

A Review of the Link Between *Sustainability Performance* and *Company Valuation*



Report Overview

Against the backdrop of WBCSD's 30th Anniversary, this paper examines if transformative business actions taken by executives are now receiving clearer signals from capital markets.

This study cuts through an increasingly fragmented and distorted public discourse. There are many studies and surveys available on investor and corporate sentiment, expectation, ambition and hope but fewer on empirical study of actual market practice. Prepared for an executive audience, it draws on over sixty recent academic and business findings to explore the reality of current market pricing and practice. This reality plays out against a fast-evolving disclosure landscape. Investors globally have been vocal in their support for the ISSB as a global baseline and wider interoperability; we can therefore reasonably expect, all other things being equal, to see a market response to more consistent, credible and comparable disclosures.

More recent sources do show an improved recognition of sustainable performance, although mixed signals persist. However, some noise in the relationship should always be expected, not least due to the significant influence of market intermediaries, as well as shifting geopolitical environment and increasing regional and sector variances. Overall, a strategy of inaction is increasingly being identified as a high-risk approach.

This paper validates WBCSD's continued strategic priority focus on the Corporate Performance and Accountability System (CPAS) which seeks to better align the financial system with sustainable corporate performance.

CPAS offers a comprehensive approach to align investor valuation and capital allocation with business transformation in a changing physical world. Please refer to wbcسد.org for further work on CPAS or reach out to cp-a@wbcسد.org.

With thanks to the many WBCSD members and partners who have been so generous with their contributions and review of earlier drafts, we invite continued input and dialogue as we seek to accelerate CPAS alignment for sustained – and sustainable - corporate performance.

Key Takeaways

- **Capital markets are starting to move** – emissions profiles and credible transition plans are influencing borrowing costs in both bond markets (greenium) and bank lending spreads.
- **Offense + defense improves EBITDA** – growth can be accelerated through increased productivity, operational efficiency, and effective risk management (e.g., physical, policy).
- **Markets reward credibility** – publish milestones that investors and lenders can price over time; tie sustainability metrics to capex, incentives, and strategy.
- **Sustainable financing structures may be advantageous** – sustainability-linked instruments can diversify investor base and potentially lower pricing.
- **Equity re-ratings are earned by delivering financial fundamentals** – cost, revenue mix, resilience, and discipline drive valuation, not generic ESG claims.
- **Doing nothing is an active risk choice** – physical risks and policy shifts compound, increasing spreads and stranded-asset concerns.

This paper does not purport to reflect the individual or collective views of the WBCSD membership, nor does it constitute investment advice.

Introduction

This briefing examines the impact of sustainability initiatives on company valuation, viewing sustainability as a strategic option which is integrated into business strategy, not separated from it. In turn, this makes it relevant for Boards to consider. We view sustainability as an approach that incorporates financial viability, environmental responsibility, and social inclusion, with the objective of generating value for stakeholders. Designed for C-suite executives, this paper summarizes over sixty recent academic and business findings to support strategic decisions with an emphasis on sources from 2024 to the present.

This perspective provides a candid analysis of capital markets, acknowledging that the efficient market hypothesis (EMH), which asserts that market prices fully reflect all available information, continues to be questioned. In other words, do not expect all sustainability-related information to be either provided nor efficiently absorbed by price-setters. Alternative frameworks such as behavioral finance, which emphasizes the impact of cognitive biases on risk pricing, adaptive market hypothesis (AMH), which asserts a more dynamic model, and structural issues, such as the rise in passive investing, all provide possible answers as to why this could be the case. The reader should also be aware that there will be considerable differences between regions and sectors, but because of brevity, we only make passing references to these variables.

