The Sustainability Reporting Performance of the DOW 30

Annual Report
September 2020

ecoact

Contents

Welcome

Welcome to the Sustainability Reporting Performance of the DOW 30 and the 10th Anniversary of our international research. For the past decade, EcoAct has been examining how some of the largest companies in the world are acting and reporting on climate change. Although our purpose – to showcase best practice in disclosure and celebrate corporate leaders – has remained the same, the world and this study have changed considerably.

Our research has evolved from the assessment of the FTSE 100 into EcoAct's four flagship reports, now encompassing the IBEX 35 in Spain, the CAC 40 in France, as well as the DOW 30 in the USA. Our methodology has adapted to match the rapidly changing best practices in the world of sustainability, in order to continually improve our measure for climate leadership.

In the USA, sustainability reporting remains largely voluntary and individual. Apart from basic regulations on pollution, there is no federally mandated incentive system or regulatory framework to really direct innovation and company resources towards climate action at the level needed to mitigate climate change. Nevertheless, year-on-year we see the bar for sustainability best practice rise.

Meanwhile, the impacts of climate change continue to intensify. In January, the National Oceanic and Atmospheric Administration (NOAA) reported that 2019 was the second hottest year on record[1]. In fact, the five warmest years have all occurred since 2015 according to its records which began 140 years ago. Further afield, heatwaves and wildfires have raged across the globe, even in the arctic circle[2], bringing into stark relief the urgency and scale of the climate crisis we are facing.

Furthermore, this year the coronavirus crisis has changed people's behavior and affected the business of companies around the world. It will be essential to combine economic reconstruction with the fight against climate change, and there are many calls for a green sustainable recovery. The findings of this report show that corporate climate change strategies are truly value creating, so any economic recovery plan to rebuild after the crisis should be based on a low carbon economy.

Now is quite possibly the most crucial and opportune time to avert the risks of climate change. Based on the Intergovernmental Panel on Climate Change (IPCC) report on 1.5 degrees, we have only this decade left – a rapidly closing window – to take sufficient action to reach Net Zero and avoid the most catastrophic impacts of climate change[3].

However, climate is somewhat of a partisan issue in the U.S.; following the transition from the Obama to the Trump administration, a certain number of regulations set in place to address environmental and climate issues were struck down. The federal administration's intent to leave the Paris Agreement also indicates a lack of leadership in the global fight against climate change. Nevertheless, climate concerns are increasingly present in national debates, particularly during the ongoing 2020 presidential campaign, which is a promising sign.

It is now "make or break" in terms of limiting the worst impacts of a warming planet. So, despite the positive progress we have witnessed, more concrete action is required. We've certainly come a long way in recent years. But we still have a long way to go yet and it is very clear that our actions over the next ten years (if not the next few) will be future-defining for both business and planet.

Therefore, this report exists to inspire us, and to show that transformation is possible. As a corporate community we must play our part in the urgent transition to a Net Zero economy, and in the absence of clear governance, we must forge ahead as leaders. Here we aim to demonstrate this leadership in action and celebrate the possibilities for positive change.

William Theisen,
CEO EcoAct North America

1 https://www.noaa.gov/news/2019-was-2nd-hottest-year-on-record-for-earth-say-noaa-nasa
2 https://www.nationalgeographic.co.uk/environment-and-conservation/2020/07/a-heat-wave-thawed-siberias-tundra-now-its-on-fire
3 https://www.ipcc.ch/sr15/

Introduction

How are companies progressing today at this critical juncture on our journey to tackle climate change and reach Net Zero within the next decade, and how do we measure their performance in 2020?

The objective of this annual research is to understand how some of the largest companies based in the USA and internationally are tackling climate-related sustainability issues and disclosing their progress. With the general public, and investor concern about climate change increasing, companies not only need to take action, they need to be open and transparent with their stakeholders about what those actions are. This is why our research is based solely upon publicly available information readily accessible to any interested third party.

Companies are scored against 64 tailored criteria covering four subject areas: Measurement & Reporting; Strategy & Governance; Targets & Reduction; and Engagement & Innovation. The most recent disclosures are scored using annual integrated and corporate sustainability reports, and any additional links from company websites, including public CDP responses, sustainability micro-sites and blogs.

This year all areas of our methodology have been reviewed and revised to reflect the changing best practice for sustainability reporting as well as the increasing urgency of the climate crisis. We have until 2050 at the very latest to globally achieve Net Zero. Therefore, it is critical that we are being ambitious and robust in our actions and that progress is measured against our ability to meet this important global goal.

The following are some of the key areas of development and revision for this year's scoring criteria:

Net Zero: With a growing number of governments setting targets for Net Zero, New York State included, companies must turn their attention to how they will contribute to the Net Zero transition. Companies need to be making commitments, but also setting robust strategies for how they are going to achieve their goal. If using offsetting to attend to residual emissions, Net Zero means companies will need to begin factoring in the sequestration of carbon. However, in the interim, companies have been awarded points for taking action to compensate for emissions via carbon credits regardless of whether they sequester carbon or not, so long as they are verified and that offsetting is part of a wider climate strategy to decarbonize.

Climate risk: In January, the World Economic Forum (WEF) reported that for the first time in its history the top five most likely global risks all relate to climate change and the environment[4]. Consequently, companies should be assessing and disclosing climate risks and opportunities, not just in their sustainability reports but within their annual reports, and the leaders will be reporting both physical and transition risks against climate scenarios.

Not only are companies committing to align to the TCFD, but they are now actually aligning their reports. Therefore, we look beyond declarations to evidence that the recommendations (under the pillars of Governance, Strategy, Risk Management and Metrics & Targets) are being implemented.

Target-setting: A fundamental pillar of any Net Zero strategy must be significant decarbonization, and this should be aligned to the goal of limiting global warming to 1.5 degrees centigrade or well below 2°C as advised by the IPCC. It is important that companies are setting science-based targets (SBTs) and aligning them to the higher level of ambition, as well as demonstrating clear progress towards the targets they are setting. We are also looking for more evidence of innovation, wider usage of renewable energy, low carbon products and services and other initiatives to decarbonize across the full value chain of a business (Scopes 1, 2 & 3).

COVID-19: This year's report is set within the context of a global pandemic which has created enormous and unparalleled challenges for many businesses. Although we will not see emissions impacts in reports until next year, we must point out that the pandemic may have

4 https://www.weforum.org/reports/the-global-risks-report-2020

had an impact on some companies' ability to implement strategies and report this year, though for the most part this has not appeared to be the case. The pandemic has also changed the face of some of our global indices with companies dropping out and new ones coming in. Continued economic uncertainty means that changes are continuing to occur. The companies included in this report are those within each of the indices on June 1st 2020 when our research began. Regardless of any changes since, all companies included play a key role in our economy and in driving forward positive change in their industries.

So, in 2020, the standard for best practice has never been higher, but with good reason. While companies are making progress across the board, some scores and statistics have not increased when compared directly to previous years because the criteria for scoring has been aligned with the robust actions needed in order for us to reach Net Zero.

We hope you find this year's sustainability reporting trends interesting and that the examples of climate leadership included will inspire more ambitious action on climate change.

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. In 2020, the CAC 40, which has consistently delivered the highest average score since its inclusion in the research, this year maintains this record with an average score of 62%, followed closely by the IBEX 35 with an average score of 60%.

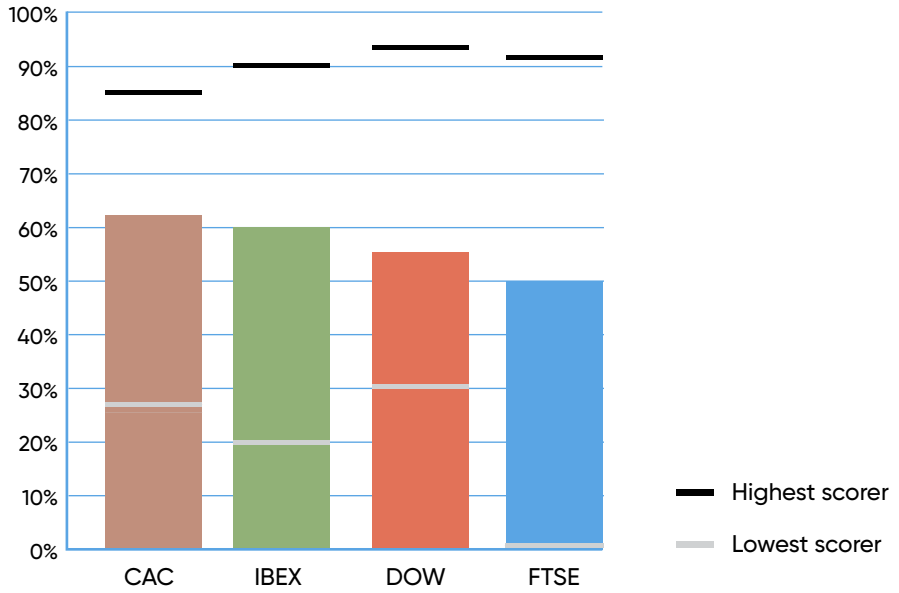
#	+/-	COMPANY	INDEX	SCORE
1	↑	Microsoft	DOW	93.8%
2	↓	Unilever	FTSE	92.4%
3	↑	Acciona	IBEX	91.0%
4	↑	BT	FTSE	88.2%
5=	↑	Landsec	FTSE	86.1%
5=	–	Iberdrola	IBEX	86.1%
5=	↓	BNP Paribas	CAC	86.1%
8	↓	Danone	CAC	85.4%
9	↑	Ferrovial	IBEX	84.0%
10=	↑	Red Electrica	IBEX	83.3%
10=	↑	Apple	DOW	83.3%
10=	↑	Coca Cola Hbc	FTSE	83.3%

Data dashboard

The following figures illustrate the international trends in sustainability across the CAC 40, DOW 30, FTSE 100 and IBEX 35 indices.

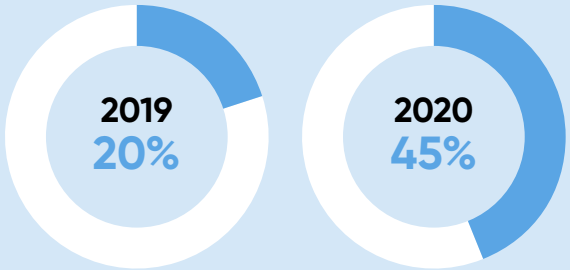
Average score by index

In 2020, average scores have in most cases remained steady, which is positive given the changing scoring criteria. The exception to this is the IBEX 35 which has raised from 56% to 60% this year. The FTSE 100 trails behind with 50%, despite having the second highest scoring company. This is due to both the size of the index and having the widest range of scores.



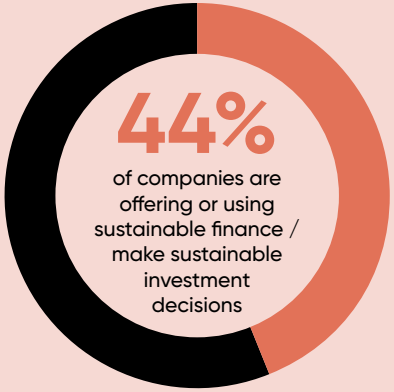
Companies committed to Net Zero

To limit the impacts of climate change, according to science, we must reach Net Zero no later than 2050. This year we have seen a significant rise in the number of commitments to this global goal. Due to the lack of internationally recognized definition, the term is often used interchangeably with carbon neutrality. Therefore, provided commitment to an equally ambitious goal has been made, either terminology has been accepted.



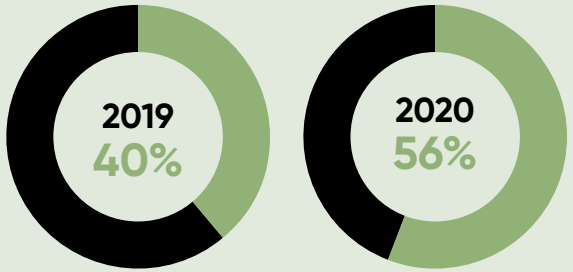
Sustainable finance

This is the first year we have assessed the use or provision of sustainable finance in our research. Sustainable Finance is any form of financial service which integrates environmental, social and governance (ESG) criteria, such as green bonds. The transition to Net Zero will require considerable financial investment and sustainable financing tools will be of increasing importance.



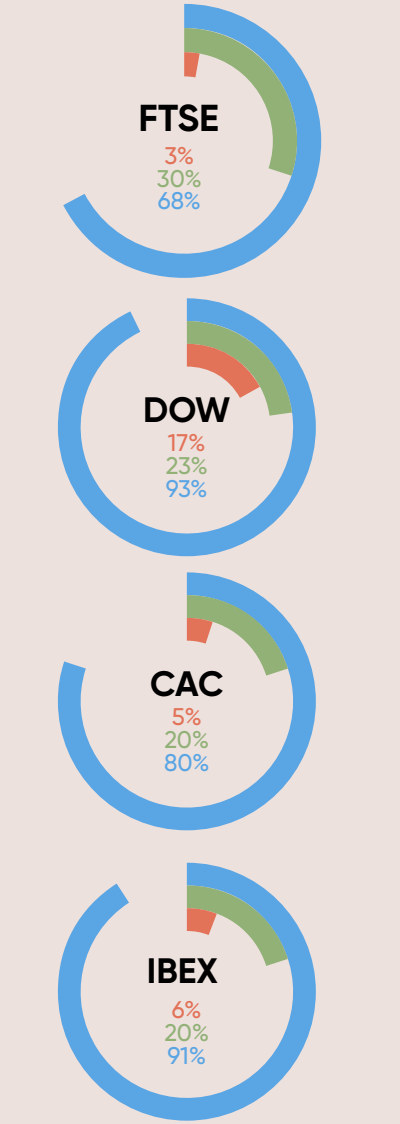
Upper management financial incentives for sustainability performance

For companies to achieve their climate goals, senior management needs to be engaged and there must be clear governance from the top of the organzation. This year we have found an uplift in the number of companies that align senior management renumeration with environmental sustainability performance.



Renewable electricity

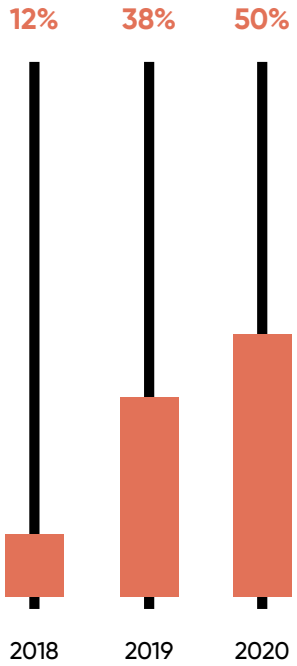
The purchase or self-generation of renewable electricity is assisting companies in achieving their carbon reduction targets.



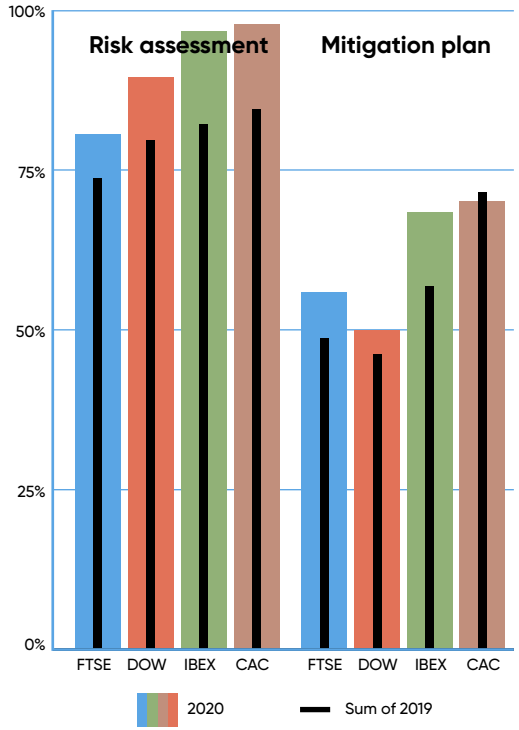
The Task Force on Climate-related Financial Disclosures

The TCFD aims to ensure that businesses are providing decision-useful information to investors in relation to climate-related risks and opportunities. Despite the tightening of criteria this year, alignment to the TCFD has continued to rise significantly. Consequently, risk and opportunities assessment, in particularly Climate Scenario Analysis (CSA) has also risen this year.

TCFD alignment growth



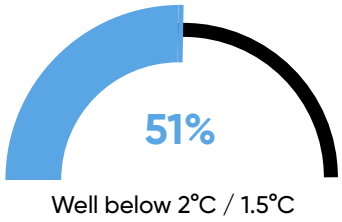
Managing climate-related risk



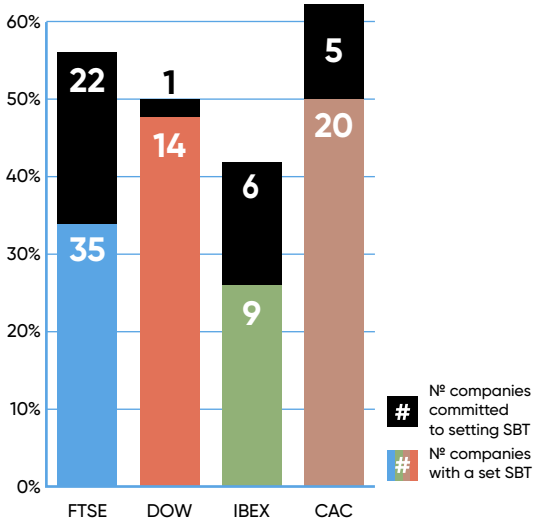
Science-based targets

SBTs allow companies to align their carbon reduction strategy to climate science. Our research this year has also provided additional credit to those companies setting SBTs consistent with the most ambitious, well below 2°C and 1.5°C, pathways.

