

PwC's Corporate Responsibility Barometer 2018

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More than words



PwC's Corporate Responsibility Barometer reviews Finnish corporate responsibility from three perspectives: strategic corporate responsibility, management, and reporting.



Please contact us to learn more about your company's score in the latest Corporate Responsibility Barometer!

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PwC's Corporate Responsibility Barometer 2018

What is the Corporate Responsibility Barometer?

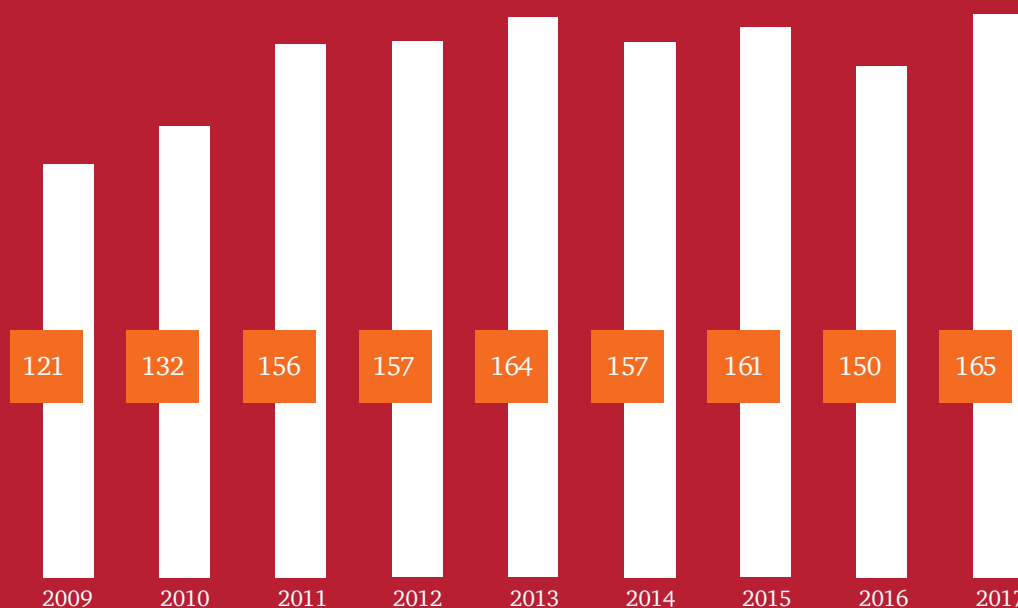
- The most extensive corporate responsibility study in Finland
- 594 companies assessed
- 165 companies that published corporate responsibility information analysed
- Websites, corporate responsibility reports, and annual reports assessed
- Five-year trends (2013–2017) identified based on the information.

Why is reading the Corporate Responsibility Barometer worthwhile?

The Barometer

- Provides a snapshot of the current state of Finnish companies' corporate responsibility
- Reflects current trends in corporate responsibility
- Highlights interesting topics and developments
- Maintains a discussion on the quality of corporate responsibility management and reporting
- Challenges companies to develop.

Number of companies reporting on corporate responsibility in Finland



Introduction

In early 2018, we obtained the first statements of non-financial information in accordance with the reformed Finnish Accounting Act. It seems that this reporting requirement, which is compulsory for some companies, has brought with it some positive changes to overall corporate responsibility.

The first of these changes concerns the content of corporate responsibility reporting. According to the Finnish Accounting Act, material information must also be provided regarding respect for human rights and measures against bribery and corruption. Of course, information about these matters has been published in the past as well, but now companies

are required to also disclose measures and outcomes. Not all companies were prepared for this and had to explain that outcomes from the application of the policies drawn up will only be available in the coming years. However, the topic is important and the creation of a corporate responsibility management system as well as continuous measurement will move things forward.

Another change resulting from the obligation to publish non-financial information is the increased emphasis on the Board of Directors' position and responsibility regarding corporate responsibility. Under the Act, the information must be published in the Report of the Board of Directors or in a separate statement provided at the same time. The information must be signed by the Board of Directors and the CEO.

Ultimately, this has raised the awareness of the Boards of Directors with regard to key issues of corporate responsibility. With the change in legislation, corporate responsibility is now also better reflected in the work of the Board of Directors.

This is followed by a third point that has not yet fully been achieved by all the companies within the scope of the obligation. The corporate responsibility information in the



Sirpa Juutinen
Partner, PwC's Sustainability & Climate
Change

statement of non-financial information provided by the Board of Directors should be the information that is relevant in terms of the company's value creation. The Board of Directors' role is to ensure the creation of added value, thus their job is to also focus on those matters in corporate responsibility. The impression was now that this reflection had been left unfinished in the report. For shareholders, all information related to the creation of added value is valuable and monitoring the results meaningful.

If the corporate responsibility matters with the greatest impact on cash flow or the cost of capital are included in the report provided by the Board of Directors, we have found the ESG (Environment, Social, Governance) issues of the greatest interest to shareholders and other investors while also laying a foundation and framework for good investor relations.

It seems that the EU will be imposing more ESG obligations for investors and financiers in 2019. The TCFD (Task Force on Climate-related Financial Disclosures) recommendations issued in the summer of 2017 have also created an understanding of how the risks and opportunities of climate change must be taken into account in a company's financial reporting. In addition, the industry-specific key performance indicator recommendations of the SASB (Sustainability

Accounting Standards Board) increase their significance in ESG reporting. It seems that the current reporting obligations, the recommendations issued and the pending ESG regulations are all going in the same direction: better understanding and reporting of the financial impacts of corporate responsibility. The direction is good.

