



Insights from the CFO Survey

Energy Sector

18 May 2022

Energy Sector
KPMG in Japan



Contents

Executive Summary

01 Business Strategy

02 Investment Strategy

03 Risk Management

04 Tax

05 Comprehensive Reporting
Including Non-financial Information

06 Accounting and Finance

Appendix

Survey Responses

Executive Summary

Climate change risks have a particularly large impact on corporate value in the energy sector, which faces the difficult task of reviewing its business portfolio and driving the strategic planning of new investments and execution of the strategy amid pressure to meet current energy demand.

(1) Power, gas and oil industry

- Amid the demand for decarbonization of core businesses, a delay in such efforts is recognized as the greatest concern in terms of potential significant damage to corporate value. Companies in the power, gas and oil industry are working to reduce corporate funding risk by deepening dialogue with investors and financial institutions, while steadily promoting environmental investments, including the decarbonization of existing businesses and the incorporation and development of renewable energy businesses.
- There are many areas in which technologies are still developing as a means of decarbonization, including hydrogen, ammonia, methanation, and floating offshore wind power. There are multiple scenarios regarding which technologies will have the greatest advantage in terms of cost and technological capabilities and will be capable of commercialization by 2050. Since these investments are made from a long-term perspective, management will be required to make difficult decisions.
- Companies are working to enhance operational efficiency through DX and other measures as competition intensifies, and a change in business structures driven by deregulation will require large investment funding. They are also actively investing in overseas markets in pursuit of growth opportunities outside of the Japanese market where low growth is expected. Changes in existing operations and businesses are linked to new management issues of developing the skills of employees and redesigning decision-making and business management processes required for future business.
- While the market understands the need for companies in the power, gas and oil industry to continue investing in existing businesses to meet current energy demand in parallel with decarbonization efforts, there is a heightened risk as to whether companies can secure a return on such investments.

Executive Summary

(1) Power, gas and oil industry (Continued)

- The gas industry, which had been making an aggressive move into the electric power business including renewable energy and retail, has recently been accelerating carbon neutral efforts in its core business. Meanwhile, operational efficiency and the restructuring of business management processes in the oil industry seem to have progressed relatively well, as restructuring has proceeded ahead of other industries. The oil industry is expected to increase its resources in new areas such as hydrogen, ammonia, renewable energy, and petrochemicals, while accelerating decarbonization measures for its core business through CO₂ capture and other methods.
- In the electric power industry, in addition to addressing nuclear energy, large-scale investment from a long-term perspective is required in the decarbonization of thermal power generation through hydrogen and ammonia, and in power transmission and distribution in response to a mass introduction of renewable energy and facility upgrades. On the other hand, short-term measures are required to address an increase in the number of consumers, mainly corporations, demanding CO₂-free electricity, both in terms of acquiring and securing customers.

(2) Chemical industry

- The chemical industry faces significant adaptation costs and investment risks for existing businesses given the strong demands to address climate change. However, at the same time, there are great business opportunities to contribute to a society that is moving toward sustainability by developing new materials, components, and functions that have a low environmental impact.
- At the laboratory level, there are many companies with various technologies for reducing environmental impact. Chemical companies that had not achieved a scale of utilizing these technologies at a business level and therefore had not yet moved into mass production, are now proactively pursuing research and development with a view to seizing new business opportunities in this field.



01 Business Strategy

Climate change driving a major transformation in industries and businesses—flexible response and early implementation of strategies essential



Sustainability is a top priority management issue (★1) in the energy sector, indicating a high level of awareness of climate change (★2) as a sustainability-related issue that will greatly impact present or future corporate value. Both the power, gas, and oil industry and the chemical industry had a response rate exceeding 80%, well above the percentage for all industries. As with the automotive industry, this is an industry for which climate change will have a significant impact on corporate value.

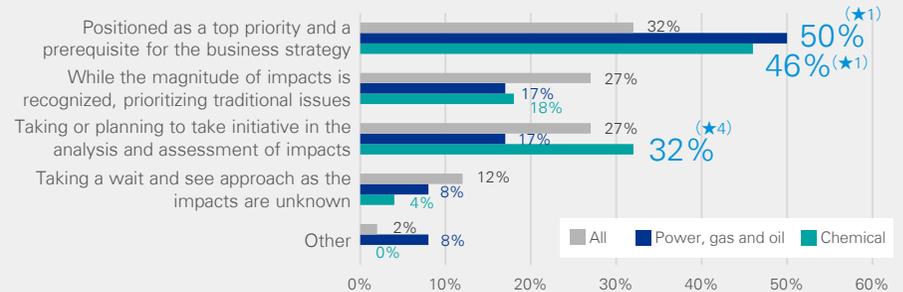


The results in the power, gas, and oil industry show that CFOs view human capital management (★3) as a sustainability-related issue that will significantly impact present or future corporate value. This indicates that companies recognize the need to manage human capital and ensure that their human resources are capable of meeting future business requirements as they promote new initiatives, such as decarbonization of existing businesses, starting new businesses and expanding overseas.

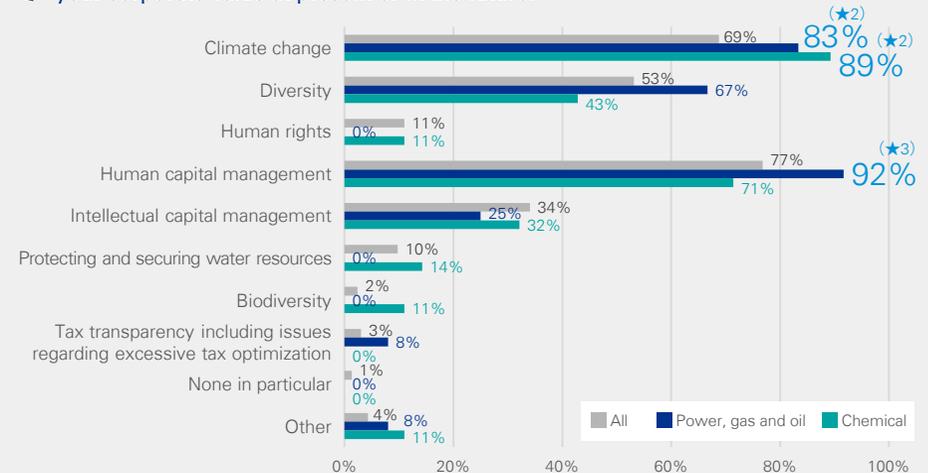


On the other hand, many CFOs in the chemical industry responded that they are in the phase of analyzing and assessing impacts (★4), while positioning sustainability as a top priority management issue. However, we observed a varying degree of progress depending on company size, with larger companies having moved on from the analysis and assessment phase to the implementation phase.

Which statement best reflects the positioning of SX within your company's management issues?



What are the top three sustainability-related issues that you think will greatly impact your corporate value at present or in the future?



All: All Sectors



02

Investment Strategy

Good judgment and corporate funding capabilities needed for decision-making for investing in uncertain new technologies and strengthening R&D



The survey results on investment strategy indicate a trend toward **increasing future investments in environmental measures (★1)** in the energy sector. The power, gas, and oil industry is currently investing proactively in renewable energy, while accelerating efforts to decarbonize existing businesses. We are observing steady progress in the transformation of business structures, where many companies are moving from the consideration phase to the implementation phase.



Increased investment in DX (★2) was also a characteristic observed in the power, gas, and oil industry. Our analysis is that the trend to achieve improved operational efficiency in response to system reforms and deregulation accelerated following the outbreak of COVID-19. The development of new technologies, the creation of digital platforms for effectively promoting these technologies, and the strategic use of data are also themes in new business, and we believe this result reflects these trends.

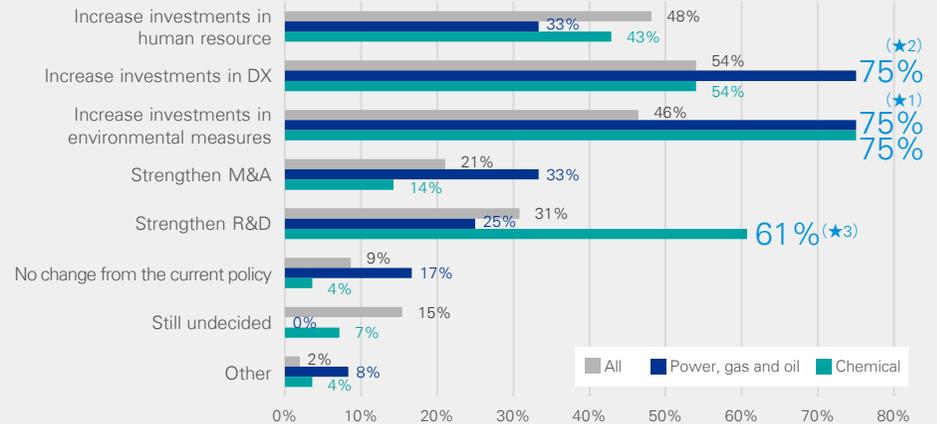


Meanwhile, there was a tendency to **strengthen R&D (★3)** in the chemical industry, revealing the focus companies are placing on research and development of products and technologies toward addressing climate change, reducing environmental impact, and making effective use of resources.

