into circular feedstock has the potential to improve resource efficiency and create new business opportunities 		<ul style="list-style-type: none"> Read more on pages 55 to 56 	

Source: *PCG Sustainability Report, 2021*

2.3 Good practice initiatives and metrics



All ESG initiatives undertaken should be aligned to the PLC's ESG strategy. Subsequently, relevant sustainability measures should be established to track and disclose the PLC's performance across these initiatives. In order to address concerns pertaining to greenwashing, PLCs' disclosures should be sufficiently transparent and comprehensive to enable key stakeholders to assess the robustness of measures undertaken.

Key considerations:



Conduct periodic gap analysis of all ESG initiatives to identify whether initiatives are having the desired impact and decide whether to maintain, enhance, re-prioritise or discontinue any initiatives



Assess existing and planned initiatives for alignment to the defined ESG topics. Develop new initiatives to address key material topics and any existing gaps in initiatives



Establish metrics to measure impact of initiatives and monitor overall ESG performance based on material topics. PLCs should take into account the following considerations:

- Check that the metrics are aligned to commonly accepted ESG frameworks to improve comparability for stakeholders
- Ensure that selected metrics address the needs of key capital market stakeholders and correspond to the sustainability ambition of the PLC
- Clearly define the boundary for each metric. If the boundary has changed year-on-year, PLCs should recalculate and disclose comparable metrics when reporting on performance trends



Communicate sustainability performance transparently to stakeholders to address greenwashing concerns. If setbacks are encountered, explain the reasons for these setbacks as well as any remedial actions taken. Undertake necessary due diligence and assurance exercises to enhance credibility of disclosures.

Companies who prioritize ESG metrics and reporting are not just analyzing their profits, but are looking deeper into their performance, health, and long-term success.

Source: [The Impact Investor, 2022](#)



Spotlight RHB Bank Berhad (RHB)

RHB has established initiatives tied to their overall sustainability strategy and a clear set of metrics in accordance to the Global Reporting Initiative (GRI) Standards and with reference to other globally-recognised standards.

Examples of RHB's strategic initiatives is to support green activities through funding, which is in line with their ESG theme of "Sustainable and Responsible Banking".

With an ambition to achieve carbon neutral operations by 2030, RHB reports on Scope 1, Scope 2 and Scope 3 GHG emissions which is calculated based on the GHG Protocol: A Corporate Accounting and Reporting Standard.

SUSTAINABLE FINANCING

- Structured and executed **Malaysia's first Green Cross-Currency Interest Rate Swap** transaction set against ESG-linked Key Performance Indicators ("KPIs") to hedge a USD100 million (RM432 million) two-year sustainable loan.
- Launched **four SRI-qualified ESG funds** to meet the growing appetite for ESG investments, with **RM836 million** in combined AUM achieved in FY2021 across the four funds. These funds allow investors to participate in long-term sustainability-focused investments centred on climate change, healthcare, empowerment and sustainable infrastructure.
- Hosted industry engagement and capability building sessions to sharpen ESG investing knowledge and decision-making, such as '**RHB ESG Forum – Envisioning A Better Future**' and '**When Shariah Meets ESG**'.

GRI Topic	GRI Standard	Disclosure	Page Number and/or Brief Description	Emissions in Year (tCO ₂ e)					
				2016	2017	2018	2019	2020	2021
Material Matter: Climate Change									
GRI 103: Management Approach 2016	103-1	Explanation of the Material Matter and its boundaries	Scope 1 - Direct Emissions	108	140	205	215	135	154
			Stationary Combustion (generator sets)	108	27	29	30	18	18
	103-2	The management approach and its components	Mobile Combustion (Company-owned vehicles)	0	113	176	185	117	136
			Scope 2 - Indirect Emissions	40,891	31,841	29,820	27,605	25,678	23,811
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	Purchased Electricity	38,123	29,698	28,542	26,447	24,596	22,825
			Purchased Cooling	2,768	2,143	1,278	1,158	1,082	986
	305-2	Energy indirect (Scope 2) GHG emissions	Scope 3 - Other Indirect Emissions	2,234	2,498	2,428	2,448	1,606	1,615
			Business Travel (by road)	2,234	2,498	2,428	2,448	1,606	1,611
	305-3	Other indirect (Scope 3) GHG emissions	Business Travel (by air)	0	0	0	0	0	4
TOTAL			43,233	34,479	32,453	30,268	27,419	25,580	

Note: Data collection for mobile combustion (by Company-owned vehicles) began in 2017, and for business travel (by air) in 2021.

Source: *RHB Integrated Report, 2021; RHB Sustainability Report, 2021*

2.4 Enabling elements



Embedding ESG into any company requires clear sustainability governance structures, policies and processes, which are in turn supported by its people and infrastructure.



Sustainability Governance

- ✓ Define a clear sustainability governance structure
- ✓ Develop clear Terms of Reference (TOR) (e.g. for Board, management, working group)
- ✓ Embed ESG considerations in key policies



Processes

- ✓ Implement clear processes for managing ESG topics
- ✓ Develop a sustainability performance scorecard for individual departments



People

- ✓ Upskill workforce with needed ESG skills and knowledge
- ✓ Integrate ESG KPIs into performance, especially for Board and management
- ✓ Appoint ESG champions across the company
- ✓ Define new roles and company structure changes



Infrastructure

- ✓ Identify new infrastructure needs based on ESG goals
- ✓ Upgrade infrastructure to improve ESG performance

Spotlight

Nestlé (Malaysia) Berhad (Nestlé Malaysia)

An account from Nestlé Malaysia's Creating Shared Value (CSV) Strategy




Nestlé Malaysia's CSV and sustainability strategy is led by its Group Corporate Affairs Department with supervision from the CEO and strategic guidance from its Board of Directors. Operationally, Nestlé's CSV and sustainability initiatives are led by subject matter experts from various business units and support functions with monthly monitoring, reporting and progress reviews against commitments, assessed by the leadership team. To further enable their CSV and sustainability strategy to be embedded effectively, Nestlé Malaysia launched their Net Zero Roadmap which outlines the priority action items throughout their value chain to achieve plastic neutrality by 2025, halve emissions by 2030 and be carbon neutral by 2050.

2.5 Reporting and disclosures



Effective ESG reporting is crucial for PLCs to communicate with their stakeholders on their ESG response and to build trust. It is increasingly becoming a regulatory requirement for PLCs to disclose material ESG-related information. Reporting should be accurate, transparent and provide a balanced reflection of the PLC's sustainability practices as well as performance. A PLC's public disclosure of ESG performance is a key tool used by ESG rating agencies, such as the FTSE4Good Index, Dow Jones Sustainability Indices and MSCI, to assess the company's ESG response.

Key considerations for reporting and disclosures:

-  Identify applicable regulatory requirements for ESG reporting (e.g. [Bursa Malaysia's Main Market Listing Requirements](#))
-  Consider the frameworks and standards expected from key stakeholders
-  Develop data templates and collect relevant information and data for the current financial year
-  Determine the communication channels to share ESG progress, (e.g. formal report, website, press release) and work on the presentation and design to ensure good readability and assessment of impact
-  PLCs should collate feedback from stakeholders on their sustainability-related expectations and informational needs

73%

agree it is important that ESG reporting is prepared in accordance with a recognised non-financial reporting framework (e.g. SASB, TCFD, GRI).

74%

agree that investment decision making would be better informed if companies applied a single set of ESG reporting standards (e.g. similar to IFRS for financial reporting).

Source: *PwC's Global investor survey 2021*

Comprehensive, effective and transparent reporting

Over the years, Sunway has continued to enhance the depth and breadth of its sustainability reporting. Sunway's reporting is now aligned to various global standards and frameworks such as the GRI, TCFD, SDG's, FTSE4Good and SASB. This has enabled them to stay on top of key ESG risks and trends and report their efforts and performance in these areas in a clear and structured manner.

At the National Annual Corporate Report Awards (NACRA) 2021, Sunway won the following Awards in their respective categories:

Excellence Awards (Companies with RM2-10 billion in Market Capitalisation)

- Sunway Berhad - Platinum

Special Awards (Best Sustainability Reporting)

- Sunway Berhad - Silver

Spotlight









Sunway Berhad (Sunway)

Source: *Sunway Sustainability Report, 2020; NACRA 2021 Winners List*

2.6 Stakeholder engagement



PLCs are increasingly expected to take into account and balance the interests, concerns and expectations of their key stakeholders. Referring to the GRI Standards and the Bursa Malaysia Sustainability Toolkits, there are key steps that should be undertaken for an impactful stakeholder engagement process:

-  Have a clear basis for identifying and prioritising internal and external key stakeholders to engage with
-  Determine the engagement objectives and risks, and identify potential ESG topics that they may raise
-  Conduct stakeholder profiling and determine the engagement approach
-  Record the outcomes of the engagement and communicate it internally
-  Develop an action plan or response, and monitor the progress accordingly
-  Communicate the progress to the relevant stakeholders (e.g. through reporting)

Local investors such as the Institutional Investors Council Malaysia (IICM) and finance providers are adopting a more hands-on approach for ESG integration by actively engaging with companies in their portfolio on their ESG strategies, governance, capabilities, progress and impact.

We believe what drives the 'investability' of a company is its fundamentals and not necessarily its ability to qualify to be in an index. Our approach to ESG is integration and engagement.

- *Patrick Chang, Chief Investment Officer, Principal Asset Management, 2021*

Spotlight



PETRONAS Gas Berhad (PGB)

PETRONAS Gas Berhad (PGB) has a comprehensive stakeholder management framework that enables them to disclose the engagement platforms and frequency, key concerns as well as responses for each stakeholder group.

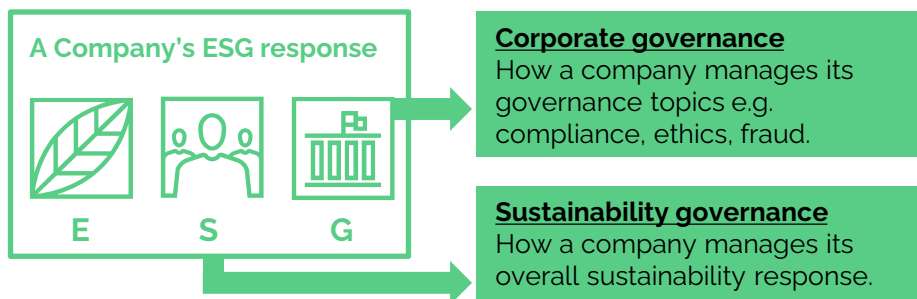
KEY STAKEHOLDER GROUPS	WHY WE ENGAGE	WHAT WE OFFER	WHAT WE FOCUS ON
INVESTORS AND FUNDING INSTITUTIONS 	<ul style="list-style-type: none"> • To provide access to equity and debt funding • To enable liquidity of our shares • To ensure fair rating of our shares • To initiate open dialogue to better understand and address concerns • To strengthen stakeholder confidence in our ability to generate strong financial returns in a responsible manner 	<ul style="list-style-type: none"> • Solid investment case and understanding of the business strategy • Continued, sustained growth in capital and distributions • Assurance that our business activities and decisions are aligned to strategy in creating sustained value • Assurance that sustainability compliance with government considered and integrated strategy • Ability to pay interest and n 	<ul style="list-style-type: none"> • Third Party Access and regulatory risks to business • Impact of COVID-19 and Movement Control Order (MCO) on the business • Growth strategy • Environmental, Social
		OUR RESPONSE	OUR ENGAGEMENT PLATFORMS/FREQUENCY OF ENGAGEMENT
		<ul style="list-style-type: none"> • Provision of guided disclosure on developments within the Company, financial performance and progress of growth projects • Issuance of PGB quarterly results • Continuous engagement with investors and funding institutions • Disclosure of ESG practices in the Integrated Report and Sustainability Report 	<ul style="list-style-type: none"> • Annual General Meeting (20 April 2021) • Quarterly analyst briefing • Investor roadshows and conferences • One-on-one meetings • Site visits • PGB website

Source: *PGB Sustainability Report, 2021*

3

Governance as an enabler of Environmental & Social performance

3.1 Governance in the context of ESG



There are two aspects to governance in the context of ESG – corporate governance and sustainability governance. Corporate governance expectations have been covered extensively by the relevant laws and regulations, including the Companies Act 2016, the Guidelines on Conduct of Directors of Listed Corporations and their Subsidiaries and the MCCG. Therefore, this guidebook will primarily focus on sustainability governance.

Sustainability governance

Good sustainability governance is essential for PLCs to manage ESG topics in a structured, transparent, and accountable manner. It is about leadership, establishing clear roles and responsibilities, and reporting structures with dedicated attention and effective oversight for ESG topics.

There are increasing expectations on Boards to play a more central role in driving the ESG agenda. There are multiple frameworks around this, and most echo the need for Boards to:

- ✓ Have strategic oversight of the PLC's ESG direction and performance
- ✓ Gain knowledge about ESG topics and the complexities in managing them
- ✓ Be accountable for ESG performance
- ✓ Ensure management has the resources to deliver the ESG strategy and plan

Understanding governance risks and opportunities in decision-making is **critical**, as poor corporate governance practices have stood at the core of some of the biggest corporate scandals. In the face of companies' missteps and expanding awareness of global diversity and income inequality, **corporate governance is a core component of ESG.**

Source: [S&P Global Research, 2020](#)

Sustainability or ESG leadership has risen to become a **top corporate agenda.**

Source: [Bursa Malaysia Corporate Governance Guide \(4th Edition\), 2021](#)

For more information on common framework expectations, refer to "A push for stronger sustainability governance" on page 22 and 23 of this guidebook.

The board takes into account **sustainability considerations** when exercising its duties including among others the development and implementation of company strategies, business plans, major plans of action and risk management.

Source: *Practice 4.1, MCCG, 2021*

Spotlight Malayan Banking Berhad (Maybank)

Maybank conducted and publicly reported the results of their Board Effectiveness Evaluation (BEE) in 2021, which demonstrates best in class accountability. This sets a clear tone for Maybank Group's corporate governance stance, including transparency and accountability, as well as for Corporate Malaysia. Many key strengths were identified, which include:

- Positive Board culture and dynamic
- Key focus on business strategies
- High Board diversity
- Strong Board commitment
- Effective Board Committees
- Effective oversight by Board over Management

The evaluation has helped Maybank identify key enhancement priorities which, if addressed, will build on the Board's strengths and lead to better efficiency and decision making. Key enhancement areas include:

- Governance of Group entities for greater alignment of expectations and better flow of information between the Boards of the Group and its subsidiaries
- Levels of engagement and trust between the Boards of the Group and its subsidiaries via open and effective communication
- Level of independence on the Boards of the entities within the Group

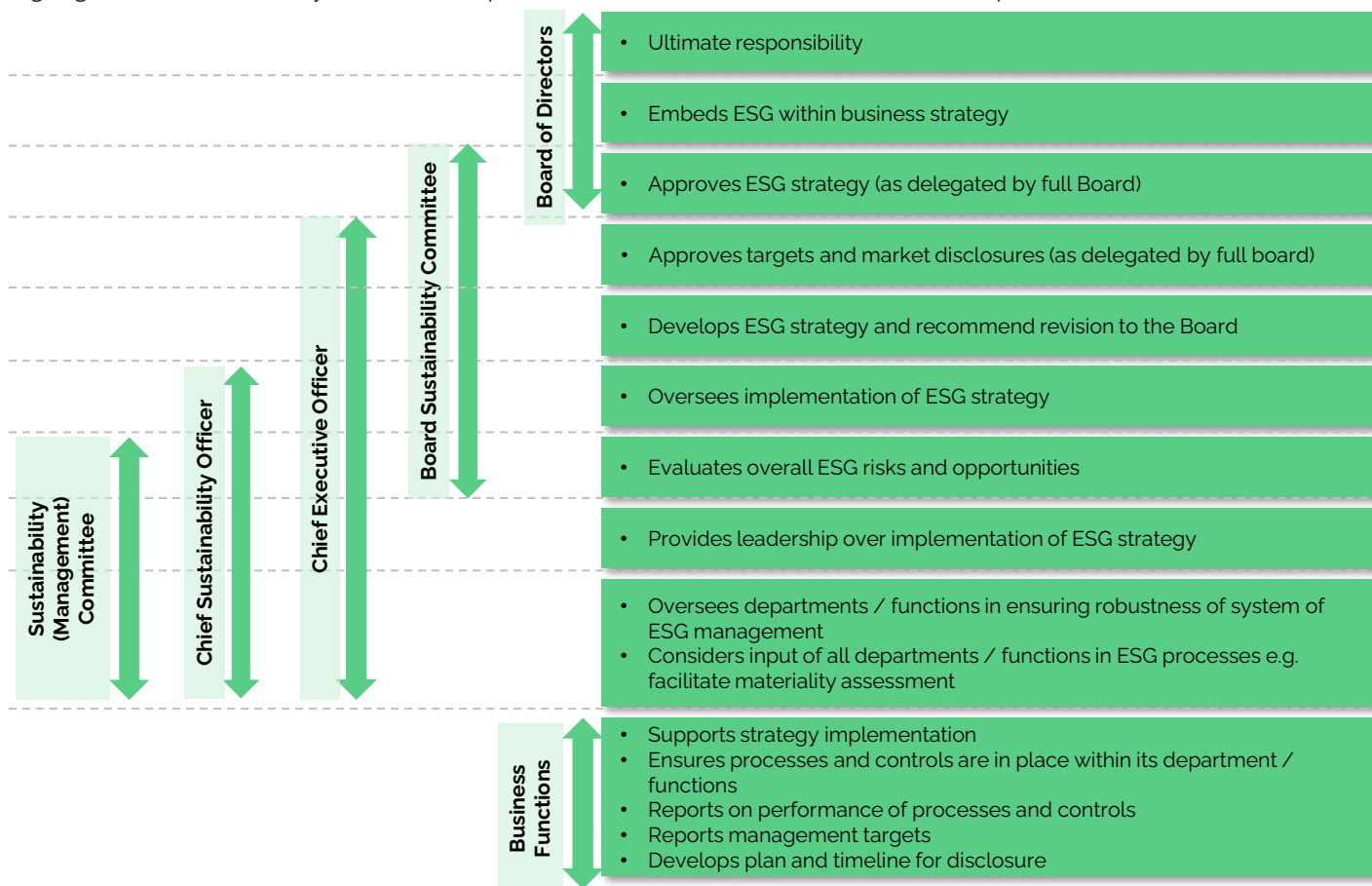
Maybank appoints an independent firm of consultants every three years to conduct their BEE, the most recent one being done in 2020. In FY2021, it was conducted internally through online questionnaires, with the assistance of the Group Corporate Secretarial department. The outcome of the BEE also identified the training needs for Directors, which include ESG.

