The Sustainability Reporting Performance of the FTSE 100

10th ANNIVERSARY

Annual Research
September 2020

ecoact

Contents

Welcome

Welcome to the 10th anniversary edition of the Sustainability Reporting Performance of the FTSE 100. 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 report have changed considerably in the past ten years.

Carbon Clear's Carbon Reporting Performance of the FTSE 100, as it was known when it was first published in 2011, has evolved 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 practice in the world of sustainability, to continually improve our measure for climate leadership.

We have evidenced in our reports during this time a significant increase in the quality and quantity of climate actions and sustainability disclosures, as more companies start to see climate change as a material issue. Year-on-year we see the bar for sustainability best practice rise.

Meanwhile, however, the impacts of climate change continue to intensify. Last year, the UK recorded its highest ever temperature[1] and 2020 has already been characterised by both flooding and heatwaves. 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.

At the opening of this decade, there has never been more pressure for organisations to take action. Public concern about climate change is at its highest with the blaze of activism among students and climate groups which erupted in 2019 still smouldering throughout 2020. Investors are starting to make good on their promises to hold businesses to account for their climate actions[3], and the UK government is still committed to its 2050 Net Zero target.

We cannot ignore the unprecedented challenges that the international community is facing today in the midst of the global COVID-19 pandemic. Given the numerous impacts to businesses and individuals it may have affected reporting for some companies this year, so this must be kept in mind. However, this crippling crisis has only strengthened our resolve 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.

Now is the most crucial time in our journey to avert the risks of climate change. Based on the Intergovernmental Panel on Climate Change (IPCC) report on 1.5 degrees[4], we now 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, and the next few years will not be without challenge: economic recession, delayed global climate talks, and varied political will among them. It is now make or break in limiting the worst impacts of a warming planet. So, despite the positive progress we have witnessed, it unfortunately still falls short.

Having said that, if the recent pandemic has provided us anything, it has been to show us the incredible capacity we have to adapt quickly to overcome adversity, even if that means transforming business-as-usual.

Therefore, this report is to inspire us that transformation is possible, that as a corporate community we must play our part in the urgent transition to Net Zero, 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.

We've certainly come a long way in ten 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.

Stuart Lemmon
CEO, EcoAct Northern Europe

1 https://www.metoffice.gov.uk/about-us/press-office/news/weather-and-climate/2019/record-breaking-year-concludes-record-breaking-decade
2 https://www.nationalgeographic.co.uk/environment-and-conservation/2020/07/a-heat-wave-thawed-siberias-tundra-now-its-on-fire
3 https://www.cityam.com/blackrock-punishes-53-companies-over-inaction-on-climate-change/
4 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 UK and internationally are tackling climate-related sustainability issues and disclosing their progress. With the general public, investor and government concern about climate change increasing, companies not only need to take action, they need to be open and transparent about what those actions are so that it is clear to their stakeholders. 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 sustainability micro-sites and blogs.

This year all areas of our methodology have been reviewed and revised again 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 report:

Net Zero: Following the UK government's commitment to Net Zero in 2019, companies must turn their attention to how they will contribute to the Net Zero transition. Companies need to be making their commitments, but also now setting robust strategies for how they are going to achieve it. Long-term offsetting strategies for Net Zero will need to be factoring in sequestration of carbon, but in the interim companies are also awarded for taking action to compensate for emissions via credible carbon credits regardless of whether sequestering carbon or not, so long as they are verified and that offsetting is part of a wider climate strategy.

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[5]. 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.

This year, a commitment to align with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) is no longer adequate. Companies should now be reporting in line with TCFD recommendations, and we have looked not just for declarations, but evidence that the recommendations (under the pillars of Governance, Strategy, Risk Management and Metrics & Targets) are being implemented.

Target-setting: Fundamental to a Net Zero strategy must be significant decarbonisation 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, therefore, 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 decarbonise 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 meant enormous and unparalleled challenges for many businesses. Although we will not see emissions

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

impacts in reports until next year, we must point out that the pandemic may have had an impact on some companies' abilities to implement strategies and report this year, though in the large part this has not appeared to be the case.

The pandemic has also changed the face of the FTSE 100 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 the FTSE 100 on 1st June 2020* when our research began. Regardless of any changes since, these 100 companies all 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. Some scores and statistics have not increased when compared directly to previous years because the criteria for scoring has been updated to align with the robust actions needed in order for us to reach our important goal of 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.

*Please note that research was also undertaken prior to the announcement of Atos' planned acquisition of EcoAct.

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 during its inclusion in the research, maintains its record with an average score of 62%, closely followed by the IBEX 35 with 60%.

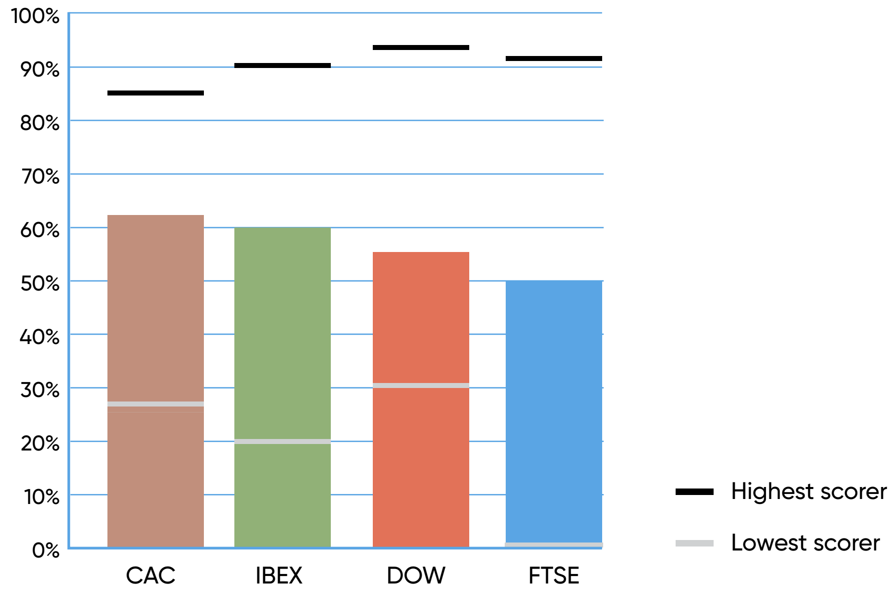
#	+/-	COMPANY	INDEX	SCORE
1	^	Microsoft	DOW	93.8%
2	v	Unilever	FTSE	92.4%
3	^	Acciona	IBEX	91.0%
4	^	BT	FTSE	88.2%
5=	^	Landsec	FTSE	86.1%
5=	–	Iberdrola	IBEX	86.1%
5=	v	BNP Paribas	CAC	86.1%
8	v	Danone	CAC	85.4%
9	^	Ferrovial	IBEX	84.0%
10=	^	Red Electrica	IBEX	83.3%
10=	^	Apple	DOW	83.3%
10=	^	Coca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

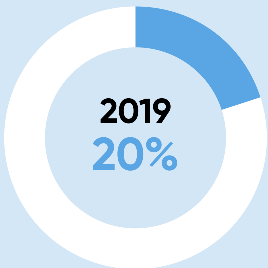
Average score by index

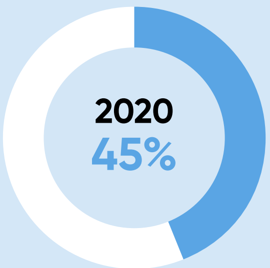
In 2020, average scores have in most cases remained steady, which is positive given the changing scoring criteria. The exception to this is the IBEX 35 which has raised from 56% to 60% this year. The FTSE 100 trails behind with 50%, despite having the second highest scoring company. This is due to both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



Companies committed to Net Zero

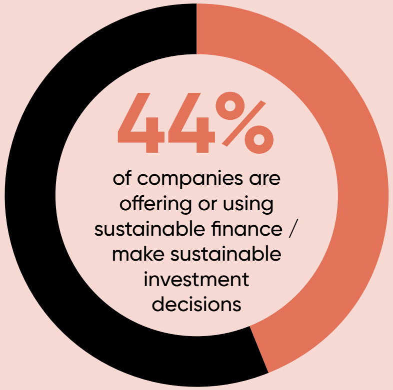
To limit the impacts of climate change, according to science, we must reach Net Zero no later than 2050. This year we have seen a significant rise in the number of commitments to this global goal. Due to the lack of internationally confirmed definition, the term is often used interchangeably with carbon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





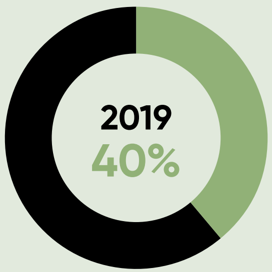
Sustainable finance

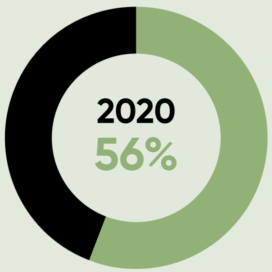
This is the first year we have assessed the use or provision of sustainable finance in our research. Sustainable Finance is any form of financial service which integrates environmental, social and governance (ESG) criteria, such as green bonds. The transition to Net Zero will require considerable financial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



Upper management financial incentives for sustainability performance

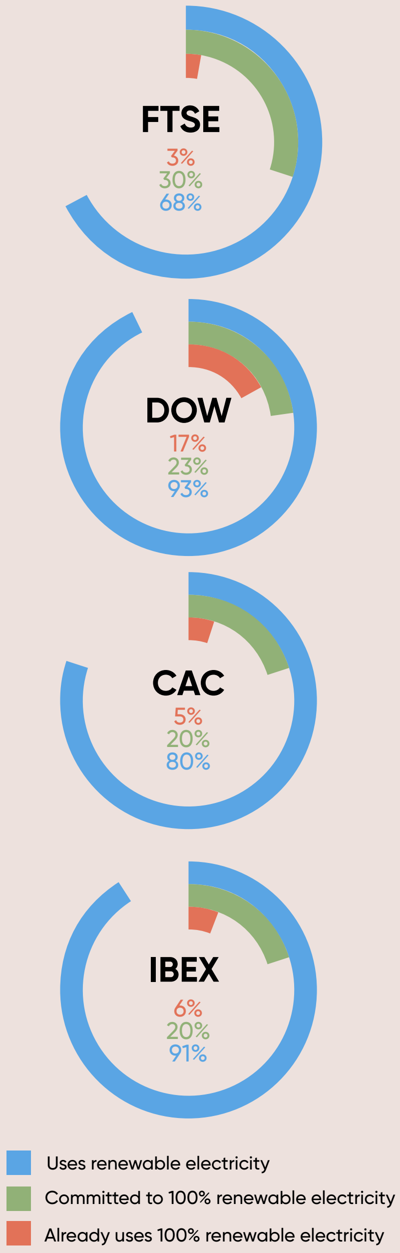
For companies to achieve their climate goals, senior management needs to be engaged and there must be clear governance from the top of the organisation. This year we have found an uplift in the number of companies that align senior management renumeration with environmental sustainability performance.





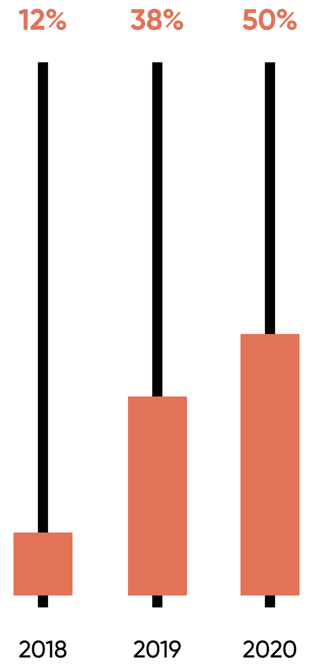
Renewable electricity

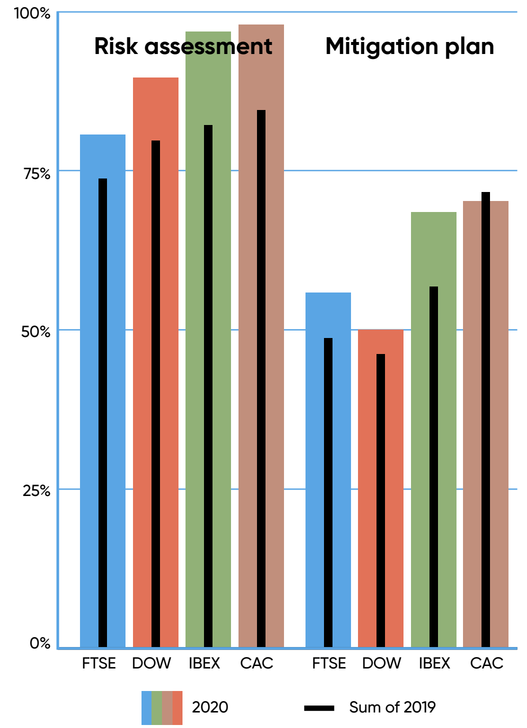
The purchase or self-generation of renewable electricity is assisting companies in achieving their carbon reduction targets.