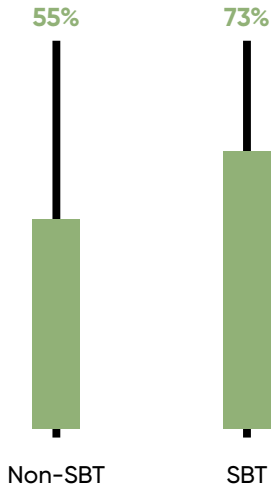
Level of ambition of SBTs



Percentage and number of companies that have set a SBT

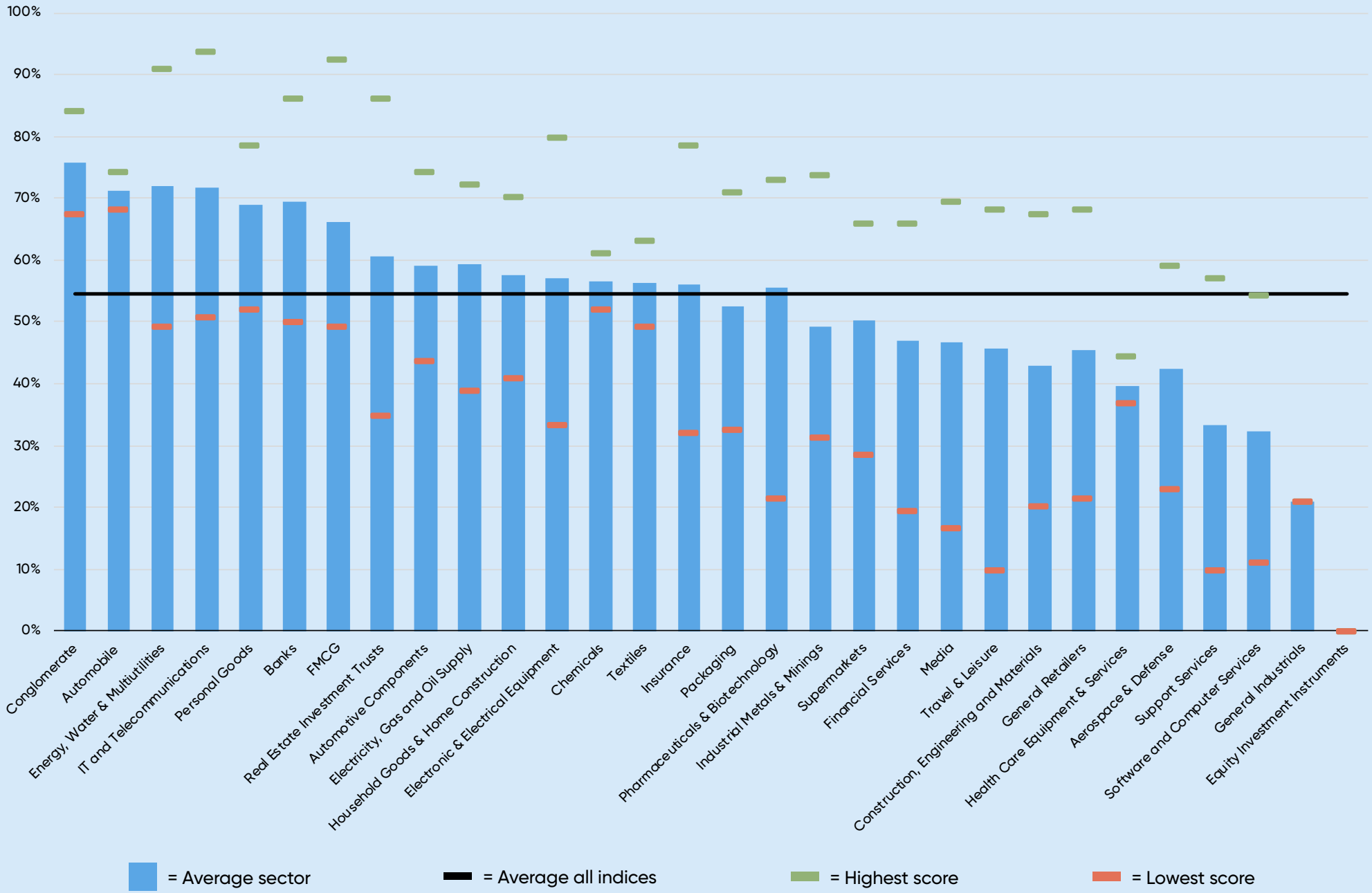


Proportion of companies on track to meet target: non-science-based vs science-based



International industry focus

Average score by industry



IT &
Telecommunications

Sector context

Companies in the Information, Technology and Telecommunications (ITT) sector are experiencing constant growth, as the importance of access to information and the ability to communicate increases worldwide. In 2019, there were 34 billion digital devices in the world, with 4.1 billion users[5].

The contribution of digital technology to humanity's carbon footprint is significant, representing 3.8% of global greenhouse gas (GHG) emissions (where, for example, maritime freight transport accounts for around 3% of global emissions[6]), 0.2% of water consumption, 4.2% of primary energy consumption and 5.5% of electricity consumption[7]. The main sources of consumption in this sector are product manufacturing, product use, and data centers. Products' end-of-life cycle also requires a lot of energy, but this part of the ITT sector's footprint has yet to truly be taken into account. For example, in 2016, each American generated an average of 19kg of electronic waste, of which only 22% was collected for treatment[8].

Our research shows that companies in the ITT sector are particularly effective in terms of reporting and climate commitment, with scores ranging from 51% to 94%; seven companies are in the global Top 25 and three are in the Top 10. Moreover, 79% of them have an A or A- rating from the CDP.

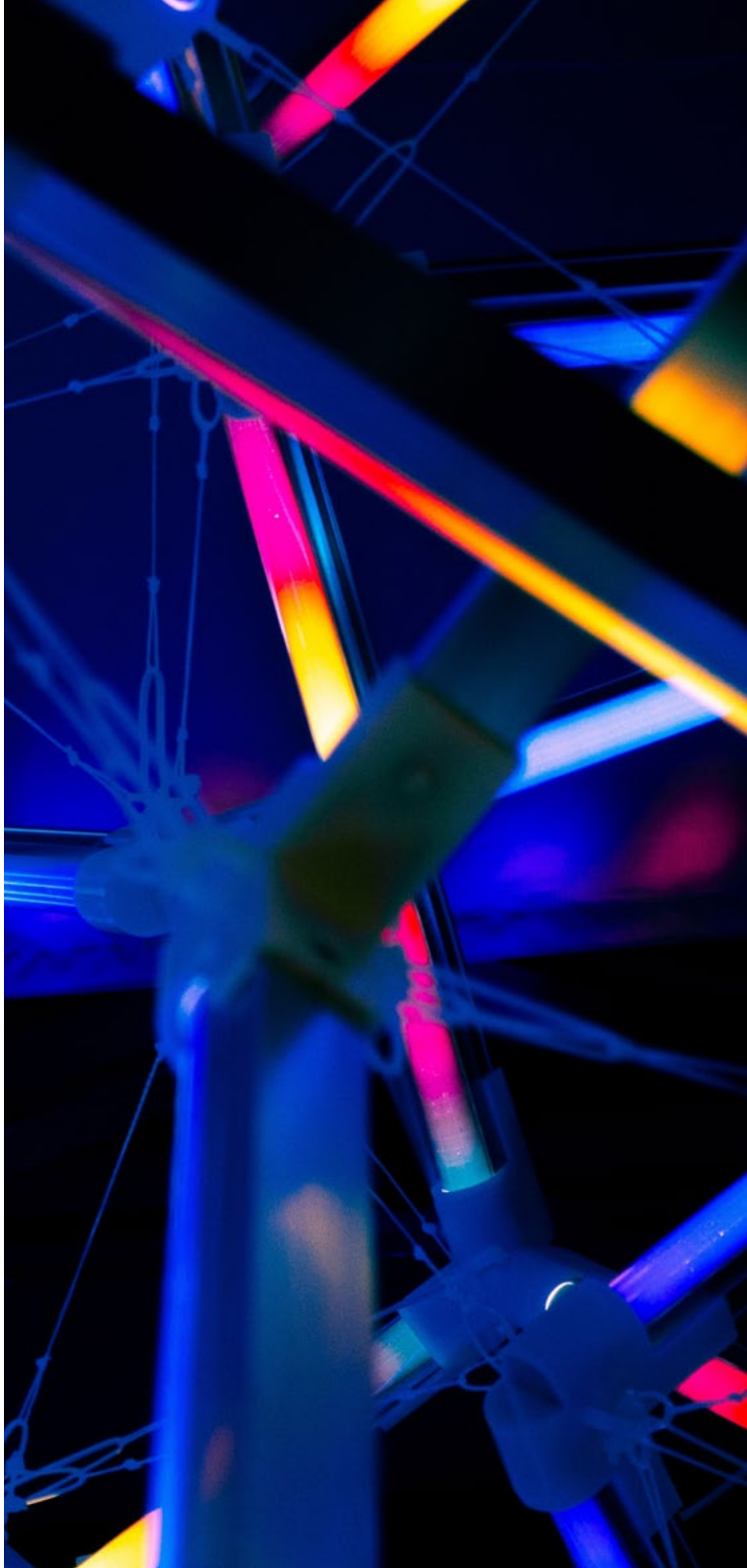
ITT companies have shown themselves to be leaders in terms of climate-based reporting and are increasingly ambitious in their climate commitments. This is partly because they are very energy-intensive and therefore have cost incentives to find efficient and sustainable energy solutions, but also because sustainability is becoming a key consumer concern for the industry[9]. The sector recognizes that tackling climate change and innovating new low-carbon products and services provides it with opportunities. Of the companies in our study, 93% identify climate-related opportunities for their business.

However, they still have room for improvement in terms of customer incentives: 93% provide information on their sustainable offers and products, but only 36% also encourage consumers to choose these services and products.

Most companies in the ITT sector are not expected to experience a negative impact related to the coronavirus crisis. Indeed, many of them will probably emerge stronger than ever, as the global population relies increasingly on technology and long-distance communication to do business and maintain social bonds. Their leadership and innovation in terms of sustainability should therefore only be reinforced in the years to come.

5 https://www.greenit.fr/wp-content/uploads/2019/11/GREENIT_EENM_summary_EN.pdf
6 Transport Improving the sustainability of passenger and freight transport
7 https://www.greenit.fr/wp-content/uploads/2019/11/GREENIT_EENM_summary_EN.pdf
8 Globalewaste.org

9 https://telecoms.com/opinion/the-sustainability-model-is-driving-customer-retention-and-new-revenues-for-operators/



Product manufacturing and engagement

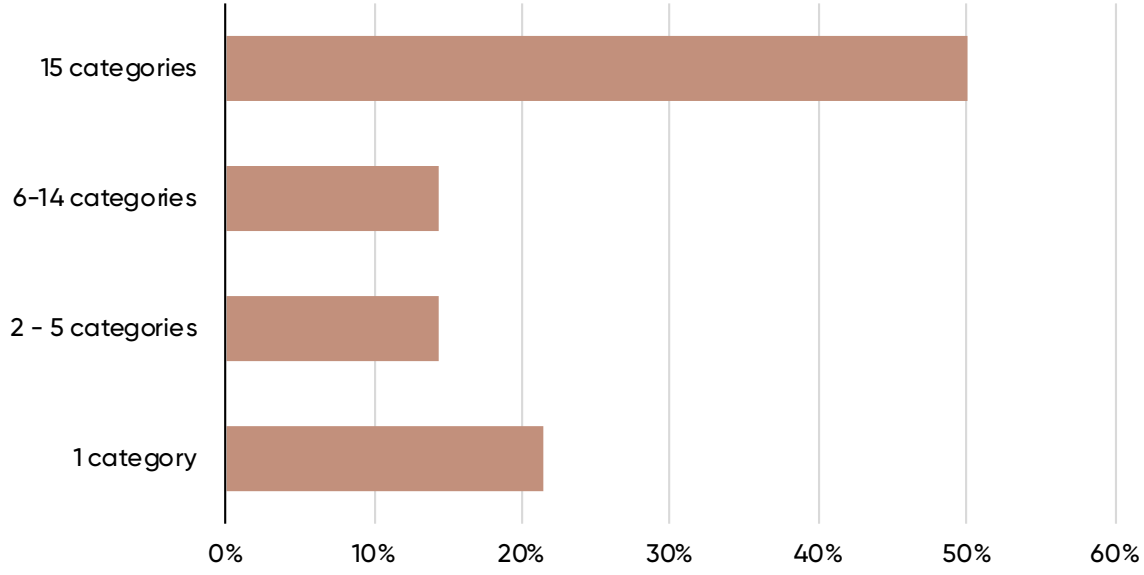
As raw material extraction and product manufacturing is one of the leading sources of GHG emissions for this sector, comprehensive reporting is crucial for these companies. The GHG Protocol sets out 15 categories of Scope 3 emissions covering the different aspects of a company's value chain – from business travel to waste disposal of products. Companies should be measuring against all categories that are material to their business and clearly disclosing that a category is not relevant if they are not providing data on it. Indeed, all ITT companies report some Scope 3 emissions, 50% of them disclose on all 15 categories and an additional 28% disclose on at least 2 categories.

In addition to extensive reporting, nearly all ITT companies have set a target for reducing their carbon emissions and 71% have an SBT, compared with 38% for all sectors and indices combined. Finally, 79% of companies in the ITT sector have a reduction target for their Scope 3 emissions, compared with 62% in 2019. We should see more and more SBTs in this sector: in February 2020, the SBTi published an ITT sector guide[10] so that companies with industry-specific concerns can more easily establish their own SBT.

These companies are particularly committed to reducing their carbon footprint and are using all kinds of initiatives to do so. 29% have set an internal price for carbon, all of them are raising employee awareness of sustainable issues and half have put in place real incentives (financial compensation or internal recognition) to change behavior and generate new ideas to improve their climate performance. For example, IBM has set up the Chairman's Environmental Award and BT offers the Plastic Hackathon Staff Competition. Furthermore, 79% of ITT companies are offering financial incentives to upper management for progress on sustainability initiatives.

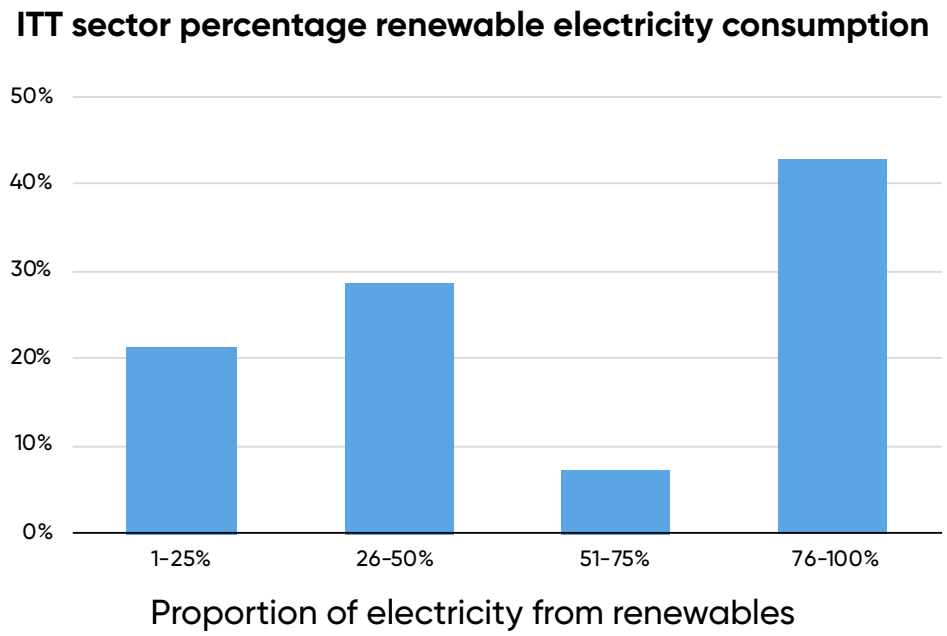
Suppliers are also at the heart of ITT companies' strategies: every ITT company in this research has defined precise sustainability criteria for their suppliers while 79% of them provide evidence of implementing supplier initiatives or incentives to improve sustainability. Some companies, such as Apple or Cisco, even have carbon reduction targets for their suppliers.

ITT Scope 3 category reporting



10 https://sciencebasedtargets.org/wp-content/uploads/2020/04/GSMA_IP_SBT-report_WEB-SINGLE.pdf

Energy consumption: a pillar of ITT climate strategy



The ITT sector consumes a lot of energy, especially for powering data centers, and companies have realized that to reduce their costs they need to implement more efficient technologies. All of them have already done so and 71% even quantify the energy savings achieved.

The consumption of renewable electricity is also a crucial part of their climate strategy; 43% use more than 75% renewable electricity.

The other component of the sector's energy consumption is product use. Fully aware of this issue, ITT companies often use product life cycle analysis to inform their decisions and increase product efficiency. As a result, 93% of them develop or market sustainable products, and 79% report on the energy savings that these products provide. Many companies are developing new technologies within the "internet of things" (IoT), connected devices that allow energy consumption monitoring in real time in order to track progress and identify improvements. Others work to reduce the direct consumption of the product: Orange reduced the carbon footprint of their Livebox by 29% between the 4th and 5th editions.

Climate initiatives are diversifying

Green bonds

Previously confined to the financial sector, green finance is now spreading rapidly to other sectors. Green bonds are flourishing, especially within the ITT sector[11]. Across all four indices, the mention and use of green finance by companies reached 44% this year; the ITT sector is above average with half of all companies using these sustainable financial tools. Many ITT companies are issuing green bonds: for example, Vodafone issued its first green bond of €750 million in May 2019 to finance or refinance projects that would help the company achieve its environmental objectives. Apple issued $1 billion of green bonds in June 2017, shortly after the US administration announced its intention to withdraw from the Paris Agreement, and in February 2019, Verizon became the first U.S. telecommunications company to issue a green bond. The offering raised nearly $1 billion allocated to renewable energy, energy efficiency in buildings, sustainable water management and biodiversity conservation. Telefónica issued the world's first green bond in the telecommunications sector in January 2019 and also the first green hybrid telecommunications bond in early 2020 for an amount of €500 million. The funds obtained will be used to finance projects aimed at increasing energy efficiency through the transformation of the copper network into fiber optics, and to promote the production of renewable energy.

Carbon neutral products

In recent years we have seen an increase in the number of carbon neutral products, services and indeed businesses. In order to achieve carbon neutrality a business must calculate the full emissions associated with a product, or the Scopes of its business, work to reduce these emissions and then offset the full remaining carbon footprint using verified carbon credits. Commitments to carbon neutrality must be robust and verifiable. Therefore, in order to score the points this year, companies must, where possible, be certified carbon neutral via such certifications as the PAS 2060 (for businesses) or PAS 2050 (for products) unless there is no current certification model in place, e.g carbon neutral homes.

21% of ITT companies in the four indices are carbon neutral across all 3 Scopes (compared to 3% of all companies in the study) and an additional 7% are neutral for Scopes 1 & 2. ITT companies are therefore fairly advanced in this area.

