

CDP A LIST FROM REPORTING TO STRATEGY

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What are the specificities and singularities of the companies on the CDP A List compared to other players in their sectors?

What are the prerequisites for inclusion on this A List?

What new aspects can we expect to see from CDP in the future?

These are the questions that Carbone 4 set out to answer in this publication, by analyzing the responses of companies on the CDP A List in 2016.

This analytical note shows that the A List is characterized by **a marked level of maturity and commitment** in the fight against climate change.

Nevertheless, the various complementary initiatives around the CDP (Science-Based Target, TCFD report, etc.) and the recent Paris Agreement call for these companies to **implement a global and long-term climate strategy** if they hope to maintain this position.

1

A BIT OF BACKGROUND

At one time little disclosed and even sensitive information, companies' climate impact is now becoming increasingly measured, assessed and compared by third parties.

The CDP, a non-profit organization based in the United Kingdom, has positioned itself as **the leading body seeking to facilitate companies' transparency and performance when it comes to reducing their environmental impacts**¹. Indeed, for several years now major international companies have voluntarily responded to the CDP questionnaire, composed of fifteen sections concerning businesses' climate strategies, their commitments, the evaluation of their CO₂ emissions, etc.

In 2016, the CDP questionnaire underwent major changes and a special process was introduced to define **an A List, which names the most advanced companies when it comes to the climate according to CDP**. Following the publication of the 2017 questionnaire and guidance by the latter, **Carbone 4 decided to analyze the 2016 CDP A List in order to:**

- understand the specificities and singularities of these companies compared to other players in their sectors;
- identify the current prerequisites for inclusion on this A List, and to analyze what aspects we can expect to see from CDP in the future.

This analysis concerns companies² located in Germany, France, the Netherlands and the United Kingdom who were named on the A List in 2016. This represents a total of 46 companies (see table on page 11) operating in various sectors : automotive industry, ICT³, finance, mass-market retail, energy, etc.

¹ Other companies also specialize in environmental reporting and assessment, but only the CDP questionnaire is analyzed in this publication.

² The conclusions drawn from this analysis are therefore not applicable to all of the companies on the CDP A List (193 in total).

³ Information, Communication and Telecommunications.

2

THE A LIST: COMPANIES AWARE OF THEIR ENVIRONMENTAL IMPACTS AND THE ASSOCIATED RISKS

Some of the points the companies on the A List have in common are their keen awareness of the challenges of climate change, their endeavours to gain a better understanding of the impact of their activities and their actions to reduce these impacts.

2.1 CLIMATE CHANGE, AN ISSUE AT THE HEART OF THE CONCERNS OF DECISION-MAKING BODIES

The modes of governance within the companies surveyed show that **climate change is a strategic subject nowadays, in the sense that their climate policy is decided at the highest level within their organization**, that is to say by the Board of Directors (or by an entity approved by the Board of Directors). Some companies also decide to put in place variable-pay systems for executive positions (CEO, CFO⁴, etc.), according to the environmental progress achieved annually.

Although this subject is part of the decision-making process in these companies, this is primarily because climate change is considered as an important risk factor⁵. Most companies confirm that their climate strategy is first and foremost designed to respond to regulatory risks. Physical risks along with reputational risks are also frequently mentioned as factors that influence a company's strategy.

Extract from the Mondi PLC CDP response (2016)

"The short-term mitigation strategy (2015 - 2018) has been most heavily influenced by regulatory risks from climate change. Consequently we focus on mitigating our GHG emissions by getting energy self-sufficient and more energy efficient.

In the long term (2015 - 2030), our strategy has been influenced by regulatory risks, the increasing cost of carbon and opportunities from climate change."

⁴ Chief Executive Officer and Chief Financial Officer.

⁵ Opportunities are also sometimes mentioned as a factor for some companies.