Source: *Maybank Annual Report, 2021*

3.2 Uplifting sustainability governance

Given the increasing expectations of overall sustainability governance and Board accountability on ESG-related topics, it is important to establish a robust ESG structure that integrates all the key roles and responsibilities. In terms of sustainability governance structures, there is no one-size-fits-all. A company may choose one that is fit for purpose and it will likely evolve as they mature in their ESG journey.

There are various roles and responsibilities that should be applied within the structure. The diagram below highlights some of the key roles and responsibilities for the various committees or personnel:



Source: *Bursa Malaysia's Sustainability Toolkit: Governance (2nd Edition), 2018*



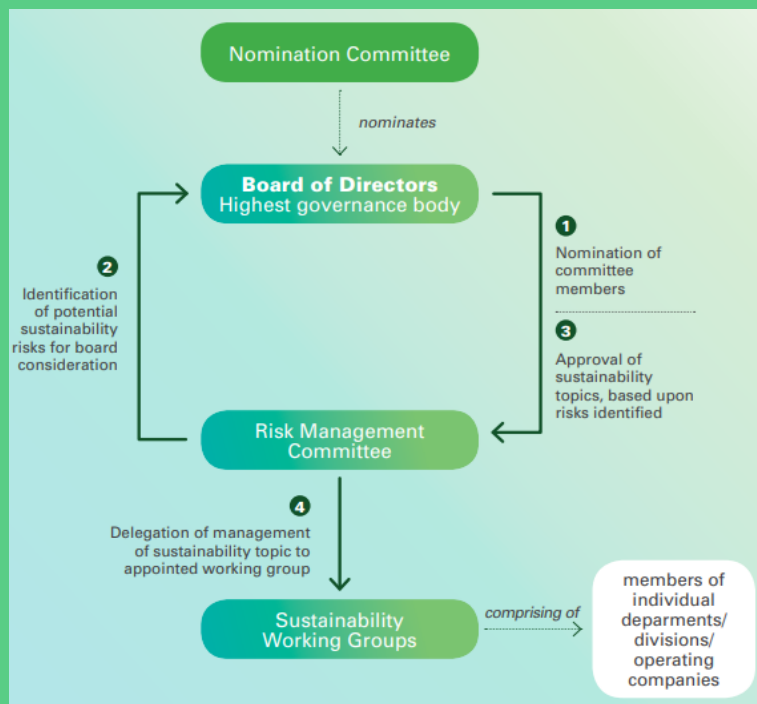
Farm Fresh Berhad (FFB)

ESG disclosures are part of Bursa's listing requirements. As a new entrant to Bursa Malaysia, FFB has established and disclosed a clear sustainability governance structure. Their first sustainability report in 2020 is in accordance with the Global Reporting Initiative (GRI) Standards: Core option.

FFB has disclosed their current structure for sustainability governance and with clear indications of how it is integrated with risk management.

"At Farm Fresh, we're committed to generating beneficial and sustainable outcomes for our customers, staff, local communities and the planet in several key ways."

Source: [FFB company website, 2022](#)



How is ESG governed?

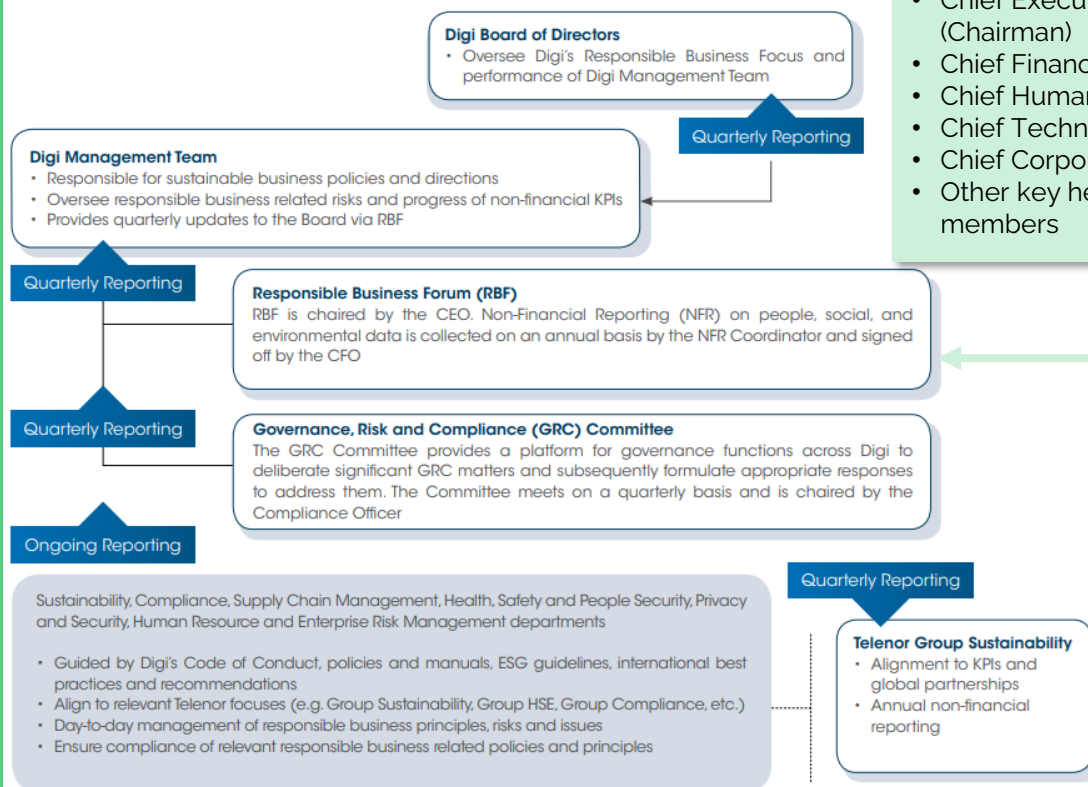
- The Board of Directors (Board) forms the highest sustainability governance body
- The Audit and Risk Management Committee (ARMC) is appointed by the Board to identify risks related to ESG
- The Board then selects the key ESG topics from those proposed by the RMC to form the pillars of its sustainability efforts for the financial year
- The RMC then delegates strategies and initiatives addressing those topics to the relevant sustainability working groups (i.e. could comprise members of the Board, management or employees)
- The Board reviews FFB's ESG strategy and progress against targets on a quarterly basis

Source: [FFB Sustainability Report, 2020](#)

Spotlight Digi.Com Berhad (Digi)

Digi has been continuously improving its sustainability response for well over 10 years. Digi's sustainability governance structure along with the roles and responsibilities is clearly disclosed as part of their "Responsible Business" strategic pillar. Like many companies, the Board is cognisant of the value of upholding strong ethics and adopting ESG considerations in driving Digi's long-term strategies across its business operations and value chain.

DIGI SUSTAINABILITY GOVERNANCE FRAMEWORK



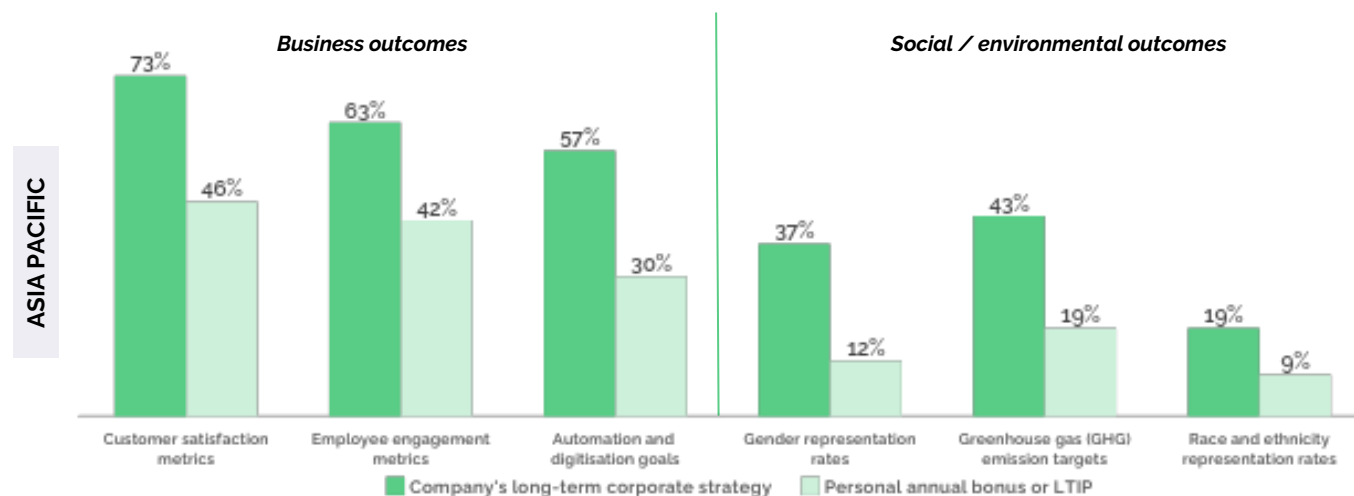
Responsible Business Forum:

- Chief Executive Officer (Chairman)
- Chief Financial Officer
- Chief Human Resource Officer
- Chief Technology Officer
- Chief Corporate Affairs Officer
- Other key head of department members

3.3 How to define suitable ESG KPIs

Why ESG KPIs?

Practice 4.4 of the MCCG 2021 states that there should be ESG KPIs tied to the performance evaluation of the Board and senior management. Many companies are deliberating how ESG KPIs should be constructed and linked to compensation, especially for the Board and senior management. Complications can arise when long term targets (e.g. net zero by 2050) are longer than the tenures for Board and senior management. Questions can also arise on what weightage ESG KPIs should have versus traditional business metrics, which KPIs are most suitable and how they impact long-term incentive plans (LTIP). PwC's 25th Annual Global CEO Survey notes that long-term corporate strategy and personal annual bonus / long-term incentive plans are still primarily driven by business metrics, as shown in the chart below.¹ In this chapter, we highlight some guiding considerations to effectively adopt ESG KPIs.



68%

investors thought ESG performance measures and targets should be included in the executive pay arrangements.²

78%




of Board members and senior executives agree that strong ESG performance contributes to organisational value and/or financial performance.³

45%

of FTSE 100 companies now have an ESG measure in executive pay.⁴

Source: 1. PwC's 25th Annual Global CEO Survey – Asia Pacific, 2022; 2. PwC's Global investor survey, 2021; 3. *Linking executive pay to ESG Goals, Strategy & Business, 2021*; 4. PwC and London Business School, *Paying well by paying for good, 2021*


There are practical steps to take when embarking on setting ESG KPIs into remuneration plans which include:

-  Setting a clear ESG strategy and company level targets. If longer term ESG targets are material to value creation, PLCs should define medium and shorter term targets for the PLC. The shorter term targets can then be cascaded for individual KPIs
-  Ensuring the ESG metrics selected as KPIs are accurate, transparent, timely, verifiable and contribute towards value creation. For instance, KPIs tied to the implementation of TCFD recommendations or achievement of socio-economic impact
-  Determining the weightage allocated to ESG KPIs. PLCs can take into account the following considerations:
 - How much do ESG risks impact the value of the company?
 - How much value can be derived and gained by driving ESG performance?

These considerations will determine how much emphasis should be placed on ESG KPIs.

Performance evaluations of the Board and senior management include a review of the performance of the Board and senior management in addressing the company's material sustainability risks and opportunities.

Source: Practice 4.4., Malaysian Code Corporate Governance, 2021

Spotlight 

CIMB Group Holdings Berhad (CIMB)

In 2019, CIMB started to link individual KPIs with the company's ESG performance for selected members from senior management, which included the Group CEO. The ESG KPIs were expanded upon in 2020 to include Group Management.

In 2021, approximately 100 top management members from key countries and business units, who are accountable for driving CIMB's ESG strategy and Sustainability Programme, carry ESG KPIs in their scorecards. The success of these KPIs contribute to the bonus pool funds for the relevant department, therefore the success of sustainability efforts is linked to the compensation of the entire department.

Source: *CIMB Sustainability Report, 2021*

3.4 Guiding considerations

1

To drive better governance and ESG performance, put in place a strong sustainability governance structure that enables a clear process and structure for managing ESG topics.

2

To monitor the effectiveness of sustainability governance, disclose metrics such as the frequency of Board meetings to discuss sustainability-related issues.

3

To provide comfort to the Board and stakeholders over the quality of ESG data, task the internal audit function to provide assurance over ESG data and information. As sustainability practices mature, to undertake external assurance over ESG data and information.

4

To drive ESG accountability and performance, integrate ESG KPIs into performance evaluations for Board and senior management.

4

Managing environmental performance







4.1 Environmental topics and their impacts



Companies impact the environment in so many ways, from the energy they use to the waste they generate. Conversely, environmental factors such as weather events, climate change and water supply also impact businesses. If not addressed urgently, these impacts will continue to negatively affect business returns.

As companies address existing risks, they must also

undertake future risk assessments to ensure they are able to mitigate any negative impacts.

Similarly, there are existing and future opportunities to consider and explore. The examples below highlight some of the common environmental issues and how they impact businesses and vice versa.

	Risks and impacts	Opportunities
 Water Usage	Companies typically consume freshwater for their operations, which can place a strain on water resources. Water pollution and drought can cause disruption to manufacturing processes and overall business activities.	Consider more efficient processes or technologies that reduce dependence on water and improve efficiency <i>e.g. EcoWorld Malaysia wins UNGCMYB award for positive water conservation efforts</i>
 Energy Efficiency	Energy inefficient companies are more exposed to rising energy prices and unreliable energy supply that could disrupt operations and increase the cost of operations compared to energy efficient peers.	Consider energy source diversification to improve energy security and improve energy efficiency by redesigning processes and products <i>e.g. UOB Malaysia launches U-Energy efficiency effort, Asia's first integrated financing platform</i>
 Waste Management	Companies face increasing financial costs and in the long term may be exposed to higher operational costs due to waste segregation requirements i.e. Extended Producer Responsibility (EPR) requirements that advocates for plastic sustainability.	Leverage the circular economy concept to identify new product and service opportunities <i>e.g. Tetra Pak Malaysia's Recycle Easy programme and its waste management efforts since 1978</i>
 Natural Resources	Depleting natural resources can result in a shortage of key materials and supply chain disruptions which will impact a company's output and revenue.	Develop new technologies and production practices to reduce degradation, increase efficiency and prioritise natural capital considerations into management systems <i>e.g. Sime Darby balances business operations with social environmental preservation</i>

	Risks and impacts	Opportunities
 <p>Ecological and Biodiversity Impacts</p>	<p>Companies impact ecosystems from the resources they use to the waste they generate, which can lead to ecosystem and biodiversity loss. These outcomes threaten the stability of business operations e.g. declining bee population impacting pollination of crops, landslides cutting off supply chain routes.</p>	<p>Take a proactive approach to preserve natural ecosystems to work in harmony with the environment. This can lead to value creation through new environmentally-friendly products and improved branding <u>e.g. Gamuda Parks' sustainable landscape initiative, ensures that endangered animals and plants are protected through its biodiversity policy</u></p>
 <p>Climate Impact and Resilience</p>	<p>The burning of coal, natural gas and oil for electricity, transportation and heat is the largest source of emissions globally, accelerating climate change. Companies are experiencing climate change impacts such as disruptions to operations due to climate events, rising costs of resources, physical damage to assets and regulatory uncertainty.</p>	<p>Adopt innovative solutions to mitigate and adapt to climate change while implementing a low-carbon transition strategy to build resilience for sustainable growth <u>e.g. Sarawak Energy invests in digitalisation, energy-efficient generation and climate-friendly technologies to further reduce carbon emissions and pollutants from its power system</u></p>

Spotlight



Press Metal Aluminium Holdings Berhad (Press Metal)

Press Metal has positioned themselves to meet the demand for low-carbon aluminium while addressing the global decarbonisation agenda and rising investor interest in ESG performance. The company's smelters are located in Sarawak and run on hydropower, producing products with a smaller carbon footprint. Such practices are favourable to ESG-centric clients, leading to Press Metal's shares surging 18% in the March quarter (2021) to become the best performer on Malaysia's benchmark stock index.