But the most innovative aspect is that while only 8% of all companies included in our research have carbon neutral products, 21% of ITT sector companies do, with three companies offering carbon neutral products:

- **Microsoft**'s Carbon Neutral Xbox, which was announced at the UN Secretary General's Summit on Climate Action in September 2019 as part of the unprecedented "Playing for the Planet"[12] Alliance of 14 platforms and game manufacturers. The Alliance aims to offer green programming to its combined audience of nearly one billion gamers.
- With its data centers and energy-optimized supercomputers, **Atos** offers its clients state-of-the-art, eco-responsible and carbon-neutral digital services.
- All services offered by **Worldline** are carbon neutral. The company's main offerings are payment and transaction services - physical or online - for businesses, secure processing of payment transactions for banks and financial institutions, as well as transactional services in e-ticketing and for national organizations in the public sector.

11 https://www.bloomberg.com/news/articles/2020-08-07/sustainable-finance-sees-big-tech-boom-after-record-google-deal

12 https://playing4theplanet.org/private-sector/

Banks & Financial Institutions

The analysis of the finance sector includes different types of companies: Banks, Financial Services, and Equity Investment Instruments.

Sector context

Five years after the COP 21 and the negotiation of the Paris Agreement, national policies and market signals are starting to reflect the urgency of financing climate change adaptation and mitigation. Financial flows are evolving to be more consistent with a low-carbon and climate-resilient economy: for the first time in history, annual climate financing passed the $500 billion mark for the years 2017/2018, which is 25% higher than for the years 2015/2016[13]. More and more financial actors are committing themselves to carbon neutrality, assessing the risks and opportunities linked to climate change and defining objectives in line with scientific recommendations (science-based targets).

In the context of the climate emergency declared by 1,732 local governments in 30 countries[14], owners and managers of financial assets face increasing demands and new challenges in terms of risk management and alignment with climate objectives. However, many financial actors have yet to integrate long-term climate risk despite scientific consensus on the socio-economic damage associated with scenarios above 2°C[15].

Often criticized for its financing of GHG emissions and for the lack of concrete action in favor of the ecological transition, the financial sector is slowly amplifying and accelerating its sustainability efforts thanks to new, sector-specific regulations and frameworks.

In March 2020, the European Commission published the EU Taxonomy report, a technical document whose goal is to help direct private capital towards long-term, environmentally sustainable activities, and prevent false claims about "green" investment products. A pillar of the European Commission's Sustainable Finance Action plan, the new taxonomy will serve as a reference for new regulations while providing transparency and clarity for financial institutions[16].

Additionally, in Autumn 2020 the SBTi is expected to publish a methodological framework for establishing SBTs in the financial sector, which will encourage financial institutions to set emissions reductions goals aligned with the ambitions of the Paris Agreement.

Despite these developments, there are still many areas for improvement within the financial sector, and more ambition is required to ensure our financial institutions are playing their key role in averting the most catastrophic consequences of climate change.

Case study

NatWest Group

The UK-based bank has an ambitious goal – to be carbon positive by 2025 across its operations. It will achieve this by setting a 1.5°C aligned SBT and using verified carbon offsets to compensate for remaining emissions from 2020. The bank will maintain the same level of investment in carbon credits as they continue to decarbonise to achieve carbon positivity.

It was the first bank to commit to all three Climate Group Initiatives: RE:100 by committing to use only renewable electricity across their global operations by 2025; EV100 by planning to install electric vehicle charging infrastructure and upgrading its car fleet to electric vehicles; and EP100 with a target to reduce energy consumption by 40% by 2025 from a 2015 baseline.

As the wider banking sector comes under increasing scrutiny for the financing of fossil fuels, in 2020, the new Group Chief Executive, Alison Rose, stated in the company's Annual Report that the bank is challenging itself to at least halve the climate impact of its investments by 2030, aiming to be "the leading bank in the UK & Republic of Ireland helping to address the challenges of climate change".

13 https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2019/
14 https://climateemergencydeclaration.org/climate-emergency-declarations-cover-15-million-citizens/
15 O. Hoegh-Guldberg and al., February 2019, Impacts of 1.5°C of Global Warming on Natural and Human Systems, IPCC report
16 https://www.bloomberg.com/professional/blog/the-eu-taxonomy-for-sustainable-finance-faqs-for-financial-market-participants/

Climate risk & climate scenarios

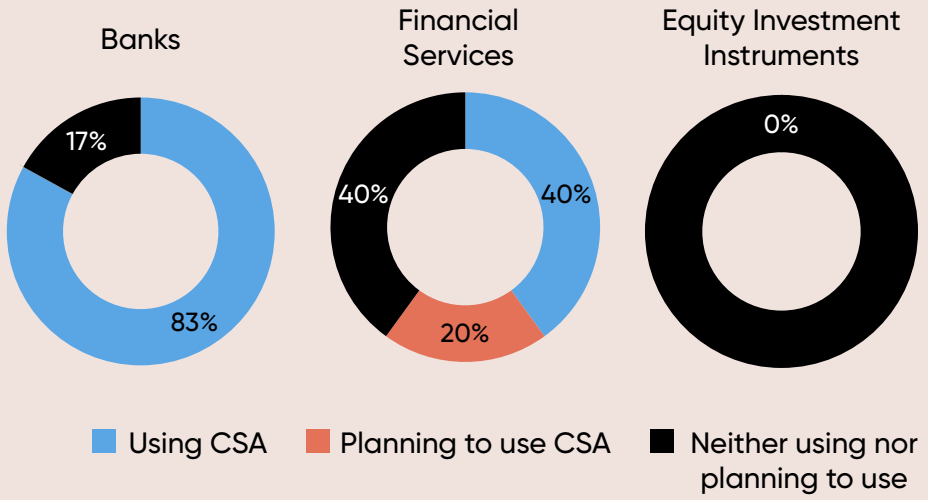
In this year's research, financial sector companies improved in terms of the recognition and management of climate risk: three quarters of companies in our international study are aligned with the recommendations of the TCFD. When comparing across indices, French companies are leading the way: all are aligned with the recommendations of the TCFD (compared to 80% of the FTSE 100, 65% of the IBEX 35 and 50% of the DOW), and report on both physical and transition risks.

The impact of global warming is becoming a key factor in banks' financial risk analysis: 100% of banks assess and address climate risk, 92% provide information on their risk assessment and 83% report on how they are mitigating these risks. These numbers are slightly higher than for the finance sector as a whole, with 86% of companies addressing climate risk, 79% disclosing specific results of the risk assessment and only 61% presenting mitigation strategies.

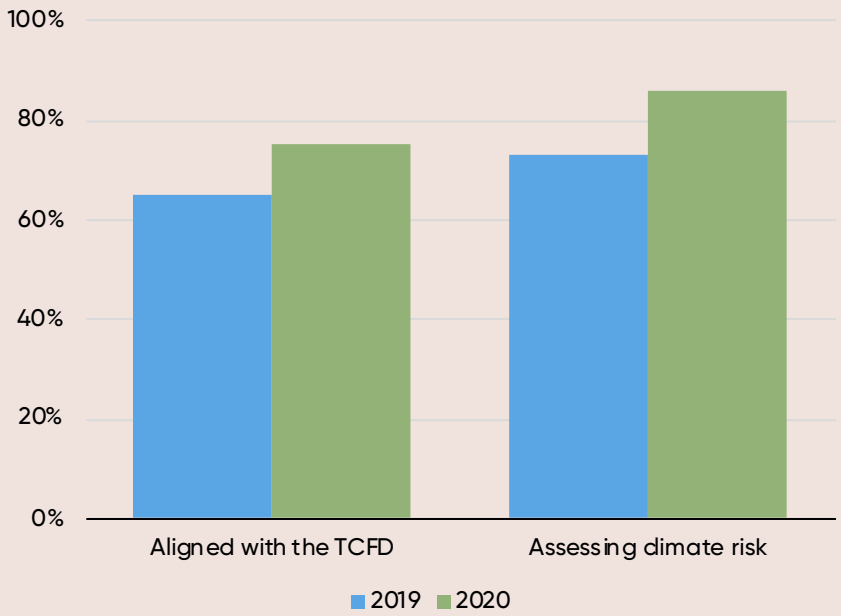
However, financial sector companies haven't fully incorporated climate scenario analysis (CSA) into their reporting. CSA involves the modelling of set future temperature projections and the associated climate outcomes in order to predict and analyze the potential risks and opportunities which may face the company. The use of CSA allows a company to prepare and adapt for the different outcomes that may arise from climate change in order to establish increased resilience across their business models.

Only 57% are currently using CSA, although an additional 11% plan to do so. In terms of companies already using CSA, banks (vs. financial services companies and equity investment instruments) lead the sector at 83%, but only 25% disclose details including which scenarios they used and the results.

Financial sector use of CSA



Financial sector TCFD alignment and consideration of climate risk



Sustainable finance

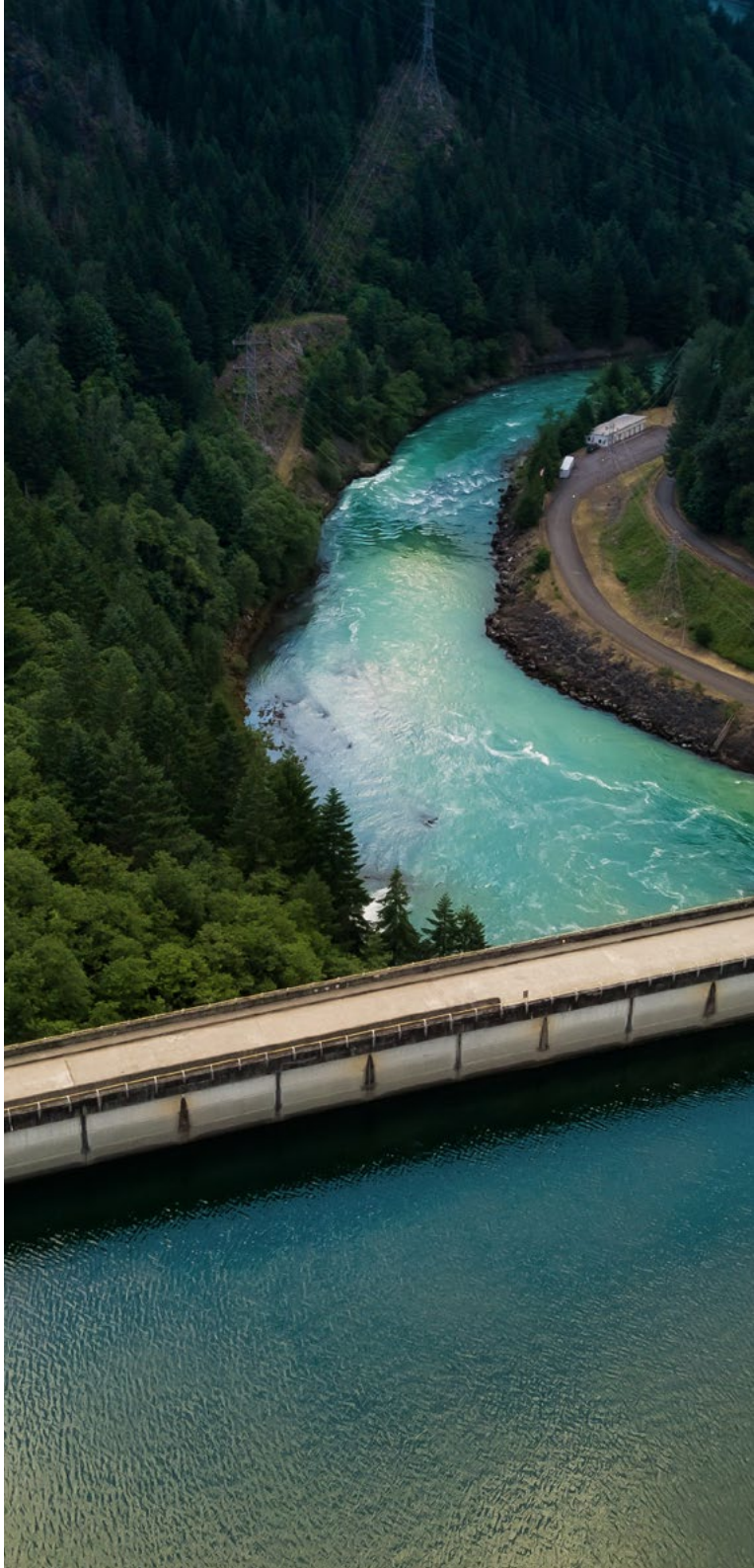
The finance sector is gradually mobilizing to make its climate commitment visible and to implement new tools that are compatible with the ambitions of the Paris Agreement and in line with the expectations of its stakeholders and customers. Sustainable finance is thus gaining momentum: green bond issues worldwide exceeded $200 billion in 2019[17]

This trend reflects the sector's awareness of climate change and the integration of risk (notably regarding the tightening of environmental regulations), while also demonstrating that climate action is an opportunity to develop the business. In line with the evolving market, our research included questions about sustainable finance for the first time this year.

This phenomenon is both global and homogenous since all banks in the analyzed indices report the use of sustainable financing tools and provide detailed information. When financial services and equity investment instruments are included, 82% of all finance companies consider sustainable finance, and 71% provide evidence of using sustainable finance tools in their strategy. This drive to "green" their balance sheets is in line with global trends, both in terms of the proliferation of sustainable financial tools, methodologies and instruments, and the expectations of customers and stakeholders.

The best available estimates say that the annual global cost of adaptation will be between US$140 billion and US$300 billion by 2030, yet over the last 25 years, the vast majority of investments have gone towards projects that help mitigate climate change (rather than adapt to it)[18].

Given the growing urgency of the climate crisis and with more and more companies – both within and outside of the financial sector – turning towards green bonds and other sustainable finance tools, we should increasingly see capital being invested not only in mitigation efforts, but also in projects that help organizations adapt to the reality of climate change.



17 https://www.climatebonds.net/resources/press-releases/2019/10/green-bond-issuance-tops-200bn-milestone-new-global-record-green
18 https://www.unepfi.org/wordpress/wp-content/uploads/2019/07/GCA-Adaptation-Finance.pdf

Net Zero

Faced with the growing importance of climate issues in the public debate, the financial sector is not only putting more sustainable tools in place, but is also divesting from fossil fuels. This strategic policy is a sign of awareness and determination, but it is not yet in line with the ambition of Net Zero. Behind industry leaders such as BNP Paribas – which has drastically reduced its coal-related financing and stands out for turning its back on unconventional hydrocarbons – our research shows that other companies intend to make major changes.

One such company is Crédit Agricole: as part of its strategic plan, Crédit Agricole has decided to withdraw from all coal-related financing in European Union countries by 2030, and for the rest of the world by 2050 – a decision that was welcomed by many stakeholders. On the energy front, Crédit Agricole is committed to financing one out of every three renewable energy projects in France and doubling its portfolio of green loans to €13 billion in the very short term.

While a few stand-out companies should be lauded for their commitments and actions, the financial sector still has a way to go in terms of committing to, and attaining Net Zero. Just over half – 57% – of companies have committed to Net Zero, 43% are currently offsetting but only 32% include offsetting as part of a wider carbon reduction strategy. While these numbers aren't as high as we would like, they represent a significant improvement since last year's research. In our 2019 report, we found that only 19% of companies in the finance sector had committed to either carbon neutrality or Net Zero.

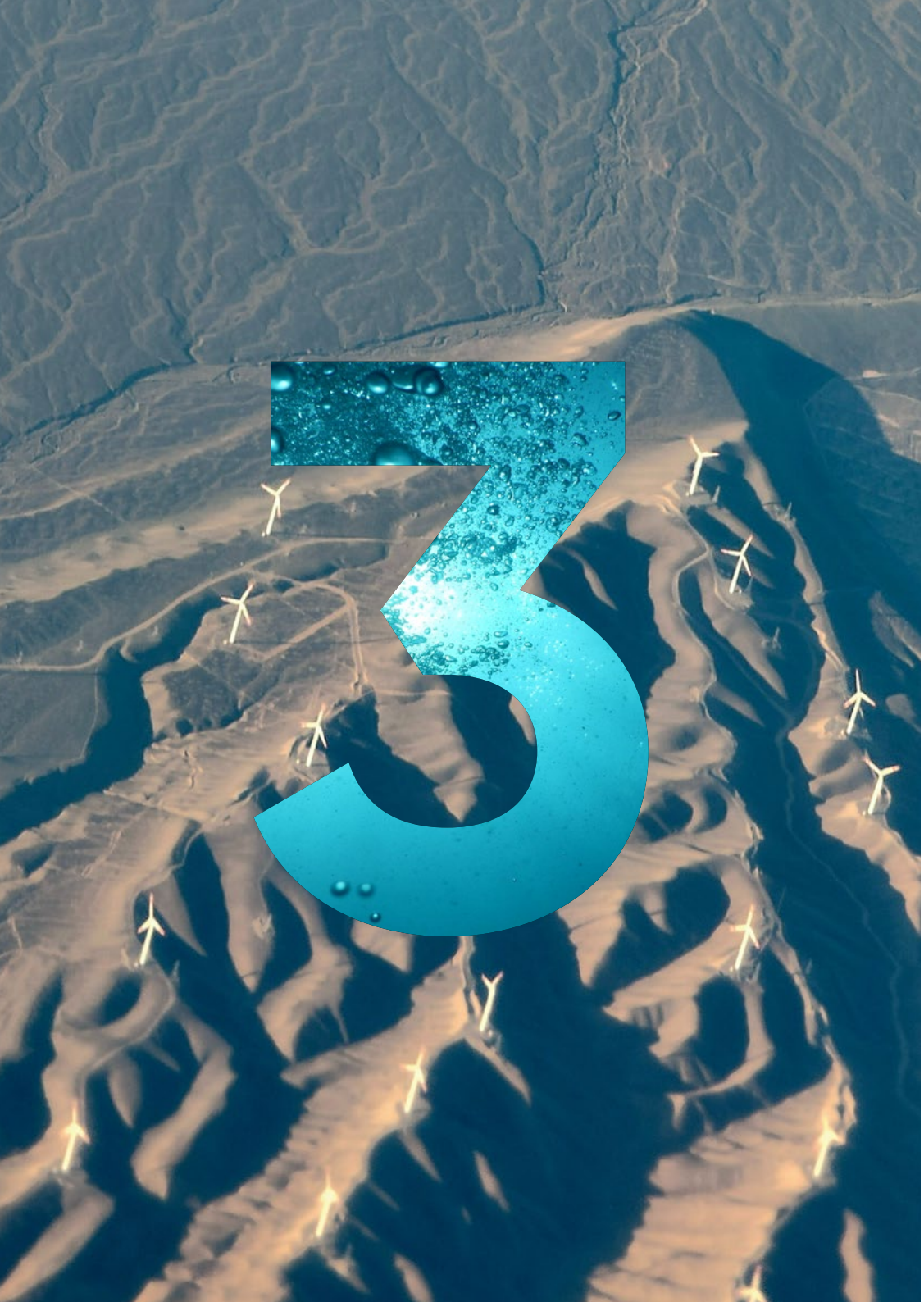
Reduction targets

Across all indices, only 61% of financial actors have set a carbon reduction target and 47% are on track, or very close to being on track to hit their target within the defined time frame. Banks specifically score better than their financial counterparts, with 92% having committed to a specific reduction objective, and 75% on track to meet their objective. Only 25% of finance companies have set an SBT while an additional 14% will set an SBT within the next two years. These low numbers – and the fact that none of these companies have an SBT that has been approved by the SBTi – can be explained by the fact that the SBTi has not yet published a finance sector framework.