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Key findings

A total of 594 companies and organisations were assessed for the Corporate Responsibility Barometer: All 500 companies listed in the magazine Talouselämä's annual list of Finland's largest companies and 94 other companies or public organisations.*

165 companies that published corporate responsibility information were analysed for the barometer. The analysis concerns information for the year 2017, published by June 2018.

1

The requirements set by the Finnish Accounting Act have broadened the content of corporate responsibility reporting

The content of responsibility reporting has broadened, and more information is now provided especially on human rights and risks. Just under 70% reported on human rights last year, whereas this year the figure rose to 75%. Last year, under one third of companies reported on responsibility risks, but almost half did so this year.

2

Finnish companies have room for improvement in the financial reporting of climate risks

70% of companies provide no reporting on the financial impacts of climate change at all. About one in four has addressed the topic, but only two companies have published numerical data about the possible costs resulting from climate risks.

3

Reporting on human rights has increased

Based on the results of the barometer, reporting on human rights has developed significantly since last year. 36% of the companies analysed describe measures related to human rights in greater detail. One major reason for this development is probably the change in the Finnish Accounting Act, which requires certain companies to report on respect for human rights.

4

More and more companies take into account the UN Sustainable Development Goals

Already 38% of companies address the UN Sustainable Development Goals in their corporate responsibility reporting. Of these, half have prioritised the most relevant goals for their business. However, prioritisation also raises questions: have the companies defined the goals relevant for their business, or is the selection based on information that is already being reported?

5

Just over a third of the companies left the transition to the GRI Standards to the last moment

Up to 38% of the companies reporting in accordance with the GRI framework used the old GRI G4 reporting guidelines in their 2017 reports. The new GRI Standards must be applied in reports published after 1 July 2018, so many companies are still to face the transition.

*) Every year, the Talouselämä magazine lists Finland's 500 largest companies based on net sales.

Strategic corporate responsibility



Responsibility is increasingly considered through value creation

Sanna Pietiläinen

PwC's Sustainability & Climate Change

This year, one of the most discussed topics between different actors in the financial industry, such as investors and financiers, was related to sustainable finance. The European Commission estimates that to meet the Paris climate goals, annual investments of EUR 180 billion in low-carbon and energy-efficient technologies are needed in Europe alone. To bring about positive change, cash flows must be directed to projects creating an environmentally and socially sustainable future.

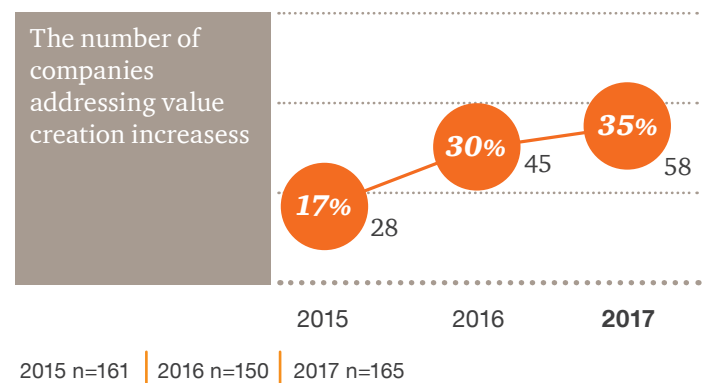
In January 2018, the High-Level Expert Group (HLEG) appointed by the European Commission published a Sustainable Finance report containing recommendations for promoting sustainable finance in the financial market. In March, the Commission published its action plan, the first parts of which by late May had already turned into initiatives to create new legislation on the practices of financial market operators.

The proposed measures towards a sustainable financial sector concern, for example, the initiatives of the Commission to create legislation for how ESG issues must be taken into account in investment decisions, investment advice and investor reporting. Similarly, an initiative has been taken to create an EU taxonomy for what is “sustainable” and “green” to enable more systematic evaluation of the sustainability of the environmental impacts of financial activities.

Investors' increased interest in corporate responsibility is also reflected in the results of the Corporate Responsibility Barometer. Description of the elements of value creation is a good tool for helping investors and other key stakeholders of the company understand what ESG factors are the basis of the company's value creation and how the company will create and maintain its value also in the future.

This year's barometer shows that the number of companies describing their value creation has continued to grow from 45 companies last year to the current 58. A positive development is that numerical data is increasingly being included in value creation figures. In addition, companies seem to be paying more and more attention to the visual illustration of value creation every year. This helps stakeholders conceive

Value creation



the composition and significance of the company's value creation.

In practice, investors and financiers have the power to decide where they allocate their funds in their investment universe. The legislation currently under development in the EU, for example, has an effect on the fact that, in the future, investors and financiers will try to direct their cash flows more and more into sustainable development projects. The kind of ESG information, both qualitative and numerical, that companies provide about themselves going forward will certainly contribute to the investment decisions made by investors and financiers.

”

The legislation under development in the EU has an effect on the fact that, in the future, investors and financiers will try to direct their cash flows more and more into sustainable development projects.



More accurate emissions reporting

Essi Pietola & Lari Oksala

PwC's Sustainability & Climate Change

This year, the barometer evaluated whether companies have taken a stand on the potential financial impacts of climate change, whether companies are committed to science-based targets (SBT) for emission reduction and whether companies have already taken note of the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD) for the assessment of the financial impacts of climate change.

