The Sustainability Reporting Performance of the FTSE 100

Annual Report | September 2019

ecoact

Contents

Welcome from our CEO

Welcome to EcoAct's ninth year of research examining how some of the largest companies in the world are acting and reporting on how they manage the impacts of climate change, how they are ensuring environmental and economic sustainability of business operations and how they are contributing towards the transition to a net zero emissions world.

Each year that EcoAct carries out this research, we look at what is happening to our climate and how man-made actions are affecting the world we live in. What is crystal clear now, more than ever before, is that the climate emergency is here. Climate change is not a distant concept. From extreme heat and flooding, wildfires, intense storms, shrinking ice and record levels of CO_2 in the atmosphere, it's evident that the impacts of humanity's actions are extensive and far reaching on the climate of earth.

During 2018, the vital work of the Intergovernmental Panel on Climate Change (IPCC) concluded that we must focus on limiting global temperature increases to 1.5 degrees Celsius[1]. Their report, based on the work of thousands of climate scientists reveals the challenge we face, the necessity for bold political action and the responsibility of everyone – individuals, civil society, communities, companies, organisations and all governments.

This report focuses on one of these groups: companies. The IPCC states that industry accounts for around 21%[2] of global greenhouse gas (GHG) emissions. If industry accounts of one fifth of global emissions, it's essential that companies get to grips with how they are contributing to the transition to net zero.

The reasons to do this are also clear. The awareness about climate change, inspired by a global movement of students and young people and protestors such as Extinction Rebellion, is growing within the media and the general public. A recent study showed that consumers are buying products that are marketed as sustainable and that the growth around this sector is substantial.[3]

The pressure from investors is also a driver for companies to act. The Montreal Pledge, the Task Force on Climate-related Financial Disclosures (TCFD), and the UN PRI Portfolio Decarbonization Coalition demonstrate a growing movement among investors to better understand the long-term impacts of climate change and to safeguard future interests.

Finally, nearly all countries have committed to the Paris Agreement that aims to transition the world to net zero emissions by the end of the century. In the UK, the Committee on Climate Change argues that a net zero (GHG) target for 2050 is achievable with existing technologies, alongside improvements in people's lives, and within the expected economic cost that is already outlined in the Climate Change Act. The UK Government has duly responded by legislating a national target of net zero by 2050. Clear, stable and well-designed policies will need to follow to reduce emissions further across the economy as the current policy is insufficient for meeting even the previous targets.

The science tells us what needs to be done. The drivers for action and resulting opportunities are clear. How are companies taking on these challenges? We are delighted to provide some analysis here and we hope that this report celebrates the companies and industry sectors pushing the boundaries as well as inspiring others to do the same.

Mark Chadwick
CEO, EcoAct North Europe

1. https://www.ipcc.ch/sr15/
2. https://www.epa.gov/ghgemissions/global-greenhouse-gas-emissions-data
3. https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU%20Stern%20CSB%20Sustainable%20Share%20Index%E2%84%A2%202019.pdf

The report

Introduction

Our ninth annual findings

Last year the IPCC concluded that we have a rapidly closing window of just 12 years (now 11) to ensure we limit temperature increases to the recommended level of 1.5 degrees above pre-industrial levels to avoid the most catastrophic impacts of climate change. Given the urgency of tackling the crisis and the need for more ambitious climate targets, it has never been more important to understand what progress is being made on sustainability and climate action.

Every year we conduct our research into the sustainability reporting performance of companies within the FTSE 100 index. The purpose is to understand how some of the largest companies based in the UK are tackling climate-related sustainability issues and disclosing their progress. With the general public, investor and government concern about climate change increasing, the clear expectation is that companies need to demonstrate their actions and show transparency.

This drive for transparency is why our research is based solely upon publicly available information readily accessible to an interested third party. Companies are scored against 61 tailored criteria covering four subject areas: Measurement & Reporting; Strategy & Governance; Targets & Reduction; and Engagement & Innovation. Only the most recent disclosures are scored, using annual integrated and corporate sustainability reports, and any additional links from company websites, including sustainability micro-sites and blogs.

Climate change is a global issue and this is also a global study. Beyond the FTSE 100 we conduct the same research for the CAC 40 in France, the DOW 30 in the United States and the IBEX 35 in Spain. This enables us to present within this report a holistic, international view of corporate climate-related sustainability and its shifting trends. Our findings this year paint a varied picture of climate action across four very different geographical and political contexts. This year we have also expanded our sector-specific trends in order to provide more international comparisons and benchmarks.

Year-on-year sustainability reporting best practice is shifting and never more so than in the past 12 months. From the raised ambition of science-based targets (SBT), to the widespread endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and of course our new net zero national target, the bar is now higher than ever.

Therefore, our scoring criteria have been adjusted to account for this changing best practice and the raised ambition required to effectively tackle climate change. This has resulted in a reduction in average scores across the board this year. Some of the above developments have occurred after the corporate sustainability reporting year. However, the need to take action on climate change has been

apparent for many years and it is vital that we gain a true understanding of our progress towards our net zero global goal. This year, we are taking a stronger position in assessing company reported performance against this crucial goal.

We strongly believe that companies will play a vital role in the journey to achieving net zero.

Every year our research uncovers the actions of leading companies pioneering the pathway to a low carbon future for all of us. Our research aims to recognise this leadership with our national and global sustainability leader boards and case studies so that we can both acknowledge and learn from those innovating and making progress.

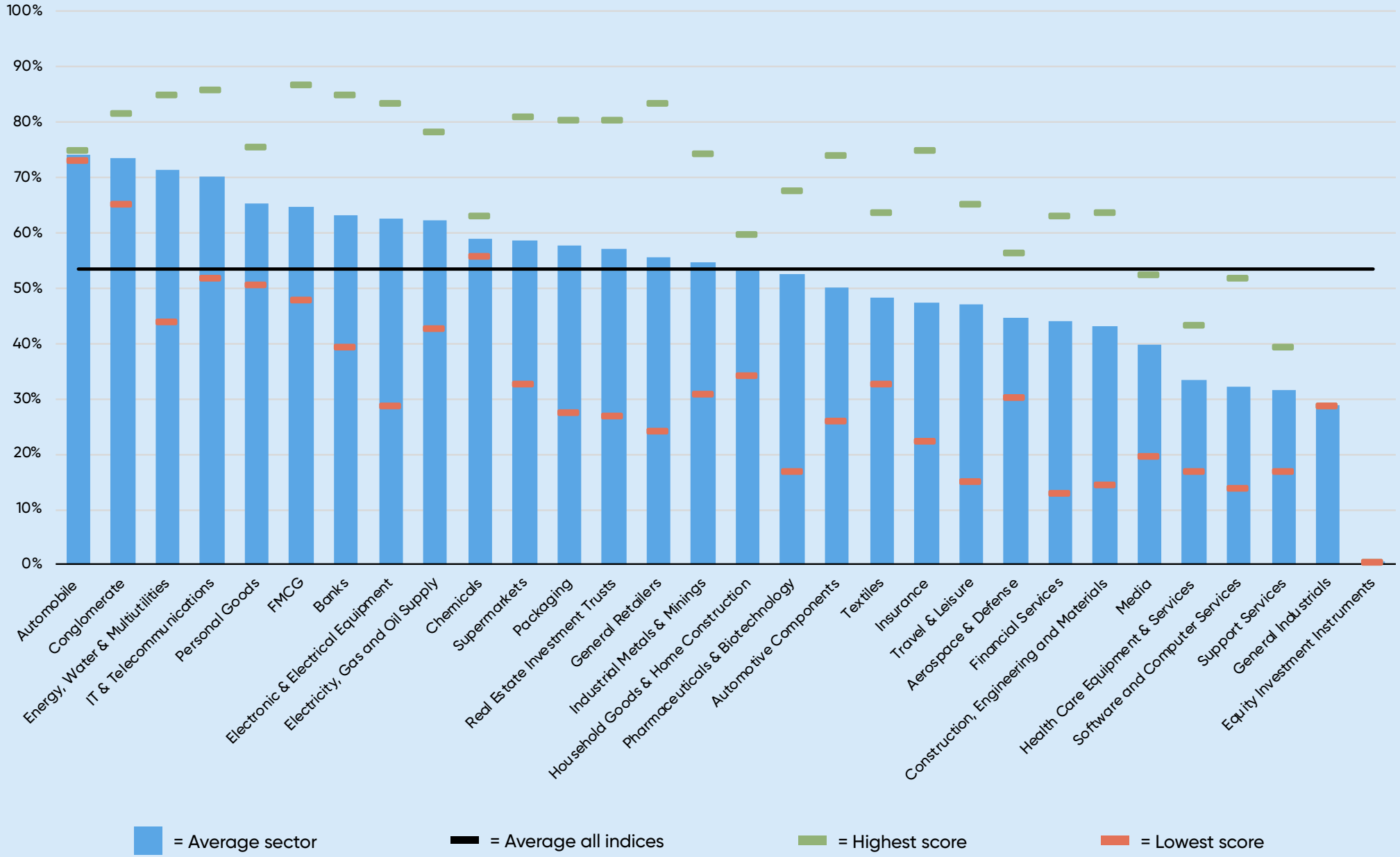
South Island, New Zealand
Captured by David Keddie
Senior Consultant
at EcoAct UK

International Top 10

Our international Top 10 presents the highest performing companies across all indices within our study: the CAC 40, DOW 30, FTSE 100 and IBEX 35. These high achieving companies demonstrate that leadership on climate-related sustainability is possible irrespective of geography.

		COMPANY	SCORE
	1	Unilever	86.8%
	2	Danone	86.2%
	3	Microsoft	85.5%
	4 =	BNP Paribas	84.9%
	4 =	Iberdrola	84.9%
	6 =	Acciona	84.2%
	6 =	Telefónica	84.2%
	8 =	Marks & Spencer	83.6%
	8 =	Schneider Electric	83.6%
	10	BT Group	82.9%

