

RUNNING HOT

ACCELERATING EUROPE'S PATH TO PARIS

Written by



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FOREWORD: AMBROISE FAYOLLE

VICE-PRESIDENT, EUROPEAN INVESTMENT BANK



To accelerate the green transition while leaving no region, business or community behind, the EIB is stepping up its engagement with clients to develop more investments that contribute substantially to climate action and environmental sustainability.

2021 will mark a turning point in the green transition. While the global impact of the Coronavirus pandemic will continue to challenge communities, businesses and policy makers, our recovery work must simultaneously help avert the dual climate and environmental crises. The European Green Deal provides a clear framework for such a recovery, as well as an opportunity for Europe to enhance its climate leadership and become more competitive and resilient.

2020 proved pivotal in establishing the financial and regulatory frameworks needed to help Europe become carbon neutral by 2050. Firstly, the adoption of the EU Taxonomy Regulation in June established the process to define clear criteria for investors and businesses to know what constitutes sustainable finance. It also paved the way for further development of climate and environment-related financial risk disclosures and the Green Bond Standard.

In parallel with the development of the Taxonomy, the EIB Group worked intensively on its **Climate Bank Roadmap**, approved unanimously by shareholders last November. The Roadmap sets out how the Group will:

- ▶ phase out support to projects reliant on unabated fossil fuels,
- ▶ align all financing activities with the Paris agreement,
- ▶ dedicate at least 50% of EIB financing to climate action and environmental sustainability by 2025, and
- ▶ support EUR 1 trillion of investment in climate action and environmental sustainability in the decade 2021-2030.

In tracking its contribution to green finance, the EIB will apply the EU Taxonomy criteria, i.e. making a substantial contribution to at least one of the EU's six climate action and environmental sustainability objectives, while doing no significant harm to the other objectives and adhering to minimum social safeguards.

This commitment to do no harm goes beyond green finance. To ensure our alignment with the Paris agreement, the Group will use the Taxonomy's Do No Significant Harm criteria for the climate change mitigation and adaptation objectives as an indicative reference for all new financing.

The Roadmap also extends the earlier EIB decision to phase out support to power

generation and large-scale heat production reliant on unabated fossil fuels. For instance, the EIB will now no longer support new energy-intensive industrial production based on traditional high-carbon processes without abatement technology. It will also no longer support airport capacity expansion or RDI in the internal combustion engine or conventional ship or aircraft technology.

As this year's CDP Europe Report demonstrates, there remain significant differences among companies on carbon performance, climate goals and the disclosure of related information. There are also significant discrepancies between financial institutions' commitments to climate finance and current levels of demand for such finance from companies.

To ensure the reduction in emissions required over the next decade to meet the 1.5 degree Celsius temperature goal of the Paris agreement, the report estimates that at least 65% of European companies will need to align fully with the Paris agreement by 2030.

To accelerate the green transition while leaving no region, business or community behind, the EIB is stepping up its engagement with clients to develop firstly more investments that contribute substantially to climate action and environmental sustainability.

Beyond this, and building on the work of partners including CDP, our Roadmap foresees outreach to clients to help them develop ambitious corporate decarbonisation targets, along with the management and reporting systems required to support low-carbon and climate-resilient development.

Collaborating with partners such as CDP and other non-governmental organisations (NGOs) is testament to the Group's commitment to engage with a broad range of stakeholders in the journey toward a carbon-neutral planet.

FOREWORD: MAXFIELD WEISS

EXECUTIVE DIRECTOR, CDP EUROPE



Now is the time to transform. Business models, financial systems and local government policy must align with the current environmental challenges we are facing. It is time to build forward better.

2020 changed the world. In January last year, news broke about a novel virus that was spreading and, within a few months, we witnessed a devastating situation. By April, half of humanity were living under some form of lockdown. Businesses struggled to survive under the weight of the virus, and financial systems showed their fragility. What COVID-19 demonstrated is that our current economic model is not resilient. While coronavirus was a systemic shock, a larger one will undoubtedly be climate change and the depletion and degradation of our global environment.

Yet with COVID-19 comes an opportunity – an opportunity to transform our system and do things better. Carbon dioxide emissions in 2020 fell by 7% due to coronavirus-induced lockdowns, and while concerns that a reboot in economic growth may come at the detriment of the environment, the opposite may be happening. We are seeing an increased focus on a green recovery. One that puts sustainability at the heart of the economy. Now is the time to transform. Business models, financial systems and local government policy must renovate and align with the current environmental challenges we are facing. It is time to build forward better.

The EU is in position to lead. 2020 brought significant progress for the EU's environment goals. Last year, the European Commission announced an increase in the emission reduction target – from 45% to 55% by 2030, and a goal to be carbon neutral by 2050 – all part of the wider European Green Deal. Additional legislation around deforestation was put forward. These policy advancements are critical in creating a roadmap that Europe's businesses, investors, and cities must follow. We are seeing support from Europe's businesses for the EU to be even more ambitious - in September, 150 leading CEOs asked the EU to increase their climate ambition. Globally, Europe is leading the way on environmental policy, and can be the first continent to transition to a net-zero, resource-secure economy.

At the heart of delivering the European Green Deal are Europe's businesses and financial institutions. The 2020 CDP A List shows promising signs. Despite the world grappling with a global pandemic, there were 137 European¹ corporates on CDP's A Lists for climate change, forests and/or water security, a 46% increase from last year. In total, these European A List companies have a market value of over €3.5 trillion. We saw an increase in the number of A, double A and triple A companies, and an improvement in scores in forests and water security. Globally, we recorded a record 10,000+

disclosures - a sign that transparency and environmental reporting is becoming the norm in today's economy.

While things are moving in the right direction, the scale of the challenges requires us to act much faster. This year's report shows that under 10% of companies currently have targets to align with well-below 2°C. It's clear that this needs to change, and fast. The finance industry is making bold commitments. The vast majority of assets now are committed to being 'Paris-aligned' – but there's a long way to go before action matches the words.

One concrete action that we must see over the next few years is more companies joining the Business Ambition for 1.5°C, and financial institutions setting science-based targets (SBTs) and using CDP temperature ratings. A recent report from the Science Based Targets initiative (SBTi) showed that, between 2015 and 2019, companies with SBTs reduced Scope 1 and 2 emissions by 25%, even as global emissions rose by 3.4%. The avoided emissions add up to 302 million metric tons of carbon dioxide equivalent. What does this show? That science-based targets work. They are a critical next step for Europe's businesses, investors, cities and regions.

The science is clear that we must halve emissions by 2030 and be carbon neutral by 2050 to have a chance at mitigating the very worst effects of climate change. The first step to environmental action is disclosure – you simply cannot manage what you do not measure. CDP are committed to supporting Europe's businesses, investors, and cities on their journey to environmental stewardship.

2021 must be the year that we build forward better to a net-zero, resource-secure economy.

*On behalf of CDP Europe, I'd like to extend our thanks to the **Oliver Wyman** team for their collaboration again on this report, and in particular to the team leading the analysis and the wider group providing input and expertise into the process.*

EXECUTIVE SUMMARY

01.

RUNNING HOT

ON COURSE FOR A 2.7°C RISE

The 2015 Paris agreement to limit global warming to well below 2°C, preferably 1.5°C was a landmark in the fight against climate change. This year's report shows strong progress in reducing carbon emissions by many of Europe's largest companies. The top-performing **25%** of companies have already reduced their absolute emissions by **15%** and their emissions efficiency – greenhouse gases per unit of revenue – by **20%** (using measurements taken before the COVID-19

pandemic). But this progress is uneven. The carbon efficiency of the top-performing 25% of companies in each sector is double that of the bottom 25%, pointing to wide skews in progress to date, as well as differences in business models. The current target setting of European corporates is in line with the level of emission reductions associated with global heating of **2.7 °C**, well above the Paris target and falling far short of the European Union's policy ambition.

02.

THE FINANCIAL SYSTEM AS AN ACCELERATOR

A €4 TRILLION FORCE

Many financial institutions have the ambition to be Paris-aligned. This means they need the emissions of the companies they lend or invest in to cut emissions at a rate commensurate with the Paris goals. This has the potential to be a major force in accelerating company commitments to reduce emissions. Banks representing **95%** of all lending to European corporates have such an ambition, even as the necessary metrics, data, and processes are

still being built. This contrasts with just **8%** of European corporates having set targets in line with a well-below 2°C rise. This has created a gap of more than **€4 trillion** between the lending that banks plan to align with Paris and the current available demand for such financing. This gap has the potential to galvanize industry to greater action, as companies with greater ambition to reduce their emissions are able to raise capital on better terms.

This report includes

974

European companies worth 78% of market value

03.

GROWING MOMENTUM

56 % OF COMPANIES HAVE A TRANSITION PLAN

The transition to net-zero emissions is moving to the top of the agenda for many companies. Encouragingly, over 50% of European companies by market value have now joined the Science Based Targets initiative, which approves whether emissions targets are aligned with the Paris agreement. We found that 56% have developed a transition plan so far – and more in the highest-impact sectors. In the best cases, these plans include externally validated science-based targets, significant investments in long-term

initiatives and development of low-carbon products, as well as clear governance and accountability. But as highlighted, the majority of these existing ambitions and plans fall short of Paris. Delivering the change required is challenging in a large company – but failure brings risks. Green challengers are showing they can move fast and attract strong investor interest and valuation premia; incumbent companies will be challenged to show that they can keep up.



04.

A COLLECTIVE ACTION PROBLEM

LESS THAN 35% OF COMPANIES DISCLOSE SCOPE 3 EMISSIONS

A major problem for corporates is the assessment of Scope 3 emissions – those that occur beyond corporate boundaries in their respective value chains. These are far harder to trace than Scope 1 emissions (direct emissions, largely from fossil fuel combustion) and Scope 2 (indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed). Yet, Scope

3 forms the vast majority of the emissions impact for European corporates as a whole. Currently, less than **35%** of companies in high-impact sectors are disclosing meaningful information on Scope 3 emissions. Addressing this requires new forms of collaboration, working across boundaries, and ambitious companies are already pushing to make this happen.

05.

RE-WORKING THE FINANCIAL PLUMBING

BANKS MAY NEED TO ROTATE 20-30% OF THEIR PORTFOLIOS IN A MODERATE ACCELERATION SCENARIO

Financial institutions have an important role to play in engaging with companies, to encourage and incentivize them to develop credible transition plans, and deliver against these. Yet there is a risk that without a step change in progress, probably triggered by a major policy change such as a carbon tax or a tech breakthrough, the corporate sector will not reduce emissions as fast as the Paris agreement requires. In such a scenario only those banks and asset managers willing to proactively align their portfolios will be able to meet their Paris goals. In our “modest acceleration” scenario, we estimate that banks

may need to adjust 20 to 30% of their large corporate lending portfolios to be aligned with Paris by 2030. However, despite most of them having the ambition to align their portfolios with Paris, only half of financial institutions have to date assessed whether their client and investee strategies are aligned with the Paris agreement. With the typical corporate loan lasting 5 to 7 years, to make progress by 2030 they need to act now, even while data remains imperfect. As disclosure requirements on financial institutions grow it will be increasingly clear which are making real progress.

06.

SETTING EUROPE ON THE RIGHT PATH

AT LEAST 65% OF COMPANIES NEED TO BE PARIS-ALIGNED

Europe is at a critical inflexion point. To have a good chance of meeting the Paris goal of 1.5°C, our economy should shed 50% of emissions over the next decade. This report estimates that at least 65% of companies need to be fully Paris-aligned by then, with many going beyond that ambition level, to succeed. The financial system can help accelerate the path to Paris, by mobilizing capital towards the companies that will prosper in the transition, but only if it acts now.

A supportive policy environment will be key. Governments across the region have an important role to play. Country-level differences in current

temperature levels in the European corporate sector, ranging from **2.3°C to 3.0°C**, point to the different challenges across governments and potential for sharing of best practices across the region.

As the world steps up to fight climate change, Europe's companies can play a leading role. Realizing this potential requires not only ambition but also action – action that is most impactful when taken in collaboration. Corporates, financial institutions, and governments all need to build on the momentum that is developing and hold each other accountable to deliver.

A €4 TRILLION AMBITION GAP

KEY FINDINGS

- Under 10% of European companies, weighted by their total outstanding loans, are currently in line with the well-below 2°C pathway of the Paris agreement.
- Banks representing 95% of all corporate lending in Europe have ambitions to align lending with the Paris agreement, and over 70% of the biggest asset managers/owners have ambitions to reach Paris-alignment across portfolios by 2050.
- As a result, there is a current mismatch of over **€4 trillion** between the capital that has the ambition to be Paris-aligned, and the current available market for Paris-aligned corporate lending in Europe.

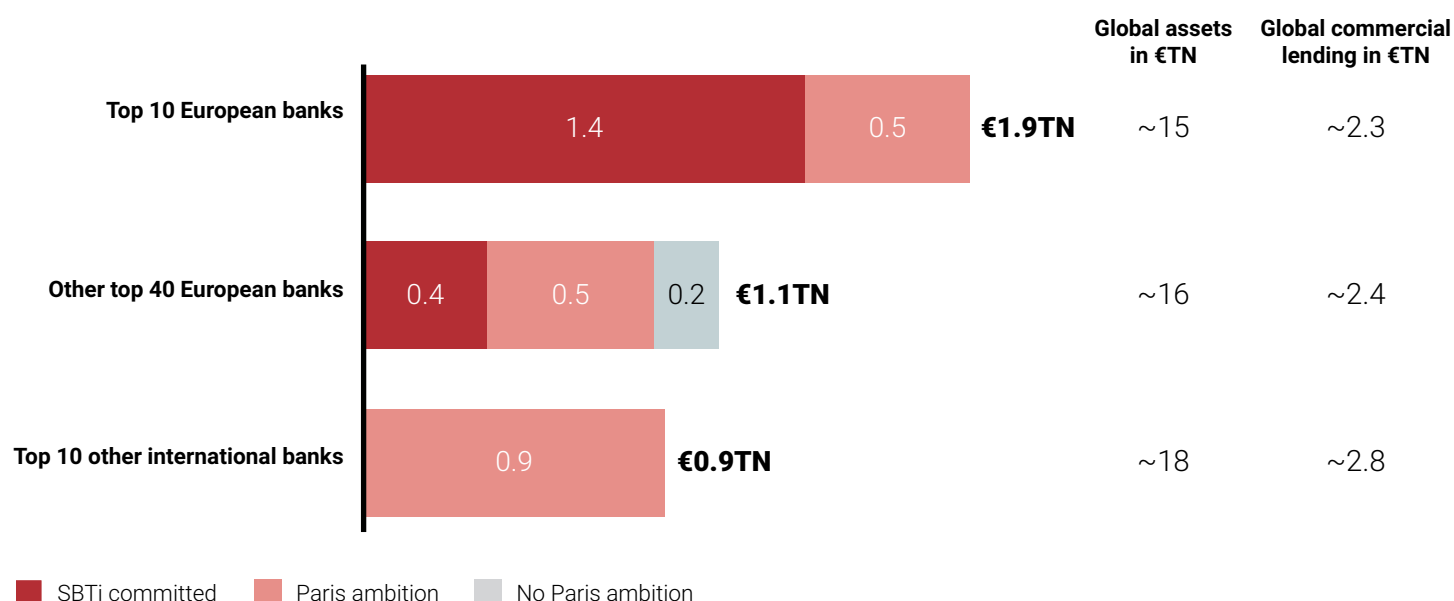
Origins of the gap

With the 2015 Paris agreement triggering plans to reduce emissions in all sectors of the economy, the financial sector in Europe has started to embrace its role as an accelerator in the shift to a lower carbon economy.

Most banks and many asset managers have now said that they want to be consistent with and contribute to the Paris agreement – that is, to limit global temperature rises to well-below 2°C, ideally to 1.5°C - even as the metrics, data and processes to put this into practice this are still being built. (See Exhibit 1) ²

We estimate that, so far, 95%³ of the total corporate lending in Europe (the EU27, EFTA, and the UK) comes from banks that have declared an ambition to be Paris-aligned. Furthermore, **seven of the top 10 European banks**⁴ have so far made a commitment through the Science Based Targets initiative (SBTi) to set a science-based target, in line with the Financial Sector Science-Based Targets Guidance, which sets out detailed guidance⁵. (See Exhibit 1.) In addition, the public development banks in Europe have declared that they would contribute to the objectives of the Paris agreement, while responding to the COVID-19 crisis⁶.

Exhibit 1. Overview of banks' lending to European corporates



Source: Oliver Wyman analysis, CDP temperature data, Dealogic, SBTi

Note: Paris ambition refers to either being member of Principles for Responsible Banking or a broader statement on company website, Annual/Sustainability reports and/or investor presentations

A €4 TRILLION AMBITION GAP

95%
of the total
corporate lending
in Europe comes
from banks that
have declared an
ambition to be
Paris-aligned

At the same time, we estimate that, among the biggest asset managers and asset owners, more than 70%⁷ of assets are managed by institutions publicly committing to ensure their portfolios are Paris-aligned. As a result, investors are mobilizing and some are taking a more activist stance. Two notable developments in the market that represent this ambition include:

- ▼ **The Net-Zero Asset Owner Alliance:** Representing 33 institutional investors with **\$5 trillion assets under management**, the alliance shows “*united investor action to align portfolios with a 1.5°C scenario, addressing Article 2.1c of the Paris agreement.*”⁸
- ▼ **The Net-Zero Asset Manager Initiative:** Representing 30 signatories with **\$9 trillion assets under management**, the group of international asset managers are “*committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C; and to support investing aligned with net zero emissions by 2050 or sooner.*”⁹

There are two conditions for a financial institution to align its business to be consistent with and contribute to achieving the Paris agreement. First, it needs to reduce emissions from its own operations – its Scope 1 and Scope 2 emissions. More importantly, the companies it is financing need to reduce their emissions too – the institution’s Scope 3 emissions. These Scope 3 emissions that an institution finances, represent by far the largest part of its impact.

Under
10%
of European
companies are
currently in line
with the Paris
agreement’s well-
below 2°C goal

This requires companies to transition their business models and processes so that they are in line with the Paris agreement. Though a variety of definitions could be applied, a company can generally be considered “Paris-aligned” if it has targets that are consistent with the 2015 Agreement and therefore limiting the increase in the global average temperature to well-below 2°C above pre-industrial levels, and pursuing efforts to limit the temperature-increase to 1.5°C above pre-industrial levels.

A significant number of European corporations are now putting in place plans to achieve this. This report analyses the 2020 disclosures of 974 companies to CDP, representing around 78% of market capitalization in Europe (EU27+ EFTA and UK). These companies are responsible for over 2.1 Gt CO₂e of Scope 1 and Scope 2 emissions, which is equivalent to almost 50% of total European emissions categorized as such under the Greenhouse Gas Protocol (GHGP). (Scope 1 refers to direct GHG emissions, such as from fuel combustion. Scope 2 refers to indirect GHG emissions, such as from the consumption of purchased electricity)¹⁰.

