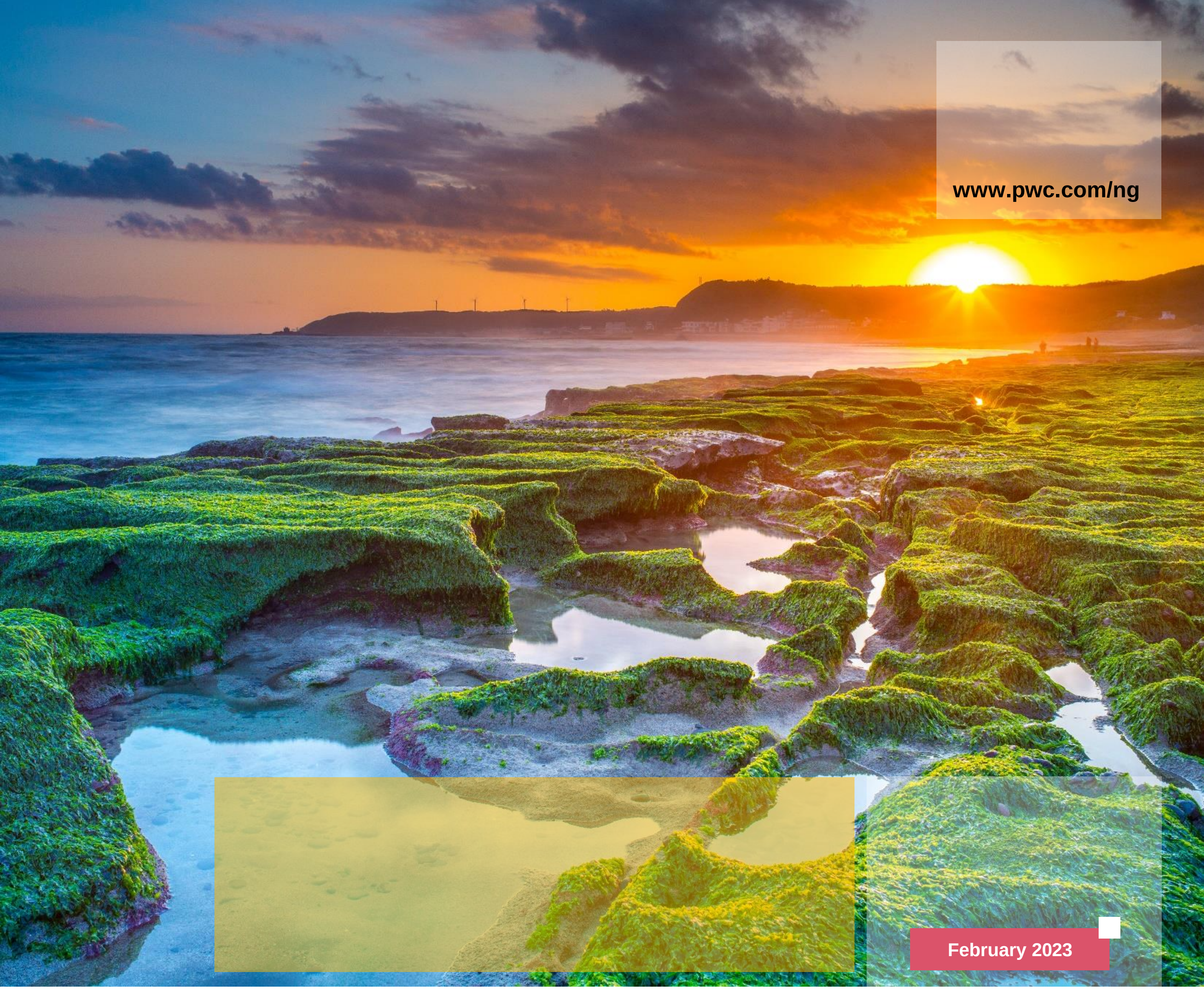

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ESG, the latest flagship for financial reporting

ESG Preface

The Global Environment has experienced steady globalisation and cross border trading due to the rapidly progressive industrialization era, however stakeholders, private and public establishments, and indeed the global community are more than ever before paying close attention to the message nature is signalling.
The message is clear and simple, **“Save the Planet”.**

ESG which is an acronym for Environmental, Social and Governance borders on maintaining sustainable business practices that are true, fair, and reliable across an entity’s business model. By engaging in ESG practices, organisations ensure that they are more accountable and responsible in how they conduct their businesses.