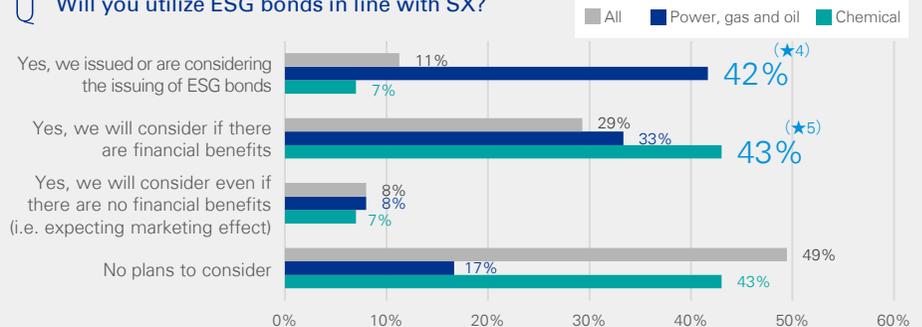


As a method for corporate funding, many CFOs in the power, gas, and oil industry indicated that they **have issued or are considering the issuing of ESG bonds (★4)**, while many in the chemical industry responded that they **would consider issuing ESG bonds if there are financial benefits (★5)**. The former industry is already in the process of issuing bonds, while the latter is still assessing the financial benefits.

Q How will you change your investment strategy in promoting SX?
Please select up to three answers.



Q Will you utilize ESG bonds in line with SX?





03

Risk Management

Importance of establishing a system for collecting information and responding quickly to avoid delays in decarbonization efforts



Companies in the energy sector cited **increase in disasters due to climate change and delays in decarbonization efforts (★1)** as sustainability-related risks that are of particular concern in relation to business operations.

The power, gas, and oil industry has concerns regarding the impact of natural disasters on facilities and the potential damage to corporate value that may result from a delay in restructuring existing businesses and business portfolios toward decarbonization. These concerns are reflected in the extremely high figures compared to other sectors.

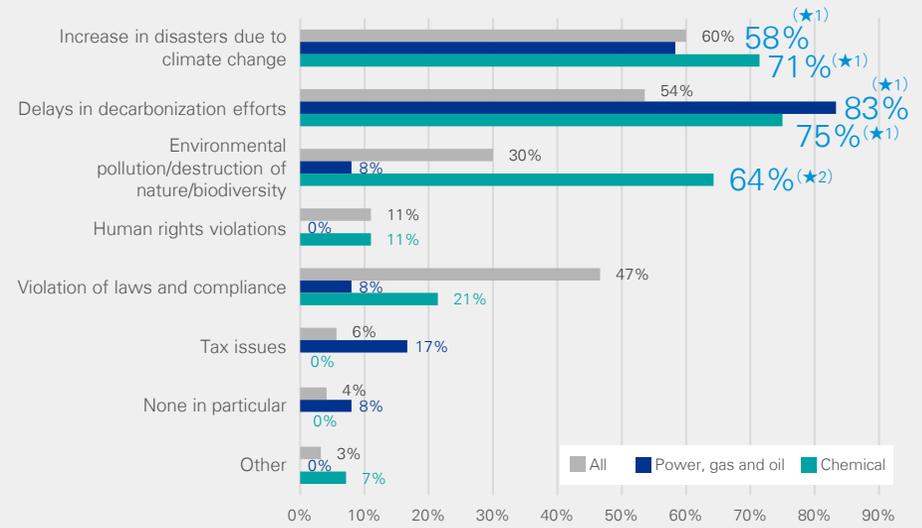


In the chemical industry, there was stronger emphasis on **environmental pollution/destruction of nature/biodiversity (★2)**, in addition to an increase in disasters due to climate change. Our analysis is that sustainability-related risks in this industry are likely to have more impact on operations and supply chains.

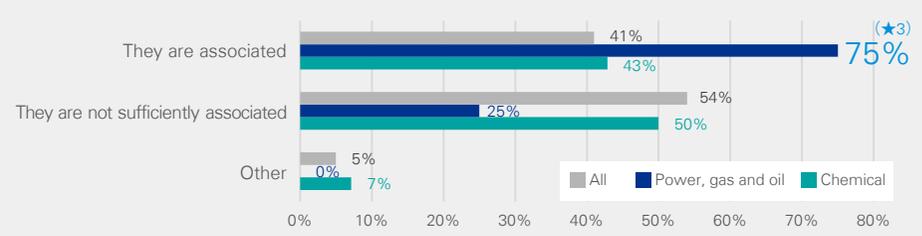


The majority of companies in the power, gas, and oil industry responded that their material sustainability issues and risk management activities are **associated (★3)**. We can infer that given the potentially fatal impact of delays in decarbonization efforts on corporate value, companies are either developing or trying to develop a system for monitoring risks and taking these risks into consideration when making management and investment decisions.

Q What are the top three sustainability-related risks that are of particular concern in relation to your business operations ?



Q Are the risk management activities of your company designed and executed in association with material sustainability issues?





04 Tax

Continued monitoring of impact of future introduction of relevant tax systems, including carbon border adjustment mechanism



With regard to the status of tax-related measures or considerations in line with SX, a relatively low percentage of CFOs in the energy sector cited “none currently and no plans in the future” (★1), suggesting a strong interest in this matter among companies in the energy sector, with some kind of consideration underway.



Future tax impacts, including carbon tax (★2) showed a particularly high indicator, which is consistent with the recent surge in discussions toward decarbonization and environmental measures. One issue in this regard is how the carbon border adjustment mechanism being discussed in the EU will be implemented in the future.

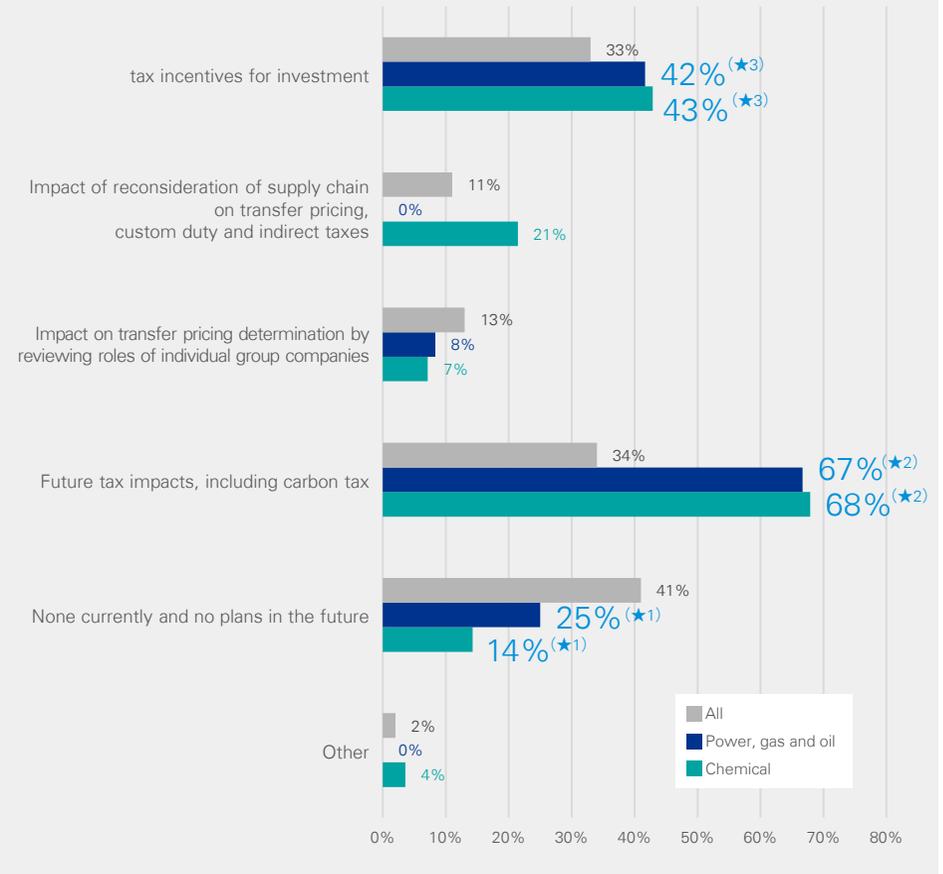


The utilization of tax incentives for investment (★3) also shows a relatively high indicator. As mentioned before, companies will need to make large investments in environmental measures and new technologies in the future. The extent to which they benefit from tax incentives will therefore significantly impact their investment strategies.