The Task Force on Climate-related Financial Disclosures

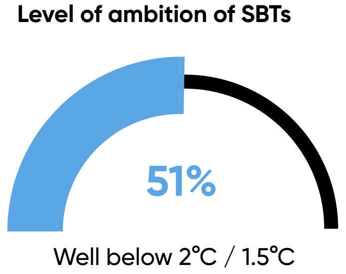
The TCFD aims to ensure that businesses are providing decision-useful information to investors in relation to climate-related risks and opportunities. Despite the tightening of criteria this year, alignment to the TCFD has continued to rise significantly. Consequently, risk and opportunities assessment,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

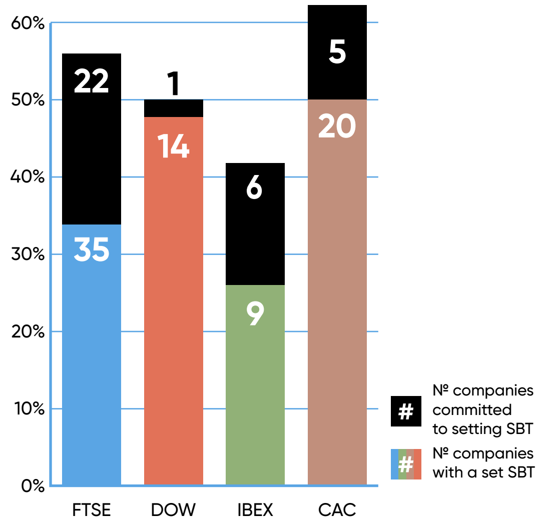


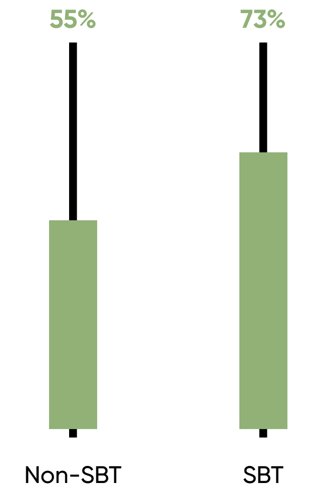


Science-based targets

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.

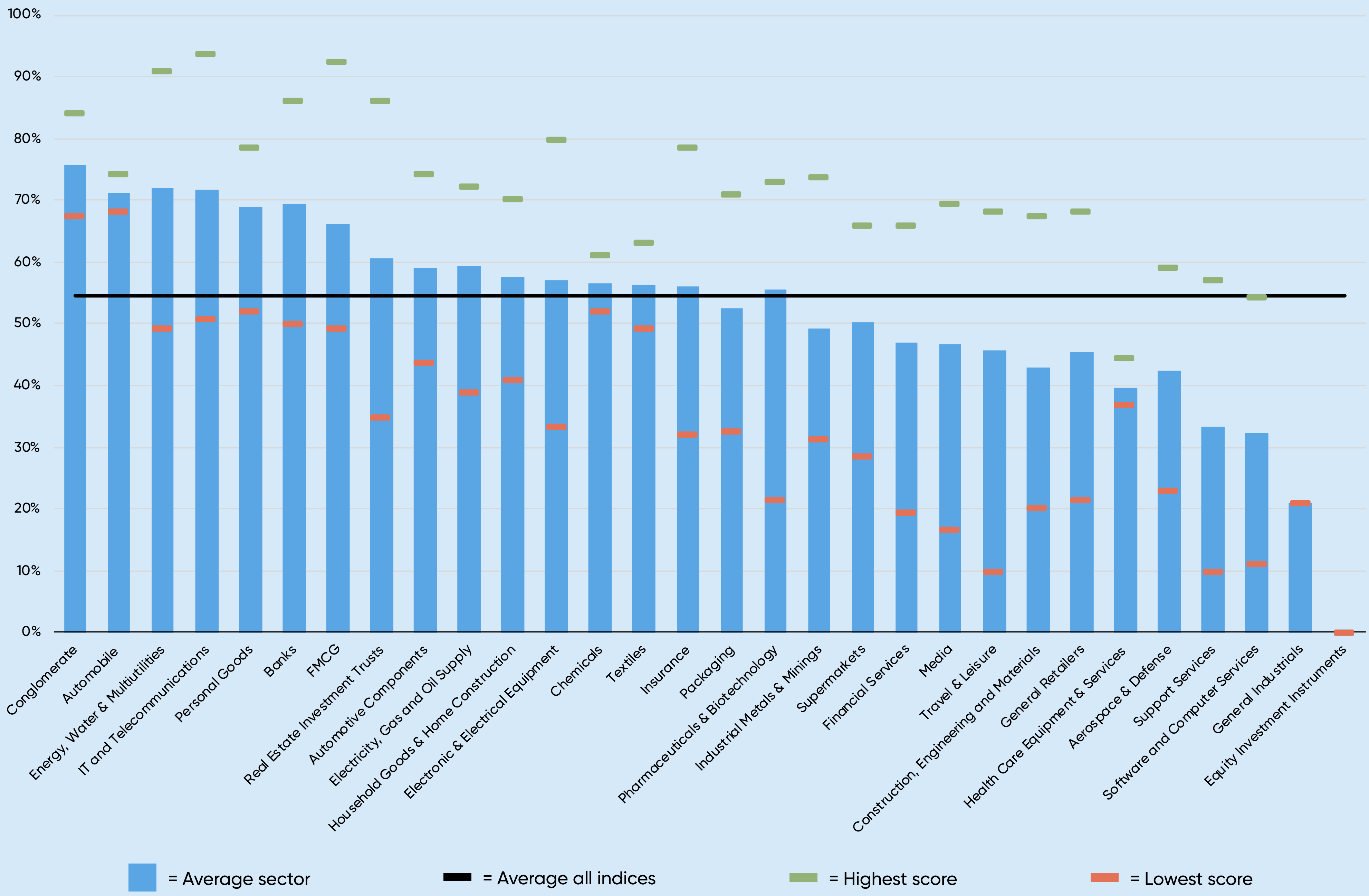






International industry focus

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[6].

The contribution of digital technology to humanity's carbon footprint is significant, representing 3.8% of global GHG emissions (where, for example, maritime freight transport accounts for around 3% of global emissions[7]), 0.2% of water consumption, 4.2% of primary energy consumption and 5.5% of electricity consumption[8]. 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.[9]

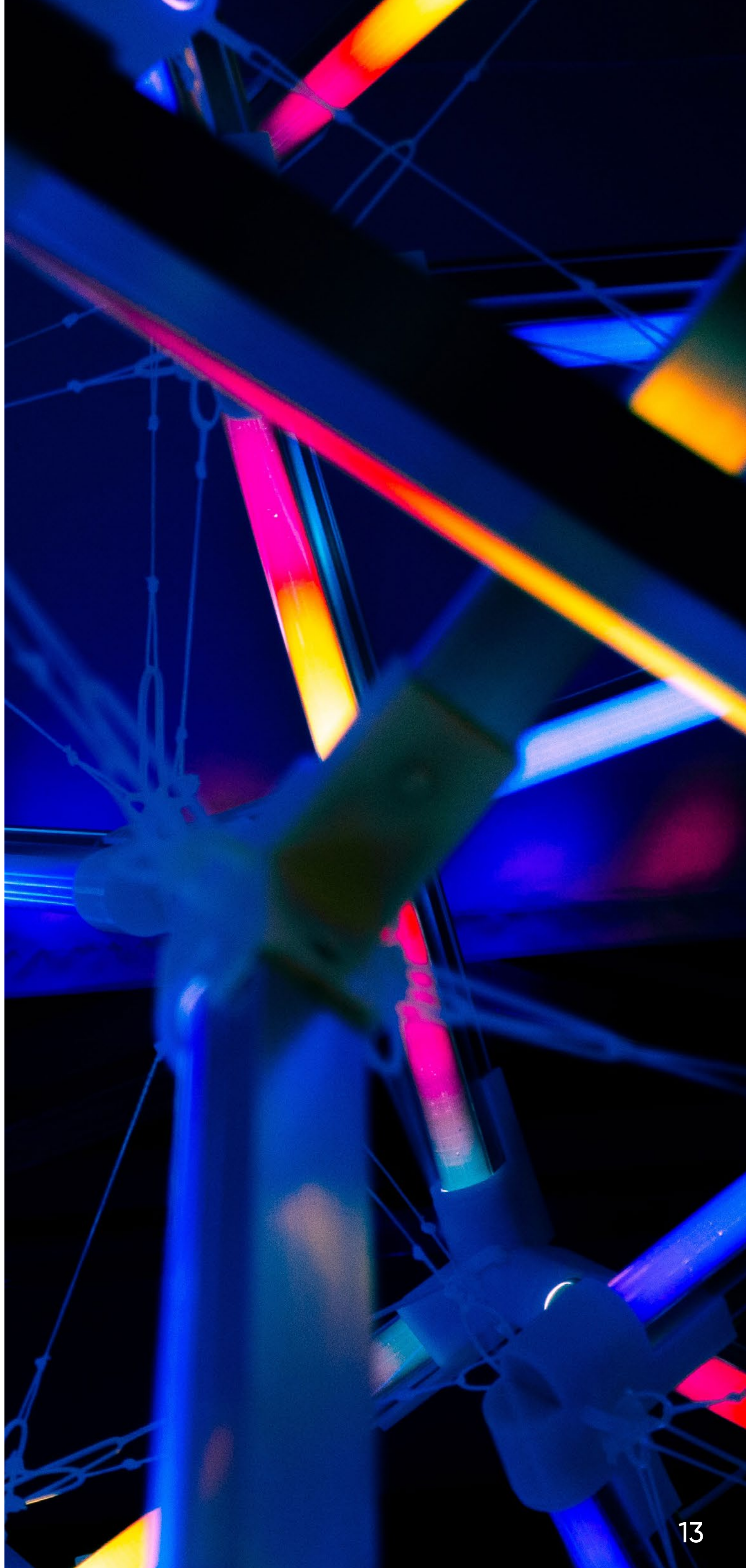
Our research shows that companies in the ITT sector are particularly effective in terms of reporting and climate commitment, with scores ranging from 51% to 94%; seven companies are in the international Top 25 and three are in the Top 10. Moreover, 79% of them have an A or A- rating from CDP.

ITT companies have shown themselves to be leaders in terms of climate-based reporting. 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.[10]

The sector recognises 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.



6 https://www.greenit.fr/wp-content/uploads/2019/11/GREENIT_EENM_summary_EN.pdf
7 Transport Improving the sustainability of passenger and freight transport
8 https://www.greenit.fr/wp-content/uploads/2019/11/GREENIT_EENM_summary_EN.pdf
9 Globalewaste.org
10 https://telecoms.com/opinion/the-sustainability-model-is-driving-customer-retention-and-new-revenues-for-operators/

Product manufacturing and engagement

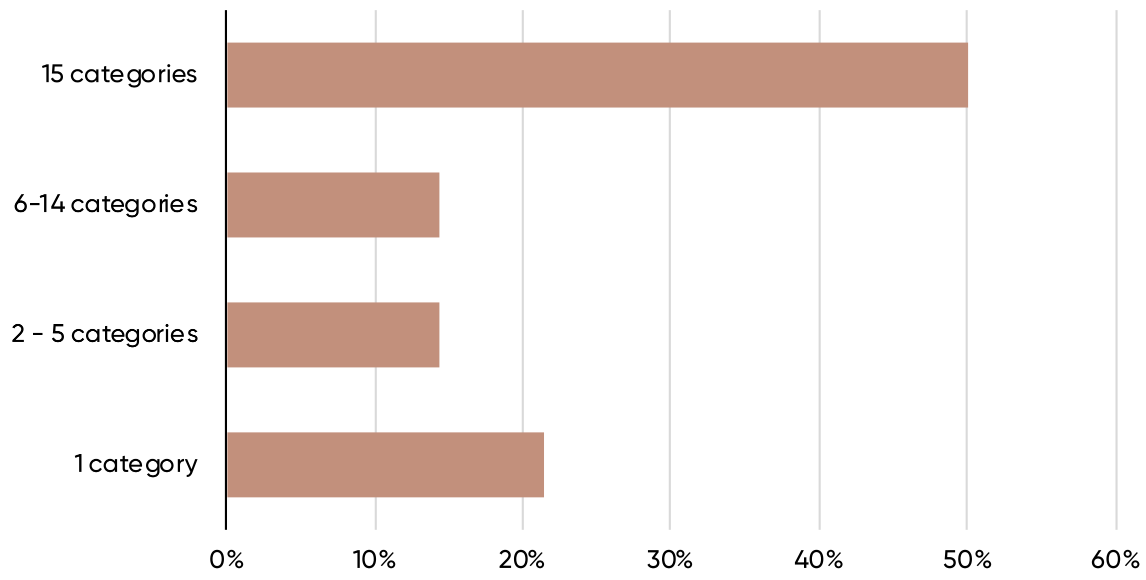
As raw material extraction and product manufacturing is one of the leading sources of GHG emissions for this sector, comprehensive reporting is crucial for these companies. The GHG Protocol sets out 15 categories of Scope 3 emissions covering the different aspects of a company's value chain – from business 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, half 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[11] 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 behaviour and stimulate innovation. 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.