Increasingly, stakeholders now hold organisations accountable for the impact created by business operations and activities. In essence, stakeholders tend to place more trust in organisations that demonstrate a sustained interest in communities, the environment and good governance.

They expect organisations to do more than simply ‘tick a box’. Organisations can help build trust and deliver sustained outcomes by implementing effective ESG strategies.

Investors, lenders, rating agencies and other interested stakeholders expect more transparency around financial and non-financial metrics to better understand a company’s performance, risks and opportunities. Organisations also need to show how they create value - for shareholders and society alike - through insightful, balanced, and trusted performance and disclosure.

At PwC, we have use our knowledge and expertise to produce in-depth, fact-based reports and articles that examine the trends shaping business, society, and the planet. Through our research and insights, we seek to generate new ESG thinking, identify practical solutions, and build knowledge that helps to inspire action.

Where we are (Quest to achieve a Global Baseline)

ESG has quite a number of global regulatory bodies and platforms for reporting purposes, each addressing peculiar areas of sustainability reporting.

They include, the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiatives (GRI), the Task Force on Climate-related Financial Disclosures (TCFD), the International Integrated Reporting Council (IIRC), the Value Reporting Foundation (a merger between the SASB and the IIRC in June 2021), the GreenHouse Gas (GHG) Protocol Corporate Accounting and Reporting Standards, amongst others.

To enhance universality, interoperability, harmonisation and trust in sustainability reporting, the IFRS Foundation announced the establishment of the International Sustainability Standards Board (ISSB) at the Conference Of Parties (COP) 26, UN Climate Summit in Glasgow, Scotland in November. Currently, two Exposure Drafts (EDs) sustainability standards (IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2, Climate-related Disclosures) have been issued by the ISSB.

As at January 2023, both exposure drafts have undergone some notable updates to their contents as the ISSB has tentatively decided to introduce the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ into IFRS S1 and IFRS S2 when entities adopt them for general and climate-related disclosures. The ISSB and the IASB (International Accounting Standards Board) standards are expected to complement one another. According to the IFRS Foundation, the complementarity will help provide comprehensive information to investors and other providers of capital.

Where we are

Brief Overview of the Exposure Draft IFRS Sustainability Standards

Overview of IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information)

The General Requirements Exposure Draft sets out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information. To comply with the proposed requirements, a company would disclose material information about all significant sustainability-related risks and opportunities to which it is exposed and how such materiality (depending on the unique judgements adopted) affects the enterprise value.

The general requirements for disclosure of sustainability-related financial information would need to be disclosed as part of a company's general purpose financial reporting. A consequence is that the sustainability-related financial disclosures would be required to be published at the same time as the financial statements, and they must be presented fairly with emphasis on ensuring the information relates to the reporting entity's value chain and is in line with industry practices.

Overview of IFRS S2 (Climate-related Disclosures)

A company applying the proposals in the General Requirements Exposure Draft would apply the Climate Exposure Draft to provide material information about its significant climate-related risks and opportunities. The Climate Exposure Draft proposes requiring a company to disclose information that would enable an investor to assess the effect of climate-related risks and opportunities on its enterprise value.

The Climate Exposure Draft uses the same approach as the General Requirements Exposure Draft, so it would require a company to centre its disclosures on the consideration of the governance, strategy and risk management of its business, and the metrics and targets it uses to measure, monitor, and manage its significant climate-related risks and opportunities. The proposed Standard includes a requirement for companies to disclose information about climate-related physical and transition risks and opportunities.

Both exposure drafts are expected to be adopted based on approvals at jurisdictional level and full time adoptions are expected to take place immediately the drafts are finalized in 2023.