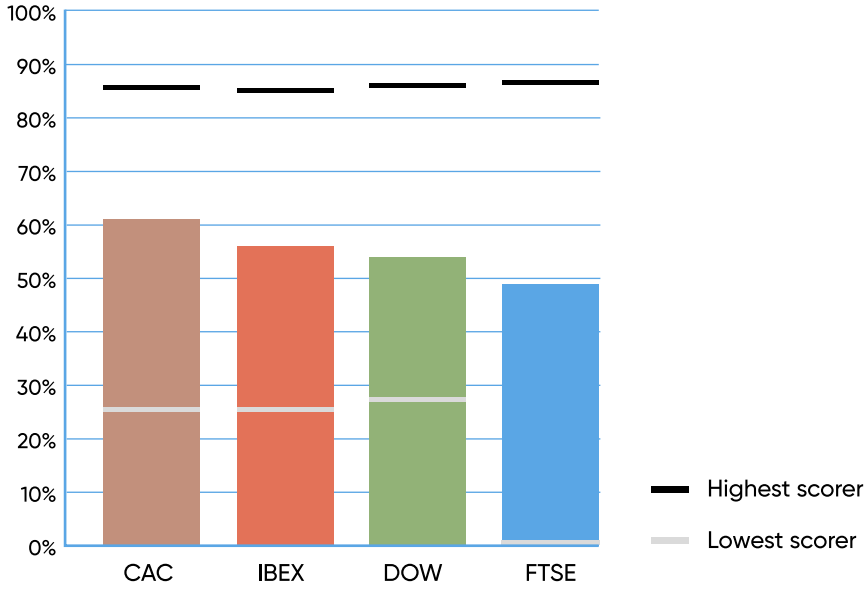
Average score by industry



Data dashboard

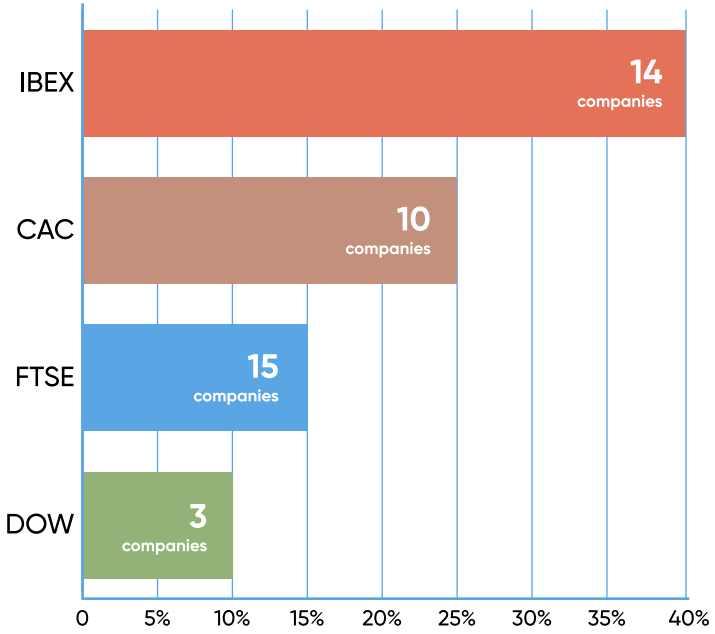
Average score by index

In 2019, average scores have dropped in response to changing best practice and scoring criteria updates. However, for the third year running the CAC 40 has the highest average score at 61% despite not having the highest overall score. The FTSE 100 trails at 49% even with the highest scoring company; it has the biggest range in scores - from 1% to 87% - but bear mind that there are significantly more companies within this index.



Progress to net zero: companies with a target for carbon neutrality

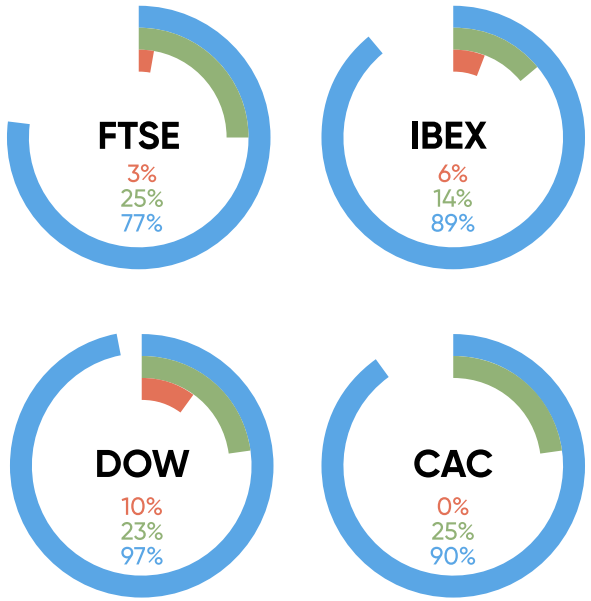
To limit the impacts of climate change, according to science, we must reach global net zero greenhouse gas (GHG) emissions by 2050. Our research this year focuses on if and how companies are addressing this goal with their commitments to carbon neutrality.



Commitment to renewable energy

Continued growth and competitiveness of renewable energy has resulted in increased usage and a rising number of commitments to 100% renewables.

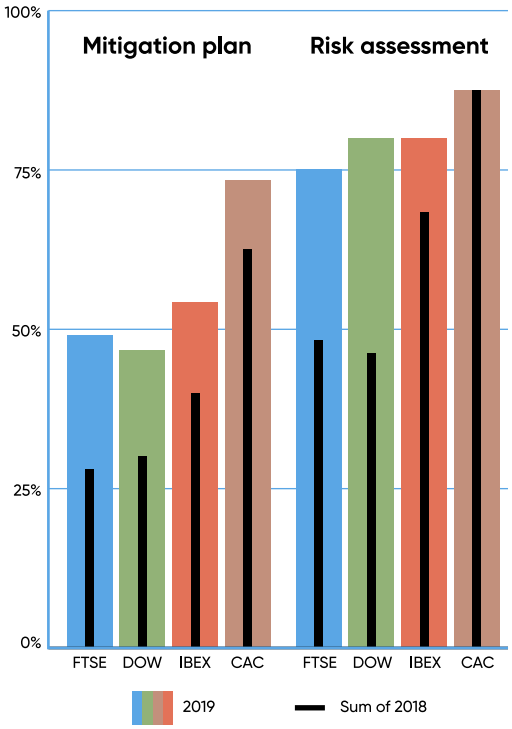
- Uses renewable energy
- Committed to 100% renewable energy
- Already uses 100% renewable energy



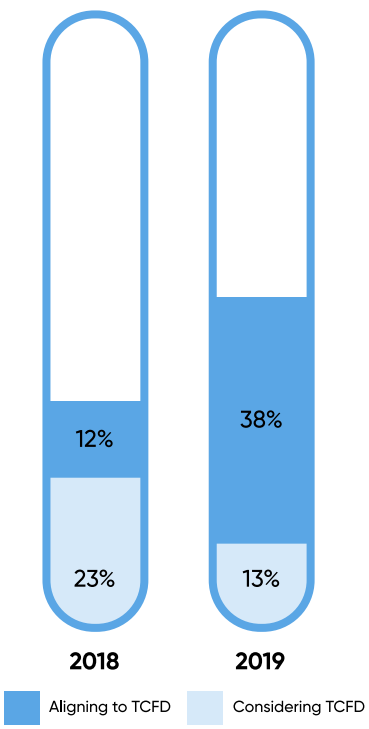
The Task Force on Climate-related Financial Disclosures (TCFD) and climate risk

The TCFD aims to ensure that businesses are providing decision-useful information to investors in relation to long term climate-related risks and opportunities. This year has seen a big rise in the number of companies across the globe tackling the recommendations.

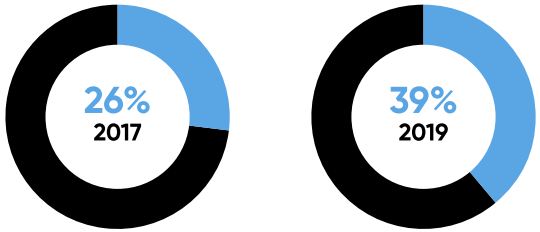
Managing climate-related risk



TCFD growth



Companies with internal financial incentives for sustainability performance

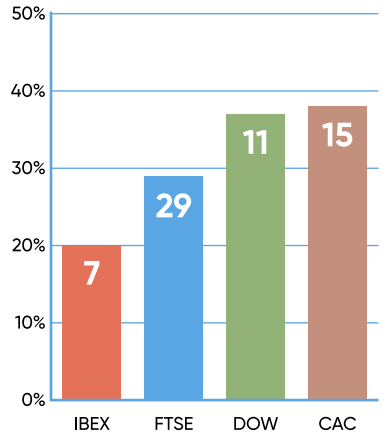


*excludes DOW

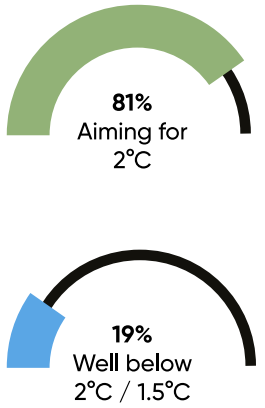
Science-based targets (SBTs) and progress towards emissions reductions

Science-based targets (SBTs) are carbon reduction targets that are in line with the amount of reduction required to limit global warming to the levels recommended by science.

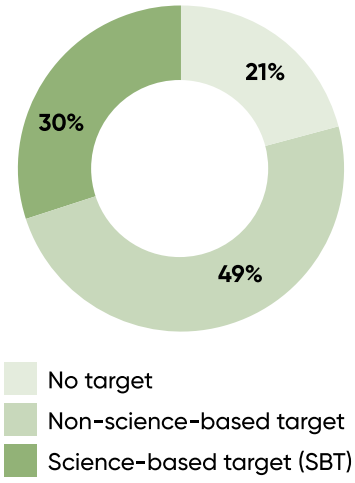
Percentage and number of companies that have set a SBT



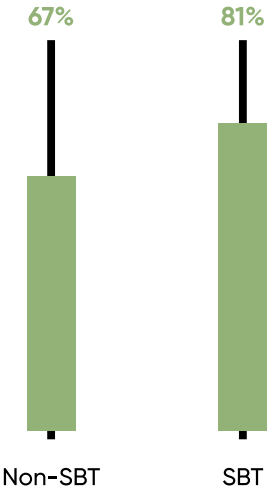
Level of ambition of SBTs



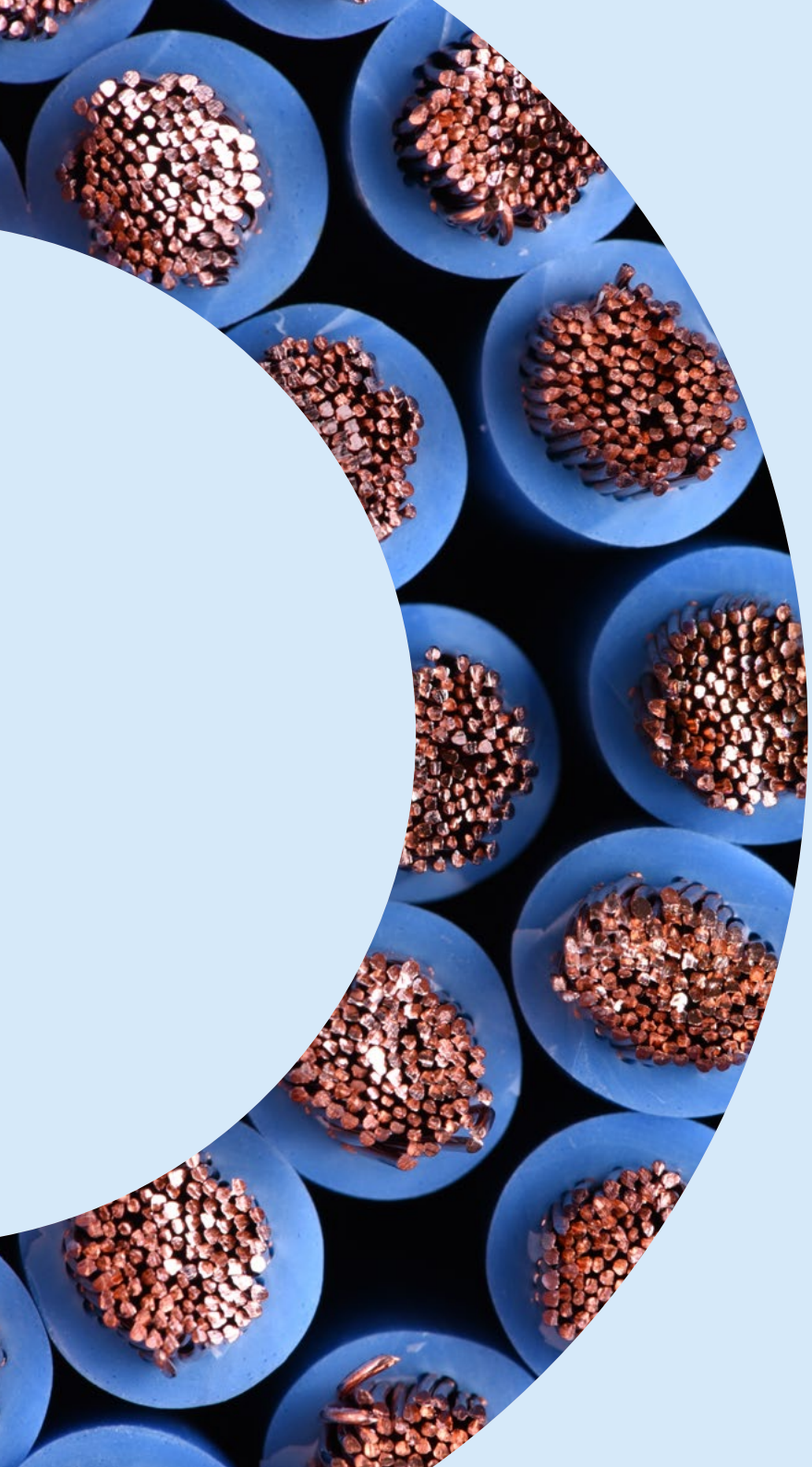
Target ambition levels



Proportion of companies on track to meet target: non-science-based vs science-based



