Opening Remarks to the Professional Meeting – Sustainability Management – 4/2/25

Good morning honorable,

I have the privilege and honour to speak in this room filled with the pioneers of sustainability in our country. Your role as officers influencing the perception and formulation of a sustainable model in the corporation and hence in the economy and society is not only essential, but also very challenging. Today, we are meeting, among other things, to recognize your efforts and imagine a future in which sustainability is embedded in the DNA of our economy, and certainly in its components.

We gathered today for a discussion focused on shaping the future of environmental, social and governance (ESG) in business in Israel, with an emphasis on the sustainability management challenges and opportunities that exist in this area. The global landscape is undergoing rapid transformation, driven by growing stakeholder expectations and a growing understanding that ESG is not just a compliance exercise, but a fundamental component of sustainable and responsible business practices, directly linked to long-term value creation and corporate success.

The path you've chosen isn't easy, nor is it likely to be easy—hence the challenge, the forward-looking outlook, the perseverance and determination required. Implementing sustainable practices in an enterprise environment requires a delicate balance of innovation, compliance, and strategic thinking. It has tackled the dual challenge of aligning business goals with sustainability goals while navigating an ever-evolving regulatory landscape.

Climate change is a significant and multifaceted threat with potentially catastrophic economic and social consequences. Inaction can be far more expensive than action. Businesses that do not proactively address the risks of climate change may face significant financial losses and reputational damage. On the other hand, companies that adopt sustainability proactively are likely to achieve competitive advantage, and will open up significant opportunities in the developing economy. Of course, governments also have a critical role, among other things, by creating the necessary policy frameworks, providing the necessary incentives and investments, enforcement, and more.

Companies are increasingly being scrutinized, and it is right that this should be the case, not only according to their financial returns, but also on their overall contribution to a more sustainable and equitable future.

There are articles that challenge the traditional focus on maximizing shareholder value (SVM) and suggest a transition to maximizing shareholder welfare (SWM).In other words, maximizing shareholder value does not necessarily maximize the welfare of all shareholders. Maximizing shareholder value in many cases does not consider the social and environmental consequences of the corporation's actions, the so-called externalities. Maximizing welfare involves taking into account the broader well-being of shareholders, with ethical considerations and social responsibility.

In today's business reality, Israeli corporations that are interested in integrating into global value chains and offering products and services in global markets are required to meet a series of reporting requirements and material requirements in the fields of ESG, which is accompanied by a broad and complex set of reporting and substance regulations that are related to and feed into each other, incentive mechanisms in order to enable their customers and/or their international suppliers and financial institutions to meet regulatory requirements in the field.

The main message is that we must rise above and integrate the worlds of ESG into the core of our organizations. It is not enough to meet minimum reporting requirements; we must embed ESG principles deep into the company's purpose, into our missions, visions, and strategic objectives. This commitment should not be a separate appendix, but rather a fundamental aspect of the organization's identity and strategy. The vision must encompass a future where the organization plays a positive role in social and environmental progress, with the strategic plan including measurable ESG KPI's that link sustainability to value creation.

Hence, incorporating sustainability into our business strategy requires a holistic approach. We must consider the environmental, social and economic impacts of our actions and seek innovative solutions that address these dimensions. Collaboration will be key – both within our organization and with external partners. By leveraging our collective expertise and resources, we can drive meaningful change and set new benchmarks for sustainability in our industry.

Therefore, members of the board of directors and senior management who play key roles should be expected to work to implement sustainability as part of the organizational strategy. Their leadership and oversight are essential in setting the tone at the top, ensuring that sustainable practices are prioritized at all levels of the organization. The three lines of defence – business lines and its supporters, risk management and compliance functions, and internal audits – must work in a cohesive way to protect our sustainability goals.

Effective strategy and risk management are essential for identifying and mitigating sustainability-related risks. We need to integrate these considerations into our corporate risk management processes, ensuring that potential environmental, social, and government risks are proactively addressed. This holistic approach to risk management will strengthen our resilience and adaptability in the face of emerging challenges.

Furthermore, strong reporting and clear communication are essential to demonstrating our commitment to sustainability. Key performance indicators (KPI's) need to be established to track our progress and measure the impact of our sustainability initiatives. Transparent reporting not only improves accountability but also allows us to showcase our achievements and areas for improvement.

Compensation policies should also reflect sustainability goals. By aligning executive compensation with ESG goals, we can incentivize leaders to prioritize sustainable practices. This alignment will drive a culture of accountability and performance, ensuring that sustainability efforts are rewarded and recognized at all levels.

Enforcement mechanisms are necessary to uphold sustainability commitments. We need to establish clear guidelines and consequences for non-compliance and ensure that all employees understand the importance of complying with sustainability policies. This enforcement framework will strengthen our dedication to ethical and responsible business practices.

As we navigate the complexities of globalization, it is essential to recognize that standardization in different regions can be challenging. Diverse regulatory landscapes and cultural contexts require us to adapt and be sensitive to local nuances. We must strive for harmony while respecting regional differences and ensure that our sustainability practices are globally relevant but applicable locally.

I would also like to touch on the role of the director of sustainability within the company in a more focused way. A recent report published by our conference partners at PWC, found that this role is evolving from a compliance function to a strategic leadership position.

Companies with well-established Chief Sustainability Officers (CSO's) have better ESG performance. Ideally, CSO should be part of the C-suite. Effective CSO's need a diverse skill set that combines business acumen, sustainability expertise, communication skills, and strategic thinking.

They must be able to connect the dots across different parts of the organization and foster collaboration. Moreover, the CSO must effectively communicate the company's sustainability story and its business value, both internally and externally. This is key to securing engagement from stakeholders. The CSO needs access and expertise in analysing relevant data to track progress, identify areas for improvement, and communicate performance to stakeholders.

The challenges are clear, and this also gives rise to various "pockets of resistance", which also do not have uniform characteristics, which certainly require attention, discussion, and in part, a solution through finding the "golden path". To this we are expected to dedicate a dedicated discussion.

Your role as an officers who lead the field of sustainability in a corporation is essential to success. Your work shapes the future of our society and the world we live in.

It is right to adopt this responsibility with determination and pride.

Thank you for your dedication and commitment. Let's move forward with a shared vision and a renewed sense of purpose.

And let's not forget. This is our shift, and we have one shift on earth.

Thank you all.

Yair Avidan

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