While the survey results give the impression that companies in the energy sector are taking a lead in terms of tax impacts considerations, it remains to be seen how relevant tax systems are developed in the future.

Q What are tax-related measures or considerations which you have implemented or plan to implement in line with SX? Please select up to three answers.





05

Comprehensive Reporting Including Non-financial Information

SX management initiatives and timely information disclosure important management issues for business continuity



The survey results revealed an urgent need for the energy sector to address sustainability issues, including carbon neutrality. We also saw a growing awareness of corporate reporting that is associated with this.



The survey results indicate that **selecting sustainability-related KPI that should be monitored and setting goals (★1)** is an issue for the energy sector. Meanwhile, **connecting sustainability measures with corporate value creation (★2)** is seen as an issue in the chemical industry. It also appears that while the power, gas, and oil industry has active discussions regarding sustainability issues at the board level, such discussions are lacking in the chemical industry.

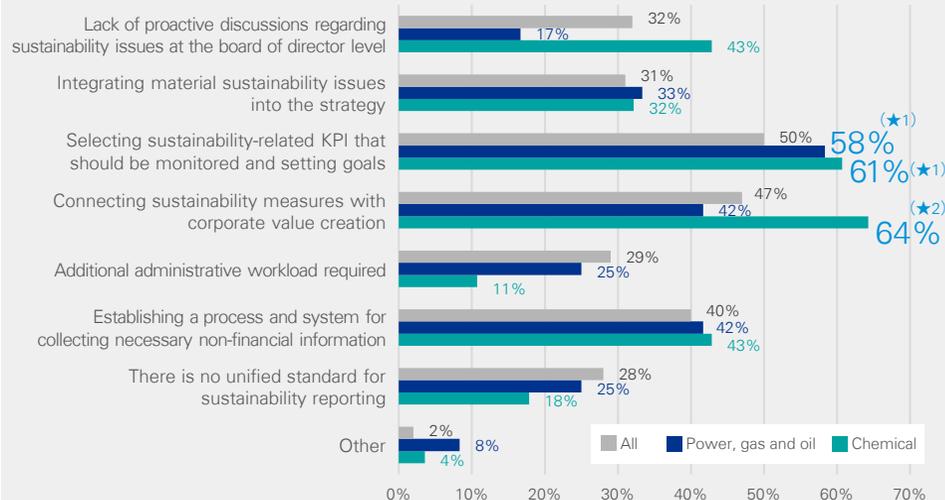


We also saw a **relatively high level of awareness regarding the use of professional assurance services (★3)** from the viewpoint of ensuring the reliability of sustainability-related information, which is another indication of the sector's awareness of sustainability reporting. In the chemical industry in particular, 57% of all CFOs indicated that they would consider using assurance services in some way for all or part of a report, reflecting their awareness of the need to improve the reliability of sustainability reports for dialogue with stakeholders.

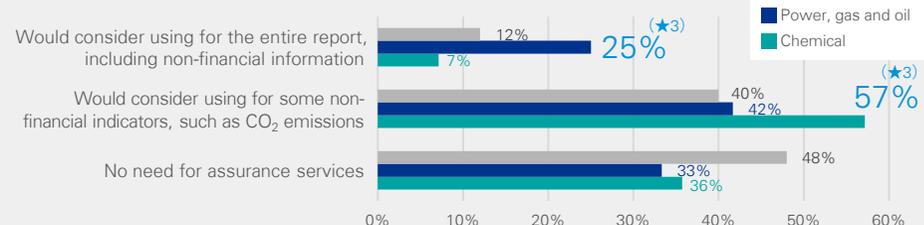


How the above issues are resolved may lead to concerns regarding corporate funding and stock price, thereby having a direct impact on business operations. Individual companies need to embrace sustainability management initiatives and timely information disclosure as a matter of business continuity, and position them as an essential element of their management issues.

What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?



What are your views on using assurance services from the viewpoint of improving the reliability of sustainability-related information?





06

Accounting and Finance

DX utilization by accounting and finance departments and systematic business collaboration essential for SX promotion



DX is indispensable for the promotion of SX. CFOs in the energy sector cited **accounting and finance (★1)**, and those in the power, gas, and oil industry in particular cited **budget management (★2)**, as areas where digital utilization will be important. These results suggest the need for capabilities to collect and analyze relevant financial and non-financial data in a timely and appropriate manner, due to the growing importance of sustainability-related disclosures including decarbonization in the energy sector.

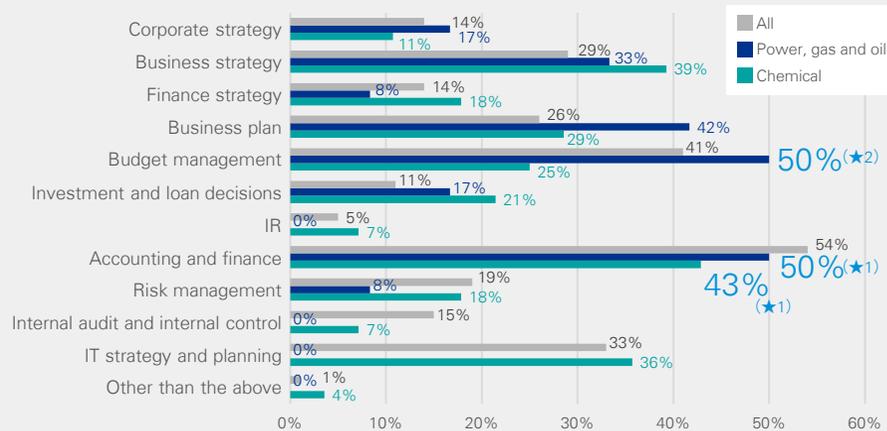


The survey results show that **companies in the energy sector are ahead of other sectors in terms of securing necessary talent, raising awareness among department members, and redesigning the business process in their accounting and finance departments (★3)** for the promotion of SX. In contrast, they seem to be lagging behind in **reviewing the organization and segregation of duties, and developing operation rules and regulations (★4)**. The power, gas, and oil industry appears to be making more progress than other industries in securing the necessary talent and redesigning business processes, perhaps due in part to the strong association of sustainability with management issues.

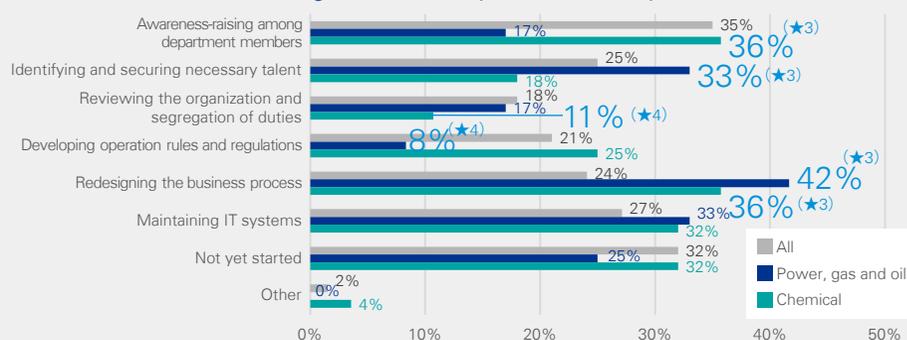


Accounting and finance departments are expected to take on the role of fully utilizing digital tools and data to ensure timely and appropriate disclosure of sustainability management initiatives and relevant corporate reporting, while working systematically in cooperation with internal sustainability promotion and risk management departments.

Q In view of SX promotion in the future, please select three areas for which you think digital utilization will be more necessary than ever before.



Q Please select the items that have been or are being addressed for improvement activities in the accounting and finance department for the promotion of SX.