International industry focus



1. IT & Telecommunications

IT & Telecoms (ITT) is an essential part of today's digital world and companies in this sector are world-leaders at designing digital solutions for the transition to a low-carbon economy. However, these companies are also energy intensive; data centres and digital devices consume large amounts of energy, while the raw materials required for products are also associated with high emissions. In 2015, our research highlighted the impressive performance of the ITT sector in the FTSE 100 but the high sector score of 70% was mainly due to a couple of high-scoring companies pulling up the entire sector. This year, our global research from all indices shows that the performance of this sector is more consistent- all companies are scoring more than 50%. Three companies are in the international top 10, indicating that companies within this sector are recognising the importance of sustainability in their business plans, and more importantly, acting on it.

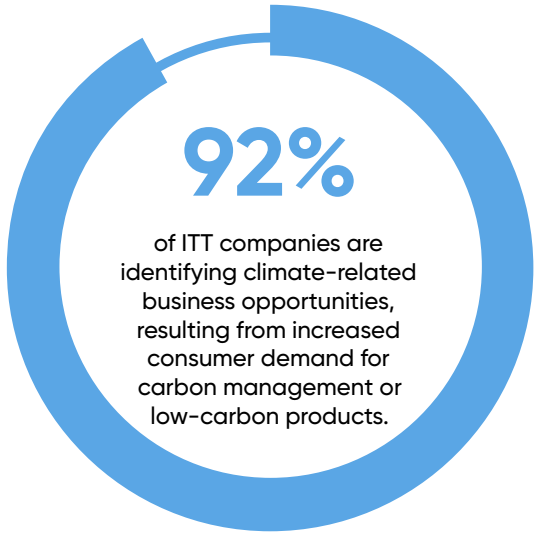
Innovating for a low-carbon future

One of largest areas that the ITT sector is contributing to is in the development of low-carbon products. 92% of companies within the sector are developing them, which includes energy efficient products that allow cost and carbon savings and 'smart' products that allow customers to monitor and then reduce their energy consumption. Impressively, BT's products and services helped customers save 11.7 million tonnes of CO_2e in 2018. Another technology being developed is the Internet of Things (IoT), which is a system of devices that can transfer data to each other. Microsoft is using IoT solutions to help customers monitor agricultural conditions, which allows for precision farming and increased resource efficiency[4], while Cisco's IoT solutions include energy consumption measurements and management to improve energy efficiency[5]. In fact, the same 92% of ITT companies are identifying climate-related business opportunities, resulting from increased consumer demand for carbon management or low-carbon products. No doubt, the role of this sector in innovating technological solutions to deliver emissions reductions will strengthen as regulations develop to shift society to a low-carbon economy.

The push for renewables

More and more ITT companies are turning to renewable energy to power their data centres and other operations. Impressively, all ITT companies are using renewable energy, whether purchasing it from suppliers, or generating it on-site. Bloomberg New Energy Finance (BNEF) data show that the technology industry signed deals for 10.4 GW of renewables in 2018, becoming the leading sector for renewable energy corporate procurements[6]. This has been helped by the falling cost of renewable energy globally. The latest report released by the International Renewable Energy Agency (IRENA) has found that renewable energy is the cheapest source of electricity in many parts of the world and that costs from all commercially available renewable power generation technologies declined in 2018[7]. Renewable energy costs are also less volatile than fossil-fuel based sources, offering more predictable costs to companies. Businesses can now use renewable energy and save money, leading to its large uptake across all sectors.

The ITT sector is also making a big push for self-generated renewable electricity- 77% of companies are generating electricity on-site. With the sheer amount of electricity used by data centres, coupled with decreasing installation costs in many markets, the long-term savings from self-generation far outweigh these installation costs[8]. Generating electricity on-site can also increase the reliability of power supplies, as generators are often backed up by batteries. This is essential for data centres, as power surges and outages can damage IT equipment and cut off access to important data.[9] Microsoft's data centres have been carbon neutral since 2012 with 50% of electricity used coming from renewable suppliers and the other 50% from the company's own renewable energy projects.

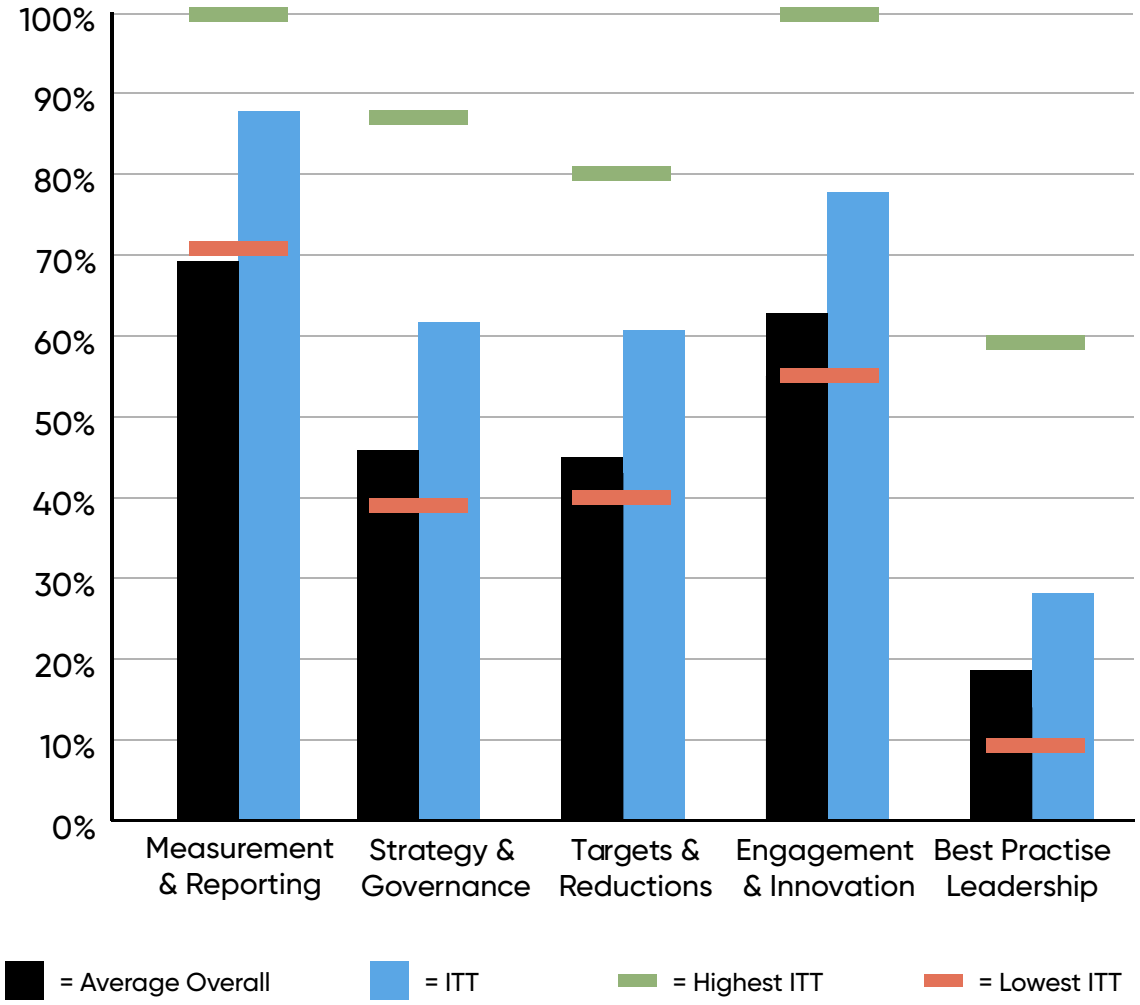


4. https://azure.microsoft.com/en-gb/blog/iot-in-action-a-more-sustainable-future-for-farming/
5. https://www.cisco.com/c/en/us/solutions/workforce-experience/digital-building/index.html#~stickynav=1
6. https://www.utilitydive.com/news/big-tech-companies-are-becoming-the-top-buyers-of-green-energy-to-meet-data/542256/
7. https://www.irena.org/publications/2019/May/Renewable-power-generation-costs-in-2018
8. https://www.drax.com/technology/going-off-grid-companies-generating-energy/
9. https://www.datacenterknowledge.com/archives/2016/04/14/reliable-power-protection-critical-data-center-operators

Committing to supplier action

Companies in the ITT sector have large supply chains, and the majority of emissions occur in their indirect operations (Scope 3), which includes the mining and sourcing of raw materials and the energy associated with the use of the product and the disposal of the product. To understand the full environmental impact of the business, it is best practice to report Scope 3 emissions, although this is not mandatory in any markets included in our study. 100% of companies in the ITT sector are reporting some Scope 3 emissions, and 62% are including Scope 3 emissions in their carbon reduction targets. This is encouraging as it shows that businesses are taking responsibility for all their associated emissions, which will accelerate other businesses in the value chain to also step-up their commitments. Further, 77% of ITT companies are providing evidence of co-innovation with their suppliers on sustainability issues, ensuring that action is being taken to reduce emissions from the entire value chain. For example, Apple launched their Supplier Clean Energy Program in 2015 to connect their suppliers to high-quality clean energy projects, and Telefonica ask their suppliers for contractually-agreed carbon reduction programs. Engagement and collaboration with the supply chain ensures that the business's whole value chain is prepared for climate-related risks, improving resilience and competitiveness.

ITT sector scores compared to all sectors



2. Banks

According to the UN Environment Programme (UNEP) inquiry: "Greening the Banking System", banks are taking two approaches to sustainability.[10] Firstly, they are enhancing their environmental risk assessment by stress testing their portfolios against climate change risks under several scenarios. Secondly, they are mobilising capital for green assets through the provision of loans, credit and savings products. Notably, this includes the funding of renewable energy projects through green bonds, which are of increasing prevalence in this sector. While the first approach is a response to climate change risks, the second is a response to its opportunities, demonstrating that banks have a generally well-rounded strategy to tackle climate change. Compared to other sectors in our research, banks have better developed strategy and governance mechanisms, mainly due to their involvement in the TCFD.