About one third of Finnish companies reporting responsibility information take a stand on the financial impacts of climate change. However, only two companies published numerical data about the costs that may result from the physical and/or market risks associated with climate change. The reported financial impacts relate to changes in the price of electricity and emissions trading, extreme weather events and costs resulting from the realisation of reputational risks.

In addition, the 2018 climate survey of an organisation called CDP also guides companies to meet the TCFD requirements. It is expected that the Finnish companies that reply to CDP's survey this year will take more of a stand on significant financial and strategic risks and opportunities associated with climate change going forward. In the future, the reporting will probably also be increasingly incorporated into financial reporting.

28 %

*Less than one third
reported on the financial
impacts of climate.*

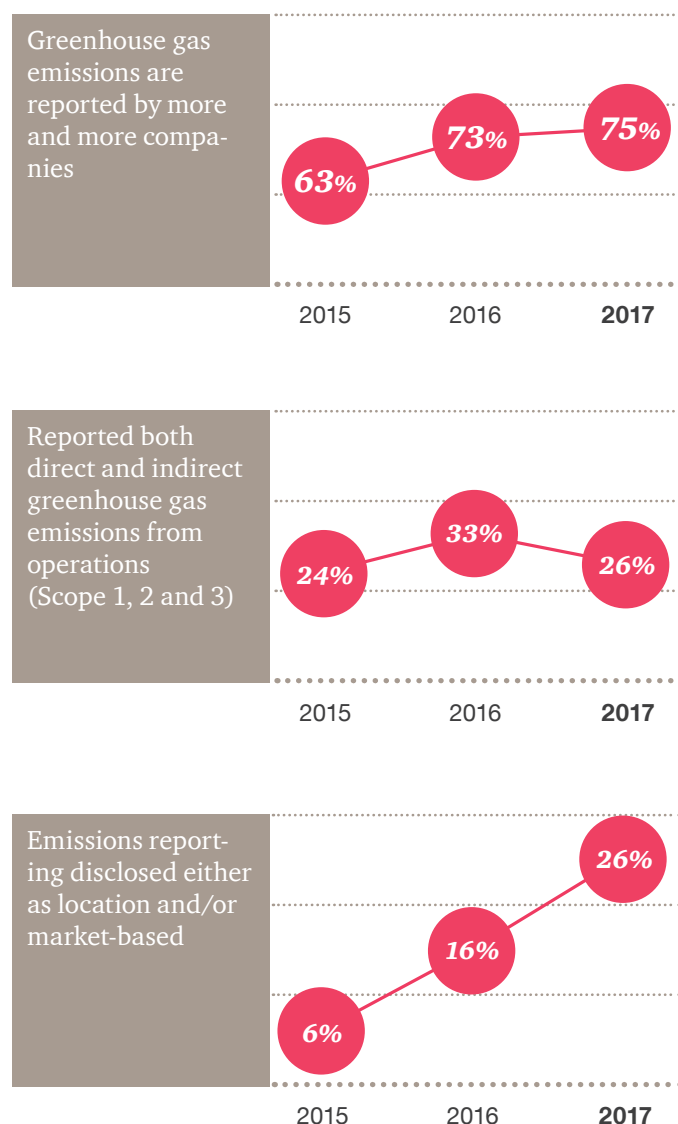


Four Finnish companies have already set and eleven companies are committed to setting a science-based target for emission reduction. The science-based emission reduction target is in line with the global target of limiting the amount of greenhouse gas emissions. By achieving the target, it is possible to keep the average warming of the climate below two degrees. Setting a science-based emission reduction target is one visible step towards the goals of the Paris Agreement.

Four actors in the financial sector have taken a stand on the guidelines published in 2017 by the TCFD working under the Financial Stability Board in their reports for 2017. Two of the companies have already incorporated elements of the TCFD framework into their own principles of ownership steering and responsible investment. The other two express their public support for the initiative and are looking into opportunities for its implementation.

As in previous years, the barometer also looked at companies' emissions reporting. This year, as in previous years, positive development has taken place in emissions reporting. Of the Finnish companies that published responsibility information, 75% reported emissions data. The number of companies that do not report any emissions has remained at the 2016 level although the number of reports has increased. About a quarter of all the companies analysed reported both direct and indirect emissions in accordance with the GHG Protocol (Scope 1, 2 & 3). It is noteworthy that in the 2017 reporting year, 26% of barometer companies defined the calculation method of the emissions from the acquisition of electricity and heat in accordance with the protocol in either a location-based and/or a market-based manner. In 2016, the corresponding figure was only 16%. This is a major step towards more comparable emission calculation.

Emissions reporting



2015 n=161 | 2016 n=150 | 2017 n=165

Corporate responsibility management



Reporting on human rights is increasing

Suvi Kuusi

PwC's Sustainability & Climate Change

Reporting on human rights has increased clearly with the reporting requirements of the Finnish Accounting Act. Moreover, many companies no longer handle human rights just as a general concept, but highlight the most significant issues for their company. These include, for example, discrimination, occupational safety, excessive overtime, living wage, forced labour and the risks of using child labour. Human rights are increasingly addressed both in the company's own operations and in connection with sustainable supply chain management.