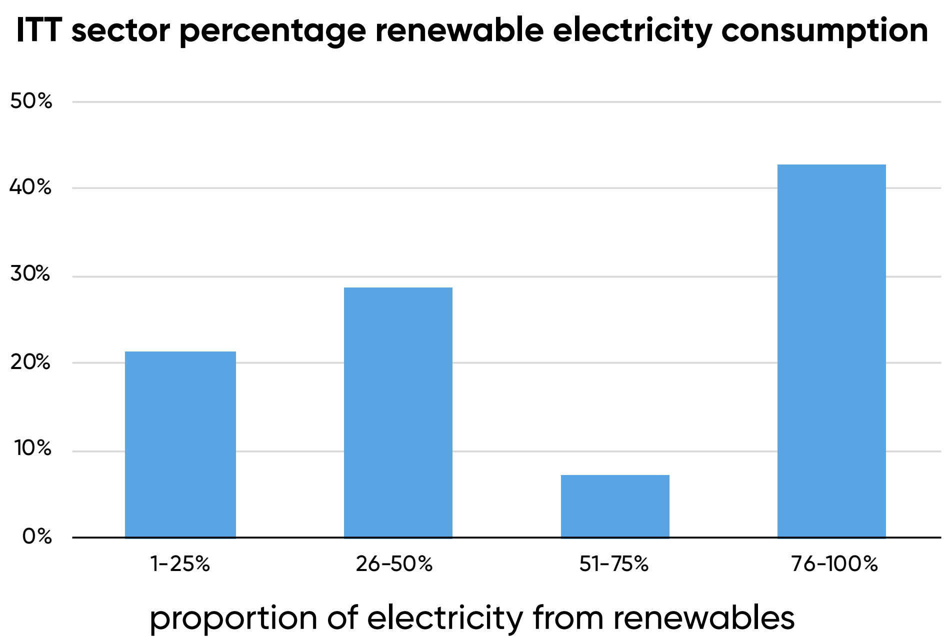
Suppliers are also at the heart of ITT companies' strategies: each one in this research has defined precise sustainability criteria for their suppliers, while 79% of them provide evidence of implementing supplier initiatives or incentives to improve sustainability. Some companies, such as Apple or Cisco,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

ITT Scope 3 category reporting



11 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 realised 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. For example, Orange has 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[12]. 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 Scopes 1, 2 and at least some of Scope 3 (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.

Only 8% of all companies included in our research have carbon neutral products. However, this figure is 21% in the ITT sector, with three companies already 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"[13] 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-optimised 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, such as e-ticketing, for national organisations in the public sector.

12 https://www.bloomberg.com/news/articles/2020-08-07/sustainable-finance-sees-big-tech-boom-after-record-google-deal
13 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 beginning to evolve in order 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[14]. 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[15], 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 via CSA despite scientific consensus on the socio-economic damage associated with scenarios above 2°C[16].

Often criticised for its financed GHG emissions and for the lack of concrete action in favour of the ecological transition, the financial sector is slowly amplifying and accelerating its sustainability efforts driven by emerging 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[17].

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 with a 1.5°C aligned SBT and 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: RE100 by committing to use only renewable electricity across its 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".

14 https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2019/
15 Climate Emergency Declarations, June 2020, Call to declare a climate emergency
16 O. Hoegh-Guldberg and al., February 2019, Impacts of 1.5°C of Global Warming on Natural & Human Systems, IPCC report. WMO Statement on the State of Global Climate 2019. Jonathan Watts, May 2020, "1b people will live in insufferable heat within 50 years", Guardian
17 https://www.bloomberg.com/professional/blog/the-eu-taxonomy-for-sustainable-finance-faqs-for-financial-market-participants/

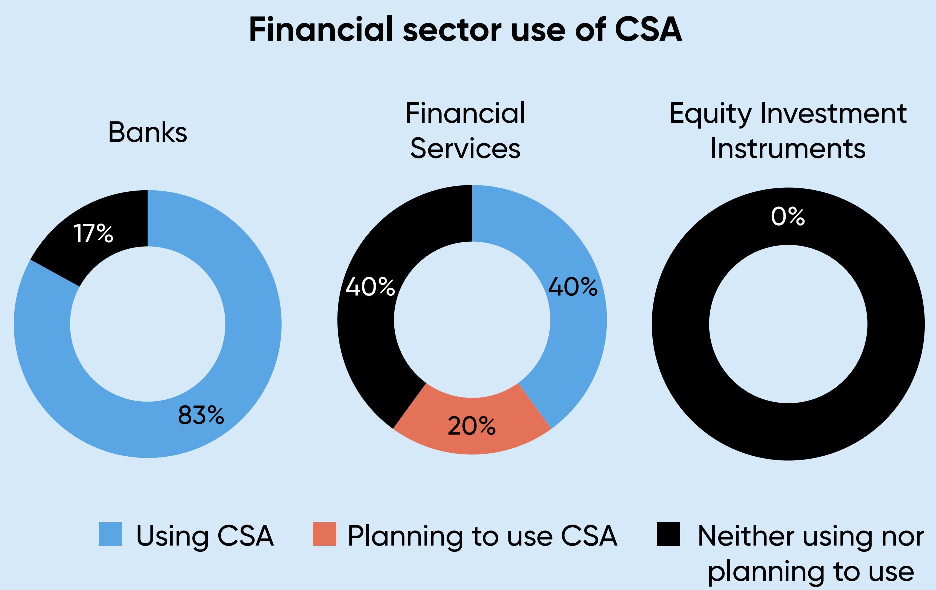
Climate risk & climate scenarios

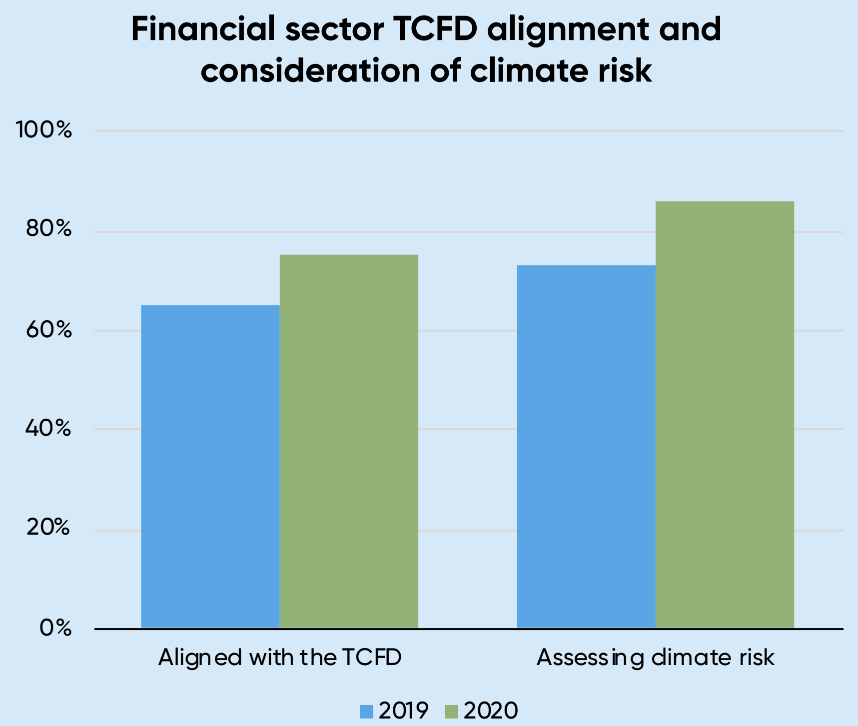
In the year's research, financial sector companies improved in terms of the recognition and management of climate risk: three quarters of companies in our international study are aligned with the recommendations of the TCFD. When compared across indices, French companies are leading the way: all are 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 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 analyse 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 and 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.





Sustainable finance

The finance sector is gradually mobilising 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[18].

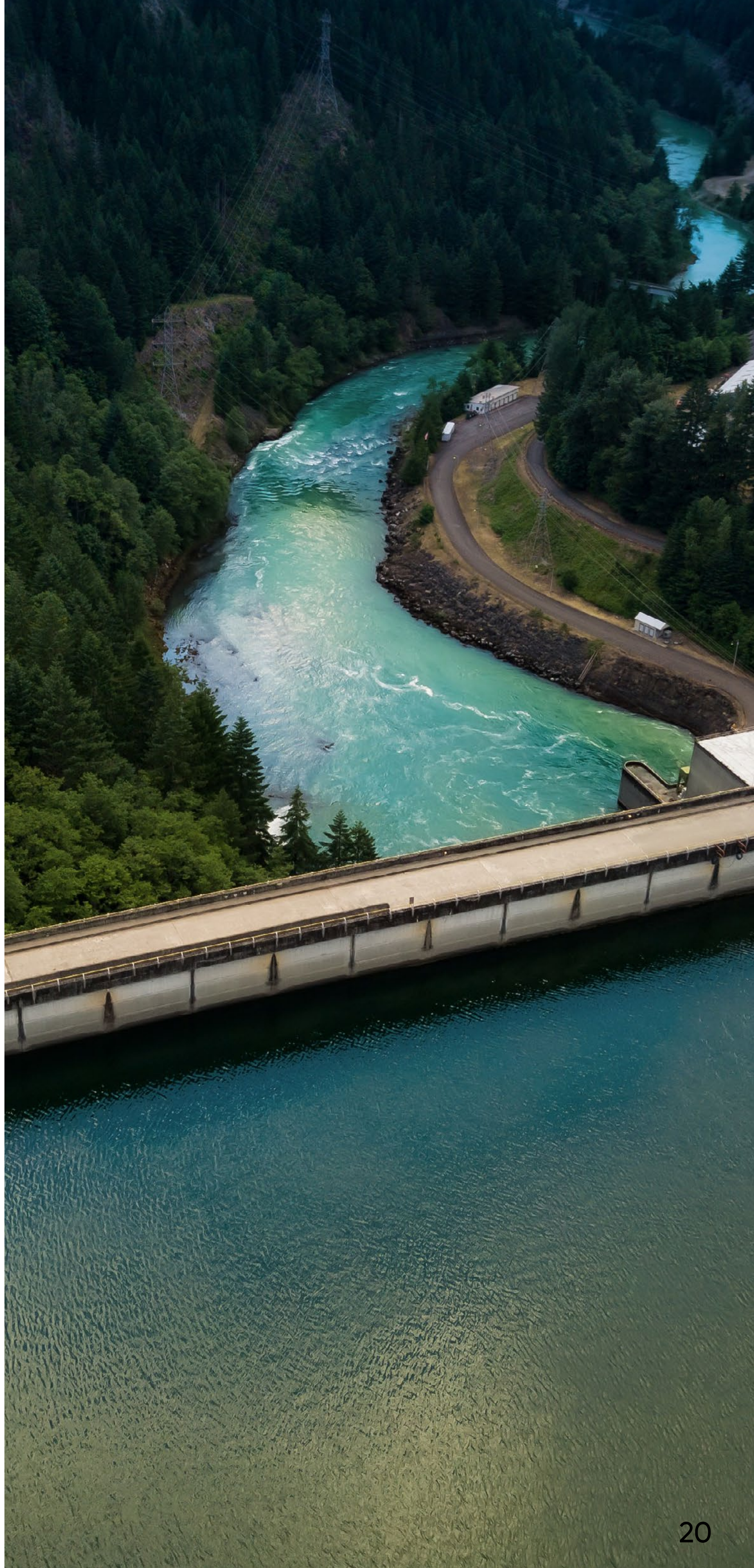
This trend reflects the sector's awareness of climate change and the integration of risk (notably the tightening of environmental regulations), while also demonstrating that climate action is an opportunity to develop the business. In line with the evolving market, our research included questions about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

This phenomenon is both international and homogenous since all banks in the analysed 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)[19].

