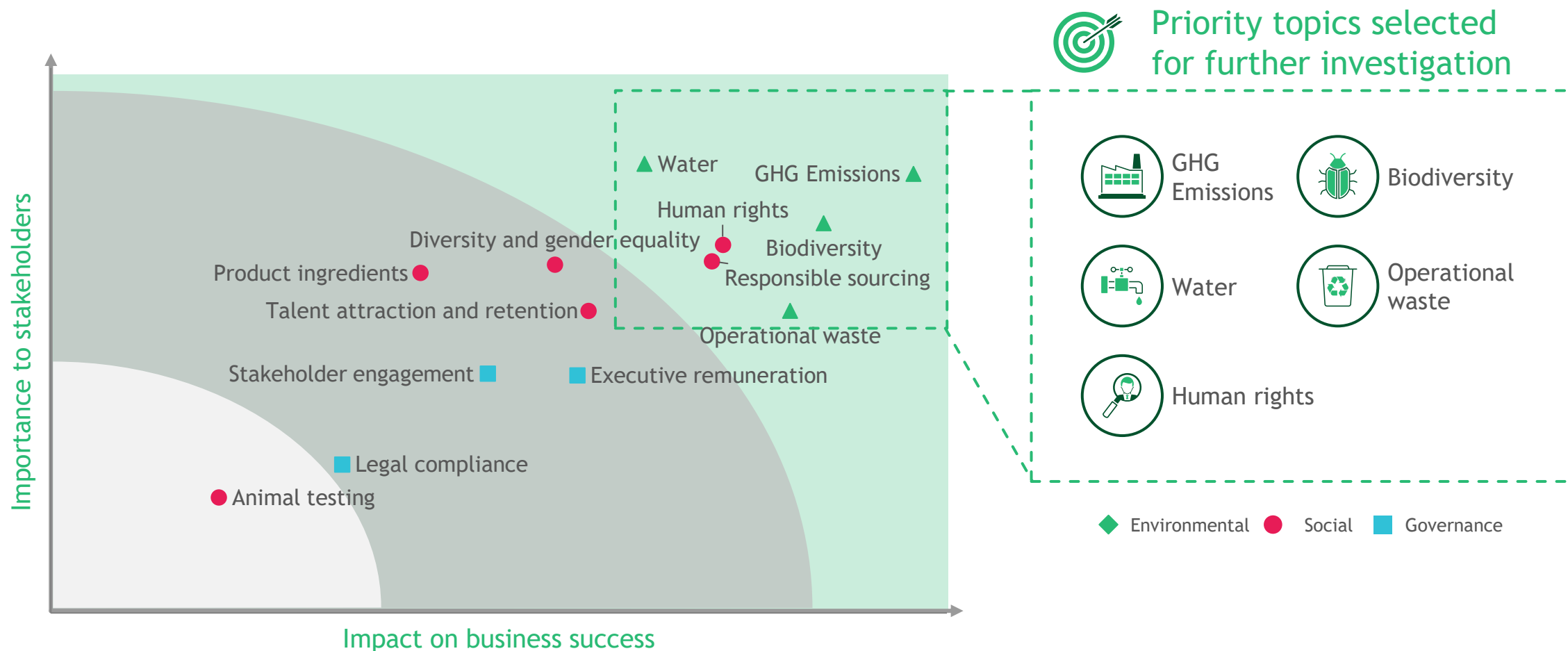




Step 2 | Use a materiality matrix to prioritize issues based on business impact and stakeholder expectations