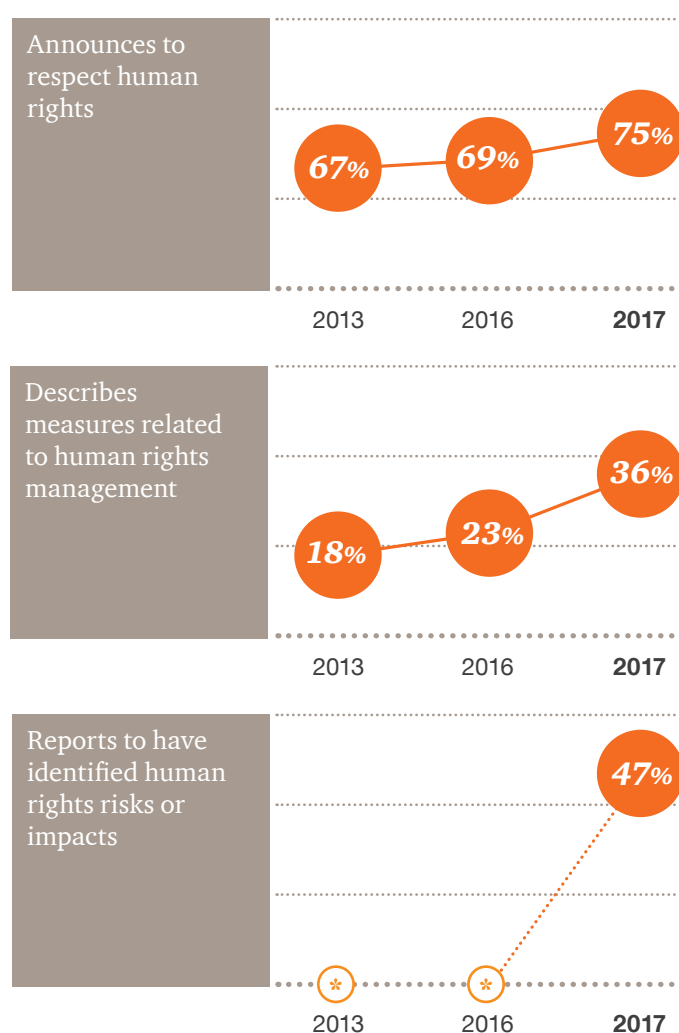
More and more companies are reporting on the results of human rights impact assessments and on how the companies have strived to manage the identified risks. The most advanced measures include, for example, more in-depth assessments of suppliers and collaboration to resolve shortcomings, as well as customer relationships assessments from the perspective of human rights impacts.

Significant human rights risks are often located deeper in the supply chain than first-tier suppliers. Some companies reported on determining the origin of ingredients supplied by second-tier suppliers and product raw materials further in the supply chain. Additionally, some companies describe their participation in joint initiatives between companies and stakeholders with the aim of having an impact on the management and resolving of human rights problems.

The more comprehensive approach to human rights impacts in the reporting of multiple companies reflects the complexity of the impacts on people. The next challenge in managing human rights impacts and developing reporting is to evaluate what is actually measured with the key performance indicators and what kind of value does this information provide to the company's stakeholders.

For example, reporting the share of employees who have completed the company's Code of Conduct training as a key performance indicator tells stakeholders that the company aims to raise the awareness of its employees on the importance of human rights in its business. However, the indicator does not necessarily describe the level of the company's management of the most significant human rights risks.

Human rights



2013 n=164 | 2016 n=150 | 2017 n=165

* Not included in the 2013 and 2016 review

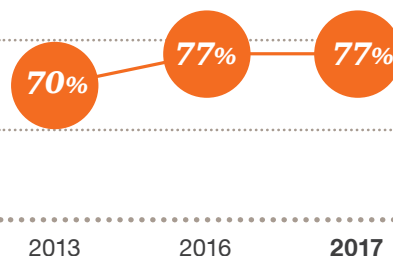


On the other hand, there is also debate about the usefulness of reporting the number of social responsibility audits. All problems may not be detected in audits. Problems also have a tendency to repeat themselves in the future if their root causes are not properly addressed.

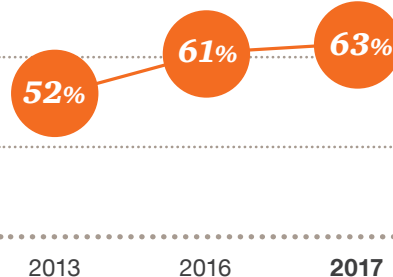
There are no easy solutions for challenges, but some are still being developed, for example, through technology. Various mobile applications and feedback channels have already been tested in collecting information directly from the employees themselves regarding the grievances in working conditions they have experienced. Collecting and analysing feedback obtained directly from employees could also improve the quality of human rights information distributed using blockchain technology.

Supply chain management

Sets responsibility requirements for the supply chain



Monitors compliance with supply chain responsibility requirements



2013 n=164 | 2016 n=150 | 2017 n=165

The significance of the UN Sustainable Development Goals is growing

Mikaela Linna

PwC's Sustainability & Climate Change

The results of the Corporate Responsibility Barometer show that 38% of the companies analysed have somehow addressed the UN Sustainable Development Goals (SDG) in their reporting for 2017. Last year, the figure was 31%.