Key Details: Both IFRS S1 and S2 are hinged on four core contents of reporting namely,

Corporate Governance: which highlights how the entities are directed and controlled from a governance perspective,
Strategy: which considers how sustainability informs an entity's strategy in the short, medium and long term,
Risk Management: which sums up the internal control and risk management culture of the entities in terms of addressing sustainable business practices and,
Metrics and Targets: which highlights the quantification of targets set, metrics used to track the level of sustainable business practice year on year.

Financial Reporting (IFRS S1 and S2) Implications of ESG Reporting's Emergence

In the light of integrating the IFRSs for ESG Reporting into the conventional Financial Reporting frameworks, the consequent effects are far reaching on businesses and their existing operational models. The core implications and effects are outlined as follows:

1

Enterprise and Economic Value

Organizations are traditionally expected to maximize shareholder's returns and stabilize their economic value to keep running as a going concern. However, global attention has shifted beyond these traditional goals and the clamour for a more sustainable business practice that transcends the bottom-line is now in high demand. Stakeholders and regulators are beginning to hold corporations accountable for their operations with emphasis on how it adds values beyond profit making to their host and remote society. These values are widely referred to as the ***Enterprise Value*** (i.e values that transcends your conventional shareholders' returns to further add to your Social Capital as a firm). The IFRS S1 and S2 gives more insights into these sorts of values and further improves on the existing financial reporting frameworks of organizations in full compliance.

2

Investors' Perception and Confidence

Over the years, what informs investors' decision making or thought processes are the globally acceptable ways of doing business. Investors are typically averse to organizations that do not have a common pattern of conducting business in line with global regulations and frameworks. The IFRS S1 and S2 have come to stay and being an offshoot of the IFRS Foundation (a widely acceptable regulatory body), its provisions are expected to mirror how typical IFRSs and IASs currently operates, hence its global acceptance and applicability. This is exactly what socially responsible investors look out for before plunging into most business practices. They consider how globally compliant your corporation is and how globally acceptable your business practices are. With the advent of these standards, organizations that starts building a track record of compliance would only further boost existing and potential investors' confidence.

3

Regulatory Exposures:

Every organization operates in unique jurisdictions and each jurisdictions have regulatory sanctions for non-compliance with established financial regulations. While the IFRS S1 and S2 are largely taking a principle-based approach of adoption, we anticipate that organizations with an early adoption record are more shielded against any possible regulatory sanctions for non-adoption. Your organization stands a great deal of favourable regulations for portraying your business to being a sustainable one through the adoption of the IFRS S1 and S2.

4

Capital Market Ratings:

The capital market is widely known for being the platform to raise finance through debt or equity fund providers. Similar to the aforementioned discourse under Investors' confidence and perception, credit rating is widely known as primary criteria for accessing funds on the debt market. One widely emerging aspect that is currently obtainable is your ESG Rating. Global rating agencies like S&P, Sustainalytics, and MSCI are at the fore front of rating multinational firms with international presence, and they are beginning to identify how unavoidably important your ESG Rating as a firm is to accessing funds on the global stock market. Driving it home, the Nigerian Stock Exchange (NGX) and other African exchanges are as well placing key emphasis on ESG Rating for top tier financial institutions and other industries, all with the aim of ensuring a robust regulatory check and balance on their business practices, hence the inevitability of the IFRS S1 and S2 adoption for all organization willing to further retain excellent ratings on their capital markets.

5

Cross Border Transactions:

The globalization of trade and commerce has made cross border transaction a must for organizations seeking entry to existing and emerging trading platforms globally. One essential passport to having a seamless entry into global markets is your organization's consistency with global regulations and standards. With more emphasis on climate change and sustainable business practice, the compliance with the provisions of IFRS S1 and S2 are expected to become a key passport to accessing global markets. Early insights and understanding of how these standards apply to your business model is therefore a very essential tool to accessing markets beyond your host communities.