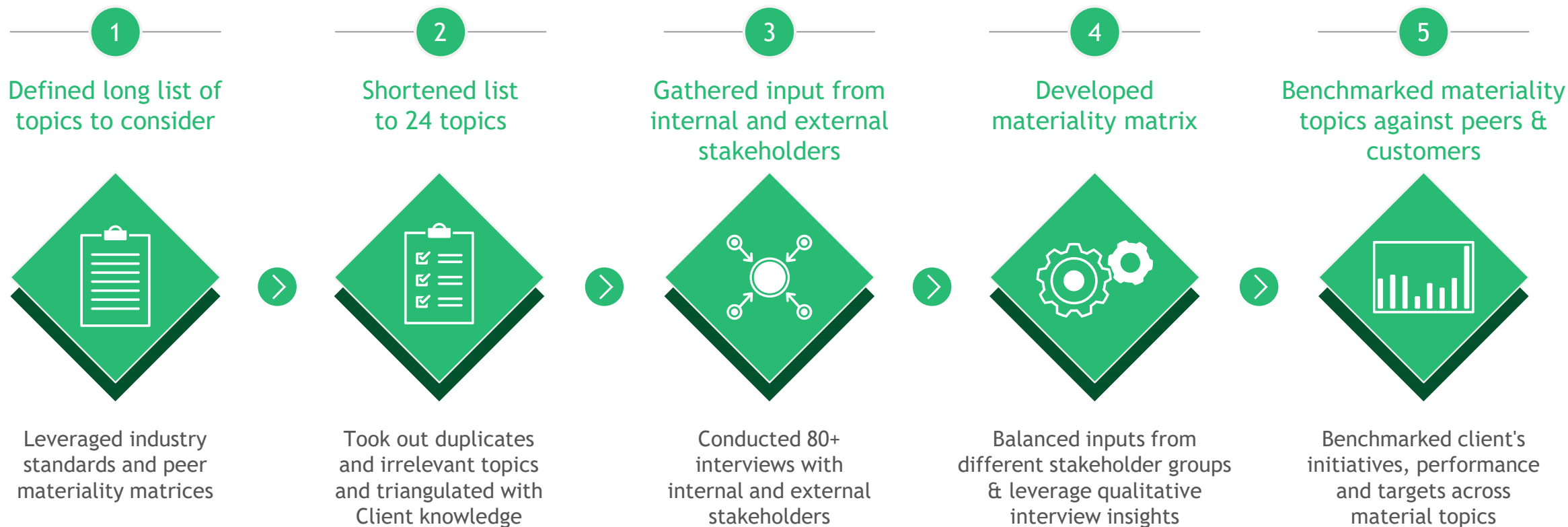
Illustrative





Materiality methodology | Conducted materiality assessment in proven and iterative approach

Conducted materiality assessment in proven approach





Materiality methodology | In the first two steps, ~ 130 ESG topics were shortlisted into 24 material topics to be used for the materiality matrix

A

~130 ESG topics from peers captured

Starting point for the list of material topics for Client, is the topics mentioned by peers in their publicly available materiality matrices

Peers include [Sanitized]

Company SASB	Company Nomenclature	Category
GHG Emissions	Energy and emissions management	Environmental
Materials Sourcing & Efficiency	Responsible Supply chain	Social
Energy management	Energy and emissions management	Environmental
Employee Engagement, Diversity & Inclusion	Talent & Culture	Social
Employee Engagement, Diversity & Inclusion	Diversity, equity and inclusion	Social
Employee Engagement, Diversity & Inclusion	Workforce of tomorrow	Social
Employee health & safety	Occupational health & safety	Social
Business Ethics	Ethics & compliance	Governance
Systemic Risk Management	Cybersecurity	Governance
Product Quality & Safety	Product quality and safety	Social
Customer Welfare	Customer sustainability	Social
Systemic Risk Management	Enterprise risk management	Governance
Systemic Risk Management	Corporate Governance	Governance
Customer Welfare	Strengthening customers	Social
Product Quality & Safety	Sustainability as a business opportunity	Social
Supply Chain Management	Supply chain	Social
Human Rights & Community Relations	ESG/ Human rights risk	Social
Systemic Risk Management	ESG/ Human rights risk	Governance
Management of the Legal & Regulatory Environment	Compliance	Governance
Product Quality & Safety	Environmental portfolio	Social

B

Long-list of ~50 topics cleaned and structured

Topics mentioned cleaned to remove duplicates, align naming and get right level of detail to be **comprehensive and mutually exclusive**