Of these 974 companies, 56% reported to CDP that they now have a transition plan in place. The percentage is higher in the highest-impact sectors: 66% in the materials sector, 77% in energy, and 69% in transport. However, though there is a real opportunity for the companies leading this transition, plans differ widely in terms of rigor and ambition. Transition plans do not necessarily need to be based on a new breakthrough technology, although many will require breakthrough technologies to become economically viable at scale. But a credible target and transition plan can help to access funding and to do so at a lower cost of capital.

There are several methodologies for assessing a company’s alignment to the Paris agreement. The approach that we have used in this report – shown in Exhibit 2 and 3 – leverages the CDP temperature ratings dataset¹¹. This analyses a company’s decarbonization ambition based on reported emissions reductions targets and translates these targets into an intuitive temperature pathway covering emissions of all Scopes¹². The CDP-WWF temperature ratings methodology is endorsed by the Science Based Targets initiative as a methodology for financial institutions to set science-based targets¹³.

The European
corporate sector
disclosing to CDP
is on a
2.7°C
path

A €4 TRILLION AMBITION GAP

50%
of European
companies by market
capitalization have
joined the Science
Based Targets initiative

Since 2015, there has been enormous momentum behind ambitious target-setting. For example, based on our sample, 50% of European companies by market capitalization have joined the Science Based Targets initiative. (See Info box.) However, corporate targets set to-date still fall well behind what is required. The analysis conducted for this report allows us to estimate that under 10% of European companies are currently in line with the Paris agreement's goal

of well-below 2°C. To allow for a comparison between financial institutions' ambitions, this analysis has weighted companies according to the amount of money they borrow on the corporate loan market.

As Exhibit 2 shows, the electric utilities sector have ambitious decarbonization targets, offering the biggest market for Paris-aligned corporate loans.

Saint Gobain: Involving the entire organization to achieve its north star goal

With a presence in 68 countries, 170,000 employees, around 1000 industrial sites and thousands of distribution outlets, transitioning Saint-Gobain's 350-year-old high-impact building materials business onto a net-zero path is complex.

But the company's heritage also gives the company's stakeholders confidence that its north star goal - carbon neutrality by 2050 – is credible and achievable. This target is more than ever part of the organization's global strategy. It includes an approved interim science-based target for 2030, covering an absolute reduction in Scope 1 and 2 greenhouse gas emissions by one third, and to reduce Scope 3 by 16% which means high involvement of key suppliers of materials and transportation.

We spoke to Emmanuel Normant, who manages the company's environment and sustainable development activities and told us that this north star target massively shifted momentum in the business, creating willingness across the organization to contribute to the objective. Echoing the Paris agreement's Nationally Determined Contributions approach, all parts of Saint-Gobain now submit local roadmaps to outline which levers they can activate to hit their part of the 2030 targets. Emmanuel stresses this buy-in is essential, ensuring the topic is endorsed throughout and prioritized by management. It is supported by €1 billion over the next decade.

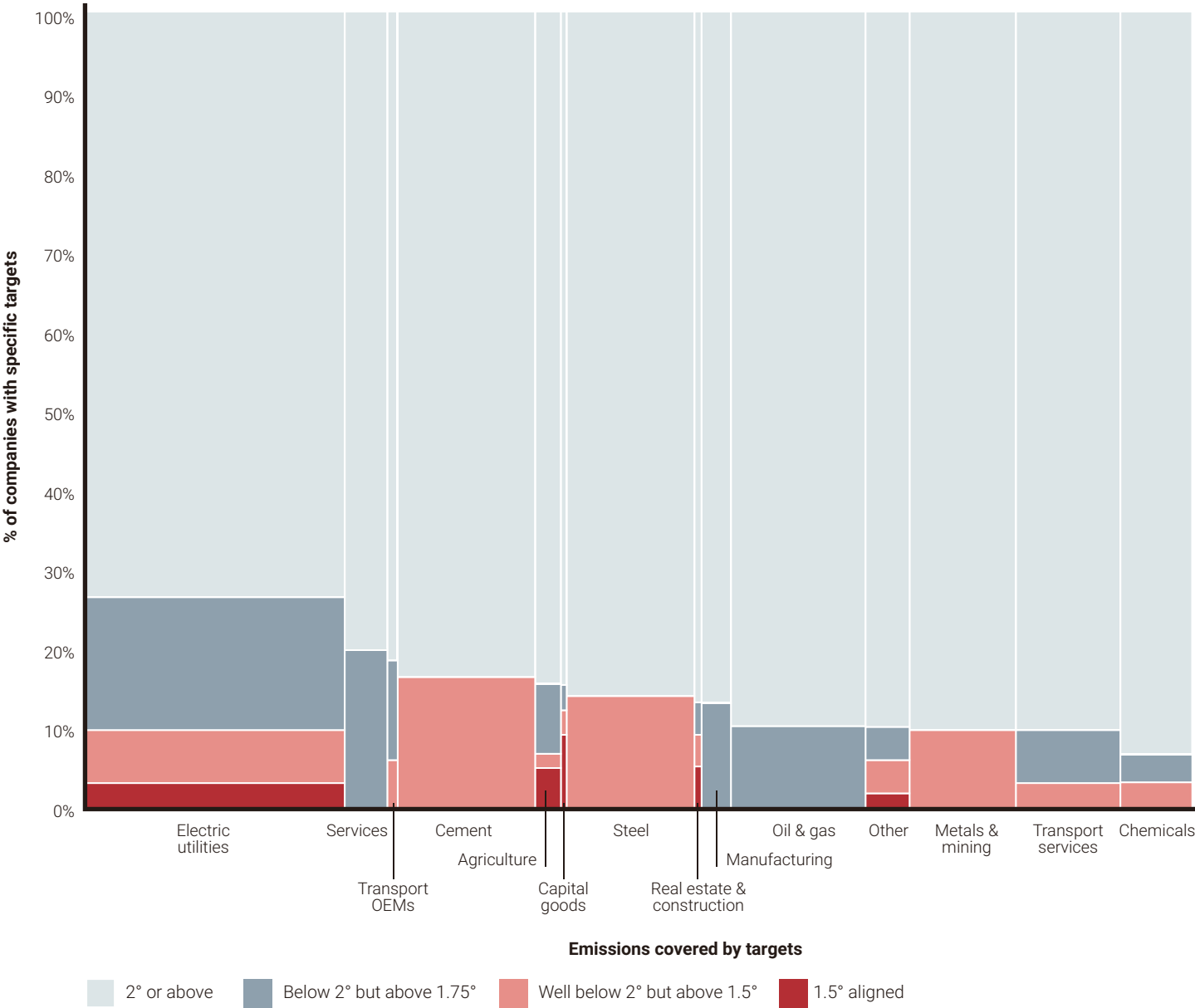
The company quickly realized that, for carbon-intensive companies like Saint Gobain, bold commitments require major disruption after 2030 – incremental progress is not enough. In a rapidly changing environment, where new technologies and innovations are evolving, the company is investing heavily now in R&D to stay ahead of the curve. Key research covers design, process efficiency, hydrogenic research, Carbon Capture, Utilization and Storage (CCUS) and electrification without forgetting increasing products sustainability through their production and use phases. The company's footprint is rebuilt every 15-20 years, as production facilities and key components like glass furnaces must be renewed. They are currently scenario planning and building multiple plans to reflect varying future energy prices, to ensure resilience and ensure their spending is in line with their ambition.

Carbon pricing has helped to remove the bottleneck of traditional financial analysis – moving big decisions outside the financial and into the technological. Budgeting stems from this pricing, and the company has one for investment (€30 per ton moving to €50 in 2021) and one for R&D (€100 per ton moving to €150 in 2021) for funding breakthrough technologies.

Emmanuel says that, without very high carbon prices, payback periods can be marginal and will not move the needle. Very high carbon prices of up to €150 per ton are what's needed to drive electrification and create a payback in R&D. Ultimately, the full potential of carbon pricing must be combined with dedicated money that will accelerate the transition. To that end, Saint Gobain assesses the impact of projects through its values committee – which keeps the north star of carbon neutrality in mind.

A €4 TRILLION AMBITION GAP

Exhibit 2.
Share of companies with Paris-aligned temperature ratings by sector (weighted by total emissions)



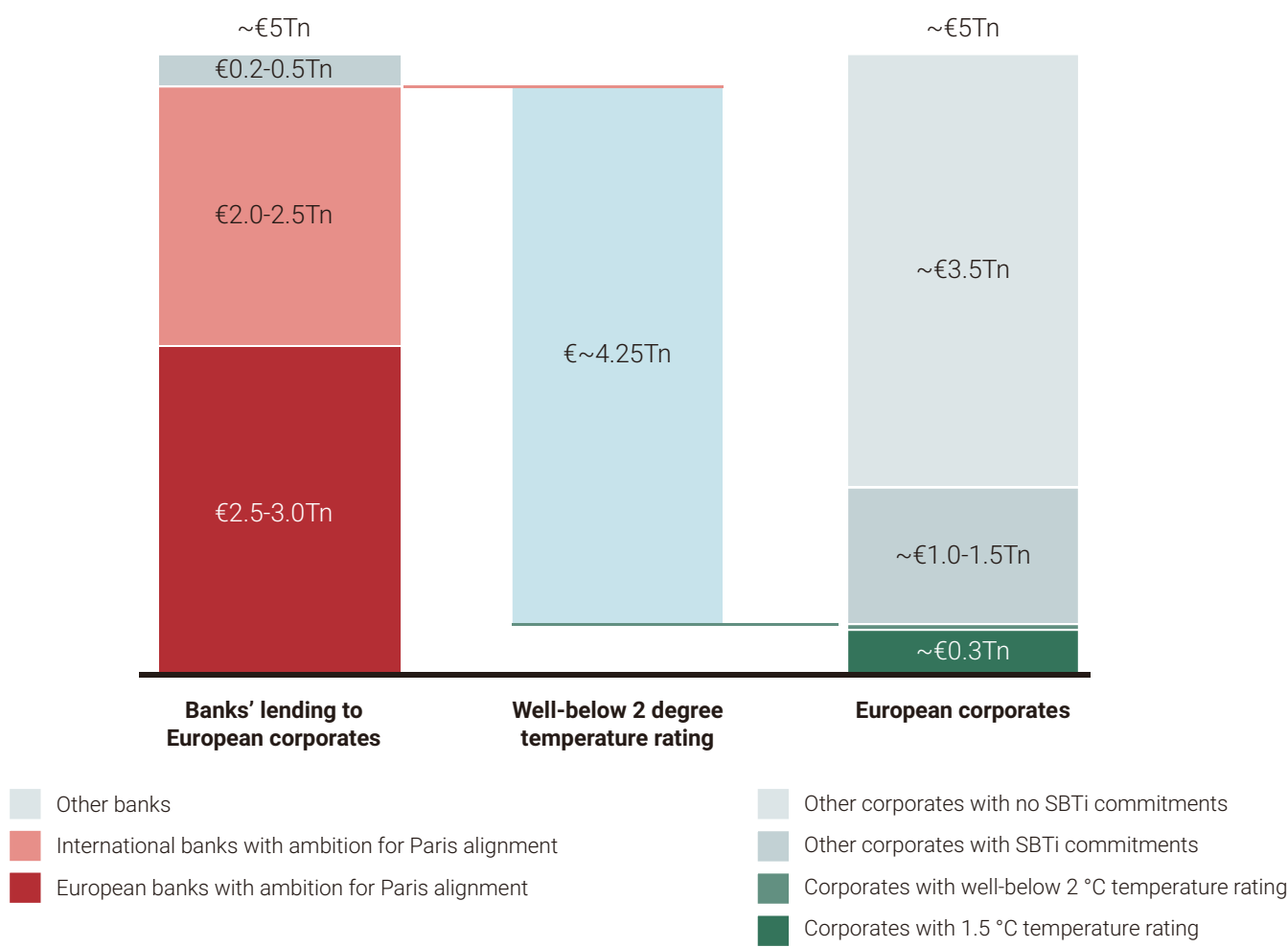
Source: Oliver Wyman analysis, CDP disclosure data, CDP temperature data
Note: Temperature rating based on mid-term temperature rating covering Scope 1+2+3¹⁴

A €4 TRILLION AMBITION GAP

As a result, we estimate a gap today of more than **€4 trillion** or more between Europe's current market for Paris-aligned corporate loans, and the size of the corporate loan books of banks with the ambition to align their portfolios to Paris. (See Exhibit 3.) There is a

similar tension in securities markets, although the dynamic is more complex, with a wider variety of asset managers and asset owners making different trade-offs between climate and other objectives.

Exhibit 3. Ambition gap for Paris-alignment of the financial services lending activity and European corporate borrowers



Note: Bank lending estimated based on ECB data for outstanding loans given to European corporates from financial institutions with residence in the Euro area (stock) and outstanding syndicated loans (stock). Profile of European corporates based on the sample of 974 CDP-reporting companies representing around 78% of market capitalization in Europe. Corporate temperature score based on CDP temperature rating. Aggregation of corporate temperature scores weighted by each corporate's reported loan balances.

Source: Oliver Wyman analysis, CDP temperature data¹⁵, Dealogic, ECB

Infobox:

The Science Based Targets Initiative (SBTi) is a partnership between CDP, the United Nations Global Compact (UNGC), World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It provides technical assistance and expertise to help companies set emissions reduction targets that are grounded in climate science.

To have at least a 50% chance of holding the global temperature rise to 1.5°C above pre-industrial levels, climate science is clear that greenhouse gas emissions must be halved by 2030 and reach net zero by 2050.

A €4 TRILLION AMBITION GAP

Consequences of the gap

As the financial system acts to start to close this gap, it is likely to drive an increasing divergence in pricing and capital allocation between those companies making progress in reducing emissions and those falling behind. This divergence may be twofold: economic-based impacts, where pricing differentials represent the higher transition risks of non-aligned corporations; and values-based impacts, where firms are willing to provide additional, non-economic-based pricing benefits given a desire to steer their balance sheets towards Paris.

This presents an opportunity for companies. As financial institutions seek to meet their green targets, they will likely drive down the price of capital for those companies making progress in reducing emissions. Corporations able to fulfil the growing customer demand for sustainable products – or to pioneer new, green technologies – will enjoy lower funding costs and valuation premia. Financial institutions, for their part, will have the opportunity to intermediate between ethically motivated investors and sustainable businesses.

Info box on warming methodologies¹⁶

- ▼ There are a number of alternative approaches to assessing whether corporations are aligned to the Paris agreement and to aggregating this across the portfolio. These approaches generally compare corporate emissions to a sector- and country-specific pathway. These pathways take into consideration the different rates of progress that are possible in different areas; some hard-to-abate industries will move more slowly than others. This means that a company in a polluting industry can still be considered Paris-aligned if it is reducing its emissions at a rate consistent with the economy as a whole meeting its emissions targets.
- ▼ There are several alternative approaches to estimating a portfolio warming metric. Some of the key differences include:
 - ▼ **Metric type:** whether it is based on a company's absolute emission reductions or its emission intensity
 - ▼ **Benchmark type:** the choice of benchmarks chosen to be representative of particular temperature warming outcomes
 - ▼ **Emission scopes:** which emission scopes are included in the assessment for each sector
 - ▼ **Time horizon:** over which time horizon a company's emissions are being assessed
 - ▼ **Definition of alignment:** whether a company needs to align with a benchmark paths
 - ▼ **Static vs dynamic:** whether a company's alignment is based on a single point in time or whether its performance is assessed on a cumulative basis over the time horizon
 - ▼ **Trend vs. convergence:** whether a company's alignment is based on reducing at the same pace as the benchmark or converging with it

THE TRANSITION IN ACTION

THE ART OF THE POSSIBLE

KEY FINDINGS

- ▼ Last year, the top 25% of companies reported reductions of absolute Scope 1 and 2 emissions by 15% and their emissions intensity by 20%.
- ▼ Whilst growing overall revenues, the Scope 1 and 2 intensity levels (carbon-efficiency) of the best 25% of companies across sub-sectors is twice as good as the bottom 25%.
- ▼ In the steel and electric utilities industries, the top companies are 4x as carbon-efficient than the bottom.
- ▼ Based on modelling different scenarios for the pace of progress, only in the most optimistic scenario – where 65% of European companies have targets at least in line with the Paris agreement (well-below 2°C) – might the European economy as a whole transition in line with 1.5 °C.
- ▼ In the most pessimistic scenario modelled, the European corporate sector disclosing to CDP is in line with a 2.5 °C world by 2030 – far outside the well-below 2°C (1.75°C and below) limit of the Paris agreement.

Current progress

Positive developments can be seen in the latest climate change data from European companies disclosing to CDP. Last year, the top quarter of companies in terms of decarbonization reported emission reductions of more than **15%** in absolute terms, as well as more than **20%** in emission intensity levels (emissions per unit of revenue). The period of data covers 2019, before the imposition of lockdowns across much of Europe in response to the COVID-19 pandemic.

However, there are large differences between companies in the same sector and between sectors. Across almost all sub-sectors of the traditionally carbon intensive industries of materials, energy and transport, the Scope 1 and 2 CO₂ intensity levels of the bottom 25% of companies are more than double those of the top 25% (see Exhibit 4). For sub-sectors such as steel, electric utilities and transport services, the levels are more than four times as much.