This growth of nearly 40% indicates that, 2.5 years after the UN Sustainable Development Goals have entered into force, companies have increasingly recognised the importance of the private sector in achieving the goals and incorporate them as part of their public reporting. The results are also in line with the SDG Reporting Challenge research conducted by the global PwC chain, according to which 62% of the companies surveyed worldwide mentioned sustainable development goals in their reporting. The research covered 17 countries and 470 companies and was based on the companies' publicly available information from 2016.

This year's Corporate Responsibility Barometer reviewed not only how many companies have addressed sustainable development goals in their reporting, but also the extent to which the companies have prioritised the goals. It was gratifying to note that more than half of the companies that had mentioned sustainable development goals in their reporting had also prioritised them in some way.

Even though companies have come a long way in their reporting, the prioritisation carried out by them should also be viewed through a more critical lens. The goals prioritised the most among the companies reviewed in the Corporate Responsibility Barometer were 8 (Decent Work and Economic Growth), 12 (Responsible Consumption and Production) and 13 (Climate Action). Based on the results, it appears that many of the sustainable development goals

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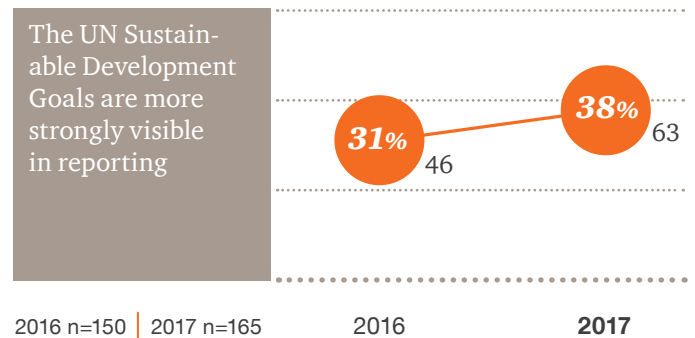
Engagement of companies and adjusting their business practices are critical in achieving the UN Sustainable Development Goals.



prioritised by companies are ones for which, in many cases, the companies already have established practices and on which they are already reporting.

Therefore, one may ask whether the companies have really considered which sustainable development goals are relevant for their business and supply chain in their prioritisation, or if they have just picked the low-hanging fruit? Another interesting question is whether the companies have taken into account the 169 targets of the 17 sustainable development goals when prioritising? When the answer to these questions is yes, we are on the right path with the sustainable development goals.

UN Sustainable Development Goals



51 %

Out of those companies who report on the UN Sustainable Development Goals, more than a half have also prioritised the most material goals.



Corporate responsibility reporting



Step by step towards more integrated reporting

Sirpa Juutinen

PwC's Sustainability & Climate Change

Integrated reporting has been a topic of discussion for some time. Companies have begun to produce combined reports that include an earlier Annual Report and a separate published corporate responsibility report. This has been a good development trend as it has eliminated overlap and facilitated focusing on the essentials.

However, the definition of the International Integrated Reporting <IR> Framework has not always been met, and the reports have rather been in the form of a combined report. At the same time, due to the changes in the Finnish Accounting Act, large companies have had to include information about their responsibility in the Report of the Board of Directors or in a separate statement. This means that several different publications as well as the company's website may currently include reporting about similar matters.

Integrated reporting is beginning to be in demand. The biggest challenge seems to be the so-called integrated thinking which, according to the IIRC (International Integrated Reporting Council), is a prerequisite for reporting to also become integrated. Development of financial reporting standards is also needed for further progress. The TCFD recommendations to publish the financial impacts of climate

change are the first steps in this direction, and apparently also lead to a change in IFRS standards.

Elements of integrated reporting have emerged gradually. Materiality definition is found in several reports, as well as a description of the value creation model and impact assessment. Statement of non-financial information introduces key performance responsibility indicators among other key performance indicators in the reporting of the Board of Directors. All of these could be compiled into an integrated report while some of the information stays, for example, on the website.

Before writing an integrated report, however, it is good to pause for a moment to promote integrated thinking: how responsibility relates to stakeholder expectations, what part of it is connected to the company's value creation and how does the company manage this entity in a goal-oriented way. Addressing these issues in an integrated way raises reporting to the next level. We are not quite there yet, but signs of transition are beginning to appear.

65%

of companies reported on responsibility in the Annual Report.



Updated GRI Standards published

Annica Ahlström

PwC's Sustainability & Climate Change

The transition phase from the Global Reporting Initiative (GRI) G4 reporting guidelines ended in June, and the new GRI Sustainability Reporting Standards (GRI Standards) must be applied in reports published after 1 July 2018. Based on the Corporate Responsibility Barometer results, up to 38% of the companies reporting in accordance with GRI still used the old GRI G4 guidelines in their 2017 reports.