10. http://unepinquiry.org/wp-content/uploads/2016/09/9_Greening_the_Banking_System.pdf

Emerging trends: Environmental stress testing and climate scenario analysis (CSA)

Since the publication of the UNEP Inquiry in 2016, the TCFD has published its recommendations which have been widely used by the banking sector to evaluate climate change risks and opportunities in its operations and asset portfolio. It has become increasingly easy for banks to formulate these risk assessments through collaborative groups such as the UN Environmental Programme, Finance Initiative (UNEP FI), a working group of banks focused on TCFD alignment. Our research finds that throughout all four indices, 92% of banks are aligned with the TCFD and 100% at least consider its recommendations in their analysis of climate risks and opportunities.

In the FTSE 100 and CAC40, 100% of banks either plan to use CSA or already do so. Banks in the IBEX 35 however, are further behind, with 0% utilising CSA and only 25% mentioning scenarios with regards to their business.

After electricity, gas and oil supply and mining, the banking sector is the third most likely to be using CSA.

RBS, a TCFD and CSA case study

The Royal Bank of Scotland (RBS) has produced a TCFD report outlining how its business strategy meets the recommendations of the TCFD[11]. Their strategy is informed by the analysis of two climate scenarios, one being a "business as usual" 3.7°C rise and the other being a "Paris Agreement" 2°C rise. The time frames used are aligned to RBS strategy, that is short: 0-2 years, medium 3-5 years and long 6-30 years. Both the physical and transitional risks of these scenarios are considered and fully inform the bank's business strategy.

Green bonds & investment in renewables

Green bonds are bonds which are earmarked to fund environmental and climate change-related projects, often renewable energy production sites. Our research shows that publicly listed banks are incorporating these green bonds as a low-carbon option for customers.

There are two factors at play here: the increased profitability of renewable energy projects, and increasing customer demand for "green" investments. Not only does this encourage banks to invest in renewable energy, it may also encourage them to divest from the fossil fuel industry i.e. to end all investment in this sector. There has been an increasingly vocal push for divestment due to protests from the Fossil Free movement, which have targeted major UK banks in the last year. Our research has shown that all the banks we assessed are considering their fossil fuel investments, with 50% already actively divesting, including Lloyds, RBS, HSBC, BNP Paribas, Société General and Credit Agricole.

Collaboration with sustainable business

The involvement of banks in sustainability and climate change mitigation does not extend to its asset portfolio alone, but also includes actions surrounding its operations: from the consumption of resources to the production of greenhouse gas emissions.

At RBS, the Innovation Gateway initiative for green entrepreneurs offers SMEs, innovators and inventors with pioneering sustainability ideas the opportunity to test-drive them on RBS real estate property. The objective is to trial resource-efficient ideas on RBS's 2500 retail and commercial buildings before potentially offering them to the wider market. This project allows RBS to achieve its energy-related objectives whilst also advancing R&D in the field of resource management.

11. https://www.investors.rbs.com/~/media/Files/R/RBS-IR/results-center/annual-report-2018.pdf
12. https://www.irena.org/publications/2019/Jan/Renewable-Energy-Market-Analysis-GCC-2019

BNP Paribas case study – ambitious targets and carbon neutrality

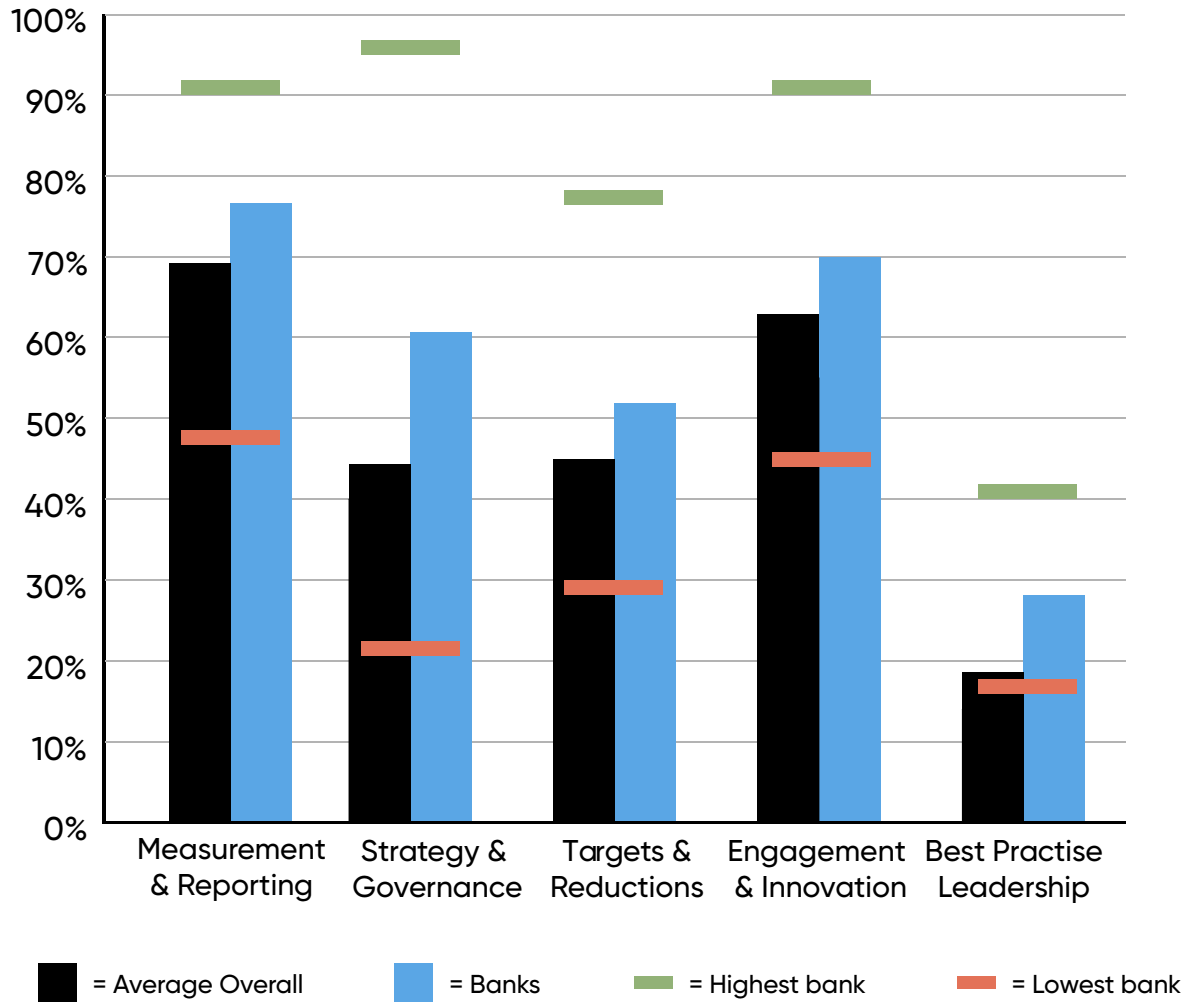
Our research has shown that banks are committing to good levels of ambition in setting emissions reduction targets. However, BNP Paribas, stands out with its ambitious targets and successful progress.

In 2017, BNP Paribas became a carbon neutral bank at all levels of its operations.[13] It achieved this objective by reducing its CO_2 emissions, increasing its use of low-carbon electricity, and participating in offsetting programs. The group reduced its emissions by 23.6% compared to 2012, mainly through the implementation of energy efficiency measures regarding buildings, IT equipment and business travel optimisation. 32% of their electricity usage is from renewable sources. In 2018, it was ranked 3rd highest issuer of green bonds by Bloomberg and was involved in €15.6 billion in financing renewable energy. Additionally, BNP is a supporter of act4nature, an initiative launched by the Entreprises pour l'Environnement (EpE) think tank to protect and restore biodiversity, and the BNP Paribas foundation funds international research teams studying climate change and carbon sequestration.

These examples show how companies can engage with climate change risks and opportunities. By looking to the future, these banks are prepared for the risks affecting their portfolios and are ready for the new markets being created. More generally, banks are leaders in the field of TCFD alignment and have the biggest role to play in divestment from fossil fuels.

13. https://invest.bnpparibas.com/sites/default/files/documents/ddr2018-gb-bnp_paribas.pdf

Banks sector scores compared to all sectors



3. Energy, Water & Multiutilities

The Energy, Water & Multiutilities (EWM) sector has a fundamental role when it comes to climate action, due to the carbon-intensive nature of its operations and the physical risks from climate change that it faces. In 2018, global general energy consumption increased by 2.3%[14]. This demand for energy is set to continue even with growing awareness of climate change, particularly as climatic conditions lead to increased reliance on cooling and heating systems[15]. In our research, the EWM sector performed well across all indices, scoring 72% on average, which is well above the average of 53% across all indices. Two companies from this sector feature in the international top 10 (Iberdrola and Acciona), showing that these companies are preparing for the climate-related challenges they may face.

14. https://www.iea.org/geco/
15. https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2019-full-report.pdf

Reporting climate-related information

Due to the direct link of this sector with anthropogenic GHG emissions and the use of natural resources, it is vulnerable to environmental scrutiny. This is reflected by how well they report environmental matters in relation to their business, and 100% of companies are reporting at least 2 years of carbon data and other environmental Key Performance Indicators. 79% of EWM companies disclose climate-related information by using widely-trusted frameworks, in particular the GRI standards, allowing standardised comparisons between international companies operating in different markets. Further, CDP disclosure has become common practice as 93% of EWM companies disclose to the CDP climate change questionnaire.

Assessing climate-related risks

EWM companies are particularly impacted by climate change both in terms of their own operations and the demands of their customers. The physical impacts of climate change leading to hotter, drier summers and wetter winters can lead to increasing consumer demand of energy and water, and extreme weather may damage infrastructure. They also face risks from increasing regulations associated with the worldwide energy transition, which may cap fossil fuel use and promote renewable energy sources. Our findings show that the EWM sector is well-aware of these risks - 100% of companies have conducted climate-related risk assessments across their value chain, with 86% also having clear mitigation strategies to minimise these risks.

Related to this, 79% of companies are disclosing in line with TCFD's recommendations, which allow investors and other stakeholders to understand their risk assessment and management. One of the key recommendations of the TCFD is to use climate scenario analysis (CSA) to undertake risk assessments, which allows a company to understand the full range of risks associated with different climate scenarios. 71% of EWM companies are doing this.

To mitigate these risks, it is vital for EWM companies to engage with public and private sectors. In our study, all EWM companies engage with legislators on climate-related policies and many partner with other companies.For example, Severn Trent is collaborating with other water companies to displace water from the north to the south of the UK to meet water demand in areas most impacted by water scarcity.

The opportunities in the low-carbon transition

The EWM sector has a large part to play in achieving our goal of net zero by 2050. Encouragingly, carbon neutrality is mentioned by 93% of the energy companies across the corresponding indices. In fact, 69% of the EWM companies that mention carbon neutrality have taken a step further and set this as a company-wide objective, with a further 66% embedding necessary action to contribute to their carbon neutrality pathway.