Sustainability-related topics often face particular valuation challenges. Some environmental issues are viewed as externalities – i.e. a cost or benefit that impacts third parties not directly involved in the transaction – such as air and water pollution or carbon emissions and deforestation. This leads to systemic underpricing as they are external to the pricing mechanism. This was recently laid out by the Task Force for Nature-related Financial Disclosures (TNFD) which commented that although “clear linkages” exist between nature risks and companies’ financial challenges, nature-related issues “are frequently not considered financially material in corporate reports, especially from a single-materiality perspective”.²

Time periods provide another obstacle to sustainability-related data. Many environmental issues are long-term, meaning that in standard financial models, the significant discounting of longer-term cash flows makes them look financially insignificant or too hard to price because of uncertainty. In contrast, many in the financial markets are rewarded on a shorter-term basis.

Despite these challenges, this analysis shows increasing signs that financial markets are recognizing the value of sustainability, a trend likely to persist according to recent sources.

However, current research does not provide a cast iron link between corporate sustainability leadership and financial valuation; it is unlikely to ever do so as perhaps, the greatest certainty about financial markets is their unpredictability. But the trend looks promising. As the practice and volume of credible disclosure of sustainability-related information improves, financial markets may gain greater confidence in pricing such issues.

The short-term commitment to unlock returns

→ *CEO reflection: Are sustainability initiatives having a positive, short-term impact?*

Embedding sustainability requires upfront investments in capital, leadership engagement, workforce training, and operational realignment. Additional costs typically arise from sustainable product design, marketing, compliance, and potential demand constraints.

Production costs can also increase, as seen with recycled plastics and Fairtrade premiums.³ However, the opposite is also true, as with energy use. Renewables, for example, increasingly offer lower costs than fossil fuels⁴ while improved energy efficiency could result in annual savings of USD 2 trillion, at 2024 prices.⁵ Supply chains, typically accounting for about 70% of operating costs, highlight the need for sustainable procurement; 95% of supply chain executives say their CEOs recognize this financial significance.⁶

Corporates must balance increased R&D and marketing expenses with measurable returns, as higher R&D spending does not always translate to higher EBITDA⁷ margins.⁸ Enhanced reporting credibility now requires rigorous certifications and robust data controls, reflecting growing scrutiny over greenwashing and data assurance standards. In turn, this implies that robust governance remains an important consideration for investors and lenders to consider. If a social license to operate arises, the financial impacts can be significant particularly as cash flow projections get pushed further into the future.

Another factor that may limit financial returns is low consumer demand for sustainable products, which can restrict price premiums and scale. A study by retail analyst TWC suggested that nearly half (49%) of all shoppers want to buy sustainably but are not prepared to pay extra.⁹ Evidence exists that demand could be growing. According to a recent McKinsey and NielsenIQ study, sustainable-branded products grew 28% between 2018-2023 versus 20% for conventional products.¹⁰ An important proviso here is that sustainability's impact on brand value typically only manifests when an asset is acquired, such as in a takeover.¹¹

Cost considerations alone do not warrant deferring a sustainability strategy. As with any capital expenditure, the decisive factor is whether anticipated returns justify the investment. These returns take multiple forms, from financial measures (e.g., cash flows, return on investment [ROI]) and risk mitigation (regulatory, market, operational) through to strategic positioning (differentiation, first-mover advantage) and broader stakeholder value (customers, workforce, investors, lenders).

As finance markets are currently structured, short-term returns do not account for some unique sustainability value drivers. Indeed, standard accounting habitually omits many short-term sustainability outcomes such as reduced pollution and lower emissions from the balance sheet. This is despite most businesses (92%) reporting quick (i.e., within one to three years) commercial returns from their sustainability initiatives, a survey by KPMG finds.¹² Another obstacle is the inefficient nature of most transition risk pricing. Again, this problem persists in spite of warnings from within the financial ecosystem itself about the material financial risks posed by carbon intensity.¹³ The underlying issue is whether these measures improve the operational and financial resilience of the company, and if so, markets should lower the risk premium. The most visible indicator of this will probably be apparent in the insurance markets.