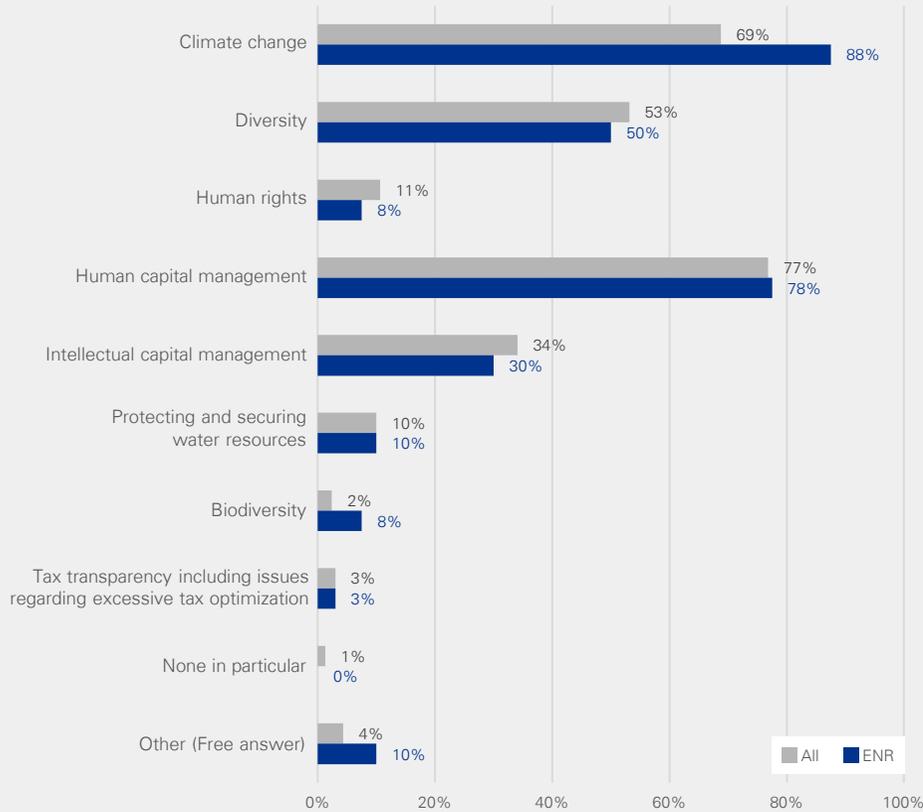




Survey responses

1.Introduction

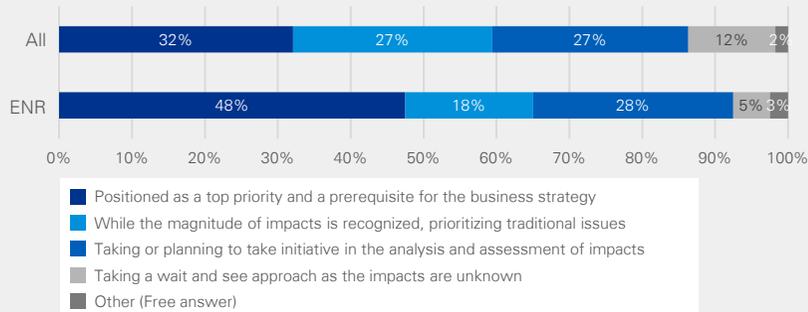
Q What are the top three sustainability-related issues that you think will greatly impact your corporate value at present or in the future?



All: All Sectors
ENR: Energy Sector

2. Business strategy

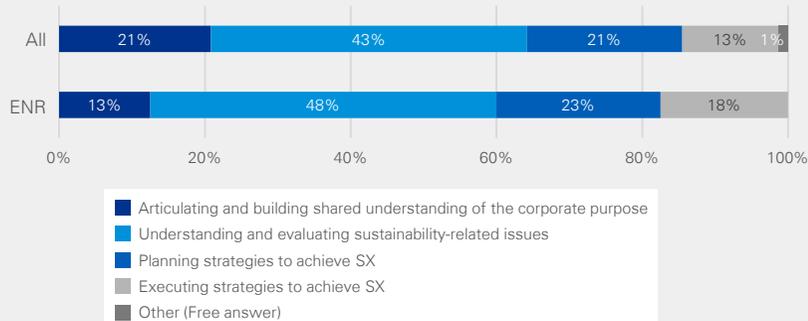
Which statement best reflects the positioning of SX within your company's management issues?



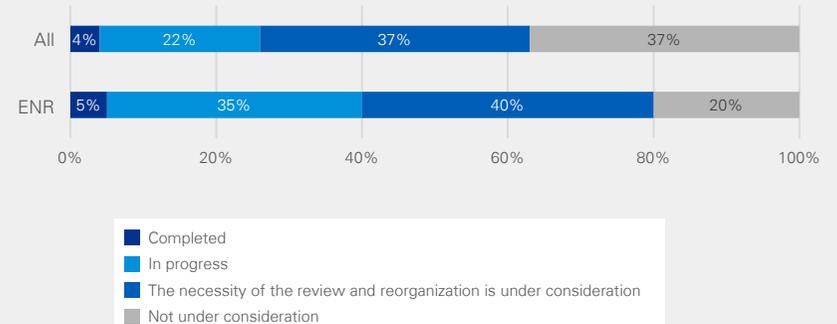
What are the top three concerns which you think will have a major impact on your company's current business strategy?



What is the most critical issue your company faces in promoting SX?

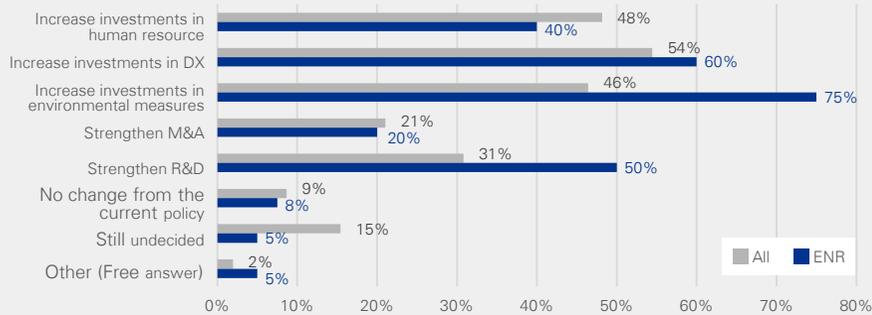


What is the status of reviewing and reorganizing the business portfolio on the premise of SX?

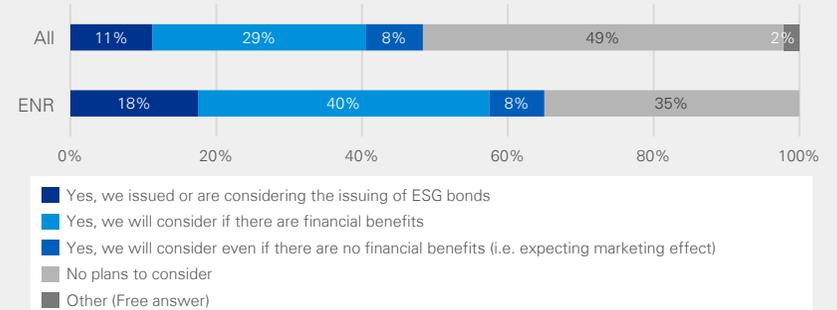


3.Capital policy and corporate funding

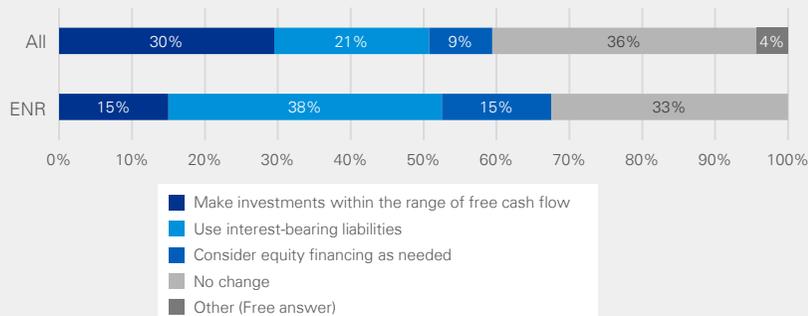
Q How will you change your investment strategy in promoting with SX?
Please select up to three answers.



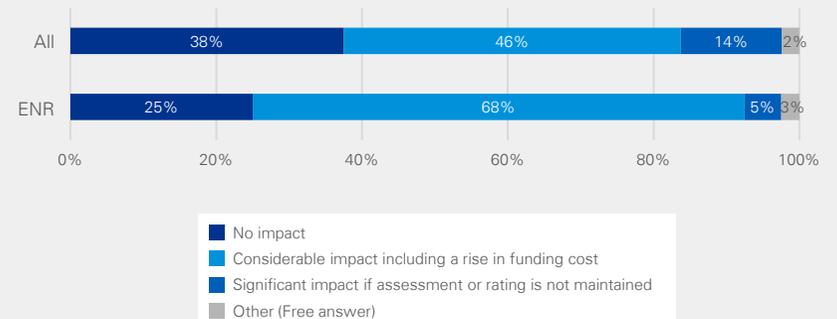
Q Will you utilize ESG bonds in line with SX?



Q How will you change your means of corporate funding in line with SX?