This emissions intensity metric is a simple way of comparing across companies and industries, measuring Scope 1 and 2

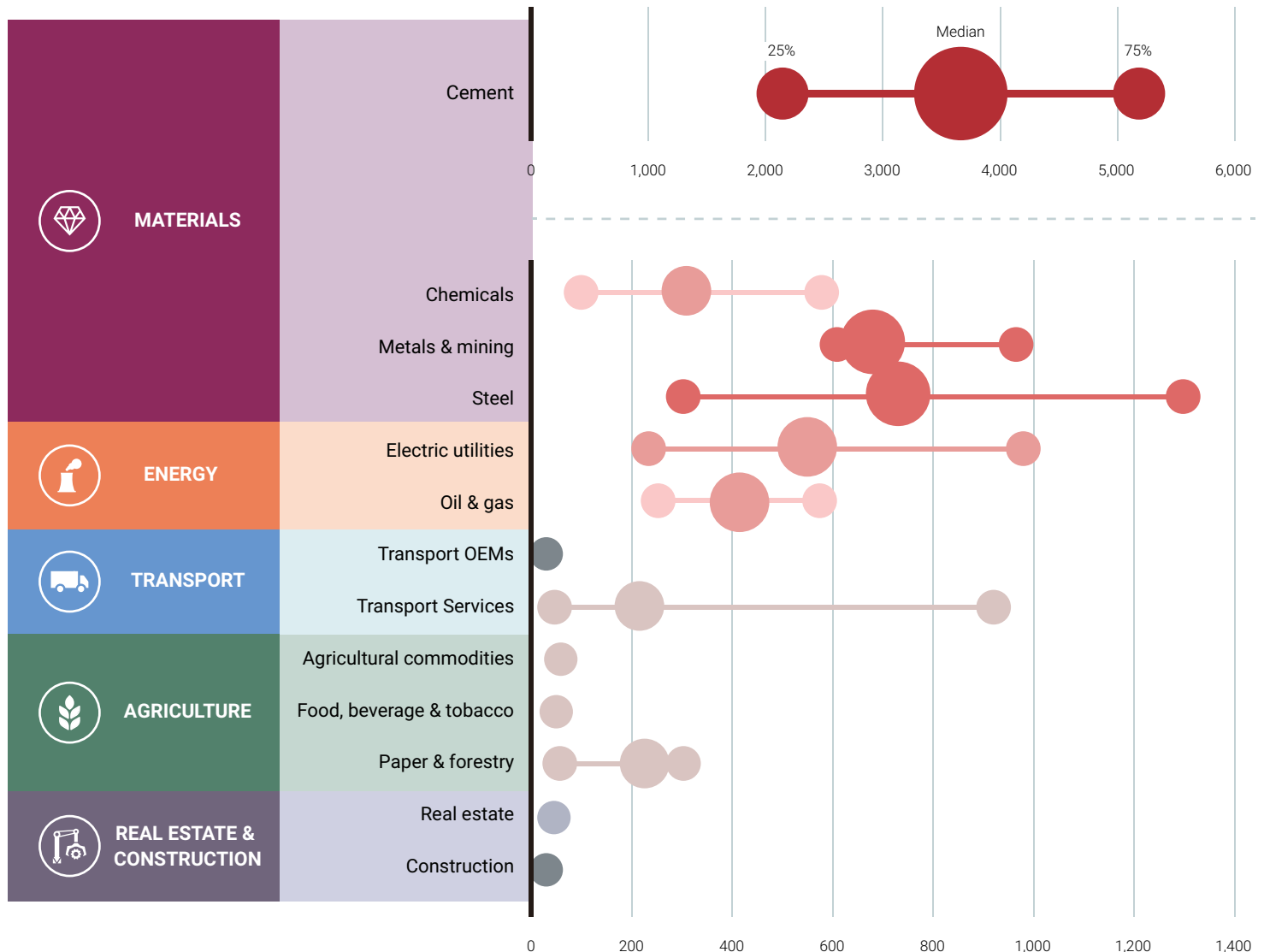
emissions relative to revenue. As such, these stark differences between companies can reflect a wide range of drivers, reflecting both operational decisions as well as wider strategic choices. For instance, certain activities even within a sub-sector are naturally more pollutive than others. For a fuller picture, one also needs to consider Scope 3 emissions, but disclosure here is still too poor (see section 4). The metric can also be volatile – shifts in the oil price for instance can significantly change the revenue side of the metric, while changes in a company's reporting structure and asset base, for example after acquisitions and disposals, can drive large jumps.

For these reasons, a detailed evaluation of company's specific plans and targets is needed to properly differentiate "greener" from "brownier" companies. The scale of the gap between the best and worst performers on this metric does, however, suggest a wide variation in companies progress so far in reducing emissions, and highlight the importance of looking at individual companies, rather than broad sectors, in understanding risks and opportunities from climate change.

THE TRANSITION IN ACTION

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Exhibit 4. Emission intensity across and within sectors in t CO₂ (Scope 1 and 2) per Mio € of revenue



Source: Oliver Wyman analysis, CDP disclosure data

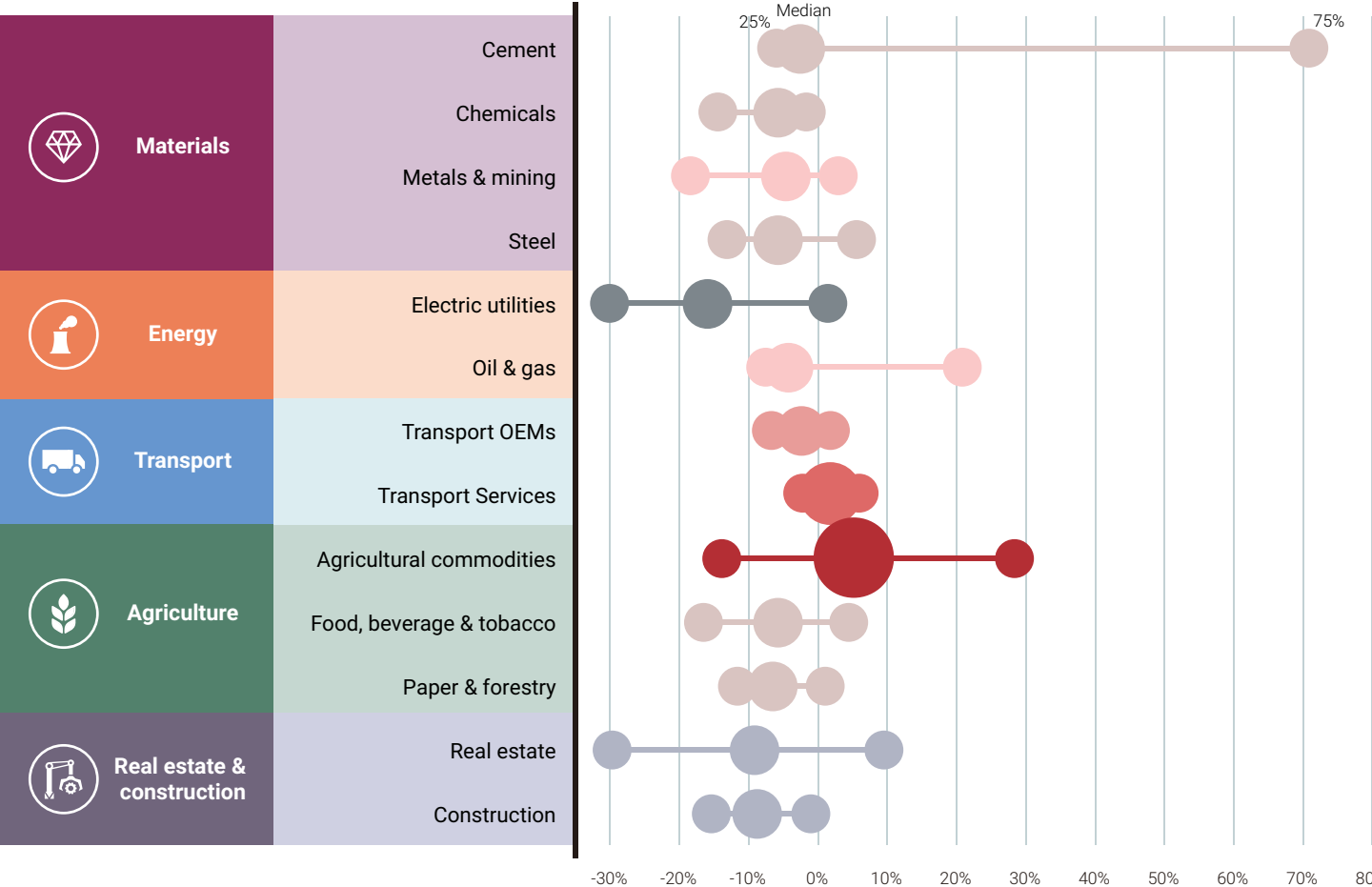
Infobox on emission scopes according to GHG protocol:

- **Scope 1:** direct emissions from owned or controlled sources.
- **Scope 2:** indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
- **Scope 3** includes all other indirect emissions that occur in a company's value chain and includes 15 categories, e.g. the purchase of goods and services or the use of sold products.

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Exhibit 5. Year-on-year change in Scope 1 and 2 emissions



Source: Oliver Wyman analysis, CDP disclosure data

Infobox: CDP scores

CDP gives annual scores to around 6,000 companies that provide responses to its climate change, forests and water security questionnaires. For each response a company submits, CDP assigns a grade of A to D. Non-disclosers receive an F. CDP's scoring methodology is used to incentivize companies to measure and manage their environmental impacts. The scoring assesses the level of detail and comprehensiveness in a response, as well as the company's awareness of environmental issues, its management methods, and progress towards environmental stewardship. CDP scoring categorizes companies by the most relevant sectors to ensure a better understanding of company actions in the light of their environmental risk, opportunity, and potential impact. This categorization is essential for the data to be comparable. Scoring at CDP is mission-driven, focuses on principles and values for a sustainable economy, and highlights the business case for change. Please see the back of the report for the A List.



Ørsted: from fossil fuel company to renewable leader in 15 years

Ørsted, previously known as DONG Energy, has undergone one of the most remarkable green transformations in the last decade. What began as a predominately fossil fuel company is now one of the largest renewable energy companies in the world – all within 15 years.

DONG Energy was formed in 2006 from the merger of six Danish companies, and had a power and heat production mix that was 85% fossil fuels. The company was one of the most coal-intensive in Europe, accounting for a third of Denmark's emissions.

In the mid-2000s, climate change climbed up the political agenda, and in 2008, the EU adopted a target of 20% renewable energy by 2020. Sensing this direction of energy transition, and recognizing the urgency of climate change, DONG Energy set out a vision to transform their business. They targeted changing the heat and power production from fossil fuels to 'green' – aiming to have 85% renewable energy by 2040. Despite initial resistance, the new vision was clear and as such, the company opted to increase offshore wind activities in and doing so also avoided large investments in and acquisition of fossil fuels.

In 2012, Ørsted came under intense financial pressure when earnings turned to losses in the global gas market and as a result, the company focused portfolio down from 12 to 4 business areas: offshore wind, oil & gas, conventional power plants, and energy sales & distribution grid.

Recognizing the need to accelerate the transformation, Ørsted decided to focus on offshore wind, and it was adopted as the core of the new business strategy. A key challenge was cost at that time, it required significant investment. Therefore, the company put in place a programme that systemically drove out cost through scale and innovation, and divested non-core assets worth more than \$3.5bn. They also set a target to phase out coal by 2023.

2017 was the year, when Ørsted completed the divestment of their oil and gas division, and by 2019, they hit 85% of renewables as a share of energy generation – 21 years ahead of schedule. Investments in global wind offshore projects has led to a shift to 90% of earnings now from outside Denmark, where previously 88% of earnings were based in country. At the same time the company delivers industry-leading returns to its investors and has more than quadrupled its market capitalization since its IPO in 2016.

In line with their vision to create a world that runs entirely on green energy, Ørsted are investing exclusively in renewable energy. Also going forward, Ørsted have committed to ambitious climate targets: To become carbon-neutral in their own energy generation and operations (Scope 1 and 2) by 2025, and to reach carbon neutrality in their total carbon footprint (Scope 1, 2 and 3) by 2040. This transition has happened at a scale and pace many did not think is possible. Ørsted's transformation demonstrates that environmental action can equal financial growth, and that business can play a key role in creating a better tomorrow. Ørsted's CEO Mads Nipper concluded "Every company must transition to a sustainable business model to contribute to the fight against climate change - and to stay in business. The Ørsted transformation is not a 'one size fits all', and our learnings may not be applicable in all companies, but I hope that by sharing our learnings and insights on how we've been able to transform and perform at the same time, we can help inspire other companies to engage in a faster green transformation."

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Modelling the future transition

The wide range observed in the transition progress of companies within sectors poses a conundrum for financial institutions as they try to achieve their Paris ambitions. To understand how much acceleration is required amongst corporates, and explore the implications for financial institutions, we have modelled three potential scenarios for 2030. We have calibrated to the scenarios using CDP climate change scores, which provide a basis for judging current engagement and performance on a range of key climate metrics, as well as the CDP temperature ratings dataset, a methodology that assigns a temperature pathway to companies based on their emissions targets, or lack thereof.

Our most pessimistic scenario, assumes current momentum is maintained but does not quicken. Only companies that have already committed to set science-based targets move to become Paris-aligned by 2030. In this scenario, we estimate that the European economy is aligned with a 2.5°C increase in global temperatures by 2100. This compares with the current status quo of 2.7°C, based on current corporate emission reduction targets. In this scenario, many financial institutions will struggle to meet their Paris alignment goals by 2030.

Our most optimistic scenario assumes a rapid acceleration in progress to put Europe on track to meet the more ambitious goal of the Paris agreement – to limit the global temperature rise to 1.5°C. We estimate that this would require at least **65%** of

European companies to have emissions targets compatible with at least well-below 2°C of warming. Furthermore, 30% of companies would need to be aligned with a 1.5°C scenario – compared to only 7% today. This kind of step change in progress would probably need to be driven by a breakthrough in technology, a major policy shift, such as a carbon tax, and strengthened by the EU's green recovery fund.

In this scenario, most financial institutions would be able to meet their Paris-alignment commitments. Importantly, the ambition gap for bank lending does not fully close – it reduces from the current more than €4 trillion to €1.5 trillion. This suggests that a 1.5°C world can still be achieved if financial service companies continue to lend to corporations that take longer to become Paris-aligned, provided there are enough other companies aligned with 1.5°C and below.

Our middle scenario models a “modest acceleration” as corporations respond to growing financial incentives and external pressure, moving the European economy to align with a temperature rise of well-below 2°C. We estimate that this would require at least 45% of companies to have targets that are aligned with Paris or better, and that the majority need to exceed their current targets. “Advanced” companies scoring A to B- with CDP (more than 50% of companies) would achieve and increase their ambitions – lowering their temperature trajectories. But companies scoring C or below would simply remain on track to achieve their initial targets.

LafargeHolcim: a critical decade for low-carbon products

Concrete is the world's most used material after water and contributes to around 6% of global emissions. Swiss company LafargeHolcim, the world's largest producer of cement, is setting the most ambitious targets to play its role in addressing the climate crisis.

We spoke to Antonio Carrillo, Head of Climate and Energy at LafargeHolcim, who told us more about the company's journey. The company is embedding climate actions within its strategy. With the Chief Sustainability Officer at Executive Committee level, sustainability is now at the heart of decision making.

LafargeHolcim was the first global building materials company to sign the “Business Ambition for 1.5°C” pledge, setting a net zero target with intermediate targets approved by the Science-Based Targets initiative (SBTi). Looking beyond 2030, LafargeHolcim is partnering with SBTi to support the development of a net zero roadmap and the first 1.5 °C targets in the cement sector.

By 2030, the company has committed to reduce its scope 1 and 2 emissions per ton of cement by 21%, compared to 2018 levels. This target was validated by SBTi and is aligned with ‘well-below 2°C’.

To achieve this, LafargeHolcim will maximize the deployment of existing technologies and apply the principles of a circular economy across its business model. The company will be accelerating the deployment of low-carbon cement, concrete and other building materials: a global roll-out of these products is a key building block for LafargeHolcim to mainstream circular construction.

In addition to its target to reduce scope 1 and scope 2 emissions, LafargeHolcim expanded its actions across its value chain to include scope 3 emissions and to reduce its transportation and fuel-related emissions by 20%.

Beyond its 2030 targets, the company will use the coming decade to develop and deploy new and advanced technologies to lay the groundwork for its net zero journey. This includes novel binders, low clinker cements and piloting over twenty Carbon Capture Usage and Storage (CCUS) pilot projects across Europe and North America. The next decade is a critical period to bring such large-scale CCUS R&D pilot projects to scale.

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Table 1. Scenario 2030 overview

2030 scenario	Corporate progress	Implications for banks	Key statistics
1 CURRENT MOMENTUM MAINTAINED	<ul style="list-style-type: none"> Progress varies widely but overall corporations continue to reduce emissions at the current rate. Only companies that already have SBTi targets in place or at least are SBTi committed, will be Paris-aligned. 	<ul style="list-style-type: none"> Only those financial institutions willing and able to skew portfolios sharply will be able to meet their Paris ambitions. Wide range in progress across banks, who are torn between meeting Paris and wider objectives. 	<ul style="list-style-type: none"> ~30% of companies Paris-aligned. On track for a 2.5°C world. Ambition gap: ~€3.25TN.
2 MODEST ACCELERATION	<ul style="list-style-type: none"> Increase in pace of progress as corporates respond to growing financial incentives and external pressure. Over 50% of companies exceed their current targets; others remain on track. 	<ul style="list-style-type: none"> Financial institutions that engage with customers more and proactively steer their balance sheets achieve Paris-alignment; others fail. Companies with stronger transition plans enjoy preferential funding access, encouraging further action. 	<ul style="list-style-type: none"> More than 45% of corporates Paris-aligned. On track for 1.75°C world. Ambition gap: ~€2.5TN.
3 RAPID ACCELERATION	<ul style="list-style-type: none"> Step-change in progress driven by a breakthrough in technology or major policy shift (such as a carbon tax) and enabled through the EU's green recovery fund. Almost all corporates achieve carbon reductions in excess of their current ambition level. 	<ul style="list-style-type: none"> Capital rapidly skews towards companies positioned to benefit most from the transition. Many financial institutions achieve Paris-alignment; those that position fastest capture outsized returns. 	<ul style="list-style-type: none"> More than 65% of corporates Paris-aligned. On track for a 1.5°C world. Ambition gap: ~€1.5TN.

Source: Oliver Wyman analysis, CDP disclosure data, CDP scores, CDP temperature data, Dealogic

Such a scenario could test the resolve of financial institutions. Those that quickly reposition their books to tap into the growth of the greener economy could well meet both their climate and their economic performance objectives. But those that move more slowly may face tougher choices. As capital crowds into companies that are further ahead in the transition, the returns on financing those that are behind should increase – or market share could open up. That would create a tension for financial institutions between achieving their climate ambitions on the one hand and meeting their financial targets on the other. It should, however, be

noted that financing a company that is behind in its transition can entail significant reputational and transition risks.

These considerations mean that corporations and financial institutions alike will need to focus increasingly on moves to proactively steer their business models and capital if they are to meet their Paris ambitions. Investors, regulators, and other external stakeholders will also need to understand how the trade-offs are being managed.

FEATURED CASE STUDY: L'ORÉAL



Very early on, L'Oréal became aware of the urgent need to address the challenges arising from the global environmental crisis. As an industrial company, we decided that tackling the environmental impact of our plants and distribution centres was a necessary first step to begin our transformation.

Since 2005, we have reduced our industrial sites' CO2 emissions by 78% – exceeding our initial target of -60% by 2020 – while our production volume increased by 37% over the same period. To achieve this, we implemented a three-pillar strategy: we reduced our energy requirements by improving energy efficiency across all our facilities (buildings, equipment, etc.), increased local renewable energy use wherever possible and achieved the targets set for our sites without carbon offsetting projects.

Now, with our new sustainability programme, L'Oréal for the Future, we want to build on our accomplishments and aim for a more radical transformation, to reflect the scale of global challenges and ensure our activities are respectful of the planet's boundaries.

On climate change, our overarching objective is to align to the 1.5°C scenario, reducing our greenhouse gas emissions of all scopes by 50% per finished product (25% in absolute terms) in 2030, and reaching net zero emission in 2050. To achieve this, we have set numerical targets for every aspect of our activities to include not only our production and distribution facilities, but also the raw material supply chain and the indirect impacts associated with the use of our products by their final consumers.