Financial Statement Disclosures and Line Items:

6

With the adoption of IFRS S1 and S2 comes some expected additions to existing disclosure requirements and line items in the financial statements. Financial services firm would begin to look into the applications of Green and Climate Bonds, and how they form part of their traditional financial instrument portfolios in accordance with the relevant IFRSs (IFRS 9 and 7), Manufacturing firms would look into Inventory and how transitioning to more sustainable business practice would result in writing down or writing off of some carbon intensive equipment (IAS 2), Energy firms would look more into provisions made for decommissioning environmental liabilities and additional disclosure requirements (IAS 37), attentions would be paid to recognition of Deferred Tax Assets as a result of Taxable profits possibly reducing due to climate risk exposures (IAS 12), amongst others. These are all going to directly impact the existing financial performances and positions of organizations with consequent effects on their list of financial and non-financial disclosures..

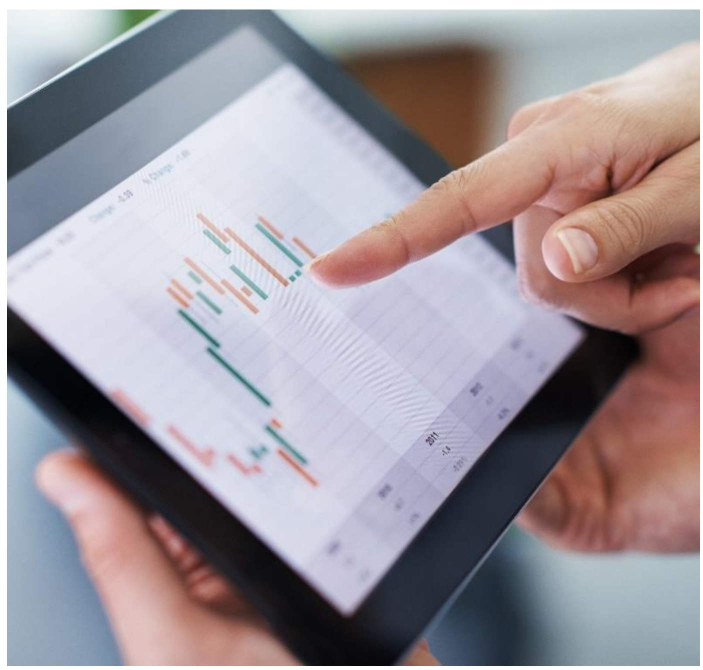
Implementation and Business Applications in Nigeria

Nigeria as a sovereign country with her globally acceptable financial reporting regulatory regime under the Financial Reporting Council of Nigeria (FRCN) has shown commitments over the years to ensuring the reporting environment of the country is well aligned with global best practices. During the just concluded COP27, the Nigeria Minister of Finance, Budget and National Planning, Zainab S Ahmed was quoted to declare that;

> "The IFRS Foundation, through the ISSB, has recognized and responded to the strong international demand for a global baseline of sustainability-related disclosures for the capital markets, which we believe has the potential to attract investment and boost private sector development.
>
> But developing standards is just one step in the journey to ensuring capital markets have access to robust sustainability-related information. We look forward to working with the ISSB and partners to deliver strong advisory and capacity-building support necessary to bring the implementation of this global baseline to life.

This echoes the country's commitment to ensuring the nation's financial reporting regime scales up to the latest global developments on IFRS for Sustainability Reporting. The Business Applications in Nigeria are well established and already being practiced at specific business environments;

The Sustainability Disclosures Guidelines (effective from 2018) are already requested for reporting purposes among all Premium Board Listed firms on the NGX (Nigerian Stock Exchange), The Financial Services Regulation Coordinating Committee (FSRCC) has committed to comply with the Nigerian Sustainable Finance Principles (NSFPs) which focuses on the role of the financial services industry in facilitating economic prosperity, while ensuring environmental sustainability and social developments.



Implementation and Business Applications in Nigeria

The ESG Reporting framework is expected to have important and unique reporting effects on different industries in the country ranging from those with relatively higher carbon or environmental footprints directly or indirectly (like the Oil and Gas, Mining, Heavy Duty Manufacturing, Fast-Moving Consumer Goods (FMCGs), and the Financial Services Industry), to those with less carbon or environmental footprints as compared to the former (like the Agricultural, Pharmaceutical, Telecommunications and Entertainment Industry).