However, in 2018 the SBTi launched the SBT-FI (Science-based Targets for Financial Institutions), a project whose goal is to develop a methodological framework adapted to the finance sector's specific needs, in particular covering investment portfolio-related GHG emissions. The project is scheduled to be completed in Autumn 2020, at which point financial institutions will be able to receive comprehensive assessments for their Scope 1, 2 and 3 targets, and announce these targets if approved. Until then, companies can submit the SBTi's commitment letter, and seek partial validation for their Scope 1 and 2 targets.

This year, only two financial companies – BNP Paribas in the CAC 40 and NatWest Group in the FTSE 100 – are working towards a 1.5°C or well below 2°C reduction target. With the publication of the SBT-FI's new methodological framework before the end of 2020, we hope to see more ambition from the finance sector across all emissions Scopes, and more financial actors committing to SBTs.

Controversy remains over the ongoing financing of fossil fuels by the world's largest global banks. Therefore, despite a strong reporting performance, the financial sector as whole still has much progress to make on tackling the climate impacts of its investment portfolios.



Energy, Water & Multiutilities

Sector context

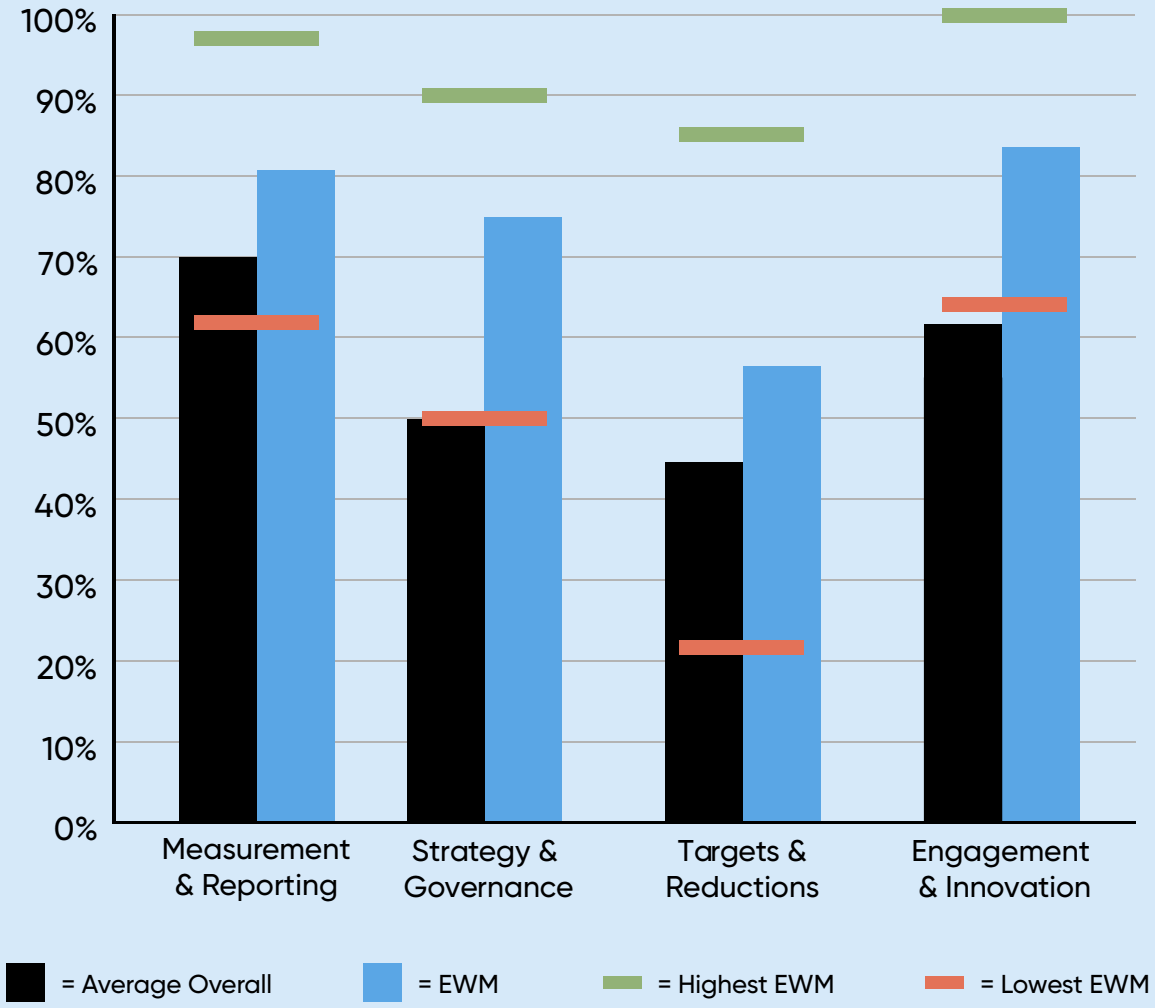
In our research last year, companies in the Energy, Water & Multiutilities (EWM) sector were recognized for their improved performance in climate-related sustainability reporting, rising up the ranks to be represented among the climate leaders. This year, their notably high performance has continued, with five EWM companies firmly within the international Top 20.

Global energy consumption rose by 2.3%[19] in 2018 and by a further 0.9% in 2019[20], with predictions for continued growth. However, in 2020, the energy landscape has very suddenly and dramatically changed. Due to the lockdowns imposed by the global COVID-19 pandemic, the International Energy Agency (IEA) reported that global energy demand actually declined by 3.8% in the first quarter of this year, predicting a 5% decline in the year overall, and with it a fall in global emissions[21].

However, it has also cautioned that the rebound in emissions could be larger than the decline as we fight to recover from a global recession, unless we successfully invest in cleaner energy infrastructure. In this, the EWM sector plays a vital role.

19 https://www.iea.org/reports/global-energy-co2-status-report-2019
20 https://www.iea.org/reports/global-energy-review-2020
21 https://www.iea.org/reports/global-energy-review-2020

Energy, Water & Multiutilities vs Index Comparison



Carbon emissions transparency

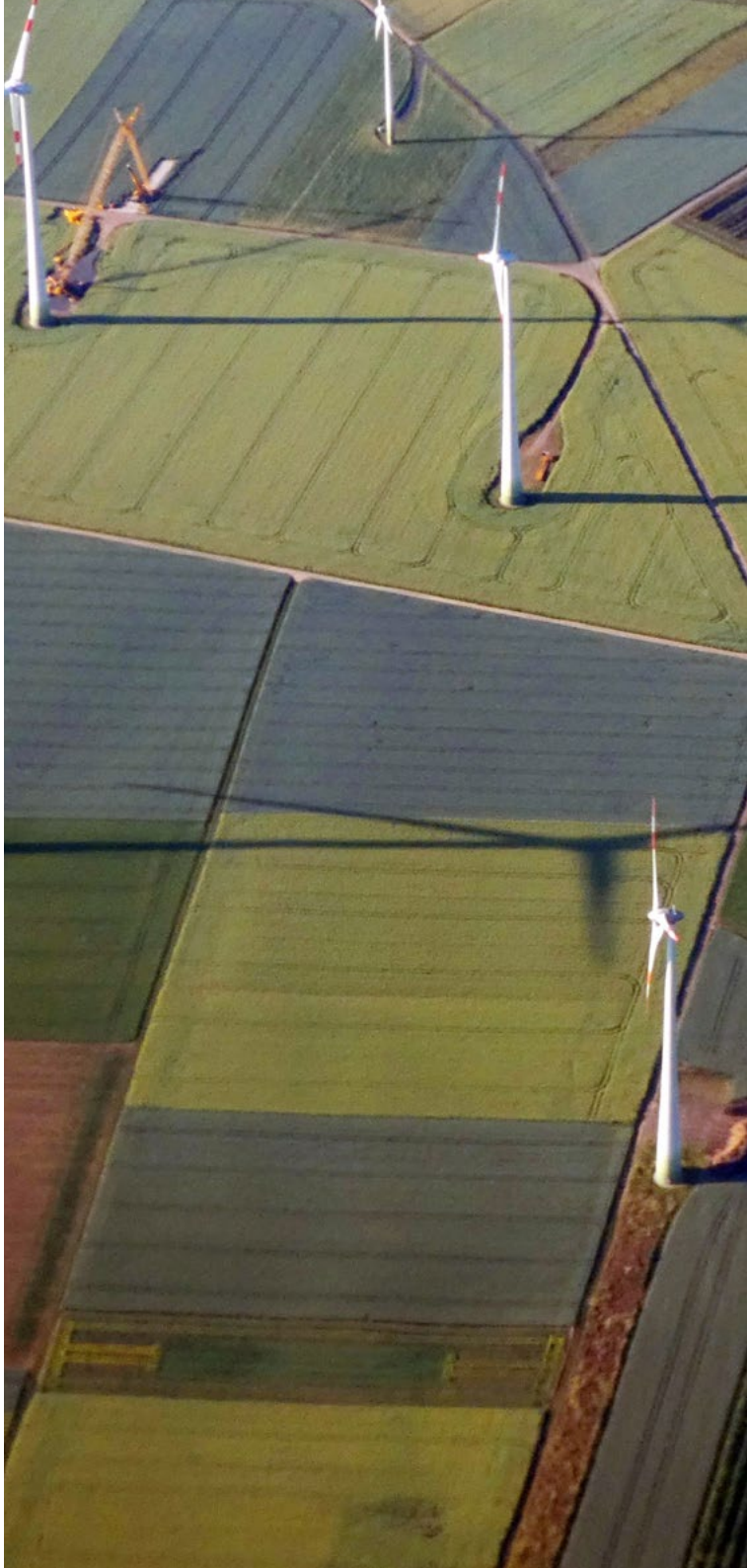
In 2020, all EWM companies across our international study calculate and report their carbon emissions, with 80% disclosing at least three years of carbon data. Scope 3 emissions make up the largest part of this sector's footprint, and all but one calculate and disclose this figure.

Further research reveals that 73% have included over five of the 15 Greenhouse Gas Protocol categories for Scope 3 emissions and 40% demonstrate transparency on all categories considered relevant. In comparison, only 38% of companies across our international study disclose more than five categories and just 20% attend to all.

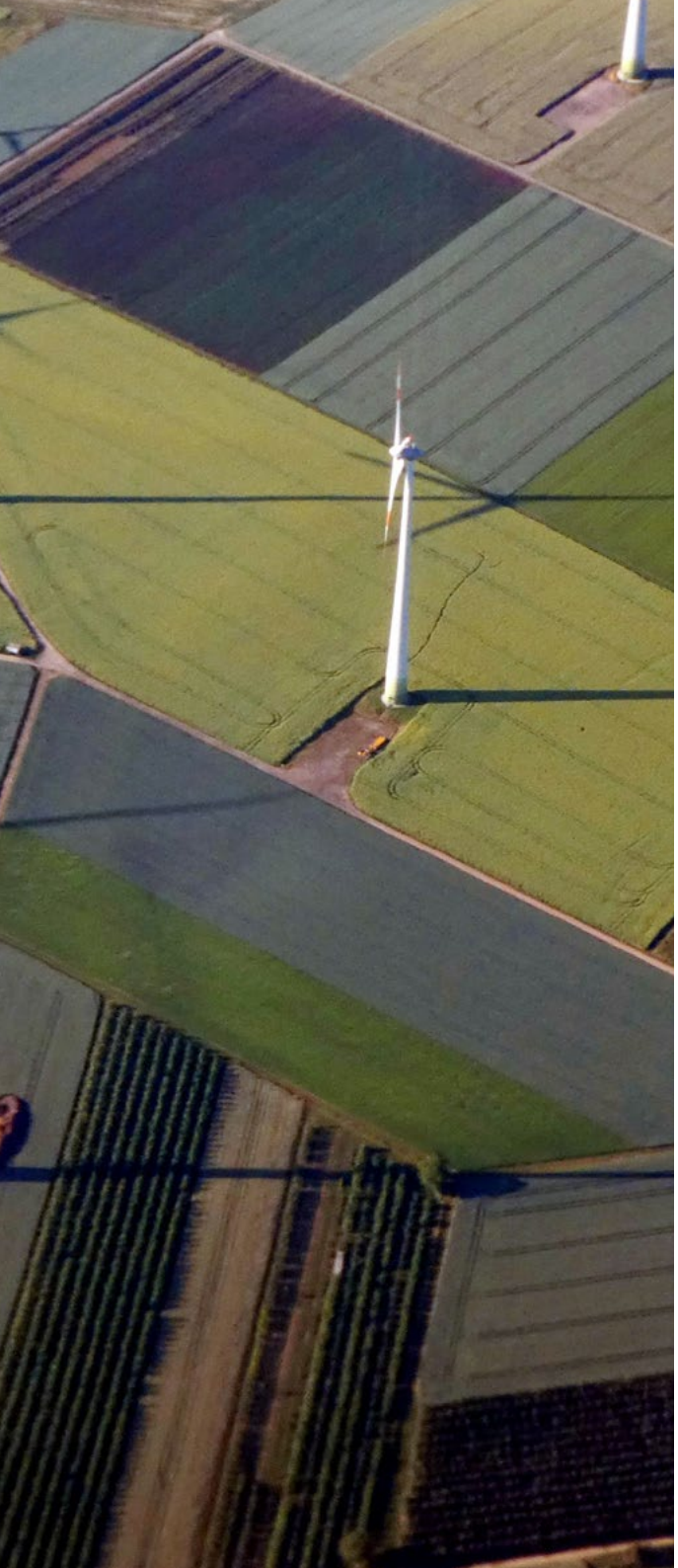
Given the complexity of their carbon footprints, these companies should be externally verifying their emissions to give credibility to their reporting, and 87% have had some form of third-party verification of their data (compared to 81% as the average across the global study). Furthermore, out of the companies obtaining external verification, 69% include their Scope 3 emissions in this process.

The environmental impact of the sector goes beyond emissions, and many companies must consider the impacts to water, biodiversity and waste associated with their activities and the presence of their facilities. All companies in this sector report on at least three other non-carbon environmental KPIs, with 93% setting targets to reduce their impacts, half of which include comprehensive details on initiatives to counteract them.

For example, Spanish renewable energy and infrastructure company Acciona claims to be working towards a Net Positive Impact on biodiversity by collaborating with external partners. It publishes a separate Biodiversity Report[22], which includes details of numerous conservation initiatives to preserve endangered species.



22 https://accionacorp.blob.core.windows.net/media/3346037/biodiversity-report.pdf



Building climate resilience

All segments of the EWM sector are, or will be, subject to climate risk – both physical and transition. Not only could their infrastructure be vulnerable to extreme weather events, but they must also consider the risks of changing legislation, shifting consumer preferences and the potential of stranded assets; these risks pose a very real commercial threat to these organizations.

Therefore, it is important for this sector to assess its exposure to these risks and propose evidence-based actions to mitigate them. Clearly aware of this, all EWM companies in our research have assessed their climate-related risks, with the majority also identifying risks across their value chain and all but one disclosing these risks in their Annual Report, not just their Sustainability Reports.

In addition, 87% have undertaken CSA to explore a range of potential outcomes linked to different climate scenarios, such as those put forward by the IEA[23]. Perhaps most importantly, all but one of these are also demonstrating resilience building by disclosing risk management and mitigation strategies, which is well above the average for the study as whole.

Another driver for adherence to this reporting best practice is the recommendations of the TCFD, which have been developed to guide companies in providing better climate-related disclosures for their investors. The recommendations specifically set out the need for such risk and opportunity assessment. 73% of EWM companies are clearly demonstrating alignment across the four thematic areas of the TCFD, no doubt driven by strong motivation to satisfy investor demands.

23 https://www.iea.org/reports/world-energy-model

Level of ambition

In line with the study-wide uplift in commitments, 67% of EWM companies have committed to Net Zero by 2050. For example, Severn Trent has made a Triple Carbon Pledge, which will deliver Net Zero emissions via 100% renewable energy use, 100% electric transport fleet by 2030, as well the financing of reforestation projects.

However, we would caution that not all companies (60%) committing have a clear strategy for achieving their target. Despite there being no official definition of Net Zero yet agreed, companies need to be clear about how they interpret this ambitious goal and how they are going to achieve it.

Decarbonization is a fundamental part of tackling climate change and, therefore, robust emissions reductions targets, particularly for high emitting sectors, are necessary. This year 73% of EWM companies have set company-wide emissions reductions targets, but disappointingly only 55% of these have set targets which include Scope 3 emissions. Scope 3 emissions make up a large proportion of a company's emissions; it is therefore imperative that moving forward more EWM companies incorporate Scope 3 emissions into their carbon reduction targets.

Emissions reductions in line with science are now best practice and will be vital to the Net Zero agenda. This year 67% have set an SBT and 70% of these are aligned with a 1.5°C or well below 2°C scenario, which is promising progress.

In addition to this, 80% of energy companies have demonstrated absolute and/or relative emissions reductions in comparison to last year, which is higher than the proportion of companies setting reduction targets, although we have only counted company-wide reduction targets this year. All companies in the power and heat sector are obliged to participate in the EU Emissions Trading Scheme (ETS) which may also be acting as an incentive to drive emissions reductions.

Many EWM companies are actively implementing reduction initiatives. For example, 53% of companies have set an internal price on carbon, a levy that aims to dissuade the continuation of carbon-intensive operations. The sector also stands out for engaging all employees in the achievement of their environmental goals, with 87% of companies including sustainability criteria in the remuneration of their board members, and 53% demonstrating tangible actions to influence the sustainable behavior of their staff. For example. Spanish multinational electric utility company, Iberdrola, offers incentives to their employees to buy electric vehicles and makes EVs available in their corporate fleets.

There are clear opportunities for the EWM sector in activating the transition to a low carbon economy which are likely to be playing a role in their success, particularly in decarbonization. These opportunities will also play a vital role in helping the rest of society to decarbonize.

Our findings show that 93% of energy companies are currently bringing low-carbon solutions to their customers, and 86% of those are clearly quantifying the energy and carbon savings that these will achieve. SSE has brought to market "SSE Green Electricity" which is an independently certified renewable product and has this year announced its investment in the 103-turbine Viking Onshore Wind Farm, which will be the UK's largest onshore wind farm in terms of electricity output, having in the past declared that the company is "standing ready to deliver Net Zero"[24].

