

ESG: The New Differentiator

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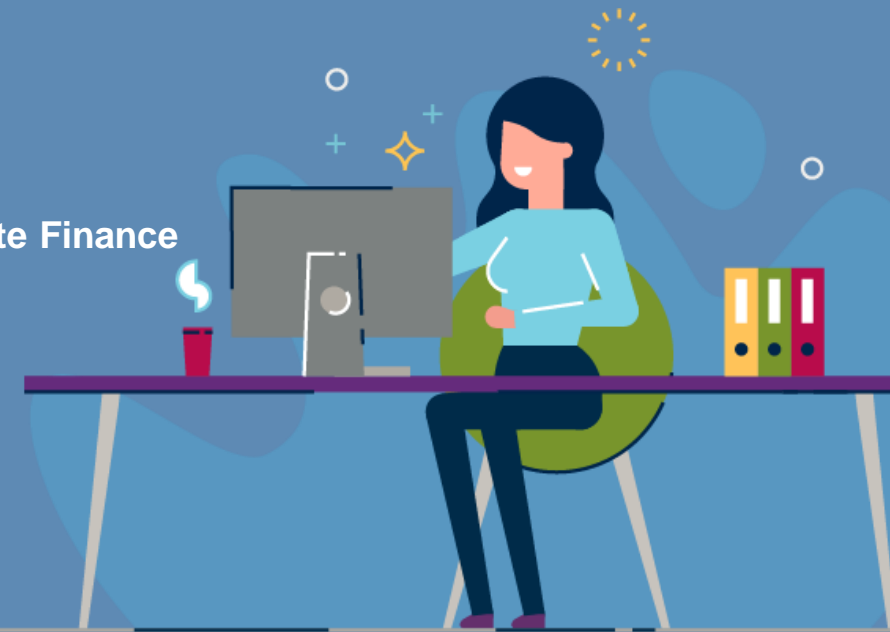
Americas Head, Sustainable Capital Markets