- ▼ First, we will pursue the extensive work carried out on our sites, which will all achieve carbon neutrality by 2025 (industrial sites but also laboratories and administrative buildings).
- ▼ We will innovate so that our consumers can reduce, by 2030, the greenhouse gas emissions resulting from the use of our products by 25% compared to 2016, on average and per finished product.
- ▼ By 2030, we will reduce by 50% on average and per finished product, the greenhouse gas emissions linked to the transport of our products, compared to 2016.
- ▼ By 2030, our strategic suppliers will reduce their direct emissions (scopes 1 and 2), by 50% in absolute terms, compared to 2016.

At L'Oréal, we see sustainability as the only possible way forward and the condition inherent to the company's long-term success. With our new targets, we hope to be a catalyst of change in the beauty sector and to inspire our customers and all people to take action with us.

Jean-Paul Agon

Chairman and Chief Executive Officer
L'Oréal



FEATURED CASE STUDY: SYMRISE AG



We have been committed to climate protection for many years. Because the consequences of climate change affect us all and because we have a responsibility to future generations. That is why we have set ourselves the ambitious goal to be climate-positive by 2030. In 2020, we were one of only ten companies worldwide to achieve a CDP Triple A score across climate change, forests and water security. This makes us proud and drives us to intensify our sustainability activities further.

Symrise is pursuing a clear action plan for climate protection. Our corporate activities should contribute to avoiding or removing more greenhouse gas emissions from the atmosphere than we emit through our operating activities. As an interim target, by 2025 we plan to reduce our greenhouse gas emissions by more than 60% in relation to value added, compared to a 2016 base year. In addition, and in view of the worsening situation with regard to climate change, we therefore decided to purchase all our electricity from renewable sources already in 2020.

First and foremost, we are focusing on continuously reducing our own emissions by increasing energy efficiency at production sites. In this way we saved 61,500 tonnes of CO₂ in 2019. Sustainability and climate protection already play a major role in the planning phase of new projects.

As a dynamically growing company, we are also putting into place climate protection measures that go beyond our own sphere of influence. We reduce our Scope 1 emissions by supporting high-quality certified climate protection projects around the world. Since 2018, we have supported a project in Madagascar to generate electricity from hydropower, which avoided 5,711 tonnes of CO₂ in 2019 alone. Another project in Brazil saved 5,300 tonnes of CO₂.

As part of our climate protection action plan, we involve our most important suppliers in the Symrise climate strategy via CDP supply chain. As a result, 87% of our main suppliers have now committed to their own climate targets and reduction initiatives, far exceeding the 80% in our science-based target.

We understand and live sustainability as an integral part of Symrise's business model and corporate strategy. Our employees put this claim into practice with passion every day. Each individual contributes to the sustainable development of the company and the world around us. We want to be measured by this in the future as well.

Dr. Heinz-Jürgen Bertram
CEO
Symrise AG



THE FINANCIAL SECTOR IS GEARING UP

KEY FINDINGS

- ▶ Based on 2030 scenario modelling, only the most optimistic scenario would see European financial institutions have lending portfolios in line with the Paris agreement.
- ▶ In the 'modest acceleration' scenario, financial institutions could have Paris-aligned portfolios – but may need to rotate portfolios by 20-30% without faster engagement.
- ▶ Action to date by financial institutions to assess their portfolio is limited; **only half** of companies assess if their client/investee strategies are at least 2°C aligned, and only a minority do across their whole portfolio.

Climate change has moved from a fringe topic to a board level priority for the leading financial institutions in Europe. There have been significant investments to build new capabilities and major new statements have been made in the last 12-18 months. Yet the work required to fully embed this ambition within the plumbing of the financial system is only just beginning.

The baseline requirement for all financial institutions is to ensure that the financial risks and opportunities presented by climate change are reflected in financial decision making. There is now wide acceptance that these risks are material and need to be understood as part of a financial institution's core fiduciary responsibility to manage risk and return. Yet doing this is not straightforward.

Most analytical frameworks and decision tools traditionally used by financial institutions to assess and price risk are calibrated based on backward-looking data sets. Assessing climate risk requires a forward-looking approach based on scenario analysis. This means systematically thinking through how a wide range of potential scenarios – from changes in the physical environment to new policies or technologies that hasten the transition to a low-carbon economy – could affect the different types of companies in the lending or investment portfolio. To provide the necessary information, companies report a wide range of risk types. The most prominent of these in most of the sectors relate to emerging regulation. (See Exhibit 6)

While most financial institutions are now assessing climate risk and opportunity on some level, few are doing this comprehensively across the portfolio.

Assessing risk and opportunity in financial services: Key statistics in the 2020 CDP dataset

- ▶ **60%** use quantitative scenario analysis to inform their strategy.
- ▶ **27%** assess exposure to climate-related risks and opportunities covering all of their portfolio; 47% to those covering the majority of their portfolio.
- ▶ **29%** consider climate change when reviewing and guiding annual budgets.

There is also a growing range of analytical products to support decision making. For instance financial institutions can now translate different climate scenarios and sector-specific market dynamics into drivers of financial performance through solutions such as Climate Credit Analytics, which Oliver Wyman developed in collaboration with S&P Global Market Intelligence¹⁷.

Regulatory pressure is helping to accelerate progress. The Bank

of England has set the bar high for UK-based banks and insurers, pushing them to include a climate scenario analysis as part of their biennial stress test. The European Central Bank (ECB) has indicated that it will be pushing in a similar direction, requiring banks to not just disclose climate data but also extensively to quantify those risks and embed them into their risk management frameworks. (See info box on key developments)







Key areas requiring further development include the following:

- ▶ Extending granular, bottom-up modelling across the portfolio: Differences within sectors can matter as much as differences between sectors – a point that can be lost with top-down or qualitative approaches.
- ▶ Embedding the results into core risk management processes, such as loan origination, risk appetite, and management actions.

THE FINANCIAL SECTOR IS GEARING UP

Exhibit 6. Share of companies that report a given risk type (at least one risk reported) and the average potential risk magnitude by sector

Potential risk magnitude is measured from 1 (low) to 5 (high)

	 MATERIALS	 ENERGY	 TRANSPORT	 REAL ESTATE & CONSTRUCTION	 AGRICULTURE	 FINANCIAL SERVICES
<i>Risk type</i>						
Emerging regulation	62% 3	56% 3	65% 3	65% 3	65% 3	61% 3
Acute physical	65% 3	44% 3	68% 3	49% 3	48% 3	62% 2
Market	42% 4	44% 4	48% 4	65% 3	51% 3	45% 3
Chronic physical	46% 3	56% 3	15% 3	62% 3	67% 3	43% 3
Current regulation	44% 3	45% 3	40% 3	31% 2	24% 2	31% 2
Technology	17% 3	15% 4	28% 4	16% 3	8% 3	16% 3
Reputation	27% 3	20% 4	18% 4	40% 3	33% 3	51% 3
Legal	12% 3	4% 3	5% 4	9% 3	2% 3	15% 2

Source: Oliver Wyman analysis, CDP disclosure data

THE FINANCIAL SECTOR IS GEARING UP

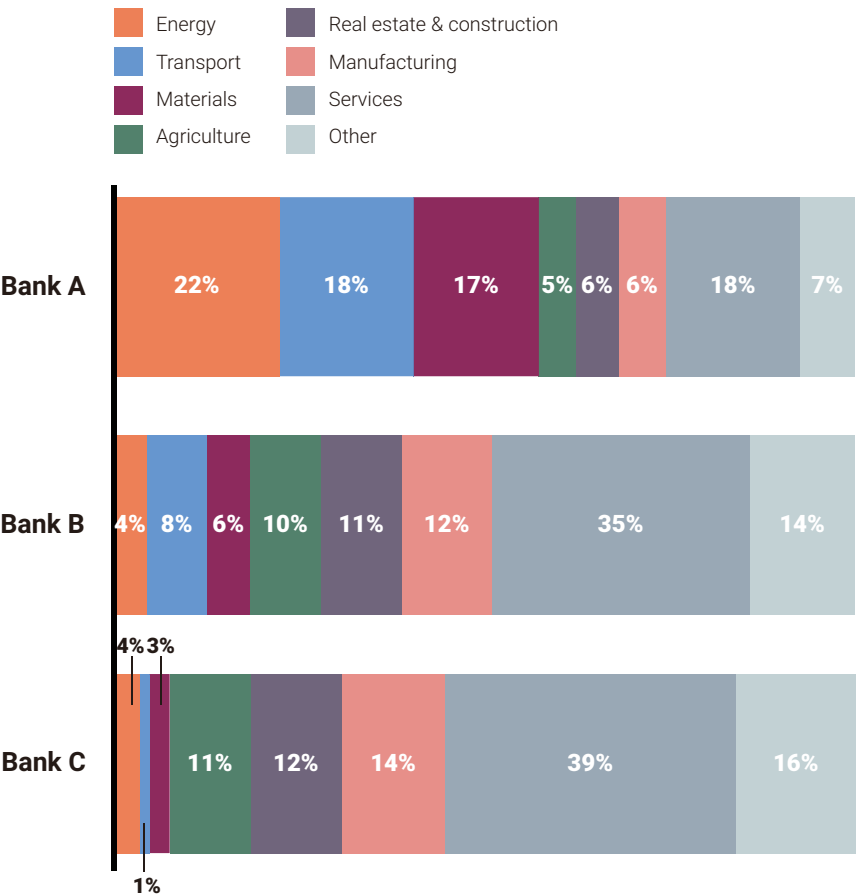
Yet the bigger challenge may be meeting the pledges many financial institutions have made to align their portfolios with the Paris agreement. As corporations work to reduce emissions and banks price in climate risk, portfolio emissions should naturally decline. But, depending on how fast the corporate sector makes progress in reducing its emissions, banks and asset managers/owners may need to steer their portfolios much more proactively in favor of the companies making the fastest progress in order to meet their targets.

To illustrate this situation, we constructed portfolios for three hypothetical banks with different sectoral skews. This is a hypothetical piece of research on how European banks could meet their targets; it does not specifically follow the approach that the SBTi recommends.

In this illustration, Bank A is relatively skewed to high-emission sectors, Bank C is relatively skewed towards low-emission sectors, and Bank B has a similar profile to the economy as a whole. Today, all three banks have implied temperature scores significantly in excess of the well-below-2°C Paris target. In our “rapid acceleration” scenario for 2030, the steep reduction in emissions across the corporate base is sufficient for all banks to meet their Paris ambitions with respect to the well-below-2°C target, but not with respect to the 1.5°C target. But in our less optimistic scenarios, all three hypothetical banks would fail to meet the targets by significant margins. Based on our analysis, banks’ portfolio temperature ratings are higher than the pathway of the European economy as a whole, indicating that their loan distributions are skewed towards companies that are less advanced in their transitions.

Exhibit 7.
Hypothetical portfolios and resulting temperature by bank and scenario (assuming no portfolio shifts)

Lending portfolio for the hypothetical banks (as of now)





Portfolio temperature rating as of now vs. different 2030 scenario



Source: Oliver Wyman analysis, CDP disclosure data, CDP scores, CDP temperature data, Dealogic

THE FINANCIAL SECTOR IS GEARING UP



 The most crucial strategy for a financial institution is to engage with their existing customers and encourage them to develop credible transition plans.
 

Addressing this overshoot is challenging. Banks do not wish to walk away from relationships that may have stood for many years or abandon communities that have been built around heavy, extractive industries. Equally, it would be counterproductive if capital were driven away from pollutive companies which are seeking to invest in technologies and processes to reduce their emissions. As such, the most crucial strategy for a financial institution is to engage with its existing customers and encourage them to develop credible transition plans¹⁸. This requires strong engagement to drive meaningful action - for instance encouraging science-based targets. (See info box)

However, there are various portfolio strategies open to banks that want to align with Paris. For example, a bank could systematically “drop the worst – and pick the best” clients in terms of climate within each sector. Another approach could be to strategically target high-emitting and low returning clients to which the bank has a high exposure, so the bank would maximize progress towards its climate goals while minimizing the adverse business impact. Even so, the shifts required to meet financial institutions’ Paris ambitions could be significant. In our “modest acceleration” scenario for 2030, for example, our hypothetical banks would need to align **20 to 30%** of their portfolios and clients, to be on track with their commitments for Paris alignment. (See Exhibit 8.)

Exhibit 8. Portfolio adjustments needed to achieve Paris (well-below 2°C) in Scenario 2

	% of lending portfolio	% of clients
Bank A	~30%	~20-30%
Bank B	~20%	~20-25%
Bank C	~20%	~20%

Source: Oliver Wyman analysis, CDP disclosure data

BNP Paribas: A commitment from the top to driving change

BNP Paribas is a French bank that operates globally, serving corporates, institutional clients as well as retail customers. We spoke to Sébastien Soleille and Stéphane Lambert, from the Group team dedicated to Energy Transition and Environment. One message that comes across strongly is the commitment at the top of the house to driving change. The CEO Jean Laurent Bonnafe recently stated: “Companies that did not understand the need for change no longer have a future and [BNP Paribas] see no interest in continuing our relationship with them”. The focus now is driving change through the bank to deliver against this.

There is a strong commercial angle to this push, and the bank is developing a comprehensive suite of green products, targeting all its clients, from corporate and institutional clients, through SMEs and retail clients. According to Sébastien the growth in this area is “both push and pull”: Demand for green finance products from clients is growing rapidly which is attracting innovation and focus from the bank’s teams, while BNPP is also looking to proactively create products that encourage clients to green their businesses and lives.

This is supported by ongoing work to build the tools and processes to steer the balance sheet over time. This includes implementing PACTA (the Paris agreement Capital Transition Assessment) which assesses the energy transition trajectories of borrowers to inform lending decisions to help reduce portfolio emissions in line with the Paris targets. BNP Paribas take both a sector-based approach as well as seeing the need to analyse individual company transition plans and monitor progress against these.

Ultimately BNPP’s aim is to help their clients transition faster. And to do this they need their staff to be equipped with the skills and knowledge to understand the opportunities and risks associated with climate change. With this in mind, the bank has trained tens of thousands of employees through its learning programme, “We engage”.

THE FINANCIAL SECTOR IS GEARING UP

KEY DEVELOPMENTS IN EUROPEAN SUSTAINABLE FINANCE

- From April on, the revised EU Non-Financial Reporting Directive (NFRD) will be adopted to achieve more transparency on how companies operate and manage social and environmental challenges. Connected to the NFRD, a proposal for non-financial reporting standards is expected.
- From March 2021, the Sustainable Finance Disclosure Regulation (SFDR) will be adopted to achieve more transparency on how financial market participants consider sustainability risks in their investment decisions.
- In the first half of 2021, the Renewed Sustainable Finance Strategy is expected, providing a roadmap with new actions to increase private investment in sustainable projects. It will also provide activities to support the different actions set out in the European Green Deal and to manage and integrate climate and environmental risks into our financial system.
- From the second quarter of 2021, a sustainable corporate governance initiative is anticipated, aiming to enable companies to focus on long-term sustainable value creation rather than short-term benefits.
- By the end of 2021, the technical screening criteria of the four remaining environmental objectives of the EU Taxonomy will be established.
- For 2022, the ECB announced its first Climate Stress Test.
- From 2023, all publicly listed UK companies with a premium listing will be required to “comply or explain” with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD). In 2025, rules will be tightened and extended further, subject to consultation.
- Revision of Article 173 in France integrating temperature and biodiversity¹⁹.

Natwest: a bank committed to setting a science-based target

NatWest is one of the largest banks in the UK. It has made climate change one of its priorities in implementing its purpose-led strategy. We spoke to the Head of Climate Change, James Close, who described the approach the bank is taking.

As a starting point, NatWest is working on achieving net-zero in its own operations this year. However, the company is aware that its lending activities are the main lever to contribute to a net-zero economy. As such, an important step for the bank was to commit to the Science Based Targets initiative aiming to reduce the emissions finance by 50% by 2030. For this, NatWest has started working with and helping customers to accelerate the speed of transition. James told us: “At NatWest, we have recognized that fighting climate change is a lot about collaboration and for that, we are building powerful partnerships including the sponsorship of CoP26 in Glasgow”

Anticipating that strong engagement will not be sufficient to drive down emissions to the required level and to meet its ambitions, the company is also looking into other ways for making adjustments to its portfolio and lending books. As part of that, NatWest is working to reduce the carbon intensity of its portfolio through tightening its lending policies, for instance excluding coal finance and phasing out financing to all energy companies that do not have a clear transition plan in place.

The bank sees a major opportunity in supporting the transition to a low-carbon economy. NatWest is already a leader in supporting green bond issuance, financing renewable energy and creating one of the most rigorous ESG investing approaches through the work that Coutts, its private banking and wealth arm, is pioneering with partners. Decarbonising the footprint of commercial buildings and homes and electrifying mobility are other areas where NatWest is expecting to lead in the future.

As much as it's about opportunity, it's also about responsibility. For James it's clear that “as a leading bank in the UK for business customers, and one of the largest for retail customers, we have a significant responsibility, and the ability, to lead the way in helping businesses and people across the UK transition to a low-carbon economy..”

THE FINANCIAL SECTOR IS GEARING UP

However, given the time it takes to rotate portfolios (particularly in banks where the average tenor of a corporate loan is around 7 years), if financial institutions wish to be able to show progress by 2030, they need to act now.

Banks and asset managers are still building the tools needed to proactively monitor and steer their portfolios in this way. However, given the time it takes to rotate portfolios (particularly in banks where the average tenor of a corporate loan is around seven years), if financial institutions wish to show progress by 2030, they need to act now.

Key elements that need to be in place include:

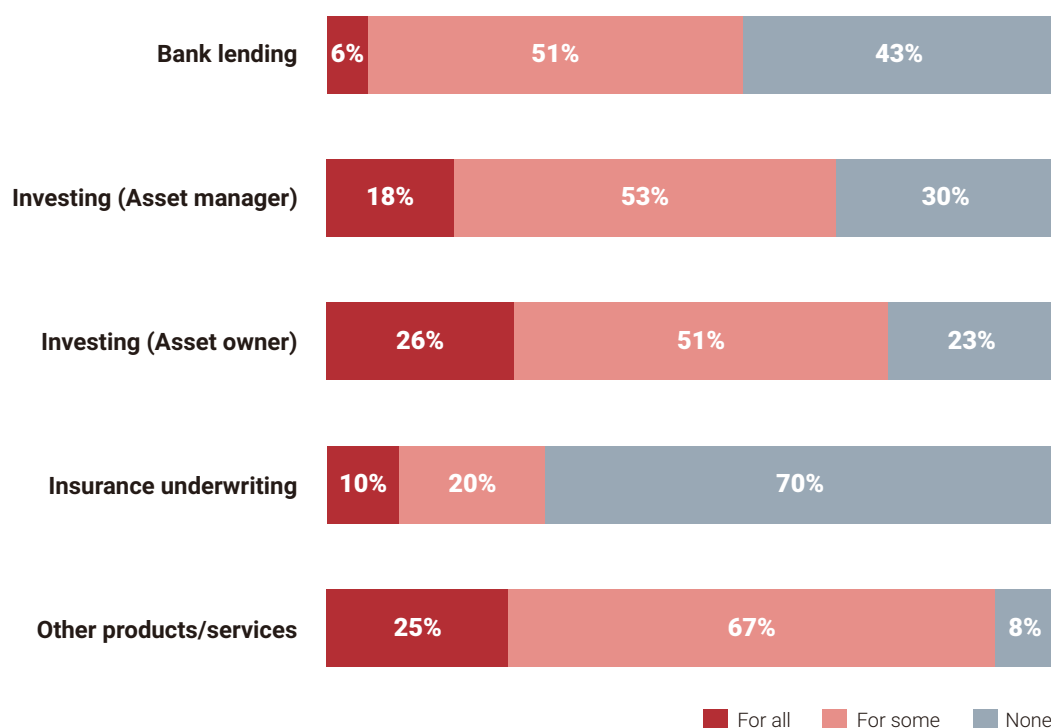
1 Data and metrics

Today only around half of financial services companies assess whether their clients or investees' business strategies are aligned to a well-below-2°C world. Only a minority of these do so for the whole portfolio. (See Exhibit 9.) This reflects the challenges in establishing a methodology and gathering the required data at the point of transaction and on an ongoing basis. However, there are a growing range of methodologies to choose from, and the practice of engaging with companies on these topics is spreading. (See info box on warming potential.)