Like SSE, many of the companies in the energy sector are not only realizing the urgency of the climate crisis, but recognizing the opportunities presented in facilitating a low carbon transition, and the necessity to transform their businesses to remain commercially competitive. This is no doubt a factor in their increasingly strong performance in climate-related sustainability reporting.

24 https://www.sse.com/news-and-views/2019/05/standing-ready-to-deliver-net-zero/

Fast-Moving Consumer Goods

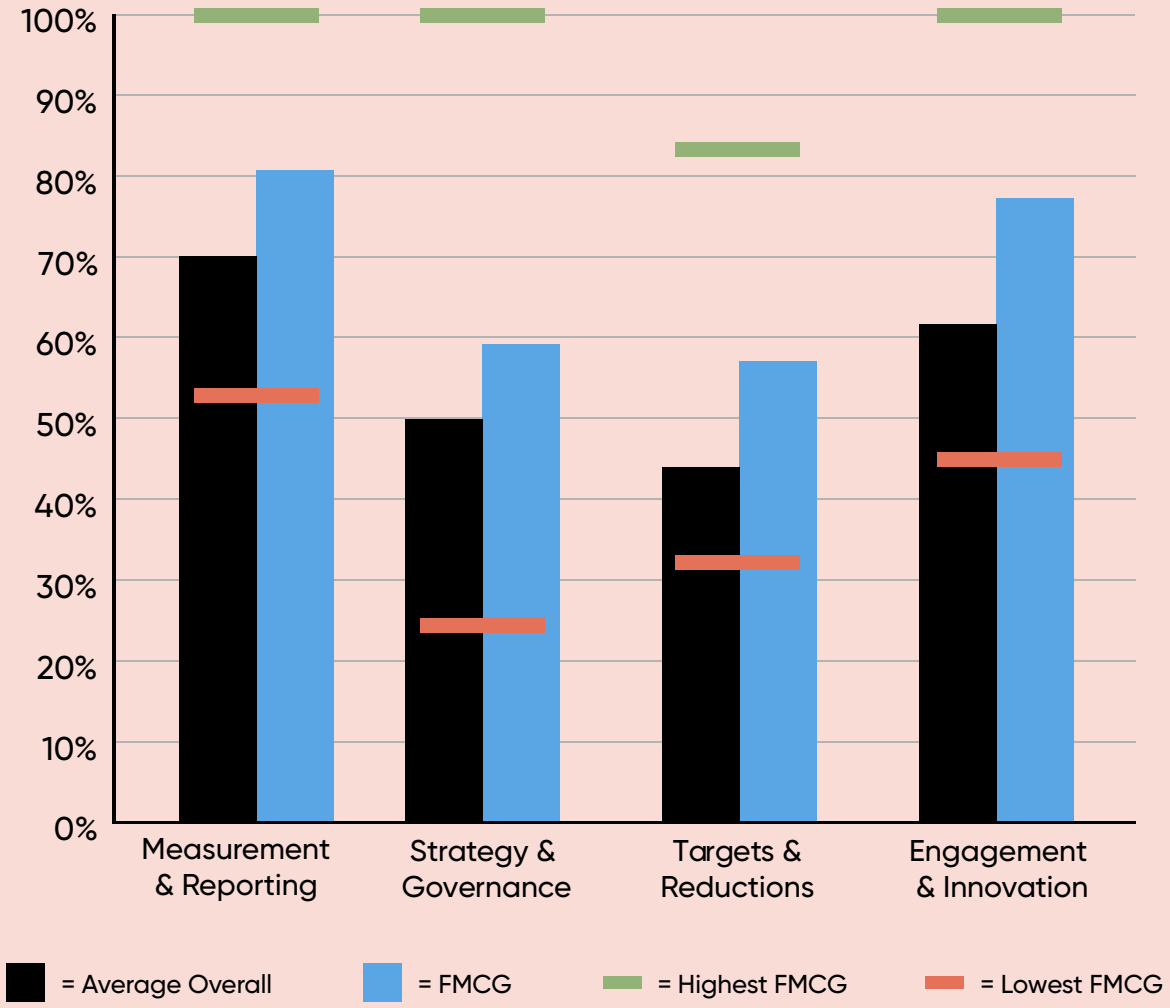
Sector context

Companies in the Fast-Moving Consumer Goods (FMCG) sector are coming under increased scrutiny from consumers and environmental groups who are more aware of the wide-ranging environmental impacts of our purchasing decisions than ever before. A study conducted in 2019 identified that consumers now consider climate change as one of the top three issues that they want businesses to engage with[25]. With evidence of continued growth in sustainable products[26], our research shows that the FMCG sector is stepping up their response.

Across the international industry rankings, FMCG are the seventh highest scoring sector with some particularly high achievers. For example, Unilever and Danone sit at the top of their respective indices (Unilever 1st in the FTSE 100; Danone 2nd in the CAC 40). Both exhibit exemplary sustainability practices for their sector. Both companies have a detailed strategy for reaching Net Zero, set ambitious 1.5°C-aligned, SBTi-approved SBTs, commit to the RE100 and display high levels of stakeholder engagement on a diversity of sustainability issues.

The sector as a whole performs above average across all areas, especially regarding Engagement & Innovation criteria. This is unsurprising in a competitive sector defined by continuous innovation to meet changing consumer demands.

FMCG vs Index Comparison



25 https://fhflondon.co.uk/2019/07/leading-with-impact-fleishmanhillard-fishburn-launches-2019-authenticity-gap-report/
26 https://fortune.com/2019/11/05/sustainability-marketing-consumer-spending/

Measuring and targeting the full value chain

The major challenge for this sector is the complexity of its value chains. The highest proportion of FMCG company emissions fall within Scope 3, which are more challenging to both measure and to influence given that they are outside of a companies' direct control and require collaboration and buy-in from multiple geographically diverse stakeholders.

Most FMCG companies in our study, however, are tackling these challenges. A total of 83% are reporting on two or more Scope 3 categories, and are including Scope 3 in their carbon reduction targets. This places them second only to the Automobile and Electronic & Electrical Equipment sectors in which 100% of companies include Scope 3 in their targets. However, as these other industries are only represented by comparatively few companies in the research, the FCMG sector demonstrates a clear and very strong trend towards best practice Scope 3 reporting.

It is encouraging to see that the FMCG sector is taking responsibility for all Scopes of their emissions. This industry has the power to influence positive change across their international supply chains, which will play a vital role in the global goal for Net Zero. For example, Coca-Cola Hellenic Bottling Company (Hbc) which has achieved 4th place in this year's FTSE 100 ranking, identified 138 of its key suppliers with high water risk and is working directly with them to develop a strategy to address these challenges. The company also monitors the activities of their suppliers using EcoVadis[27] and engages suppliers in knowledge sharing and education sessions to advise on how to reduce emissions and environmental impacts. Elsewhere, Associated British Foods is working closely with its sugar farmers in China to grow crops in a more sustainable way and improve water use efficiency.

Furthermore, 83% of companies in the industry sector have set an SBT which is essential for ensuring that emissions reduction goals are in line with limiting global warming to the levels advised by the most recent climate science. These targets also require the inclusion of Scope 3 if they cover a significant proportion (more than 40%) of a company's emissions. Out of the companies which have set SBTs, all of them are SBTi verified, confirming the validity and robustness of their decarbonization targets.

Despite the industry's engagement with its Scope 3 emissions and commendable SBT ambitions, only 50% of FMCG companies demonstrate proof of any reduction in their Scope 3 footprint in the last year. However, The Coca-Cola Company, which has taken 6th place in this year's DOW 30 ranking, has shown particularly impressive engagement with their Scope 3 emissions. It includes Scope 3 in its SBTi-approved carbon reduction targets and is showing significant progression towards its targets with emission reductions seen across three Scope 3 categories this year.

In addition to addressing their full value chain emissions, it is important that FMCG companies assess the climate-related risks that face their business, especially given the vulnerability of their supply chain to increasingly changing climatic conditions. Our research confirmed that all FMCG companies assess the climate risks that face their business and 75% set out management procedures and mitigation measures for addressing their climate risks. Currently only half of companies are using CSA to inform their sustainability plan, showing that there is still room for improvement across the sector to ensure climate resilience. However, a further 42% plan to use CSA in the future to inform their business plan so this is likely to improve in upcoming years.

The resilience of supply chains has been severely tested as a consequence of the COVID-19 pandemic. The demands for how goods are consumed changed rapidly alongside enormous restrictions on transportation, working environments and population movements. The food industry in particular is an example of a sector where demand has remained high, but the challenges to supply are unprecedented[28]. This has served to highlight the importance of understanding vulnerability to future risks and being prepared to adapt to meet the challenges.

27 https://ecovadis.com/
28 https://www.ft.com/content/d7a12d18-8313-11ea-b6e9-a94cffd1d9bf

Tackling deforestation and environmental degradation

Commodity-driven deforestation and land degradation is a growing challenge across the globe, accelerating climate change as well as biodiversity loss. The urgency of preserving the world's forests has garnered much media attention during the past year, particularly following the disastrous Brazilian Amazon and Australian forest fires in 2019.

Consumer goods companies are widely recognized as significant contributors to global deforestation[29] due to their use of raw materials and reliance on extensive agricultural production. The Consumer Goods Forum's Forest Positive Coalition[30] consists of 17 ambitious global companies, including a number of companies in our research[31], striving to achieve a "forest-positive future." In 2010, the coalition committed to a target to reach Net Zero deforestation by 2020. Research conducted by CDP in 2019 concluded that sadly this goal is now impossible to reach this year[32]. Companies in the FMCG industry will need to work together to devise a more robust supply chain strategy and achievable targets to tackle the global deforestation catastrophe.

Our research investigates supplier engagement, which will be an essential element to addressing this challenge. Across all the FMCG companies, 100% have demonstrated high levels of supplier engagement, collaborating and co-innovating with their suppliers to address sustainability challenges. For example, Unilever works with its tea leaf suppliers to ensure sustainable communities are established and to preserve its tea plantation farmland through extensive reforestation programs[33], including the planting of 1.3 million trees in its tea region in Kenya. In fact, this year Unilever has announced its own new target to achieve a deforestation-free supply chain by 2023, alongside which it has launched a €1 billion Climate & Nature Fund which will channel funds into reforestation, wildlife protection and water preservation.

Collaboration with all stakeholders will be an essential part of ensuring success with our climate and sustainability ambitions, and all FMCG companies collaborate with NGOs, with a number working with charities to preserve the world's natural resources, such as forests and water. Diageo partnered with Nature Kenya to plant 3,000 trees as part of the Kijani tree planting initiative at Mount Kenya.

Elsewhere, Procter & Gamble also exhibit notable partnerships with Conservation International and World Wildlife Fund (WWF)[34] to assist in the investment into projects aiming to restore essential ecosystems including forests and wetlands, an important step to tackling the global climate crisis.

These large FMCG companies rely heavily on raw materials in the production of their products so establishing supply stability and preserving our natural resources is in their best interest. The average FMCG score for Engagement & Innovation is 15% higher when compared to the overall average across all companies. Although there is clearly some way to go in terms of successfully achieving climate targets, this score is testament to the leadership actions in terms of supply chain engagement that we have evidenced within this sector.

29 https://www.cdp.net/en/articles/media/leading-consumer-goods-companies-directly-linked-to-deforestation-soybean-cattle-paper-palm-oil-risks-potential-threat-to-global-supply-chains
30 https://www.theconsumergoodsforum.com/environmental-sustainability/forest-positive/
31 Carrefour, Danone, Proctor & Gamble, Tesco, Sainsbury's, Unilever and Walmart
32 https://www.businessgreen.com/news/3083828/consumer-goods-sectors-2020-deforestation-goal-impossible-cdp-warns
33 https://www.unilever.com/sustainable-living/reducing-environmental-impact/sustainable-sourcing/sustainable-tea-leading-the-industry/#244-423976
34 https://sustainablebrands.com/read/finance-investment/p-g-embraces-natural-climate-solutions-to-achieve-climate-neutrality

Facilitating the transition to a circular economy

The rise of e-commerce has been shaping the FMCG sector, particularly in recent years, and it is expected that online sales will grow over 54% in the next five[35]. This has posed additional environmental challenges including increased waste associated with packaging, and increased emissions from transportation. Tackling these challenges and implementing the circular economy principles is vital to counteracting these impacts.

Our research shows that 92% of FMCG companies report on other KPIs such as waste production and recycling rates with 83% setting targets for managing these KPIs. This shows the sector's engagement with their environmental impacts beyond carbon emissions alone.

Danone, amongst other FMCG companies, is part of a global partnership with the Ellen MacArthur Foundation, which demonstrates that they are collaborating to overcome the challenges of waste. It is specifically acting as a leading partner in the New Plastics Economy Initiative striving to alter the way we produce, use and reuse plastic in order to move away from a linear take-make-waste model. The company goal is for every piece of its packaging to be reusable, recyclable or compostable by 2025. Included in this target is a plan to develop new alternative delivery and reuse models.

In order to reduce environmental impacts during product use, 83% of FMCG companies are encouraging sustainable behavior in their consumers, with 33% offering incentives for sustainable purchasing or behaviour. Unilever implements exemplary consumer influencing initiatives. It is exploring new business models to enable the reuse and refill of its containers in order to reduce non-bio-degradable material waste. In 2019, it trialed a number of refilling stations for a selection of home and personal-care products. One of these trials in Mexico involves their hair care band Sedal[36]. Its products are now being sold in reusable aluminum bottles in five Walmart Stores. The trial appears successful so far with two tons of Sedal shampoo being sold in the new bottles in the first ten days. These refill stations are now going to be launched across the country.

Innovation of new sustainable products and services will be integral to both the circular economy and the Net Zero transition, and the FMCG sector with its vast array of consumer products has a key role to play. Companies like Reckitt Benckiser (RB) are starting to embed sustainability into innovation processes. RB has a sustainable innovation programme incentivised by a revenue target and has devised a scoring matrix for its new products which quantifies improvements in five sustainability areas: Carbon, Water, Plastics, Weight and Ingredients[37].

Progress to Net Zero

Despite these strong sustainability actions, only 42% of companies across the industry have currently committed to Net Zero (or carbon neutrality) and fewer still have set out a detailed Net Zero strategy (17%).

Given the wide-reaching climate impacts of these organizations and their ability to influence change from supply chain to end consumer, it is essential that more companies in the sector commit to these ambitions to play their role in our urgent transition to Net Zero.

35 https://www.iriworldwide.com/es-es/insights/news/iri-e-commerce-report-reveals-major-growth-opportu
36 https://www.unilever.com/sustainable-living/reducing-environmental-impact/waste-and-packaging/rethinking-plastic-packaging/
37 https://www.rb.com/media/5706/sustainability-insights-2019.pdf

Biggest movers

FTSE 100
Informa

This year the most significantly improved company in the FTSE 100 rankings is publishing company Informa which has moved up an impressive 51 places, earning it a position just inside the FTSE 100 Top 20 in 17th place. Informa's progress is a result of its incorporation of a diversity of best practices across a range of scoring criteria. Informa is now reporting its Scope 3 emissions across 10 different GHG protocol-aligned categories and includes Scope 3 in its carbon reduction targets. Most notable is Informa's new ambitious commitment to achieving carbon neutrality by 2021 and Net Zero by 2030, using verified carbon offsetting projects to offset any remaining unavoidable emissions. The company is also continuing to reduce its absolute emissions across all three Scopes, bringing it closer to achieving its well-below 2°C aligned, SBTi-verified science-based target.

IBEX 35
CaixaBank

This year, financial sector company CaixaBank has made the greatest improvement in the IBEX 35. The company has moved up 9 positions and, as a result, is now ranked 7th and listed on the Top 10. CaixaBank has made impressive progress on climate risk assessments across its value chain and has implemented measures to mitigate them in accordance with its Environmental Risk Management Policy. They have also made further improvements in the implementation of the TCFD recommendations and are now using climate scenarios to better understand the range of risks to which the company could be exposed. In the process, they have identified sustainable finance as a climate opportunity and are now offering a range of sustainable finance solutions to their clients. For example, in 2019, the company launched "Agroinversión Energías Renovables" a loan offered to the Agriculture and Food industry to promote the consumption of renewable energy.

CAC 40
Crédit Agricole

Crédit Agricole has made the most significant improvement in the CAC 40 this year, getting closer to the Top 10. Following the path of disinvestment in coal in European Union countries by 2030, and worldwide by 2050, the bank has also committed to financing a third of renewable energy projects in France and to doubling its portfolio of green loans to €13 billion in short term. The company stands out in particular as a pioneer in climate finance, having demonstrated the potential of green bonds: Crédit Agricole CIB was awarded the Climate Bonds Initiative's 2019 prize for the leading arranger and bookrunner of green bonds. The bank also reports several categories of Scope 3 emissions and have included ESG indicators in their annual reports. Crédit Agricole is aligned with the recommendations of the TCFD and communicates their climate-related risks and opportunities

DOW 30
Pfizer

This year, the biggest improver of the DOW 30 is Pfizer, who jumped 15 spots to enter the Top 10 of the DOW 30 ranking. This improvement is due to the fact that they now report their Scope 3 emissions across all categories, and have fully integrated climate risk in their strategy by aligning with the TCFD. Not only is Pfizer planning for climate risk, they are also seizing the opportunities presented by climate change adaptation, particularly in terms of sustainable product development, and by implementing a strategy to reduce their environmental footprint via energy efficiency, waste reduction and water conservation. The company stands out this year in particular by being the first in the pharmaceutical sector to issue a green bond.

Net Zero: a global imperative

Despite the urgency of the "Net Zero" ambition and a rising number of national commitments to achieve it, there is currently no internationally recognized definition or any universal guidelines on how to achieve it for corporates.

Having said that, there is a growing consensus among climate experts in the sustainability sector who have been working with terms like "carbon neutrality" and "Net Zero emissions" for some time.

Aligned with this consensus, our definition of Net Zero is as follows: **Net Zero is a state where we add no incremental greenhouse gases to the atmosphere.** This means emissions output is balanced with removal of carbon from the atmosphere via carbon sinks (e.g forests, mangroves, carbon capture, etc). Essentially, what goes in, must be removed to equal Net Zero.

The absence of a universal definition does pose some challenges in assessing the veracity of Net Zero ambitions, particularly if the term is not defined by an organization clearly (of those companies across all indices that have committed to Net Zero, only 59% provide a definition of the term), or is used interchangeably with "carbon neutrality", as we have found is often the case.