Figure 1: Trade-offs to consider

	<i>Short term 1-3 years</i>	<i>Long term 3+ years</i>
	<ul style="list-style-type: none"> → Operational efficiency (energy, water, waste) → Access to new capital → Strategic positioning inc. M&A uplift → Lower cost of capital 	<ul style="list-style-type: none"> → +5-20% EBITDA → ROI 2-14x → Brand loyalty → Talent attraction → Market, legal & regulatory risk resilience
	<ul style="list-style-type: none"> → Upfront Capex → Transitional Opex increases → Demand uncertainty 	<ul style="list-style-type: none"> → Sector-dependent return variability → Longer payback → Inaction on sustainability: -5-25% EBITDA

Source: WBCSD

The longer term *upside*

→ **CEO reflection: Is sustainability delivering value creation and/or risk mitigation opportunities?**

CEOs of companies with fully integrated sustainability strategies report greater business confidence than those without such strategies in place, according to a survey by EY in January 2025: 94% expect profitable growth (versus 71% for others), 92% anticipate attracting top talent (68% for others), and 87% foresee stronger brands and customer engagement (versus 36%).¹⁴

The profitability (as measured by EBITDA) of sustainability strategies manifests in two possible ways. It can be seen either as: (i) a “defense mechanism”—i.e. to mitigate market decline or hedge against physical risks, legal, regulatory, and reputational costs; or (ii) as an “offense mechanism”—i.e. to expand revenue, capture growth and price premiums, make direct operations and supply chains more efficient, and promote higher employee productivity. Together, these two strands are shown to improve companies’ base EBITDA by between 5% and 20%, according to analysis by McKinsey.¹⁵ Detailed sector studies, such as the food and agriculture sector, also demonstrate revenue growth and cost reductions, both of at least 2%.¹⁶

Opinion data from leading sustainability decision-makers substantiates this picture. For example, a recent survey by Morgan Stanley of over 300 experts finds that 53% identify sustainability as primarily driving value creation and 15% as primarily driving risk mitigation. Almost one third (32%) report positive impacts in both areas, while only 1% say it has no material effect on long-term corporate strategy.¹⁷