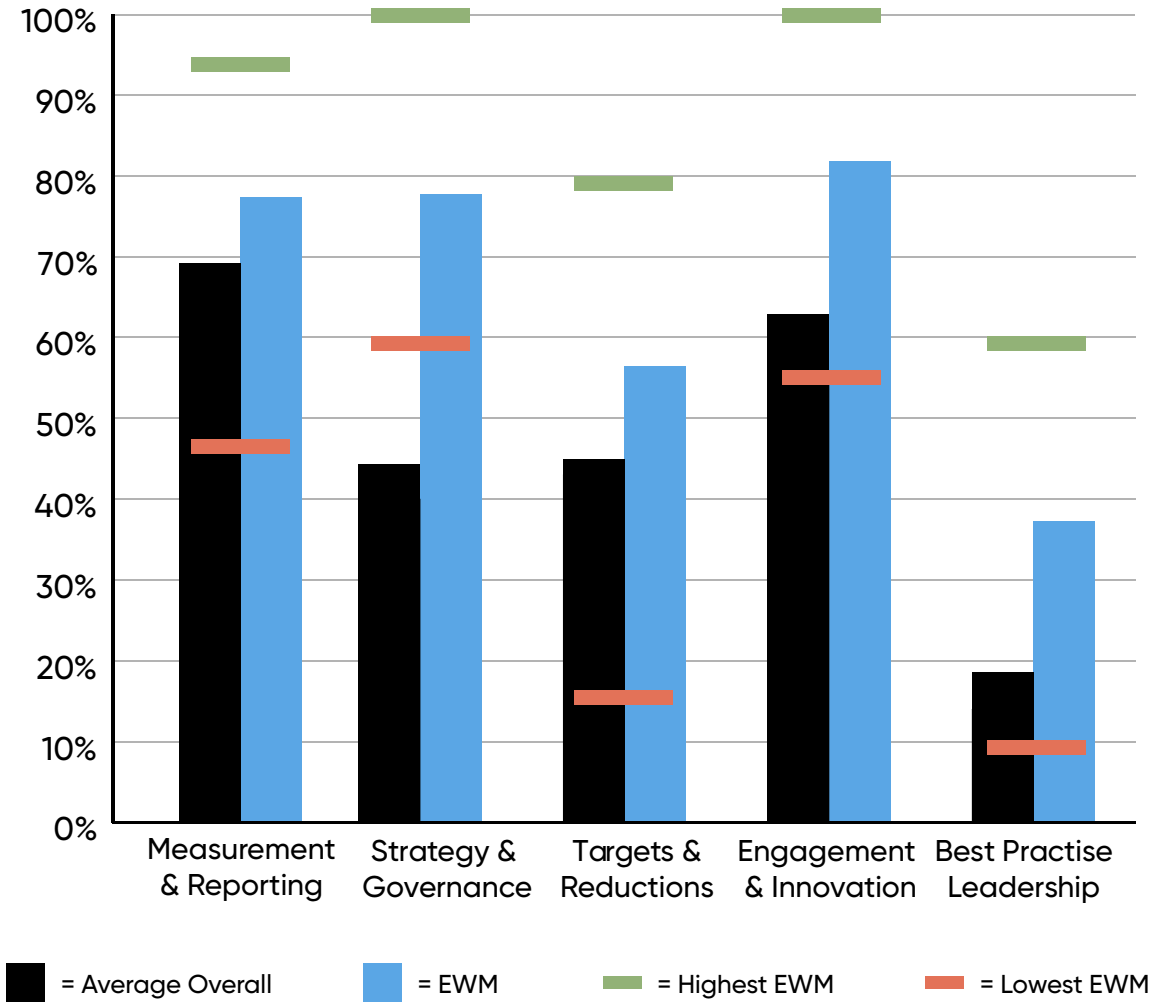
Although the net zero target presents multiple regulatory challenges, it also provides an array of business opportunities for the energy sector, mainly directed to the generation and distribution of renewable energy and the development of products powered by it. The EWM companies in our study are conscious of this fact, as the totality of them assess the opportunities linked to climate change and the majority plan to enhance their capacity for renewable energy. To do this, energy companies are allocating significant sums of capital to the research and development of sustainable projects. Financial backing from investors has scaled up in recent years and as the market for

clean energy grows, so does its profitability. Our study this year shows that EWM companies have benefitted from a boom in green bonds issued by financial institutions.

As a result, 93% of the energy companies in our study are also developing low-carbon products, with some already available to clients. For example, Veolia offers customers monitoring solutions to optimise the performance of water, energy and waste management services. Of the companies within our study, 92% provide information about these products to their customers and 33% provide incentives or rewards for choosing them.

One EWM company taking the transition seriously is Naturgy. Previously named Gas Natural Fenosa, it has undergone a complete brand makeover to showcase its divestment from fossil fuels. The company has an ambitious strategic plan to divest their coal plants by 2020[16] and has targeted 1,000 million of Euros investment in renewable energy projects[17]. This was in part prompted by the government awarding the company with funding for the development of 667 MW of wind energy at an auction in 2017, enabling development of these projects at no extra cost to the business and customers. This demonstrates that the global shift towards a low-carbon economy has not just applied pressure on this industry to act, it also appears to have supplied strong business opportunities.

Energy, Water & Multiutilities sector scores compared to all sector



16. https://elpais.com/economia/2019/01/16/actualidad/1547670255_751339.html
17. https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2019-full-report.pdf

Biggest improvers

BURBERRY

FTSE 100

Burberry has improved significantly in the rankings moving up 42 places in the FTSE 100 rankings, representing the biggest improver across the entire study. The fashion industry has come under increased focus from regulators, customers and society in general to improve performance and reduce environmental impacts. Burberry is one company that has been acting upon these findings to improve sustainability in their business. This year, it has introduced a new 1.5°C science-based target, aims to become carbon neutral by 2022, and use 100% renewable energy by the same time-point.

Coca-Cola

DOW 30

Three companies in the DOW 30 have moved up by 10 places this year — McDonald's, The Coca-Cola Company and United Technologies — becoming the biggest improvers in the index. Most impressive is The Coca-Cola Company's jump into the DOW's top 5. Their improved performance is across the whole range of scoring criteria; Coca-Cola are now reporting both market and location-based emissions, are assessing and mitigating climate-related risks, and developing a strategy to align with the TCFD's recommendations.

legrand®

CAC 40

The industrial group, Legrand, is the most improved company in the CAC 40, moving up 17 places to 5th place in the CAC leaderboard this year. Most impressive is its work on setting a science-based carbon reduction target. Legrand's work to reduce emissions in the value chain has also paid off; it avoided 2.9 million tonnes of CO_2 this year by implementing energy efficiency measures.

IAG

IBEX 35

This year, the most notable improvement in the IBEX 35 has been awarded to International Consolidated Airlines Group, moving up from an average score of 49% to 65% and making it into the Top 10 of the IBEX 35. This progress stems from its commitment to carbon neutrality by 2050, and the inclusion of concepts such as circular economy into their sustainability strategies. The company also has made a big improvement in their climate-related risk management by aligning to the TCFD recommendations and using CSA.

The FTSE 100

In focus: top 3 companies

2nd
84%

M&S
EST. 1884

M&S has finished in second place for the second consecutive year, marking its eighth year in the FTSE 100 top three.

Demonstrating its ongoing leadership in corporate sustainability this year, M&S is continuing to make progress towards its Plan A 2025 goals. The company continues to fight against plastic waste by trialling plastic-free produce, introducing a plastic take-back scheme for customers, and working with partners to influence local government recycling policies.

Furthermore, M&S is carbon neutral across its global operations thanks to its purchase of electricity from renewable sources and maximising energy efficiency before purchasing carbon credits to offset remaining emissions. M&S show how sustainability can be holistically integrated into the business and how an ambitious and well-thought-out sustainability plan can pave the way to success.

1st
87%

Unilever

Unilever comes top in the rankings for the first time, not only in the FTSE 100 but also in our international rankings.

Unilever have scored particularly highly in strategy and governance as they align with the recommendations of the TCFD, use climate scenario analysis, set an internal carbon price and have a green fund to kick-start investments in deforestation-free palm oil. It is clear that Unilever is not only addressing the impact of its direct operations on the environment but is also considering and acting upon emissions from its supply chain and customers. To this end, Unilever has committed to halving the environmental footprint of the making and use of their products.

This year, Unilever has provided evidence that they are collaborating with suppliers to reduce emissions and have demonstrated quantified supplier emissions reductions, proving that this partnership is working. The company is also developing low-carbon products by assessing all innovation projects on their sustainability criteria. In addition to this, it has committed to becoming carbon positive in its operations by 2030.

3rd
83%

BT

BT Group reaches the top three for the seventh consecutive year, showing continued commitment to sustainability.

BT is the only company in the top three to set a SBT in line with limiting global warming to 1.5°C. This sets out medium and long-term goals, includes a target for its Scope 3 emissions, and is part of the business' longer-term goal to become carbon neutral by 2045. BT is leading the way by developing products that allow customers to save emissions. This is not only a way to reduce emissions from the entire value chain but provides many business opportunities as society transitions towards a low-carbon economy. Elsewhere, BT is purchasing 87% of its electricity from renewable sources with a commitment to purchasing 100% renewable energy by 2020. It is also encouraging its suppliers to switch to renewable energy by providing them with a deal on their tariff.

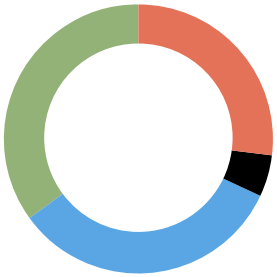
FTSE leaderboard

This year's top 20 performing companies have an average score of 75.4%. This is slightly down on last year as a consequence of our scoring updates. Interestingly, we have a variety of sectors taking leading positions this year but Energy, Water and Multiutilities, Banks and the retail sectors predominate.

	+/-	COMPANY	SCORE
1	↑	Unilever	86.8%
2	–	Marks & Spencer	83.6%
3	↓	BT Group	82.9%
4	↑	Tesco	80.9%
5	↑ ↑ ↓	Mondi Landsec Coca-Cola HBC	80.3%
8	↑	National Grid	78.9%
9	↑ ↑	Centrica Royal Dutch Shell	78.3%
11	↑	Aviva	75.0%
12	↑	SSE	74.3%
13	– ↑	BHP Group British Land	72.4%
15	↓	Royal Bank of Scotland	71.7%
16	↓	HSBC	69.1%
17	↑ ↓	United Utilities Anglo American	68.4%
19	↑	Barclays	67.8%
20	↑ ↓	GlaxoSmithKline Astrazeneca	66.4%

FTSE key findings

Engagement with SDGs



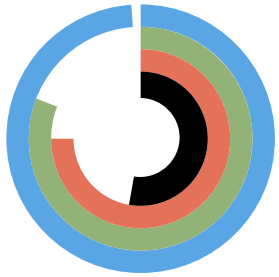
27% of companies don't mention the SDGs

5% mention the SDGs

33% actively engage with the SDGs

35% quantify progress towards the SDGs

Measuring & reporting



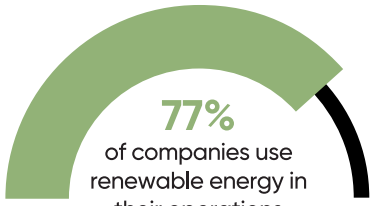
99% of companies measure/report their carbon emissions

81% report other environmental KPIs

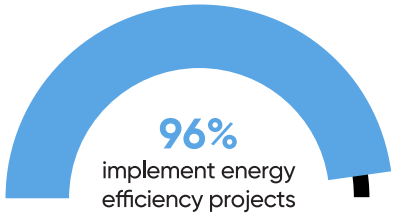
75% report some Scope 3 emissions

53% report market & location based emissions

Energy consumption

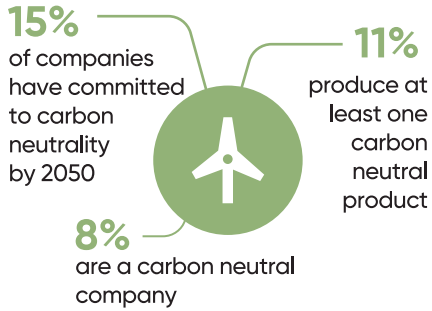


77% of companies use renewable energy in their operations



96% implement energy efficiency projects

Carbon neutrality

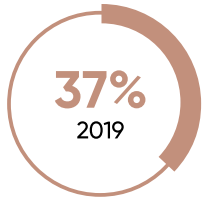


15% of companies have committed to carbon neutrality by 2050

11% produce at least one carbon neutral product

8% are a carbon neutral company

TCFD



37% 2019

Alignment with TCFD recommendations more than doubled this year, up from 15% in 2018