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 organisations adapt to the reality of climate change.



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

Net Zero

Faced with the growing importance of climate issues, the financial sector is not only putting more sustainable tools in place, but is also beginning to divest from fossil fuels. This strategic policy is a sign of awareness and proactivity, 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.

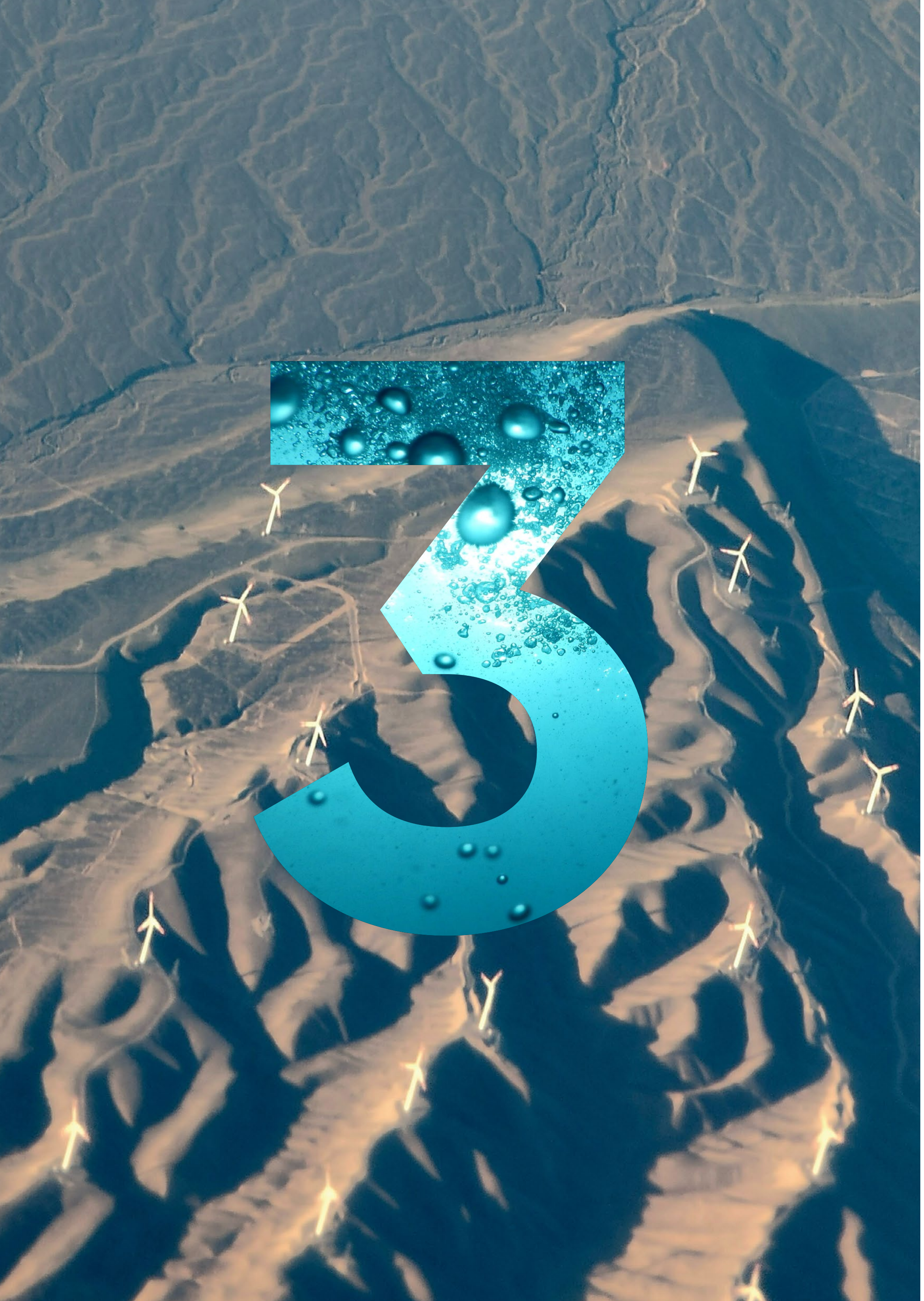
While a few stand-out companies should be lauded for their commitments and actions, the financial sector still has a way to go in terms of committing to, and attaining Net Zero. Just over half – 57% - of companies have committed to Net Zero, 43% are currently offsetting but only 32% include offsetting 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 have a target 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 thats 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. 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 the 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 science-based reduction targets in alignment with the Paris Agreement. Controversy remains over the ongoing financing of fossil fuels by the world's largest global banks. Therefore, despite strong performance in its 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

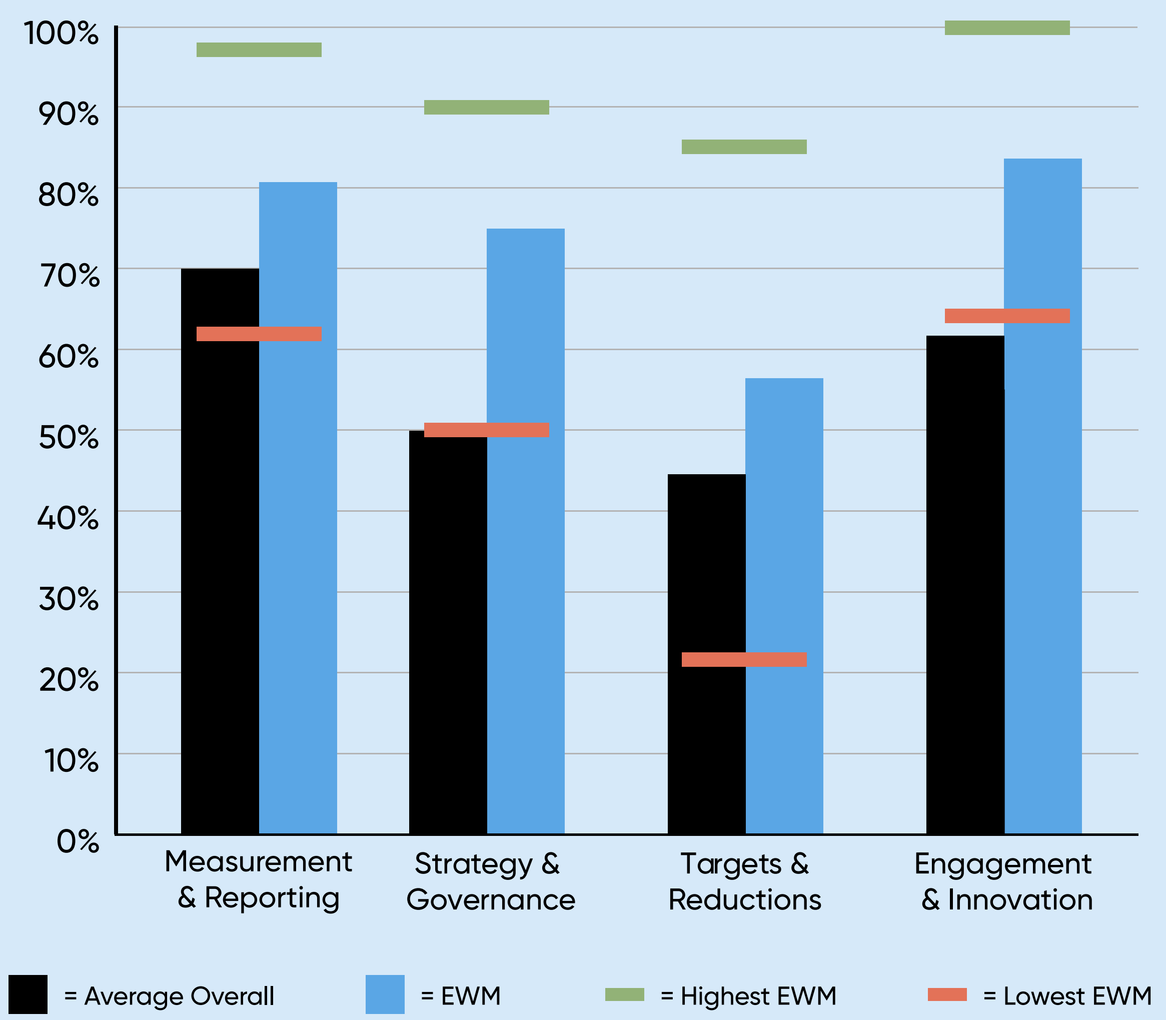
In our research last year, the Energy, Water & Multiutilities (EWM) sector were recognised for their improved performance in climate-related sustainability reporting, rising up the ranks to be represented among the climate leaders. This year notably high performance has continued, with five EWM companies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

Global energy consumption rose by 2.3% in 2018[20] and by a further 0.9% in 2019[21], 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 coronavirus 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[22].

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

20 https://www.iea.org/reports/global-energy-co2-status-report-2019
21 https://www.iea.org/reports/global-energy-review-2020
22 https://accionacorp.blob.core.windows.net/media/3346037/biodiversity-report.pdf

Energy, Water & Multiutilities vs Index Comparison



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 organisations.

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.

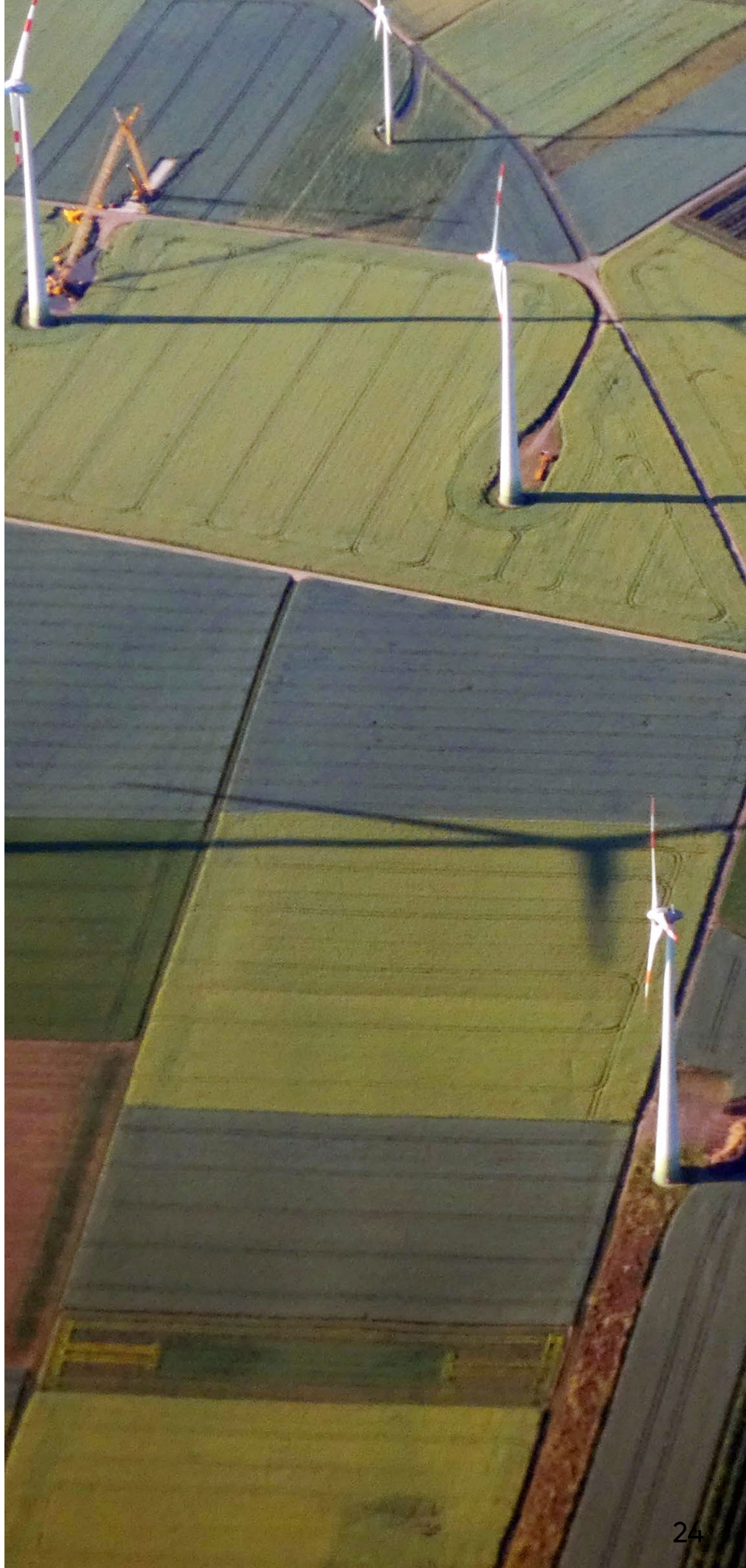
In addition, 87% have undertaken CSA to explore a range of potential outcomes linked to different climate scenarios, such as those put forward by the IEA[23].