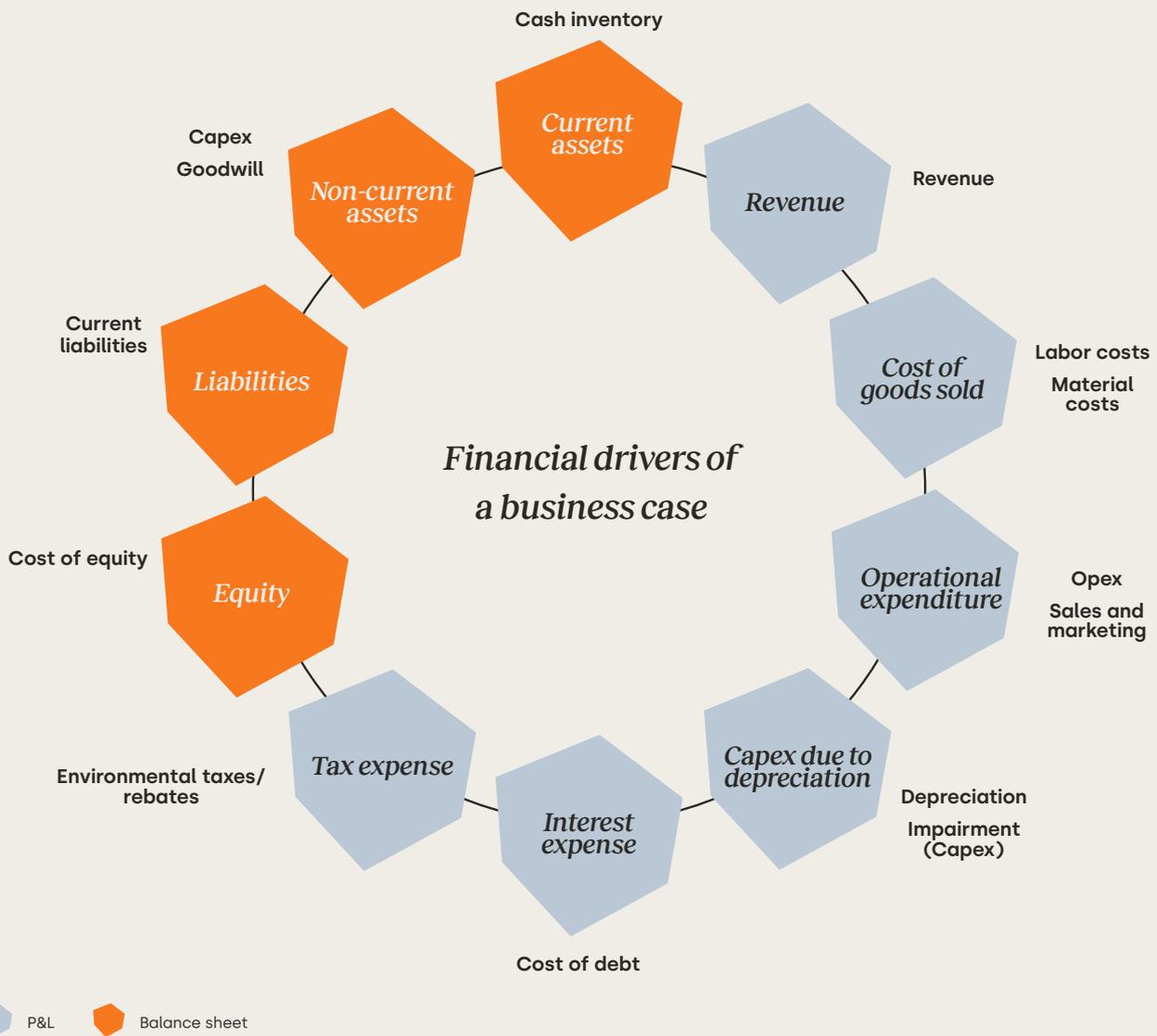
So, why do management teams hesitate to invest more heavily in sustainability strategies? The most significant cause for hesitancy is the perception of high upfront costs, which is cited by 31% of respondents to the above-mentioned survey.¹⁸ Other notable obstacles include conflicts with financial goals (28%), economic uncertainty (24%), business model challenges (24%), and insufficient government incentives (24%).

A survey of 200 business decision makers and influencers by KPMG finds similar concerns: 44% mention high costs, 36% struggle with impact measurement, and 31% cite both lack of regulatory incentives and immediate ROI.¹⁹

While such concerns are to be expected, management interest in a more offense-oriented approach to sustainability is growing. In part, this is sparked by positive ROI figures. It could also stem from improved attribution. Costs related to environmental-related spending have often been viewed as more measurable than the impacts on profits; this could be changing.

Recent climate mitigation and adaptation studies, for example, reveal that spending US\$1 on sustainability can generate anything from \$2 to \$43, based on findings from a range of sources including GIC, Global Center on Adaptation, KPMG, S&P Global, Standard Chartered, SwissRe, U.S. Chamber of Commerce, WRI etc.²⁰ Naturally, returns will vary according to specific factors such as sector, geography, and company type. Yet, even when outliers are removed (such as a WEF/BCG study on food and beverage companies²¹), average ROI is in the still impressive range of \$2 to \$14.²²

Figure 2: Financial drivers of the business case



Source: WBCSD

The high risk, *do-nothing* option

→ *CEO reflection: Is doing nothing the highest-risk option?*

J.P. Morgan categorizes sustainability strategies into four groups; early adapters, gradual adapters, procrastinators, and wait-and-see actors, each with distinct risk profiles.²³

Risk profiles require careful assessment, as cognitive biases can distort perception of environmental threats. However, even low-probability risks accumulate over time. In the case of one-in-twenty-year flood (i.e. 5% annual chance), for example, a company faces a 23% chance of experiencing such a flood within five years. It is therefore a function of prudent management to ensure long-term planning accounts for these cumulative risks.²⁴

Even so, some companies will still choose inaction. Either they view the option not to act as a calculated risk, or they treat climate change and other sustainability-related disruptions as business-as-usual costs from which they can quickly recover. The consensus among risk experts is firmly against such a “wait-and-see” approach. Research by BCG, for example, suggests that companies that are unprepared for the physical and regulatory effects of climate change could potentially lose 5–25% of 2050 EBITDA.²⁵ The introduction of carbon pricing alone could account for up to 50% of these EBITDA losses.