Naturally, the higher your Environmental and Carbon footprint as a firm from either a Scope 1, 2 and 3 perspective, the more attention you get from stakeholders in terms of intensifying your ESG reporting.

To be more specific, Scope 1 of the GreenHouseGas Protocol (GHG Protocol) addresses the self-induced and company generated emissions with their direct impact on the physical environment.

The Oil and Gas, Mining, Heavy Duty Manufacturing firms, Infrastructure would typically have high carbon footprints from their operational emissions. Scope 2 addresses the purchased form of energies outside of operational emissions and corporations that have a high volume of purchased energy units from third parties would be classified as having a high carbon footprint from the measured units purchased over time despite not being the primary carbon emitters.

Finally, Scope 3 addresses the entire value chain of corporations and how their value chain emits carbon directly or indirectly. Typically, Financial Service firms would consider their product designs in terms of financing, to underscore whether they provide finance to high carbon or low carbon emitters.

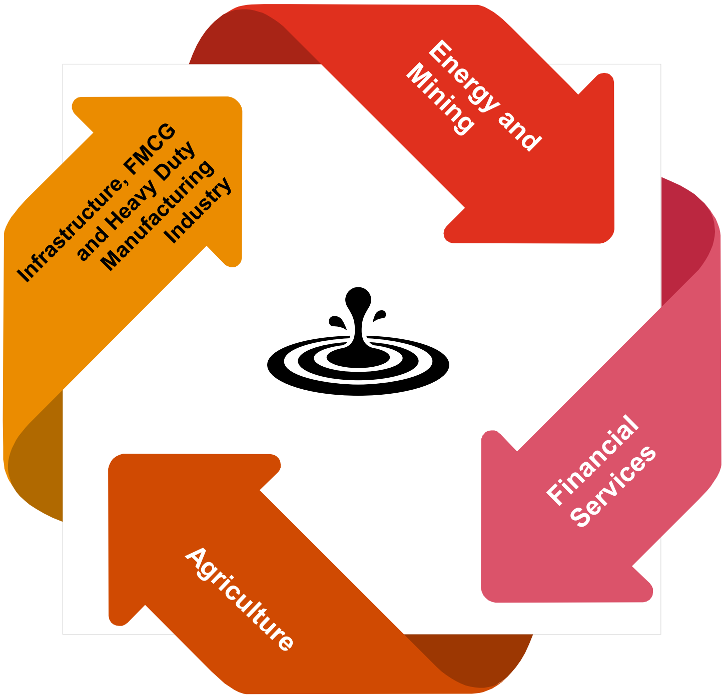
High providers of finance to high carbon emitters (i.e their clients) imply high carbon footprints and vice versa. Being a major contributor to the flora and fauna of the natural ecosystem, we consider the Agricultural industry a less carbon intensive net contributor.