2.2 DETAILED ANALYSIS OF ENVIRONMENTAL IMPACTS

Well aware of the risks involved, **the companies in the sample surveyed have a comprehensive view of their carbon impact, covering all of the scopes and their geographic activities.**

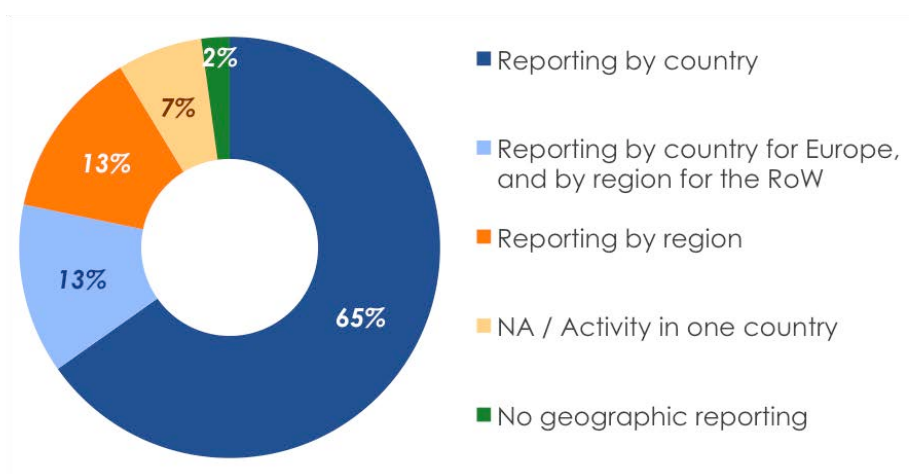
“In the United Kingdom, out of the 224 CDP respondents, only 31% indicated at least two Scope 3 emissions sources, compared to 100% of the companies on the A List. ”

The 46 companies thus measure direct emissions resulting from their activity (Scope 1) and indirect emissions from energy (Scope 2) simultaneously. Most importantly, they all measure several sources of emissions within Scope 3 (other indirect emissions), which is not always the case for most CDP respondents.

The companies surveyed also have a detailed view of the emissions they generate, with more than three-quarters of them tracking GHG emissions at country level.

Thanks to these assessments, these companies are able to see where their vulnerabilities lie, whether in their value chain (e.g. goods transport, energy consumption, etc.) or their geographic areas.

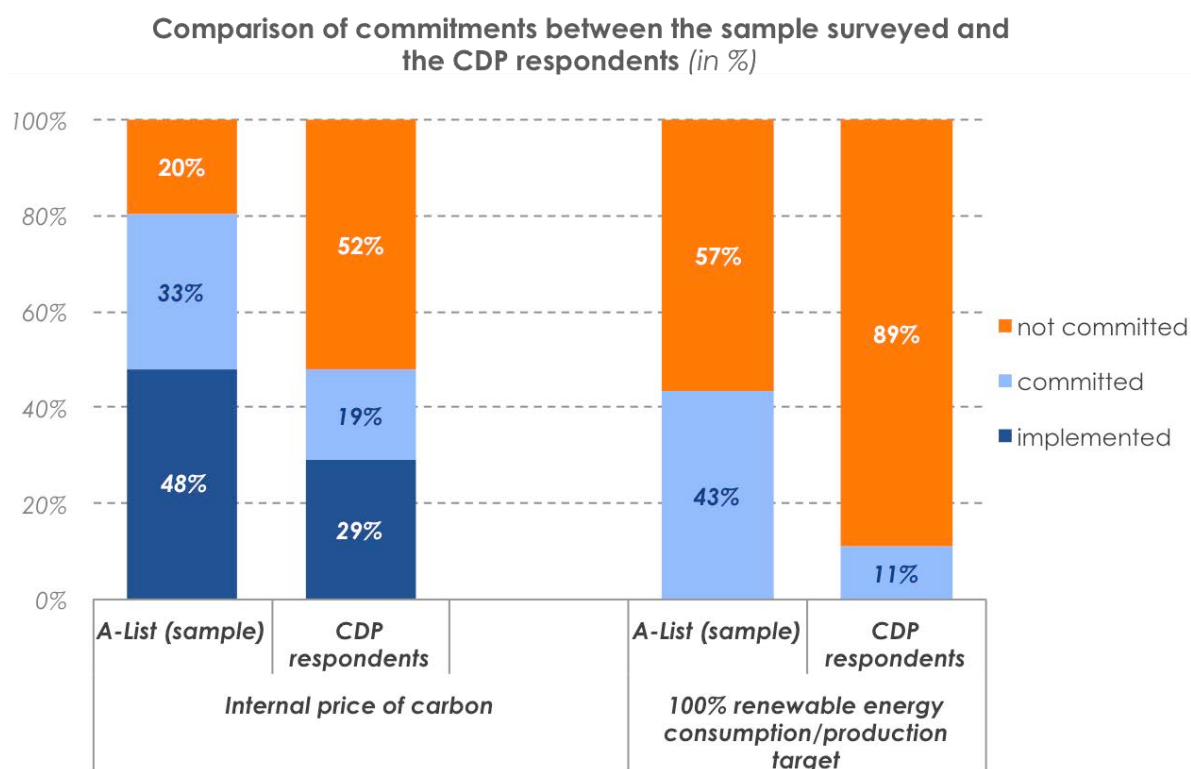
Breakdown of CO₂e emissions reporting by geographic level
(in % of the sample surveyed)