Info box: The CDP Science Based Targets - which began last year and continues in 2021 - started a key mechanism for financial institutions to directly ask companies to set SBTs. In its first year, **137** financial institutions asked **1,800** companies, representing **13.5** Gt of greenhouse-gas emissions (25% of global emissions) to set SBTs. Learn more [here](#).

Only
50%
of financial services companies assess if their client/investee strategies are aligned to Paris

Exhibit 9. Share of financial institutions that assess whether clients' and investee's business strategies are aligned to a well-below 2°C world (by portfolio type)



Source: Oliver Wyman analysis, CDP disclosure data

THE FINANCIAL SECTOR IS GEARING UP

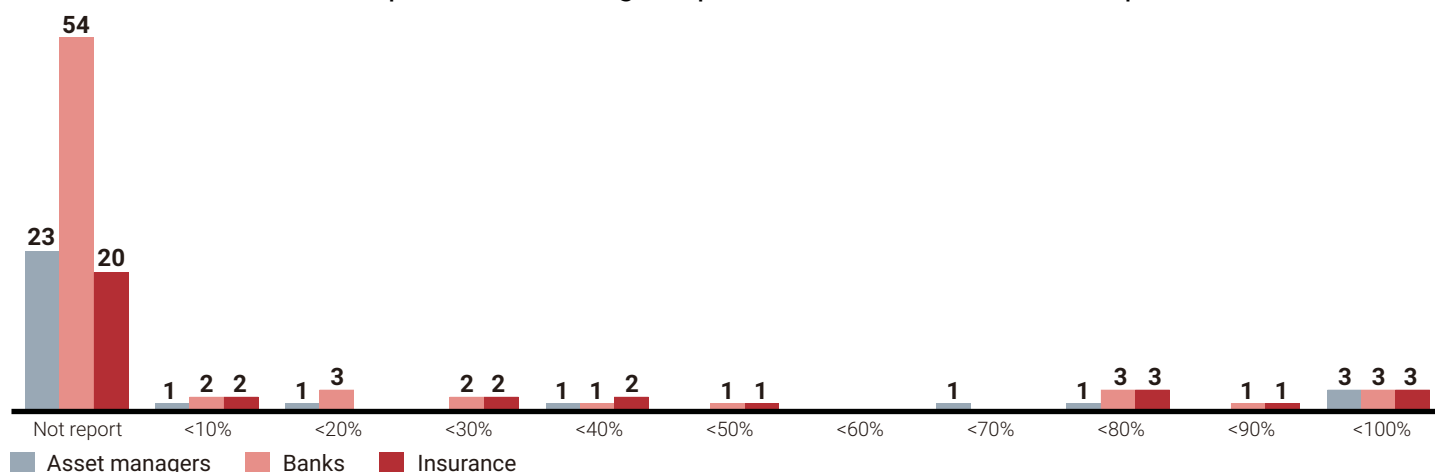
2 Incentives and limits

Financial institutions work through an elaborate system of incentives and limits to steer capital and funding efficiently within the constraints of the group. This system needs to be re-wired to explicitly take into account Paris alignment. One approach is to charge for carbon: 33% of financial institutions today report using an internal price for carbon, and a further 20% are planning to implement one in the next two years. But mostly these refer to their own operations, and none of their activities are regulated by a regulator-imposed carbon pricing system, which would have a real impact on portfolios. Other potential approaches include adjusting how capital is charged to businesses internally, introducing new sector limits, or creating more new policies to exclude companies that don't meet certain criteria. Crucially these need to be embedded into the core processes that drive resource allocation, performance management and remuneration.

3 Reporting

External reporting is vital to drive progress and build credibility. Few of the financial institutions that have made external statements on Paris alignment have provided concrete near-term milestones for how far and fast they expect their portfolio emissions to fall or clarity over what metrics will be used to track this. Fewer than 10% of financial institutions reported the emissions they finance (Scope 3 relating to investments) in their CDP 2020 submissions, and only a handful of companies did so for their entire portfolio. This is set to improve as best practices in terms of TCFD and other climate disclosures spread, and pressure from Financial Institutions' own investors, as well as regulators, mounts. (See Exhibit 10.)

Exhibit 10. Number of companies disclosing Scope 3 emissions for x% of their portfolio



Source: Oliver Wyman analysis, CDP disclosure data

CPR AM

CPR AM is a French asset manager, created in 1989 and a full subsidiary of Amundi, one of the biggest asset management groups worldwide. With the launch of its fund "CPR Invest – Climate Action" together with CDP in 2018 and the methodology for selecting companies on which it is based, the company established the foundation for its positioning as a partner for climate challenges. Just two years later, the company was already managing more than 800 million euros in climate-based investments in both open-ended funds and dedicated solutions in all the main asset classes.

As an asset manager, CPR AM has acknowledged its decisive role to play in financing a green economy at scale and to steer investments in the right direction. For that, the company is following an inclusive approach which makes no ex-ante sector exclusions and rather also help companies that will take longer to transition based on their sector-specific pathway.

CPR AM has recognized that innovation is key to allow large scale ESG adoption from the whole investment community. Therefore, the company has developed two innovative solutions for a top-tier French banking network (an equity fund and a multi asset fund) that integrate a carbon-footprint reduction target and a mechanism for offsetting residual emissions. The ex-ante reduction in carbon footprints, combined with offsets via certified projects allow CPR AM to target carbon neutrality. Additionally, the company will be launching a Climate Bonds strategy. Through its close partnership with CDP, CPR AM and Amundi, its parent group, were the first ones to use the new CDP temperature ratings dataset to assess the temperature trajectory of thousands of companies worldwide in their fund analyses under a pilot. Amundi and CPR AM were the first asset managers to use these temperatures in their ESG research and for monitoring fund investments.

BUSINESS PERSPECTIVE: BERTRAND CAMUS

CEO, SUEZ



The green recovery: we must act together, now.

The global crisis we are going through has convinced even the most sceptical that the environment, biodiversity, climate, economy, health and quality of life are inevitably linked.

I believe that the green economic recovery will depend on our ability to develop and implement new technological solutions that can support proactive public policies. At SUEZ, we are ready to contribute to the deep shift the world needs as far as the management of the planet natural capital is concerned. Shaping a sustainable environment now, our Purpose adopted in May 2020, is at the heart of every activity and innovative solution that we have been developing within SUEZ for over 160 years. In the meantime, our strategic plan SUEZ 2030, marks both our commitment and our ambition to preserve the fundamental elements of our environment - water, soil, and air - that ensure our future. Lastly, the Group aims at helping people constantly improve their quality of life by protecting their health and supporting economic growth.

SUEZ is willing to reinforce its role as a leader in essential environmental services; we are indeed the only global player to devote 100% of its activity to this area. The Group is part of the United Nations Business Ambition for 1.5°C, which encourages companies to align with the emissions reductions needed to limit global warming to less than 1.5°C by the end of the century, with the objective of becoming carbon neutral by 2050. The first step will be to reduce our greenhouse gas emissions by 45% by 2030. Our trajectory will be presented to the Science Based Targets initiative (SBTi) in the summer of 2021. In the same time, SUEZ has renewed and reinforced in October 2020 its commitments to biodiversity, as part of Act4Nature international and Business for Nature initiatives.

Our commitment to climate will be met thanks to several levers, including the increased use of methane in all the waste storage centres that we manage around the world and the increased consumption of low-carbon electricity. To this end, SUEZ has decided to dedicate an annual amount of CAPEX to projects aimed at reducing the GHG emissions of its operations, regardless of the financial ROI.

We also rely on innovations such as carbon capture. Indeed, in the United Kingdom, SUEZ and bp signed a Memorandum of

Understanding in November 2020 to explore the feasibility of the UK's first carbon capture and storage project from energy-from-waste. The Net Zero Teesside Carbon Capture Utilisation and Storage (CCUS) project plans to capture up to 10 million tons of carbon dioxide (CO₂) emissions, the equivalent to the annual energy use of over 3 million UK homes.

We also aim to accelerate our contribution to our customers' climate strategy by upscaling our low-carbon solutions. SUEZ 2030 targets a doubling in the annual emissions avoided by our customers, increasing them from 10 to 20 million tons of CO₂ per year by 2030. To realize this goal, we will increase our capacity to produce secondary raw materials in order to meet a higher demand from the industry, especially plastics in developed and developing countries. We will also develop our local and renewable energy production from municipal and industrial waste.

I would also like to highlight the important role that digital technology has to play on environmental and climate issues for our customers around the world. SUEZ works constantly to develop and improve concrete solutions to support regions on their environmental and digital transformation. We integrate data collection solutions (smart meters, sensors and probes) to provide digital models and real-time applications that foster a rational use of resources and resilience in times of crisis.

Ultimately, SUEZ is committed to supporting all stakeholders in the public and private sector, from industrial companies to municipalities and citizens, in their ambition to reduce their environmental footprint. They can count on us to keep developing innovative, sustainable and scalable solutions.

Once again, I would like to thank CDP for the key role it plays in building a thriving economy that works for the people and the planet in the long term.

BUILDING INVESTABLE TRANSITION PLANS

KEY FINDINGS

- Among European companies that have developed a transition plan, the majority (67%) have comprehensive plans in place, but only 8% are already showing significant results.
- Scope 3 disclosure is still sorely lacking in material areas, despite accounting for more than 80% of the total emissions reported.
- Across-industry collaborations are a promising driver for successful transitions, in particular with respect to energy – reductions in emissions relating to energy and fuels must account for over 40% of the total needed over the next 10 years.
- 98% of investors in a poll for this report say that the importance of climate transition plans for them will increase over the next years.

How then should corporations prepare themselves for financial institutions' and investors' growing focus on transition plans? There is an emerging consensus on the components of a good plan, and growing numbers of companies are putting these elements in place²⁰. Disclosure, however, remains limited in some important areas, and quality is mixed. Investors and financiers want and need to see plans that are ambitious, grounded in specific targets and actions, and supported by strong governance. They see opportunity as well as risk and are increasingly rewarding those companies that are best prepared to accelerate their decarbonization trajectory. The most ambitious corporate leaders are realizing that to benefit from the new focus in the financial world, they may need to rethink the very structures of their industries and companies.

Elements of a strong transition plan

While there are various different guidelines on what a transition plan should cover²¹, there is broad alignment over the key elements around targets, actions, and governance.

TARGETS

- Elements:** Externally validated science-based targets should be in place – for example, targets approved by the SBTi, covering all relevant scopes and targets, should be monitored over time.
- State of progress:** All companies reporting to CDP disclosed the scope of their targets and the level of board oversight of their progress towards climate-related goals and targets. (See Appendix 1.)

ACTIONS

- Elements:** Significant investment should be undertaken in long-term initiatives that cover all scopes and have a quantifiable impact on carbon emissions in the different scopes. Further investment should be made to develop low-carbon products. Meaningful investment should also be committed to integrate actions into the core of the business.
- State of progress:** All companies disclosed their level of engagement with their value chain on climate-related issues (100%), and almost disclosed the scope of the initiatives they have in place (96%).

GOVERNANCE

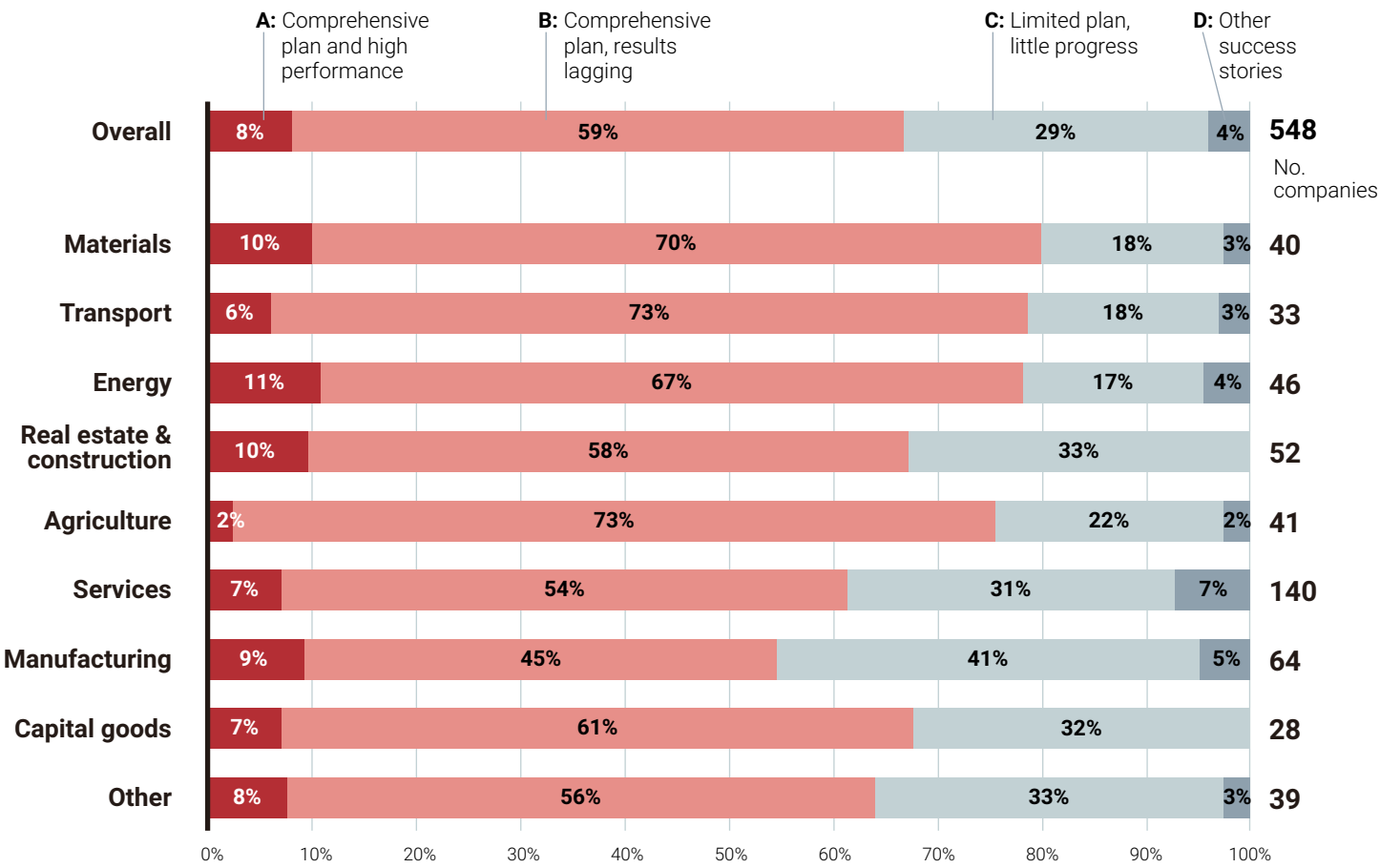
- Elements:** The board and senior executive team should be clearly accountable for the transition, and there should be clear transmission mechanisms throughout the organization. Decisions should be informed by scenario and risk analysis, and the transition should be integrated into formal strategic planning and budgeting.
- State of progress:** All governance components analyzed were well disclosed: Over 98% of companies reported on each one.

Only
8%
of companies with a transition plan have comprehensive elements in place & high performance

We found that 67% of companies with a transition plan have most of these elements in place to some extent, but that results are lagging in most cases. Only 8% of the companies in our sample set had both a comprehensive plan in place and high performance – defined by being in the 25th%ile for their subsector in terms of having low emissions intensity levels and having reduced their absolute emissions by 5% or more.

BUILDING INVESTABLE TRANSITION PLANS

Exhibit 11. Categorization and share of companies by comprehensiveness of transition plan and emission reduction performance²²



Source: Oliver Wyman analysis, CDP disclosure data

98%
respondents
thought they
would significantly
increase the
amount of
analysis they carry
out over the next
two years

As part of the research for this report, we asked a sample of investors that engage actively with CDP data how – and how much – they assess companies’ transition plans. Over half of the respondents (56%) said they performed detailed analysis of the transition plans of all companies they invest in, while the others did so only occasionally. Nearly all (98%) respondents thought they would significantly increase the amount of analysis they carry out over the next two years. We asked the investors to rank what they felt was most important when assessing the quality of each area of a plan:

- Targets: **74%** emphasised the level of ambition of the targets; 65% consider the emissions scopes the targets cover.
- Transition plans: **70%** emphasised the specificity and detail of the initiatives in a plan; **70%** consider the development of low-carbon products and services.
- Governance: **72%** emphasised the use of scenario analysis for strategic directions; **58%** consider board-level oversight.

BUILDING INVESTABLE TRANSITION PLANS

Scope 3 emissions
accounted for at least

80%







of emissions
reported by this
sample

Scope 3 emissions

An ambitious transition plan must address all the most important sources of emissions related to a company's activities. For many companies, the key drivers of emissions are indirect²³, and emissions that are either embedded in the global value chain through which they source components and products, or they are caused by use of the products they sell. In the data submitted to CDP for this report, these emissions – classified as Scope 3 – account for 80% of total carbon emissions associated with the activities of European corporations. (See Exhibit 12.)

This figure aligns with CDP's most recent **supply chain report**, which found that supply chain emissions are on average over 11 times a company's direct emissions²⁴.

