

# DIVERSIFIED CHEMICALS BUSINESS IMPROVING ESG PROFILE

*Presentation for Board of Directors*

**dss<sup>+</sup>**

Protect. Transform. Sustain.

Dr. Tymur Khusainov

# TYMUR KHUSAINOV



## Sustainability business leadership

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## Background

- Management consultant with experience in Finance, Energy, Consumer, Agribusiness, and Government
- Sustainable & impact investments, energy transition and net-zero. Advise on TPT, TCFD, SFDR, SDR and CSRD regulations.
- Senior leadership positions responsible for M&A, profitability, cost reduction, products, and growth at multi-regional environment
- Guest lecturer on Climate and Sustainability at Imperial College Business School, London

## Qualifications

- PhD in Applied Mathematics; M. Sc. of Business Administration

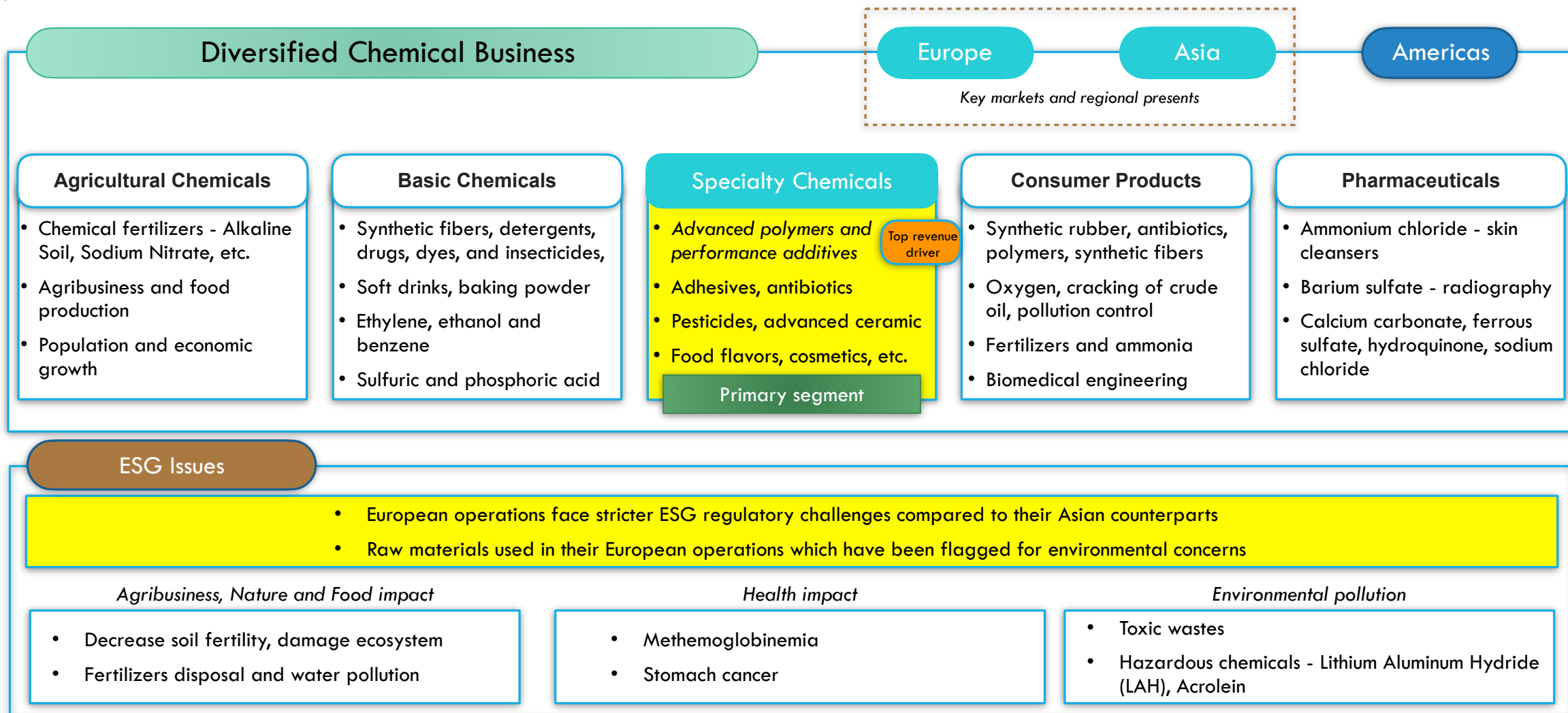
## Sustainability & Climate

- Advised on Transport sector, ICE to EV transition and climate change at the leading UK bank.
- Consulted on Oil & gas strategic response among US majors, European IOC and NOC for the global bank.
- Consulted on climate-linked products and sustainability strategy at global British-HQ bank.
- Managed industry decarbonisation proposition, £260M business case, GTM plans, EMEIA sales and commercial model. Beverages, Retail, Energy.
- Sustainable investments, decarbonisation, impact and ESG maturity assessment for Private Equity.