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John Egerman

Head of Capital Markets and Corporate Finance

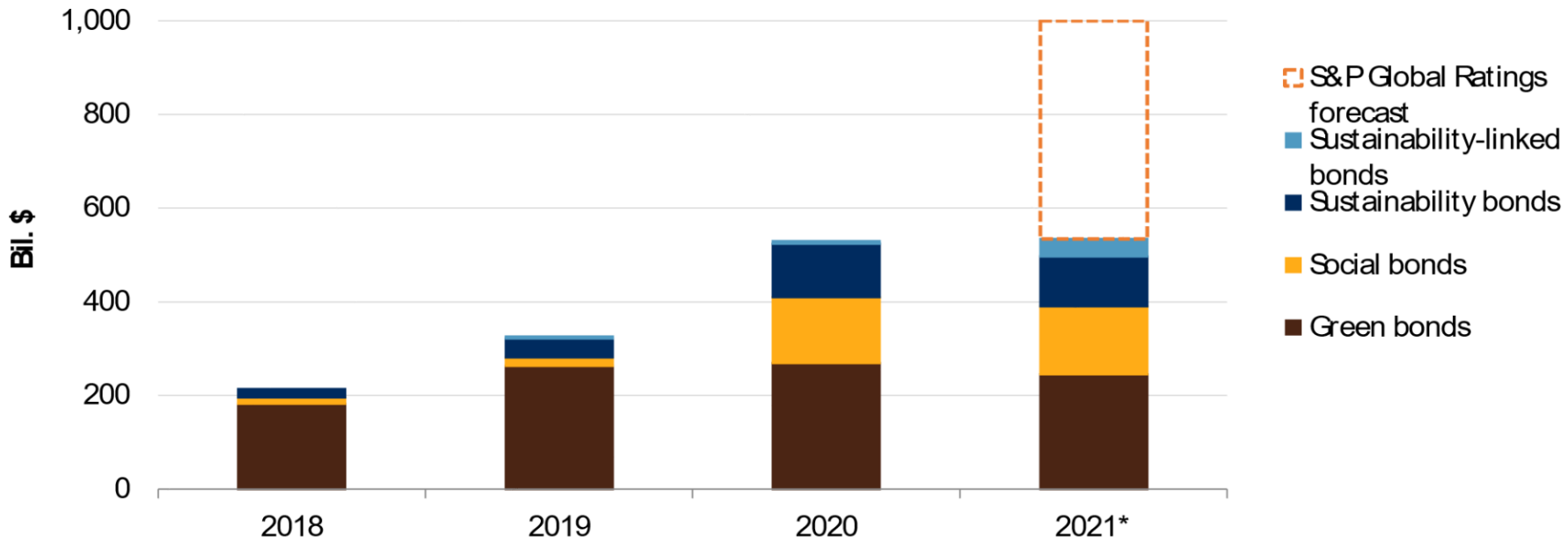
Walmart



Sustainable Investment Strategies Grow, And So Does Investor Scrutiny

Sustainable Bond Issuance On Track To Exceed \$1 Trillion In 2021

Annual issuance in sustainable debt by instrument type



*Data through June 30, 2021. Source: Environmental Finance and S&P Global Ratings.

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Polling Question

Does your company have plans to pursue a sustainable finance issuance over the next 12 months, and if so, what type?

- A. Yes, Green
- B. Yes, Social
- C. Yes, Sustainable
- D. Yes, Sustainability/ESG linked
- E. No

Second Party Opinions – Sustainability-Linked Financing

Gain a second-party opinion of the extent of your sustainability-linked framework or transaction's **alignment with market standards**

The Report Includes:

Statement of Alignment

Issuer Sustainability Objectives

Principles Opinion:

- Selection of Key Performance Indicator(s)
- Calibration of Sustainability Performance Target(s)
- Instrument Characteristics
- Reporting
- Post Issue Review

Mapping to the UN Sustainable Development Goals

EXAMPLE

S&P Global Ratings Sustainable 1

Second Party Opinion
Philip Morris International's Business Transformation-Linked Financing Framework
Aug. 27, 2021

Philip Morris International (PMI) is a tobacco company engaged in the manufacturing of cigarettes, as well as smoke-free and other nicotine-containing products. PMI is incorporated in the U.S., but operates outside the country, mostly in the EU (37% of 2020 net revenue), and Asia and Australia (34%). Its reduced-risk portfolio consists largely of smoke-free products that are designed to release nicotine-containing aerosol without burning tobacco (about 24% of 2020 net revenue), PMI's heated tobacco system IQOS is its flagship smoke-free product.

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In our view, PMI's Business Transformation-Linked Financing Framework, published on Aug. 27, 2021, is aligned with:

- ✓ Sustainability-Linked Bond Principles (SLBP), ICMA, 2020
- ✓ Sustainability-Linked Loan Principles (SLLP), LMA/LSTA/APLMA, 2021

PMI's Sustainability Objectives

PMI aims to reduce the negative impacts of its products on the health of its consumers by transitioning to selling less harmful smoke-free alternatives in place of its current core product range. Its goal is to become a predominantly smoke-free company based on net revenue within the next five years. To support this transformation, PMI has developed a business transformation-linked financing framework that links its corporate strategy to social objectives.

PMI's primary objective is to improve health outcomes for adults who smoke and those who wish to continue consuming nicotine by providing its new smoke-free IQOS technology as an alternative to cigarettes. IQOS heats tobacco to release nicotine, but does not allow it to combust.

In July 2020, PMI received authorization to market IQOS as a modified risk tobacco product with reduced exposure to harmful chemicals from the U.S. Food and Drug Administration (FDA). This authorization supports PMI's view that cigarette smokers can reduce their exposure to harmful chemicals by switching to IQOS and discontinuing cigarette use. Based on evidence in the framework, we understand that 73% of smokers who use IQOS stopped smoking cigarettes, and that IQOS has low levels of youth uptake.

Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)			
KPI	SPT	Baseline	2020 Performance
Smoke-free/total net revenue percentage	Increase full-year 2025 net revenue from smoke-free products to more than 50% of total from baseline	23.8% (2020)	23.8%
No. of markets where its smoke-free products are available for sale	Increase the number of markets where its smoke-free products are available for sale to 100 by end-2025	64 (2020)	64

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Second Party Opinion

Second Party Opinion Overview

Selection of key performance indicators (KPIs)

Alignment ✓ PMI's Business Transformation-Linked Financing Framework is aligned with this component of the SLLP and SLBP.

KPI	Alignment	Strong	Advanced
KPI 1 Smoke-free/total net revenue percentage	Satisfactory	Strong	Advanced
KPI 2 Number of markets where its smoke-free products are available for sale	Satisfactory	Strong	Advanced

Calibration of sustainability performance targets (SPTs)

Alignment ✓ PMI's Business Transformation-Linked Financing Framework is aligned with this component of the SLLP and SLBP.