Exhibit 12. Share of total emissions by scope

		Direct emissions	Indirect emissions		
		Scope 1: direct	Scope 2: bought energy	Scope 3: Other indirect	Main scope 3 category
 MATERIALS	Cement	72%	5%	22%	-
	Chemicals	15%	8%	77%	Use of products
	Metals & mining	9%	67%	24%	-
	Steel	61%	6%	33%	-
 ENERGY	Electric utilities	37%	2%	61%	Fuel- and energy-related activities
	Oil & gas	9%	1%	91%	Use of products
 TRANSPORT	Transport OEMs	1%	1%	98%	Use of products
	Transport Services	62%	2%	36%	-
 AGRICULTURE	Agricultural commodities	4%	2%	93%	Purchased goods and services
	Food, beverage & tobacco	5%	3%	92%	Purchased goods and services
	Paper & forestry	23%	13%	64%	Purchased goods and services
 REAL ESTATE & CONSTRUCTION	Real estate	8%	19%	74%	Purchased goods and services/ Use of products
	Construction	7%	1%	92%	Purchased goods and services
 FINANCIAL SERVICES	Financial services	3%	4%	93%	Investments

Source: Oliver Wyman analysis, CDP disclosure data

FEATURED CASE STUDY: LENZING



In addition to the current issues in the fight against the COVID-19 virus and its effects, the pressing ecological challenges such as climate protection are not to be neglected. Sustainability is and will remain the dominant issue of our time. At Lenzing, we see it as part of our strategic principles and our responsibility to future generations to meet these challenges. Lenzing's approach towards combating climate change is in line with the Paris agreement.

In 2019, the Lenzing Group set an ambitious science-based target of a 50% reduction of CO₂-emissions (Scope 1, 2 and 3) per ton of product by 2030 compared to a 2017 baseline. Furthermore, Lenzing strives to reach net-zero CO₂ emissions by 2050.

To reach this goal, we will not only reduce our emissions, but also help our customers to reach their goals with our net-benefit concept. Lenzing's net-benefit products offer positive impacts and benefits to environment, society, and value chain partners that exceed those of most competing alternatives in the market. Net-benefit products take a life-cycle perspective and thus include both upstream and downstream value chain processes. Customers can replace resource-intensive and polluting products with Lenzing's alternatives, thus improving their product footprint and reducing supply chain risks.

Examples for our net-benefit products:

Carbon-zero TENCEL™ branded fibers

Lenzing launched new carbon-zero TENCEL™ branded lyocell and modal fibers, certified as CarbonNeutral® products. The fibers contribute to lower carbon emissions and energy consumption across the supply chain. The four key levers energy reduction, renewable energy, new technology innovation and supplier engagement are deployed to achieve Lenzing's carbon-zero target in the end. The three pillars "Reduce", "Engage" and "Offset" actively contribute to the reduction of the product's carbon footprint, by reducing as much emissions as possible within the current technological and economic feasibility, engage supply chain partners to reduce their emissions and offset remaining unavoidable emissions, whose share will reduce periodically as we further implement other pillars due to improvements. These products have lowest CO₂ footprint in their (fiber) category and thus can contribute to the fulfillment of our customers' SBT.

Lenzing fibers with recycled content

In line with Lenzing's circular economy vision, "**We give waste a new life. Every day**" the current innovative large-scale commercial fibers use pre-consumer cotton scraps, post-consumer garments and wood from sustainably managed forests as a raw material. The cotton material is recycled into pulp which is blended (up to 30%) with wood pulp to produce high-quality lyocell fibers. This technology diverts tons of cotton scraps and post-consumer garments from entering landfills or incineration. Based in Lenzing's own calculations, TENCEL™ lyocell fibers with REFIBRA™ technology require 95% less water to produce than conventional cotton. They are produced with high resource efficiency and have therefore a low environmental impact, for instance on landuse.

Stefan Doboczky
Chief Executive Officer
Lenzing Group



BUILDING INVESTABLE TRANSITION PLANS

The disclosure and interpretation of Scope 3 emissions is an important area that requires further work, because of its importance in creating more accurate and higher-quality temperature ratings for companies. Financial institutions cannot properly assess temperature – and reduce – ratings without more high-quality Scope 3 data from companies. Therefore, this lack of corporate Scope 3 data is a major barrier for banks, asset managers, and asset owners to set their own ambitious targets.

Today, Scope 3 disclosure is most consistent in some of the least important categories, such as business travel. In more material areas, it is often sorely lacking. For instance, only 5% of real estate

companies disclose emissions relating to the use of the products they sell, which is one of the biggest sources of emissions for the sector. (See Exhibit 13.) In fact, less than 35% of companies in high-impact sectors disclose information for the most important category of their Scope 3 emissions. However, it is challenging to represent Scope 3 emissions accurately, as the methodologies can be complex and the data hard to come by. In addition, since targets are set against baseline years and progress tends to be judged based on absolute emissions, growing companies are penalized. They give the impression of a growing carbon footprint, even though they might be reducing their emissions intensity.

Exhibit 13: Share of companies disclosing Scope 3 emissions by category

	Purchased goods and services	Capital goods	Fuel-and-energy-related activities (not included in Scope 1 or 2)	Upstream transportation and distribution	Waste generated in operations	Business travel	Employee commuting	Upstream leased assets	Downstream transportation and distribution	Processing of sold products	Use of sold products	End of life treatment of sold products	Purchased goods and services	Downstream leased assets	Franchises	Investments
Cement	50%	0%	50%	67%	33%	17%	33%	0%	50%	0%	0%	0%	0%	0%	0%	0%
Chemicals	75%	59%	72%	72%	72%	78%	63%	34%	53%	6%	28%	34%	9%	6%	25%	
Metals & mining	46%	31%	38%	31%	46%	54%	46%	8%	31%	15%	15%	23%	0%	0%	15%	
Steel	70%	10%	70%	50%	40%	50%	30%	10%	50%	10%	20%	20%	0%	0%	20%	
Electric utilities	65%	53%	74%	32%	47%	79%	62%	18%	21%	9%	62%	3%	12%	3%	21%	
Oil & gas	50%	27%	50%	54%	38%	77%	46%	8%	35%	23%	50%	19%	4%	12%	23%	
Transport OEMs	53%	29%	41%	71%	47%	82%	59%	6%	41%	12%	53%	35%	12%	24%	6%	
Transport Services	39%	26%	45%	45%	45%	94%	52%	3%	23%	0%	10%	10%	19%	3%	6%	
Agricultural commodities	73%	13%	67%	40%	67%	60%	13%	7%	53%	20%	7%	27%	7%	7%	13%	
Food, beverage & tobacco	67%	26%	51%	54%	51%	51%	38%	15%	59%	10%	28%	31%	10%	8%	15%	
Paper & forestry	76%	29%	82%	88%	59%	59%	59%	6%	82%	24%	6%	47%	0%	0%	6%	
Real estate	54%	38%	56%	18%	62%	74%	44%	18%	13%	0%	5%	3%	46%	7%	5%	
Construction	54%	15%	58%	38%	65%	77%	42%	12%	8%	4%	38%	23%	12%	0%	8%	
Financial services	63%	15%	48%	12%	55%	88%	39%	3%	8%	0%	7%	3%	5%	0%	1%	

Source: Oliver Wyman analysis, CDP disclosure data

Tackling these issues is important for the proper understanding and assessment of companies' efforts, and growing numbers of companies are now working on them. For instance, more than 150 companies with a total of \$4 trillion in annual buying power are

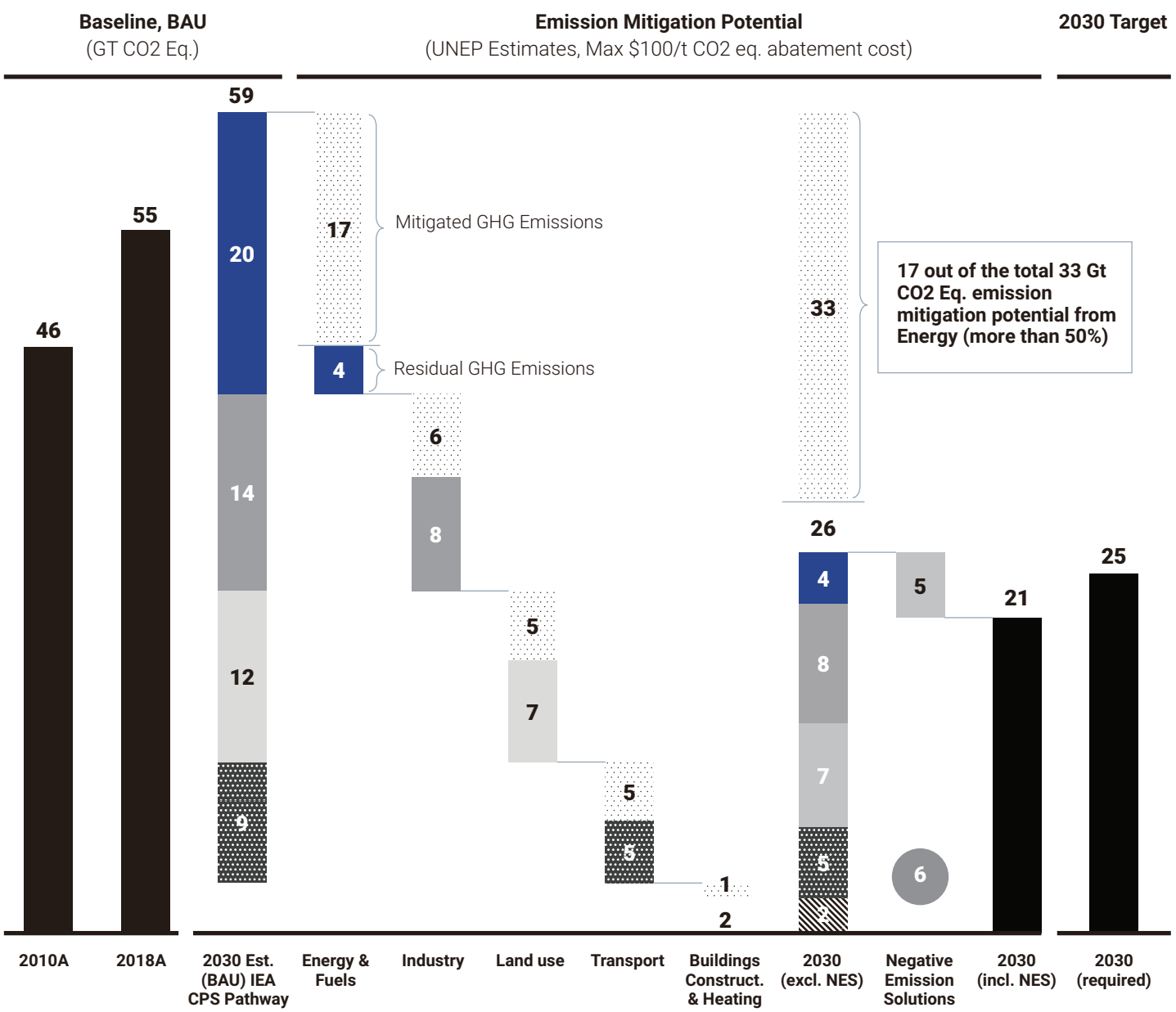
asking their suppliers to disclose data through CDP, so that they can more accurately assess their Scope 3 emissions and take action to reduce them.

BUILDING INVESTABLE TRANSITION PLANS

The need for collaboration

Since one company's Scope 3 emissions are another's Scope 1 or 2 emissions (or the emissions private households), companies will have to collaborate with these firms to monitor – and reduce – these emissions. Nowhere is the need to collaborate clearer than in the energy sector. Oliver Wyman estimates suggest that reductions in emissions relating to energy and fuel will account more than **50%** of the total reductions needed over the next 10 years. (See Exhibit 14.)

Exhibit 14: Emission mitigation potential by sectors/levers



Source: Oliver Wyman analysis, UNEP emissions gap report 2017 and based on IEA data from IEA (year) [Title of IEA database], IEA [/co-author(s) if any] (year), www.iea.org/statistics. All rights reserved; as modified by Oliver Wyman

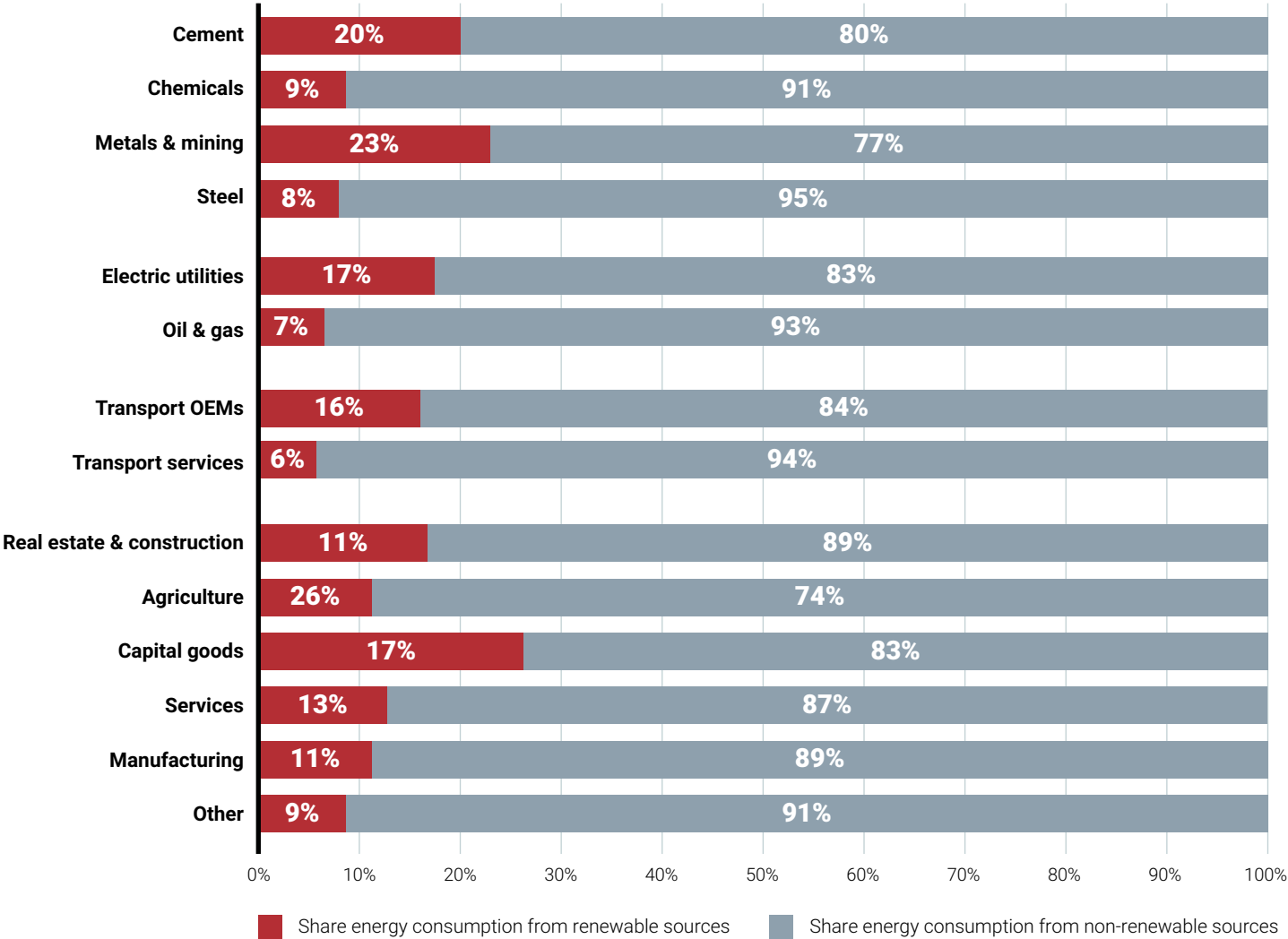
BUILDING INVESTABLE TRANSITION PLANS

Renewable sources
only account for
around
15%
of the energy
consumption

Many energy firms have already invested heavily in innovation and taken big bets on renewable technologies that had been considered high-risk, such as solar and wind. Based on investment disclosure to CDP from 2019, out of a total of €124 billion of new low-carbon investment, electric utilities reported €45 billion in new capital

investment²⁵. This is now paying off, and the unit cost of renewable power generation has dropped. Yet, despite the recent growth, renewable sources only account for around 15% of the energy consumption of companies submitting data to CDP. (See Exhibit 15.)

Exhibit 15: Share of energy consumption from renewable sources
Average share of energy consumption from renewable sources



Source: Oliver Wyman analysis, CDP disclosure data

BUILDING INVESTABLE TRANSITION PLANS

Besides investment in renewables, the energy sector is continuing to take big bets and in collaboration with other industries. For instance, energy and materials companies are pioneering new processes and technologies such as carbon capture storage, while energy and transportation companies are working to create

the electric-vehicle charging and battery infrastructure required to decarbonize light-vehicle transportation. Both sectors – materials and transport – are collaborating with energy companies to use hydrogen as a source of heat in industrial processes and to use hydrogen fuel cells for heavy duty long-distance transport.

Enel: “At the end of the day, everything is about decarbonization. It’s a win-win”.

Enel, the biggest utility company in Europe, belongs to a new wave of ‘green supermajors’ which have set ambitious science-based targets, are rapidly investing in new renewables capacity, and are enabling corporates in other sectors to drive down their energy-related emissions.

Seeing a first-mover advantage in the low-carbon transition, renewables were mainstream inspired by a top-down approach to accelerate the energy transition. After a 2014 management change, CEO Francesco Starace committed to a fundamental business model shift away from conventional power generation. A new approach that involves all executives, linking their pay to delivering on climate targets.

Crucially, he was backed by the CFO, and Enel is now oriented to create value for all its stakeholders. Thus, the company employs a double materiality view on impacts, to consider both how climate change impacts upon its assets, and how the company impacts upon society and the environment.

It was among the first to join the Science Based Targets Initiative (SBTi) when it launched in 2015. Targeting a cut to its emissions by 25% per kwh by 2020, it achieved it early through renewable expansion and a reduction in thermal capacity. Last year, it upgraded its SBT to align it with 1.5 °C scenario – meaning an 80% cut to direct emissions by 2030. It has also joined the Business Ambition for 1.5 °C, committing it to net-zero by 2050.

The company considers these targets - which it has met so far - as key for gaining credibility for its future direction where the business model has long-term sustainability at its core. As such, Enel ensures sustainability is factored not only within specific projects but embedded into the company strategy overall.

This approach governs its capital allocation. €160 billion will be spent by the company in the next 10 years and the impact on greenhouse gas emissions is an overarching constraint for these decisions. Key transition actions include tripling renewable capacity with €85 billion of new investment over the next decade – reaching 80% total generation – along with digitizing end users and upgrading networks.

The company’s actions to electrify end consumption are expected to contribute to around 40% reduction in household emissions and around 25% in household spending in Europe. It has also developed an internal model to quantify shared value – the direct links between its CAPEX and wider impact - on areas like local GDP and avoided emissions, which, for example, points to an estimated €240 billion in GDP created from local investments until 2030.

BUILDING INVESTABLE TRANSITION PLANS

Re-drawing industry boundaries

The digital revolution over the last 10 years has shown that in major periods of transformation new companies often win out, while established players can struggle to move fast enough. Large, diversified companies must attempt to “thread the needle” – maintaining their legacy businesses at a level that can generate the cash needed to support investment in the businesses of the future. This can be a difficult balance to strike and a hard message to sell to investors.