## Strategy & Growth

- Directed €700k research on cross-border clients and financial regulations for the European Commission.
- Directed \$3M profitability and growth program for the 25 regions/1000 branch Austria-HQ bank.

# SUSTAINABILITY IS THE CORNERSTONE OF THE FUTURE OF CHEMICAL BUSINESS



# RECAPTURE YOUR NEEDS

## Your needs and objectives

1

Improve current ESG profile

2

Recommend 3-year strategic ESG plan

3

Establish financing of sustainability evolution

## DSS+ project scope & main goals

Increase competitiveness w. Chemical peers and compliance in sustainability (GRI, SASB)

Improve ESG rating at major rating agencies (MSCI, S&P, Sustainalytics, etc.), controversies mng.

Enhance reputation among consumers (polymers, additives), speciality supply chain and investors

Identify sustainability interventions in raw material sourcing, chemical production and distribution

Asses financial and impact materiality, establish measurable outcomes - food, health, nature, social

Review potential impact of biodegradable polymers, implications to advanced polymer offerings

Identify sustainable finance opportunities - Green and Social bonds, SLL, ESG PE, ESG AM

Evaluate options and justify financial choices - short- and long-term factors for chemicals

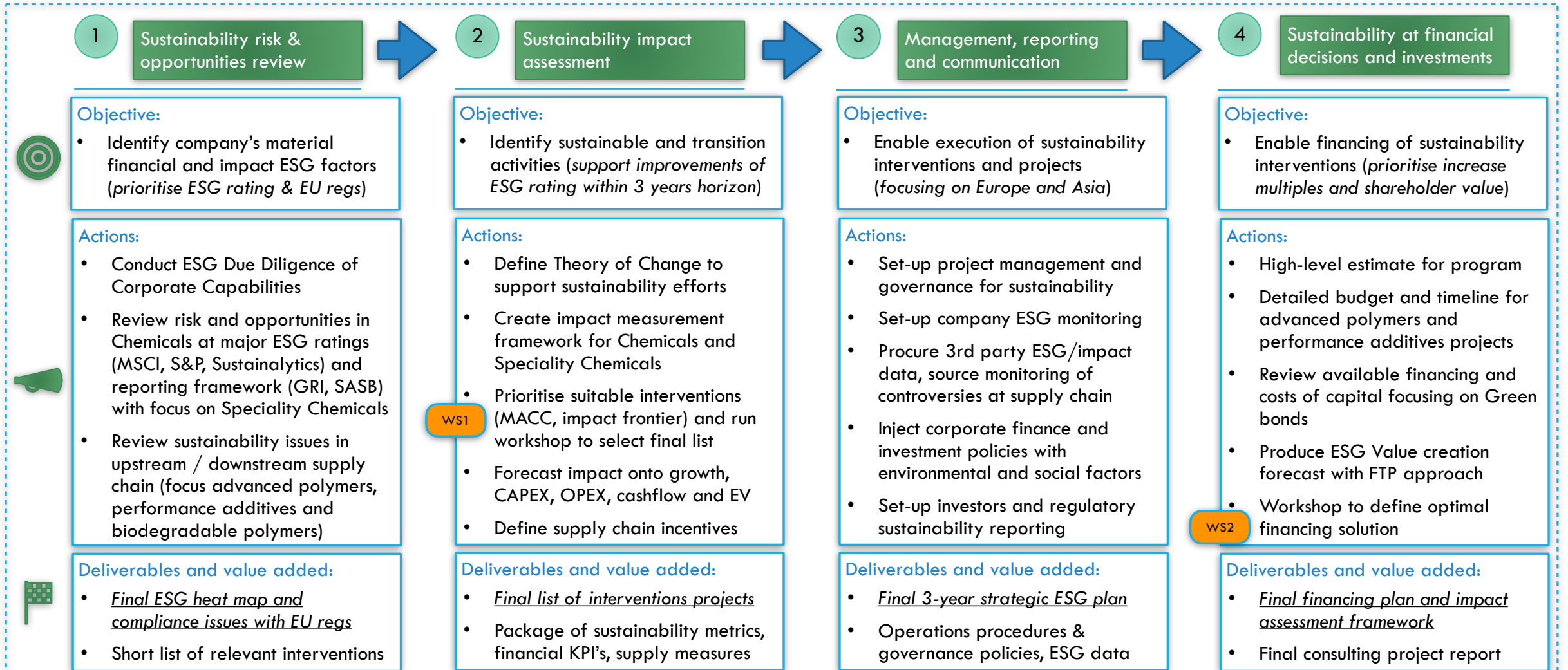
Indicate approach to implement optimal financial solutions - loans private/public debt, equity