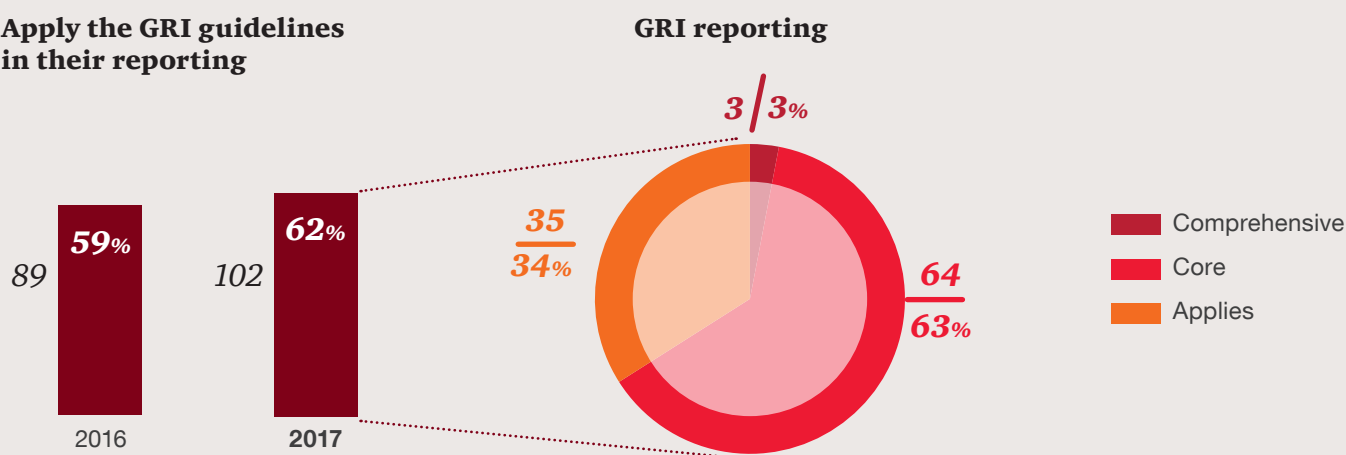
GRI published two updated standards in June 2018, GRI 303: Water and Effluents 2018 and GRI 403: Occupational Health and Safety 2018. The new structure of the GRI Standards allows individual standards to be updated faster, rather than having to update the full framework at once. New management approach disclosures have been added to the updated standards, according to which companies must explain how things are managed. These standards are also in line with existing frameworks, such as ILO, OECD, and the UN Sustainable Development Goals.

The updated GRI Standard on occupational health and safety (OHS) contains questions about management systems and how to prevent accidents and promote well-being. The updated standard also seeks to distinguish occupational diseases from work-related illnesses. The updated water standard steers companies to identify areas affected by water stress, and where measures must be prioritised. Meanwhile, reporting on water discharge has been transferred from the waste and effluent standard under this one.



The new water and OHS standards have been updated quite a lot and contain new reporting requirements. These standards can be applied immediately, but the transition period will continue until 31 December 2020. However, the updated water and OHS standards must be applied in reports published after 1 January 2021.

Apply the GRI guidelines in their reporting



A growth leap in the number of companies reporting on their taxes

Petri Seppälä

PwC's Sustainability & Climate Change

We have been analysing tax footprint reporting from 2012 onwards in our Corporate Responsibility Barometer, and the number of reporting companies has grown significantly during this period. The growth was slower in 2016 but picked up again in 2017.

The content of the tax information reported has become more consistent throughout the review period. For example, well over a third reported tax figures for the 2017 financial year by tax category and by country or region, whereas significantly fewer than one in three reported their tax information the same way in 2016. But there are still differences in the reports. The differences are, in part, a natural consequence of the fact that the business operations and industries of companies differ from each other in many ways. It is probably justified to say that the reports are supposed to be a major source of additional information, but that they should not be used to assess whether company A is a better taxpayer than company B.

When comparing companies' reports, it becomes clear that the size of the company does not correlate with the scope or

detail of the reports; some large companies have left the content of the report rather basic and, conversely, some smaller operators may have invested in a very extensive and detailed description of the tax footprint. Those providing limited reports may still be monitoring the trends of the reporting practices on the market before further developing their own tax reporting.

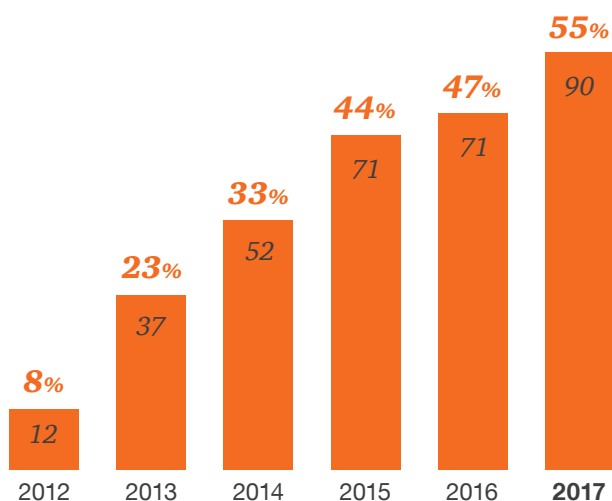
A few details can be highlighted in the reports. Often the descriptive part of the reports states that the company participates in the development of the society through taxes and other similar payments. Developments in recent years also show that employer's contributions are increasingly included in the tax footprint. This can certainly be considered a positive development as employer's contributions also provide more funds for maintaining a welfare society. However, it is advisable to disclose the breakdown of the employer's contribution item by item.

In many reports, companies have wished to highlight the fact that they have no subsidiaries in so-called low-tax countries. In a few reports, the reporting of these so-called tax haven subsidiaries has been handled rather well by stating that even though the group includes so-called tax haven companies, the profits of these companies are still taxed in Finland as required by law, and no tax benefits are sought through these companies.

Explaining key matters related to the industry and business model in the tax report can significantly help with understanding the tax information. An example could be the health care industry where, in principle, VAT is not deductible. The VAT footprint of such a company is very different from that of a manufacturing company whose products are all exported abroad from Finland, leading to significant VAT refunds for the company. Taking into account some intense debate around taxation issues in the last few years, establishing the facts behind tax figures may considerably assist those who are interested in the figures.