Source: [The Malaysian Reserve, 2021](#)

BlackRock and Temasek have committed **US\$600 million** to invest in **companies** and **proven technologies** that will **reduce and potentially eliminate carbon emissions**

Source: [BlackRock, 2021](#)

4.2 How to develop a GHG baseline

While there are many environmental issues to address, GHG emissions continue to be one of the key issues that countries and businesses are focusing their efforts on due to the tangible impact it has on a company's operations. At a global level, carbon tax regimes such as the Carbon Border Adjustment Mechanism (CBAM) that will come into effect in the EU, is also being considered in Canada, Japan and the US.¹ This means that companies need to have an understanding of how this will impact products that they import and export. In 2020, it became mandatory for UN PRI signatories to report against TCFD-aligned indicators.² As such, investors are increasingly seeking credible data and reports on how portfolio companies are managing climate-related risks.

The TCFD provides companies a basis for identifying climate-related risks and opportunities that impact their company. By using the [GHG Protocol](#) to measure their emissions, companies can improve the way they manage these risks and opportunities as they will have a clearer picture of how and where they can make the biggest impact and focus their efforts accordingly. Understanding where the baseline is enables a company to set targets to achieve and this is where SBTi can help companies set science-based targets to deliver a pathway to net zero.

At a country-level, the Joint Committee on Climate Change (JC3) members supported a proposal for financial institutions (FIs) to make mandatory TCFD-aligned climate-related financial risk disclosures from 2024 and is committed to helping financial institutions support Malaysia's commitment to achieve carbon neutrality.³ In March 2022, Bursa Malaysia also proposed for all PLCs to issue climate change disclosures that are aligned with the TCFD recommendations.⁴

In this chapter, we outline the key steps PLCs can take in developing a GHG baseline as well as a net zero response. The latter can assist more mature PLCs who already have a baseline to take the next step in their emissions reduction journey.

Managing the impacts of climate change

Global

- CBAM
- UN SDGs

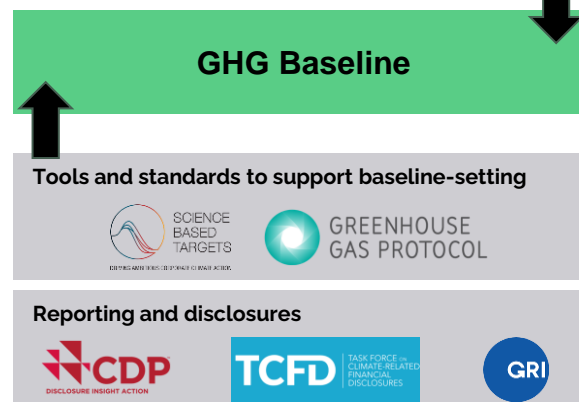


Country-level

- Malaysia's 2050 Carbon Neutral commitment
- FI's to start aligning to TCFD disclosures

Company-level

- Investors - TCFD reporting, ESG management
- Regulatory - reporting requirements, carbon tax
- Supply chain - impact to import/exports

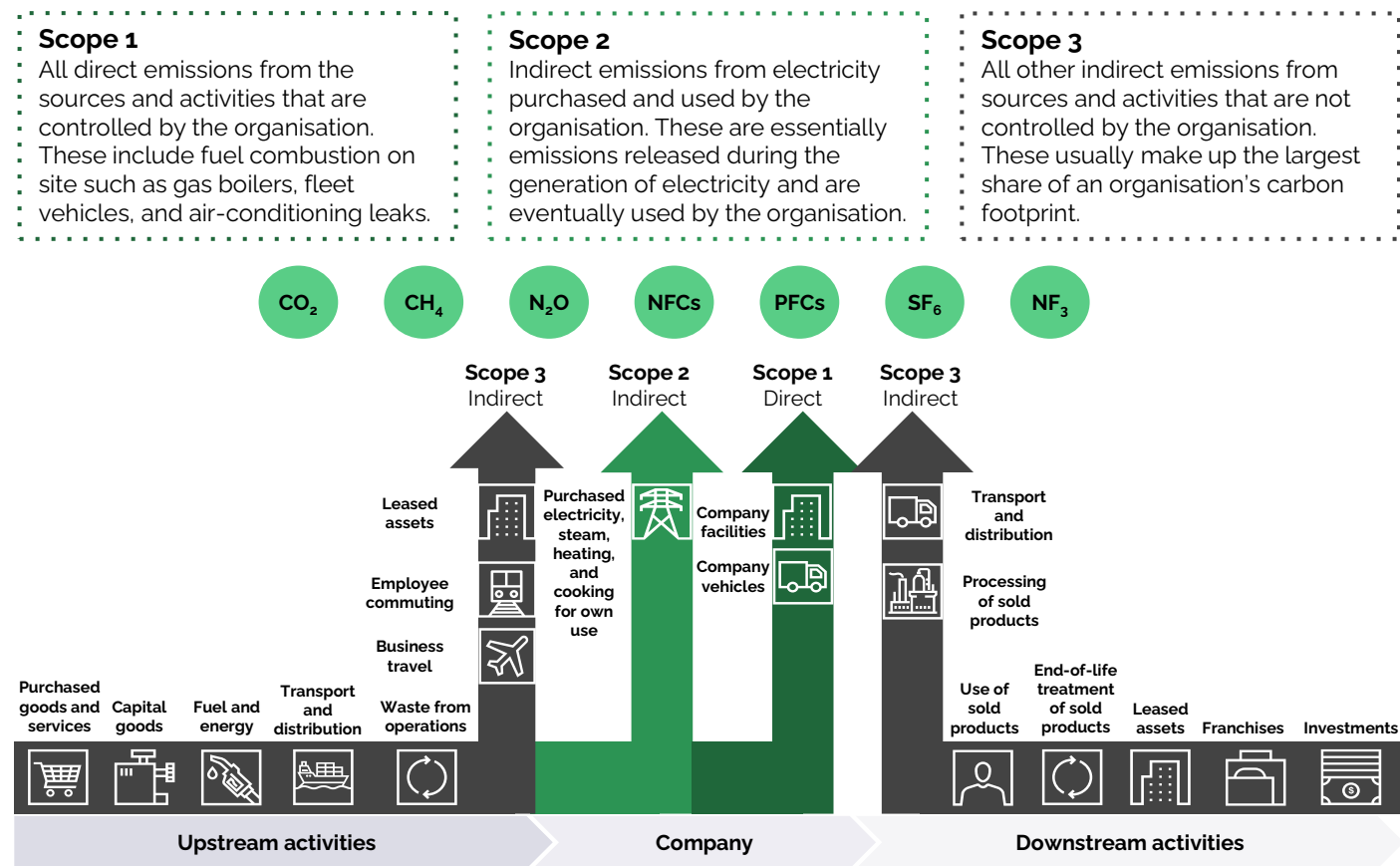


Note: Non-exhaustive

Source: 1. *Renew Economy 2021*; 2. *UN PRI, 2020*; 3. *Bank Negara Malaysia, 2021*; 4. *Bursa Malaysia, 2022*

What are GHGs?

GHGs include a number of gases, such as **carbon dioxide**, **nitrous oxide** and **methane**, that are emitted by burning fuels. When talking about GHG emissions, they are categorised into three main types – **Scopes 1, 2 and 3**. Most, if not all, companies will have sources of emissions in each Scope.



Source: *GHG Protocol Corporate Accounting and Reporting Standard, 2004*



Key steps in developing a GHG baseline

The most widely-used framework for developing a GHG baseline and inventory is the GHG Protocol Corporate Accounting and Reporting Standard, which is complemented by various cross-sector and sector-specific calculation tools. This standard informs the disclosure requirements for GHG emissions that is set out in sustainability reporting frameworks such as the GRI Standards and Bursa Malaysia's Sustainability Reporting Guide (2nd Edition).






Watch this interactive video on the GHG Protocol and how it helps companies measure, manage and reduce emissions.



1 Setting organisational and operational boundaries

-  Establish organisational boundaries: operational control, financial control and equity share
-  Set operational boundaries to determine which activities constitute Scope 1, Scope 2 and Scope 3 emissions within that organisational boundary



2 Identifying and calculating GHG emissions

-  Identify key emission sources, which are supported by interviews with data owners to understand key activities at that site
-  Determine calculation methodologies for each emission source
-  Develop/enhance GHG inventory calculation tool





3 Reporting GHG emissions

-  Disclose the best available data at the time of publication and be transparent on the Scope, boundary, methodology and limitations (if any)
-  Insert narratives on key trends, especially if there are any major discrepancies with the previous year (balanced reporting is encouraged)

4 Verifying GHG emissions

-  Assess the accuracy and completeness of GHG data and its compliance to the chosen standard
-  Whether the data is internally or externally verified, this step is important in increasing the credibility of reported data

5 Establishing GHG targets

-  Obtain senior management commitment
-  Establish target type, boundary, baseline year and timeline
-  Plan out measures in place to help achieve the set target
-  Track and report the progress against targets

For more detailed guidance on emissions measurement and reporting, please refer to [Appendix 1 to 5](#).

Source: [GHG Protocol Corporate Accounting and Reporting Standard, 2004](#)

Tracking Scope 3 GHG emissions

Scope 1 and 2 emissions are commonly monitored and reported by companies as these are tangible emissions created from fuel use and electricity purchase, where data is generally available. For manufacturing or industrial companies, Scope 1 emissions can form a large part of their emissions, but for most companies, Scope 3 emissions are usually the biggest contributor. PLCs who track their Scope 3 emissions will have a better understanding of their emissions along the value chain (refer to page 52) and any action taken on Scope 3 emissions will have a big impact in helping PLCs achieve its SBTi and net zero commitments.

It may seem daunting for PLCs to recognise the full extent of its Scope 3 emissions, but doing so will result in a host of benefits (e.g. assess where emission hotspots are in their supply chain and hence possible business risks such as increasing costs). The SBTi has developed a guidance document that provides information on the latest best practices in managing Scope 3 emissions. This may be useful for PLCs to gain an understanding of the different emissions reduction levers they can employ to reduce their Scope 3 emissions.

GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard

Criteria for companies to consider when prioritising Scope 3 emissions categories to be measured and reported.

Criteria	Description
Size	They contribute significantly to the company's total anticipated Scope 3 emissions
Influence	There are potential emissions reductions that could be undertaken or influenced by the company
Risk	They contribute to the company's risk exposure (e.g. climate change related risks such as financial, regulatory, supply chain, product and customer, litigation, and reputational risks)
Stakeholders	They are deemed critical by key stakeholders (e.g. customers, suppliers, investors, or civil society)
Outsourcing	They are outsourced activities previously performed in-house or activities outsourced by the reporting company that are typically performed in-house by other companies in the reporting company's sector
Sector guidance	They have been identified as significant by sector-specific guidance
Other	They meet any additional criteria for determining relevance developed by the company or industry sector

Source: *GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard, 2011*



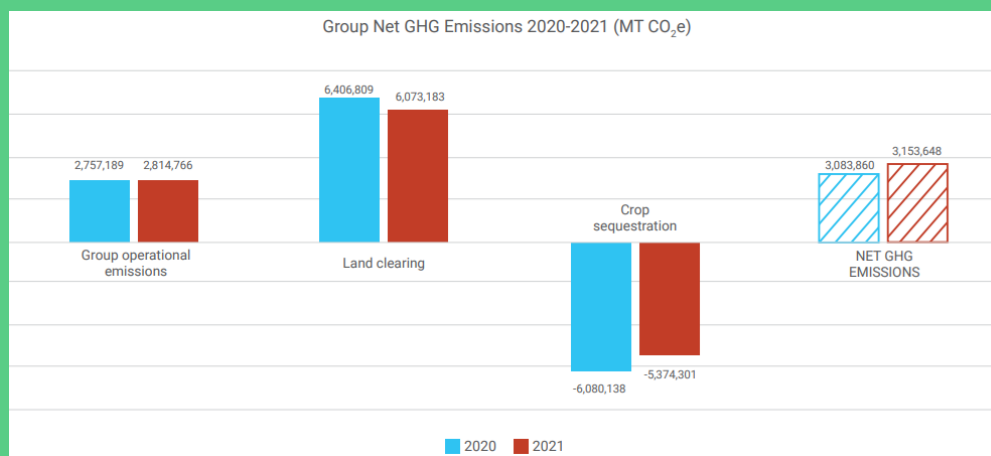
Sime Darby Plantation Berhad (SDP)

Since 2009, SDP has taken proactive actions in managing its emissions. The company has two main calculation methodologies:

1. The GHG Protocol to calculate Scope 1 and 2 emissions (upstream operations in Malaysia and Indonesia as well as all downstream business units)
2. The latest version of the RSP0 PalmGHG calculator for upstream operations in Papua New Guinea and Solomon Islands and the emissions from land-use change

SDP's largest source of emissions is from treating effluents from mill processes (66%). Emissions from boilers at mills, fertiliser use and purchased electricity are the next largest emission sources, in decreasing order. Moving forward, SDP targets to start disclosing material Scope 3 emissions in 2023.

Leading up to its **net zero aspirations**, SDP is targetting a **50% reduction in carbon emissions intensity by 2030, against a 2009 baseline** (previous target: 40%), mainly through their biogas plants. SDP's current climate-related strategies include minimising upstream operations GHG emissions (biogas plants, solar energy, operational efficiency), implementing nature-based solutions, eliminating deforestation within supply chains and investing in R&D to boost yield and develop more resilient crops.



Note:

1. Due to auditing cycles, GHG data in this section reflects the data from the previous year.
2. Historical land use change (land clearing and crop sequestration) data for 2020 is restated.
3. SDP will revise future data collection methods to include sequestration from conservation areas and peatland oxidation.

Source: *SDP Sustainability Report, 2021; SDP Climate Action, 2022*

4.3 Developing a net zero response

Understanding what carbon neutral and net zero mean

While “carbon neutral” and “net zero” commitments are often used interchangeably, they mean very different things. Being **carbon neutral means that companies can offset their own emissions** simply by purchasing carbon credits or carbon offsets (offsets support projects that reduce GHG emissions such as land restoration or renewable energy projects). **Net zero**, on the other hand, **means companies need to reduce their existing emissions** as much as reasonably possible **in their own operations as well as across their value chain (i.e. Scope 3)**, and then offset the rest of their emissions to reach net zero. Please refer to [Appendix 1](#) and [2](#) for further information.

Carbon neutral

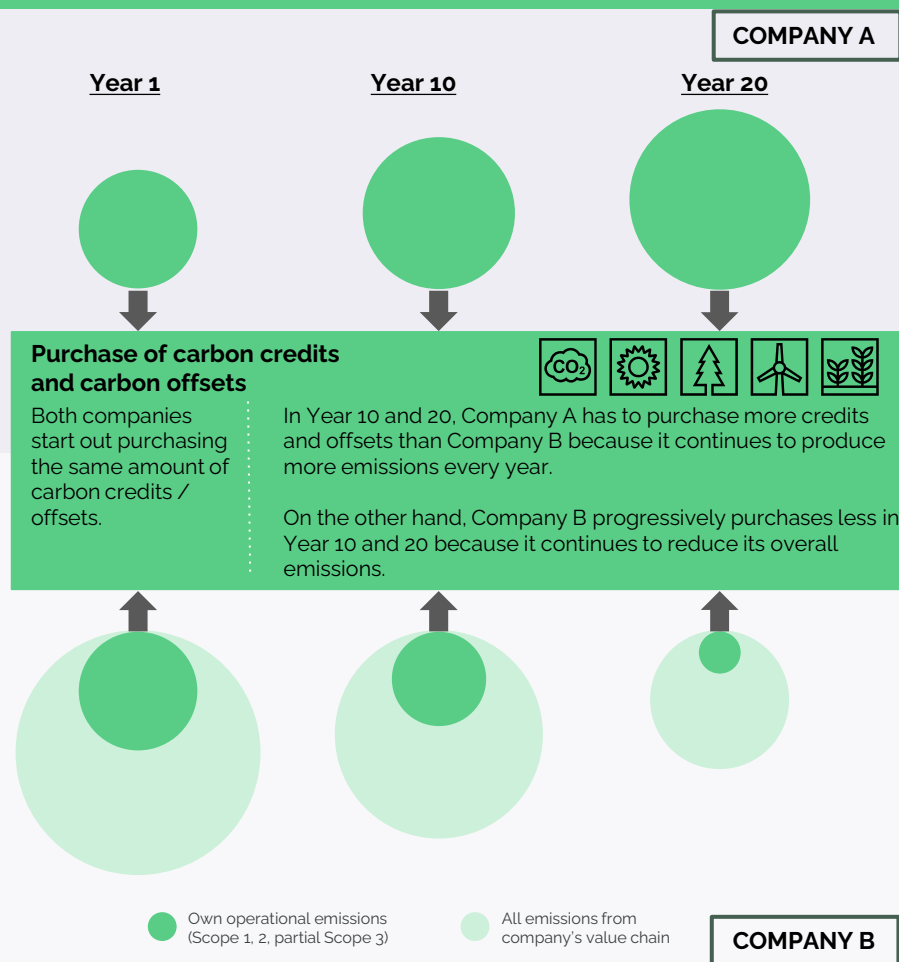
Companies offset their own emissions by purchasing carbon credits or offsets.

In this example, **Company A** offsets its emissions and puts in fair effort to reduce emissions. With continued company growth, its total emissions continue to rise over the years so the company has to buy more carbon credits and/or carbon offsets to remain carbon neutral. Company A can be exposed to increasing carbon offset prices.

Net zero

Companies need to reduce their existing emissions as much as reasonably possible within their own operations as well as their value chain (i.e. Scope 3) and offset the rest with carbon credits and/or carbon offsets.

In this example, **Company B** has put in substantial effort in reducing its emissions, resulting in an overall reduction in its emissions over the years. The minimal amount of emissions remaining is offset before Company B's net zero target year (Year 20). Company B buys less credits/offsets than Company A.