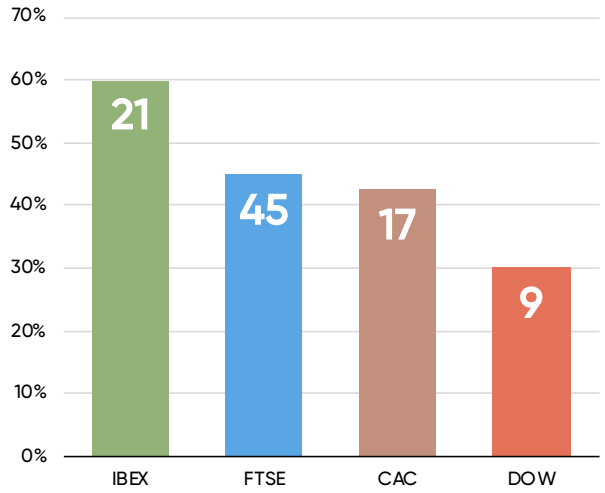
By contrast, **carbon neutrality is achieved through offsetting emissions to neutral on a specific parameter** via the purchase of carbon credits from certified projects that reduce or avoid carbon emissions. Therefore, carbon is not necessarily removed from the atmosphere as would be the case for Net Zero. The role of carbon offsetting is important for the transition to Net Zero, but it is in this sense distinct. However, this technical definition is not widely understood, and terminology varies in different languages, so we have taken into account when scoring Net Zero commitments that terminology may vary.

Which index is doing better on Net Zero and why?

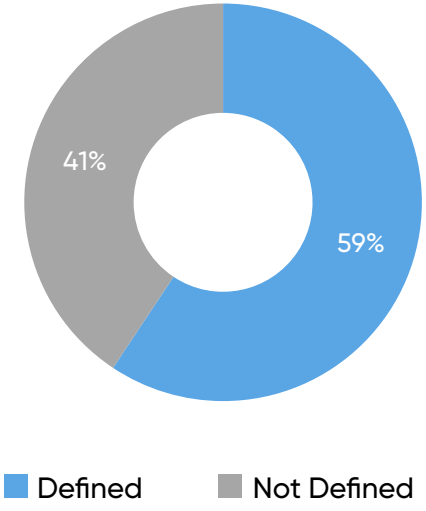
In 2020, we have evidenced a significant uplift in commitments across all geographies; in fact, the percentage has more than doubled. The IBEX 35 is visibly out in front with 60% of companies making a commitment, which is a 20% increase on commitments made last year, and representative of a rapid alignment of the majority with the global ambition. In Spain, the drivers for corporate action have grown considerably in the last year. The Spanish government declared their intent to set a Net Zero target in December 2019, and although this is only beginning to be drafted into law this year, the uplift in commitments suggests it is already having an impact. There is also a strong collaborative momentum among corporates to take action. The Spanish Green Growth Group is a collective of large Spanish corporates committed to low-carbon green growth and membership covers around 50% of the IBEX 35. They have been public in their support for government climate laws and evidently translating that to their own corporate strategies.

The FTSE 100, as a much larger index, now has the most pledges in number for Net Zero (or carbon neutrality) – 45 – which represents a 30% increase since last year's research, the highest percentage uplift out of the indices. This is no doubt also influenced by the UK Government's

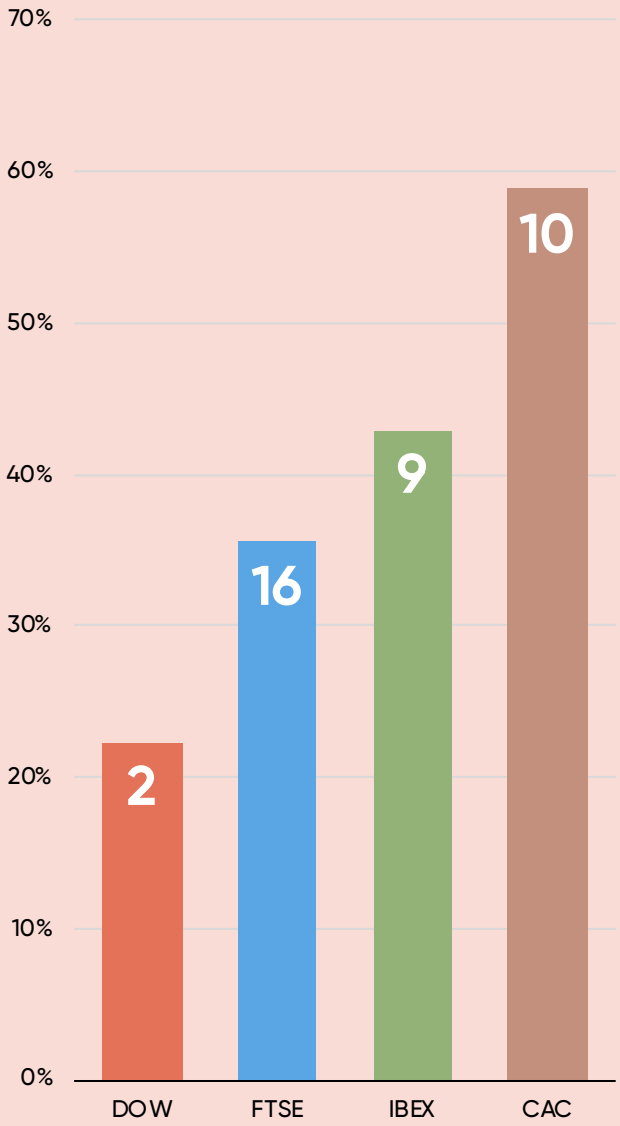
Commitment by index (% and number of companies)



Companies defining Net Zero/ carbon neutrality commitments



Companies committing to Net Zero/ carbon neutrality that outline a clear Net Zero strategy by index



commitment to Net Zero in June 2019. It is likely that the controversially disruptive climate protests and ongoing student strikes, which garnered enormous press in the UK throughout 2019, have awakened corporates to the reputational risks of inaction and growing consumer concern for environmental impacts.

In France, the government set their Net Zero ambition at a similar time frame to the UK and this appears to have influenced the CAC 40 companies in the same fashion, with commitments lifting from 25% of companies in 2019 to 43% in 2020. This is a smaller increase compared to the other indices, but French companies are more likely to have a clear strategy to meet their ambition (59% of those with a commitment), so it is possible that there is more cautiousness in the absence of global definitions to have a set plan of action prior to public declarations. Certainly, France has more comprehensive climate legislation in place when compared to the UK, Spain and the USA. Therefore, the importance of compliance and ensuring legitimate statements of intent could be slightly moderating the pace of public pledges.

The USA is the only country in the study without a nation-wide Net Zero commitment (although New York State committed in its Climate Leadership and Communities Protection Act), and it is clear that strong governance on climate change at a national level is an important driver for corporate response to climate action as the DOW 30 still lags behind. However, in 2019 only 10% of companies were committed, so a 20% increase to 30% indicates a growing number of US corporates forging ahead and taking the lead regardless of political will. Many of the drivers for corporate climate action now cross boundaries (as do these multi-national companies) such as investor pressure, international climate movements and, of course, few countries in 2020 have escaped the alarming impacts of a warming climate and no less the USA, with worsening California wildfires in recent years[38] and intensifying hurricanes[39].

Despite the impressive uplift in corporate commitments, across the board, this is not necessarily matched by a clearly outlined strategy for achieving the goal. In addition, not all commitments cover all emission Scopes (1, 2 & 3). We would caution that such an ambitious goal will require a robust strategy of action and we will need to act across the value chain if our climate goals are to be successful.

Why stop at Net Zero?

We are already seeing some leaders across all indices besting national targets by planning to reach Net Zero earlier or pledging to go further. Few can match the ambition of DOW 30 leader Microsoft, which has already committed to be "carbon negative" by 2030 and to have removed all their historical carbon emissions via sequestration by 2050. Unilever is also committed to be "carbon positive" in their operations by 2030. Again, we have a lack of consistency in terminology but, semantics aside, the basic definition in this case is the same – to offset, by sequestering or avoiding, more carbon than emitted into the atmosphere once emissions reach zero and/or reduction actions have been exhausted.

No commitment can be too ambitious when it comes to climate change. We should remember

38 https://www.theguardian.com/us-news/live/2020/aug/24/california-fires-evacuation-orders-bay-area-wildfires-latest-news-updates
39 https://blogs.scientificamerican.com/eye-of-the-storm/a-review-of-the-atlantic-hurricane-season-of-2019/#:~:text=The%20damaging%20slow%2Dmoving%20storms,northeast%20Mexico%2C%20%24250%20million%20in

that achieving Net Zero globally by 2050 only gives us a 50% chance of avoiding the most catastrophic impacts of climate change according to the IPCC, so the more ambitious we can be, the better.

The role of the carbon market

Whatever the scope of the ambition, unless companies are aiming for Net Zero on reductions alone, the carbon market will play a key role.

This year, we have awarded fewer points for the purchase of carbon credits because there is generally a lack of disclosure around whether these offsets are verified by recognized international standards (such as the Gold Standard or Verified Carbon Standard). Therefore, the percentage of companies offsetting across the indices has reduced from 33% in 2019 to just 25% in 2020 because companies are not demonstrating that their offsetting programs are comprised of certified projects. It is important that carbon credits purchased are from certified projects to be sure that they are credible. With growing scrutiny on climate action, companies need to be aware now of the need for transparency on any offsetting strategy and that it should be part of a wider strategy of emissions reduction. This year only 16% of all companies use offsetting as part of their wider reduction strategy.

Very few of the companies that do offset are disclosing whether they are purchasing sequestration credits, which are ultimately required for a Net Zero ambition, so it is not possible to measure this. This is to be expected without universal definition; in the coming years, we anticipate growing expectations around detailed offsetting strategies and a carbon market that rises to the growing demand for sequestration projects. In fact, in September 2020 a Taskforce on Scaling Voluntary Carbon Markets was formed, spearheaded by Mark Carney, UN Special Envoy for Climate Action and Finance Advisor to Boris Johnson for COP 26, and comprised of forty international experts in the field. Its purpose is to grow and consolidate the carbon market to help achieve the goals of the Paris Agreement[40].

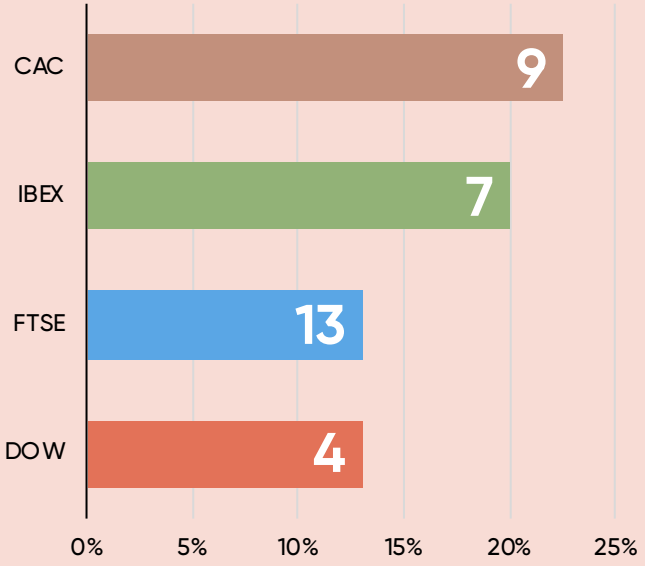
This year, there have been a growing number of companies claiming to be carbon neutral or having a carbon neutral product. Carbon neutrality is a key step in our journey to Net Zero, demonstrating that a company is taking action on the emissions it can't reduce today. However, any claims of carbon neutrality must be robust and transparent. Points were only awarded this year when such claims were externally verified by standards such as PAS 2060 for companies and PAS 2050 for products unless products are not currently covered by this or an equivalent standard. Therefore, only 1% of companies are carbon neutral across their direct operations (Scopes 1 & 2. However, an additional 3% are carbon neutral across all three Scopes.

The full scope of a Net Zero ambition

Making a public commitment to Net Zero is commendable and we are encouraged by the growing number of organizations making this move across our international indices over the last year. However, there are other factors which must be a part of our understanding of Net Zero if we are to successfully limit global temperatures and avert the worst of the climate crisis: Net Zero requires significant decarbonization in line with science; Net Zero requires a detailed understanding of and transparent communication of climate risks and opportunities; Net Zero requires we act on all Scopes and account for our full climate impact; Net Zero requires a robust strategy; Net Zero will require transformational change and the innovation of new low carbon products and services.

Each of our trends and case studies of climate leadership throughout the remainder of the report are in large part focused on these important aspects of a Net Zero strategy which are all intrinsically linked to our global goal.

Use of offsetting as part of a wider carbon reduction strategy by index



40 https://www.iif.com/Press/View/ID/4068/Private-Sector-Voluntary-Carbon-Markets-Taskforce-Established-to-Help-Meet-Climate-Goals

The DOW 30

DOW leaderboard

Microsoft retains its lead in the DOW 30 ranking this year for the third consecutive, as well as sitting firmly at the top of our international leader board.

This year the average score for the DOW 30 Top 10 is 73.8%. In our 2019 report this figure was 68.8% which points to a marked rise in performance in the top index performers, despite the tightening criteria for scoring this year.

Our leaderboard is dominated at the very top by ITT companies, with FMCG and Pharmaceuticals & Biotechnology accounting for a large proportion of the remaining Top 10.

	+/-	COMPANY	SCORE
1	—	Microsoft	93.8%
2	^	Apple	83.3%
3	—	Intel	77.8%
4	v	Cisco	77.1%
5	—	Procter & Gamble	74.3%
6	v	Coca-Cola	72.2%
7	v	3M	67.4%
8=	^	Pfizer	64.6%
	^	Goldman Sachs	
10	v	Johnson & Johnson	63.2%

In focus: top 3 companies

2nd
83%

Apple enters the Top 3 of the DOW 30 ranking for the first time.

One of only three companies in the DOW to define and distinguish between Net Zero and carbon neutrality, Apple is currently carbon neutral and aims to be Net Zero by 2030.

Their climate strategy is robust, with an SBT approved by the SBTi and the production of new sustainable products using recycled materials. Apple has very detailed climate reporting, and notably includes Scope 3 emissions across all categories. Additionally, Apple has dramatically reduced their Scope 2 emissions by using 100% renewable electricity; they are the only DOW 30 company to do so.

To achieve Net Zero, Apple is actively working with their supply chain to minimize emissions by sourcing renewable energy, improving energy efficiency and innovating in design and manufacturing.

1st
94%

Microsoft remains at the top of the DOW 30 ranking for the third consecutive year.

Microsoft continues to reinforce its commitment to fighting climate change, and to innovate in terms of sustainable development.

With a high level of transparency in their reporting and a detailed climate strategy to reach Net Zero, Microsoft, already carbon neutral, is one of only three companies in the DOW 30 to precisely define Net Zero and to differentiate it from carbon neutrality. The company has also committed to going beyond Net Zero to be carbon negative by 2030 and to remove, via sequestration, all of their historical carbon emissoins by 2050.

Microsoft now has a carbon reduction target for its Scope 3 emissions, and has developed the only carbon neutral product listed in the DOW 30, the Xbox.

3rd
78%

Intel maintains their 3rd place ranking

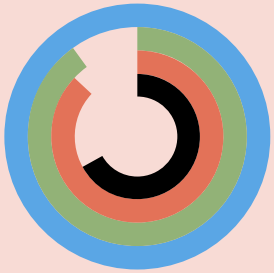
Holding on to third place and increasing their score since last year, despite this year's higher standards for climate reporting, Intel continues to make progress by fully integrating climate risk into their business model and reporting Scope 3 emissions across all categories.

Furthermore, Intel has numerous partnerships and initiatives in place to reduce their environmental impact, such as the Environmental Excellence Awards for its employees.

Finally, as Intel met its first carbon target one year ahead of schedule, the company has produced another carbon target that includes Scope 3: "increase product energy efficiency 10x for Intel client and server microprocessors."

DOW
key findings

Measuring & reporting



100% of companies measure/report their carbon emissions

90% report other environmental KPIs

87% report on Scope 3

67% report both location and market-based emissions

Risk assessment

90% assess risks

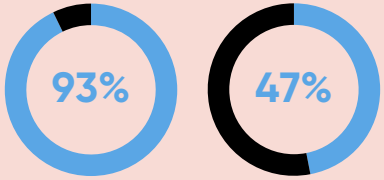
73% include risks in their annual report

50% have a plan in place to mitigate risks

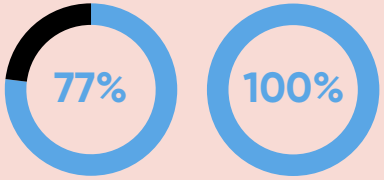
90% assess value chain risks

77% assess opportunities

Engagement

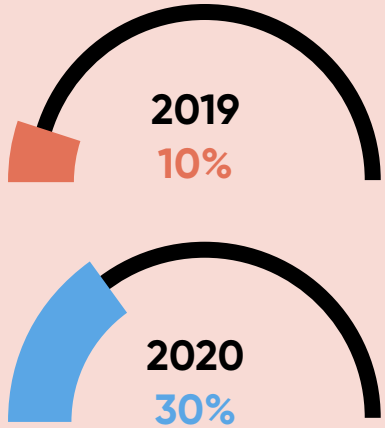


NGO Government



Industry Suppliers

Committment to Net Zero /carbon neutrality



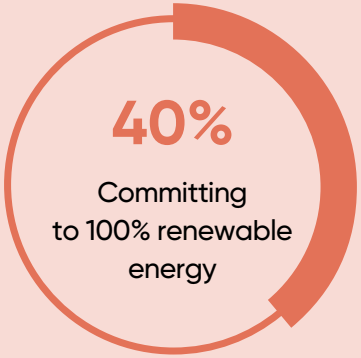
Carbon targets

77% of companies set carbon reduction targets

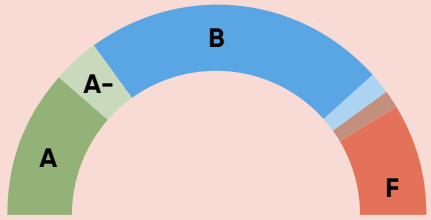
74% are on track to meet their targets

50% have set or committed to setting science-based targets

30% include Scope 3 emissions in their targets



CDP scoring



A 23%; A- 7%; B 47%; B- 3%; C 3%; D 0%; F 17%

The DOW 30 trends

Key Trend 1:
Net Zero

Across the DOW 30 a total of 30% of companies have committed to Net Zero or carbon neutrality, a 20% increase from 2019. Out of the companies committed this year, 33% of them are already carbon neutral or will be by the end of 2020, 44% are committed to Net Zero by 2030-2035 and 1% by 2050.