As investors increasingly place a premium on companies with a clear and compelling green-growth story, some companies will seek to tap into this source of finance by carving out those businesses that fit the bill. In the automotive sector, for example, there is now a vast difference in the valuation multiple applied to the electric car businesses embedded within incumbent auto manufacturers and that applied to electric specialists. This premium of course reflects a belief not just in the green credentials of pure electric players,

but also in their ability to innovate and move at speed towards a model for the future. But the different treatment by investors is already causing some automakers to act. Some are separating out specialized activities, such as units developing new powertrains or autonomous vehicles, into separate entities that can attract higher valuations.

Some incumbent companies will find it challenging to prove the value of their diversified business models and corporate structures. Can they pivot their investment budgets and create the conditions to incubate innovative technologies? Can they then drive these to scale? Can they use their power and influence to create mission-based ecosystems that assemble a diverse group of players to solve complex problems? (See Exhibit 16.) Those that can answer these questions and set out a clear path forward will find strong appetite amongst investors. Others may face increasing questions over both their transition paths and their wider business models.

Exhibit 16: Overview of an effective mission-based ecosystem

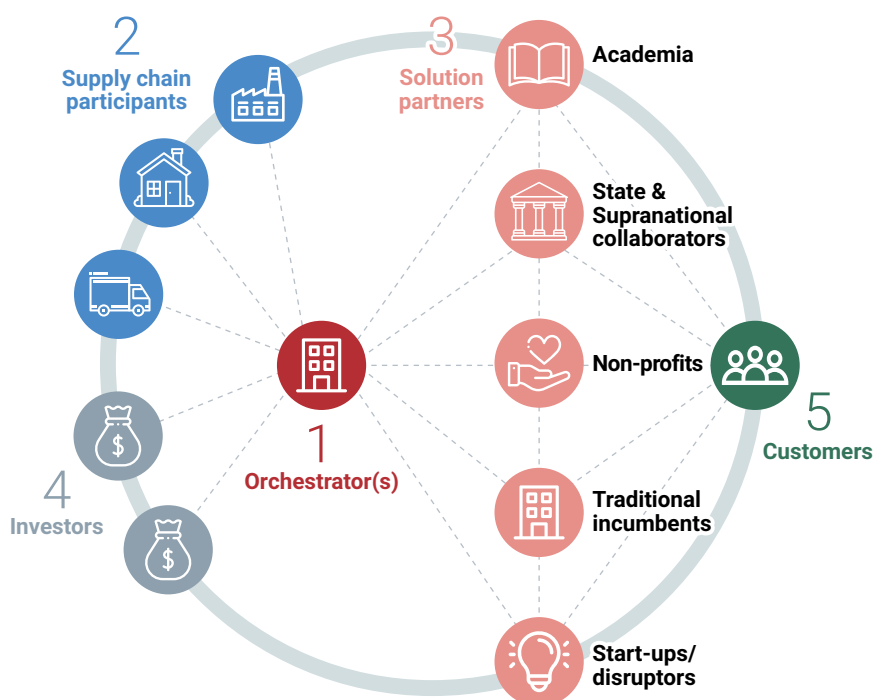
An effective mission-based ecosystem is:

A network of **diverse players** (e.g. industry leaders, policymakers, non-commercial players) bound by a **shared mission...**

...to tackle a specific **complex problem** that lacks single-entity accountability...

...by **co-creating a product or service solution** that cannot be created as effectively in silos...

...through seamless collaboration enabled by **sharing of assets, data, knowledge and value**



Source: <https://www.weforum.org/agenda/2021/01/a-new-paradigm-for-collaboration-mission-based-ecosystems-better-business-oliver-wyman-great-reset-davos-agenda/>

CONCLUSION

KEY FINDINGS

- Analysis of CDP temperature ratings dataset, which uses CDP 2020 disclosure data, shows that the current Scope 1-3 emissions reduction targets of the 974 European companies are not ambitious enough to reach the Paris agreement.
- There are clear differences between countries. Switzerland is on a 2.3 °C path, while Denmark, Sweden, Germany and Finland are all at 2.5°C.
- Belgium, the United Kingdom, and Italy have the highest temperature pathways.

There is much to be celebrated in the 2020 CDP data. Many companies are setting ambitious targets, and the financial sector is gearing up to direct capital more meaningfully in favor of companies taking action to mitigate climate risks and support the transition.

Yet there are also important warnings. Despite the increasing corporate ambitions for a transition to low-carbon industry, the pace needs to step up – significantly. CDP's latest temperature ratings dataset, which was built on the data disclosed to CDP in 2020, shows that there is still a stark ambition gap. As of today, assuming European companies achieve their current targets– the European

corporate sector disclosing to CDP (excluding financial service companies) is in line with a **2.7°C** world by 2100. That falls short of the collective 1.5°C target and short of the minimum required 1.75°C for Paris alignment. (see Exhibit 17.) It should be noted, too, that this outcome assumes all companies achieve their current targets.

This decade will be a critical period for companies to build to develop more ambitious and robust transition plans on the foundations built in recent years. They will need to work in collaboration with governments and financiers to shape these plans – and deliver on them.

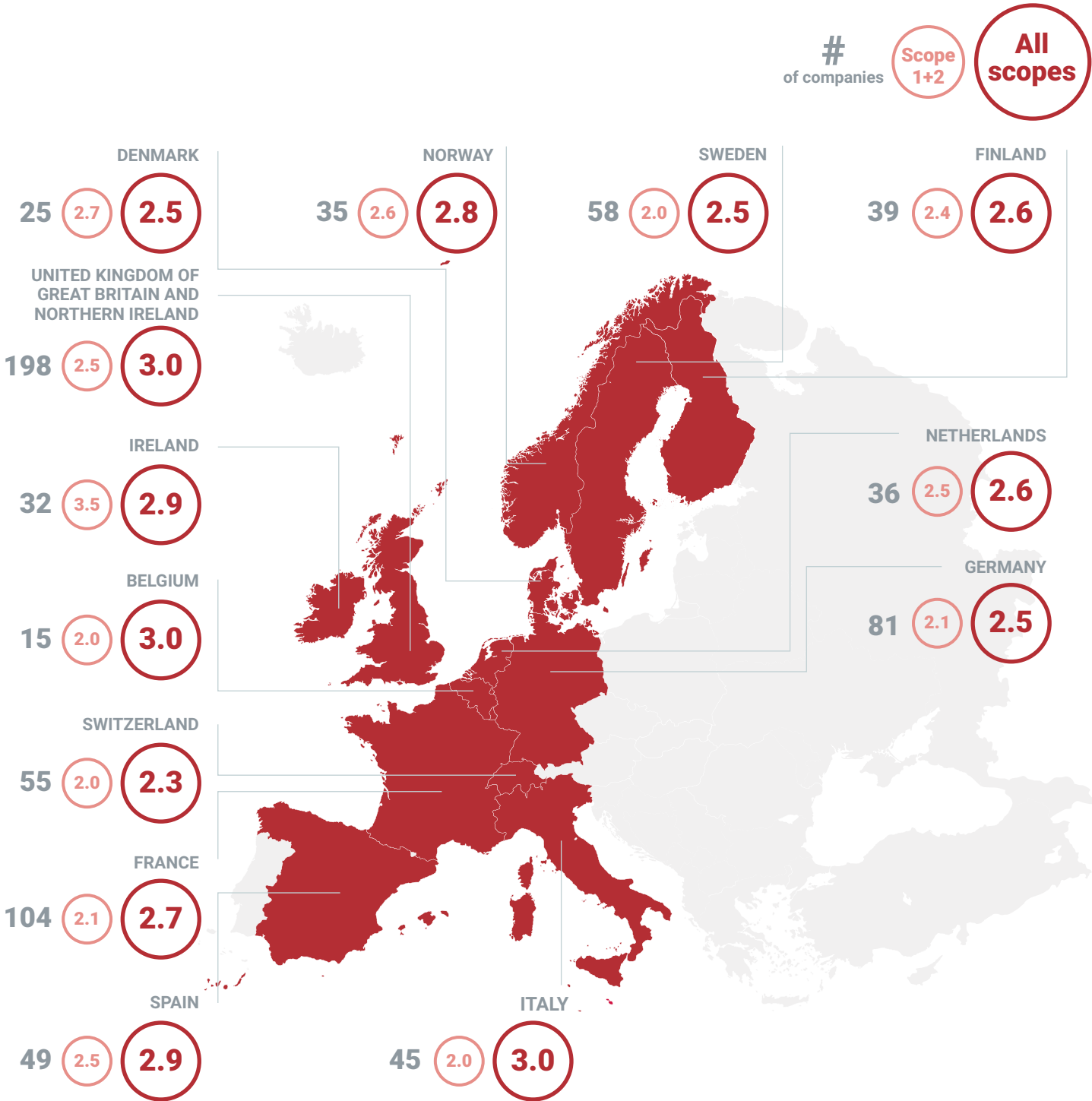
Exhibit 17: Average global temperature rise by 2100 if global GHG emissions would reduce at the same pace as companies in their respective countries (weighted by total emissions)

Country	Number of companies	Temperature weighted Scope 1+2	Temperature weighted all Scopes
Switzerland	55	2.0	2.3
Denmark	25	2.7	2.5
Sweden	58	2.0	2.5
Germany	81	2.1	2.5
Finland	39	2.4	2.6
Netherlands	36	2.5	2.6
France	104	2.1	2.7
Norway	35	2.6	2.8
Ireland	32	3.5	2.9
Spain	49	2.5	2.9
Italy	45	2.0	3.0
Belgium	15	2.0	3.0
United Kingdom of Great Britain and Northern Ireland	198	2.5	3.0

Source: Oliver Wyman analysis, CDP disclosure data, **CDP temperature data**

Note: For companies with neither an approved science-based target or a valid target disclosure to CDP, a default rating has been applied²⁶. Only countries with more than 15 available company temperature ratings are included.

CONCLUSION



Source: Oliver Wyman analysis, CDP disclosure data, CDP temperature data

DISCLOSURE ACROSS EUROPE

DENMARK



UNITED KINGDOM



IRELAND



BELGIUM



LUXEMBOURG



AUSTRIA



SWITZERLAND



FRANCE



PORTUGAL



SPAIN



ICELAND



NORWAY



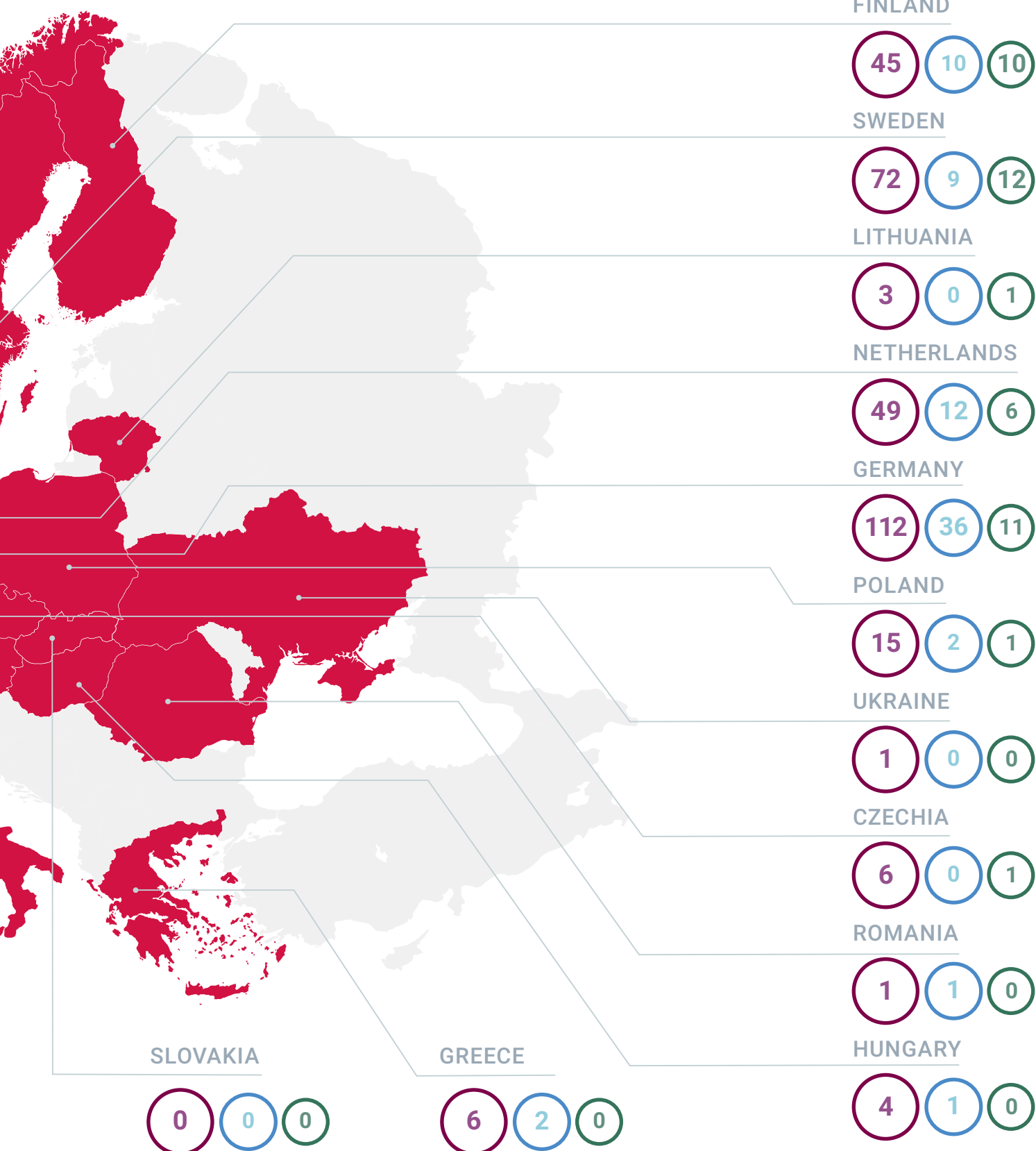
ITALY



MALTA



- Climate change disclosers
- Water security disclosers
- Forests disclosers



Map displays the number of 2020 responses from all companies responding to investors in the respective country, including companies reporting through their parent companies and some private companies.



Corporates
in Europe
achieved over
40%
of all A List
scores awarded
globally

CDP'S A LIST AWARDS: RECOGNIZING EUROPEAN LEADERSHIP

In light of the COVID-19 pandemic, the CDP Europe Awards was held online in 2021, in an event that was hosted by the **European Investment Bank** and produced by news channel **Euronews**. Companies receiving A List awards accepted their awards through video submissions, available to watch [here](#).

In 2020, there were 137 European corporates on CDP's A Lists for climate change, forests and/or water security, a 46% increase from last year. Between them, 164 A scores were awarded: 127 for climate change, 28 for water security, and 9 for forests.

Corporates in Europe achieved over 40% of all A List scores awarded globally, and nearly half (45%) of the total global CDP climate change A List of 274 worldwide.

Most notably, 6 out of the 10 companies globally to receive a triple A are based in Europe, reflecting Europe's leading position for the highest levels of transparency and action across the three key interrelated environmental themes. This year, Symrise AG and Mondi Plc joined L'Oréal, FIRMENICH SA, Danone, and UPM-Kymmene Corporate who also achieved three A scores in 2019.

For forests, companies from Europe take up over half of the global forests A List, with 9 out of 16 of the best-performing companies.

On water security, the 28 European companies represent over a quarter (26%) of the total A List awarded globally.

Within Europe, corporates from the United Kingdom, France and Germany dominated the A List, accounting for almost half (44%) of the European A List companies, with 19 French and 19 German companies achieving the best possible score, and 21 from the United Kingdom. In total, European A List companies have a market value of over €3.5 trillion.

Despite the unprecedented challenges that COVID-19 has brought, in ten European countries the number of A List companies continued to increase this year, most notably in Germany (19 companies up from 13), and Portugal (4 companies up from 1).

For climate change, while 8% of European companies received an A score, 14% of companies in Europe were scored A-, and 20% a B. This means that over 40% of companies in Europe were broadly performing well on climate issues, compared to 29% globally.