There is ongoing debate about whether sustainability strategies face stricter standards than other business strategies, such as mergers and acquisitions (M&A), which often result in value loss due to overpayment, operational disruption, or unrealized synergies.^{26,27,28} While not discussed further here, our advice to C-Suite decision-makers is to evaluate sustainability strategies using standard business metrics.

How financial markets *respond*

→ *CEO reflection: Are financial markets rewarding sustainability leaders?*

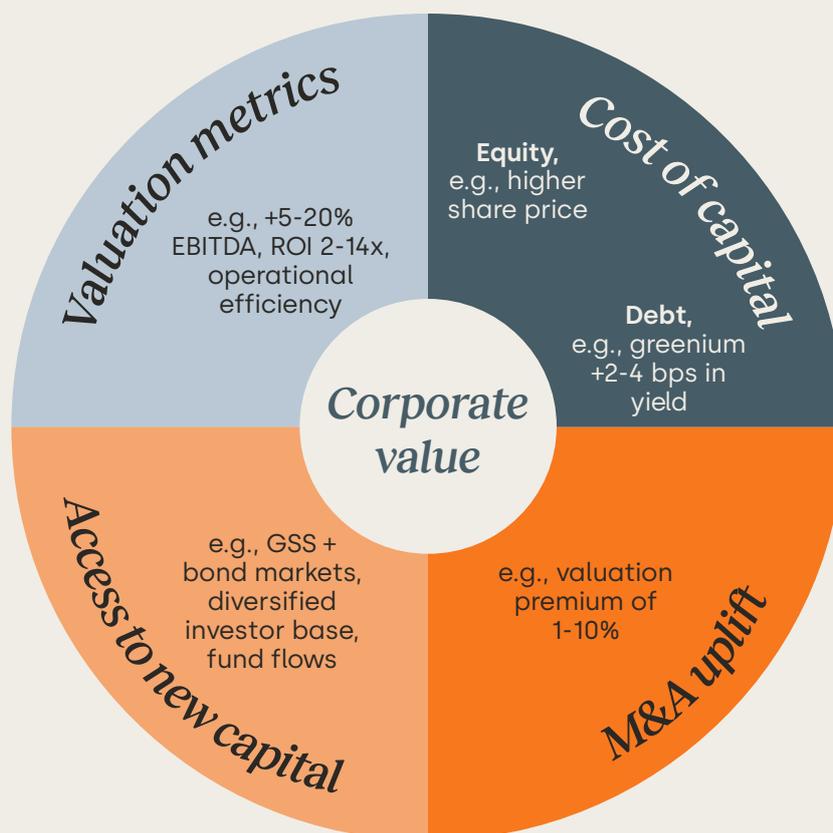
Meta studies over the past decade reveal a positive financial link between sustainability efforts and corporate performance.^{29, 30, 31} This owes to a growing recognition by financial markets of sustainability's contribution to key value drivers such as greater operational resilience, lower energy costs, and cheaper financing.

Performance of sustainable funds varies by period. In H2 2024, they slightly lagged traditional funds (+0.4% vs. +1.7%), but since 2019, sustainable funds underperformed in only 3 out of 12 half-year periods.³² Over the long term, returns have been comparable, with US\$100 invested in 2018 growing to US\$136 for sustainable funds and US\$131 for traditional funds by the end of 2024.³³ We prefer to focus on longer term analyses which highlight the attraction of ESG funds.³⁴ We should stress that many asset owners invest in mainstream funds but still expect the asset managers to be mindful of sustainability-related issues.