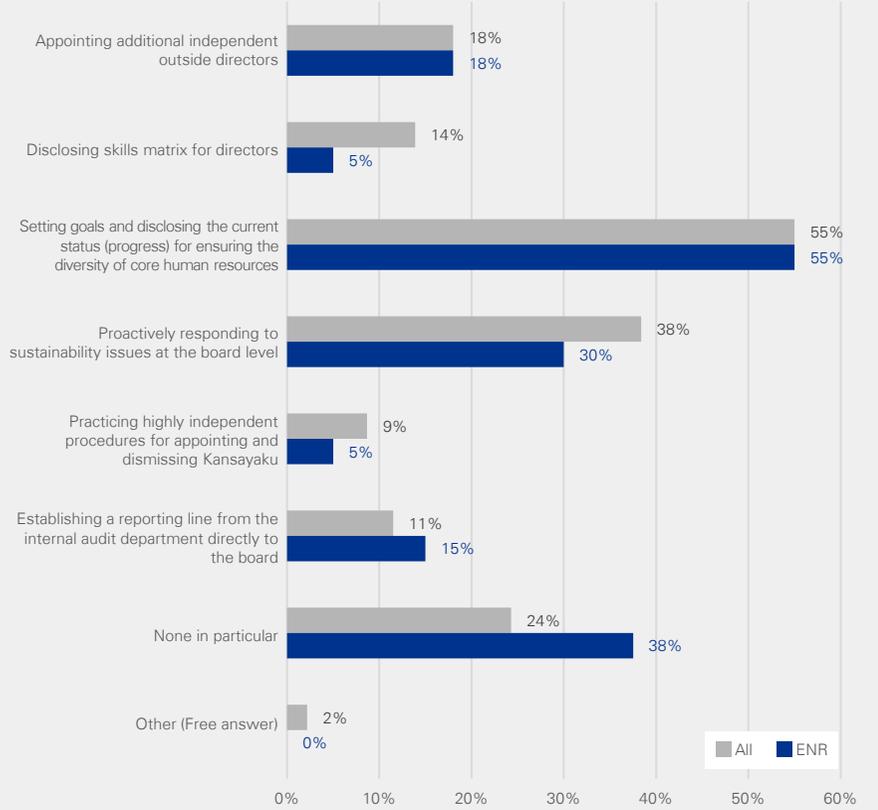


Q To what extent do you think ESG assessments and ratings will affect corporate funding excluding ESG bonds in the future?

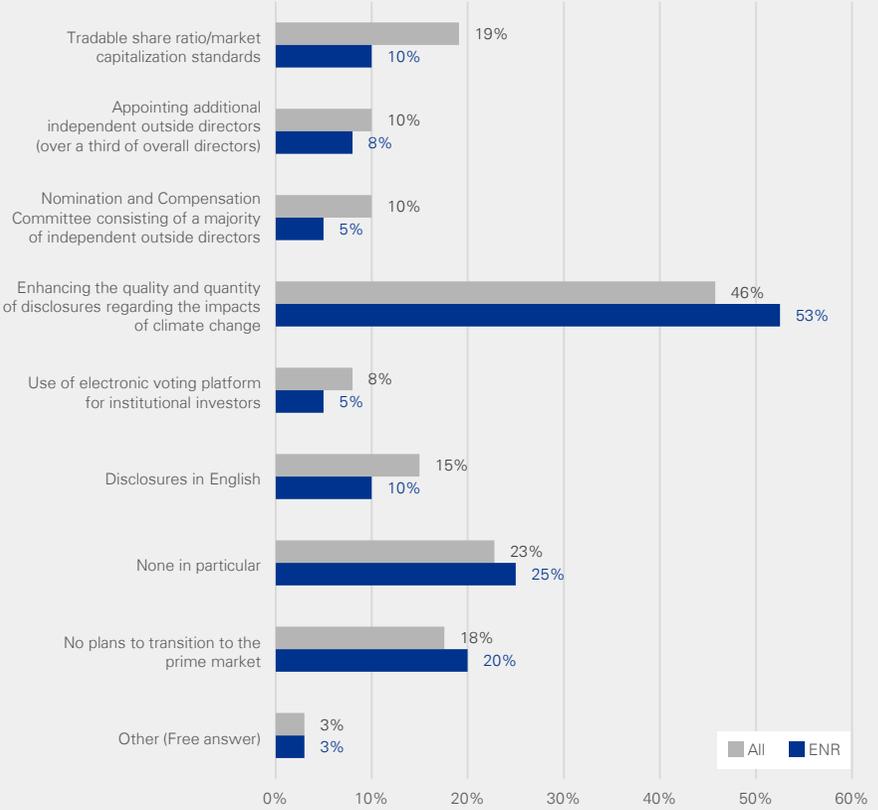


4. Governance

The revised Corporate Governance Code published in June 2021 incorporated some SX related matters in its principles. What are the top three items additionally incorporated in this revision which you feel are challenging to address?

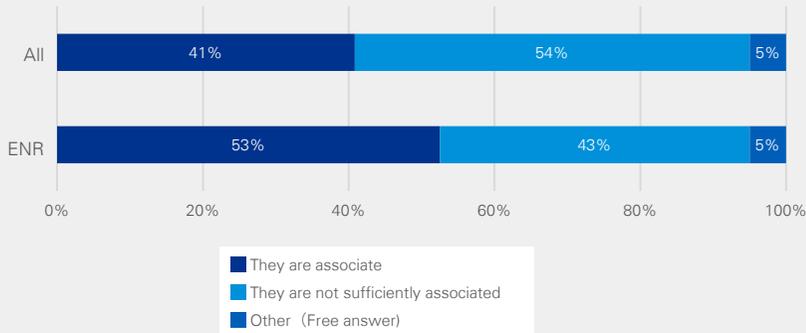


What are the top three criteria which you expect to be challenging when transitioning to the prime market?

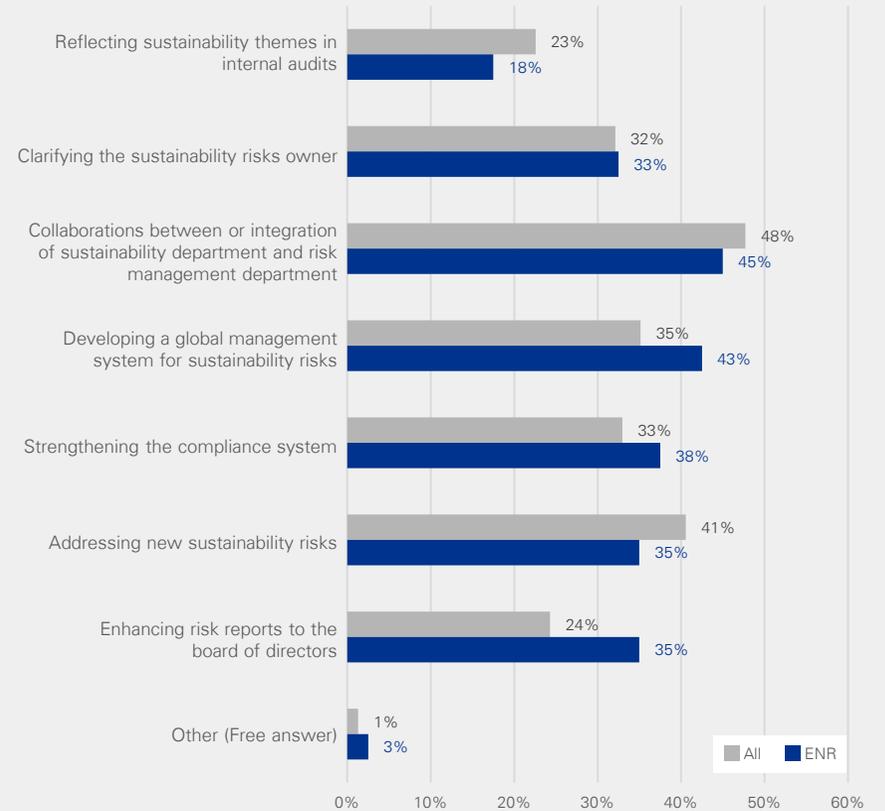


5. Risk management

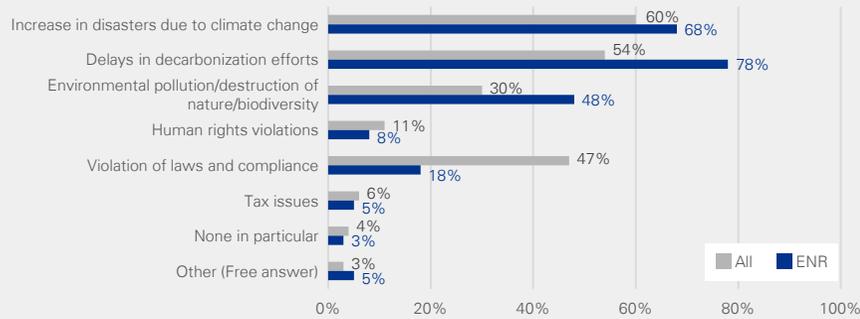
Q Are the risk management activities of your company designed and executed in association with material sustainability issues?