A few points can be highlighted regarding the harmonisation of reports. Firstly, it seems to be a fairly established practice when reporting by tax category to report taxes borne and

Number of companies reporting their tax footprint



2012 n=157 | 2013 n=164 | 2014 n=157 | 2015 n=161 | 2016 n=150 | 2017 n=165

taxes collected separately. Secondly, with regard to country-specific reporting, it can be seen that non-material countries are aggregated and that only material countries of operations are reported on a country-specific basis. Thirdly, the descriptive part of the reports frequently includes a statement about the existence of a tax strategy, a description of the main operating countries, a comment on the existence or absence of tax haven companies as well as comments on the group's tax planning and a brief description of the tax management model. For all these aspects, harmonisation is certainly welcome.

It is hardly reasonable to expect every reporting company to address exactly the same issues in their tax report. The situations and business operations of companies differ so significantly that it is not even justified to aim for fully consistent reporting. However, standardisation, where reasonable, makes it considerably easier for the reader to find relevant information and brings more comparability to reports.

In terms of regulation, public reporting is governed only by the guidelines on tax footprint reporting in state majority-owned or state-associated companies issued by the Ownership Steering Department of the Prime Minister's Office. Otherwise, companies operating in the EU have, for example, a country-specific obligation to report income taxes to the tax authorities (Country-by-Country reporting, CbCr), but no obligation to publish such information.

There is a proposal for a directive regarding mandatory publishing of country-by-country reporting at EU level (Amendment to the Accounting Directive 2013/34). The preparation of the directive is still pending and we are not, at least yet, in a situation where binding national legislation would be implemented. If mandatory regulation is settled on, it should be limited to income taxes based on current information. As the tax footprint reports published by companies illustrates, the income tax of a company is only part of the economic impact of business on society.

In light of current practice, it seems that the tax footprint reporting is not about to go down as a short-term phenomenon, but instead will become an established part of corporate responsibility reporting. The content of the reporting is also becoming more standardised without guiding or compelling legislation. The more companies start reporting about their tax footprint to an appropriate extent, the less need there should be for legislation that makes reporting mandatory.

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Reporting taxes seems to be establishing itself as an integral part of corporate responsibility reporting. More than half of those reporting on corporate responsibility included tax information in their corporate responsibility report.



Corporate responsibility in Finland

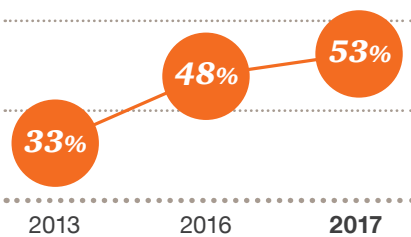
PwC's Corporate Responsibility Barometer has monitored the state of Finnish companies' corporate responsibility since 2009. The results of the Corporate Responsibility Barometer demonstrate trends indicating the direction of development in Finnish corporate responsibility. When measured with basic key performance indicators, corporate responsibility has advanced on all sectors, and growth has stabilised in the recent years. In addition to standard indicators, the barometer assessment includes some new and topical issues that demonstrate upward trends in corporate responsibility.

The Corporate Responsibility Barometer reviews the current state of corporate responsibility from three perspectives: strategic corporate responsibility, management, and reporting.

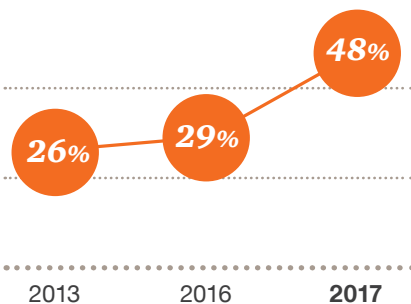
Strategic corporate responsibility

- Value creation
- Sustainability-related risks and opportunities
- Long-term targets
- Key Performance Indicators of sustainability
- Corporate responsibility as a factor in management remuneration
- Climate-related financial impacts
- Task Force on Climate-related Financial Disclosures (TCFD)
- Science-based targets (SBT)

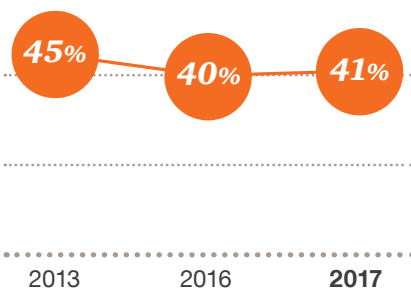
More than half of the companies assessed define corporate responsibility KPIs



Nearly half of the companies describe measures to manage corporate responsibility risks



Numerical targets have been set for a period of at least five years



2013 n=164 | 2016 n=150 | 2017 n=165



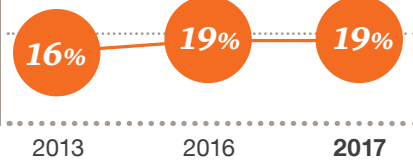
Of the companies evaluated for the barometer:

- 42 are committed to the UN Global Compact initiative
- 23 report that they are following the OECD Guidelines for Multinational Enterprises
- 7 have used ISO 26000 as a guide to integrate social responsibility into their values and practices.