# PROJECT BENEFITS FOR THE DIVERSIFIED CHEMICAL FIRM

- ◆ Establish communication narrative, theory of change and set of indicators linking advanced polymers, performance additives, and speciality chemicals to social, environmental benefits and financial value
- ◆ Improved WACC, reduced yields / interest rates for sustainable finance options
- ◆ Higher credit rating (based on reduced cost of debt and improved risks)
- ◆ Higher ESG rating
- ◆ Better compliance with existing and emerging sustainability regulatory requirements
- ◆ Better positioning at consumer and labour markets
- ◆ Improved relationships with investors and asset managers, clear and regular impact and sustainability communication
- ◆ Reduction of reputation risks with consumers and speciality supply chain

Sample projects include: biodegradable polymers products, advanced polymers for healthcare and agribusiness, performance additives adaptation for energy transition; antibiotics, pesticides and advanced ceramic for poverty elimination and social cause, social projects (improved labour management, etc.)

# DSS+ TO PROVIDE SERVICES VIA PROVEN APPROACH TO SYSTEMATICALLY ACHIEVE EXPECTED RESULTS



# DSS+ SCOPE OF WORK FOR THE CHEMICAL INDUSTRY FOCUSES ON HOLISTIC UNDERSTANDING OF ESG ISSUES

## Business Model and Organisation

- Business model (incl. sustainability and impact of speciality chemical segment)
- Investor relations (sustainability progress)
- Controversies management (business practices)
- Sustainable policies and believes (review and real-life application of policies)
- Governance and accountability
- Ownership and shareholders
- Corporate purpose (inc. measurement indicators)
- Partnership and intermediaries
- Investments and acquisitions
- Responsible capital and debt

## Corporate Communications

- Public communications and reporting (sustainability and impact reporting)
- Client communications (sustainability branding and labelling)
- Internal communications
- Stakeholder management
- Tone from the top (inc. executive remuneration targets for sustainability objectives)
- Communications with communities
- Marketing communications
- Advertising and promotions
- Disclosures and data

## Environment Impact and Actions

- Do-no-harm policies and actions
- Second-round social impact
- Clean water and sanitation
- Food security
- Biodiversity preservation
- Air and water contamination
- Land and atmosphere life
- Oceans and sea life
- Paris agreement and climate
- Climate change adaptation and mitigation

## People and Social Development

- Equality, diversity & inclusion
- Health and well-being
- Family and neighbourhood
- Social policies
- Unionisation and group actions
- Supply chain and external workers
- Fair play and promotions
- Recruiting and hiring
- Measures of success

## Manufacturing and Products

- Product design (chemical, focus on speciality products, biodegradable polymers)
- Manufacturing and operations (clean technology for specialty chemicals)
- Energy policy and consumptions (incl. synthetic polymers for drilling)
- Product lifecycle (advanced polymers, performance additives)
- Recycling and end-of-use policies (polymers, pesticides, fibers, rubber, detergents, fertilizers)
- Infrastructure (recycling, green energy)
- Project execution (process effectiveness, circular economy, nature compensation)

## Sourcing and Distribution

- Raw materials (crude oil, petroleum, synthetic resins and plastics)
- Supply chain (sourcing management, value chain transparency)
- Transport (efficiency, carbon emissions, recycling, circular economy)
- Distribution (synthetic resins, plastics, synthetic polymers, synthetic rubber, fertilizers and other agricultural chemicals, pharmaceuticals and drugs)