~50 material topics captured from Client peers		
Environmental	Social	Governance
1. Addressing climate change	1. Access and affordability	1. Client executive level satisfaction
2. ESG integration	2. Animal rights and welfare	2. Client financial performance
3. Land use and biodiversity	3. Anticorruption measures	3. Company financial performance
4. Low carbon product portfolio	4. Carbon footprint	3. Corporate ethics / code of conduct
5. Mining water and energy	5. Community engagement and impact	4. Corporate governance
6. Planning responsible mineral resources	6. Consumer privacy and health	5. Cybersecurity
7. Plastic and packaging	7. Corporate philanthropy	6. Data governance and privacy
8. Processing technology	8. Diversity and inclusion	7. Digital transformation
9. Recycling environmental benefits	9. Employee recruiting, development and retention	8. Fair pay and executive compensation
10. Responsible products and services	10. Engagement with stakeholders	9. Intellectual property
11. Social ESG emissions and risk efficiency	11. Health and safety	10. Preventing counterfeit drugs and product error
12. Social management and circular economy	12. Human rights	11. Regulatory compliance and control
13. Water management	13. Innovation and research	12. Sustainable risk management
	14. Product quality and safety	13. Transparency, accountability, and reporting
	15. Responsible sourcing	14. Provision of expedition collective bargaining
	16. Responsible sourcing and trading	15. Disaster preparedness and management
	17. Social responsibility to external stakeholders	
	18. Supply chain management	
	19. Supply chain management	
	20. Supply chain management	
	21. Supply chain management	
	22. Supply chain management	
	23. Supply chain management	
	24. Supply chain management	

C

Topics triangulated with Client knowledge

List is **triangulated and refined with Client sustainability report, BCG experts and internal knowledge** to ensure all relevant topics are captured

Peer specific nuances or outliers removed e.g., topics pertaining to specific peer circumstances

First look at the 24 potential material topics to Client		
Environmental	Social	Governance
Climate product design	Corporate philanthropy	Corporate governance and control
GHG emissions in Client's operations (Scope 1)	Community engagement and impact	Corporate governance and control
GHG emissions from product energy (Scope 2)	Diversity and inclusion	Data governance and privacy
GHG emissions in product (Scope 3)	Employee development, retention & engagement	Regulatory compliance (e.g., product regulations)
Pollution emissions (e.g., air quality)	Health and safety	Supply chain sustainability and responsible procurement (S&P, Human and labour rights)
Processing technology	Human rights	Systemic risk management
Resource inputs, e.g., recycled input materials	Innovation and research	Transparency, accountability, and reporting
Water management	Product quality and safety	
Water management in mining	Selling practices and labeling	
Total count of topics: 9	Total count of topics: 9	Total count of topics: 6

D

First list of 24 material topics for Client

Process results in 24 material topics for Client covering each dimension of ESG

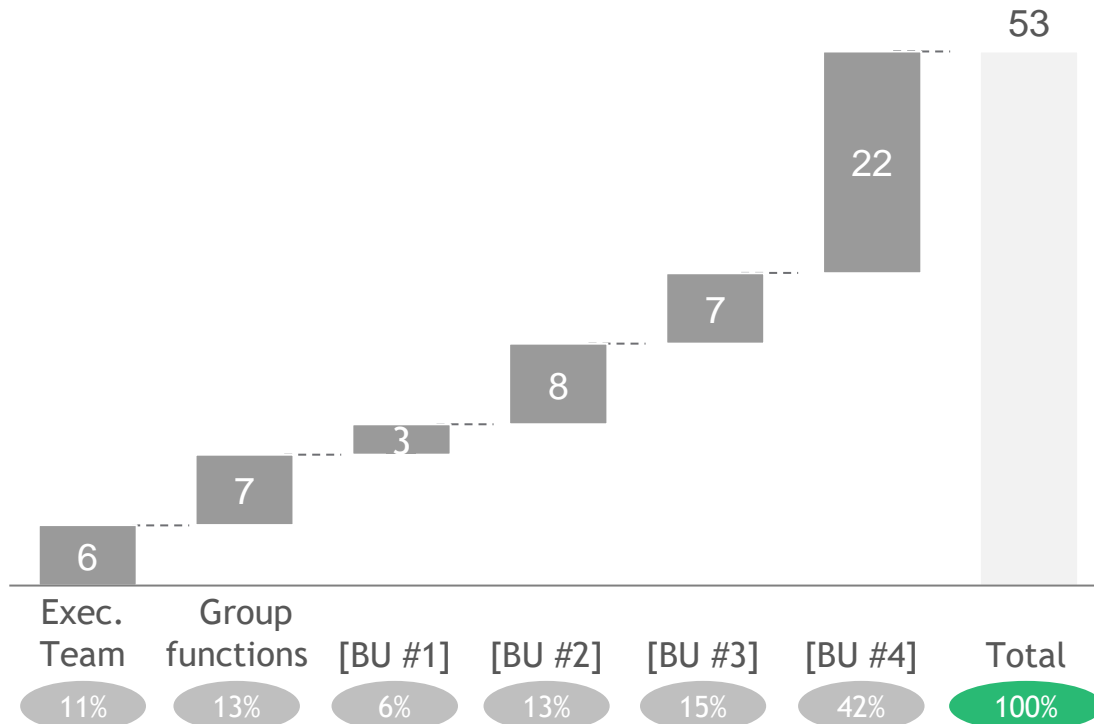
- 9 topics covering environmental, e.g., GHG emissions, energy management
- 9 topics covering social, e.g., D&I, health and safety
- 6 topics covering Governance, e.g., risk management and supply chain management