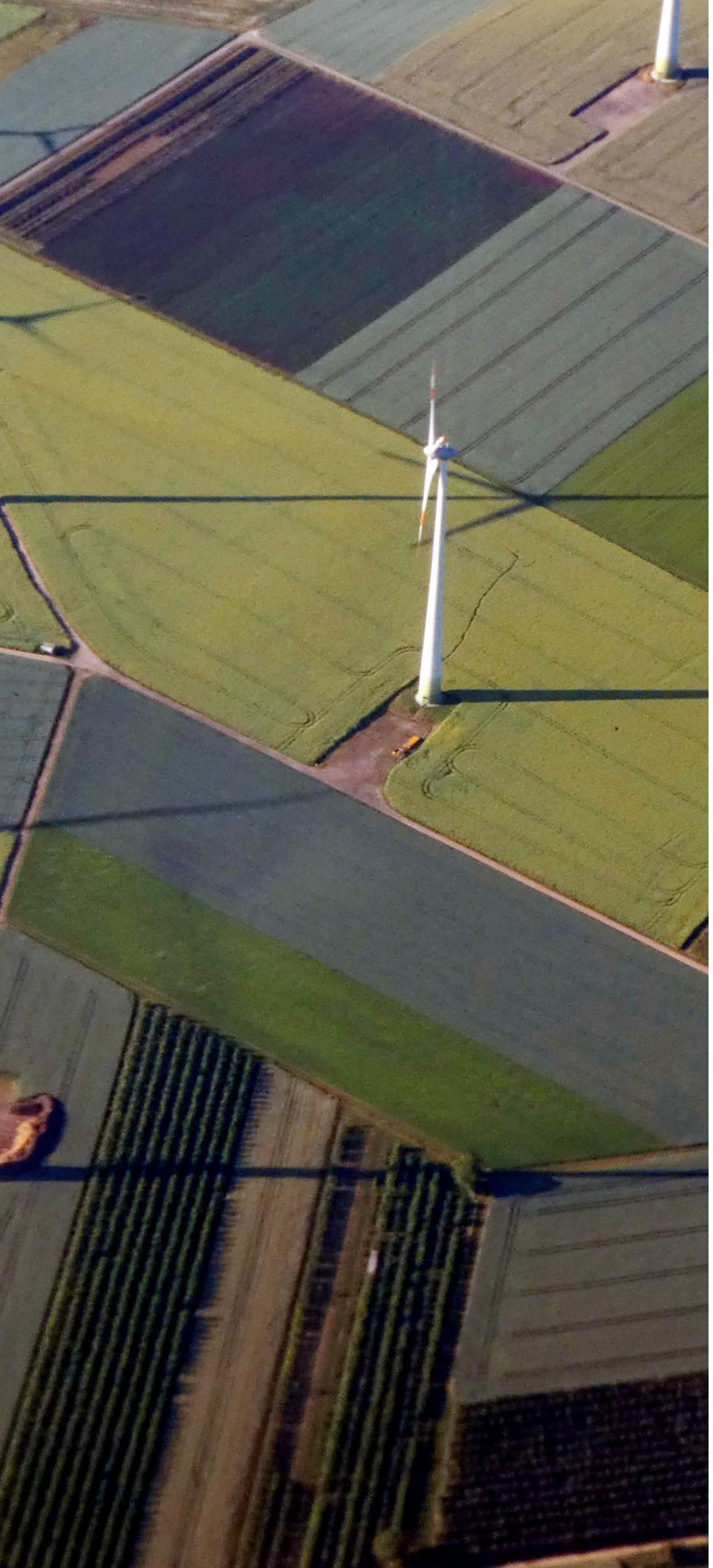
Perhaps most importantly, all but one of these are also demonstrating resilience building by disclosing risk management and mitigation strategies, which is well above the average for the study as whole.

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





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, this is 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 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[24], which includes details of numerous conservation initiatives to preserve endangered species, such as a captive breeding project for European mink, Europe's most endangered mammal, with the aim of facilitating reintroduction into the wild.

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

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, companies need to be clear about how they interpret this ambitious goal and how they are going to achieve it.

Decarbonisation 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 and are increasingly coming under scrutiny. 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 interesting given this 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 promoting a sustainable work culture and 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 behaviour of their staff. Spanish multinational electric utility company, Iberdrola, offers incentives to its employees to buy electric vehicles and makes EVs available in its 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 decarbonisation. These opportunities will also play a vital role in helping the rest of society to decarbonise.

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. The company has declared that it is "standing ready to deliver Net Zero"[25].

Like SSE, many of the companies in the energy sector, are not only realising the urgency of the climate crisis, but recognising 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.

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

Fast-Moving
Consumer Goods

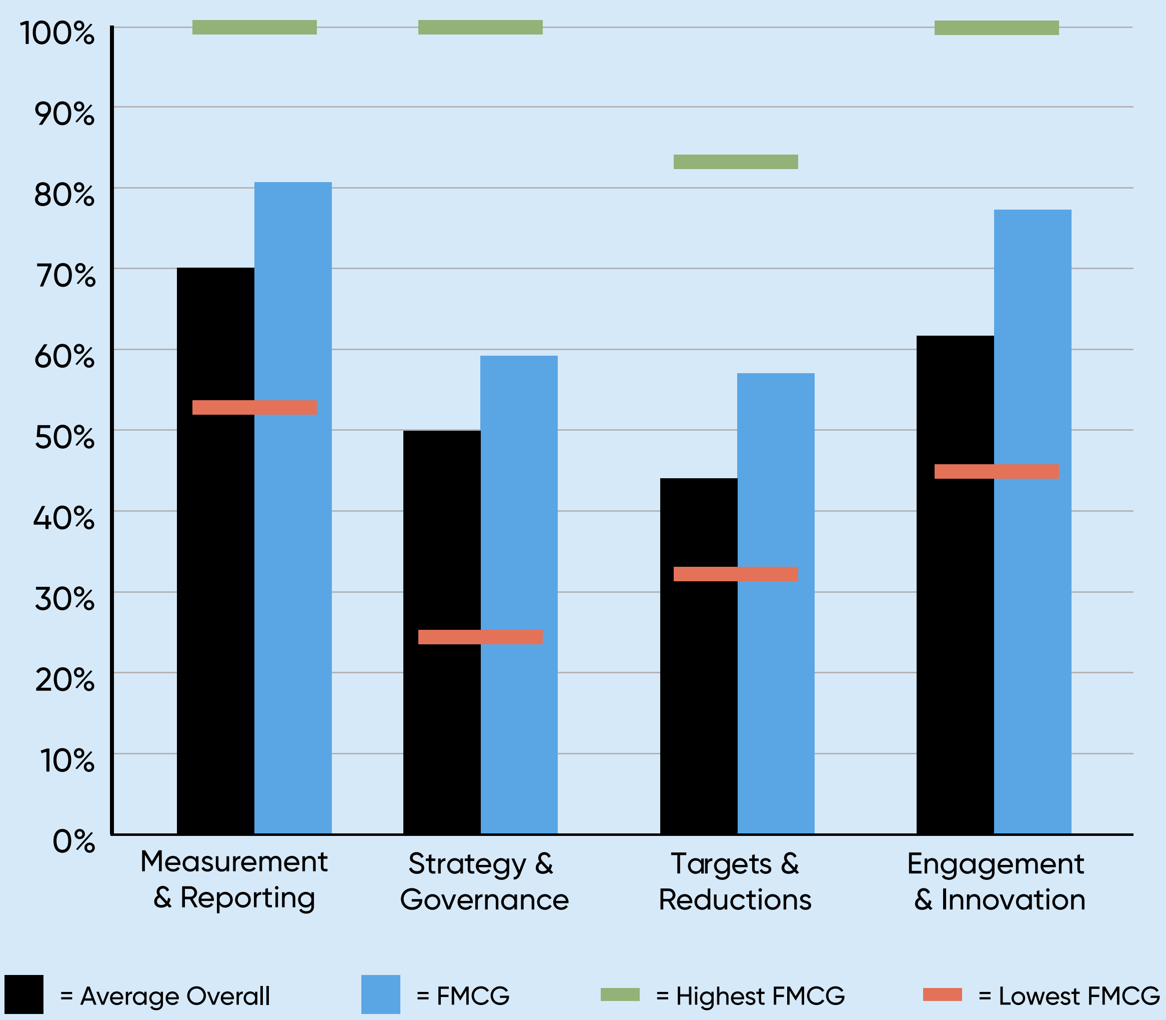
Sector context

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 one of the top three issues that they want businesses to engage with[26]. With evidence of continued growth in sustainable products[27], 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 Engagement & Innovation criteria. This is unsurprising in a competitive sector defined by continuous innovation to meet changing consumer demands.

FMCG vs Index Comparison



26 https://fhflondon.co.uk/2019/07/leading-with-impact-fleishmanhillard-fishburn-launches-2019-authenticity-gap-report/
27 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 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 its emissions. This industry has the power to influence positive change across its 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[28] and engages suppliers in knowledge sharing and education sessions to advise on how to reduce emissions and environmental impacts. Elsewhere, Associated British Foods are 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 decarbonisation targets.

Despite the industry's engagement with its Scope 3 emissions and commendable SBT ambitions, only half 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 three quarters of them set out management procedures and mitigation measures for addressing them. Currently only half of companies are using CSA to inform their sustainability plan but a further 47% plan to use it, showing ongoing progress across the sector to ensure climate-resilience.

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 unprecedented[29]. This has served to highlight the importance of understanding vulnerability to future risks and being prepared to adapt to meet the challenges.

28 https://ecovadis.com/
29 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 recognised as significant contributors to global deforestation[30] due to their use of raw materials and reliance on extensive agricultural production. The Consumer Goods Forum's Forest Positive Coalition[31], consists of 17 ambitious global companies, including a number of companies in our research[32], 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[33]. 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 their tea plantation farmland through extensive reforestation programmes[34], including the planting of 1.3 million trees in their 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 they have 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)[35] 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.

30 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
31 https://www.theconsumergoodsforum.com/environmental-sustainability/forest-positive/
32 Carrefour, Danone, Proctor & Gamble, Tesco, Sainsbury's, Unilever and Walmart
33 https://www.businessgreen.com/news/3083828/consumer-goods-sectors-2020-deforestation-goal-impossible-cdp-warns
34 https://www.unilever.com/sustainable-living/reducing-environmental-impact/sustainable-sourcing/sustainable-tea-leading-the-industry/#244-423976
35 https://sustainablebrands.com/read/finance-investment/p-g-embraces-natural-climate-solutions-to-achieve-climate-neutrality

Facilitating the transition to a circular economy

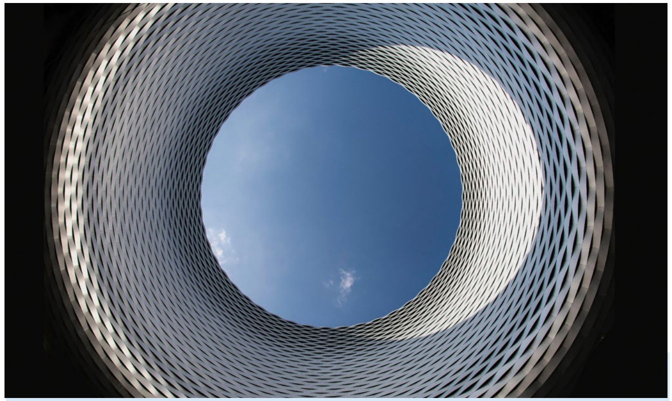
The rise of e-commerce has been shaping the FMCG sector, particularly in recent years and it is expected that online sales will grow over 54% in the next five[36]. This has posed additional environmental challenges, including increased waste associated with packaging, and increased emissions from transportation. 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.