As shareholders have become more cognizant of this connection, so has sustainability begun to manifest in enhanced valuation metrics such as price-to-earnings and discounted cash flow. Research by MSCI, for example, reveals that investors increasingly recognize sustainability as an explainer of corporate performance.³⁵ Similarly, analysis by Allianz shows that Net Zero 2050 scenarios produce notable sector-specific value adjustments.³⁶

A significant proof point of this shift in market perception is the pressure that most companies (91%) now feel from investors to advance their sustainable practices.³⁷ A similar trend can be seen in relation to mergers and acquisitions (M&A), with acquiring entities increasingly demanding counterparties to evidence robust sustainability metrics as a precondition to a deal.³⁸

Figure 3: Capital market responses



Source: WBCSD

Evidence of a greenium

Despite these positive trends in financial markets, quantifying a specific sustainability premium (or “greenium”) is complex. This is due to the difficulty of isolating ESG factors amid the large number of other market influences that determine a company’s valuation. Adopting a region-specific focus can help reduce this noise to an extent. For example, a 2025 study of 4,185 listed firms in China’s A-share market identifies a strong positive link between ESG practices and long-term company value.³⁹ The authors conclude that this owes to the role of sustainability strategies in lowering capital costs and increasing returns on invested capital, among other factors.

Survey data among investors substantiates the case for a meaningful greenium. When asked by McKinsey, for instance, a group of high-level investment professionals and C-suite leaders said they would pay a median premium of about 10% to acquire companies with above-average ESG records.⁴⁰ Research by KPMG echoes a similar willingness, with 55% of dealmakers surveyed saying that they would pay a premium of 1–10% for assets with strong ESG credentials.⁴¹

Recent fund flows reinforce the impression of investor interest in sustainability. By 2022, global ESG assets topped \$30 trillion (tn), representing over 25% of total worldwide assets under management.⁴² After record withdrawals in early 2025, sustainable funds saw net inflows of \$4.9 billion in Q2, alongside 72 new fund launches.⁴³ Transition-labelled funds are growing fastest; there are now 139 such funds managing over \$50 billion, with nearly 70% of these launched in the past four years.⁴⁴

Bond markets show a similar upward trajectory. In 2024, the value of newly issued sustainability-linked bonds (SLBs) totaled \$1.02tn.⁴⁵ While this class of bonds accounts for only 1% of the global bond market, it is one of the fastest growing segments, increasing at 11% in 2023. Growth continued into 2025, with a rise of 7% in Q1 in the issuance of green, social, and sustainability (GSS+) bonds.⁴⁶ To date, the cumulative value of all GSS+ bonds so far issued worldwide amounts to \$6.9tn.

But does the inclusion of sustainability considerations in financial instruments, be they debt or equity, reap a financial benefit for companies?

Debt markets

The clearest evidence of a positive impact can be seen in fixed income markets. This is because sustainability targets are often linked to interest payments, with strong sustainability performers obtaining lower interest rates. In the case of matched green bonds, this correlation is shown to generate an average 2 to 4 basis points (bps) (0.02-0.04%) in yield.^{47,48,49} In addition to a lower cost of capital,⁵⁰ the incorporation of sustainability in fixed income markets provides companies with access to new pools of capital, thus allowing an increase and diversification in their investor base.

At the project level, meanwhile, analysis by the Oxford Sustainable Finance Group shows that sustainability factors cause an identifiable difference in how energy projects are financed. Over the past decade, the spread of solar and wind power globally has averaged around 200bps⁵¹ over a floating rate interest rate; in contrast, gas and coal power has averaged 50% more, at around 300bps.⁵²

As regards the performance of sustainable funds, this varies by time period depending on market volatility and changes in investor sentiment, among other factors. In the second half of 2024, sustainable funds slightly lagged traditional funds (+0.4% vs. +1.7%); however, since 2019, they have outperformed the market in nine out of 12 half-year periods.⁵³ Over the long term, returns have been comparable, with \$1 invested in 2018 growing to \$136 for sustainable funds and \$131 for traditional funds by the end of 2024.⁵⁴