## Risk Management and Response



- Supply chain globalisation and regionalisation
- Carbon tax risks
- Geopolitical risks
- Climate change risks
- Risk governance
- Legal aspects
- Tax aspects (responsible tax)
- Labelling regime (incl. international regulations on sustainability labels)
- Oversell and responsible promotion

## Regulations and Compliance

- Sustainability and carbon emission regulations (CSRD, TCFD, etc.)
- Chemical manufacturing regulations (COSHH, COMAH, REACH EC 1907/2006, CLP etc.)
- Relationships with regulators (ECHA, Defra, HSE, etc.).
- Workforce regulations (health and safety, unionisation, labour relations, etc.)
- Sourcing regulations (CEAP, SVHCs, etc.)
- Sustainable finance frameworks (Green and Social Bonds, etc)
- Consumer regulations (REACH Article 3, etc.)
- Sustainability assurance and audit



# EXAMPLE OF ESG ASSESSMENT SUMMARY

	Comments	“Diversified Chemical Business” Score			Average Score		
		“Diversified Chemical Business”	Current State	Ambition Implications (1)	Implementation Plan (2)	 Wait and see	 Maintain “competitive edge”
Business Model and Organisation		Moderate	Pioneering	Advanced	Moderate	Advanced	Pioneering
Corporate & Investors Communications		Moderate	Advanced	Advanced	Moderate	Advanced	Pioneering
Environment Impact and Actions		Moderate	Moderate	Moderate	Moderate	Advanced	Pioneering
People and Social Development		Moderate	Advanced	Moderate	N/A	Moderate	Advanced
Manufacturing and Products		Moderate	Advanced	Moderate	Moderate	Advanced	Pioneering
Sourcing and Distribution	Monitoring of supply chain is not established	N/A	Moderate	Advanced	N/A	Moderate	Advanced
Risk Management and Response		Moderate	Advanced	Moderate	N/A	Moderate	Advanced
Regulations and compliance		Moderate	Pioneering	Advanced	Moderate	Pioneering	Pioneering

1. Considering stated leadership ambitions
2. Considering available plans, approved and ongoing initiatives

Legend	Not Available	Moderate Level	Advanced Level	Pioneering Level
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# EXAMPLE OF ESG RISK AND OPPORTUNITIES ASSESSMENT ANALYSIS

Topic	Objective	Priority	Issues Identified	Risk Impact	Score (of 10)	Data	Potential Next Steps
Corporate & Investors Communications	Check that consumer and investors marketing information is accurate, precise and fair with ESG objectives	Medium	<ul style="list-style-type: none"> <li>Objectives include magnitude of impact w/o process and outcome KPIs</li> <li>Sustainability objectives and impact metrics are not quantitative</li> </ul>	<ul style="list-style-type: none"> <li>Concerns and impact into ESG-savvy investors</li> </ul>	4	<ul style="list-style-type: none"> <li>Corporate policies</li> <li>Sample of investor communications</li> </ul>	<ul style="list-style-type: none"> <li>Articulate Theory of Change for each sustainability objective</li> <li>Define set of quantitative and qualitative measures</li> </ul>
Corporate & Investors Communications	Assess level of formal, structured and binding approach incorporating ESG into corporate governance	Medium	<ul style="list-style-type: none"> <li>Sustainability governance is focused on financial materiality and doesn't cover impact and supply chain</li> <li>Lack of ongoing risk analysis and shareholder engagement</li> </ul>	<ul style="list-style-type: none"> <li>Potential impact on cost of capital, liquidity, shareholder value and cost of debt</li> </ul>	3	<ul style="list-style-type: none"> <li>Corporate sustainability policies</li> </ul>	<ul style="list-style-type: none"> <li>Introduce sustainability objectives into executive remuneration</li> <li>Review and establish ongoing monitoring of supply chain</li> </ul>
Manufacturing and Products	Check that sustainability policy includes clauses on energy policy and consumptions	High	<ul style="list-style-type: none"> <li>Production and distribution of synthetic polymers for oil drilling cause extensive carbon footprint</li> </ul>	<ul style="list-style-type: none"> <li>Extended repetitional and litigation risks</li> <li>Elevating risk of engagement with climate change activists and investors</li> </ul>	7	<ul style="list-style-type: none"> <li>Samples of delivery contracts and communication</li> </ul>	<ul style="list-style-type: none"> <li>Review current and future materiality of speciality chemicals business for oil drilling</li> <li>Evaluate social and environmental impact of transition</li> <li>Consider and establish nature damage compensation measures</li> </ul>
Regulations and Compliance	Assess whether regulatory documents and marketing documents comply with EU / UK and local rules	Medium	<ul style="list-style-type: none"> <li>Missing compliance with incoming CSRD regulation</li> </ul>	<ul style="list-style-type: none"> <li>Non-compliance with CSRD in EU resulting in penalties</li> </ul>	4	<ul style="list-style-type: none"> <li>Corporate sustainability reporting and disclosures</li> </ul>	<ul style="list-style-type: none"> <li>Update and introduce corporate policies to comply with CSRD for European and global business.</li> </ul>
Sourcing and Distribution	Assess whether supplementary information made available to existing / potential consumers and investors comply with mandatory sustainability rules	High	<ul style="list-style-type: none"> <li>Missing provenance control for raw commodities materials and minerals sourcing (including petroleum, synthetic resins and plastics) for Specialty Chemicals in EMEA</li> </ul>	<ul style="list-style-type: none"> <li>Extended reputational and litigation risks</li> </ul>	6	<ul style="list-style-type: none"> <li>Supply chain data unavailable</li> </ul>	<ul style="list-style-type: none"> <li>Introduce provenance certification and electronic tracking of commodity raw materials.</li> </ul>