2.3 SETTING OUT TARGETS AND COMMITMENTS TO REDUCE THESE IMPACTS

Like most of the responding companies (85% in 2016), the companies on the A List have set emissions savings targets in order to lower their vulnerability. **All of them track and publish emissions reductions targets within Scope 1&2, whether this be an absolute figure or in terms of intensity.**

The A List companies set themselves apart from other CDP respondents through their commitments to various international initiatives. **80% of the companies surveyed have already put in place or have undertaken to introduce an internal CO₂ price within the next two years⁶,** compared to under 50% for the responding companies as a whole. Three-quarters of companies have joined the We Mean Business international coalition, which encourages companies to implement a series of climate initiatives (100% renewable electricity, removing products that contribute to deforestation, etc.).



⁶ Commitment to the Carbon Pricing Leadership Coalition initiated by the United Nations.

3

THESE COMPANIES NOW NEED TO SHIFT TOWARDS A LONG-TERM AND SYSTEMIC STRATEGY

In the wake of the Paris Agreement in December 2015 which set the target of limiting global warming to below 2°C, **the need to step-up the energy transition process was echoed by players in both the public and private sectors.** As an example, the TCFD⁷, established by the Financial Stability Board, recently published a series of recommendations to help companies better take into account climate risks, not only through carbon reporting but also through forward-looking scenarios.

These trends currently in motion underline the fact that **companies, like states, must now draw up their strategy and commitments in a long-term and coordinated perspective in order to ensure that global warming is maintained at below 2°C.**

3.1 ESSENTIAL “2°C-COMPATIBLE” TARGETS

In order to achieve the target of the Paris Agreement aiming to limit the average temperature increase to 2°C, **companies must align themselves with a global pathway and a global carbon budget.**

This is the aim of the Science-Based Target (SBT) initiative, which provides methodologies to allow companies to set targets that are compatible with a climate warming scenario below 2°C. The A List companies have expressed an interest in this initiative, **with 48% already committed to adopting so-called “science-based” targets**, compared to less than 16% of the CDP respondents as a whole. The small number of companies that have validated their targets (9%⁸) nevertheless demonstrates that setting a 2°C pathway is a cumbersome exercise in which they require guidance in order to accelerate the transition to a low carbon world.

“Only four companies on the A List (AstraZeneca, Coca-Cola Enterprises Inc, Royal KPN and Diageo PLC) in the 4 countries surveyed have adopted targets that have been validated by the Science Based Target Initiative (SBTI).”