Performance Stoxx® Global Climate Change Leaders vs. Stoxx® Global 1800

— Stoxx® Global Climate Change Leaders USD (Gross Return)
— Stoxx® Global 1800 USD (Gross Return)



Data from December 19, 2011 to December 31, 2020

THE A LIST:

EUROPE

Company	Country	Climate change	Forests	Water security
Accenture	Ireland	A		
AENA SME SA	Spain	A		
AIB Group Plc	Ireland	A		
Air Liquide	France			A
Alstom	France	A		
Anglian Water	UK	A		
Anheuser Busch InBev	Belgium	A		A
APG SGA SA	Switzerland	A		
ASTM SpA	Italy	A		
AstraZeneca	UK	A		A
Atos SE	France	A		
BASF SE	Germany			A
Bayer AG	Germany	A		A
Beiersdorf AG	Germany	A		
Berkeley Group	UK	A		
BillerudKorsnas	Sweden	A		
BMW AG	Germany	A		
Bollore SA	France	A		
Borregaard ASA	Norway	A		
BPER Banca	Italy	A		
Brembo SpA	Italy	A		A
British American Tobacco	UK	A		
BT Group	UK	A		
Burberry Group	UK	A		
Carlsberg Breweries A/S	Denmark	A		
Castellum	Sweden	A		
Cellnex Telecom SA	Spain	A		
Centrica	UK	A		
CNH Industrial NV	UK	A		
Coca-Cola European Partners	UK	A		A
Coca-Cola HBC AG	Switzerland	A		A
Corbion	Netherlands	A		
CTT - Correios de Portugal SA	Portugal	A		
Danone	France	A	A (Palm oil, soy)	A
Deutsche Bahn AG	Germany	A		
Deutsche Telekom AG	Germany	A		
DIA	Spain	A		
Diageo Plc	UK	A		A
DNB ASA	Norway	A		
E.ON SE	Germany	A		
EDF	France	A		
EDP - Energias de Portugal S.A.	Portugal	A		A
Electrolux	Sweden	A		A
Elkem ASA	Norway	A		
ENAGAS	Spain	A		
EnBW Energie Baden-Wurttemberg AG	Germany	A		
Endesa	Spain	A		A
Eneco Groep	Netherlands	A		
ENEL SpA	Italy	A		
ENGIE	France	A		
Essity	Sweden		A (Timber)	
ESB Group	Ireland	A		
Ferrovial	Spain	A		
GEA Group AG	Germany			A
FIRMENICH SA	Switzerland	A	A (palm oil)	A
Gecina	France	A		
GlaxoSmithKline	UK			A
Givaudan SA	Switzerland	A		A
Grupo Logista	Spain	A		
H&M Hennes & Mauritz AB	Sweden	A		
HeidelbergCement AG	Germany	A		
Imperial Brands	UK	A		
ING Group	Netherlands	A		
Ingka Holding B.V.	Netherlands	A		

Company	Country	Climate change	Forests	Water security
Iren SpA	Italy	A		
Kering	France			A
J Sainsbury Plc	UK	A		A
Kesko Corporation	Finland	A		
Kingspan Group PLC	Ireland	A		
Klepierre	France	A		
Kone Oyj	Finland	A		
Koninklijke DSM	Netherlands	A		
Koninklijke KPN NV (Royal KPN)	Netherlands	A		
Koninklijke Philips NV	Netherlands	A		
LafargeHolcim Ltd	Switzerland	A		
Landsec	UK	A		
LANXESS AG	Germany	A		
Lenzing AG	Austria	A	A (timber)	
Leonardo	Italy	A		
L'Oréal	France	A	A (palm oil, soy)	A
Lundbeck A/S	Denmark	A		
Mercialys	France	A		
Metro AG	Germany	A		
Metsa Board Corporation	Finland	A		A
Mondi PLC	UK	A	A (timber)	A
Morgan Sindall Group plc	UK	A		
Mowi ASA	Norway	A		
National Grid PLC	UK	A		
Naturgy Energy Group SA	Spain	A		
Nexans	France	A		
Novartis	Switzerland			A
Nokia Group	Finland	A		
Novo Nordisk A/S	Denmark	A		
Orkla ASA	Norway	A		
Orsted	Denmark	A		
Philip Morris International	Switzerland	A	A (timber)	A
Piraeus Bank	Greece	A		
Pirelli	Italy	A		
PostNL	Netherlands	A		
Proximus	Belgium	A		
Raiffeisen Bank International AG	Austria	A		
Red Electrica S.A.U	Spain	A		
Robert Bosch GmbH	Germany	A		
SANOFI	France			A
Royal BAM Group nv	Netherlands	A		
S Group	Finland	A		
SAP SE	Germany	A		
Scatec Solar	Norway	A		
Schneider Electric	France	A		
Siemens Gamesa Renewable Energy SA	Spain	A		
Signature Aviation PLC	UK	A		
Signify NV	Netherlands	A		
Snam S.P.A	Italy	A		
Sodexo	France	A		
Sonae	Portugal	A		
Sopra Steria Group	France	A		
SpareBank 1 Ostlandet	Norway	A		
STMicroelectronics International NV	Switzerland	A		
Swiss Re	Switzerland	A		
Symrise AG	Germany	A	A (palm oil)	A
Telefónica	Spain	A		
TETRA PAK	Sweden	A	A (timber)	
The Navigator Company	Portugal	A		
thyssenkrupp AG	Germany	A		
thyssenkrupp Elevator AG	Germany	A		
TietoEVRY	Norway	A		
UBS	Switzerland	A		
Unibail-Rodamco-Westfield	France	A		
Unilever plc	UK	A		A
UPM-Kymmene Corporation	Finland	A	A (timber)	A
Valeo Sa	France	A		
Vattenfall Group	Sweden	A		
Volkswagen AG	Germany			A
Veidekke ASA	Norway	A		
Vodafone Group	UK	A		
Workspace Group	UK	A		
Zalando SE	Germany	A		



CLIMETRICS FUND AWARDS

2020 RESULTS

Climetrics independently rates close to 20,000 global funds representing **€16.8 trillion**, around 32% of the global fund market

In its third year, CDP's Climetrics Fund Awards recognizes the asset managers of 20 actively managed equity funds across four categories: US equity, European equity, emerging markets equity and Global equity.

For this year's awards, the top five actively managed funds for each equity category were selected based on their underlying Climetrics score, which is based on CDP climate change, forests and water security data.

In the global equity and European equity categories, all funds are rated the best '5-leaf', while in the emerging markets equity and US equity category, the highest fund rating given was '4-leaf'. The funds awarded in 2020 stand out as generally investing in companies which are better at disclosing and managing material climate, water and deforestation issues.

The awards were distributed during the CDP Europe Awards, a high-level dialogue hosted by **CDP** and the **European Investment Bank**, and produced by Euronews, Europe's most-watched news channel.

Climetrics uses a best-in-universe approach and calculates how well companies in a fund's

portfolio disclose and manage material risks and opportunities related to climate change, water security and deforestation, which are key concerns for financial markets. It also assesses the asset manager's own governance of climate issues and its investment policy.

The rating emphasizes transition finance: it gives better scores to funds investing in green technologies or in companies with good management of material climate, water and forests-related risks. This includes, for example, companies from high impact sectors that have a science-based target to reduce emissions in line with 1.5°C. All top-rated (5-leaf) funds are run by asset managers demonstrating strong climate action through participation in collective corporate engagement initiatives and good climate-related disclosure.





This approach enables investors to easily find diverse funds with good environmental performance and helps channel capital faster to the low-carbon transition.

Any investor can search the Climetrics database of close to 20,000 funds for free on the CDP website.

Asset Manager	Category	Fund Name	Rating
Allianz Global Investors	Euro equity	Allianz Climate Transition	★★★★★
Amundi	US equity	Amundi Actions USA ISR	★★★★
Amundi	US equity	Amundi Funds US Pioneer Fund	★★★★
Aviva	Euro equity	Aviva Investors Climate Transition European	★★★★★
AXA Investment Managers	Global equity	AXA WF Framlington Clean Economy	★★★★★
Candriam	Global equity	Candriam SRI Equity Climate Action	★★★★★
Candriam	US equity	Candriam SRI Equity North America	★★★★
Erste Group	US equity	Erste Responsible Stock America	★★★★
Federated Hermes	Emerging market equity	Federated Hermes Global Emerging Markets	★★★★
Fisher Investments	Emerging market equity	Fisher Inv Inst Emrg Mrkts Res Eq ex-Fossil Fuels	★★★★
Handelsbanken Fonder	Global equity	Handelsbanken Hallbar Energi	★★★★★
HSBC	Euro equity	HSBC RIF Europe Equity Green Transition	★★★★★
La Banque Postale AM	Euro equity	LBPAM ISR Actions Environnement	★★★★★
La Banque Postale AM	US equity	LBPAM ISR Actions Amerique	★★★★
Nordea	Emerging market equity	Nordea 1 - Emerging Stars Equity	★★★★
OFI Asset Management	Euro equity	OFI Fund - RS European Equity Posit Economy	★★★★★
Robeco	Emerging market equity	Robeco QI EM Sustainable Active Equities	★★★★
Robeco	Emerging market equity	Robeco Sustainable Emerging Stars Equities	★★★★
Schroders	Global equity	Schroder ISF Global Energy Transition	★★★★★
Sycomore Asset Management	Global equity	Sycomore Fund Sycomore Eco Solutions	★★★★★

APPENDIX

Summary of transition plan components: Common elements that are emerging based on recommendations by various bodies and that are measurable as reported through the CDP questionnaire

Area	Component	Basic	Advanced	Disclosures
 TARGETS	Commitment	No SBTi commitment	SBTi commitment	N/A
	SBTi Target	No SBTi target set	SBTi target set	N/A
	Ambition	No business ambition of 1.5° alignment	Business ambition of 1.5° alignment	N/A
	Measurement	No use of metrics to measure performance (KPIs)	Use of metrics to measure performance (KPIs)	100%
	Emissions scope	Limited scope	Scope 1, 2 and 3	100%
 ACTIONS	Initiatives in place	No active emissions reduction initiatives in place	Active emissions reduction initiatives in place	94%
	Scope of initiatives	Limited scope	Scope 1, 2 and 3	96%
	Quantification of impact	No quantification of carbon impact of initiatives	Quantification of carbon impact of initiatives	87%
	Scale of investment	Basic: limited vs. CAPEX	Advanced: significant vs. CAPEX	67%
	Time horizon	Short term (<5 years)	Initiatives implemented also cover medium to long term time horizon (5–15 years and 15+ years)	77%
	Low-carbon offering	No offering of low-carbon products	Offering of low-carbon products	94%
	Carbon credits	No purchase (or origination) of carbon credits for interim impact	Purchase (or origination) of carbon credits for interim impact	93%
	Value chain engagement	Limited engagement with value chain	Engagement with entire value chain	100%
 RISK AND OPPORTUNITIES	Risk assessment	No assessment of risks across all risk types	Assessment of risks across all risk types	95%
	Financial risk	Limited financial quantification of reported risk	Comprehensive financial quantification of reported risks	56%
	Financial opportunity	Limited financial quantification of reported opportunities	Comprehensive financial quantification of reported opportunities	64%
	Use of scenario-analysis	No use or only qualitative/quantitative use to inform strategy	Qualitative and quantitative use to inform strategy	95%
	Details of scenario-analysis	No further details on scenario analysis given	Further details on scenario analysis given	98%
 GOVERNANCE	Governance	No Board level oversight	Board level oversight	99%
	Leadership	No Exco member responsible	Exco member responsible	99%
	Annual budget	No consideration into annual budgets	Consideration into annual budgets	100%
	Capex & acquisitions	No consideration for capex, acquisitions etc.	Consideration for capex, acquisitions etc	100%
	Compensation	No impact on senior management compensation	Impact on senior management compensation	98%

Endnotes

- 1 Includes companies headquartered in the EU27, EFTA countries and the United Kingdom.
- 2 Well-below 2 °C understood as 1.75°C
- 3 Source: Principles for Responsible Banking, Annual reports and investor presentations, Oliver Wyman research and analysis (based on the top banks representing more than 75 % of total lending to European corporates)
- 4 by assets as well as lending to European corporates
- 5 <https://sciencebasedtargets.org/companies-taking-action/>
- 6 <https://www.eib.org/en/events/finance-in-common-summit>
- 7 Note: With assets under management above €250BN Source: Net-Zero Asset Owner Alliance, Net-Zero Asset Manager Initiative, Annual reports and investor presentations, Oliver Wyman research and analysis
- 8 <https://www.unepfi.org/net-zero-alliance/>
- 9 <https://www.netzeroassetmanagers.org/>
- 10 https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env_air_gge&lang=en
- 11 The temperature score indicates the resulting global temperature by 2100 that is consistent with a company's decarbonization rate assuming it would achieve its targets
- 12 The CDP temperature ratings dataset is based on the CDP-WWF temperature rating methodology. More information: <https://www.cdp.net/en/investor/temperature-ratings/cdp-wwf-temperature-ratings-methodology>
- 13 <https://sciencebasedtargets.org/sectors/financial-institutions>
- 14 <https://www.cdp.net/en/investor/temperature-ratings>
- 15 <https://www.cdp.net/en/investor/temperature-ratings>
- 16 <https://www.tcfhub.org/wp-content/uploads/2020/10/PAT-Report-20201109-Final.pdf>
- 17 <https://www.spglobal.com/marketintelligence/en/solutions/climate-credit-analytics>
- 18 For further reading, see the SBTi theory of change: <https://sciencebasedtargets.org/resources/legacy/2020/02/STI-FI-ToC-2-27-20-final.pdf>
- 19 <https://www.tresor.economie.gouv.fr/Articles/2021/02/04/lancement-d-une-consultation-sur-le-decret-au-titre-de-l-article-29-de-la-loi-energie-climat>
- 20 The recent 'Say on Climate' initiative outlines some of the key elements of a transition plan: <https://www.sayonclimate.org/climate-action-plans/>
- 21 For example, from the TCFD, ACT initiative ("Assessing Low-carbon Transition"), Climate Action 100+, Say on Climate and the Science Based Targets initiative
- 22 Top performing companies are those which are in the 25th%ile for their subsector in terms of emissions intensity and have reduced their absolute emissions by 5% or more (using latest emissions data available). A company with a comprehensive plan has over half of the transition plan components in place (see Appendix 1)
- 23 <https://www.cdp.net/en/research/global-reports/transparency-to-transformation>
- 24 <https://www.cdp.net/en/research/global-reports/transparency-to-transformation>
- 25 CDP, Oliver Wyman: Doubling down – Europe's low-carbon investment opportunity, 2019
- 26 Many of the Scope 3 scores are based on default values, due to the lower levels of Scope 3 reporting. For more background on the methodology of the CDP temperature ratings dataset, please see **here**.

CDP SCORING METHODOLOGY 2020

CDP scoring lays down milestones marking the progress of a company's sustainable journey. It provides a roadmap to companies to compare themselves to the best in class. The scoring methodology has evolved over time to influence company behaviour in order to improve their environmental performance. Scoring at CDP is mission-driven, focusing on principles and values for a sustainable economy, and highlighting the business case for change.

In 2020 CDP offered 17 TCFD-aligned, sector-specific questionnaires in addition to a general questionnaire for all other industrial sectors. New questionnaires were released for the capital goods, financial services, and construction sectors.

To operationalise this approach, in 2018 CDP developed an Activity Classification System (CDP-ACS), a three-tiered system starting from the lower rung of Activity, going up to Activity Group and, finally, Industry. This framework categorizes companies by the most relevant sectors. It focuses on the diverse activities from which companies derive revenue and associates these with the impacts on their business from climate change, water security and deforestation. This helps ensure a better understanding of company actions according to their environmental risk, opportunity and impact and is essential for better comparability of data.

While the bulk of the scoring logic applies to all sectors and questionnaires alike, each of the questionnaires comes with a somewhat tailored scoring methodology. The sector-based approach allows CDP to make more meaningful assessments of companies' responses, incorporating each sector's characteristics and nuances, resulting in a score that reflects the company's progress in environmental stewardship and enabling better benchmarking against other companies.

The scoring of CDP's questionnaires is conducted by an accredited scoring partner trained by CDP. CDP's internal scoring team coordinates and collates all scores and run data quality checks and

Illustration of scoring levels

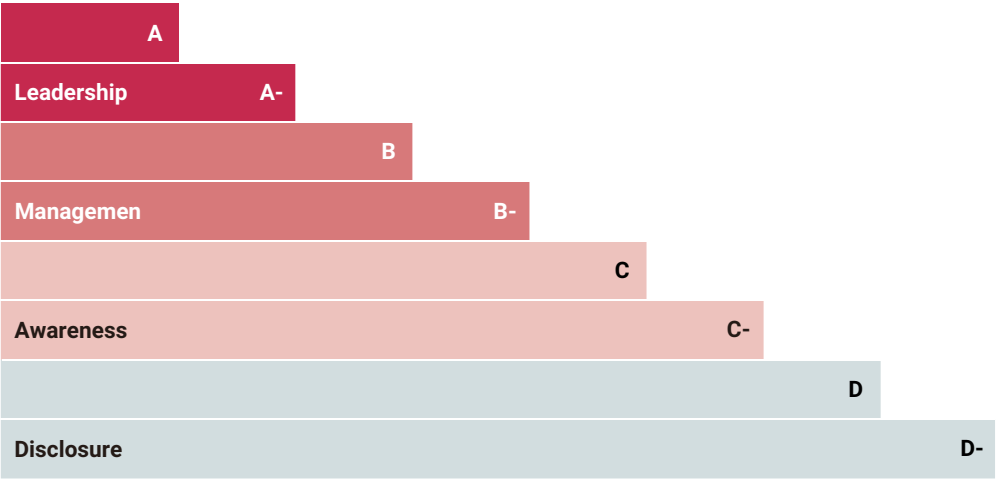


quality assurance processes to ensure that scoring standards are aligned between samples and scoring partners.

Responding companies are assessed across four consecutive levels which represent the steps a company moves through as it progresses towards environmental stewardship: Disclosure which measures the completeness of the company's response; Awareness which intends to measure the extent to which the company has assessed environmental issues, risks and impacts in relation to its business; Management which is a measure of the extent to which the company has implemented actions, policies and strategies to address environmental issues; and Leadership which looks for particular steps a company has taken which represent best practice in the field of environmental management.

Questions may include criteria for scoring across more than one level. The criteria for scoring the levels are distributed throughout the questionnaire and publicly available. All of the questions are scored for the disclosure level. Some of the questions have no awareness, management or leadership level scoring associated with them.

Climate Change	Water	Forests
60-100%	65-100%	65-100%
1-59%	1-64%	1-64%
45-69%	45-79%	45-74%
1-44%	1-44%	1-44%
45-79%	45-79%	45-79%
1-44%	1-44%	1-44%
45-79%	45-79%	45-79%
1-44%	1-44%	1-44%



F = Failure to provide sufficient information to CDP to be evaluated for this purpose.

CDP SCORING METHODOLOGY 2020

Scoring categories and weightings

CDP breaks down its scoring into categories in order to better focus on key data points and provide a more detailed summary of a company's score. Scoring categories in 2020 are sub-groups of the 2020 questionnaire modules and are unique to each theme, but within each theme they are consistent across all sectors.

Each sector within each theme is affected by and manages environmental issues in a specific way. To capture these specificities, different weightings will be applied amongst sector scoring categories in each theme.

Weightings are applied by calculating the Management and Leadership score per scoring category in the same way as previous years: $\text{Numerator/Denominator} \times 100$. These % scores are then translated

into a category score per level by calculating the proportion of points achieved relative to the category weighting: $\text{Category weighting (\%)} / 100 \times \text{Management/Leadership score (\%)}$. The category scores for each level are then summed together to calculate the overall final score.

Scoring weightings will only be applied to each of the scoring categories at Management and Leadership level. Where a scoring category consists of new questions, low weightings will reflect this to allow companies to familiarize reporting to them. Weightings will be applied differently across sector categories for each theme to reflect this, and the categories and weightings are publicly available [here](#).

Public scores are available in CDP reports, through Bloomberg terminals, Google Finance and Deutsche Börse's website. CDP operates a strict conflict of interest policy with regards to scoring and this can be viewed at bit.ly/2Sx3hLd

General scoring methodology category weightings

This 'summary sheet' outlines the 2020 Climate Change scoring categories and the weightings that will be applied to these categories for companies responding to CDP's 2020 General Climate Change questionnaire. If your company is responding to a different sector specific or the general questionnaire, please refer to the summary sheet for that questionnaire.

Scoring categories & weightings: an overview

Scoring categories are groupings of questions by topic. They are sub-groups of the 2020 questionnaire modules and are consistent across all sectors. Weightings are applied to scoring categories at the Management and Leadership levels only. Weightings reflect the relative importance of each category in an organization's progression towards environmental stewardship, within the

boundaries of the CDP questionnaire and available scoring criteria. As such, the weighting applied to each category varies across sectors to highlight the areas most important to environmental stewardship in specific sectors.

2020 scoring categories

The 18 scoring categories in 2020 are: 100% Disclosure points, Governance, Risk management processes, Risk Disclosure, Opportunity Disclosure, Business Strategy & Financial Planning, Scenario Analysis, Targets, Emissions reductions initiatives and low-carbon products, Scope 1 & 2 emissions (incl. verification), Scope 3 emissions (incl. verification), Energy, Additional climate-related metrics (incl. verification), Carbon pricing, Value chain engagement, Public policy engagement, Communications, and Sign off.

Scoring categories and weightings: General Climate Change Methodology



The bar chart above shows the % weighting applied to each of the scoring categories at Management and Leadership levels for the general climate change 2020 scoring methodology

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This report and all of the public responses from corporations are available for download from www.cdp.net

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