83% of companies in the FMCG sector are using the circular economy principles in their sustainability plan. 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 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 behaviour 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-biodegradable material waste. In 2019, it trialled a number of refilling stations for a selection of home and personal-care products. One of these trials in Mexico involved their hair care brand Sedal[37]. Its products are now being sold in reusable aluminium bottles in five Walmart Stores. The trial appears successful so far with two tonnes 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[38].



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 organisations 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.

36 https://www.iriworldwide.com/es-es/insights/news/iri-e-commerce-report-reveals-major-growth-opportu
37 https://www.unilever.com/sustainable-living/reducing-environmental-impact/waste-and-packaging/rethinking-plastic-packaging/
38 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 them a position inside the FTSE 100 Top 20, in 17th place. Informa's progress is a result of their 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 them closer to achieving their 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. It has also made further improvements in the implementation of the TCFD recommendations and is now using climate scenarios to better understand the range of risks it could be exposed to. In the process, the company has identified sustainable finance as a climate opportunity and is now offering a range of sustainable finance solutions to their clients. For example, during 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 divestment from 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 recognised 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 organisation 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.

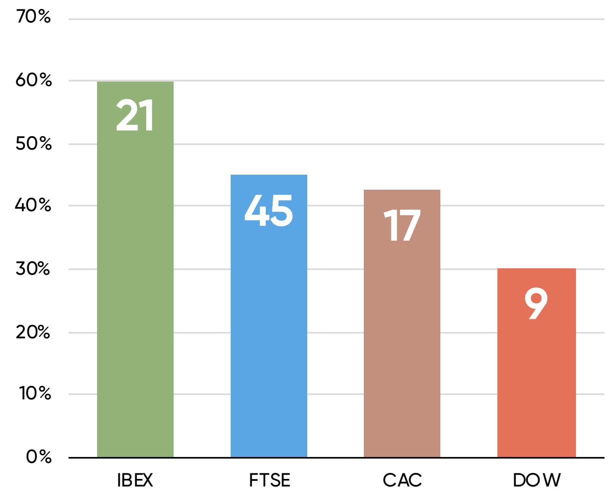
By contrast, **carbon neutrality is achieved through offsetting emissions to neutral on a specific parameter** via the purchase of carbon credits from certified projects that reduce or avoid carbon emissions. Therefore, carbon is not necessarily removed from the atmosphere as would be the case for Net Zero. Its role is an important one 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?

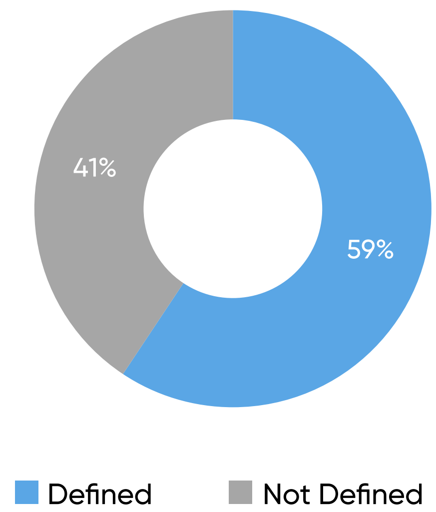
In 2020, we have evidenced a significant uplift in commitments across all geographies. In fact, the percentage has more than doubled. The IBEX 35 is visibly out in front with 60% of companies making a commitment which is a 20% increase on commitments made last year (40% of companies), and representative 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, but 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, which is the highest percentage uplift out of the indices. This is no doubt also influenced by the commitment

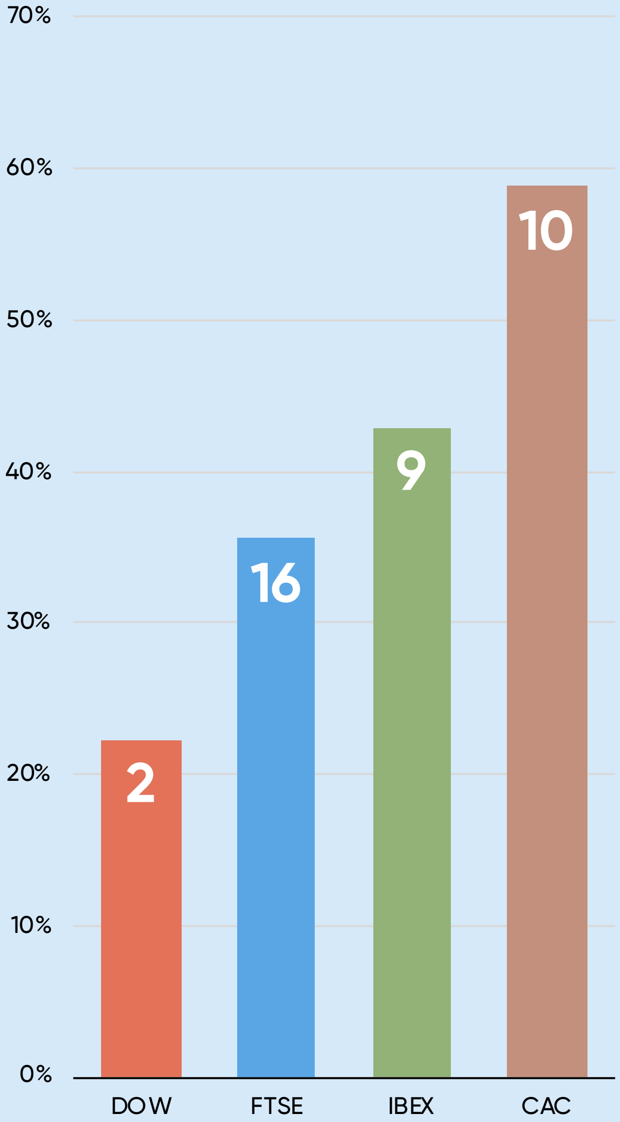
Commitment by index (% and number of companies)



Companies defining Net Zero/ carbon neutrality commitments



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



made by the UK Government for 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 uplifting from 25% of companies in 2019 to 43% in 2020. This is a smaller uplift to all 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% points to 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 and 2019 another expensive one at the hands of 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 to this, not all commitments cover all emissions 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 its historical carbon emissions via sequestration by 2050. Unilever is also committed to be "carbon positive" in its 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 or reduction actions have been exhausted.

No commitment can be too ambitious when it comes to climate change. We should remember that achieving Net Zero globally by 2050

39 https://blogs.scientificamerican.com/eye-of-the-storm/a-review-of-the-atlantic-hurricane-season-of-2019/

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 recognised 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 programmes 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 would anticipate a growing expectation to specify offsetting strategy and a carbon market rising to the growing demand of sequestration projects. In fact, in September 2020, a Taskforce on Scaling Voluntary Carbon Markets has been 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 (Scope 1 & 2). However, an additional 3% are carbon neutral across all three Scopes.

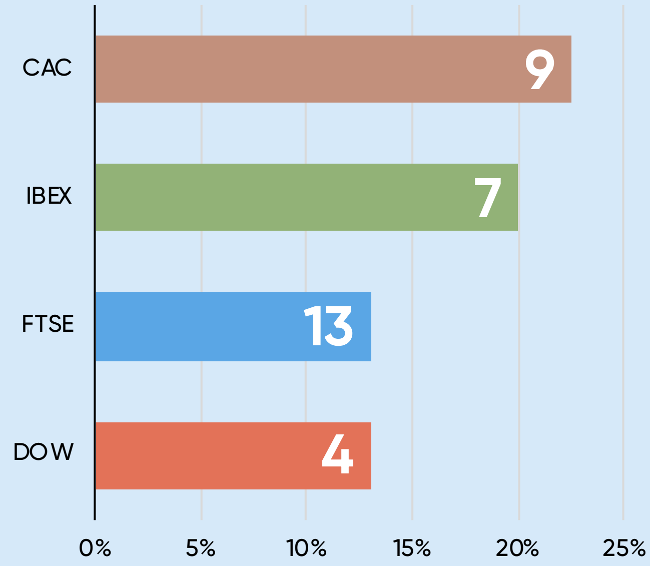
The full scope of a Net Zero ambition

Making a public commitment to Net Zero is commendable and we are encouraged by the growing number of organisations 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 decarbonisation 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 sustainability 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 FTSE 100

FTSE leaderboard

This year's Top 20 performing companies have an average score of 76.8% compared to 75.4% last year*. It is encouraging to see that companies appear to be increasing their actions in line with rising best practice, as this year our scoring has become increasingly strict.

Although there have been changes at the top of the rankings, the Financial Services; and Energy, Water and Multiutilities sectors, also well represented last year, continue to predominate.

	+/-	COMPANY	SCORE
1	—	Unilever	92.4%
2	↑	BT	88.2%
3	↑	Landsec	86.1%
4	↑	Coca Cola Hbc	83.3%
5	↑	SSE	82.6%
	↑	NatWest Group	
	↑	British Land	
8	↑	Barclays	81.9%
9	↑	Aviva	78.5%
10	↑	BHP Group	73.6%
11	↑	AstraZeneca	72.9%
	↑	United Utilities	
13	↓	Centrica	71.5%
14	↓	Mondi	70.8%
15	↑	HSBC	70.1%
	↑	Barratt Developments	
17	↑	Lloyds Banking	69.4%
	↑	Informa	
	↓	Royal Dutch Shell	
20	↑	Burberry	68.1%

*Note: there are instances where companies have not yet released their most up to date reports. Therefore, we must be mindful of the challenges that companies have faced with reporting this year. This may in small measure have impacted the average score or a company's position.

In focus: top 3 companies

2nd
88%

BT Group takes second place in the rankings, remaining in the Top 3 for the eighth consecutive year. This is testament to its evolving approach to managing sustainability across its operations.

BT continue to exhibit global leadership in corporate sustainability by announcing new ambitious commitments to reach Net Zero across its Scope 1 and 2 emissions by 2045. The company's carbon reduction strategy includes the decarbonisation of its buildings, the transition to a low carbon electric fleet and the shift to renewables for its energy supply with the purchase of 92% of its electricity from renewable sources in the last reporting year. BT continue to consider sustainability throughout their value chain, implementing initiatives to influence sustainable behaviours and contribute to carbon emission reductions across their customers, employees and suppliers. BT offer a range of products and services including teleconferencing, cloud networking and the Internet of Things (IoT) and reports the associated carbon savings. In addition, BT conduct a number of internal competitions for employees to encourage sustainable behaviours such as a Plastic Hackathon and a New Ideas Scheme which provides monetary awards to the winners for the implementation of innovative ideas, including potential solutions to reduce energy and carbon emissions and increase company efficiency.

1st
92%

Unilever take the top spot in the FTSE 100 rankings defending its first-place title for the second year in a row. A regular feature at the top of our sustainability leader board over the last decade, the company has sat firmly within the Top 10 since 2013.

The company has set ambitious and exemplary climate targets. It plans to have no carbon emissions from its own operations and Net Zero emissions from products by 2039 – from sourcing of materials to point of sale. In order to achieve this ambitious goal, the company focuses on the procurement of renewable energy sources with the ultimate objective to generate surplus renewable energy which can then be supplied to the energy market and provide local communities with increased access to green energy. The company is committed to tackling the climate impacts across its full value chain with its brands collectively investing €1 billion into a new dedicated Climate & Nature Fund which will contribute to reforestation, wildlife protection and water preservation. Unilever exhibits a detailed commitment to applying circular economy principles in their sustainability plan[41] and are a signatory of the Ellen MacArthur Foundation's New Plastics Economy Initiative[42]. It conducts detailed analysis of the climate change risks impacting the business, using climate scenario analysis. It also applies an internal carbon price to emissions produced from its manufacturing facilities in order to establish an internal clean energy fund. Elsewhere, Unilever is committed to the EV100 and to integrating electric vehicles into its fleet by 2030.

3rd
86%

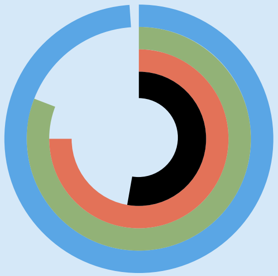
Real estate investment trust company, Landsec, enter the Top 3 in the FTSE 100 rankings for the first time, moving up three places from last year.