Carbon Footprint Ranking of each Industry

Carbon Footprint Ranking of each Industry

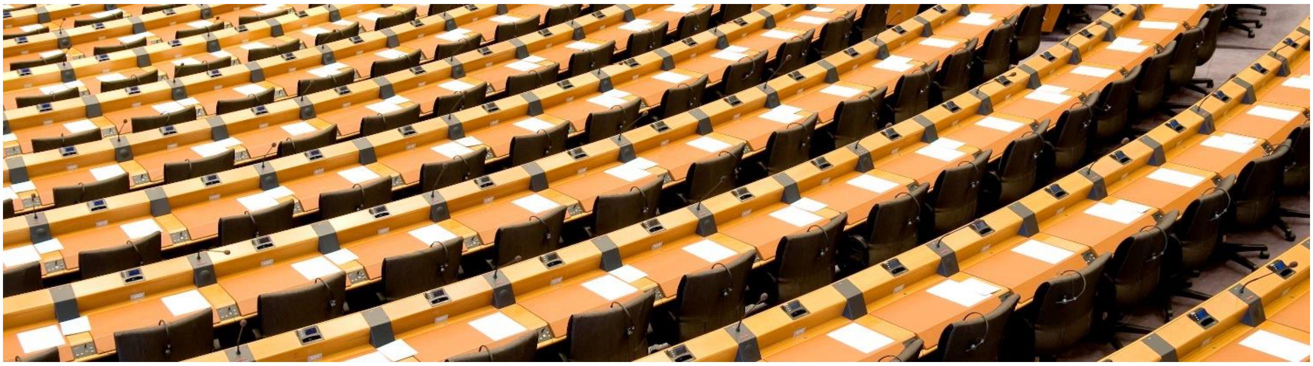
The Oil and Gas industry has one of the highest carbon footprints as a result of its direct impact on the physical environment. Activities ranging from unearthing the earth surface for mineral resource, oil mining, gas flaring and oil spillages makes its direct impact a major contributor to carbon emissions, hence more regulatory and reporting attention would be placed on this industry.

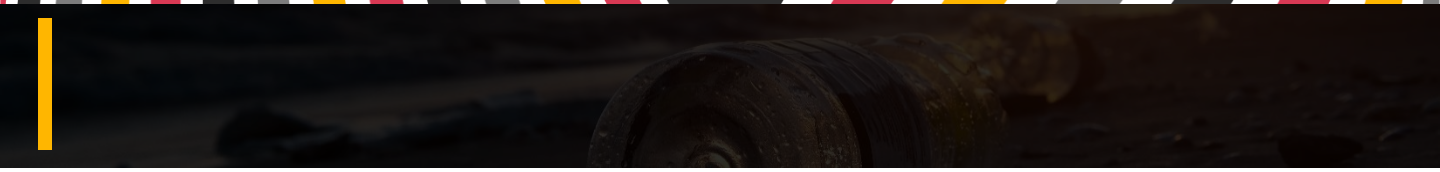
Activities under these industries are expected to have high carbon footprints as waste products and GHG emissions from factory operations and related activities would contribute to most of the industry's end products during the chains of production.



The Financial services industry would be classified or ranked based on whether its product designs (i.e capital or funds) are allotted to carbon intensive or non-carbon intensive industries. Therefore, carbon footprint rankings for all financial services firms would majorly hinge on the fund allocations made to carbon and non-carbon intensive industries.

The Agricultural and Agro-allied industry would rank as having low carbon footprints as we expect operations under this industry to contribute more to the natural environment from afforestation to agricultural produce capable of aiding a greener ecosystem.





What are the steps that we expect companies to have taken in preparation for the new Reporting Framework (i.e for IFRS S1 and S2)?

From projections and understanding of our clients' existing operations, a multi-dimensional approach is required to ensure companies are data ready and global reporting standard ready for ESG Reporting (i.e IFRS S1 and S2);

Company Data Repository:

What ESG Reporting (i.e adopting the provisions of IFRS S1 and S2) would border around would essentially relate to your unique data points for reporting purposes. To track how environmentally and socially responsible you are, your data should communicate facts and fairness. Data relating to your categories of greenhouse gas emissions (after considering the three (3) scopes of emissions), investments in human capital development, board and gender diversity, tax transparency rates and disclosures, waste management policies, product designs (e.g green finance products), social investment schemes, environmental investment schemes, and other key trackable data points are the metrics you need to determine where you are and what enterprise values you currently possess.

We expect clients aiming at meeting global best practices for ESG Reporting to intentionally harness these data points and create a repository for them from which stakeholder-relevant information can be pooled for efficient reporting purposes.