Carbon reduction targets

81% of companies set carbon reduction targets

58% are on track to meet their targets

47% have set or committed to setting science-based targets

32% include Scope 3 emissions in their targets

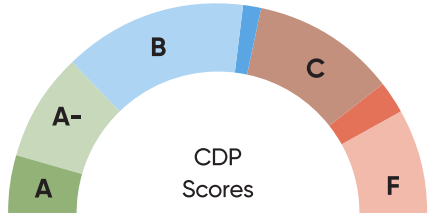
Risk assessment

62% of companies assess climate-related risk across their value chain

49% have a plan in place to mitigate the risk

75% identify climate-related opportunities to the business

CDP scoring



A 9%; A- 17%; B 28%; B- 3%; C 22%; D 5%; F 16%

The FTSE 100 trends

Trend 1
Progress to net zero

To limit global warming to 1.5°C, the Intergovernmental Panel on Climate Change (IPCC) concluded that global emissions must reach net zero by 2050[18]. This year, the UK government committed to a net zero target by 2050, becoming the first country in the G7 to do so. Net zero is a state where we add no incremental GHG emissions in the atmosphere. So, emissions must be reduced or absorbed by carbon sinks to achieve a balance between sources and sinks of GHG's and net zero emissions

Business has an important role to play in meeting this target and 15% of companies in the FTSE 100 have already committed to carbon neutrality by 2050. Looking further afield, both France and Spain have a higher percentage of companies committing to carbon neutrality (CAC 40- 25%, IBEX 35- 40%), while the DOW 30 lags behind with only 10% of companies committing to carbon neutrality. France and the UK have country-wide net zero targets, suggesting that legislative targets can drive sustainable business practice, although for the most part, these targets were set after this year's annual reporting. It is therefore expected that more companies will commit to carbon neutrality in the future as companies begin to align with governmental net zero targets and the commitments made under the Paris Agreement. The top 3 companies in the FTSE are all committed to a net zero target.

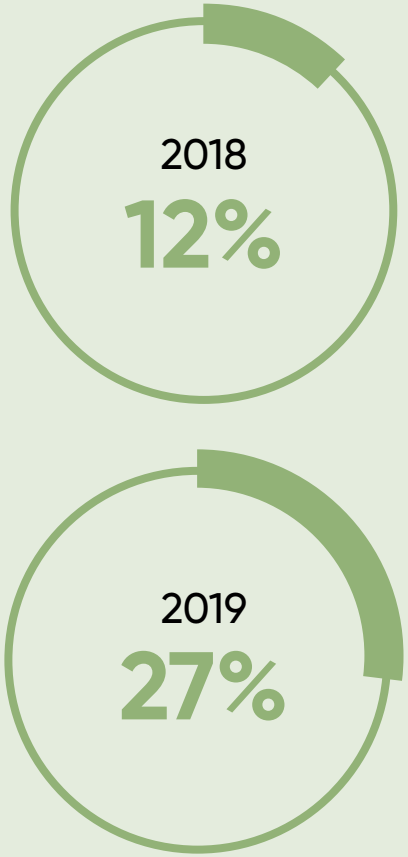
Commitment to carbon neutrality is a clear demonstration to both customers and investors that a company is dedicated to sustainability and climate change action. It also mitigates the risk of possible future carbon taxation.

As companies move towards net zero, they will also be considering how to deal with residual emissions at a business level. Carbon offsetting and sustainable development projects play a vital role in this transition, helping companies deal with residual emissions now as well as financing the low carbon transition in developing countries through carbon finance.

There has been an increase in the number of FTSE 100 companies purchasing carbon offsets; doubling from 12% in 2017 to 27% in 2018. Carbon offsets play an important part in facilitating carbon neutrality as they allow businesses to compensate for unavoidable emissions emitted by preventing the release of an equivalent amount of emissions. While carbon offsetting programmes have existed for some time now,

18. https://www.ipcc.ch/sr15/

Purchasing carbon offsets



Trend 1
Progress to net zero

there has been concern that carbon credits have given large polluters an excuse for business-as-usual operations. Within our research, 92% of companies offsetting also have an emissions reduction target and 51% of these have set or committed to set an SBT (which do not allow offsets.) Of those companies that don't offset, fewer companies have set or committed to an SBT (43%) and just 77% have any target. This indicates companies that are offsetting are more likely to have higher ambition in their absolute reductions than those that aren't.

Verified carbon offset schemes ensure that purchased offsets are high-quality, effective and offer measured emissions reductions. Increasing international verification and standardisation of projects makes offsetting more transparent, perhaps leading to the increase in use in the FTSE 100. Carbon offsetting will have an increased role to play as the UK moves towards net zero, and we expect an increased use in the upcoming years.

Although carbon neutrality is a highly ambitious target, 8% of companies in the FTSE 100 are already carbon neutral: 4% across Scope 1 and 2 emissions; and a further 4% across Scope 1, 2 and some of their Scope 3 emissions. This has increased from last year when only 5% of companies in the FTSE 100 were carbon neutral across these Scopes. Aviva has been leading the way in carbon neutrality, having been carbon neutral since 2006 and in 2016 became the first insurance company to join the UN's 'Climate Neutral Now' campaign[19]. This year it has reduced its absolute GHG emissions before offsetting its remaining emissions, showing that economic growth can be untangled from increasing emissions.

19. https://www.aviva.com/social-purpose/our-stories/climate-neutral-now/

Trend 2
TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) set out recommendations for the disclosure of climate-related risks and opportunities in 2017. Since then, TCFD disclosure has quickly become sustainability reporting best-practice as it allows companies to understand the financial implications of climate change for their business, which then allows investors and lenders to assess and price those risks.

In June 2019, the TCFD released a status report which concluded that an increasing number of companies are adopting the recommendations[20]. Our research validates this. In the FTSE 100, 37% of companies are aligning with the recommendations of the TCFD, more than doubling from last year. This rapid alignment with the TCFD recommendations is echoed internationally with all indices showing a similar increase. For the most part, this is due to the increasing number of investors that are now considering climate-risk and want to see evidence of how companies are managing it. Support for the TCFD has grown to 825 organisations as of July 2019[21], and includes the world's largest banks, asset managers and pension funds, responsible for $118trn of assets. On top of this, the UN Principles for Responsible Investment (PRI) announced in 2019 that the TCFD section of its reporting framework will become mandatory in 2020[22].

Whilst mandatory reporting of climate risks has not yet been introduced, the UK government is beginning to set up a task force exploring the appropriateness of mandatory reporting. Alignment with these recommendations is therefore expected to grow in the upcoming years.

Impressively, 100% of banks are reporting in line with the TCFD disclosures. A key element of the Financial Stability Board's proposals for the TCFD was to improve understanding of the concentrations of high-carbon assets in the financial sector and their associated risks. It is therefore unsurprising that banks are leaders in TCFD alignment. 100% of Electricity, Gas & Oil Supply companies consider or align to the recommendations, which may be attributed to the high risk of this industry and increasing investor pressure.

Insurance firms perform poorly in their alignment to the TCFD. This is surprising when considering that climate change presents insurance firms with high risk, as insurance claims resulting from natural disasters are likely to increase with climate change. In 2018, environmental law charity, Client Earth, reported three insurance firms to the Financial Conduct Authority (FCA) for failing to disclose their climate-related risks in their annual reports[23]. This should act as a wake-up call for insurance firms, and we hope to see increasing disclosure next year.

More generally, there has been an increase in companies that are assessing their climate-related risks. Climate risk assessment can include assessing risk in direct operations, wider risks that may affect the value chain, and putting in place a mitigation plan to minimise exposure to these risks. In 2019, there has been an increase in all three of these aspects.

Additionally, a greater number of companies are assessing their climate-related opportunities, which range from decreasing costs from energy efficiency projects, or increasing profit from the development of low-carbon goods and services. Disclosing this information allows investors to be confident that the business will not only survive their climate change risks but thrive under changing conditions.

Undertaking CSA to analyse risk and opportunity

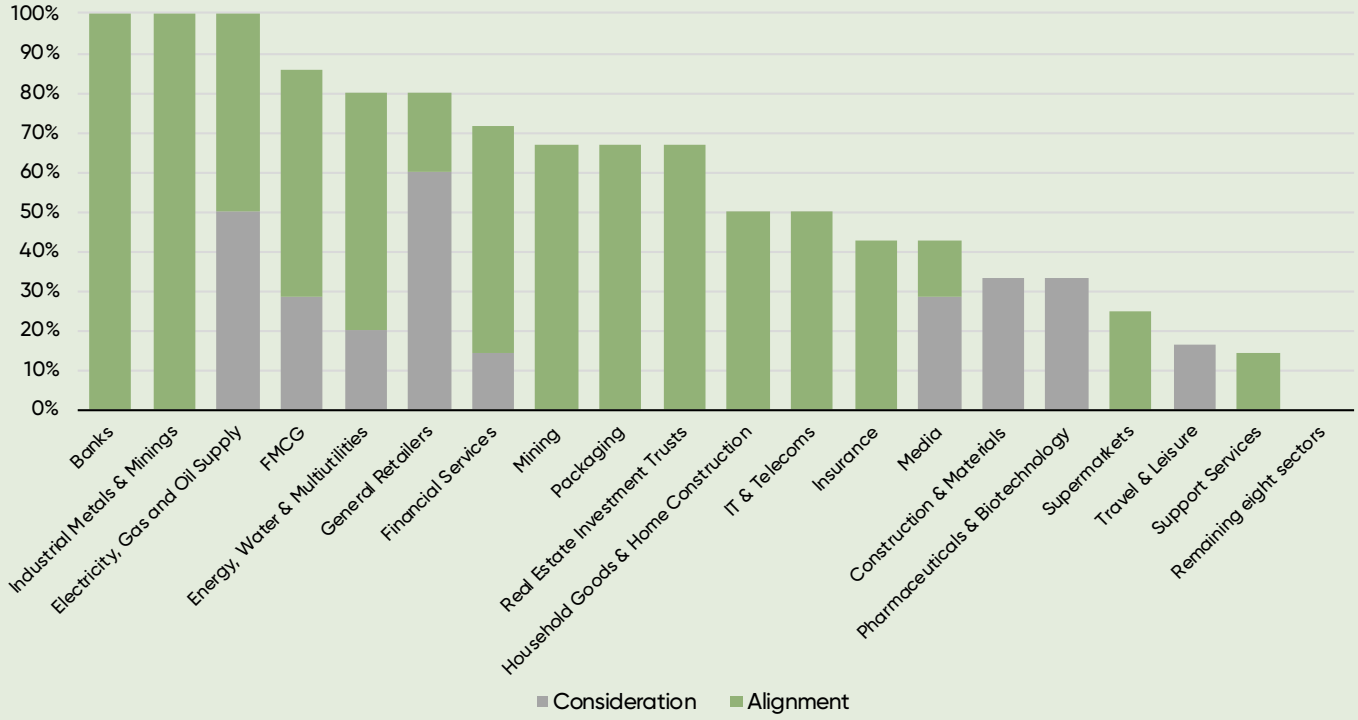
Trend 2
TCFD

is a key recommendation from the TCFD. CSA uses climate models that highlight possible outcomes from different physical climate scenarios or different policy transition scenarios. This allows businesses to understand the full range of possible risks and implement management methods that are specific to each scenario.