Q What are the top three initiatives in relation to the risk management system which you think are particularly necessary in proceeding with SX?

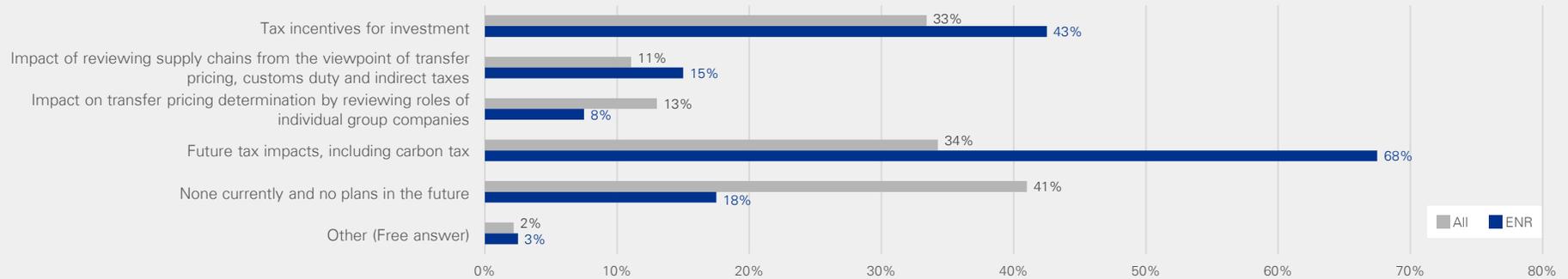


Q What are the top three sustainability-related risks that are of particular concern in relation to your business operations?

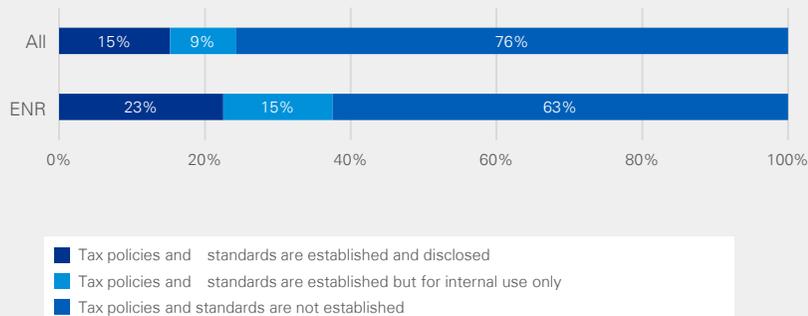


6.Tax

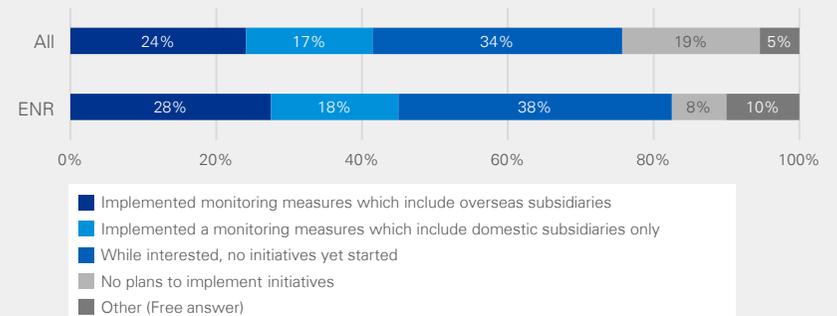
Q What are tax-related measures or considerations which you have implemented or plan to implement in line with SX? Please select up to three answers.



Q Does your company have tax policies and standards applying to risk tolerance and tax judgments that are disclosed?

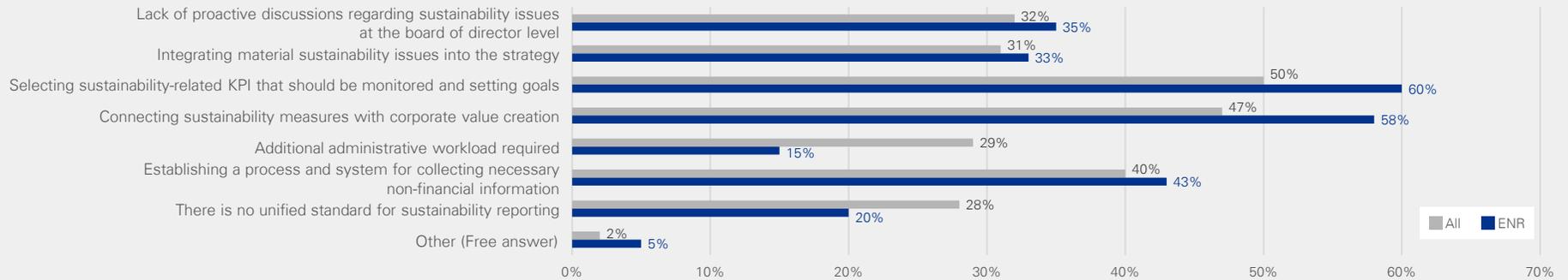


Q Which statement best describes the status of initiatives for visualizing your group companies' tax information?

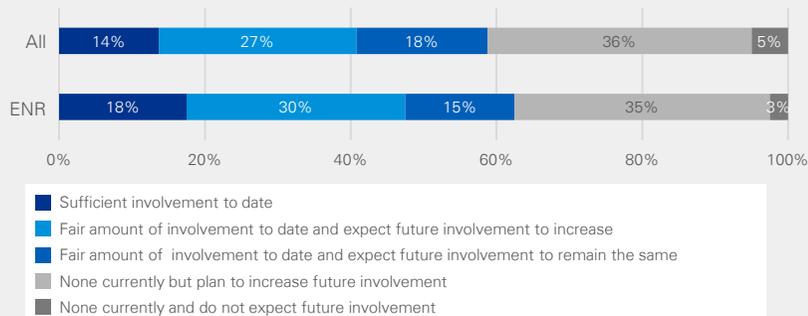


7. Comprehensive corporate report including non-financial information

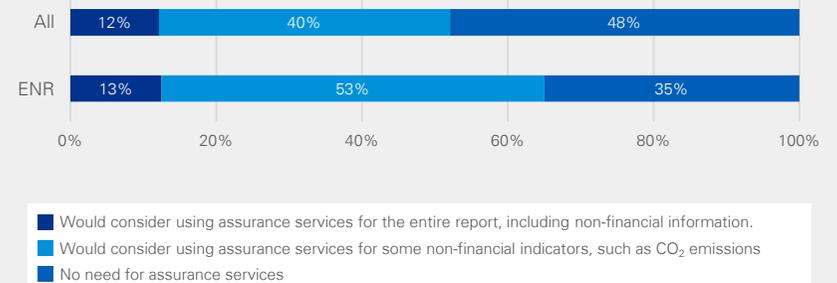
Q What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?



Q What is the current level of involvement of CFO in sustainability reporting?

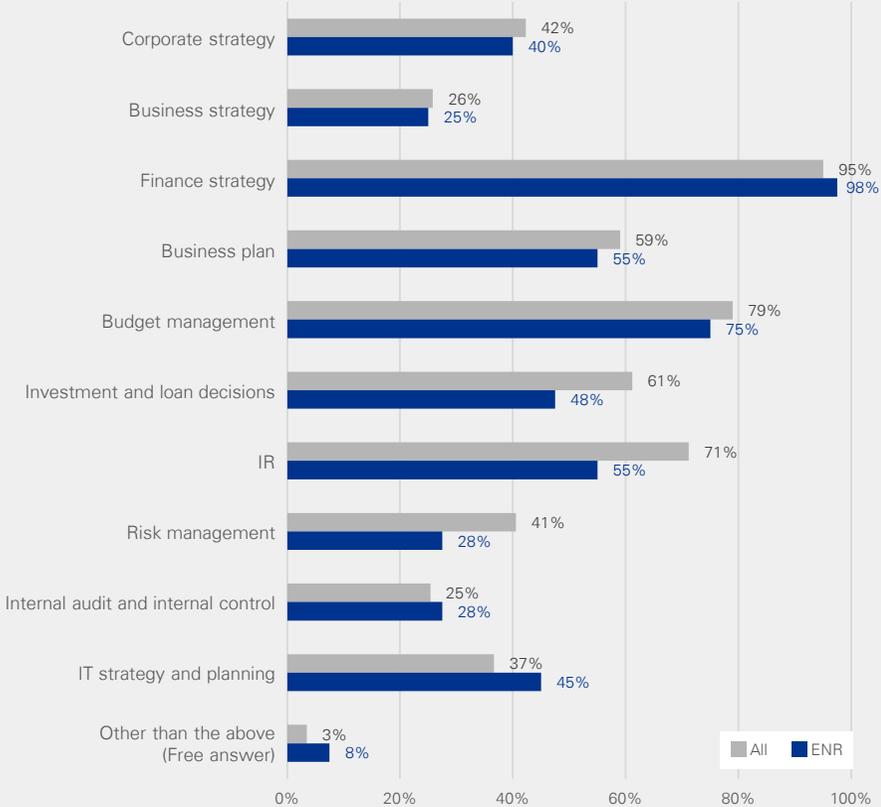


Q In the EU, mandatory requirements for external assurance of corporate sustainability reports have been proposed. What are your views on using assurance services from the viewpoint of improving the reliability of sustainability-related information?