Industry Data Repository:

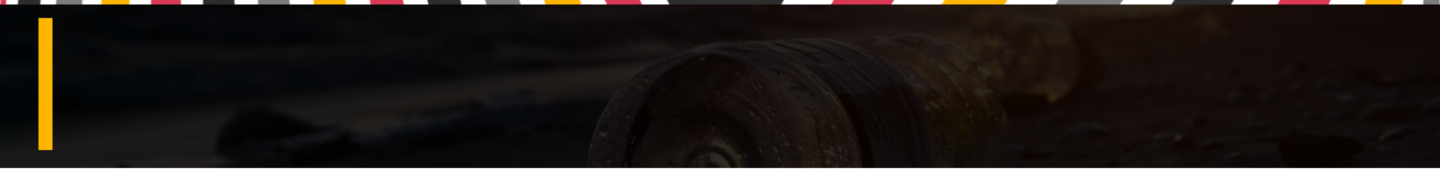
PwC has reiterated the need to map companies to their unique industries as a result of peculiar environmental and carbon footprint, thus we expect each client to have industry-driven data points that speaks to best industry practices.

For instance, clients in the Oil and Gas industry would want to pay more attention to their physical environmental impacts in terms of how degradations caused to the physical environment from explorations and mining have been addressed (i.e typical environmental clean-up investment steps and strategies) and any other environmental data point trackable for efficient reporting purposes, while clients in the Financial Services Industry would want to pay more attention to their financial product designs and business cases for such products (e.g providing more sustainable finance that are environmentally friendly or green in nature) and also pay attention to their financed emissions.

Companies need to gather these key and unique industry data so benchmark indices can be made and peer to peer performances can be tracked for ESG Reporting purposes.

Training and sensitization of staff, and other relevant stakeholders:

One of the most important phases of implementation is the proper sensitization and communication of latest ESG developments to staff and stakeholders. There should be a robust communication flow and training sessions for all concerned parties to gain clear insights into what the subject matter entails and how they can help attain the set goals of ESG Reporting. As a professional firm, we can help provide well-curated training sessions for proper capacity building and readiness assessment to internal and external parties on the practicalities of ESG Reporting.



How PwC Nigeria assists in making your firm a foremost ESG Compliant establishment

Technology:

As the Nigeria financial reporting environment integrates ESG Reporting into the mainstream financial reporting of private and public establishments, PwC Nigeria is part of the PwC global community that possesses requisite insights on the most vital ESG Toolkits (the ESG Metrics Toolkits, the Green Tax and Incentive Tracker, the TCFD Disclosure Maturity Tracker, the Net-Zero Maturity Assessment Toolkits, among many other industry specific toolkits) that can be optimized to ensure your specific ESG-related data points are well captured, the reporting contents meets local and global standards, and the disclosures are fairly presented.

Our access to these cutting-edge technologies that are scalable and adaptable to the Nigerian reporting regime makes PwC Nigeria your most technologically driven ESG consultants, with emphasis on local and global best practices.

Track Record:

At PwC Nigeria, we have assisted first tier institutions, SMEs, public parastatals, and private establishments in walking through the understanding of ESG dynamics, and also executing ESG-driven business transformation. From strategy development to reporting, including product management and stakeholder management. We have over the past few years established a track record of being the lead consultants for businesses in various industries certified locally and globally as the best corporations in sustainable business practices.

Our record precedes us as a professional firm that understands each industry's business needs, maps those needs to sustainable business practices, and finally balances stakeholders' perspective at each given time.

Our People:

We have a team of well curated professionals that have undergone profound and hands-on training exercises, worked across key industries in the country and delivered sustainable solutions to each peculiar industry. Our ESG team works with multi-dimensional sub-units ranging from Big-Data Analysts to Key Industry Experts and Regulatory Advisors, to drive a well-informed reporting framework for our clients.

We are a community of problem solvers with in-depth knowledge of your industry and insights into the opportunities your business can explore that transcends your current bottom-line economic value. We aim at ensuring premium value is delivered always and your brand's enterprise value is optimized through a robust ESG reporting framework.

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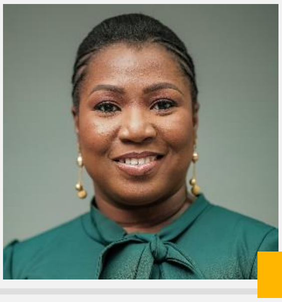

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About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 155 countries with more than 327,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more by visiting us at www.pwc.com/ng