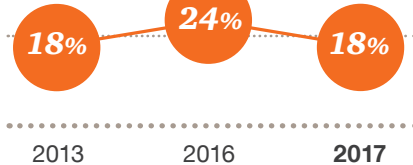
Corporate responsibility management

- Guiding principles and policies
- UN Sustainable Development Goals
- Corporate responsibility as a factor in employee remuneration
- Setting targets
- Diversity
- Supply chain management and monitoring
- Human rights
- Paris Climate Agreement and EU 2030 Climate and Energy targets

Corporate responsibility targets linked to management remuneration



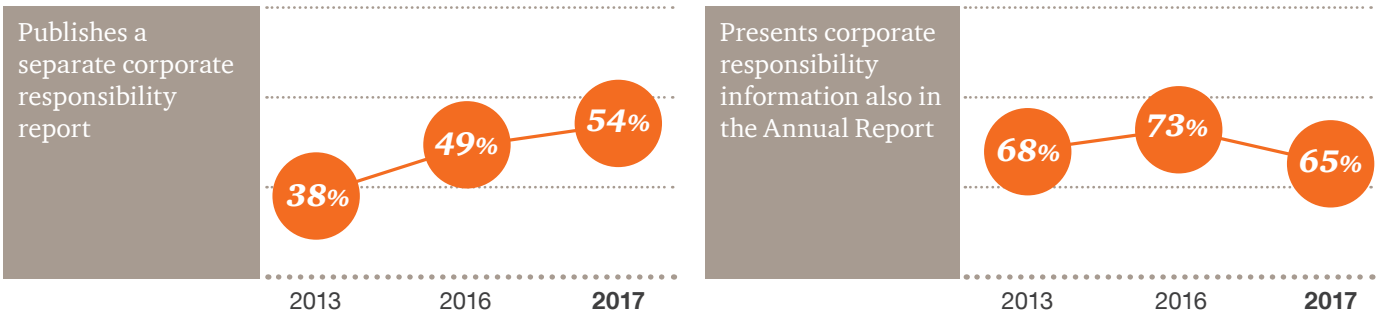
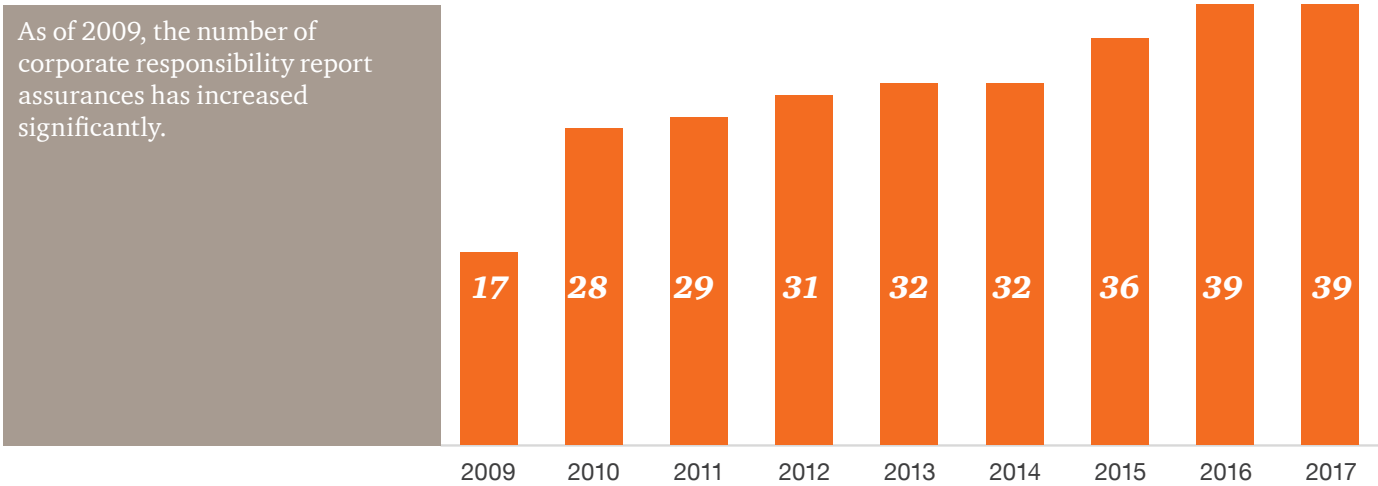
Corporate responsibility targets linked to employee remuneration



2013 n=164 | 2016 n=150 | 2017 n=165

Corporate responsibility reporting

- Form of reporting (separate corporate responsibility report, reporting in the annual report)
- GRI reporting
- Key Performance Indicators (environmental, social, and financial responsibility)
- Greenhouse gas emissions reporting (market-based and location-based)
- Tax footprint reporting
- Independent assurance of information



2009 n=121 | 2010 n=132 | 2011 n=156 | 2012 n=157 | 2013 n=164 | 2014 n=157 | 2015 n=161 | 2016 n=150 | 2017 n=165

Adding value to your business and investors with the Climate Performance Analytics tool

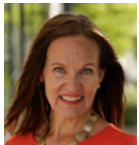


Our data-driven approach helps companies analyze information about measures taken to control greenhouse gas emissions in relation to financial performance. The analysis shows how well the management and related processes meet investors' reporting expectations regarding the financial impact of greenhouse gas emissions.

The tool also provides information on companies' readiness to report on the financial impact of climate change.

Read more on our website: [pwc.fi/en/cpa](https://www.pwc.fi/en/cpa)

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