# ONGOING REGULATORY AND BUSINESS TRENDS SUPPORT LONG-TERM DEMAND DESPITE SHORT-TERM POLITICAL HEADWINDS

## Ongoing ESG Concerns

- European operations face stricter ESG regulatory challenges compared to their Asian counterparts
- Raw materials used in their European operations which have been flagged for environmental concerns

## Drivers:

Renewed focus on social impact and sustainability across supply chains



Healthcare



Defence



Energy Security



Agri & Food

Chemical

## Trends:

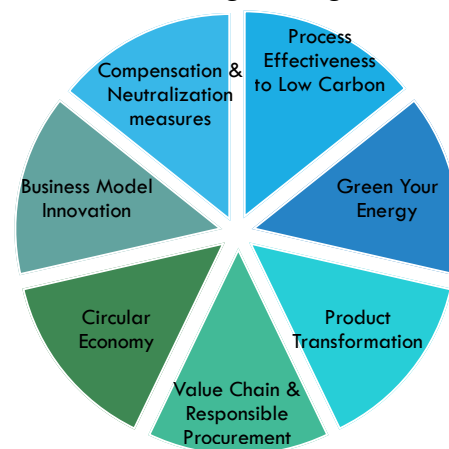
### Regulatory standards and incentives

- ❖ EU Green Deal
- ❖ Inflation Reduction Act 2022 (\*)
- ❖ CSRD (corporate sustainability)
- ❖ ISSB, SASB & GRI sustainability reporting
- ❖ TCFD (climate)
- ❖ TNFD (bio-d)
- ❖ UK Green Strategy
- ❖ Transition Plan Taskforce
- ❖ US SEC climate disclosure

### Sustainability practice evolution

- Tough political environment in the US (and probably now in the UK) for sustainability and decarbonisation
- Investors appear to be using more bottom-up data to shed light on specific investment issues. The use of ESG ratings as a primary tool plummeting.
- Rapid development and evolution of biodiversity, water and social impact data providers

### Changes in operations & manufacturing management



Opportunities to attract and retain ESG-savvy investors (Diversified Chemicals) increasing shareholder value

- 1 Investors are increasingly intrigued by "carbon improvers"
- 2 Climate-aware investors are leaning into forward-looking measures of decarbonisation
- 3 Growing interest in capturing value from investing in companies enabling a faster transition
- 4 Handful of institutional allocators are dipping their toes into "impact funds"
- 5 Energy security and energy transition are being woven into core portfolios

Prioritise chemicals business with substantial impact into industrial sectors with special importance for net-zero

Cleantech & research

Sustainable Infrastructure

Oil & Gas and Renewables

Carbon Capture Systems

Energy & Transport

Energy security, EV transition, hydrogen, metals, supply chain

Real Estate & Housing:

Decarbonise heating, insulation, affordable housing

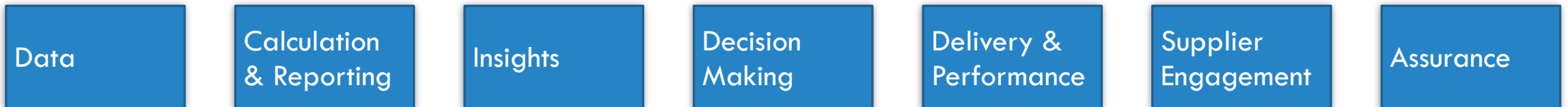
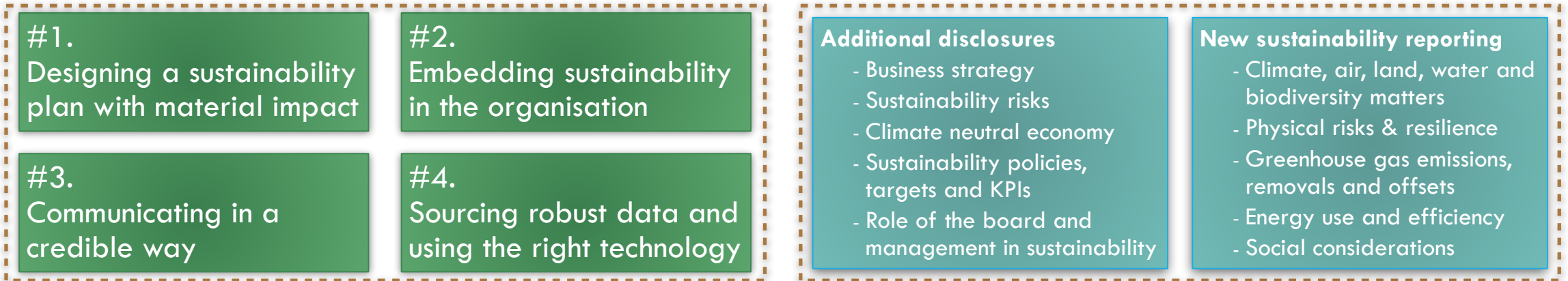
Agriculture & Food:

Value chain transparency, food security, decarb

\* largest US nationwide public investments in social, infrastructural, and environmental programs since the 1930s

# IMPLICATIONS FOR CORPORATE HOLDINGS AND EXECUTIVES AT CHEMICAL INDUSTRY

CEOs, finance teams and businesses colleagues need to understand what it means for their strategy, financial and investment decisions, products, processes and controls, and assess whether any additional training is required



● Single source of truth of sustainability data at audit quality

● Identify, deliver and track the right sustainability interventions

● Evidence in your products to sell 'net zero' and 'sustainability'

# EMERGING TREND IN BIODEGRADABLE POLYMERS CAN DISRUPT CURRENT ADVANCED POLYMER OFFERINGS

Large numbers of partially and completely biodegradable polymers and their blends are now available including poly(L-lactic acid), poly( $\epsilon$ -caprolactone), poly(3-hydroxybutarate), vegetable oil-based polyesters, epoxy and polyurethanes

- Products prevents the pollution, biopolymeric materials are generally sent to landfill or composted
- Agriculture feedstocks can be replaced through natural cycles or intentional human intervention
- Use of renewable resources in the production of polymeric materials is beneficial to the environment

## Introduction and transition to biodegradable polymers

Client demand and market growth

CAPEX, capital cost and structure

Manufacturing, operational costs

Regulations and incentives

DSS+ will review potential impact of biodegradable polymers and provide recommendations whether Diversified Chemical Business should pivot towards it

DSS+ will apply triple bottom line lens to analyse the sustainability of biodegradable plastics (economic profit, social responsibility, and environmental protection)