In the case of bank lending, sustainability-linked financing is comparatively underdeveloped. Only 32% of companies cite banks as a key driver for their sustainability efforts, just a little ahead of civil society (26%), research by Morgan Stanley reveals.⁵⁵ Even for banks that disclose high levels of climate data, their lending rates to carbon-intensive sectors remains significant, according to the European Central Bank (ECB).⁵⁶ Nor does high climate disclosure by banks necessarily correlate with increases in the credit they provide to green industries, the ECB finds.

Evidence suggests that the banking sector may become more aligned as regulations tighten. Moves are afoot in multiple jurisdictions to mandate the integration of climate disclosure into lending decisions. Leading banks are already disclosing such information. Findings from the ECB, for example, indicate that Euro area banks charge higher interest rates to high-emitting firms and lower rates to those advancing decarbonization, an average difference of 14bps, rising to 20bps for firms lacking credible climate commitments.⁵⁷ Regulatory changes will require an adjustment in lending policies by banks that are not yet following suit.

Equity markets

The link to financial performance is harder to identify in equity markets. In theory, if investors are pricing in sustainable benefits and applying higher valuations to reward this, the cost to the company of issuing shares will fall. However, in equity markets there is no equivalent instrument to a bond that can definitively prove this relationship. At most, a comparison can be made between the value of high-performing sustainable companies and that of less sustainable companies with a similar profile (i.e., same sector, geography, size, etc.).

Even so, surprisingly few investors (33% or less) have measured the financial impact of sustainability on company valuations, according to research by the UN-backed Principles for Responsible Investment (PRI).⁵⁸ This is despite most (72%) of those surveyed by PRI believing that sustainability-linked value creation has a "moderate" to "significant" financial impact.

One emerging area where equity investors think this impact could be felt most directly relates to climate adaptation solutions. Such solutions frequently involve potentially fast-growth new technologies, such as next-generation batteries or clean power innovations. According to the Singapore-based investor GIC, global annual revenues from select climate adaptation solutions could quadruple over the next three decades, from \$1tn today to \$4tn by 2050.⁵⁹ For such opportunities to be realized, however, it would require a readjustment from the equity market's traditional focus on climate mitigation. In 2023, for example, mitigation made up for \$1.78tn of \$1.9tn invested in climate finance in 2023.⁶⁰

The failure of equity markets to fully factor in the contribution of sustainability both to risk mitigation and value creation is one of the main reasons why the financial case is not more conclusive. There are multiple reasons for this oversight. Some are practical, such as limited access to high-quality and timely information on companies' sustainability performance. This shortfall fits with contemporary critiques of the Efficient Market Hypothesis,⁶¹ which supposes (erroneously) that market prices fully incorporate all available information.

For example, one of the more dated analyses used in this report suggests that 15 of the 17 bankruptcies in the S&P 500, between 2005 and 2015, were of companies with poor environmental and social scores.⁶² A more up to date analysis would be of value.

Other reasons for the disconnect in equity markets relate to investors' decision-making structures and incentives. Notably, environmental issues (such as carbon emissions, deforestation, and pollution) are often viewed as "externalities" – namely as costs impacting third parties rather than companies themselves. This perspective is sometimes exacerbated by cognitive bias by investors towards "non-financial" issues. Sustainability benefits also tend to manifest themselves over longer timeframes than those covered by standard financial models. The habit of equity investors to significantly discount longer-term cash flows consequently makes sustainability-related returns seem financially insignificant. As physical risks rise, this shorter-term perspective could well change if production losses or higher insurance costs become evident and persistent. A more recent analysis examines whether physical risks are being priced into the cost of capital. The raw data showed no simple unconditional correlation between physical risk and WACC, however, further controls such as sector, company size and region provided more solid results.⁶³