Carbon offsetting plays an important role for companies to reach both carbon neutrality and Net Zero. 27% of companies in the DOW 30 currently purchase certified credits (compared with 20% in 2019). However, only half of these companies are integrating carbon offsetting into a wider climate strategy which includes setting real carbon reduction targets.

It must be emphasized that carbon offsetting alone will not enable us to limit warming to 1.5 degrees. In terms of the level of offsetting, 50% of companies offsetting are carbon neutral across Scopes 1 and 2, while 38% are carbon neutral across Scopes 1, 2, and 3. In our analysis, DOW 30 companies account for half of all carbon neutral companies globally, regardless of whether they are carbon neutral for some or all of the Scopes. Our research also shows that companies using certified credits for their offsetting are generally more ambitious in terms of reduction targets.

The first carbon-neutral product from a DOW 30 company was launched this year: Microsoft produced 825,000 carbon neutral Xbox consoles by reducing lifecycle emissions, purchasing renewable electricity and offsetting residual emissions. Microsoft continues to reinforce its climate commitment with the game "Minecraft", which will host the "Build the Better World" program to guide gamers on how they can contribute to the sustainable movement. In-game activations, in collaboration with NGOs such as WWF and The Nature Conservancy, fund panda protection and coral reef restoration, encouraging players to click to learn more about the campaigns.

The DOW 30 is in third place compared to the other indices in terms of the development of low-carbon products, with 87% of companies producing or developing such products, many of which are related to the improvement of packaging. The DOW 30 companies are thus positioned behind those of the CAC 40 (90%) and the IBEX 35 (89%) but ahead of the FTSE 100 (70%). The development of low-carbon products in the DOW 30 has increased compared to last year (73% in 2019), which shows that companies are adopting more and more sustainable practices. It is also worth noting that 20% of the DOW 30 companies are in the ITT sector, and these companies are often paving the way in terms of creating innovative, low-carbon products. Companies within the DOW 30 also have numerous internal initiatives that aim to reduce their carbon footprint. While the percentage of companies that mobilize their employees around sustainable development issues through training sessions and information sharing remains stable (40% in 2019 and in 2020), the percentage of companies offering incentives to encourage sustainable behavior in employees – such as financial rewards for taking low-carbon transportation for example – increased from 33% in 2019 to 40% this year. In addition, DOW 30 companies are offering more and more incentives for top management, increasing from 37% to 47%, a very significant leap. We can also note that while no DOW 30 companies had an internal carbon price in 2019, 13% do in 2020.

While the DOW 30 companies have no legal obligations in terms of climate reporting and carbon neutrality, most of them still engage in robust climate reporting. Moreover, even though the United States has withdrawn from the Paris Agreement, the objectives and ambitions are widely cited in sustainability reports, and many companies are calling for a climate commitment at the federal level. The role of climate change, and more importantly how government policies will mitigate it, has become increasingly important in political campaigning in the US.

The Green New Deal was a proposed legislative package sponsored by Democratic congressmen and congresswomen in 2019. The primary goal of the Green New Deal is for the United States to reach Net Zero before 2050, and demonstrates that the Net Zero goal is indeed making headway in the United States.

Key Trend 2: TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) began as a working group set up at the end of 2015 at the COP21 by the G20 Financial Stability Board. Its aim is to promote financial transparency related to climate risks. In 2017, it published its recommendations to encourage consistent and clear financial reporting on the risks and opportunities related to climate change; these recommendations are now widely recognized by governments, investors and financial managers.

Alignment to the TCFD for DOW 30 companies jumped 14% this year from 23% to 37%. However, alignment is confined to certain sectors. The graph included shows the top 7 industries in the DOW 30 aligned to the TCFD; no other sectors in the index are demonstrating alignment. Conglomerate; Electricity, Gas and Oil supply; and Insurance sectors show 100% alignment to the TCFD, but these industries are only represented by one, two and one companies respectively in the DOW 30, limiting the conclusions that can be drawn from these results.

Having said that, all sectors that do align are particularly vulnerable to climate change-related risks: the energy sector is impacted by increasing legislation but also by the potential future deterioration of production and extraction conditions. The ITT sector's infrastructure is largely at the mercy of climatic events, which could adversely affect its ability to provide reliable service on an international scale. Extreme meteorological events may also impact consumer goods suppliers, particularly in terms of procurement, and the financial sector is exposed to climate risk via their investment portfolios.

Companies are exposed to two types of climate risks: physical and transition. Physical risk refers to climate-related events such as natural disasters, while transition risk encompasses the financial costs associated with the institutional changes needed to transition to a low-carbon economy. The TCFD recommends that these risks are assessed through CSA.

73% of DOW 30 companies now include climate risk in the risk section of their annual report, compared to 70% last year, and 50% identify both types of risk. The main transition risks identified are unsurprisingly the increase in energy costs and the financial impact of increased regulation.

The use of CSA is also progressing, with 57% of DOW 30 companies using or planning to use it compared to 46% in 2019. 40% of companies already use CSA routinely and 67% of these companies present the results of the analysis.

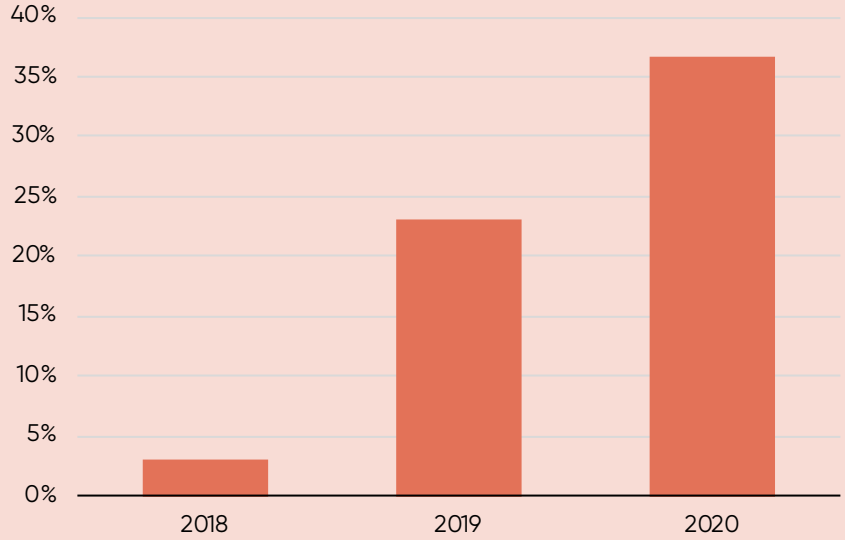
Our research shows that climate risk is well-identified thanks to a number of contextual elements such as the increase in extreme weather events, pressure from investors, and the integration of the TCFD's recommendations into numerous reporting standards such as the SASB or CDP.

The assessment of climate risk in general thus reaches 90% in DOW 30 companies, up 9% since 2019, while the identification of climate risk within the value chain remains stable at 90%. However, 50% do not include a risk mitigation plan in their public reporting.

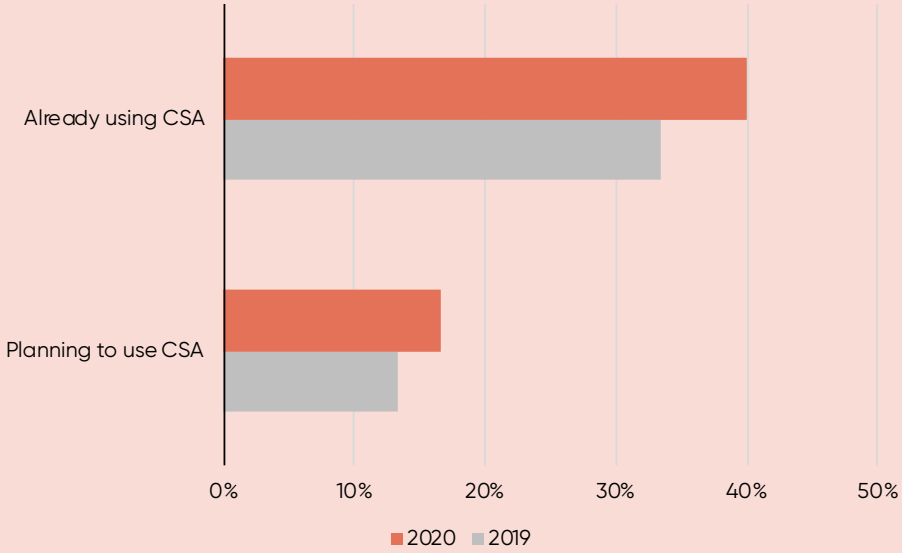
Finally, risk assessment must go hand in hand with assessing the opportunities of adaptation and mitigation measures. Research conducted by CDP in 2018 identified that the potential revenue from climate-related business opportunities for its respondents was over US$2.1 trillion, far outweighing the financial losses posed by climate risks[41]. Therefore, opportunities also provide a vital commercial driver for stimulating corporate climate action. Identification of climate change as an opportunity for the business gains one percentage point and reaches 77%, with the opportunities connected to the development of new sustainable products being widely cited.

41 https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018/climate-report-risks-and-opportunities

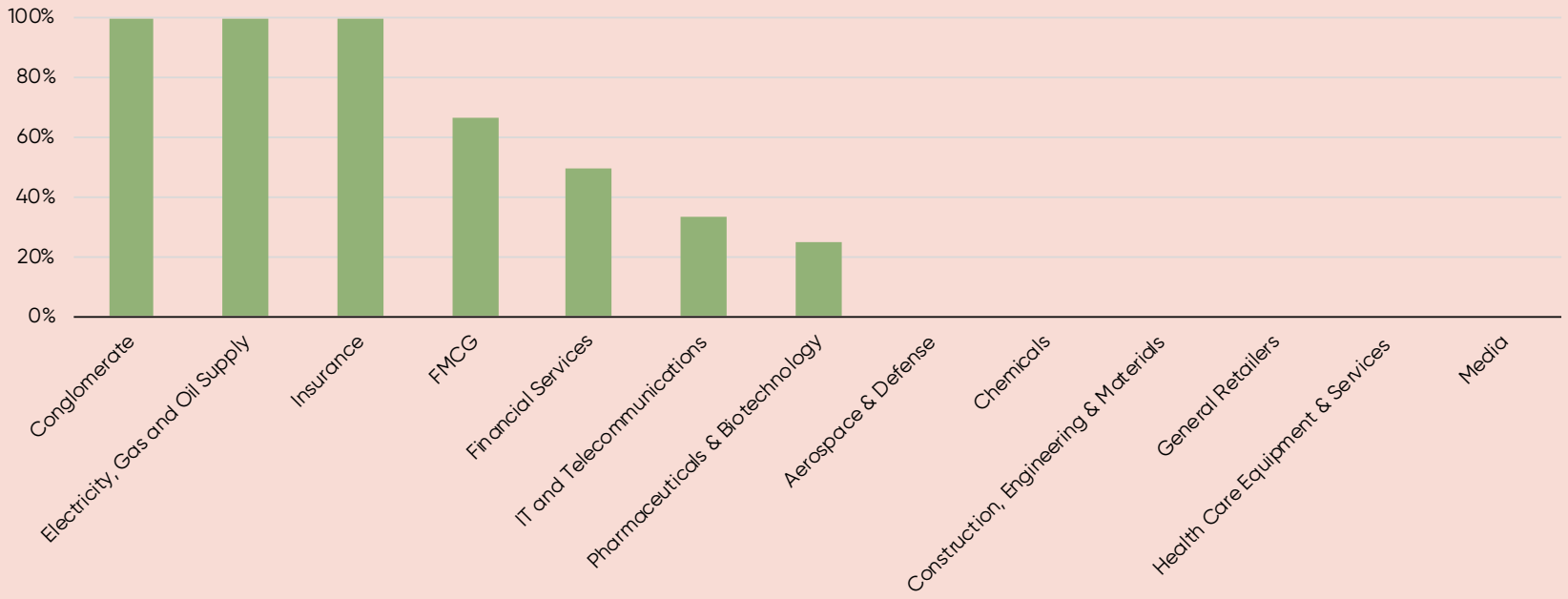
Alignment to TCFD



Climate scenario analysis



TCFD alignment across industry



Key Trend 3: SBTs

The Science Based Targets initiative (SBTi) is a joint initiative from CDP, the UN Global Compact, the World Resources Institute and the World Wildlife Fund (WWF). The SBTi aims to drive ambitious climate action in the business community by making its targets a means for companies to transform the transition to a low-carbon economy into a competitive advantage.

The concept behind the SBTi is that GHG reduction targets must be aligned with climate science. Defining and getting approval for an SBT involves four steps: signing the commitment letter confirming that the company will work towards a science-based GHG reduction target, developing an SBT within 24 months, submitting the target for validation, and publicly announcing the target.

The target validation criteria were updated in October 2019 following the publication of the IPCC Special Report on 1.5°C. New targets submitted for validation will only be accepted if they are consistent with limiting warming to 1.5°C or well below 2°C compared to pre-industrial levels; targets compatible with limiting warming to 2°C will no longer be approved. To ensure that the targets remain aligned with the latest climate science, companies will be required to review and, if necessary, revalidate their targets every five years from the date of initial approval. This step will become mandatory in 2025.

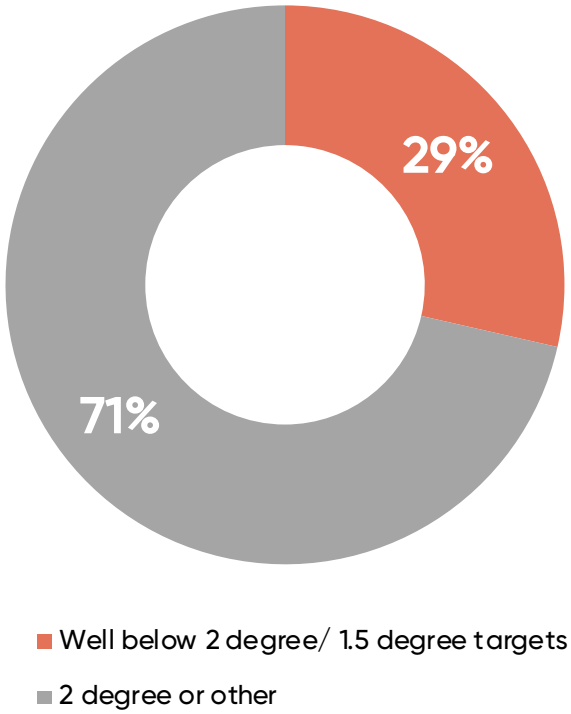
Companies with SBTs are identified as having a robust climate policy, so more and more investors and reporting frameworks such as CDP are paying close attention to these objectives. Within the DOW 30, there has been a clear response to this trend, with 47% now having an SBT compared to only 37% in 2019 and 2018. Companies with an SBT often belong to sectors with a direct link to consumers: all companies in the FMCG and General Retailers sectors have an SBT. ITT companies are also well placed; only one company in this sector does not have an SBT. Of those companies setting an SBT 64% have had their targets approved by the SBTi. The obtainment of this validation is important to demonstrate the credibility and robustness of a company's carbon reduction target to an interested third-party.

Looking across the other indices, the CAC 40 exhibits the highest percentage of companies setting SBTs at 50% with the DOW 30 falling just behind with a total of 47% of companies setting SBTs.

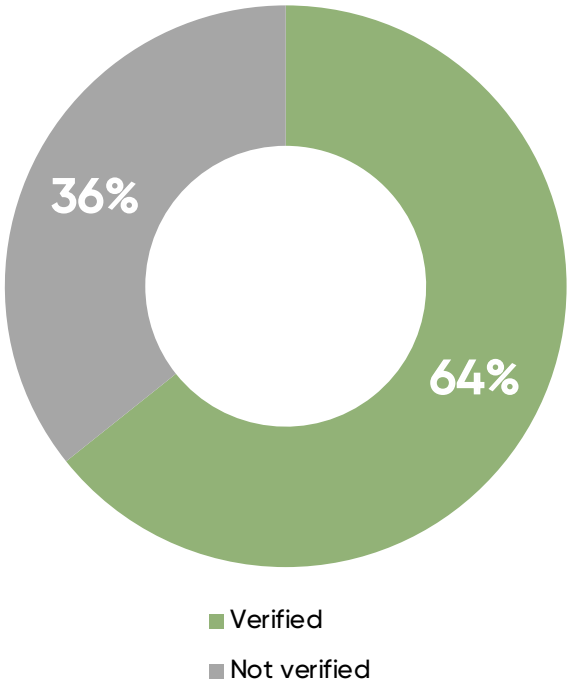
In the DOW 30, out of the 47% that have an SBT, 71% have a 2°C target, 29% have a well-below 2°C target with only one company indicating a 1.5°C target (Microsoft). Last year, there were no targets aligned to the higher ambition, demonstrating clear progress for the index and momentum towards decarbonization aligned with science.

Furthermore, our results show the impact that setting carbon reduction targets, and specifically SBTs, can have on absolute emissions reductions across Scopes 1 & 2. Out of those companies setting SBTs, 57% have shown absolute emissions reductions. In comparison, only 29% of companies who have not set a carbon reduction target have shown absolute emissions reductions. This emphasizes the importance of setting clear carbon reduction targets to drive emission reductions across the company.

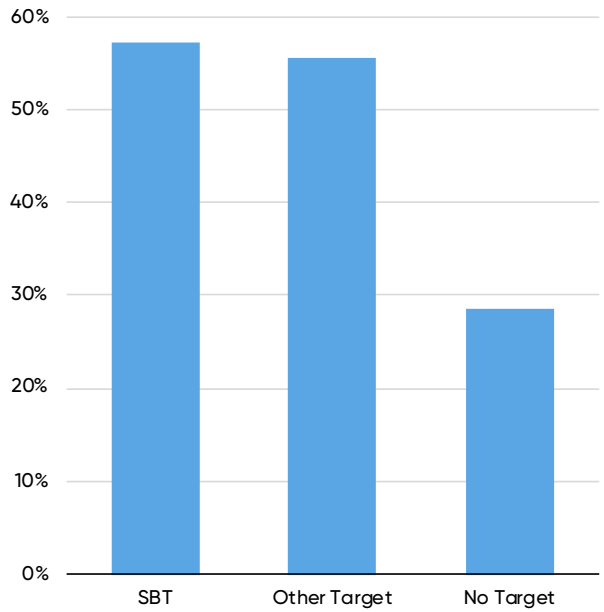
Level of ambition of SBTs



SBTi verification



Absolute emissions reduction



Key Trend 4:
Scope 3

Scope 3 is one of the three levels of GHG emissions established by the GHG Protocol. Launched in 2001 by the WBCSD (World Business Council for Sustainable Development) and the WRI (World Resources Institute), the GHG Protocol's goal is to coordinate the fight against climate change on a global scale. It is used to quantify all the impacts generated by the production and consumption of a product or service, and is divided into 3 categories which correspond to emission perimeters: Scope 1 (direct emissions), Scope 2 (indirect emissions linked to energy consumption) and Scope 3, which corresponds to other indirect emissions not under the direct control of the organization in question, such as the extraction of materials purchased to make a product, or emissions linked to employee transportation. Scope 3 usually represents the largest part of a company's total emissions and is divided into 15 categories.