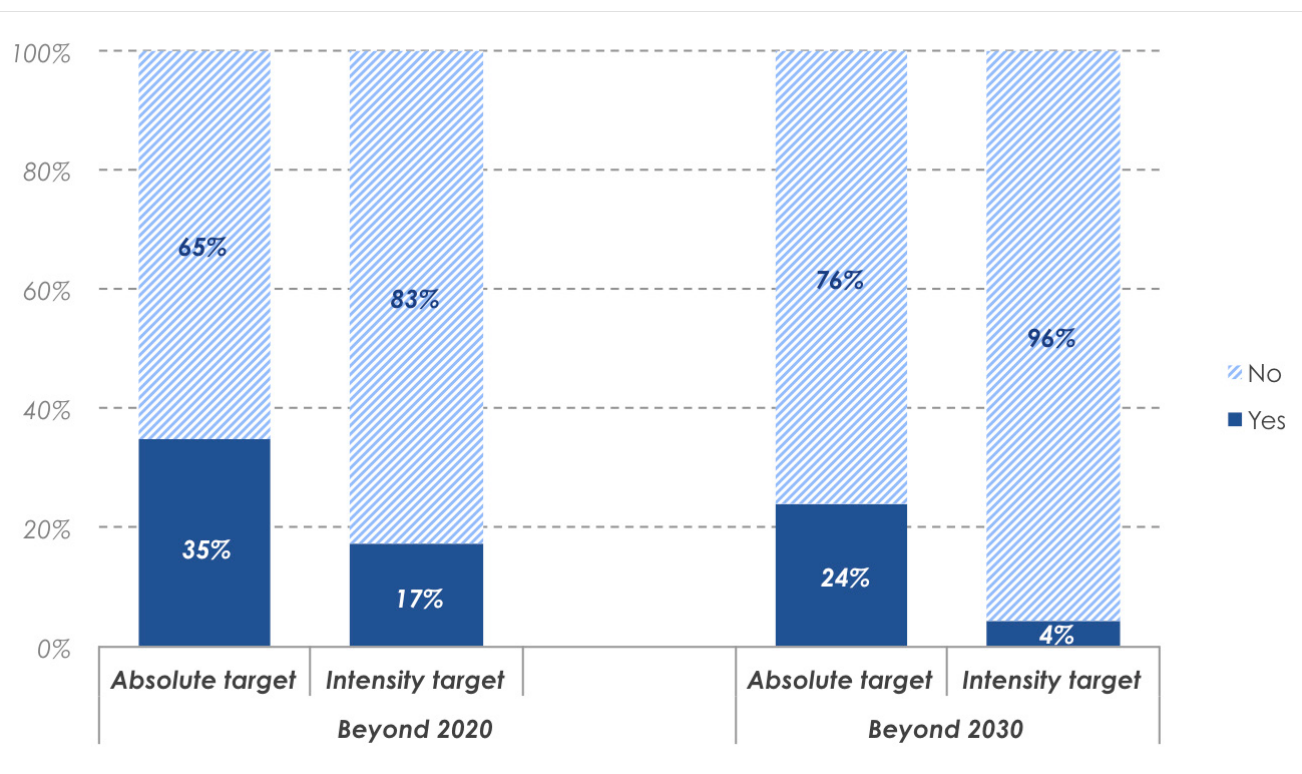
⁷ Task Force on Climate-related Financial Disclosure.

⁸ Companies listed on the Science Based Target website as having validated targets. Companies in the sample with partially validated targets (e.g. Scope 1&2) are not included.

3.2 THE NEED FOR LONG-TERM TARGETS

Although all of the companies surveyed on the A List have adopted short-term CO₂ reduction targets, **very few have set out medium-term targets beyond 2020 and 2030**. For example, only 11 out of 46 companies have absolute targets beyond 2030, i.e. a percentage slightly above the average for CDP respondents⁹. Although the goal of maintaining global warming at 2°C requires going beyond short-term approaches, the A List companies have not yet succeeded in anticipating climate issues in the long term.