Figure 4: How sustainability factors can be reflected in financial markets

	<i>Short term 1-3 years</i>	<i>Long term 3+ years</i>
<i>Well-priced</i>	<ul style="list-style-type: none"> → Post-disaster risks (e.g. wildfires, hurricanes) → Governance quality → Carbon pricing (e.g., EU ETS) 	<ul style="list-style-type: none"> → Energy efficiency → GSS+ bond "greenium" → Some transition risks
<i>Underpriced</i>	<ul style="list-style-type: none"> → SLB repricing delays → Human capital → Supply chain controversies 	<ul style="list-style-type: none"> → Chronic physical risks → Sovereign climate vulnerability → Stranded asset risk → Nature loss

Source: WBCSD

Equity markets are constantly evolving and adapting in response to competition, regulation, technology, risk perception, and other factors. With a minor shift in both investor perceptions and market incentives, a major transformation could easily occur in how sustainability is valued. For example, if the assumed discount rate in a discounted cash flow model is changed, a mere 1 percentage point decrease can cause a substantial increase in the intrinsic value of a company – e.g. a decline in the discount rate from say 10% to 9%, can result in a 15% value increase in the terminal value. In such a scenario, those companies with advanced sustainability strategies will be optimally placed to benefit.

Table 1: Spotlight on the P&L

<i>P&L line item</i>	<i>Positive impact</i>	<i>Negative impact</i>
Revenue	Price premium and volume growth	Failure to achieve price and volume improvement
Cost of goods sold	Lower energy and water costs, waste reduction	Higher sustainable input costs
Gross profit		
Wages	Higher retention and lower recruitment costs	Fair wage commitments
Marketing	N/A	Increased spend on brand building
Legal costs	Lower risk of environmental litigation	Higher legal and reputational costs, lower risk of environmental claims defense
Other Opex	Lower insurance premiums (and freight costs)	Certifications and ESG data assurance costs
Operating profit		
Interest income	Additional returns (e.g., credits, offsets, certificates)	N/A
Interest expense	Greenium/lower cost of capital	Potential penalties if KPIs missed
Earnings before tax		
Tax expense	Additional government incentives	Fewer tax offsets
Net profit	Higher P/E multiple	No sector valuation premium

Source: WBCSD

Summary

The strong consensus within the current literature is that many CEOs prioritize sustainability for reasons of both value creation and risk management. While initial costs need to be justified, as with all investments, sustainable ones are shown to improve efficiency, growth, and brand strength, while reducing risks and future expenses tied to high emissions. Financial markets increasingly reward robust environmentally sustainable practices with higher valuations, lower capital costs, and more investment, but signaling remains confusing. Overall, more recent studies and surveys suggest that sustainable business strategies enhance corporate resilience and open new financial opportunities. As regulations tighten and equity markets evolve, the financial returns associated with sustainability can be expected to become even clearer. It is surprising that there is not more research available on this topic; it would be warmly welcomed by the business community and financial markets.

Endnotes

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 - Probability of no flood in a year = 95% (or 0.95)
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Corporate Performance & Accountability (CP&A) is positioned as one of WBCSD's four strategic priorities, driving value through an integrated business agenda within the Corporate Performance and Accountability System (CPAS). Its core mission is to embed sustainability into the heart of corporate governance, risk, strategy, and performance, ensuring that sustainable corporate performance is recognized by financial markets.

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The World Business Council for Sustainable Development (WBCSD) is the leading community of over 250 global businesses making sustainability performance a key driver for competitiveness. Established in 1995, WBCSD is a non-profit member-led organization that connects business leaders through all sectors and major economies, and creates the tools and frameworks to scale collective impact, drive cross-sector innovation, and shape an ambitious, enabling policy agenda. We operate from seven offices worldwide — in Geneva, New York, Chicago, Amsterdam, London, Singapore and Wuhan — enabling collaboration across value chains and geographies. Together with our members, we are rewiring economic and financial systems to support the transition to a net-zero, nature-positive, and inclusive future that creates business value.

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