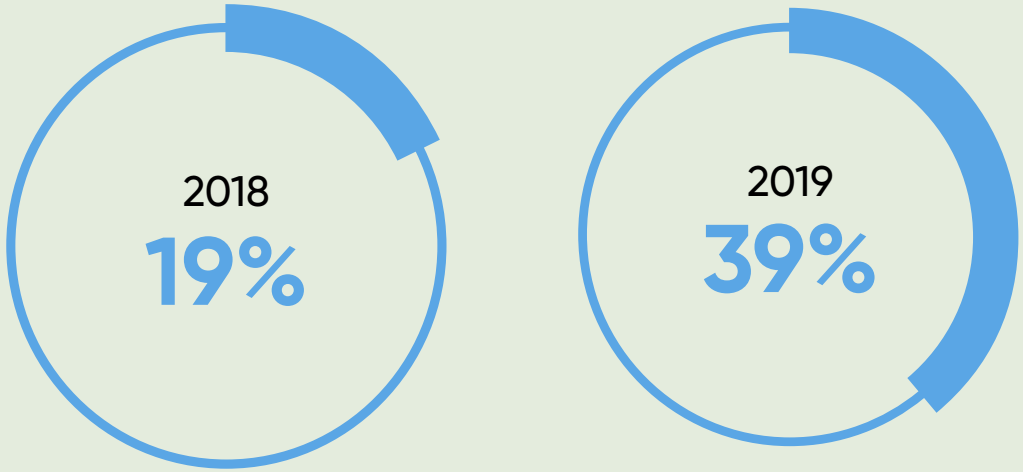
This year, 39% of companies in the FTSE 100 mention, plan to use or already use CSA- up from 18% in 2018. 100% of banks use CSA, 100% of Electricity, Gas and Oil Supply companies and 80% of Energy, Water & Multiutilities companies are planning to use or are already using CSA. This is likely a reflection of the high exposure of these industry's value chains to climate risks such as extreme weather events, or policy implementation that makes oil and gas reserves too expensive to drill.

20. https://www.fsb-tcfd.org/publications/tcfd-2019-status-report/
21. https://www.fsb-tcfd.org/tcfd-supporters/
22. https://www.unpri.org/news-and-press/tcfd-based-reporting-to-be-come-mandatory-for-pri-signatories-in-2020/4116.article
23. https://www.clientearth.org/insurance-firms-could-face-fines-over-climate-reporting-failure/

Sector-specific consideration and alignment to the TCFD's recommendations



Companies using or planning to use CSA



Trend 3
SBTs and target ambition

A target is considered science-based if it is within the level of decarbonisation required to keep the world at or below a 2°C warming scenario. The Science-Based Target initiative (SBTi) is a collaboration between CDP, WWF, UN Global Compact (UNGC), and World Resources Institute (WRI). Their role is to independently assess and approve targets as science-based as well as to showcase industry best practice.

In 2019, there has been a continuing increase in the number of companies setting SBTs with 29% of companies in the FTSE 100 setting an SBT, and a further 18% of companies committing to set one in the next two years. SBTs demonstrate corporate commitment to meeting the goals of the Paris Agreement in limiting warming to 2°C, and our research reveals that companies with an SBT are more likely to have demonstrated a year-on-year reduction in their absolute emissions, compared to companies with no targets or companies with non-science-based targets. Emissions reductions also reduce regulatory risk and exposure to uncertain energy costs, as well as current costs from decreased energy consumption.

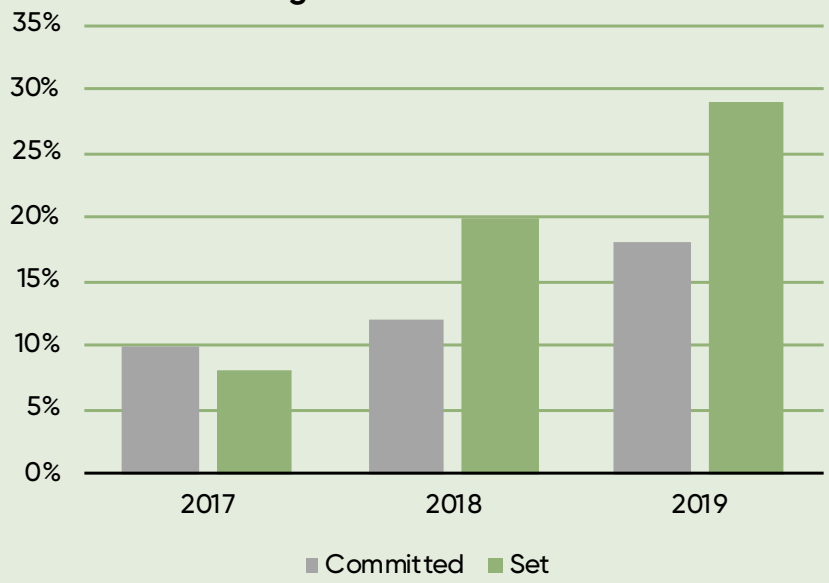
Additionally, SBTs demonstrate to investors that a company is serious about tackling climate change. The Investor Decarbonisation Initiative, which manages $1 trillion USD in assets, aims to mobilise investor support for SBTs amongst other commitments and in 2018 urged CEOs to reduce their emissions in line with the Paris Agreement[24].

In 2018, the IPCC released a report which outlined the importance of limiting warming to 1.5°C rather than the Paris Agreement's 2°C limit. This is because climate change impacts will be much more severe in a 2°C world compared to 1.5°C; extreme heat will affect 37% of the global population compared to 14% in a 1.5°C scenario and coral reefs will be all but wiped out if warming reaches 2°C. In line with this report, the SBTi changed its criteria in 2019 and new science-based targets must at minimum align with a well-below 2°C pathway. This year, we have asked for the first time whether a company's SBT is well-below 2°C or 1.5°C, reflecting the higher ambition of the SBTi. Of the companies across our whole study, just over 80% are aligned with a 2°C pathway, and 19% are aligned with a well-below 2°C or a 1.5°C pathway. Companies that are already setting 1.5°C targets have shown initiative themselves and are real leaders in corporate sustainability. As companies begin updating their targets to meet the new criteria, we expect the proportion of well-below 2°C targets to increase.

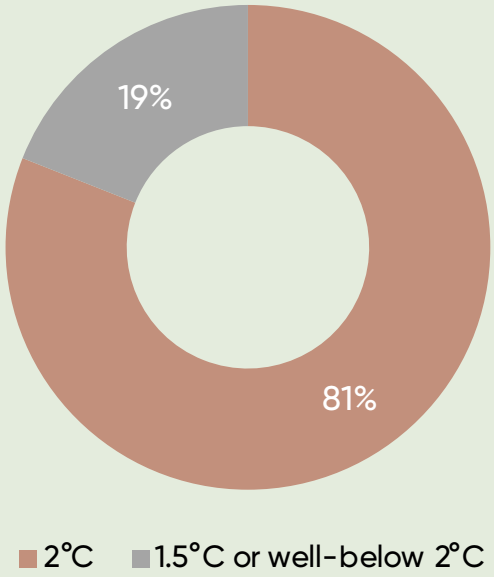
Although SBT implementation is increasing, it is not necessarily doing so in line with the SBTi, as 60% of SBTs are not verified. In some part, this is because the SBTi has not yet set out a methodology for financial institutions to set an SBT, and so companies are having to set an internal SBT. 100% of Banks have set or are committed to setting an SBT but of course none of these have been approved by the SBTi. Similarly, although all Energy, Water & Multiutilities companies in the FTSE 100 have set an SBT, none are approved by the SBTi . Verification of SBTs provides an interested third-party with more assurance of the validity of these targets.

24. https://shareaction.org/decarbonise/

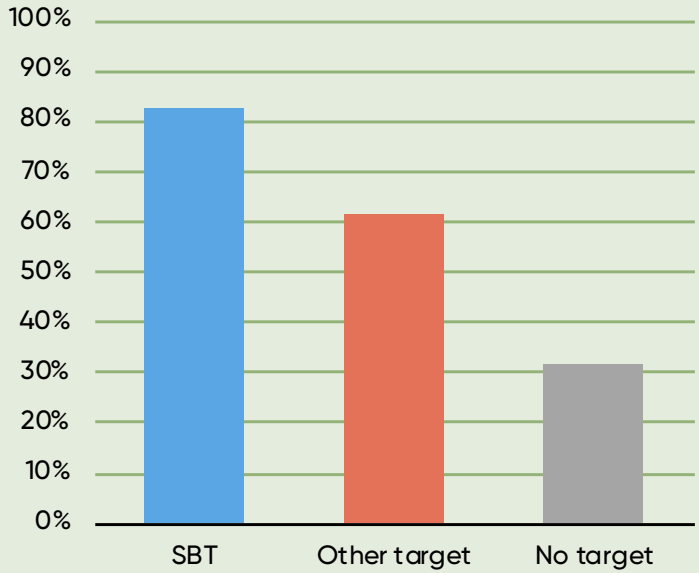
Company commitments to science-based targets in the FTSE 100



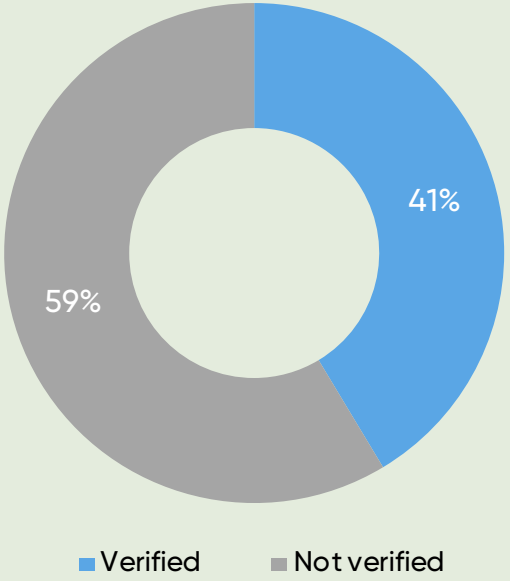
Level of ambition of set SBT's across all indices



Absolute emissions reduction



Verifications of SBTs by the SBTi



Trend 4
Renewables

1 2 3 4

The UK energy sector made headlines in May 2019 as Britain did not use coal to generate electricity for two weeks- the longest period since the 1880s. May also saw the record broken for solar power generation in Britain and in June zero-carbon sources overtook fossil fuels in their power generation for the first time. This demonstrates that real progress is being made to decarbonise the UK's electricity grid, and businesses are taking advantage of this. 77% of companies are now either purchasing electricity from renewable energy sources or generating renewable energy on-site, increasing from 74% in 2018 and 65% in 2017.