The company is one of only sixteen across the FTSE 100 that demonstrates a detailed Net Zero strategy. Its strategy incorporates the reduction in energy consumption, investment in renewables, the use of an internal price of carbon, and carbon removal in order to reach Net Zero by 2030. Achieving this impressive commitment will potentially make it one of the first FTSE 100 companies to reach Net Zero. The company also sets ambitious SBTi approved, 1.5°C aligned carbon reduction targets to reduce their emissions by 70% across Scope 1, 2 and part of its Scope 3 by 2030 against a 2013/14 base year. The recent publication of their Green Bond Framework outlines how green bonds will be applied by the company to fund appropriate projects that support their sustainable business strategy, including green building developments. Landsec also sources 97% of its electricity from renewables both through self-generation, using PV panels, as well as moving towards renewables purchase via power purchase agreements (PPAs).

41 https://www.unilever.com/sustainable-living/reducing-environmental-impact/waste-and-packaging/
42 https://www.newplasticseconomy.org/about

FTSE
key findings

Measuring & reporting



99% of companies measure/report their carbon emissions

82% report other environmental KPIs

75% report on Scope 3

55% report both location and market-based emissions

Risk assessment

81% assess risks

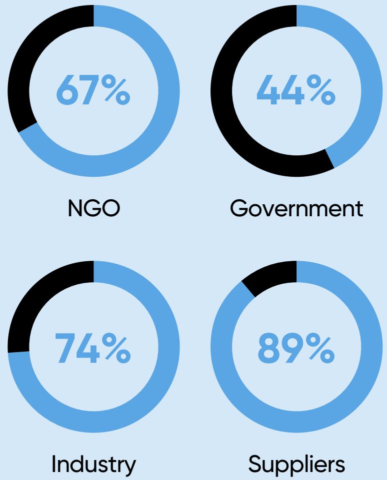
68% include risks in annual report

56% have a plan in place to mitigate risks

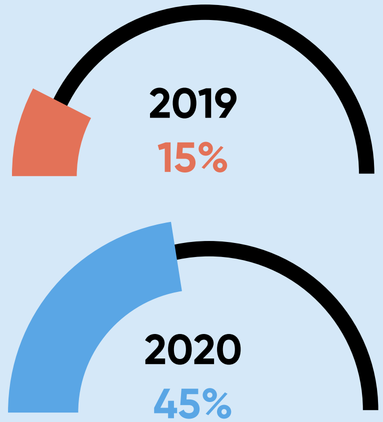
64% assess value chain risks

70% assess opportunities

Engagement



Committment to Net Zero /carbon neutrality



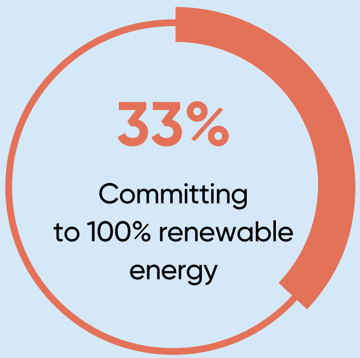
Carbon targets

67% of companies set carbon reduction targets

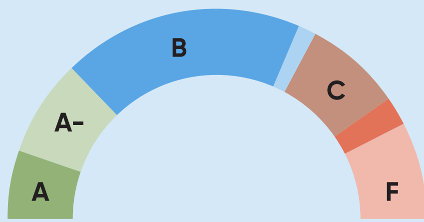
73% are on track to meet their targets

57% have set or committed to setting science-based targets

33% have set a Scope 3 target

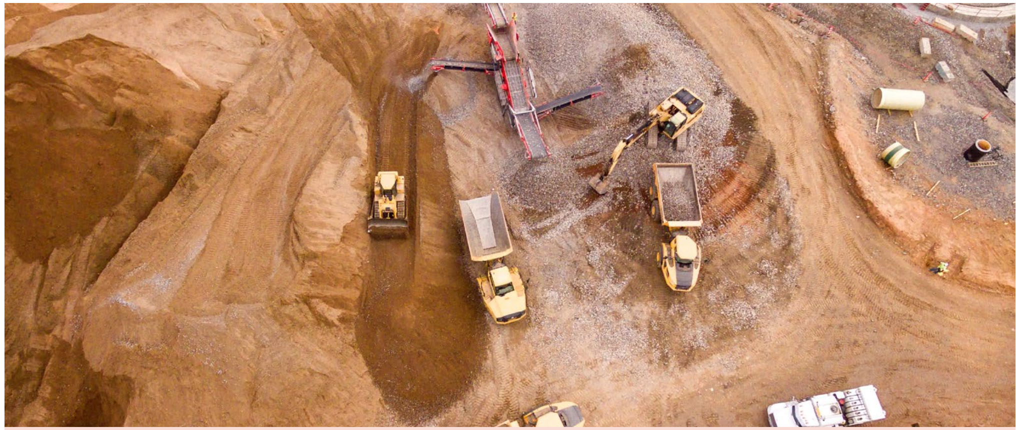


CDP scoring



A 11%; A- 15%; B 37%; B- 3%; C 15%; D 4%; F 15%

The FTSE 100 trends



Real Estate Investment Trusts

In the FTSE 100 rankings Real Estate Investment Trusts are scoring particularly highly this year with both Landsec and British Land ranking in the index specific Top 4. British land and Landsec have both risen up the leaderboard due to their engagement with Net Zero company-wide commitments. Elsewhere, both British Land and Landsec use an internal price of carbon, demonstrate clear alignment with the TCFD recommendations, set ambitious SBTs and are incorporating sustainable finance into their investment frameworks.

According to the UK Green Building Council the built environment accounts for approximately 40% of the UK's carbon emissions[43]. With the UK government still committed to its Net Zero target by 2050, focus and pressure will inevitably turn towards the real estate and construction sectors to facilitate an urgent low-carbon transition. This is likely to be a leading driver in the sustainability performance improvements seen in the industry this year.

43 https://www.ukgbc.org/climate-change/
44 https://www.ft.com/content/00af52b7-381c-4a5d-91f1-3b3d4ce04256

Industrial Metals & Mining

A feature of the FTSE 100 Top 20 in the last three years has been the Industrial Metals & Mining sector. This year the sector scores above the FTSE 100 average for Measurement & Reporting and Strategy & Governance. As their business models rely on extraction of natural materials, their engagement in climate-related sustainability is vital and investor pressure has been mounting for several years for mining corporations to address climate change[44].

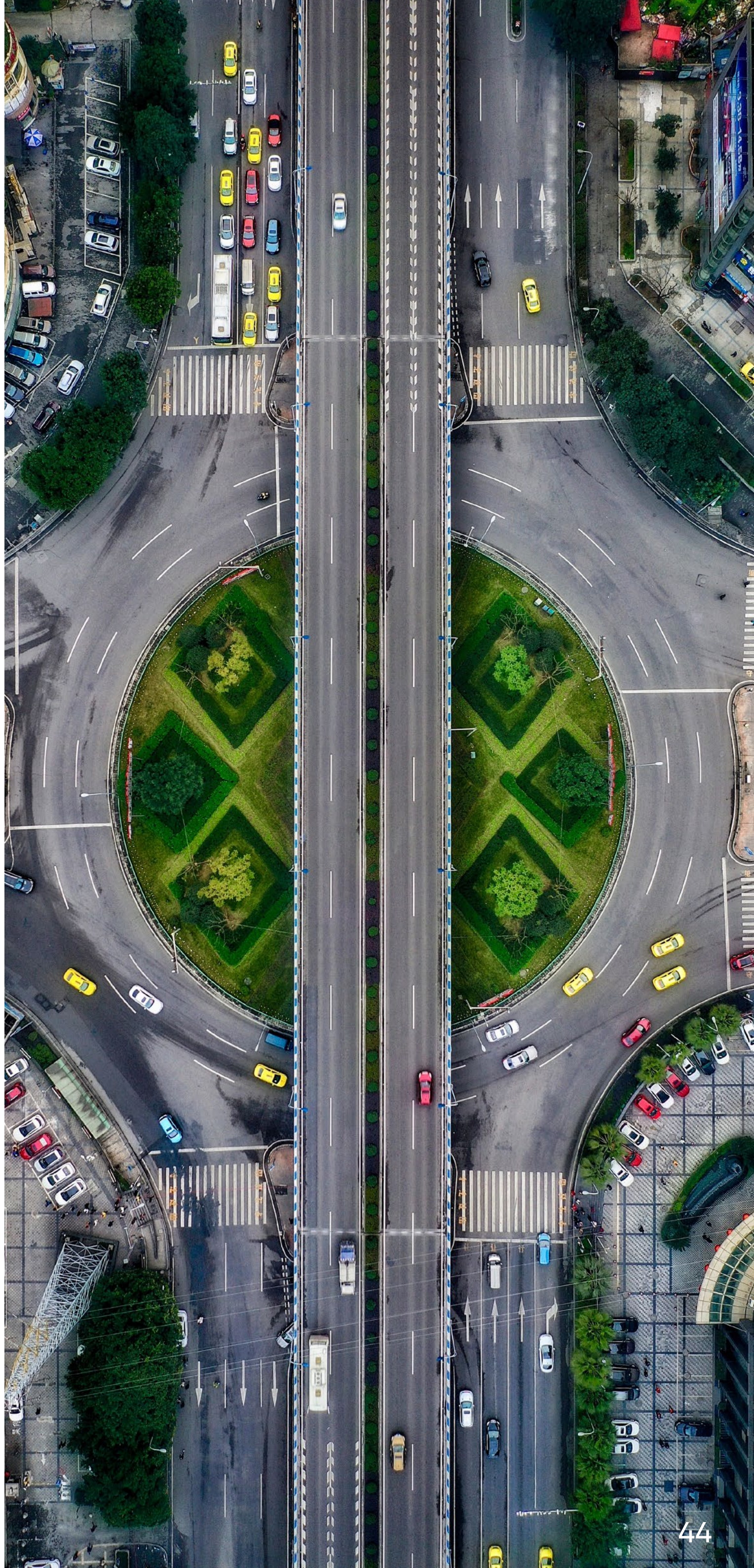
The sector's overall performance is elevated by two high performing companies - BHP Group and Anglo American - with the former having broken the FTSE 100 Top 10 for the first time. Both companies have made ambitious public commitments to Net Zero, report on all fifteen categories of Scope 3 emissions and are disclosing detailed assessment and management of climate-related risks, including the use of CSA. Both companies are using an internal price of carbon and are members of the Carbon Pricing Leadership coalition. What remains absent from the sector as a whole is a clear strategy for tackling climate change or achieving Net Zero and best practice target-setting including all Scopes. In the coming few years, these aspects will need to be addressed in order to demonstrate a robust contribution to the global Net Zero goal, and the rest of the sector will need to urgently step up.

Key Trend 1: Climate risks and opportunities

In January, the World Economic Forum's 2020 Global Risks Report stated that the top five global risks, when considering both likelihood and severity, are all related to the environment and climate[45]. In particular, the second ranked risk is identified as failed climate change mitigation and adaptation by governments and businesses. FTSE 100 companies must understand these warnings and the specific risks that face their organisations. The COVID-19 pandemic this year has shown us the debilitating impacts of global crises and made it clear that we must heed the warnings of future global emergencies.

In 2020, 81% of FTSE 100 companies are assessing and disclosing climate risks. This is a 6% increase from last year, demonstrating that the majority of companies are aware and engaged with the risks to their business. Importantly, a rising number of companies are disclosing climate risks alongside their other financial risks in their annual report (53% to 68%). The number of companies assessing climate risks across their full value chains, not just their direct operations, has also risen from 57% to 64%.

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[46]. Therefore, opportunities also provide a vital commercial driver for stimulating corporate climate action. Our research has identified that 70% of companies identify climate-related opportunities for their business, including the potential to develop new products, invest in renewables or save costs through increasing operational efficiency and reducing energy consumption.