Interviews | To enlighten materiality matrix, 74 interviews conducted with broad internal and external representation



Internal interviews



External interviews





Interviews | Insights from stakeholders were collected following an interview guide and subsequently summarized in a one-pager

Interview guide & one-pager in appendix

Interview guide

Internal interview questions

Appendix

Materiality interviews | Preliminary questions to be adapted per interview

Topic	Key question
Baseline	<ul style="list-style-type: none"> Looking at this list of initiatives from your Sustainability report, how many of these do you recognize immediately? What would you describe as your biggest success within ESG? Are there any initiatives that are not covered on this list, coming out of your area? <ul style="list-style-type: none"> Environmental (e.g., waste reduction, emissions reduction) Social (e.g., work safety measures, diversity within the workforce) Governance (e.g., code of conduct, specific ethical guidelines) For these activities / measures, <ul style="list-style-type: none"> How are the activities and progress measured / tracked? Are there specific KPIs defined and a plan in place? Do you know of other initiatives in the industry? How do you think your company is performing on ESG compared to peers? If not well, what is the number one thing stopping you from improving/accelerating efforts? [Anything to clarify from the survey?]
Materiality Assessment	<ul style="list-style-type: none"> Starting from Client's point of view [x-axis], and considering a column [E-S-G] at a time <ul style="list-style-type: none"> Are these the right topics for Client to look at? Anything missing? Which of these topics are the 2-3 most important? Which 2-3 are the least? Thinking from a Stakeholder point of view [Y-axis], <ul style="list-style-type: none"> Do you think your stakeholders [e.g., NGOs, banks, suppliers] would rank any of them differently?
Strategic direction	<ul style="list-style-type: none"> Within the top areas, what are the activities/initiatives Client should be pursuing? Where do you think Client can differentiate itself from peers [compete vs comply]? If you were CEO for a day, what is the one thing you would change or implement regarding ESG?

90

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Interviewees were sent a pre-read interview guide with questions and supporting material before actual interview

Interview summary

Sample interview one-pager

Appendix

Materiality interviews | One-pager for internal interview note-taking

Name: _____ Business unit: _____

Email: _____ Function: _____

Background and baseline

Peer initiatives & differentiation

Other topics (survey, materiality, etc.)

Key quotes from interview

Outlook: key priorities and barriers for success

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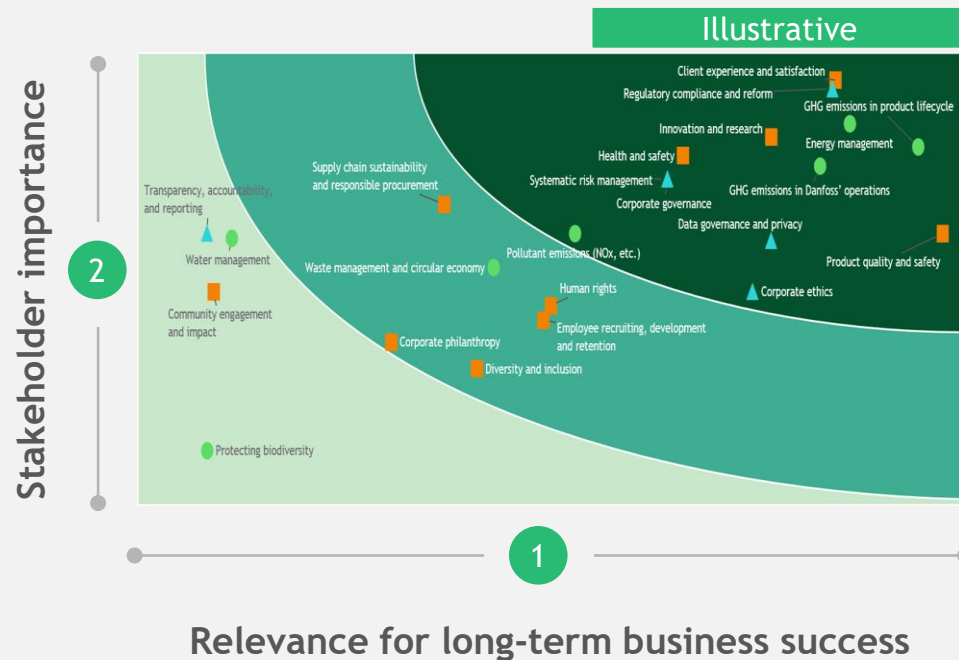
PPT one-pagers created to summarize each interview (versions for **internal and external interviews**)