Carbon neutral, net zero, Science Based Targets Initiative (SBTi)

Climate change poses the biggest long-term threat to sustained value creation. A study by Swiss Re found that the world economy could shrink by 18% in the next 30 years if no action is taken.¹ The recognition of the need for decarbonisation has led to an exponential rise in commitments towards carbon neutrality and net zero emissions. SBTi helps companies align and focus their efforts to ensure achievable targets.

Building blocks² to move businesses from ambition to action on their net zero path

Setting a target to achieve net zero is only the first step in a long journey towards achieving it. To deliver on a net zero commitment, PLCs need to transform the way they operate and put in the building blocks that will support the whole business in moving from ambition to action.

1	Ambition: Align to achieving global net zero by no later than 2050 and to limit warming to 1.5°C	Align company ambition to achieving global net zero by no later than 2050, underpinned by science-based targets approach to limit warming to 1.5°C.
2	Governance: Accountability driven from the top	Establish KPIs and performance incentives for Board and management to assign responsibility for achieving net zero with them and promote accountability.
3	Strategy: Embed and align net zero into company strategy	Embed net zero into company strategy, including growth strategy and functional strategies such as investments in clean energy and nature-based solutions to optimise value and build business resilience.
4	Enterprise transformation: Key operating model changes in support of transformation	Upskill and train employees to support the company's efforts towards net zero. Revise procurement policies, invest in innovation and technology, shift away from carbon-intensive industries, products, and markets.

Have you made an SBTi net zero commitment?

Profile your company and **register** on the SBTi website today!

As at March 2022, **six Malaysian companies** have made **SBTi net zero commitments**. These include, Axiata Group Berhad, Bursa Malaysia Berhad, FGV Holdings Berhad, Minconsult Sdn Bhd, MSM Malaysia Holdings and Sunway Berhad.


Source: SBTi, 2022

Take a look at how Coca-Cola, Axiata and Sunway are addressing their net zero commitments.



Find out more about net zero and what it really means here.

Source: 1. Swiss Re News Release, 2021; 2. The Building Blocks for Net Zero Transformation, produced by PwC and commissioned by Microsoft, 2020

Introduction to ESG	Developing a well-defined ESG response	Governance as an enabler of E&S performance	Managing environmental performance	Managing social performance	Relevance of ESG to key functions	Conclusion
Environmental topics and their impacts		How to develop a GHG baseline	Developing a net zero response	Guiding considerations		
<p>5</p> <p>Supply chains: Transform for a net zero supply chain</p>	<p>Build a low-carbon supply chain ecosystem by working directly with suppliers to help them reduce their emissions, linking to the company's Just Transition or social impact commitments. Incorporate net zero considerations into decision-making for procurement of materials and products.</p>					
<p>6</p> <p>Innovation: Develop innovation and technologies to deliver net zero</p>	<p>Invest in R&D and build innovation into ways of working to harness emerging technologies and develop new solutions to deliver net zero at pace. Net zero is embedded into innovation and R&D strategy, product and service development, and corporate ventures.</p>					
<p>7</p> <p>Finance: Finance the net zero transformation</p>	<p>Seek new financing avenues for the net zero transformation such as green bonds, sustainability-linked bonds and other sustainable financing options and models.</p>					
<p>8</p> <p>Transparency: Communicate action</p>	<p>Provide transparent and balanced information on progress against net zero ambition, including relevant business transformation actions. Companies should leverage on the TCFD recommendations when reporting their net zero progress as it is a useful framework to use when disclosing climate risks and opportunities.</p>					
<p>9</p> <p>Engagement and influence: Enhance the pace and scale of net zero action</p>	<p>Engage with relevant internal and external stakeholders to bring them along the transformation journey towards net zero and build scale in its response.</p>					
<p>Spotlight </p> <hr/> <p>Axiata Group Berhad (Axiata)</p>	<p>As a member of Global System for Mobile Communications, originally Groupe Speciale Mobile Association (GSMA), an association comprising mobile operators and other industry players, Axiata has aligned itself with the GSMA Zero by 2050 initiative. The aim of this initiative is to transform the mobile industry to reach net zero carbon emissions by 2050 at the latest.</p> <p>Axiata's strategic approach on managing carbon emissions involves enhancing internal mechanisms, controls and reporting to ensure robustness of data to formulate its carbon reduction targets. In 2021, Axiata established the Axiata Net-Zero Carbon Roadmap that is aligned with GSMA Zero by 2050.</p>					

Source: *Axiata Sustainability & National Contribution Report, 2021*

4.4 Guiding considerations

1

To prepare for mandatory TCFD disclosures, develop a plan for measuring GHG emissions and put in place the necessary processes to collect the data required.

2

Get started on establishing emissions reduction targets including progressing towards carbon neutrality and net zero targets.

3

When developing a net zero transition pathway, ensure employees, communities, suppliers and business partners are considered. Develop a clear framework for how they can be supported to ensure a Just Transition.

5

Managing social performance






5.1 Social topics and their impacts



Social topics span across a company's internal and external operations. Internal social topics touch on matters related to employees such as employee engagement, training and development, and health and safety. Addressing these are crucial in ensuring a happy and productive workforce.

External social topics relate to suppliers and communities and how companies engage

effectively with them. This can include engaging on matters related to supplier labour and environmental practices, operational impacts on communities and other community development needs.

The capacity of PLCs to effectively manage its internal labour practices, supply chain risks and external corporate responsibilities will determine its success in creating value for all.

	Risks and impacts	Opportunities
 <p>Health and Safety</p>	<p>Workplace accidents, injuries and fatalities pose a danger to employees' health, safety and well-being. Issues can lead to reduced productivity, increased turnover rates, reputational damage and legal repercussions.</p>	<p>Consider enhancing the workplace safety culture to improve productivity and employee well-being. <i>e.g. UEM Edgenta Innovating the way to further enhance Workplace Safety amidst new normal</i></p>
 <p>Employee Training and Development</p>	<p>Ineffective training and development can result in an increase in costs due to lower productivity or higher turnover rates. The business may struggle to be competitive if employees lack the critical skills (e.g. from significant transitions in their industry).</p>	<p>Provide structured growth and upskilling, especially related to the low-carbon transition and the company's ESG plans, which can create new jobs and change existing roles. <i>e.g. BASF conducts Carbon Literacy training programmes to help employees make better decisions to reduce production of greenhouse gases</i></p>
 <p>Employee Engagement</p>	<p>Lack of meaningful employee engagement can lower morale, which contributes to factors such as decreased productivity and efficiency, increased absenteeism and increased turnover. There is a knock-on effect to talent attraction.</p>	<p>Create fit-for-purpose workplace experiences that keep the workforce engaged and motivated, leading to greater productivity. <i>e.g. AXA awarded for its outstanding employee experience and dynamic culture</i></p>

	Risks and impacts	Opportunities
 <p>Diversity, Equity and Inclusion</p>	<p>Companies that lack a diverse and inclusive workforce run the risk of not being able to engage meaningfully with its stakeholders or fully understand its customers needs. Internally, it can lead to a strained work culture and lead to higher turnover rates.</p>	<p>Foster a diverse and inclusive workforce to enhance innovation, creativity and decision-making. Consider whether diversity in purchasing decisions can build resilience in supply chain and support the company's social commitments. <i>e.g. BAT Malaysia named a progressive and inclusive workplace for women workforce</i></p>
 <p>Fair Labour Practices and Human Rights</p>	<p>Companies have a direct responsibility to protect the human rights of its workers and provide decent working conditions. Companies that ignore fair labour practices and human rights run the risk of legal and compliance charges, reputational damage and withdrawal of business support from stakeholders.</p>	<p>Assess labour practices in the company's operations and review supplier contracts for relevant clauses. Disclose practices and performance, including the company's response to issues. This can build greater trust and attract needed talent. <i>e.g. Unilever releases human rights report and is the first adopter of the UNGP reporting framework</i></p>
 <p>Local Communities</p>	<p>Companies may have negative impacts in a community if they disrupt the local environment and social settings. Companies who neglect community needs and concerns and have poor business-community relationships run the risk of <u>social conflicts</u> that can harm their reputation and disrupt their operations.</p>	<p>Have a clear engagement plan with local communities and take concerted efforts to address their key needs. Consider work opportunities available for the local community to foster better relationships and support the company's licence to operate. <i>e.g. Nestlé Chilli Club supports local farmers</i></p>

94%

of employees say they would stay at a company longer if it invested in their learning and development.

Source: [LinkedIn 2019 Workforce Learning Report](#)



Watch this video on Nestlé Chilli Club and how they create shared value.

5.2 Importance of engagement and communication

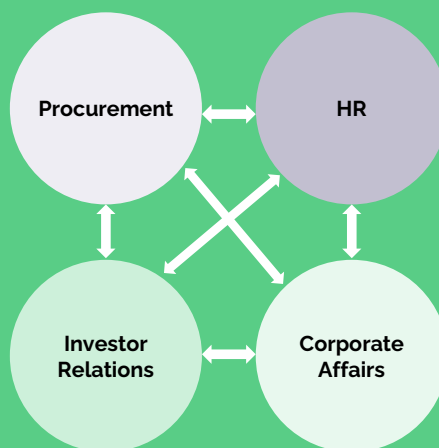
Companies have a wide range of social risks to manage and the key to successful management of these risks lies in good engagement and communication with internal and external stakeholders. Various corporate functions such as procurement, corporate affairs, human resources (HR) and investor relations play a key role in engaging with their respective stakeholders to

better understand their needs and issues. However, this cannot be done in silos and there has to be alignment and coherence between all the functions to ensure that key social (and other ESG) risks are being adequately addressed. Good engagement and communication provides an opportunity for companies to discuss issues transparently and build trust with their stakeholders.

Managing fair labour practices and human rights in the supply chain

Social topics such as fair labour practices and human rights in the supply chain can illustrate how various functions need to work together. All functions need to be aware of the company's policies and commitments with regards to these issues and how to best embed them into their expectations for suppliers. In addition, regular communication between each function is required to understand how each function is protecting their workers' rights and compensating them fairly. This will enable them to carry out the necessary engagements with their stakeholders, with one common voice.

- Embed policies and commitments on fair labour practices and human rights into supplier contracts and Code of Conduct
 - Communicate with and assist suppliers in meeting the requirements
 - Conduct due diligence on suppliers
 - Share supplier performance and initiatives with relevant functions
-
- Communicate and respond to any questions on the company's policies and initiatives to investors
 - Gather information on investor concerns and trends in the investment space to share with relevant functions



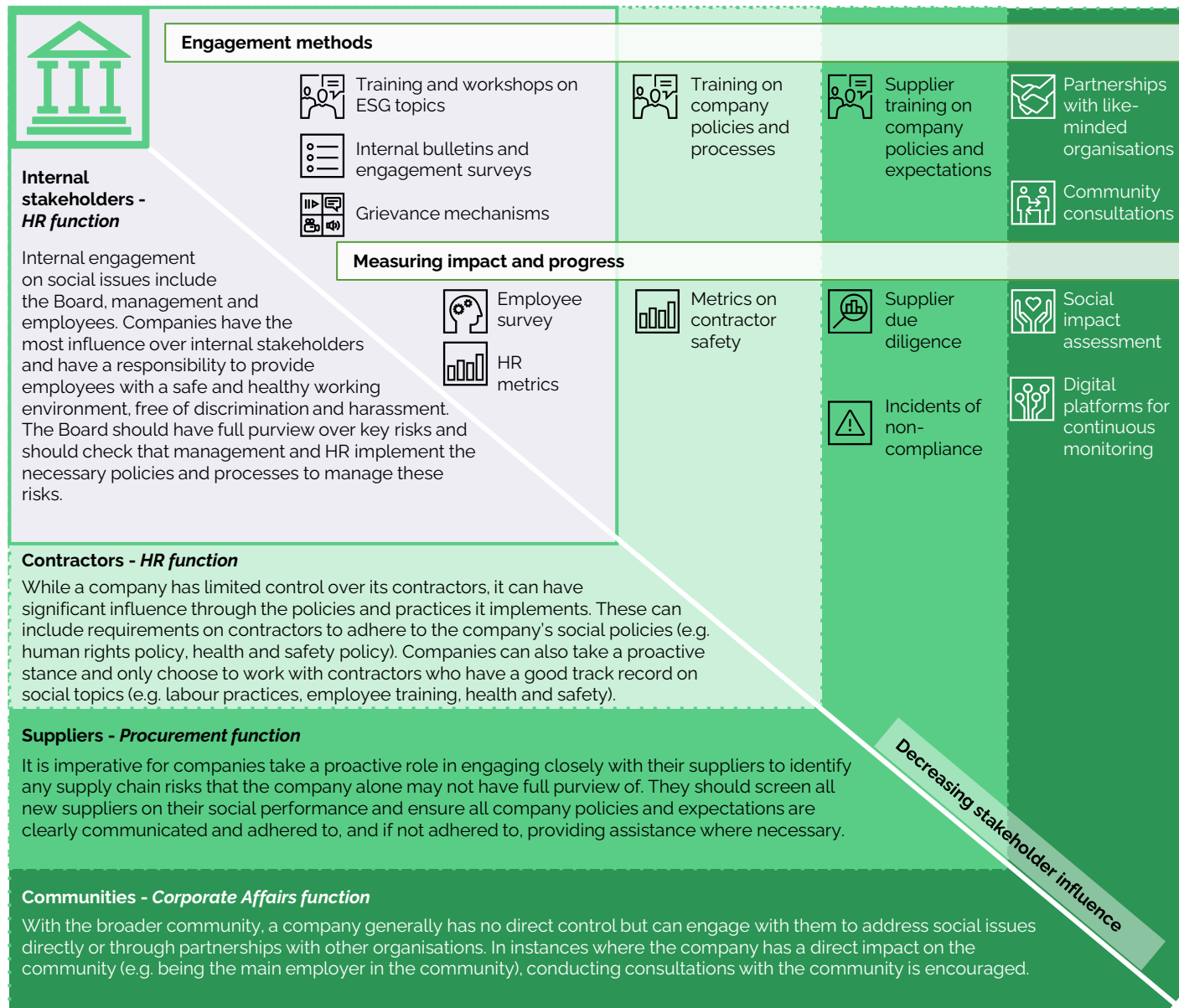
- Develop and socialise the company's labour rights and human rights policies to employees
 - Provide training and awareness to employees on these issues
 - Develop and maintain grievance mechanisms and channels for feedback
-
- Communicate and respond to any questions on the company's policies and initiatives to customers, media and the public
 - Gather information on stakeholder concerns and industry trends to share with functions

Social topics and their impacts

Importance of engagement and communication

How to implement good labour standards

Guiding considerations



5.3 How to implement good labour standards

Proactive vs reactive implementation of labour rights

In Malaysia, foreign labour is used extensively across key economic sectors and the issues associated with it cannot be ignored. In recent years, there has been heightened scrutiny on the labour practices of local companies. Taking a proactive response from the outset can help companies avoid financial and reputational risks and to inculcate a productive and healthy workforce. The cost to address labour issues once it is in the supply chain supersedes the efforts needed for prevention. As scrutiny in this area intensifies, international companies, including investors, will seek business environments (in both countries and businesses) that have good labour standards that are well regulated and enforced. As such, it is imperative that companies tackle this in an effective manner.

Key steps to consider in establishing good labour standards

It is good practice for PLCs to identify the human rights risks associated with their business to prevent and mitigate harm to people.


Spotlight Adidas

In 2020, Adidas earned the top spot in the WBA's ranking of global fashion firms' human rights performance. They have built a strong human and labour rights programme for their supply chain by undertaking intense stakeholder outreach and engagement. Adidas performs risk-based assessments of its extended supply chain and enforces better labour standards through their Labor Rights Charter and Workplace Standards. They conduct compliance audits, have worker feedback mechanisms and partner with external organisations (such as the ILO Better Work and the Fair Labor Association) to effectively monitor adherence to its human rights policies.


Source: Corporate Human Rights Benchmark, 2020; Adidas - Human Rights, 2022; Adidas - Supply Chain, 2022

Set expectations: Strategies, policies and plans


1. Define values

-  Reflect on company purpose and values

2. Define targets


-  Understand local laws and standards required. Consider the expectations of customers and stakeholders

3. Align to global standards


-  Align values, expectations and practices with globally recognised frameworks such as the ILO and UNGPs on Business and Human Rights

Operationalise: Build robust management systems – for the PLC and its supply chain


4. Identify risks and impacts

-  Based on expectations and values, assess internal operations and supply chain to identify key risks

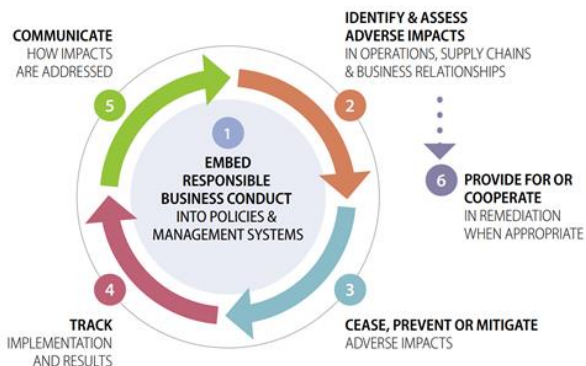
5. Build grievance systems

-  Establish avenues for workers and stakeholders to safely provide feedback or report issues

6. Build capacity and knowledge

-  Provide training to all employees and external stakeholders on company's expectations, policies and processes with regards to respecting human rights and labour standards

Monitor and evaluate



Source: *OECD Due Diligence Guidance, 2018*

7. Monitor and evaluate

- ✓ Consider using available tools and frameworks to further understand key risks (e.g. UNGC Supply Chain Sustainability)
- ✓ Establish audit and monitoring mechanisms to track performance
- ✓ Conduct due diligence across supply chain to identify areas for improvement

8. Communicate and report

- ✓ Monitor progress and report to stakeholders.