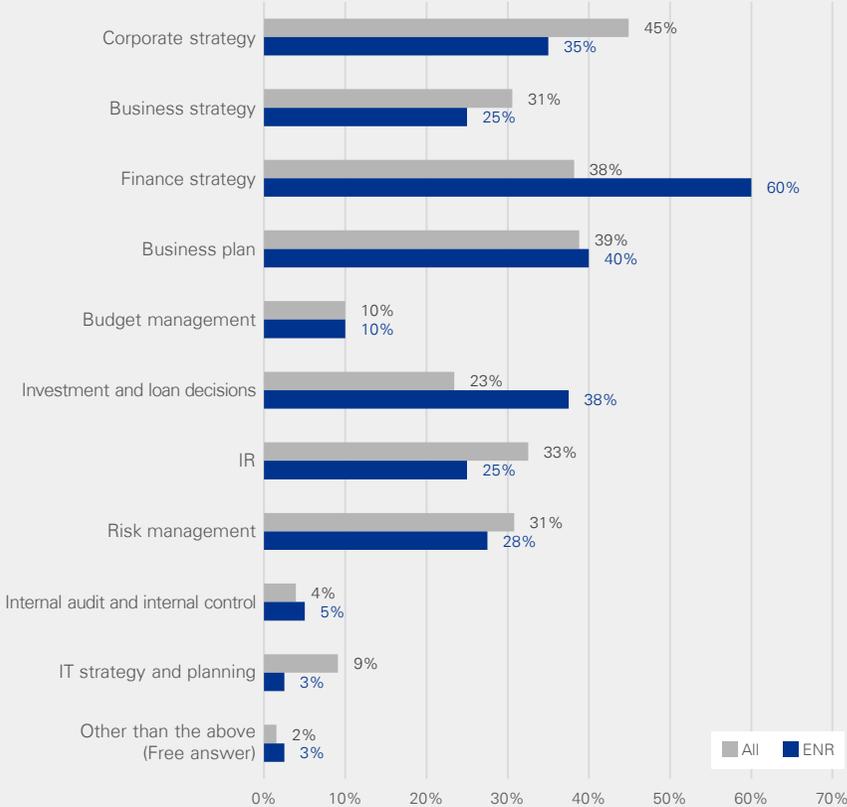


8.Accounting and Finance (1)

Please select all business area for which the CFO is currently responsible. (Multiple choice possible)

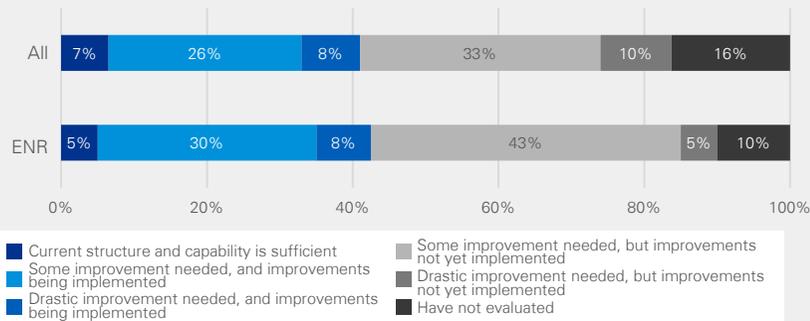


It is expected that management decisions driven by the linkage between financial and non-financial information will increase as the company makes progress towards SX. Of all areas that the CFO is responsible for, please select up to three areas that are considered to be of greater importance.

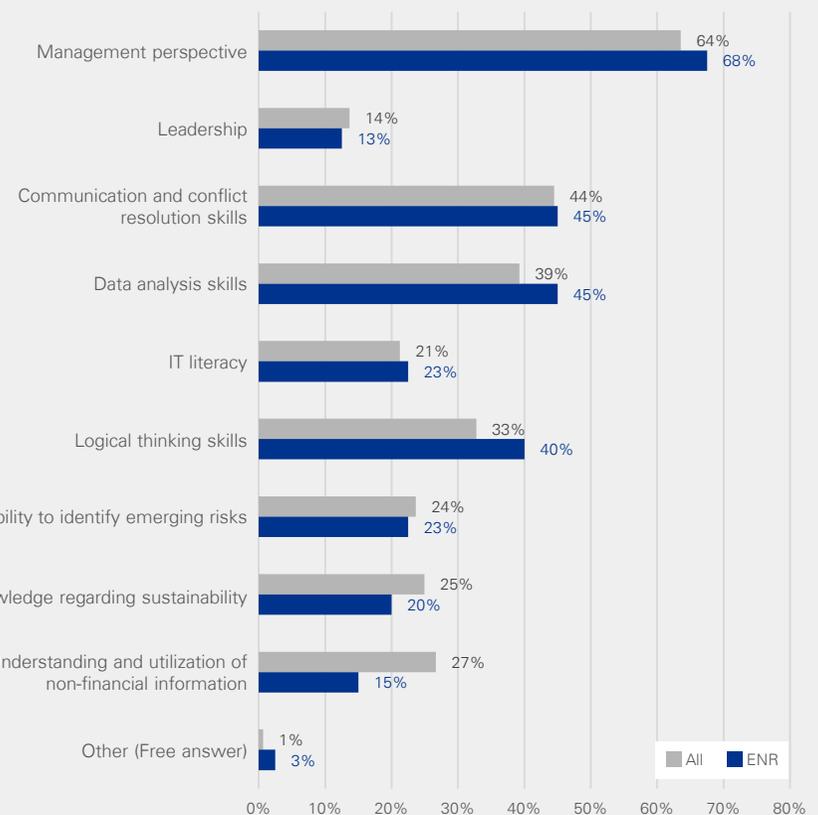


8.Accounting and Finance (2)

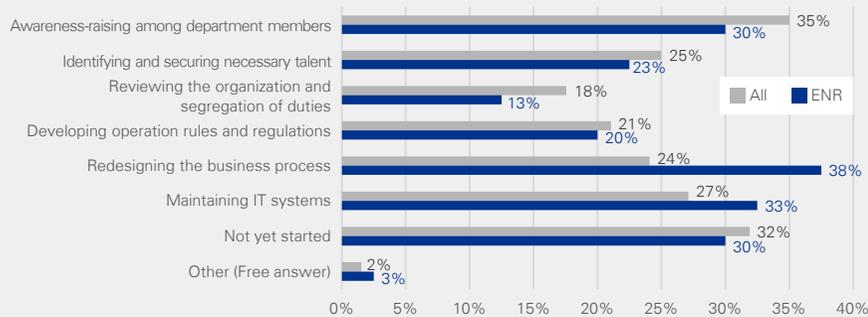
Please select the statement reflecting the current accounting and finance department structure and capability in terms of promoting SX in the future.



Please select up to three applicable items with regard to human resources and skills required for the accounting and finance department in the future.

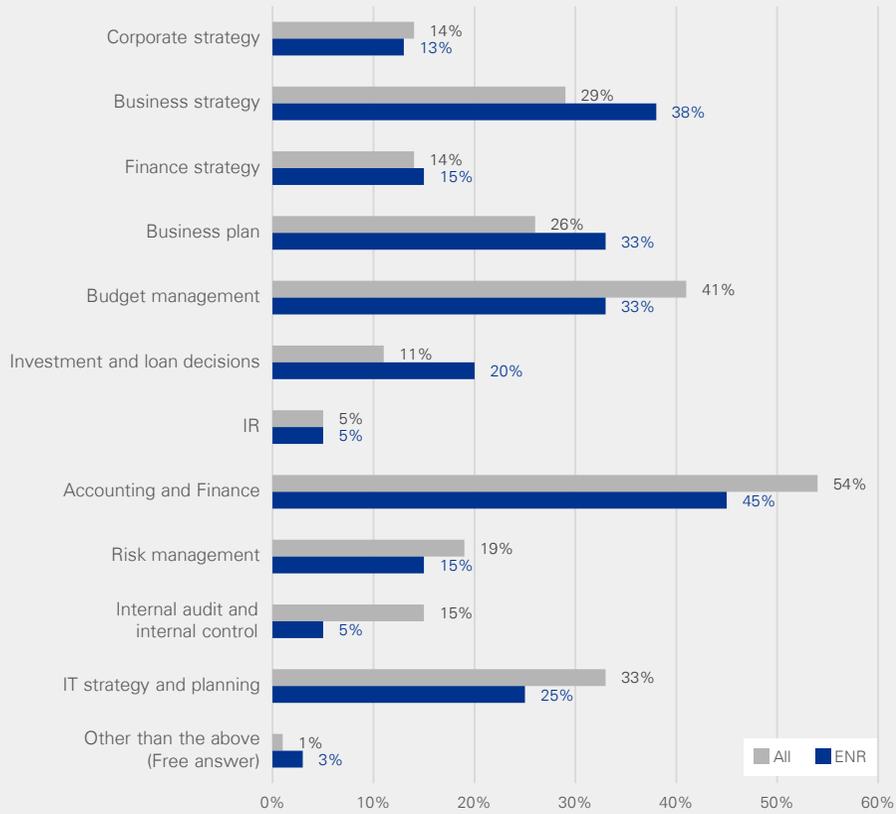


Please select the items that have been or are being addressed for improvement activities in the accounting and finance department for the promotion of SX.