Cost-effectiveness & economic profit

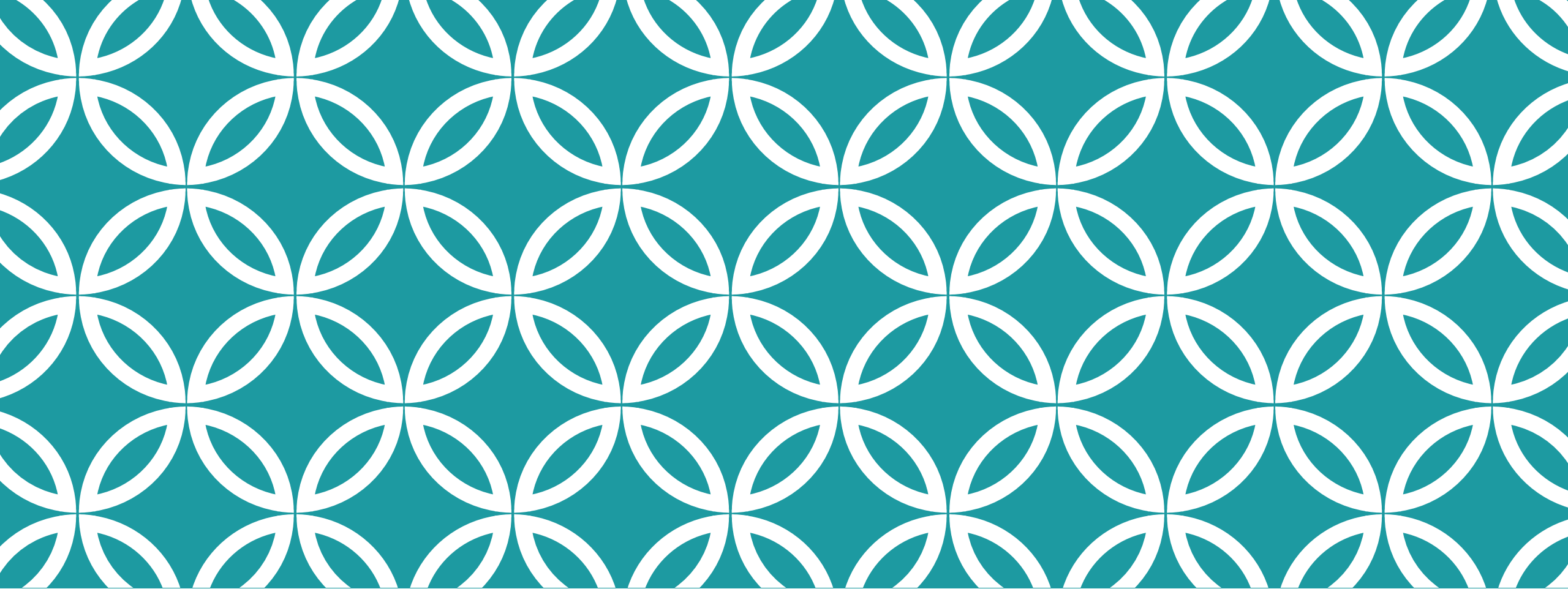
Potential to reduce waste management and pollution

Biodegradable plastics production

Product prospects & impact on advanced polymer offering

Sustainability (social & environmental)

Sourcing and ecological imprint



# APPENDIX



# PROJECT ORGANISATION & GOVERNANCE



Protect. Transform. Sustain.

## Oversight:



Client Director  
(Sustainability Services)  
**David Rochat**



Engagement Partner  
(Head of Private Equity)  
**Joaquin Blanco**

## Managers:



Engagement Leader  
**Tymur Khusainov**



Manager, Sustainability & SF  
(ESG Impact)  
**Emilie Kehl**

## Experts:

**Chemicals Industry SME**  
(Expert #1)

Speciality Chemicals

Agribusiness Chemicals

Healthcare Chemicals

**Corporate Sustainability & Reporting**  
(Expert #2)

Sustainability reporting

ESG ratings & data

**Sustainability & ESG Impact**  
(Expert #3)

Supply Chain

ToC, Impact framework

ESG & Impact forecasting

**Sustainable Finance Solutions**  
(Expert #4)

Green Bonds & SLL

ESG & Private Equity

Corporate Finance, M&A

## Diversified Chemical Business

Board & Executives Team

CSO & Sustainability Stakeholders Teams

Manufacturing & Operational Teams

CFO & Financial Team

## Project Management approach

### Risk management

- At the beginning of the project a **risks matrix** will be created doing an initial inventory of the risks.
- During the project, weekly evaluations of the risks matrix will be performed.

### Change management

- Project team will make efforts to manage small changes efficiently during the course of the project.

### Quality management

- The project deliverables will be checked periodically following a peer-review strategy within the team members, including the PM.