Key aspects to focus on based on ILO's indicators of Forced Labour

The *ILO Indicators of Forced Labour* helps to provide companies a basis to focus their efforts in. There are 11 key indicators of forced labour which companies should be aware of and address within its own operations and its supply chain. While many of these indicators are usually addressed in labour laws and should be easier to manage within a company's own operations, it is considerably more difficult when it comes to ensuring none of this is happening in the supply chain. Risk assessments, due diligence, training, clear communication of policies and engagement with suppliers are all necessary for a company to effectively manage these issues.



Isolation



Abuse of Vulnerability



Intimidation and Threats



Deception



Excessive Overtime



Retention of Identity Documents



Debt Bondage



Withholding of Wages



Abusive Working and Living Conditions



Restriction of Movement



Physical and Sexual Violence

Source: *ILO Indicators of Forced Labour, 2012*

Spotlight



Marks and Spencer Group PLC (M&S)

M&S' commitment to ensuring equitable human rights policies, practices and labour standards is underpinned by the UN Guiding Principles on Business and Human Rights, and supports the OECD Guidelines for Multinational Enterprises.

Their approach towards respecting and promoting human rights is grounded in their clear policies and processes and advocacy work.

In 2018, M&S was ranked fourth in the Corporate Human Rights Benchmark (CHRB) which is a testament to its commitment to transparency, human rights practices and policy commitments.

Source: Marks and Spencer Corporate Blog, 2018

"We will always treat people in our business and supply chain fairly. This means we will continually review and improve our policies, practices, and procedures so that we can fulfil this commitment."

- Steve Rowe, CEO on behalf of the Board of M&S, 2021

M&S People Principles

- Underpins **M&S' vision of being a responsible employer** and establishes minimum standards for code of conduct, grievances, engagement, etc.
- The **Principles apply across M&S' value chain** and operations for employees and joint-venture partnerships
- **Similar standards in place for its franchised operations** to ensure all are treated with dignity, respect and have pride in M&S

M&S Global Sourcing Principles (GSP)

- Ensures **employees of M&S' suppliers are provided with good working conditions**
- **Supports M&S' core brand value of integrity** and customer expectations
- Includes agreed standards with M&S' suppliers, **supported by regular site visits** and a policy of continual improvement
- **Strict sanctions imposed** when standards are not met, or where there is no commitment to improve such standards

Human Rights Policy

- The **Policy is informed by various principles and standards** such as the International Bill of Human Rights, ILO's Declaration on Fundamental Principles and Rights at Work and the UN Global Compact
- **Publish an annual Modern Slavery Statement** as part of their efforts to prevent slavery and human trafficking in their own operations and supply chains

Human rights advocacy

- **Founding member of Sedex** and member of the British Retail Consortium Labour Working Group
- **Signed the Anti-Slavery International Charter** to promote faster traction and support between competitors, suppliers, governments, initiatives and societies
- **Plan A 2025 commitment to Sustainability and Human Rights**

5.4 Guiding considerations

1

To better manage ESG risks in the supply chain, consider engaging with suppliers and business partners to advocate for more sustainable practices. Provide training on ESG topics and implement reporting requirements for ESG data.

2

To provide comfort to investors and stakeholders on fair labour and human rights risks, conduct a risk assessment of internal operations and the supply chain. Disclose any key findings and commitments moving forward.

3

To enhance reporting on social efforts, consider piloting socio-economic impact metrics such as direct and indirect job creation and improvements in community livelihood.

6

Relevance of ESG to key functions



6.1 Moving ESG from strategy to execution

Effective management of ESG topics needs a company-wide approach. Many PLCs now have ESG strategies and targets, but key stakeholders are asking for more transparency and detailed disclosures to dispel greenwashing concerns. PLCs need to continuously refine their efforts in executing their ESG strategy by further embedding ESG into key functions and business operations. Corporate functions have to upskill and be engaged to deliver the company's ESG commitments. This chapter illustrates some key considerations as to how ESG can be supported by some corporate functions. In cases where PLCs have outsourced these functions, it is important that the relevant external parties take into account these considerations and align with the PLC's ESG agenda.

Strategy

- Do we have a clear ESG strategy linked to our purpose?
- Has our ESG strategy been operationalised effectively across the company?

Finance

- Are we able to access sustainable finance and what is the benefit to us?
- How can we embed ESG into our finance function and financial planning?

Human Resource (HR)

- Do we have the appropriate policies in place to manage material social risks?
- Are our people properly equipped to deal with business model changes?
- Are our people sufficiently motivated to take action?

Information Technology (IT) and Technology

- Are we using our IT systems and technology to manage ESG data and generate business relevant insights?
- How can we leverage new technology to support our ESG strategy?



Procurement

- How can we manage all our ESG risks across our supply chain?
- How can we better engage with our suppliers and support them with the low-carbon transition?
- What weightage should be applied for ESG factors in procurement decisions?

Risk Management

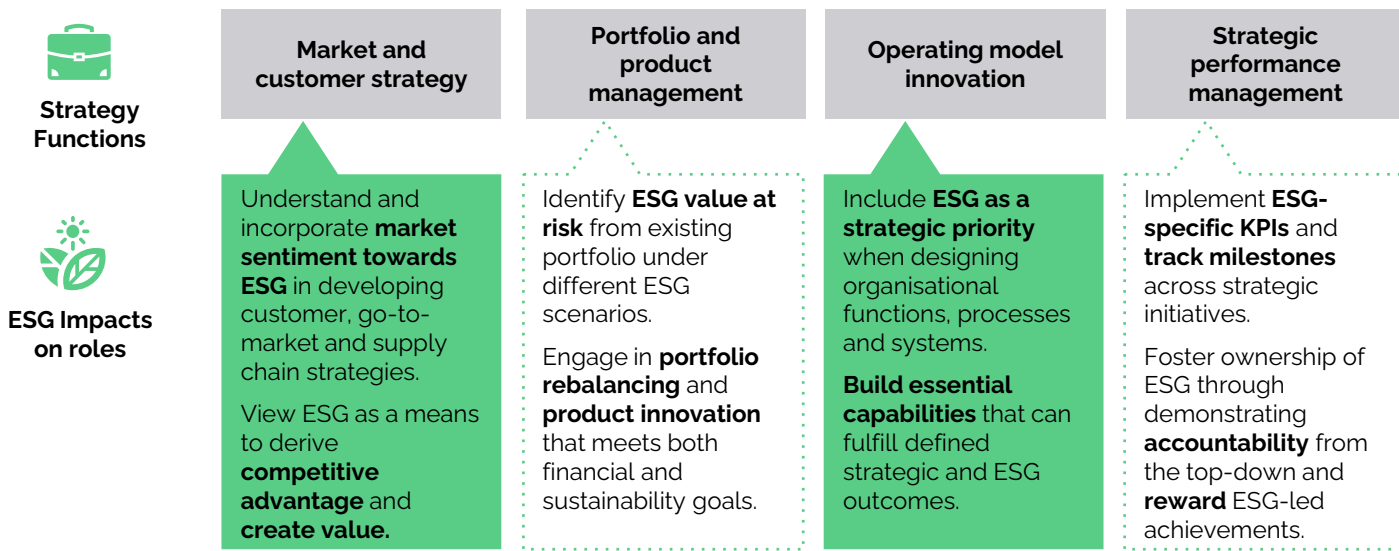
- Do we understand and articulate our ESG-related risks effectively?
- How can we embed ESG risks into our Enterprise Risk Management (ERM)?
- What long-term ESG risks do we face?

Tax

- Are our tax policies and strategies safeguarded from ESG risks such as carbon taxes?
- How do our tax policies, incentives and reporting practices intersect with our ESG strategy and agenda?

6.2 Strategy

The strategy function is integral to a company's ESG response. It monitors market trends around ESG risks and opportunities, enabling the company to continuously assess and adjust its overall strategy. The strategy function prioritises the company's resources in the relevant ESG areas that support the company's defined value creation strategy.



Note: Non-exhaustive

Spotlight PUMA SE

PUMA: Improving supply-chain resilience using EP&L

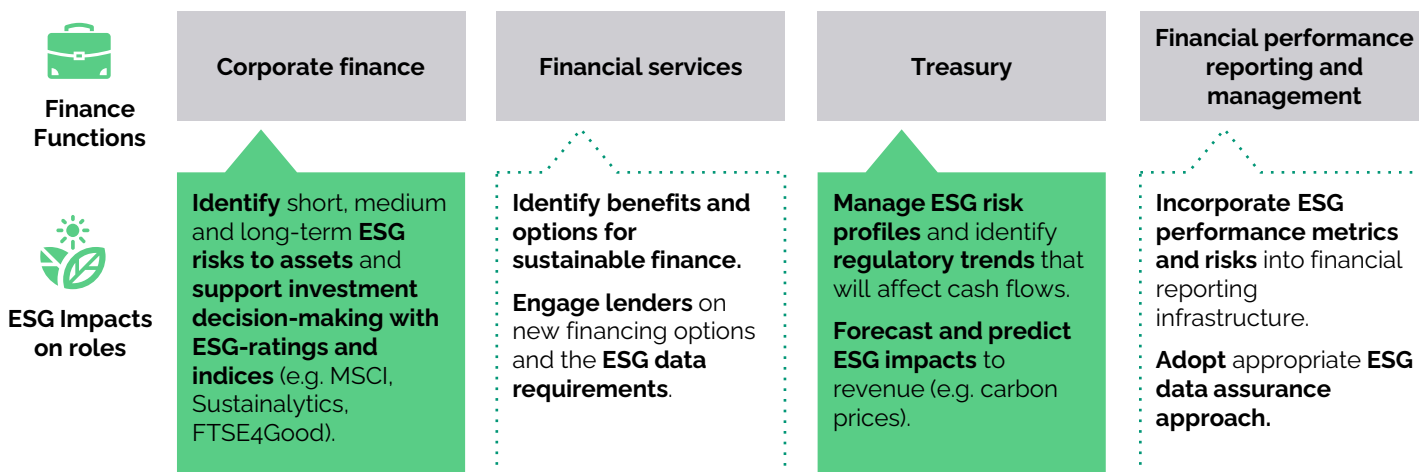
In 2011, PUMA implemented the **first-ever Environmental Profit and Loss (EP&L) Account**, which tracks the Group's environmental impact across its core operations and supply chain. They continue to publish annual EP&L accounts which ensure that environmental considerations remain integrated in strategic business decisions.

By assessing and quantifying the environmental risks, PUMA drove innovation in materials by specifically focusing on building resiliency in the sourcing of its raw materials and the associated environmental impacts. By **engaging in sustainable sourcing and supplier efficiency enhancement from a strategic standpoint**, PUMA has managed to avoid potential constraints and cost implications of certain materials. They have also successfully strengthened their **supply-chain resilience through more committed supplier relationships and greater productivity**.

Source: *PUMA Newsroom, 2011; PUMA CATch up, 2017; PUMA Business and Sustainability Report, 2020*

6.3 Finance

The finance function is pivotal in driving forward-looking insights on ESG risks, impacts and opportunities. Finance functions can take a lead role in integrating ESG considerations into investment decisions, capital raising and financial planning. This will help companies build resilience and manage potential risk to financial assets.



Note: Non-exhaustive

Spotlight



Unilever PLC

Unilever's finance function leverages on frameworks and data to drive operational and business decisions from an ESG perspective. **Using TCFD guidelines**, Unilever performs climate scenario analysis to drive pricing and purchasing decisions. **Unilever models the potential financial impact of temperatures** reaching 1.5°C, 2°C and 4°C by 2100. This modelling exercise yields insights as to its effect on its suppliers (e.g. effect of water shortages on agricultural yields), which will likely affect purchasing decisions. Unilever also forecasted future agricultural yields for its core agricultural commodities using climate models, followed by determining the likely impact on prices and the estimated financial exposure of this climate scenario.

Source: *Unilever Annual Reports and Accounts, 2021*

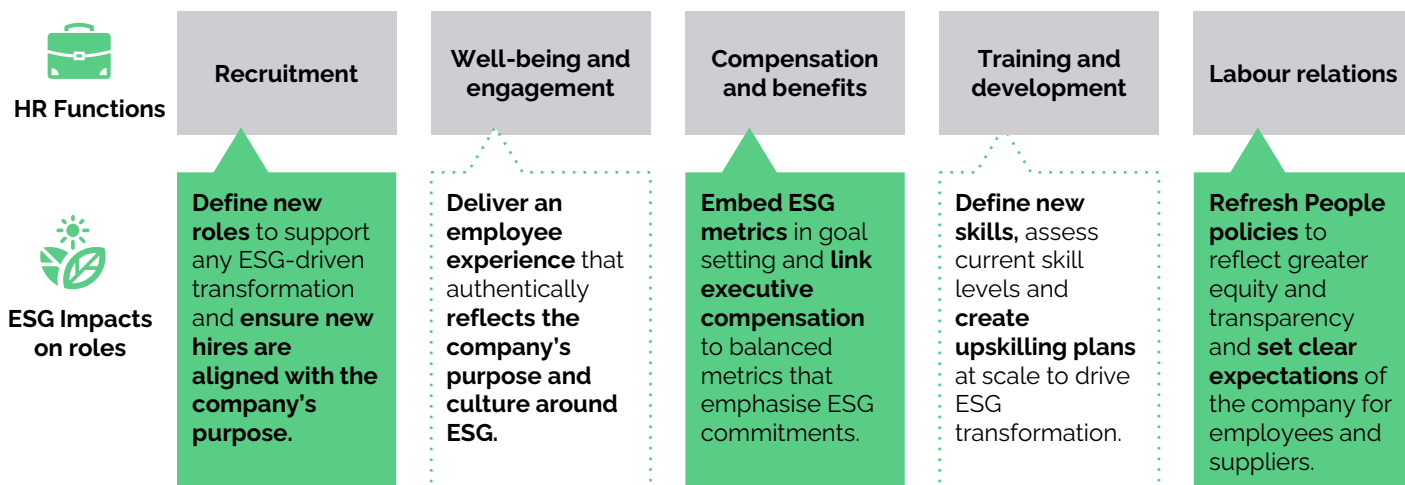
ESG-linked derivative transactions

In February 2022, Standard Chartered Malaysia and Etika Group entered into a RM251 million ESG-linked derivative transaction. The transaction is tied to the GHG emissions intensity of Etika's beverage and dairy plants and will see a discount or premium being applied if Etika achieves its KPIs. This is a first-of-a-kind transaction by a Malaysian FMCG and supports the sustainability aspirations of both companies – for Etika to transform into a greener business and for Standard Chartered to achieve net zero carbon emissions from financing by 2050.

Source: *The Edge Malaysia, 2022*

6.4 Human Resources (HR)

As the transition to low-carbon business models involves large scale business transformation, people-centric change is key to ensure success - HR plays a critical role in enabling an environment and culture to support this. The Corporate Sustainability Practitioner Competency Framework helps define aspirational roles to operationalise sustainability.



Note: Non-exhaustive

Spotlight Microsoft Corporation (Microsoft)

Microsoft focuses on areas where they can have the greatest impact and strive to build and promote sustainability through engagement, policies and practices, operations and enabling partners in the value chain. Its HR function has been integral in implementing a number of initiatives that support the company's ESG goals.

ESG Incentive Scheme
 Since 2016, Microsoft has implemented **incentive schemes to tie a portion of executives' compensation to ESG measures** starting with diversity representation gains.

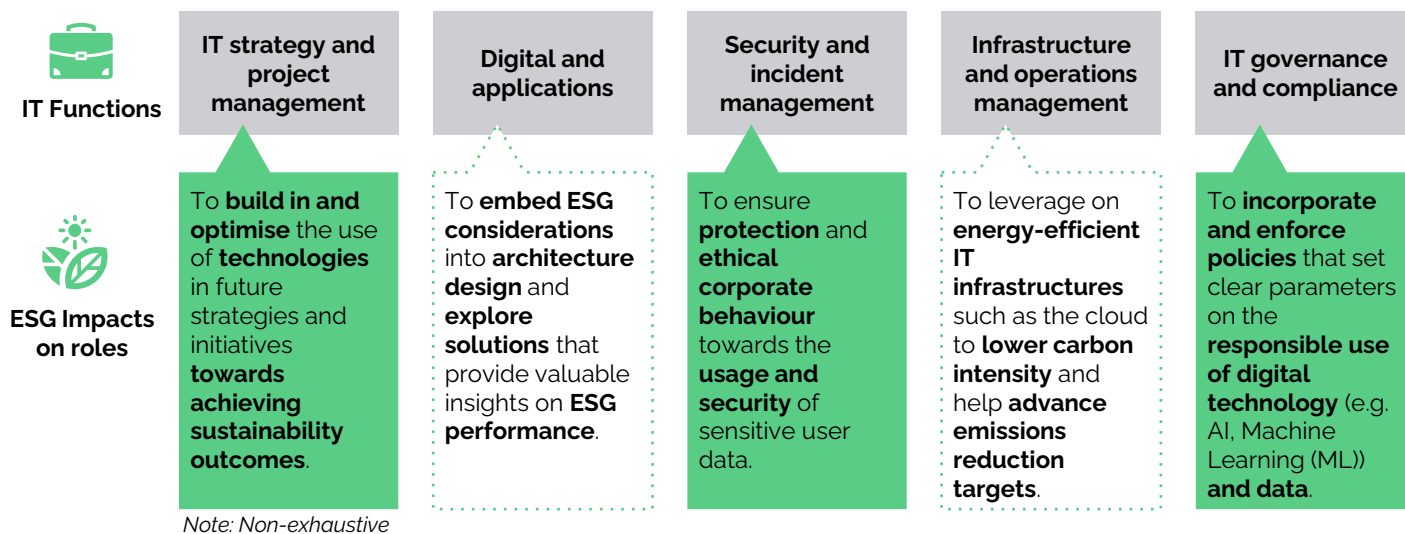
Employee empowerment
 Employees are empowered with **information and choices** via TripTrackerLite, which delivers personal travel statistics like carbon impact from travel. They are also provided with the relevant tools and technology to work remotely effectively.