SPT	Alignment	Strong	Advanced
SPT 1 Increase full-year 2025 net revenue from smoke-free products to more than 50% of total from 23.8%	Satisfactory	Strong	Advanced
SPT 2 Increase the number of markets where its smoke-free products are available for sale to 100 by end-2025 from 64	Satisfactory	Strong	Advanced

Instrument characteristics

Alignment ✓ PMI's Business Transformation-Linked Financing Framework is aligned with this component of the SLLP and SLBP.

Instruments under the framework will be subject to a step-up margin amount, margin adjustment, or premium/discount amount, subject to the achievement of the applicable SPT(s). The specific mechanism will be specified in the respective instrument's documentation including, where needed, any fallback mechanism.

Reporting

Alignment ✓ PMI's Business Transformation-Linked Financing Framework is aligned with this component of the SLLP and SLBP.

Score Satisfactory Strong Advanced

We consider PMI's reporting practices to be satisfactory. These include explanation of key drivers of performance and sustainability impacts, where possible.

Post-issuance review

Alignment ✓ PMI's Business Transformation-Linked Financing Framework is aligned with this component of the SLLP and SLBP.

PMI commits to have independent and external verification in the form of limited assurance of the performance level against the SPTs for the stated KPIs. The reports will feature limited assurance of PMI's KPI performance versus the relevant SPT.

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Second Party Opinions – Use of Proceeds Financing

Gain a second party opinion of the extent of your green, social or sustainability framework’s **alignment with market standards**

The Report Includes:

Statement of Alignment

Issuer Sustainability Objectives

Principles Opinion:

- Use of proceeds
- Process for Project Selection & Evaluation
- Management of Proceeds
- Reporting

Mapping to the UN Sustainable Development Goals

EXAMPLE

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Sustainability Framework Alignment Opinion

King's College London Sustainable Financing Framework

March 1, 2021

Sustainable Financing Framework Overview

The King's College London's (KCL's) sustainable financing framework, published on March 1, 2021, is aligned with the four components of the Green Bond Principles (GBP) and the four components of the Social Bond Principles (SBP), collectively referred to under the Sustainability Bond Guidelines, as well as the four components of Green Loan Principles (GLP). KCL is a university college with a focus on medicine, law, humanities, and sciences. In our view, it has a strong reputation and is renowned for its teaching quality and research capability. KCL aims to provide high-quality research that contributes to the advancement of Sustainable Development Goals (SDGs) and more equitable access to education. These aims are complemented by strong environmental commitments including, but not limited to, increased recycling rates and decreasing carbon emissions. The main objectives of the framework correspond with KCL's social and environmental commitments.

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Framework Alignment Overview

1. Use of proceeds
 KCL's sustainable financing framework is aligned with this component of the GBP, GLP, and SBP because it commits to using net proceeds of financing issued under the framework to fund eligible green and social projects that fit into the categories defined by the principles. The GBP and GLP categories are green buildings, energy efficiency, sustainable water and wastewater management, renewable energy, pollution prevention and control, and clean transportation. SBP categories are socioeconomic advancement and empowerment, and access to essential services.

2. Process for project evaluation and selection
 KCL's sustainable financing framework is aligned with this component of the GBP, GLP, and SBP because it outlines how the sustainable finance committee approves and oversees the eligible project portfolio. The committee ensures compliance of selected projects with the framework and excludes projects that do not fit into defined eligibility criteria. The framework provides additional details about the selection process of the research governed by the KCL's Centre for Doctoral Studies.

3. Management of proceeds
 KCL's sustainable financing framework is aligned with this component of the GBP, GLP, and SBP because the issuer commits to track net proceeds and ensure the value of sustainable assets will at all times exceed the net proceeds raised. The issuer manages unallocated funds following its treasury policy.

4. Reporting

KCL has committed to annually report on the allocation of proceeds and, where feasible, on the environmental and social impact of the eligible green and social projects until full allocation of net proceeds. The issuer will report this information on an annual basis in a dedicated sustainable finance allocation report. Allocation reporting will include the total amount of net proceeds allocated to each eligible project category, the amount dedicated to financing, a description of each project, including the amount allocated to each project, and their expected environmental and social impacts.

The GBP, GLP, and SBP stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental and social impacts.