Once again, this year 100% of DOW 30 companies report on their Scope 1 and 2 emissions, and companies using both market-based and location-based Scope 2 calculation methods are increasing, reaching 67% (vs. 63% in 2019).

Similarly, Scope 3 reporting is improving, with 87% now providing information on at least one Scope 3 category, compared with 80% last year. 65% of these companies provide evidence that the carbon data for at least one of their Scope 3 categories has been verified.

An improvement in Scope 3 reporting is evident, particularly in terms of the number of reported categories. In 2019, only 29% of DOW 30 companies provided data for all 15 categories, whereas this figure has risen to 40% in 2020.

If we look at the carbon objectives of the DOW 30 companies, 77% have a reduction target, which remains stable compared to the two previous years. 74% of these companies are on track to meet their targets, and our research shows a significant increase in the number of DOW companies with a carbon reduction target: 39% include Scope 3, compared to 30% in 2019.

DOW 30 companies are also demonstrating improvements in the management of their Scope 3 emissions, for example via reducing business travel, promoting teleconferencing, or providing incentives for more sustainable transport for employee commuting. It is also clear that many companies are starting to go further, and in particular beginning to tackle what is often the biggest source of Scope 3 emissions: their supply chain.

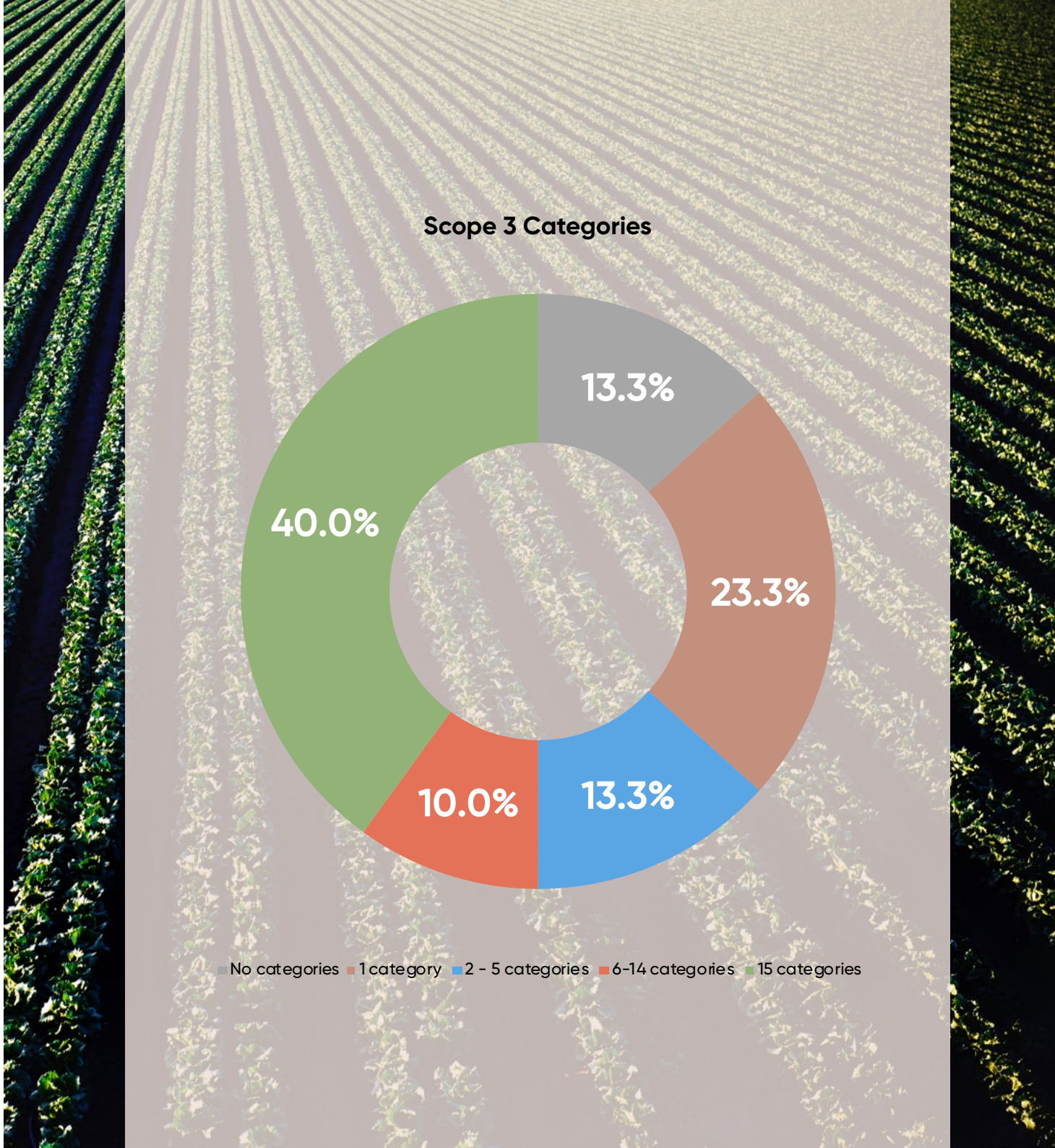
All DOW 30 companies are committed to working on sustainability with their suppliers. Out of these companies, 40% have implemented sustainable criteria for their supply chain. Most interestingly, 60% of the DOW 30 companies have implemented real initiatives to encourage their suppliers to report their emissions and to align their business model with the low-carbon economy and 50% of these companies have quantified the results of these initiatives. There are thus several supply chain emission reduction targets in the DOW 30, as is the case for Cisco and Walmart.

Initiatives to meet these targets are mainly focused on managing resources such as water and energy, or waste and paper reduction. More and more companies are coordinating with their suppliers on sustainable development: for example, 3M has set up a sustainability-related awards program for their supply chain partners.

Furthermore, in order to reduce their Scope 3 emissions, many companies are working to reduce their packaging and/or use recycled materials via the circular economy, as is the case for Coca-Cola bottles and some Nike shoes. Product life cycle analysis is widely cited as part of these initiatives, and the use of the circular economy has reached 47% for DOW 30 companies.

Elsewhere, 83% of the DOW 30 are attempting to influence sustainable consumer behavior, with

73% of DOW 30 companies providing succinct information on their sustainable products and a further 10% providing rewards or incentives to their consumers for choosing sustainable options. For example, Apple offers the option to trade in old iPhones in return for a discount off the next device or gift card.



Key Trend 5:
Renewable electricity

The Energy Information Agency (EIA) is an independent institution created in 1977 by the US Congress to provide figures on the energy sector. In particular, the EIA publishes a monthly analysis of electricity production throughout the United States. In April 2019, power generation from renewable resources surpassed coal-based power generation for the first time[42]. Despite a seasonality effect, this indicates a significant trend that could, according to the agency, be generalized in 2020 despite President Trump's strong support for fossil fuels.

The DOW 30 is taking advantage of the proliferation of renewable energy sources, with 93% of DOW 30 companies currently using at least 1% renewable electricity, and 17% using between 76% and 100% renewable electricity.

The DOW 30 is in 1st place compared to the other indices, with the IBEX in 2nd place at 86% use of renewable electricity, the CAC at 80% and the FTSE at 68%.

To reduce GHG emissions, one of the most impactful solutions is the use of renewable electricity. This is widely cited in the DOW 30 companies' reports and explains the high use of renewable energy. To obtain renewable electricity, fourteen DOW 30 companies buy it, while thirteen both buy and produce it. Only one company, Pfizer, produces all of the renewable electricity that it uses, but its share of renewable energy use is lower when compared to other companies in the DOW 30.

17% of the DOW 30 companies already use 100% renewable electricity and 23% have planned to reach 100% between 2025 and 2050. Among the companies that use 100% renewable electricity, three out of four belong to the financial sector.

This emissions reduction strategy makes sense within the sectoral context, since this is a fairly easy way to reduce emissions that are largely attributed to the energy consumption of their offices and buildings. Indeed, 97% of DOW 30 companies have implemented low-carbon solutions for better energy efficiency, especially in terms of buildings' energy consumption; 53% quantify the energy saved.

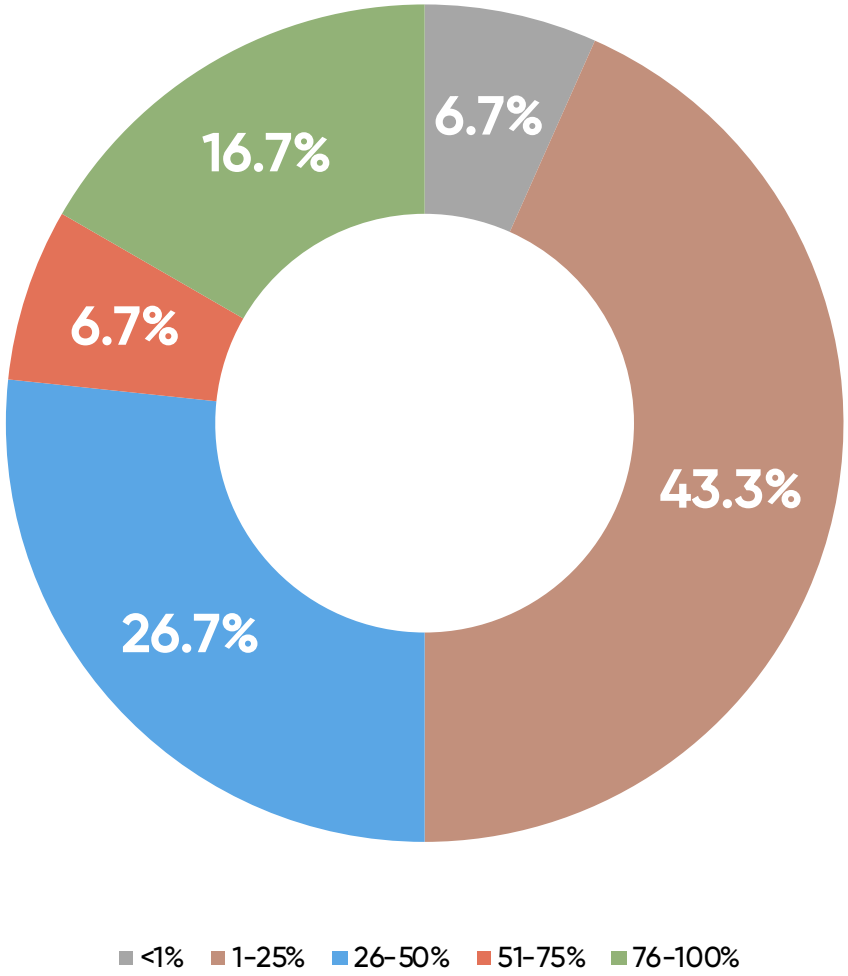
It can also be noted that many companies are calling on their suppliers to use renewable energy. For example, Apple started by reaching 100% renewable energy use for its own installations (and thereby reduced its Scope 2 emissions to zero in 2019) and launching the Supplier Clean Energy program in October 2015 to encourage clean energy use within its supply chain.

As a result, Apple has the ambitious goal to transition the electricity used throughout its manufacturing supply chain - including materials extraction, component manufacturing and final product assembly – to 100% renewable sources by 2030.

The share of renewable electricity use by DOW 30 companies and their suppliers is therefore only expected to increase, and their current trajectory is promising.

42 https://www.eia.gov/todayinenergy/detail.php?id=43895

Renewable energy consumption



Conclusion

The results of our third annual study on the sustainability reporting performance of the DOW 30 show that these companies are making progress in terms of integrating climate considerations into their corporate strategies and ambitions. This is notably reflected by detailed carbon reporting, with particularly comprehensive reporting of Scope 3 emissions including strategies to reduce this part of their carbon footprint. This year we also saw momentum around TCFD alignment and the consideration of climate risk, as more and more companies are including these risks (and opportunities) in their corporate strategies.

Companies are being pressured on all sides to become more sustainable: beyond the urgency of the climate crisis and the impact on their business, stakeholders and investors are demanding more transparency in climate reporting, and more environmental responsibility. Future climate regulations with financial impacts are also a strong driving force behind their transition to a low-carbon model, as are reputational concerns and customer expectations. The demand for sustainable products continues to grow, and this consumer trend will surely breathe new life into the market for low-carbon and carbon-neutral products.

Despite a lack of ambition at the federal level, it is promising to see that DOW 30 companies are progressively committing to Net Zero. More broadly, DOW companies show strong progress across all the categories in our research: Measurement and Reporting; Strategy and Governance; Targets and Reductions; and Engagement and Innovation. Furthermore, the leading DOW 30 companies, despite operating with almost no climate regulations, are well placed in the international ranking with four companies (all in the ITT sector) in the Top 20.

Even though our scoring methodology becomes more strict each year in order to remain in line with the latest climate science, this year the scores increased overall for the DOW 30 and the gap between the lowest and the highest score is closing (ranging from 57% to 96% this year, compared with 24% to 86% last year). With an average score of 57%, the DOW 30 ranks third among the four indices, the CAC 40 coming in first at 62%, followed by the IBEX 35 at 60%, and the FTSE at trailing at 50% (although the latter is a large index with a wider range of scores).

We also cannot ignore the unprecedented challenges that the international community is facing today in the midst of the global COVID-19 pandemic. We understand that this may have impacted reporting for some companies this year, so this must be kept in mind. However, this crippling crisis has only strengthened our conviction that we must heed the warnings on future climate risks, learn lessons from the pandemic and focus in on the rapid progression required to achieve Net Zero.

In the light of the recommendations of the international scientific community, it appears that it is not too late to avoid the most catastrophic consequences of climate change, but that action must be taken now. Thus, all companies must continue their efforts to fight and adapt to climate change; it will be vital in the coming years to provide sustainable and resilient solutions that will become the norm, rather than the exception. Companies that have already begun this journey will have a significant competitive advantage in terms of both business and reputation for the years to come.

Finally, we would like to congratulate this year's top performers for their thorough engagement with climate change and leading sustainability reporting performance. The actions of our leaders set precedent for all companies across the DOW 30 and beyond and demonstrate the possibility of facilitating the transition to a low carbon economy whilst maintaining economic success.

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 2019/20 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 64 questions with a maximum of 72 points available. Questions cover each of the following areas:

Measurement and Reporting focuses on the rigor 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; the amount of historical carbon data provided and the use of historical data as a benchmark. Within this category, we awarded points to companies that gained assurance or external audit of carbon data. Additionally, reporting on other environmental KPIs besides carbon can score companies up to three points and companies scoring highly in the CDP Climate Change Questionnaire are also rewarded.

Strategy and Governance considers the strategy that companies have in place to realize their environmental targets. This year we have assessed whether companies have a commitment to Net Zero or carbon neutrality; whether they clearly define their goal and have a clear strategy for achieving said commitment; 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 intends to use or is using Climate Scenario Analysis.

Companies that integrate circular economy principles, a price on carbon and sustainable investment decisions/green finance into their strategy also receive points.

A greater focus is placed on alignment to the recommendations of the TCFD. This reflects the growing expectation that all businesses must be providing transparent climate-related financial information to their stakeholders.

Targets and Reduction considers whether companies have set carbon reduction targets (and to what level of ambition) and if absolute or relative reductions have been demonstrated. Inclusion of absolute and relative reductions ensures companies are not penalized for growth. In addition to historic reductions, progress towards targets and plans to achieve them are also scored.

Furthermore, this section looks at companies' energy efficiency, staff behavioral change initiatives, and type of energy consumption or generation. We also examine whether companies develop low-carbon or carbon neutral products and if companies purchase carbon offsets. However, this year points are only awarded for certified carbon neutrality and offsets which are clearly shown to be verified by international standards.

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 behavior, rather than simply providing them with information. Any co-innovation with suppliers or government is recognized as excellent engagement – developing new technologies, products or processes with an environmental benefit, which also mutually benefits those companies involved.

Your climate experts.
Your partner for positive change.

EcoAct is an international consultancy and project developer, dedicated to helping businesses and organizations 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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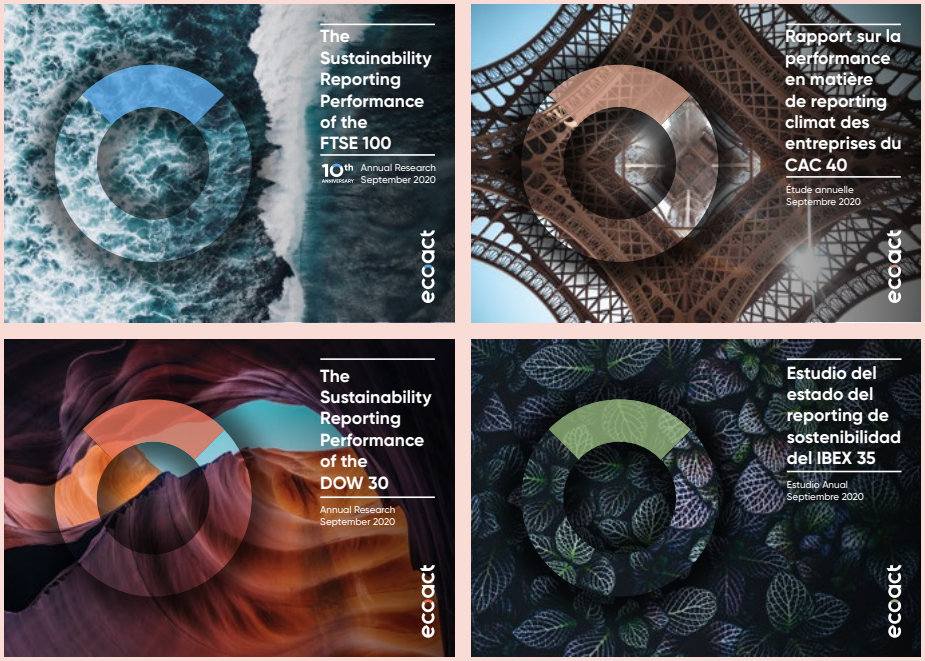

Our 2020 Sustainability Reporting Performance series can be downloaded at **eco-act.com**