Improving labour standards
 Integrated new standards into **third party partnerships** by ensuring their suppliers in the US provide their employees who handle their work with at least 15 days of paid leave each year.

Source: *Capacity Media, 2021; Business Travel News, 2021; Microsoft On the Issues Blog, 2015*

6.5 IT & Technology

The IT & Technology function plays a key role in the decision-making process of the IT infrastructure and technology that a company uses. By integrating ESG considerations into these decisions, they are primed to help a company achieve its ESG goals especially with regards to emissions, energy and data security.



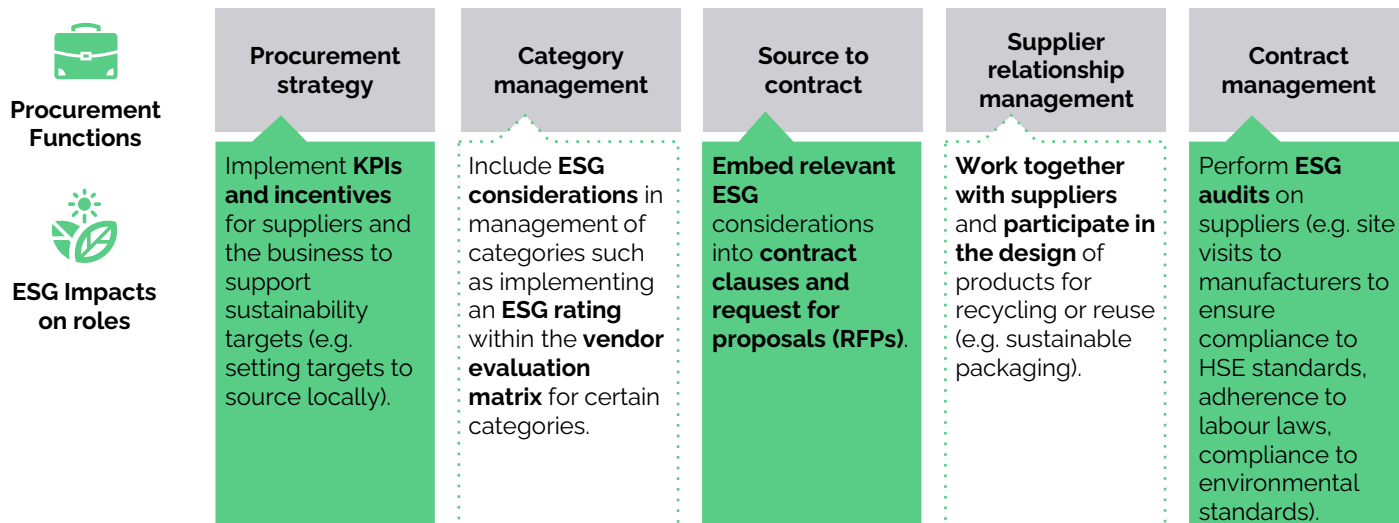
Capital One Financial Corporation (Capital One)

Cloud migration in addressing climate change

Capital One is a leading American bank and has made a **bold commitment to reduce its Scope 1 and 3 (categories 1-14) emissions by 50% by 2030**. To achieve this, they have **transformed the way they operate** and continue to explore the **use of technology** in their operations and supply chain. One of their solutions was to migrate their data centres to a cloud-based system. Over eight years, the company **migrated all eight of its on-premise data centers (DCs) to the cloud** to **reduce its emissions** associated with its DCs by **up to 88%**. It derived **other benefits such as lower costs and greater operational efficiency**. Additionally, Capital One managed to **recycle 41 tons of copper and 62 tons of steel** from the data centre equipment, contributing to its other goal of reducing waste to landfill by 50% by 2025.

6.6 Procurement

Key stakeholders are putting pressure on companies to establish better control over their supply chain to minimise exposure to critical risks such as forced labour. At the same time, smaller vendors need support on ESG and developing them should be considered as part of the company's Just Transition response. The procurement function can embed ESG considerations in all its touchpoints with suppliers, from contracts to supplier evaluations, to accelerate progress towards ESG goals, whilst mitigating potential ESG risks in the supply chain.



Note: Non-exhaustive

Spotlight Digi.Com Berhad (Digi)

Incorporating ESG considerations across the supply chain

As a leading digital connectivity and service company in Malaysia, limiting operational risks through supply chain management is one of the ways Digi creates value, via the following measures:

- Suppliers are **required to sign the Agreement of Responsible Business Conduct (ABC)** which outline requirements in the areas of **Health, Safety and Security (HSS), ethical conduct, human rights and environmental management**
- Inspections are conducted to **identify suppliers' non-compliance with ESG-related matters**, which could result in **suspension or even termination**
- **Training programmes on sustainable procurement** are also rolled out to suppliers, especially in the areas of **HSS and human rights**
- **Sourcing from local suppliers is encouraged to reduce carbon footprint and support the local economy**

Source: *Digi Integrated Annual Report, 2021*

6.7 Risk Management

Managing ESG-related risk needs to be internalised into the Enterprise Risk Management (ERM) framework of the company. The ERM framework should define how ESG risks are identified, assessed, reported and monitored across all layers of the organisation, including to the Board Risk Committee.



Note: Non-exhaustive



CIMB Group Holdings Berhad (CIMB)

As one of CIMB's key risks, **sustainability risk** is integrated into the Group Enterprise-Wide Risk Management Framework, the Group Risk Library, Non-Retail Group Credit Risk Policy and the Group Sustainable Financing Policy. In 2019, **CIMB operationalised a Sustainability Risk Management Framework**, which:

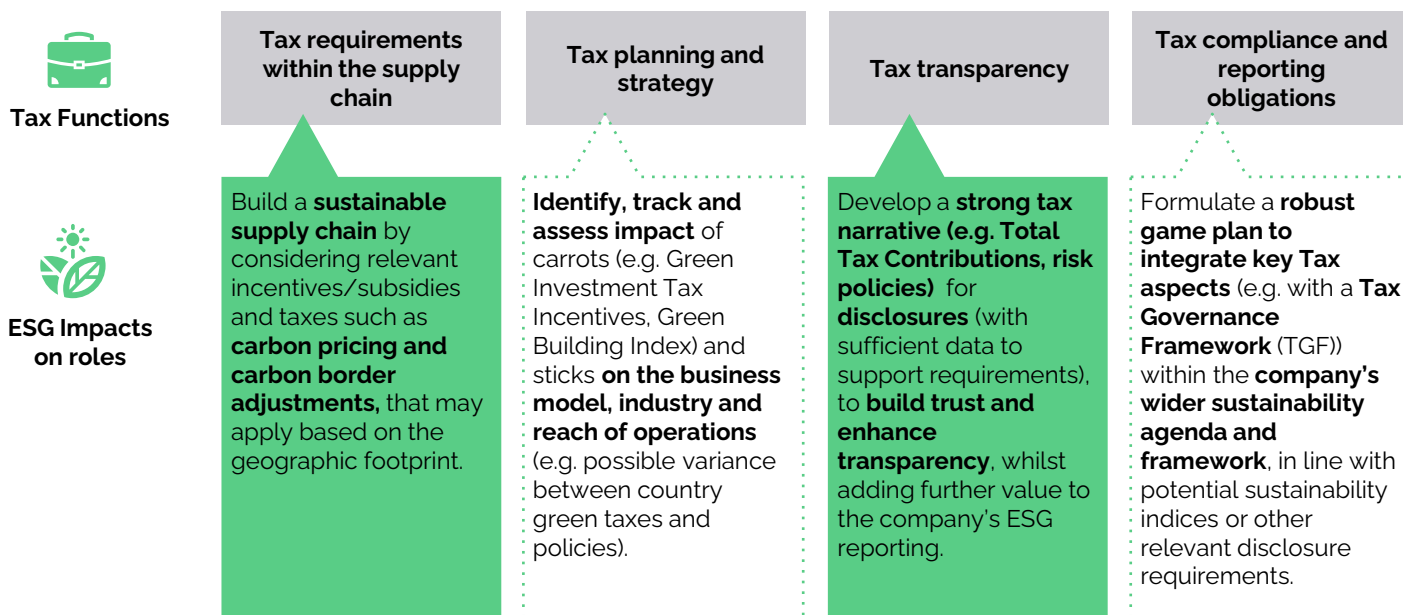
- Identifies and assesses the various **sustainability risk components**
- Defines the appropriate **governance**, which is supported by appropriate **policies** and **procedures**
- Puts in place **risk assessment tools** to improve the understanding of and preparedness against existing and emerging sustainability risks
- Ensures **due diligence** and **assessment of sustainability risk impacts**
- Cultivates a **risk management culture** through the **three-lines of defense**, as well through the **relevant controls and measurements for efficient/credible reporting**

In 2020, CIMB **included climate-related physical and transition risks** (as a subset of Environmental Risks) into the **Group Risk Library** and the **Enterprise-Wide Risk Management Framework**. Progress was made in 2021, as CIMB **piloted their first transition scenario analysis** and **physical risk assessment**, and released their **first TCFD-aligned sustainability report**.

Source: [CIMB company website, 2022](#); [CIMB Sustainability Report, 2020](#); [CIMB Sustainability Report, 2021](#)

6.8 Tax

Tax plays an increasingly crucial role in helping companies to build trust and demonstrate their commitment to social responsibility and governance within the ambit of ESG. Investors are increasingly looking at how businesses manage and report tax and have increased expectations for clear and transparent tax reporting and strong tax governance.



Note: Non-exhaustive

Spotlight



**BP PLC
(BP)**

Tax Transparency and governance

As part of their initiative to build trust and encourage sustainable growth, BP published their first Tax Transparency report in 2020. This is in line with GRI 207 on Tax disclosures (which came into effect 1 January 2021), and has helped support BP's comprehensive and robust ESG approach and response. The report includes their:

- Approach to tax and key tax principles (e.g. accountability and governance, tax risk management)
- Total tax contributions for their global operations (e.g. taxes paid directly to governments, taxes collected and paid to governments on behalf of others, financial and tax data)
- Tax overview by country

Source: *BP Sustainability Report, 2020; BP Tax Report, 2019*

7

Conclusion



Take the first step

It is clear that the corporate world is facing immense pressure to act on ESG from all stakeholders. However, PLCs must keep in mind that while there are risks from inaction, there is also an immense opportunity for PLCs to grow, build resilience and transform their business.

When it comes to building an ESG response it may seem like an endless journey, being pulled in many different directions. It is easy to be overwhelmed by the sheer volume of ESG frameworks, principles and standards. However, it is important to take a step back to the fundamental question: **What is the company's purpose and how can ESG play a role in delivering it and vice versa?**

With that purpose in mind, how can PLCs drive performance and embed ESG across the company? This guidebook has provided key steps on how to develop and operationalise a PLC's ESG strategy and response.

Looking back at Company XYZ, it may consider using the sustainability framework on page 29 as a first step to review its efforts so far and address any gaps it identifies. Shifting from a primary focus on shareholders, the company could begin engaging with all its stakeholders to better understand all its ESG risks and adjust its ESG response. The company may also look at how to better embed its responses to various ESG risks including developing processes to achieve net zero and also address relevant labour practices. To deliver better governance over ESG, Company XYZ should consider including relevant ESG KPIs for its management and Board.

These are all tangible and realistic actions that PLCs can take today to improve its overall ESG response and build resilience.

Plan for the future

PLCs that are well on their ESG journey need to continue pursuing better outcomes to create substantive change. From an ESG risk perspective, it is imperative that companies take heed and plan carefully for their future. Physical, social, regulatory and financial risks are already impacting so many companies globally and these risks will continue to grow.

With a clear strategy and proper structure, processes and people in place, PLCs can deliver meaningful impact and contribute to long-term national and global goals.

If all PLCs make significant progress on their ESG journey, our nation will undoubtedly be uplifted to be more sustainable, socially responsible and ethical - supporting a better future for the generations to come.

Take the [Sustainability Healthcheck by BURSASUSTAIN](#) today to diagnose where your company lies on your sustainability journey.

8

Appendices and references



Appendix 1

Step-by-step illustration of management of GHG emissions



1. The Coca-Cola Company: Net zero emissions by 2050

Coca-Cola consistently monitors their carbon footprint, and have established 2010 as the baseline year for their emission reduction targets. Their overall approach to climate action focuses on reducing the impact of their business on climate change, managing risks and impacts climate change has on their business, and forming partnerships with relevant parties to help make a more significant contribution.¹



Coca-Cola uses the operational control approach when setting organisational boundaries. This means that they account for 100% of the emissions where they (and their subsidiaries) have full authority over operating policies. In terms of their operational boundaries, Coca-Cola identifies and calculates GHG emissions from the following business activities^{2,3}:

Scope 1	Direct emissions from fuel combustion from manufacturing, fleet (distribution), international airspace (corporate aircraft) and immediate consumption equipment.
Scope 2	Indirect emissions from purchased electricity and steam from manufacturing.
Scope 3	Emissions in the value chain from purchased goods and services (i.e. from packaging and ingredient materials) and downstream transportation and distribution (i.e. combustion of fuels in distribution vehicles not owned by the company), and use of refrigeration units by customers

To calculate Scope emissions, companies are guided by GHG Protocol and typically make use of templates such as those provided in [Appendix 3](#), [4](#) and [5](#) in arriving at their emissions.

Source: 1. *Coca-Cola Business & Environmental, Social and Governance Report, 2020*; 2. *CDP Climate Change disclosure for 2021*; 3. *Coca-Cola company website*

3 Reporting GHG emissions

Coca-Cola's GHG emissions is calculated and reported in line with the GHG Protocol standards (Corporate Emissions and Corporate Value Chain, Scope 3 Standard).¹

Year ended December 31,	2016	2017	2018	2019	2020
GHG EMISSIONS					
Direct, from manufacturing sites (metric tons) ¹ (in millions)	1.6	1.78	1.79	1.83	1.49
Indirect, from electricity purchased and consumed (without energy trading) at manufacturing sites (metric tons) ¹ (in millions)	3.8	3.76	3.76	3.73	3.75
Indirect, from electricity purchased and consumed (without energy trading) at manufacturing sites (using GHG protocol market-based method) ² (metric tons) (in millions)		3.44	3.35	3.88	3.28
Total, from manufacturing sites (metric tons) ¹ (in millions)	5.45	5.54	5.55	5.56	5.24
Total, from manufacturing sites (using GHG protocol market-based method) ² (in millions)		5.22	5.14	5.71	4.77
Emissions Ratio (gCO ₂ /L)	35.29	33.96	34.83	34.74	33.96

Scope 1 for company-owned facilities and Scope 3 for bottling partner facilities.

Scope 2 for company-owned facilities and Scope 3 for bottling partner facilities.

- Note:
1. Due to the nature of their franchise bottling system, manufacturing emissions are normally split between Scopes 1 and 2 for company-owned facilities and Scope 3 for bottling partner facilities.
 2. This metric accounts for renewable energy usage.

They attribute their emissions reduction to increased consumption from renewable energy, and other emission reduction activities, while any increase in emissions are due to acquisition of new facilities.²

4 Verifying GHG emissions

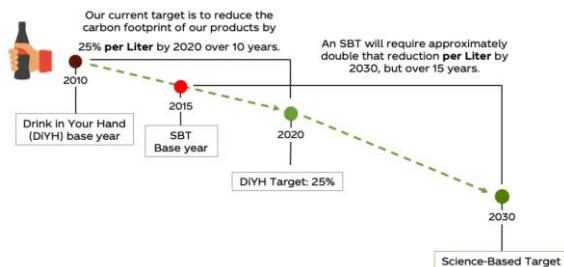
Coca-Cola's Scope 1, Scope 2 and Scope 3 GHG emissions from manufacturing activities have undergone limited external assurance.¹

INDICATOR NAME	SCOPE	UNIT	REPORTED VALUE
Greenhouse gas emissions (manufacturing activities)	The Coca-Cola System	CO ₂ e emissions in millions of metric tonnes	5.24

Source: 1. Coca-Cola Business & Environmental, Social and Governance Report, 2020; 2. CDP Climate Change disclosure for 2021;

5 Establishing GHG targets

Coca-Cola's journey towards net zero by 2050 is outlined by the following three phases:



Coca-Cola has a total of 25 initiatives that can contribute to CO₂ reduction, out of which 21 are currently being implemented.¹

Given that approximately 85% of Coca-Cola's emissions are in their supply chain, it is important to engage suppliers to help achieve their targets.²

KEY INITIATIVES WILL BE NEEDED ACROSS THE SUPPLY CHAIN

INGREDIENTS	PACKAGING	MANUFACTURING	DISTRIBUTION	COOLING & DISPENSING
Supplier engagement	World Without Waste goals	Renewable energy	Fuel efficiency	Equipment innovation
Sustainable agriculture	Supplier engagement	Increased energy efficiency	Fuel Innovations - biofuels	Energy efficiency
Product reformulation	Supplier renewable energy use	Less heavy fuel & coal use	Vehicle innovation	Customer partnerships
	Bio-based packaging	Improvement in CO ₂ yields	Optimized route design	Hydrofluoro-carbon-(HFC) free
	Additional light-weighting			
	Refillables			
ESTIMATED SHARE OF CARBON EMISSIONS				
20-25%	25-30%	10-15%	5-10%	30-35%

Note: For more information on Coca-Cola's climate action, please refer to their [CDP Climate Change disclosure for 2021](#)

Source: 1. CDP Climate Change disclosure for 2021; 2. Coca-Cola Business & Environmental, Social and Governance Report, 2020

2. Sunway: Net zero carbon emissions by 2050 and 50% reduction in GHG emissions by 2030

Sunway reports on their Scope 1, 2 and 3 emissions as well as residual emissions avoided through use of renewable energy, tree planting, waste diversion and sustainably purchased goods as early as 2015.