Additional Features Of The Framework

This section of the report provides additional information about whether the framework incorporates recommended aspects of the GBP, GLP, and SBP and goes beyond minimum requirements. This section does not impact on our alignment opinion with the stated principles.

Mapping To The UN Sustainable Development Goals

The SDGs were set up by the UN in 2015 and form an agenda for achieving sustainable development by the year 2030. The KCL's sustainable financing framework intends to contribute to the following SDGs:

Use of proceeds

Green buildings

11. Sustainable cities and communities

13. Climate action

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March 1, 2021

Pages 2 of 7

Transaction Evaluation

Demonstrate the potential relative environmental benefit of the funded green or resilience projects, on a scale of 1-100 (highest), along with an opinion on governance and transparency



Green Transaction Evaluation

Assessment of the relative potential environmental benefits of the use of proceeds over the life of the financed projects, taking into consideration the types of projects financed and their location



Resilience Transaction Evaluation

Assessment of the estimated reductions in the costs of expected damages from extreme weather events that projects may achieve

Alignment with third-party market standards

Green Transaction Evaluation can also provide alignment opinion to third-party market standards:

Green Bond Principles, ASEAN Green Bond Standards, Green Loan Principles

EXAMPLE*

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Transaction Evaluation

Aries Solar Termoelectrica, S.L.'s Proposed €351.4 Million Green Term Loan Facilities

Sept. 10, 2020

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Green Loan IMA/EST/AA/PLMA, 2021



*For illustrative purposes only

S&P Global Ratings' Sustainable Financing Opinions

Over 100 Sustainable Financing Opinions delivered to date across various sectors

Électricité de France S.A.



Social Framework Utilities

Metropolitano de Tenerife



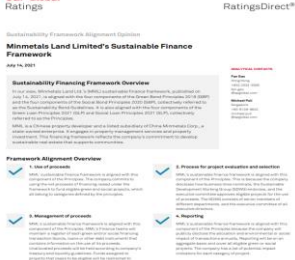
Green Framework Transport

King's College



Sustainability Framework Education

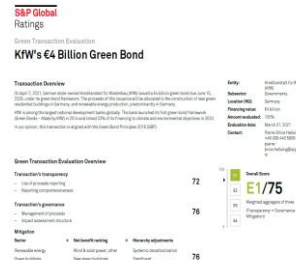
Minmetals Land



Sustainability Framework Property Development

Public SPOs to date* across various sectors: Fls / Power Generation / Real Estate / Expressway / Railway/ Charity Bond / Housing Association / Manufacturer / Vehicle Financing / Recycling

KfW



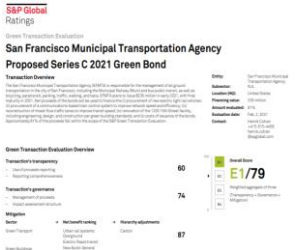
Green Evaluation Renewables / Green Buildings

Aries Solar



Green Evaluation Renewables

San Francisco M.T.A.



Green Evaluation Green Buildings

Washington Suburban S.D.



Green Evaluation Water

Public Green Transaction Evaluations to date* across various sectors: Green Buildings / Renewable Energy / Transport / Water

*Aug 2021

ESG Evaluation

Final Output: Detailed Report

S&P Global Ratings

Environmental, Social, And Governance (ESG) Evaluation

NextEra Energy, Inc.

Executive Summary

NextEra Energy, Inc. (NextEra) is a large diversified energy holding company that primarily consists of regulated transmission, distribution, and generation utilities (about 70% of EBITDA), competitive generation (about 20% of EBITDA) proprietary trading (about 10% of EBITDA), and other gas, renewable and production (about 10% of EBITDA). Through its regulated utility subsidiaries the company provides retail services throughout most of Florida.

NextEra's lead or co-lead or co-lead assessment assesses its ability to identify distinctive risks (materiality focus), such as climate change regulation and aging workforce, and derive an engagement plan to mitigate them and create opportunities. The company has followed an effective culture to address with \$300-million costs. NextEra has significant natural gas and coal assets, most notably greenhouse gas (GHG) emissions. NextEra has been more proactive than peers in decarbonizing its fleet, but continues to face long-term challenges in customer needs.

NextEra's effective strategies with customers and communities have generated positive impact on NextEra. The industry also faces other social risks, such as safety and aging workforce, though NextEra has been more effective than peers in mitigating these risks.