Share of companies with CO₂e targets beyond 2020 and 2030 (in % of the sample surveyed)



⁹ In 2016, only 14% of the companies that responded to the CDP survey had targets for 2030 or beyond.

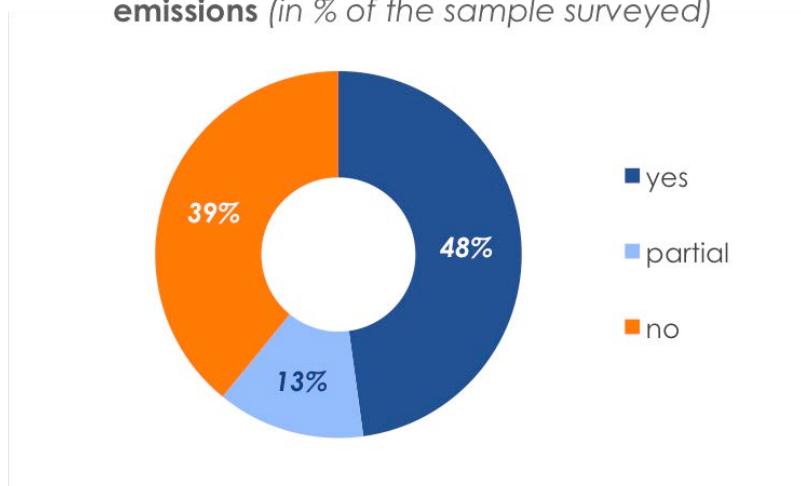
3.3 A NEED TO SET OUT A SYSTEMIC STRATEGY

In a world where the carbon constraint is increasing at all levels, **the resilience and robustness of a company require it to take action beyond its operational scope** by incorporating its entire value chain into its strategy.

And yet the strategy of the companies on the A List may be regarded as incomplete in terms of scope. **39% of companies, for example, have no Scope 3 targets**, despite the fact that these can be a significant source of emissions. Furthermore, some A List companies focus on negligible sources of their carbon footprint (e.g. emissions related to business travel) or within a single geographic area (e.g. Europe).

The majority of companies surveyed thus seek to reduce their CO₂ emissions solely within their operational scope (scope 1 and 2). **Yet working on the value chain as a whole (projects with suppliers, insetting, etc.) can bring many benefits** : improved customer-supplier relationships, lower global dependence on fossil fuels, etc. and thus strengthen the reliance of the value chain.

Commitment of companies in reducing scope 3 emissions (in % of the sample surveyed)



3.4 THE IMPORTANCE OF DEVELOPING A COMPANY'S CLIMATE STRATEGY IN THE LIGHT OF CONTRASTING CLIMATE SCENARIOS

While it is vital that companies have a medium- and long-term strategy, with an ambitious scope, **it must be designed with contrasting climate scenarios in mind.**

Compliance with the 2°C pathway at global level will result in a far-reaching transformation of the economic landscape, with implications on the availability of energy resources and materials, evolving end-user needs, the emergence of new technologies, etc. This carries a number of risks and opportunities for companies today.

Conversely, the physical and financial impacts of 6°C of global warming would have serious consequences for businesses. An analysis of this scenario can guide the company's performance towards a sustainable pathway that takes into account the durability of assets.

At this stage, none of the A List companies have foreseen, or at least have not disclosed, **the impact of one of these scenarios on their business activities.** And yet these forecasts, including different energy transition and global warming scenarios, are key to anticipating the long-term risks and opportunities and implementing a climate strategy in line with the trends observed on a global scale.

CONCLUSION

The companies that achieved an A score on the 2016 CDP questionnaire have put in place the first essential components of a climate strategy : measuring CO₂ emissions, identifying risks and opportunities, implementing actions and procedures to mitigate these risks, etc.