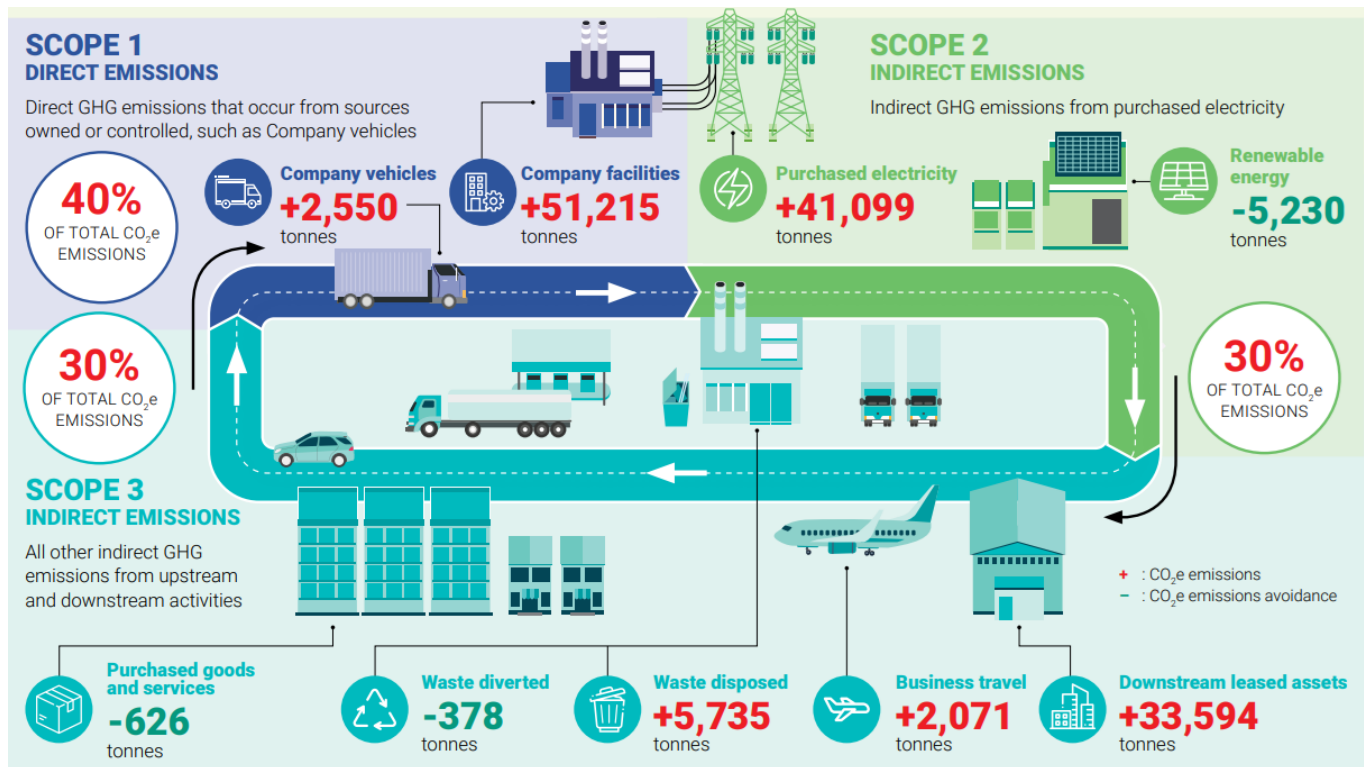
1

Setting organisational and operational boundaries

2

Identifying and calculating GHG emissions

Sunway identifies and calculates GHG emissions from the following business activities using the operational control approach:



Source: *Sunway Sustainability Report, 2021*

3 Reporting GHG emissions

Sunway's GHG emissions are calculated and reported in line with the GHG Protocol standards. Data for 2015 to 2020 was restated due to the recategorisation of the emission reporting boundary based on operational control. The relevant emissions factors were obtained from the Department for Environment, Food & Rural Affairs (DEFRA), United Kingdom and the Malaysian Green Technology and Climate Change Centre.

Indicator	Unit of Measurement	2015	2016	2017	2018	2019	2020	2021
Emissions								
I. GHG Emissions								
Scope 1								
Company facilities	tonnes CO ₂ e	24,509	25,848	30,331	26,432	51,690	48,388	51,215
	tonnes CO ₂	24,451	25,798	30,280	26,386	51,549	48,180	50,990
	tonnes CH ₄	27	22	21	18	52	46	53
	tonnes N ₂ O	31	28	29	28	90	163	171
	tonnes CO ₂ e	1	26	39	35	36	3,617	2,550
Company vehicles	tonnes CO ₂	1	26	38	35	36	3,567	2,511
	tonnes CH ₄	0	0	0.1	0.1	0.1	0.9	0.5
	tonnes N ₂ O	0	0.1	0.1	0.1	0.1	49	38
	tonnes CO ₂ e	24,510	25,874	30,369	26,467	51,726	52,005	53,765
Sub-total Scope 1	tonnes CO ₂	24,452	25,824	30,318	26,421	51,585	51,747	53,501
	tonnes CH ₄	27	22	22	18	52	47	53
	tonnes N ₂ O	31	28	29	28	90	212	210
Scope 2								
Purchased electricity	tonnes CO ₂ e	33,758	38,829	38,532	40,093	48,692	43,076	41,099
	tonnes CO ₂	33,758	38,829	38,532	40,093	48,692	43,076	41,099
Sub-total Scope 2	tonnes CO ₂ e	33,758	38,829	38,532	40,093	48,692	43,076	41,099
	tonnes CO ₂	33,758	38,829	38,532	40,093	48,692	43,076	41,099
Scope 3								
Business travel	tonnes CO ₂ e	3,192	4,526	4,960	6,701	2,572	3,121	2,071
	tonnes CO ₂	2,628	3,735	4,054	5,348	2,075	2,448	1,612
	tonnes CH ₄	0	1	1	6	2	4	3
	tonnes N ₂ O	24	34	36	28	14	6	4
Waste generation	tonnes CO ₂ e	-	-	1,329	1,506	8,637	5,622	5,735
Downstream leased assets	tonnes CO ₂ e	8,708	12,777	29,487	38,550	39,218	36,722	33,594
	tonnes CO ₂	8,708	12,777	29,487	38,550	39,218	36,722	33,594
	tonnes CO ₂ e	11,900	17,303	35,776	46,758	50,427	45,465	41,400
Sub-total Scope 3	tonnes CO ₂	11,336	16,511	33,540	43,898	41,293	39,170	35,207
	tonnes CH ₄	0.5	1	1	6	2	4	3
	tonnes N ₂ O	24	34	36	28	14	6	4
	tonnes CO ₂ e	58,269	64,703	68,902	66,560	100,419	95,081	94,864
Overall GHG emissions (Scope 1 and 2)	tonnes CO ₂	58,211	64,653	68,851	66,514	100,277	94,823	94,601
	tonnes CH ₄	27	22	22	18	52	47	53
	tonnes N ₂ O	31	28	29	28	90	212	210
	tonnes CO ₂ e	70,169	82,006	104,677	113,318	150,845	140,546	136,265
Overall GHG emissions (Scope 1, 2 and 3)	tonnes CO ₂	69,547	81,164	102,391	110,412	141,570	133,993	129,808
	tonnes CH ₄	28	23	23	24	53	51	56
	tonnes N ₂ O	54	62	66	56	104	218	213
II. GHG Emissions Avoidance								
Scope 2								
Renewable energy	tonnes CO ₂ e	-	-	-	-	1,470	4,334	5,230
	tonnes CO ₂	-	-	-	-	1,470	4,334	5,230
Sub-total Scope 2	tonnes CO ₂ e	-	-	-	-	1,470	4,334	5,230
	tonnes CO ₂	-	-	-	-	1,470	4,334	5,230
Scope 3								
Waste diversion	tonnes CO ₂ e	-	-	367	401	518	409	378
Purchased goods and services	tonnes CO ₂ e	684	750	1,054	1,444	1,039	1,533	626
Sub-total Scope 3	tonnes CO ₂ e	684	750	1,421	1,845	1,557	1,942	1,004
Sequestration								
Number of trees planted in Sunway City	number of trees	79,430	79,430	80,006	83,670	81,137	80,590	81,839
Total GHG emissions sequestration from trees planted	tonnes CO ₂ e	1,668	1,668	1,680	1,757	1,704	1,692	1,719
Overall GHG emissions avoidance	tonnes CO ₂ e	2,352	2,419	3,101	3,602	4,731	7,968	7,953

Source: Sunway Sustainability Report, 2021

4 Verifying GHG emissions

The accuracy and reliability of the information in Sunway's overall 2021 Sustainability Report was assured by SIRIM QAS International Sdn. Bhd, which include Scope 1, 2 and 3 emissions.

5 Establishing GHG targets

Towards achieving their net zero emissions by 2050, Sunway has set the following interim targets¹:

- Reduce Building Energy Intensity/Energy Use Intensity for managed assets by 4% annually until 2030 (baseline year: 2022)
- Reduce Energy Use Intensity for industrial sites by 3.5% annually until 2030 (baseline year: 2022)
- Reduce emission intensity of revenue by 10% by 2030 (baseline year: 2025)
- Generate at least 25% of electricity from renewable energy sources by 2030

The following initiatives have helped propel Sunway towards meeting their decarbonisation targets^{1,2,3}:

1. Being one of the first few Malaysian PLCs to support the TCFD recommendations (in January 2021)
2. Issuing their first Climate Report in 2021 based on the TCFD recommendations
3. Introducing the first-of-its-kind carbon pricing framework in Malaysia at RM15/tonne of CO₂ above a pre-defined threshold level
4. Integrating sustainability into Senior Management performance evaluations and Key Performance Indicators (KPIs), which are linked to remuneration
5. Initiating the Green Lease Programme by inviting tenants to jointly reduce environmental footprint and promote responsible resource management

SUNWAY BERHAD'S CLIMATE ACTION

HALVING EMISSIONS BY 2030

Internal Carbon Pricing

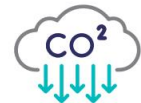
- Emissions avoidance (Energy efficiency improvement)
- Energy substitution (Renewable energy)

Engaging with stakeholders to reduce Scope 3 emissions

- Upstream - Suppliers (Sustainable Procurement & Supply Chain)
- Downstream - Tenants (Green Lease)

GETTING TO NET ZERO BY 2050

- Carbon storage and capture
- Investment in large-scale renewable energy



Source: 1. *Sunway Sustainability Report, 2021*; 2. *Business Insider article, 2022*; 3. *The Case of Sunway: Getting to Net Zero by 2050, Bursa Malaysia, 2022*

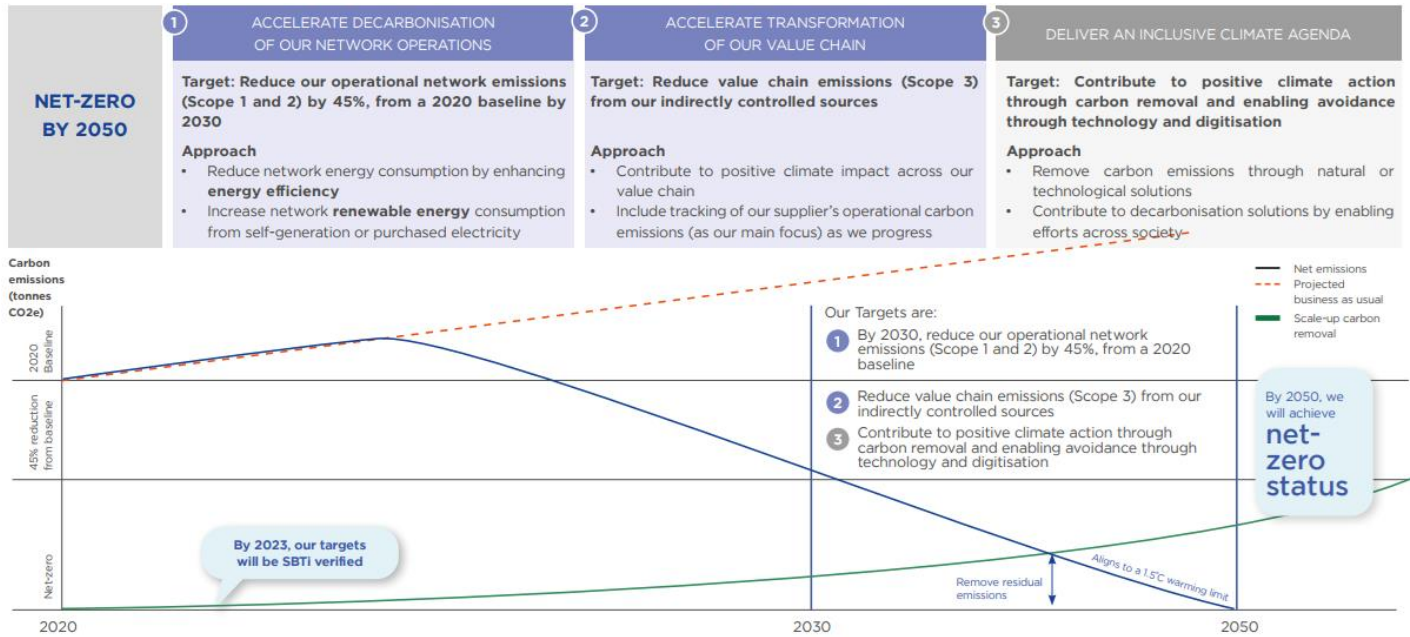


Axiata Group Berhad (Axiata)

3. Axiata: Net zero emissions no later than 2050

Axiata has committed to net-zero emissions no later than 2050, which is in line with the GSMA Zero by 2050 target. Their shorter-term target is to reach the halfway mark to net zero by 2050 in 2030, which is done by reducing operational carbon emissions by 45% from a 2020 baseline. Axiata is looking towards having all their targets SBTi-verified by 2023.

Axiata's Net-Zero Carbon Roadmap:



Axiata commenced their carbon inventory exercise in 2020, and enhanced it 2021 by utilising a new Environmental Data System that standardises Group-wide data collection. This plays an important part in substantiating their internal targets towards net zero. Axiata's Scope 1 and Scope 2 emissions data has been externally assured, and they are currently in the process of defining their Scope 3 emissions baseline value.

Source: *Axiata Sustainability and National Contribution Report, 2021*

Appendix 2

Carbon reduction pathways¹

There are many carbon reduction pathways that involve progress towards achieving carbon neutrality or net zero. The options presented below highlight the potential for a company to naturally progress from a carbon neutral commitment towards integrating science-based targets (SBTs) and a net zero commitment.

Carbon neutral (Scope 1, 2)

Carbon neutral commitments work towards removing emissions from the atmosphere without necessarily needing to reduce emissions. The more emissions a company produces, the more it has to offset.

Science Based Target (SBT) (Scope 1, 2, 3)

SBTs help companies define a clear pathway towards contributing to the climate goals of the Paris Agreement to limit global warming to well below 2°C. Companies work to reduce their emissions as much as possible.

Note: SBT Scope 3 targets must cover at least two-thirds (67%) of the total mandatory Scope 3 emissions²

SBT + net zero by a target date

Combining science-based targets with a commitment to achieve net zero by a target date is considered best practice. Any residual emissions need to be offset to be considered net zero. Net zero includes Scope 3.

Interventions can include energy efficiency initiatives, shifting to low-carbon business portfolio and offsets

Carbon neutral now and + SBT + net zero by a target date

The full-suite of options are seen here. Starting from a carbon neutral operation that offsets its emissions, while working towards net zero defined by a SBT.

Source: 1. PwC, 2. [SBTi Pathways to net zero, 2021](#)

Appendix 3

Template for GHG inventory (Scope 1)

ILLUSTRATIVE

User supplied data						GHG Emissions (tonnes CO2e)					Emission Factor	
Facility ID	Year	Custom Emission Factors	Fuel	Amount of fuel	Units (e.g. kg or kWh)	CO2 (tonnes)	CH4 (tonnes)	N2O (tonnes)	CO2e (tonnes)	Biofuel CO2 (tonnes)	EF (kgCO2e/unit)	Source
1	2019	No	Natural gas	100	mmBtu	5,306	0.0001	0.00001	5,311	0.000	53.1145	EPA

Source: *GHG Emissions Calculation Tool, 2021, GHG Protocol*

Appendix 4

Template for GHG inventory (Scope 2)

ILLUSTRATIVE

User supplied data							GHG Emissions (tonnes CO ₂ e)				Emission Factor	
Facility ID	Year	Amount of Electricity Consumption	Units	Calculation Approach	Type of Emission Factor	Custom Emission Factors	CO ₂ (tonnes)	CH ₄ (tonnes)	N ₂ O (tonnes)	CO ₂ e (tonnes)	EF (kgCO ₂ e/unit)	Source
2018	1	20	kWh	Heat/Steam	Custom emission factor	Example S2 - heat	0.02000	0.0002	0.0001	0.0521	2.74	Heat provider

Source: GHG Emissions Calculation Tool, 2021, GHG Protocol

Appendix 5

Examples of conversion factors used

Fuel	CO2 emission factors for fuel consumption data that have been supplied on different measurement bases			
	Energy basis (kg/TJ)	Mass basis (kg/tonne)	Liquid basis (kg/litre)	Gas basis (kg/m3)
Natural Gas Liquids	64200	2837.64		
Motor gasoline	69300	3069.99	2.2717926	
Gas/Diesel oil	74100	3186.3	2.676492	
Residual fuel oil	77400	3126.96	2.9393424	
Liquified Petroleum Gases	63100	2984.63	1.6117002	
Other bituminous coal	94600	2440.68		
Sub bituminous coal	96100	1816.29		
Natural gas	56100	2692.8		1.88496
Biogasoline	70800	1911.6		
Biodiesels	70800	1911.6		
Charcoal	112000	3304		

Region	Grid Emissions Factor (tCO2/MWh)
Peninsular Malaysia	0.639
Sabah and Labuan	0.512

Note: This list is non-exhaustive, and the emission factors may be updated every few years. For a more extensive list and up-to-date figures, please refer to the sources below.