Materiality matrix | Materiality matrix was computed based on four inputs - employees, customers, financial landscape and community

Materiality matrix is a function of stakeholder importance and relevance for Client success

Business relevance defined from internal input, stakeholder importance is a combined measure



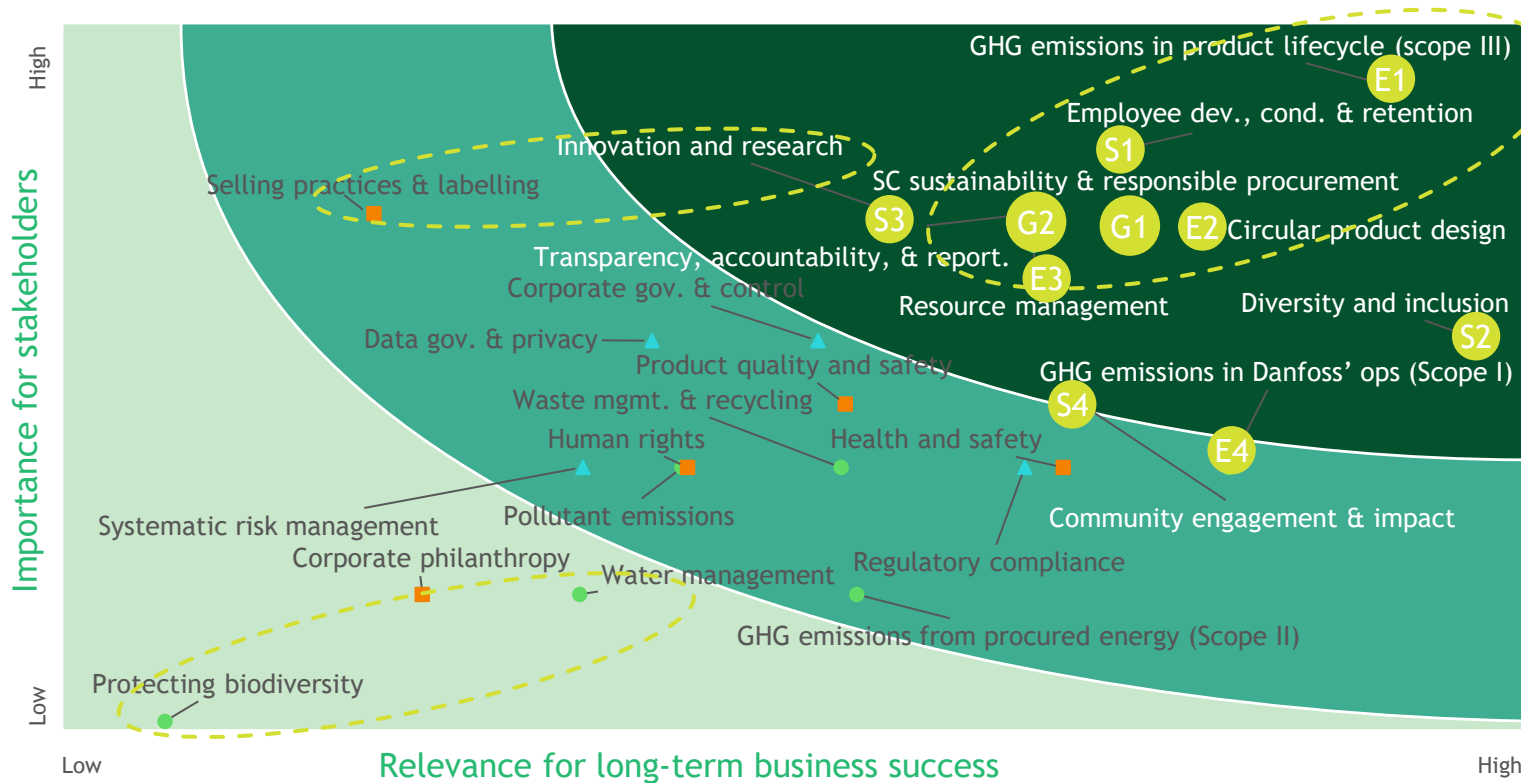
- 1 **Relevance for long-term business success**
 - Result of internal inputs gathered from +80 internal and external interviews across segments
- 2 **Stakeholder importance**