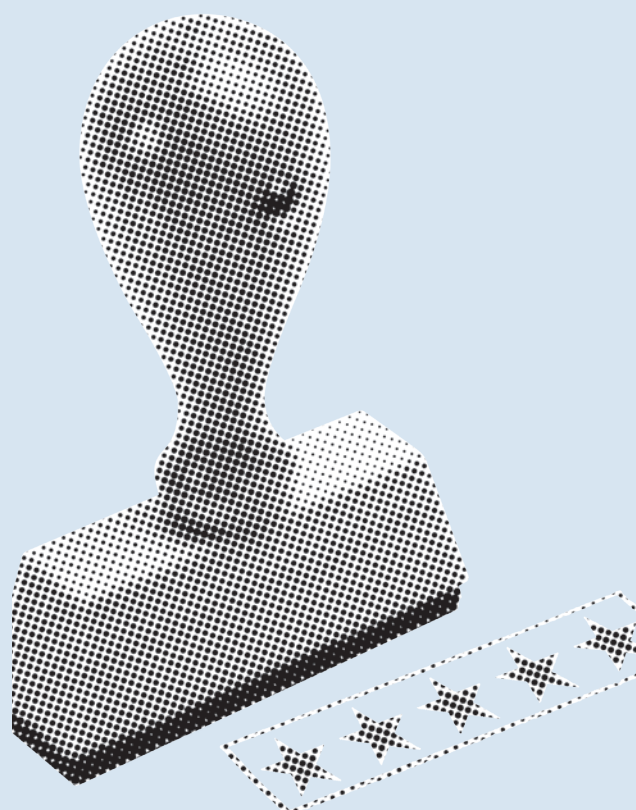
Nevertheless, the potentially significant effects of global warming are driving companies to take the definition of their climate strategy one step further, notably by adopting long-term targets, by setting 2°C-compatible targets and by analyzing different climate scenarios to enrich the development of their strategy.

CDP has already included some of these components in its 2017 questionnaire, **thus meaning that the companies on the A List need to make headway in this area in order to achieve an A score in the coming years.**



Founded in 2007 by Alain Grandjean and Jean-Marc Jancovici, Carbone 4 is a leading independent consulting firm, specialized in energy transition and climate change. **Our team assists companies in their transition to a low carbon and climate resilient economy.** More than 130 companies, a number of which are named on the 2016 CDP A List, have thus benefited from Carbone 4 services in order to:

- better **measure** the greenhouse gas emissions resulting from their activities;
- **anticipate the changes** in organization and activities that could be caused by climate change and the energy transition;
- **set** ambitious and realistic emissions savings **targets**, and develop these in an action plan;
- **choose the appropriate instruments** to encourage low carbon investments and drive the energy and ecological transition.



LIST

OF COMPANIES SURVEYED

Akzo Nobel	Klépierre
AstraZeneca	Koninklijke KPN NV (Royal KPN)
Atos SE	L'Oréal
Bayer AG	Lanxess AG
BIC	Lloyds Banking Group
BMW AG	Michelin
Bouygues	Mondi PLC
British Land Company	National Grid PLC
Centrica	Groupe PSA
CNH Industrial LV	RELX Group
Coca-Cola Enterprises Inc	Renault
Daimler AG	Royal BAM Group nv
Deutsche Telekom AG	Royal Philips
Diageo PLC	Schneider Electric
EDF	Siemens
ENGIE	Sky PLC
GlaxoSmithKline	Suez
HeidelbergCement AG	Symrise AG
HSBC Holdings PLC	Tesco
Icade	ThyssenKrupp AG
Indus Holding AG	TUI Group
ING Group	Unilever PLC
J Sainsbury PLC	Veolia

Analysis of commitments and initiatives of the companies surveyed established on April 20th 2017.