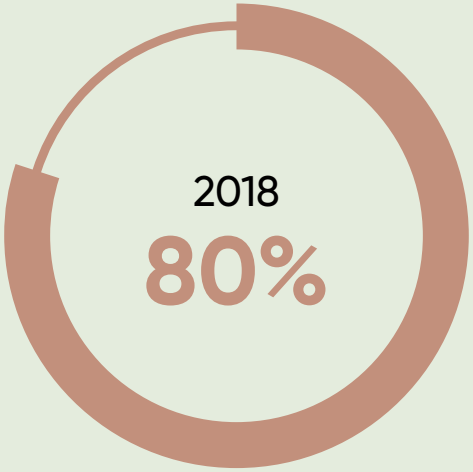
Interestingly, fewer companies are generating on-site renewables than in 2017, but far more are purchasing electricity from renewable sources. 67% of companies are purchasing electricity from renewable sources, either via Renewable Energy Guarantees of Origin (REGO) certificates or from power purchase agreements. This number has doubled in the last 2 years, as only 32% were purchasing renewable energy in 2017. First and foremost, this is likely to be due to the decreasing cost of renewable energy in recent years thanks to technological improvements, increasing investments and governmental subsidies. By 2020, the International Renewable Energy Agency (IRENA) has predicted that all renewable technologies currently in commercial use will be comparable or cheaper than fossil fuels. Fossil fuel generated power may also face a carbon tax in upcoming years, and thus make the price of renewables even more competitive.

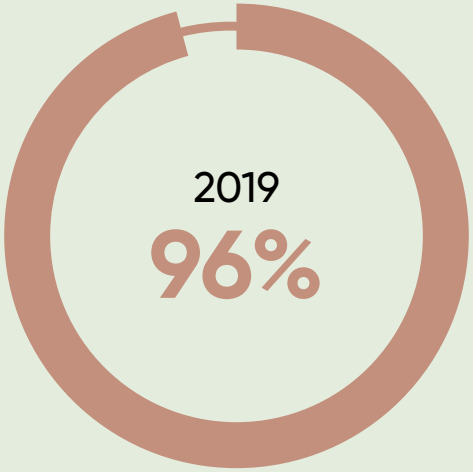
On the other hand, the number of companies reporting on on-site generation has decreased from 2017; from 52% to 45%. In part this may be due to the drop in the price of purchased renewable energy, which has a lower up-front cost than installing renewable technology. This may also be because companies are not reporting small generation projects if they are purchasing larger amounts of renewable energy.

Having said this, the government scrapped the Feed-in Tariff scheme this year, which subsidised small-scale low-carbon installations such as installing solar power. Without this financial incentive, fewer businesses are generating their own renewable electricity, and instead are purchasing green tariffs from energy suppliers instead.

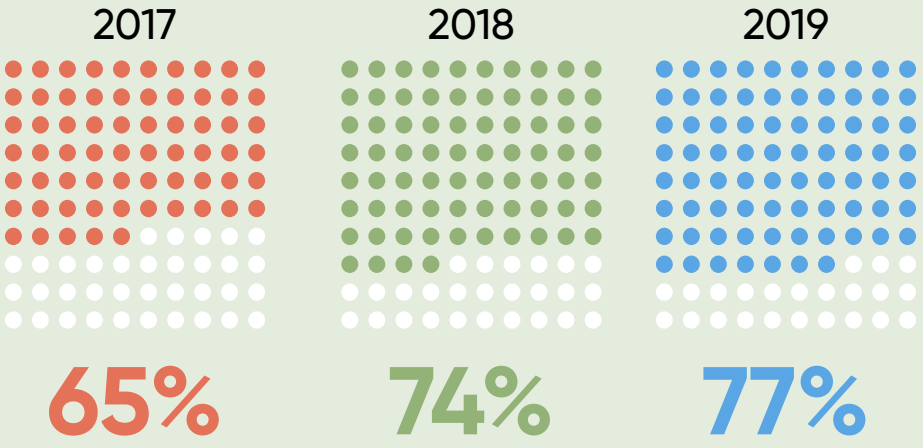
Alongside using renewable energy, companies are also reducing their energy consumption by implementing energy efficiency measures or low-carbon technologies. An impressive 96% of businesses this year are implementing such measures compared with 80% in 2018. These measures include installing LED lighting, optimising packaging designs, and upgrading insulation. As well as reducing greenhouse gas emissions associated with purchasing electricity, these measures lead to financial savings, providing another incentive for the business.

Implementing energy efficiency technology

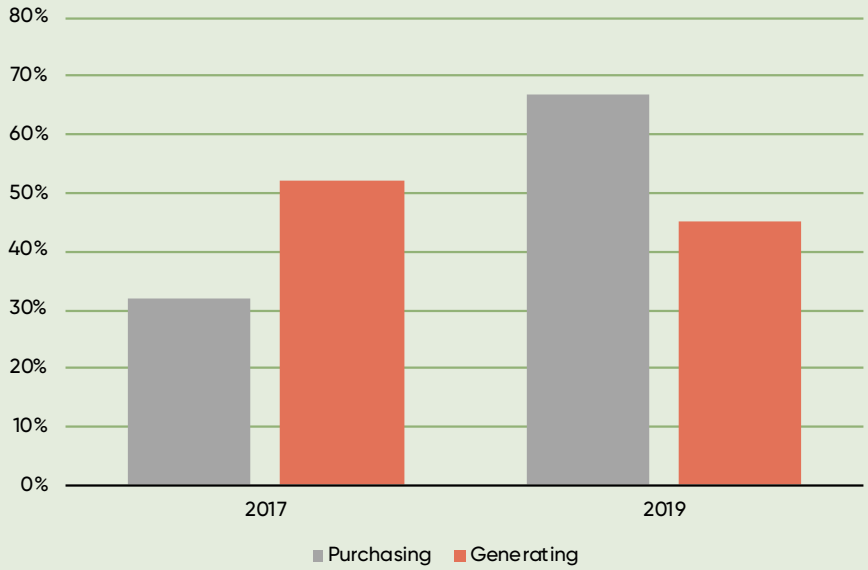




Percentage of companies purchasing renewable energy



Increase in renewable energy purchase and generation between 2017 & 2019



Conclusion

Conclusion

Our results from this year's research show that companies in the FTSE 100 are becoming more ambitious in their commitment to climate action, reflected by an increase in the number of companies setting science-based targets, using renewable energy, and reporting climate-related risks following the recommendations of the TCFD. Every year, companies are taking the decision not only to report their contribution to the carbon budget, but also take steps that drastically reduces this impact by integrating sustainable practices into the business.

Companies are facing more and more pressure from external stakeholders to improve sustainability practices, including pressure from governmental regulations, from investors, and from consumers. Businesses in the FTSE 100 are rising to these demands, but leading companies are going above and beyond this. They are demonstrating initiative and leadership across each of our four areas of scoring: Measurement and Reporting, Strategy and Governance, Targets and Reduction and Engagement and Innovation. In particular, leading companies are showing ambition in setting science-based emissions reduction targets, and increasingly upping this ambition to drive progress towards a 1.5 degree future, committing to carbon neutrality, and setting internal carbon prices to incentivise emissions reduction.

Despite the leadership shown by our top performers, the index as a whole is progressing slowly. The variation in scores remains concerning, with scores ranging from 1-87% and an index average of 49%. In fact, the index average has decreased from last year, and although this is in part due to a more stringent scoring methodology, it also shows that the companies lagging behind our leaders remain disengaged in the transition to a low-carbon economy. It is worth reiterating our call for companies to incorporate sustainability practices into their business plans as a way of mitigating climate-related risks, reducing costs, and enhancing brand reputation. Expertise in this field is expanding, and companies should be using these tools to minimise the effects of global business on our planet.

Finally, we would like to congratulate this year's leaders for their outstanding sustainability reporting performance. Their actions to reduce or eliminate greenhouse gas emissions from their business as well as their development of low-carbon products that enable society to reduce emissions are truly impressive. Our leaders demonstrate that it is possible for ambitious corporate environmental sustainability to go hand in hand with commercial prosperity.

Methodology

The research is based solely upon publicly available information readily accessible to an interested third party. This is because we believe that for companies to be transparent in managing their carbon emissions and environmental impacts, it is important that any member of the general public has access to this information, and it is provided in a way that they can understand.

Companies are scored against criteria across four broad subject areas, based upon information available in 2018/19 corporate sustainability reports, annual reports and any additional links from company websites, including sustainability micro-sites. CDP disclosures are only considered if a company directly links to their CDP response documentation on their website, meaning it is readily and easily accessible to any person browsing the company's sustainability material. The reasoning behind this decision is that an interested party, who may not be aware of the CDP disclosures, is likely to go straight to the company website for this information and is unlikely to come across the CDP report unless directed.

The report defines 'sustainability' as environmental sustainability, rather than wider, social and governance issues.

Each company is scored against 61 questions with a maximum of 76 points available. Questions cover each of the following areas:

Measurement and Reporting focuses on the rigour of a company's reporting, including the disclosure of carbon footprint data and its calculation methodology. EcoAct also assessed: the use of market and location-based emissions; inclusion of multi-category Scope 3 emissions information in data and reporting, and; the amount of historical carbon data provided and the use of historical data as a benchmark. Within this category, we awarded points to companies following the Global Reporting Initiative (GRI) guidelines and other environmental reporting frameworks (e.g. Climate Disclosure Standards Board (CDSB), UN Global Compact, Sustainability Accounting, etc.). Additionally, reporting on other environmental KPIs besides carbon data can score companies up to three points. New in this section this year is a scored question relating to a company's CDP Climate Change score.

Strategy and Governance considers the strategy that companies are taking to realise their environmental sustainability targets; if the carbon data has been externally audited; if there has been an assessment of future climate change risks (transitional and physical) and opportunities; if adaption of their supply chain to climate change risks has been acknowledged; and if the company considers investment decisions regarding fossil fuels.

Companies that account for Natural Capital, Circular Economy, a Price on Carbon and sustainable investment decisions/green finance also receive a point respectively.

A greater focus is placed on consideration of or alignment to the recommendations of TCFD and scenario analysis. This reflects the need for clear and consistent disclosures from all businesses.

With many climate campaigners calling for zet zero growth, a focus has also been placed on commitments to carbon neutrality/net zero.

Targets and Reduction considered whether companies have set carbon reduction targets (and to what level of ambition) and if absolute or relative reductions have been demonstrated.

Methodology

Inclusion of absolute and relative reductions ensures companies are not penalised for growth. In addition to historic reductions, progress towards targets and plans to achieve them are also scored. Furthermore, this section looked at companies' energy efficiency, staff behavioural change initiatives, and type of energy consumption or generation. We also examine whether companies develop low-carbon products and if companies purchase carbon offsets. Here we question whether the company is currently offsetting and, if so, to what standard these offsets are certified. In addition, we also assess if the company has a carbon neutral product or is carbon neutral across its operations.

Engagement and Innovation looks at how a company is interacting with its stakeholders. This is key to both achieving reductions and to gaining commercial benefits from a low-carbon approach. Stakeholders include consumers, the supply chain, investors, government and the wider community. The extent of internal and external engagement is considered, for example if a company is successfully influencing stakeholder behaviour, rather than simply providing them with information. Any co-innovation with suppliers or government is recognised as excellent engagement – developing new technologies, products or processes with an environmental benefit, which also mutually benefits those companies involved. This year, we have included a new question on whether the company is considering the use of electric vehicles.

Best Practice highlights those companies that are deemed to be leaders in sustainability and is scored across a range of questions asked in the previous four sections. These include a focus on renewable energy, supply chain engagement and carbon reduction plans, amongst others. This section does not add to the overall rankings, it merely allows us to see the companies that are forging paths in sustainability leadership and innovation.

Your climate experts.
Your partner for positive change.

EcoAct are an international consultancy and project developer, dedicated to helping businesses and organisations succeed in their climate ambitions. We simplify the challenges associated with environmental sustainability, remove complexity and empower individuals and teams to deliver bespoke solutions for a low carbon world.

Our experience tells us that climate action and commercial performance are no longer mutually exclusive. Our mission is to lead the way in delivering sustainable business solutions that deliver true value for both climate and client.

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