Source: *Emissions Factors from Cross Sector Tools, 2017, GHG Protocol; SEDA CO2 Avoidance*

Appendix 6

Useful resources for Governance

#	Resources
1	BURSASUSTAIN : A key resource for all PLCs to gain further support on sustainability, corporate governance and responsible investment.
2	Corporate Governance Guide (4th Edition) - Bursa Malaysia : Resources on Corporate Governance from Bursa Malaysia.
3	Malaysian Code on Corporate Governance (as at 28 April 2021) : A tool for corporate governance reform and reflects global principles and internationally recognised practices of corporate governance.
4	Task Force on Climate-Related Disclosures (TCFD) Governance Resources : Recommended resources from TCFD on applying good climate governance principles.
5	TCFD Good Practice Handbook, Second Edition, 2021 : Examples from different countries on applying good climate governance principles.
6	Toward Common Metrics and Consistent Reporting of Sustainable Value Creation : Proposed metrics by the World Economic Forum's International Business Council (IBC) that provide consistency and comparability for communicating ESG performance of companies.
7	United Nations Principles of Responsible Investment, Governance Issues : Case studies, podcasts, blogs, and other resources that provide guidance on implementing Governance practices in accordance with UN PRI principles.
8	World Economic Forum "How to Set Up Effective Climate Governance on Corporate Boards" : Climate governance principles and their associated guidance.

Appendix 7

Useful resources for Environment

#	Resources
1	Net Zero Economy Index 2021 Code Red To Go Green : Analysis of the decarbonisation efforts of energy-related CO ₂ emissions worldwide.
2	Science-Based Targets Initiative Resources : Resources for a company's SBTi journey.
3	The Building Blocks for Net Zero Transformation : Outlines key building blocks for business transformation needed to deliver net zero.
4	The Greenhouse Gas Protocol : Guidance, case studies, and other resources on setting a GHG guidance.
5	United Nations Principles of Responsible Investment Environmental Issues : Case studies, podcasts, blogs, and other resources that provide guidance on implementing Environmental practices in accordance with UN PRI principles.
6	United Nations Sustainable Development Goals Goal 13: "Take urgent action to combat climate change and its impacts" : News, targets and indicators related to UN SDG Goal 13: Climate Action.
7	World Business Council for Sustainable Development (WBCSD) "Vision 2050: Time to Transform" : A framework that can help businesses enable over 9 billion people to live well, within planetary boundaries, by 2050.

Appendix 8

Useful resources for Social

#	Resources
1	International Labour Organization Labour Standards : Standards and reports on various labour-related issues.
2	Modern Slavery Act : Several countries have implemented Modern Slavery Acts including the UK and Australia in an effort to improve transparency and reporting in this area.
3	OECD Due Diligence Guidance for Responsible Business Conduct : A guide for businesses to understand and implement due diligence for responsible business conduct and for a common understanding amongst governments and stakeholders on due diligence for responsible business conduct.
4	UN Guiding Principles on Human Rights : A guide to help companies enhance their standards and practices with regard to business and human rights.
5	United Nations Global Compact Social Sustainability : Read more on social sustainability from the UN Global Compact.
6	United Nations Principles of Responsible Investment Social Issues : Case studies, podcasts, blogs, and other resources that provide guidance on implementing Social practices in accordance with UN PRI principles.
7	United Nations Sustainable Development Goals News, targets and indicators related to UN SDG Goal 3: Good Health and Well-being News, targets and indicators related to UN SDG Goal 4: Quality Education News, targets and indicators related to UN SDG Goal 5: Gender Equality News, targets and indicators related to UN SDG 10: Reduced Inequalities

Appendix 9

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10	<ol style="list-style-type: none"> Bursa Malaysia's PLC Transformation (PLCT) Programme Guidebook 1: Creating Purpose & Performance Driven Public Listed Companies (PLC), 2022
11	<ol style="list-style-type: none"> BlackRock Annual CEO Letter, 2021 Edelman Trust Barometer, 2022 Edelman Trust Barometer, 2021 Quote from Larry Fink, 2018 Quote from Dexter Galvin, Global Director of Corporations & Supply Chains, CDP, 2020
12	<ol style="list-style-type: none"> Quote from Tan Sri Abdul Wahid Omar, Chairman, Bursa Malaysia, 2022 Harvard Business Review, 2019 Quote from Talal Rafi, Forbes Council Member, World Bank Ambassador on Climate Change, 2021
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13	<ol style="list-style-type: none"> WEF Global Risks Report 2022 WEF Global Risks Report 2021 Quote from Datuk Muhamad Umar Swift, CEO, Bursa Malaysia, 2021
14	<ol style="list-style-type: none"> Ocean Tomo, LLC Intangible Asset Market Value Study, 2020 MSCI; FTSE Russell; Bloomberg; S&P; State Street Global Advisors; PwC Analysis, 2020
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16	<ol style="list-style-type: none"> PwC's Global investor survey, 2021 Reuters, 2021 The Edge Malaysia, 2022 Video on PNB's Sustainability Framework
1.3 Key ESG topics impacting value creation	
17	<ol style="list-style-type: none"> Swiss Re News Release, 2021 Linking executive pay to ESG Goals, Strategy & Business, 2021 Video on the Science Based Targets Initiative (SBTi)

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19	<ol style="list-style-type: none"> ILO's Guidelines for a just transition towards environmentally sustainable economies and societies for all BP Aim 12: Just Transition, 2021 Enel Green Power: Just Transition, 2020 Celcom Axiata Berhad's Vendor Development Programme 2.0 Video on Celcom's Vendor Development Programme Quote from Datuk Muhamad Umar Swift, CEO, Bursa Malaysia, 2021
20	<ol style="list-style-type: none"> Video on Nature based / Natural Climate Solutions
1.4 International and local perspectives	
21	<ol style="list-style-type: none"> Strategic transformation of GLICs for enhanced resilience and socioeconomic impact, 2021 Climate Governance Initiative (CGI), 2022 Diligent Institute, 2021 United Nations Climate Change, 2020 UN, 2020 12th Malaysia Plan (12MP) 2021-2025 UN PRI, 2020 World Vision, 2021
22	<ol style="list-style-type: none"> PwC's 25th Annual Global CEO Survey – Asia Pacific, 2022 Malaysian Code on Corporate Governance, 2021 TCFD Good Practice Handbook, Climate Disclosure Standards Board (CDSB) 2021
23	<ol style="list-style-type: none"> CG Watch 2020, Asian Corporate Governance Association
24	<ol style="list-style-type: none"> PwC Net Zero Economy Index, 2021 UNFCCC Press Release, 2020
25	<ol style="list-style-type: none"> Low Carbon Mobility Blueprint 2021-2030 National Low Carbon Cities Masterplan CIMB Newsroom, 2020 The Edge Malaysia, 2021 The Edge Malaysia, 2022 EPF's Sustainable Investment Policies PETRONAS company website, 2022

Page	Reference
1.4 International and local perspectives (cont'd.)	
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27	<ol style="list-style-type: none"> 1. US Trafficking in Persons Report: Malaysia, 2021 2. ILO, 2019 3. Video on Malaysia's efforts to address forced labour
2. Developing a well-defined ESG response	
2.1 Establishing a robust ESG response	
29	<ol style="list-style-type: none"> 1. Adapted from "Powering Business Sustainability, A Director's Guide, Bursa Malaysia, 2010"
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Page	Reference
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Appendix 5: Examples of conversion factors used	
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9

Glossary



Glossary

12MP	The 12th Malaysia Plan (12MP) is Malaysia's development roadmap for 2021 to 2025.
Carbon credits	A carbon credit is the allowance to emit a certain amount of GHG emissions. It is often part of cap and trade programmes (i.e. any relevant government schemes such as domestic emission trading schemes (DETS). The types of purchasable carbon credits are the Certified Emission Reduction (CER) which is certified under the provisions of Article 12 of the Kyoto Protocol, the Clean Development Mechanism and the Verified Emission Reduction (VER) that is under the in the voluntary carbon market.
Carbon emissions intensity	Carbon emissions intensity (or carbon intensity) is the emission rate of carbon relative to the intensity of a specific activity, or an industrial production process; for example grams of carbon dioxide released per megajoule of energy produced, or the ratio of a company's greenhouse gas emissions produced to its revenue.
Carbon neutral	Carbon neutral is a term used to describe the state of an entity (such as a company, service, product or event), where the carbon emissions caused by them have been balanced out by funding an equivalent amount of carbon savings elsewhere in the world.
Carbon offsets	A reduction in GHG emissions – or an increase in carbon storage (e.g. through land restoration or the planting of trees) – that is used to compensate for emissions that occur elsewhere. It is project based, and can be traded on a voluntary carbon market. In Malaysia, there are plans in the works from the Ministry of Environment and Water (KASA) and Bursa Malaysia .
CBAM	The Carbon Border Adjustment Mechanism (CBAM) is a proposed carbon tariff on carbon intensive products, such as cement and electricity, imported by the European Union. It is currently being legislated as part of the European Green Deal it is likely to take effect in 2026 with reporting starting in 2023. This mechanism is already in place in the EU, and is being considered in Canada, Japan and the US.
CDP	The Carbon Disclosure Project (CDP) is a non-profit organisation that supports thousands of companies, cities, states and regions to measure and manage their climate risks and opportunities, water security and deforestation, who do so at the request of their investors, purchasers and city stakeholders.
CDSB	The Climate Disclosure Standards Board (CDSB) is a non-profit organisation comprising businesses and environmental NGOs whose primary focus is to integrate climate-related reporting into mainstream financial reporting.
Circular economy	A circular economy is an industrial system that is restorative or regenerative by intention and design. It replaces the linear economy end-of-life concept with restoration, shifts towards the use of renewable energy, and aims for the elimination of waste through the superior design of materials, products, systems, and business models.
COP	The Conference of Parties (COP) is the decision-making bodies of the United Nations Framework Convention on Climate Change (UNFCCC), or UN Climate Change. They usually convene annually, and their main responsibility is to review the national communications and emission inventories submitted.
EPF	Employees' Provident Fund (EPF) is a federal pension fund under the purview of the Ministry of Finance, Malaysia.
ERM	Enterprise Risk Management
ESG	Environmental, Social, and Governance

EU	European Union (EU) is a economic and political union between 27 European countries. Formed more than half a century ago, the EU's common principles and values are freedom, democracy, equality and the rule of law, promoting peace and stability. They have set out a new strategic agenda from 2019 - 2024 covering 4 priority areas: protecting citizens and freedoms, developing a strong and vibrant economic base, building a climate-neutral, green, fair and social Europe and promoting European interests and values on the global stage.
FTSE100	FTSE 100 is an index of the top 100 companies by market capitalisation listed on the London Stock Exchange.
FTSE4Good	The Financial Times Stock Exchange-Russell Group's (FTSE) FTSE4Good Index Series is a collection of socially responsible or ESG stock indexes. The FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices.
GHG Protocol	GHG Protocol Corporate Standard classifies a company's greenhouse gas (GHG) emissions into three 'Scopes' - Scopes 1, 2 and 3. It is referenced by various other frameworks, including the Global Reporting Initiative (GRI) Standards, to support consistent GHG disclosures.
GHGs	Greenhouse Gases that trap heat in the atmosphere. They include Carbon Dioxide, Methane, Nitrous Oxide and other Fluorinated gases.
Greenwashing	Greenwashing refers to a company's deliberate attempts to provide misleading information or a false impression about how sustainable or environmentally-friendly the company is. This can be related to a company's product or its overall strategy, policies and targets.
GRI	Global Reporting Initiative (GRI) is an independent, international organisation that provides the world's most widely used standards for sustainability reporting – the GRI Standards.
GSMA	The GSM Association (commonly referred to as 'the GSMA' or Global System for Mobile Communications, originally Groupe Spécial Mobile) is an association representing the interests of mobile operators and the broader mobile industry worldwide.
ILO	The International Labour Organization (ILO) is a United Nations agency whose mandate is to advance social and economic justice through setting international labour standards.
Impact metrics	Impact metrics aim to capture the impact of an output or product and service of a company on its stakeholders as well as the resources used by the company. In more advanced applications, this metrics can be quantified to financial impact.
JC3	Joint Committee on Climate Change (JC3) was established in September 2019 and is co-chaired by the Securities Commission Malaysia and Bank Negara Malaysia. The platform aims to pursue collaborative actions for building climate resilience within the Malaysia financial sector.
Just Transition	Just Transition is a concept based on a set of principles, processes, and practices that result in the socio-economic upliftment of more vulnerable members of society (e.g. communities, employees, vendors, SMEs) during the transition towards lower-carbon economies.

<u>MCCG</u>	The Malaysian Code on Corporate Governance (MCCG) was introduced in 2000 and has been a significant tool for corporate governance reform, reflecting global principles and internationally recognised practices of corporate governance which are above and beyond the minimum required by statute, regulations or those prescribed by Bursa Malaysia.
<u>NACRA</u>	The National Annual Corporate Report Awards (NACRA) is organised jointly by Bursa Malaysia, Malaysian Institute of Accountants (MIA) and The Malaysian Institute of Certified Public Accountants (MICPA) to recognise and encourage excellence in the presentation of financial and corporate information. Companies' reports are assessed based on ever-evolving NACRA guidelines that are aligned with the latest standards, requirements and expectations.
<u>Net zero</u>	Net zero refers to a state in which GHGs going into the atmosphere are fully balanced by removal out of the atmosphere. This covers Scope 1, Scope 2 and Scope 3 emissions.
<u>OECD</u>	The Organisation for Economic Co-operation and Development (OECD) is an international organisation that works to build better policies for better lives. Member countries work closely together on key issues and aim to build or enhance policies that promote prosperity, equality, opportunity and well-being for all. They engage with a diverse group of stakeholders which include representatives from government, business, labour, civil society and academia to help inform their decisions.
<u>Process metrics</u>	Process metrics define quantitative and qualitative measures related to a process, its performance and its evolution. Process metrics are the inputs to an activity (e.g. time spent, total annual spend, establishing policies).
<u>SASB</u>	The Sustainability Accounting Standards Board (SASB) is an independent non-profit organisation, whose mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors.
<u>SBT</u>	The Science Based Targets (SBT) are targets that are in line with the goals of the Paris Agreement, which is to limit global warming to well-below 2°C above pre-industrial levels, while pursuing efforts to limit warming to 1.5°C.
<u>SBTi</u>	The Science Based Targets initiative is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) to drive ambitious climate action in the private sector by enabling organisations to set science-based emissions reduction targets that are aligned to the Paris Agreement (see above).
<u>Scope 1</u>	Scope 1 emissions are direct emissions from owned or controlled sources.
<u>Scope 2</u>	Scope 2 emissions are indirect emissions from the generation of purchased energy.
<u>Scope 3</u>	Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.
<u>TCFD</u>	The Task Force on Climate-Related Financial Disclosures (TCFD) was created by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.

<u>TNFD</u>	The Taskforce on Nature-Related Financial Disclosures (TNFD) is an international initiative that builds on a model developed by the TCFD. Its mission is to provide a risk management and disclosure framework for organisations to report and act on nature-related risks to shift toward positive outcomes.
<u>UNGC</u>	The United Nations Global Compact (UNGC) is a strategic initiative that supports global companies that are committed to responsible business practices in the areas of human rights, labour, the environment, and corruption.
<u>UNGP</u>	The United Nations Guiding Principles on Business and Human Rights is an instrument consisting 31 principles implementing the United Nations' "Protect, Respect and Remedy" framework on the issue of human rights and transnational corporations and other business enterprises.
<u>UN PRI</u>	The United Nations Principles for Responsible Investment (UN PRI) is an international organisation that works to promote the incorporation of ESG factors into investment decision-making. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.
<u>UN SDGs</u>	The United Nations Sustainable Development Goals (UN SDGs, also known as the Global Goals) are 17 goals with 169 targets that all UN Member States have agreed to work towards achieving by the year 2030.
<u>WBA</u>	The World Benchmarking Alliance (WBA) comprises organisations at global, regional, and local levels who aim to change the way business impact is measured by helping private sector organisations contribute towards achieving the UN SDGs.
<u>WEF</u>	The World Economic Forum (WEF) is an international organisation for public-private cooperation that engages the foremost political, business, cultural and other leaders of society to shape global, regional and industry agendas.
<u>Zero waste</u>	Zero waste is a set of principles focused on waste prevention that encourages the redesign of resource life cycles so that all products are reused.



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