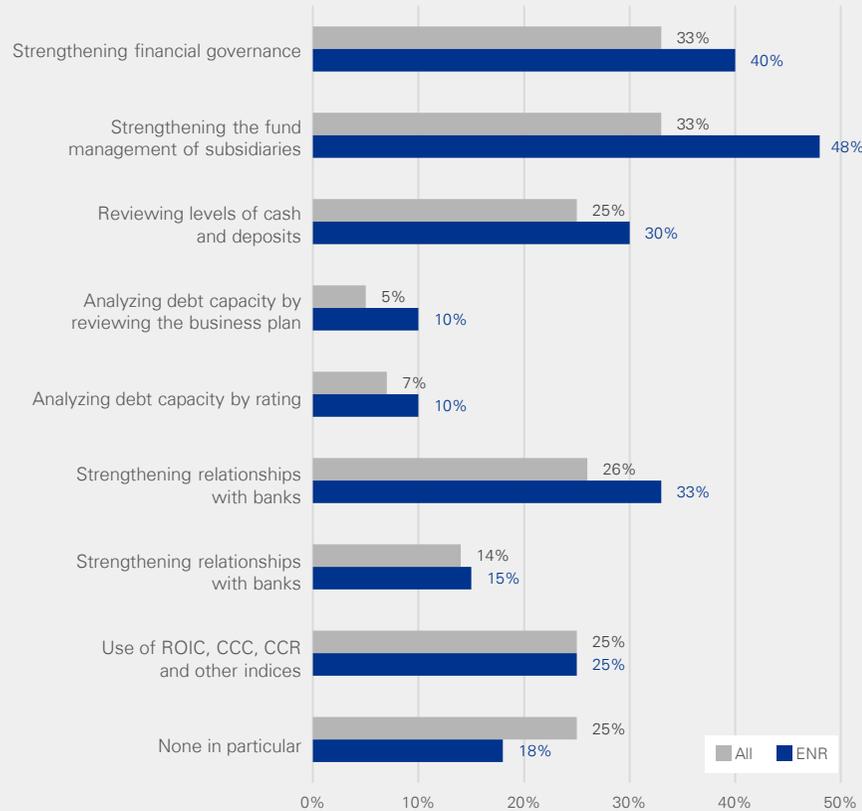
8.Accounting and Finance (3)

In view of SX promotion in the future, please select three areas for which you think digital utilization will be more necessary than ever before.

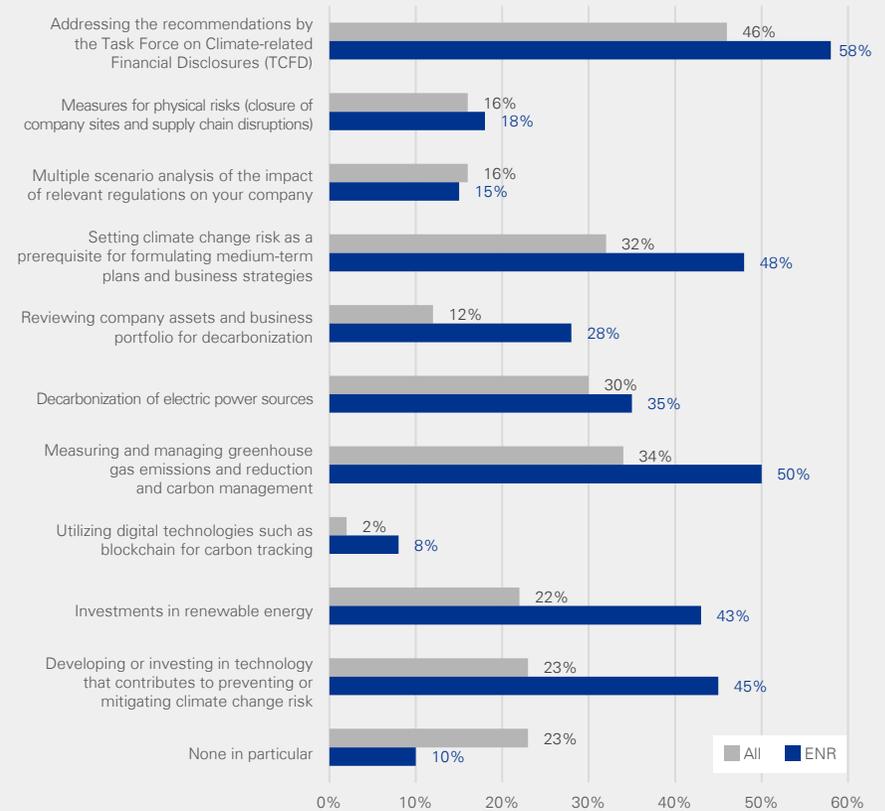


9.COVID-19

COVID-19 continues to affect businesses. Please select any measures that you have implemented or plan to implement with regard to corporate funding and "cash." (Multiple selections possible)

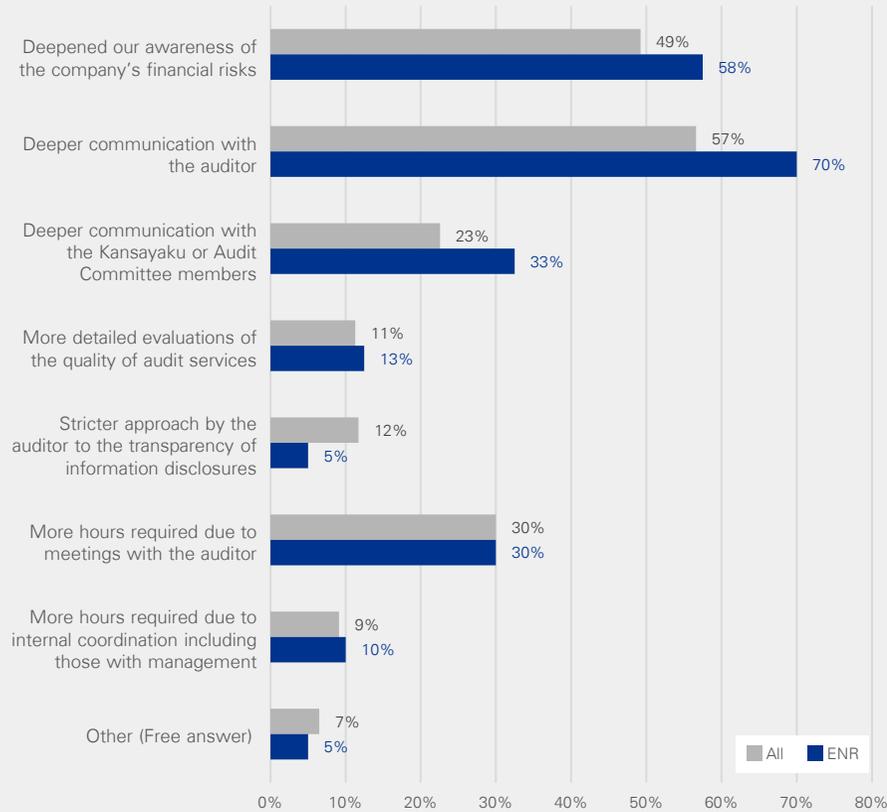


Please select all applicable measures that you have implemented or plan to implement in terms of dealing with climate change risk, which is receiving increasing attention from the market due to COVID-19. (Multiple selections are possible)



10.KAM introduction

Q What are the top three effects of KAM introduction you recognize?



Presentation of survey results as a ratio
 Survey results as a ratio are rounded to the nearest first decimal place and may not add up to 100 percent.



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