The governance such as NextEra has the company's U.S. executive and strategic roles and also has many business companies. We believe the company's U.S. executive role is well aligned with administrative level of activity, but it is somewhat offset by a separate structure and high board engagement on ESG issues.

Profile Score
72/100

Preparedness Opinion
Best in Class

ESG Evaluation
86/100

S&P Global Ratings | Environmental, Social, And Governance (ESG) Evaluation | This product is not a credit rating | June 17, 2024

NextEra Energy Inc.

Component Scores

Environmental Performance	Sector/Region Risk Level	35/50	Social Performance	Sector/Region Risk Level	25/50	Governance Standards	Sector/Region Risk Level	31/30
Greenhouse Gases	Strong		Workforce and Diversity	Good		Structure and Oversight	Good	
Waste	Good		Safety Management	Strong		Code of Values	Strong	
Water	Strong		Customer Engagement	Leading		Transparency and Reporting	Strong	
Land Use	Strong		Communities	Strong		Openness and Systems	Strong	
General Factors (optional)	0		General Factors (optional)	None		General Factors (optional)	None	
E Profile (30%)	72		S Profile (30%)	55		G Profile (40%)	78	
ESG Profile (incl. any adjustments)			72/100					

Preparedness Summary

We view NextEra's preparedness as best in class, reflecting its ability to identify and assess long-term risks and take concrete actions to actively reduce them and develop new opportunities. Furthermore, the company's culture promotes high performance and innovation. The utility industry will continue to experience disruption as the result of climate change, energy transition, cybersecurity, and changing demographics and customer demands. We expect NextEra to continue effective strategic decision-making, which we believe will positively distinguish the company from peers amid industry disruption, and to continue aligning its strategy with ESG-related goals.

Preparedness Opinion
Best in Class

ESG Evaluation
86/100

S&P Global Ratings | Environmental, Social, And Governance (ESG) Evaluation | This product is not a credit rating | June 17, 2024

NextEra Energy Inc.

Preparedness Opinion

Preparedness
Best in Class

Awareness	Excellent	Excellent
Assessment	Good	Excellent
Action	Excellent	Excellent
Culture	Excellent	Excellent
Decision-Making	Excellent	Excellent

Summary Opinion

We view NextEra's preparedness as best in class, reflecting its excellent awareness of long-term risks and opportunities, goal setting, and the potential impact of ESG factors, and excellent action planning to manage potential risks (opportunities) and its performance. The high performance and innovation culture demonstrates excellent commitment to long-term sustainability. Finally, we assess the company's decision-making as excellent, reflecting its track record of decisions that have successfully managed strategic objectives.

Through comprehensive risk assessment, NextEra has identified and implemented projects that are reducing its exposure to most of the key ESG risks it is a risk. The utility industry will continue to experience disruption as a result of climate change, energy transition, cybersecurity, and changing demographics and customer demands. We expect NextEra's effective and strategic decision-making to positively distinguish the company from peers in the face of these disruptive factors.

The board and senior management frequently update new techniques and strategies by making bold investments and learning from the outcomes—a technique that has been employed for many years. For some of its strategic initiatives, the company may make incremental investments to ensure it retains strategic flexibility.

Preparedness Indicators

Awareness
Excellent

We believe NextEra has excellent awareness because the board has shown it can identify long-term material risks and opportunities and actively engage in developing its strategy. Independently, the board requires that management identify and assess risks in a forward-looking manner multiple times per year, and set clear and measurable goals for identifying exposures in their respective businesses, creating accountability. Risks are identified both from a bottom-up and top-down approach to ensure appropriate report on the risks, as well as alignment with the broader long-term strategy. For example, the company recognizes the potential risks and opportunities associated with a coal-to-natural gas fleet and is engaging these risks proactively without any external pressures or incentives from regulators in Florida. The company has systems to continuously monitor the internal and external environment to detect signals that could trigger risks to long-term strategy and opportunities.

Assessment
Good

The company is good at self-assessing the potential impact of risks and opportunities on its operations and strategy through both management and the board separately and systematically assess them. Both are supported with assumptions and scenarios guided by internal and external expertise.

Management continuously updates the company's risk and opportunities. Though we have not seen details and assumptions, we understand that the company evaluates and reassesses risks through impact probability matrices and relevant scenarios monthly. The board also conducts annual activities.

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ESG Profile + Preparedness Opinion = ESG Evaluation

ESG Profile Component Scores = 72/100

Preparedness Opinion = Best in Class

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Questions

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