Combined result of three main stakeholder groups:

 - Customers
 - Banks & investors
 - Community e.g., NGOs, industry associations



Materiality matrix | Using the interviews as knowledge source, the material topics were plotted along the materiality matrix to find most material topics



Key observations

- **GHG emissions, circularity, SC sustainability and employee development** deemed significant important for both internal & external stakeholders
- **Innovation & research and selling practices** particularly important for customers
- **Biodiversity and water management** deemed less important by both internal and external stakeholders

● Environmental ■ Social ▲ Governance



Materiality matrix | Comparison across stakeholder groups suggested a number of different focus areas

Material topics	Peers	Client	Customers	Financials	Community
GHG emissions (Scope I)	✓	✓	✓	✓	
GHG emissions (Scope II)	✓	✓	✓	✓	
GHG emissions (Scope III)	✓	✓	✓	✓	
Circular product design		✓	✓	✓	
Resource management		✓	✓	✓	
Waste management & recycling	✓	✓	✓	✓	
Pollutant emissions	✓	✓	✓	✓	
Diversity and inclusion	✓	✓	✓	✓	
Health and safety	✓	✓	✓		
Employee dev. and retention	✓	✓	✓	✓	
Community eng. and impact		✓	✓		
Product quality & safety	✓	✓	✓	✓	
Innovation & research	✓	✓	✓	✓	
Human rights	✓	✓	✓	✓	
SC sustainability & resp. sourcing	✓	✓	✓		
Regulatory compliance	✓	✓	✓	✓	
Transparency & accountability		✓	✓	✓	
Corporate governance & control		✓	✓	✓	
Data governance & privacy	✓	✓	✓	✓	

Client materiality matrix: X-axis Combined y-axis

Deep-dive in appendix

Key take-aways

Each scope of **GHG emissions** deemed important across peer group - Scope II significantly more important for peers

Customers with high focus on **product lifecycle & circularity** - governance deemed significantly more important than for Client

Most important social topics for peers are **Health & safety** and **innovation** - Diversity & inclusion ranked low compared to Client

Banks rank actions against **climate change** high but **GHG emissions** are of less importance

- Topic scored in top right corner
- Topic scored in mid-green area

Note: Peers, investors and Danfoss aggregated across the two dimensions, Criticality for business and Stakeholder importance. Note: only material topics deemed material topics for one of either group is included, Peer group: ABB, Alfa Laval, Eaton, Parker, Rockwell, Siemens, Emerson and Bosch, banks included: Barclays, ING, UBS, BoA, DBS.

Source: Peers: Company Annual Sustainability reports & company websites, Financial: Bank materiality assessments, Danfoss: Interviews



Materiality matrix

This exercise resulted in a list of 10 material topics

For each of the 10 material topics, we subsequently benchmarked the client's performance

ENVIRONMENT

- E1 Circular product design
- E2 Resource management
- E3 GHG scope I+II emissions
- E4 GHG scope III emissions



SOCIAL

- S1 Diversity & inclusion
- S2 Employee development, conditions, & retention
- S3 Innovation & research
- S4 Product quality & product safety



GOVERNANCE

- G1 Supply chain sustainability & responsible procurement
- G2 Transparency, accountability & reporting



Universally material topics



Other prioritized topics