45 http://reports.weforum.org/global-risks-report-2020/chapter-one-risks-landscape/
46 https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018/climate-report-risks-and-opportunities

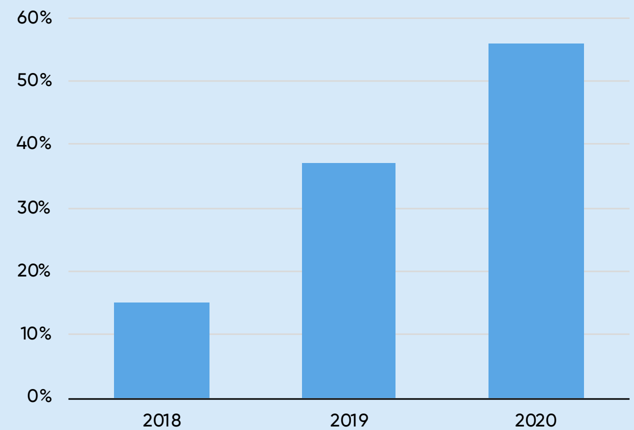
The TCFD

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Launched in 2017, the Task Force on Climate-related Financial Disclosures (TCFD) aims to ensure that companies are reporting decision-useful information to investors in relation to long-term climate-related risks and opportunities. It outlines recommendations linked to four pillars: Governance; Strategy; Risk management; and Metrics & Targets. The TCFD is widely endorsed by the investment community, and sustainability reporting frameworks have quickly adapted their criteria to be in line with these recommendations.

In this year's research the scoring for TCFD has become more stringent in order to ensure companies are not just stating commitments but demonstrating action on all four areas.

TCFD alignment



Despite it being harder to achieve the points, alignment to the TCFD has continued to increase rapidly from only 15% in 2018, 37% in 2019, to now 56% of all companies. One of the key drivers for this rise is likely to be increased pressure from investors who are making it clear that climate-related disclosures will be a factor in their decision-making[47]. Additionally, even though the recommendations are currently voluntary, it is expected that the UK government will make alignment of reporting mandatory. Certainly, its Green Finance Strategy, published in July 2019, has declared the intent for all listed companies and large asset owners to report climate risks by 2022[48].

This year there are seven industry sectors in which 100% of companies are aligned with the TCFD recommendations. These are: Banks; Chemicals; Electricity, Gas and Oil Supply; EWM; Household Goods and Home Construction; ITT; and Real Estate Investment Trusts. Most of these sectors are particularly vulnerable to the physical impacts of climate change which could pose huge risk to them and their investors.

Last year's report identified that insurance firms were falling behind in their alignment to TCFD despite being an industry highly exposed to the risks of climate change, due to increased chance of claims resulting from natural disaster. This was similarly noted in scientific research in 2019[49]. Our research this year has seen a notable improvement, with 80% now disclosing actions across all four of the thematic areas.

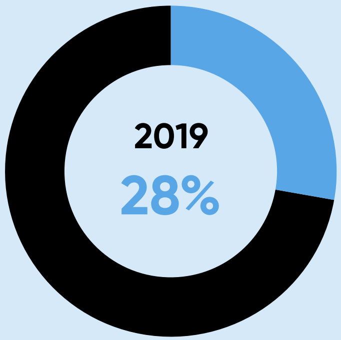
Furthermore, the research shows a large increase in the number of companies incorporating environmentally-linked financial incentives for senior executives as recommended by the TCFD – from 28% in 2019 to 44% in 2020. To ensure effective governance of climate-related risks, engagement of senior management is essential.

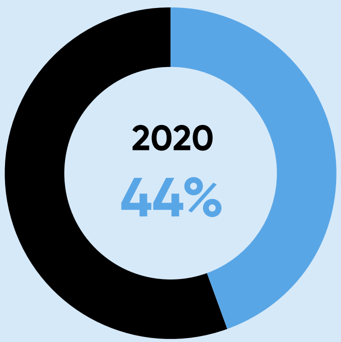
The TCFD recommends that companies should assess their risks through Climate Scenario Analysis (CSA). Overall, the number of companies using CSA has rapidly risen this year from 28% to 42%, and a further 16% plan to use CSA in upcoming years.

CSA is seeing an increase in uptake across certain sectors. This year five industries have exhibited 100% use of CSA: Banks; Chemicals; Electricity, Gas and Oil Supply; EWM; and ITT. CSA is a relatively new approach to risk and opportunity assessment. Therefore, it is unsurprising that it has taken time for more companies to implement, but encouraging that its use continues to become more widespread.

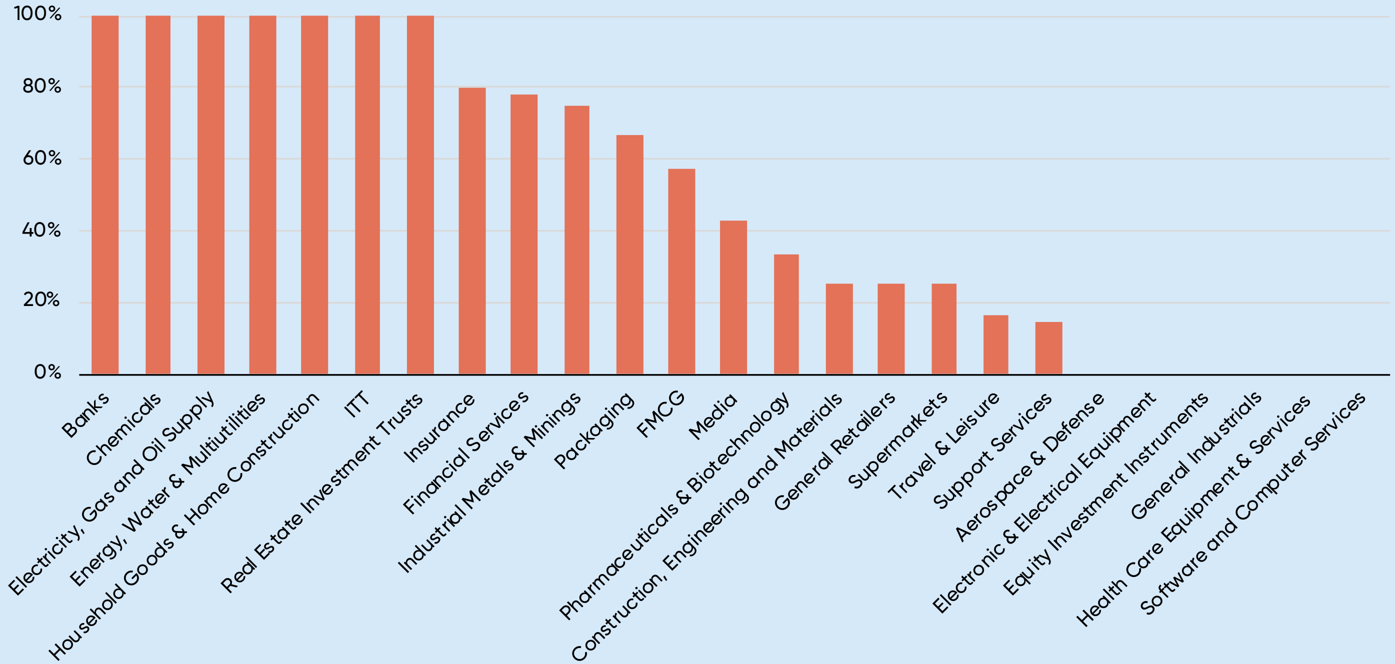
47 https://eco-act.com/tcfd/what-do-investors-really-want-from-climate-change-disclosures/
48 https://www.gov.uk/government/publications/green-finance-strategy
49 https://www.cambridge.org/core/journals/british-actuarial-journal/article/climate-risk-reporting-practices-by-uk-insurance-companies-and-pension-schemes/39E7ABBB63EDE840FC848D90635EC821/core-reader

Financial incentives for upper management

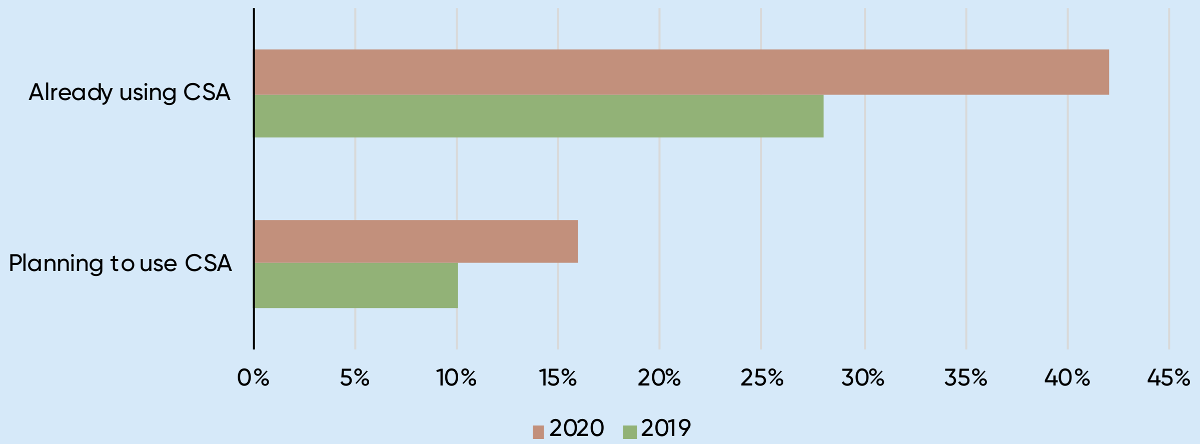




Industries aligned to the TCFD recommendations



Climate Scenario Analysis



Key Trend 2: Renewables

Over the past year, renewable energy has continued to make headlines. During the COVID-19 country-wide lockdown, Britain passed a significant milestone in June having surpassed two months without using coal as part of the electricity generation mix[50].

In fact, renewables accounted for nearly half of Britain's electricity generation (47%) in the first quarter of 2020[51]. This is mainly due to a surge in the supply of wind and solar powered energy. Just a decade ago only 3% of the country's electricity was generated from wind and solar[52], so the rise to power of renewables has been rapid and continues.

The past few years has seen a large increase in capacity, particularly in offshore wind, notable examples being the Hornsea One Project (1,200 megawatts), the Beatrice offshore windfarm (588 MW) and East Anglia ONE which became operational this year (714 MW). Simultaneously, UK coal plants are rapidly closing, and ahead of the 2025 deadline. This comes at a time when government subsidies for new renewable energy projects were at a record low due to plummeting project costs[53]. The most recent report published by the International Renewable Energy Agency analysing the costs of renewable power generation in 2019 highlights how renewable electricity costs are still falling rapidly[54]. Behind much of the success in renewables, therefore, is their increasing cost competitiveness which are making them more economically viable for the UK. Continued growth in capacity will need to continue at pace in order for the UK to meeting its Net Zero target.

This research aims to identify if self-generation and renewable electricity purchasing in the top 100 UK listed companies matches these national advancements. Our research indicates that 68% of the FTSE 100 companies are now using or generating some renewable electricity either through self-generation or purchasing.

In 2019, we reported that figures as 77%. This year's decline is due to an update in the scoring methodology, which now requires that companies disclose the quantity of renewables being used rather than merely mentioning their use. Therefore, some companies who will have previously scored in this area are falling short due to a lack of transparency in their consumption reporting.

Not only are companies moving to renewables, but they are also acting to reduce their energy consumption, with 91% of companies across the FTSE 100 implementing energy efficient technology. This high uptake is likely to be attributed to the cost savings associated with reducing energy consumption, as well as driven by current legislation in the UK, in particular the Energy Savings Opportunity Scheme (ESOS). The scheme makes it compulsory for companies required to comply (which includes all large UK undertakings and their listed groups) to assess their energy consumption and identify savings opportunities.

More broadly it is worth noting that some companies across the FTSE 100 are contributing to the national renewable transition through their business services. SSE, as the leading energy company in the FTSE 100, has a targeted renewable business section which is focussed on facilitating the path to Net Zero through decarbonisation of the UK's electricity supply[55]. The company has committed to building multiple onshore and offshore windfarms across the UK and Ireland.

Even traditional oil and gas companies are beginning to set targets to move towards renewables. BP, for example recently announced plans to invest billions in building wind and solar farms and installing Electric Vehicle (EV) charging points to facilitate a 20-fold increase in their renewable capacity[56].

Commitment to 100% renewable electricity this year has increased slightly from 28% to 33%. Several companies are committed to the RE100, which is a global initiative aiming to bring

50 https://www.bbc.co.uk/news/science-environment-52973089
51 https://www.gov.uk/government/statistics/energy-trends-june-2020
52 https://www.iea.org/countries/united-kingdom
53 https://www.reuters.com/article/us-britain-renewables-offshore-wind/britains-new-renewable-subsidies-hit-record-low-on-the-path-to-net-zero-idUSKBN1W50T3
54 https://www.irena.org/publications/2020/Jun/Renewable-Power-Costs-in-2019
55 https://www.sse.com/news-and-views/2019/06/a-network-for-net-zero/
56 https://www.renews.biz/62194/bp-unveils-50gw-renewables-goal-by-2030/

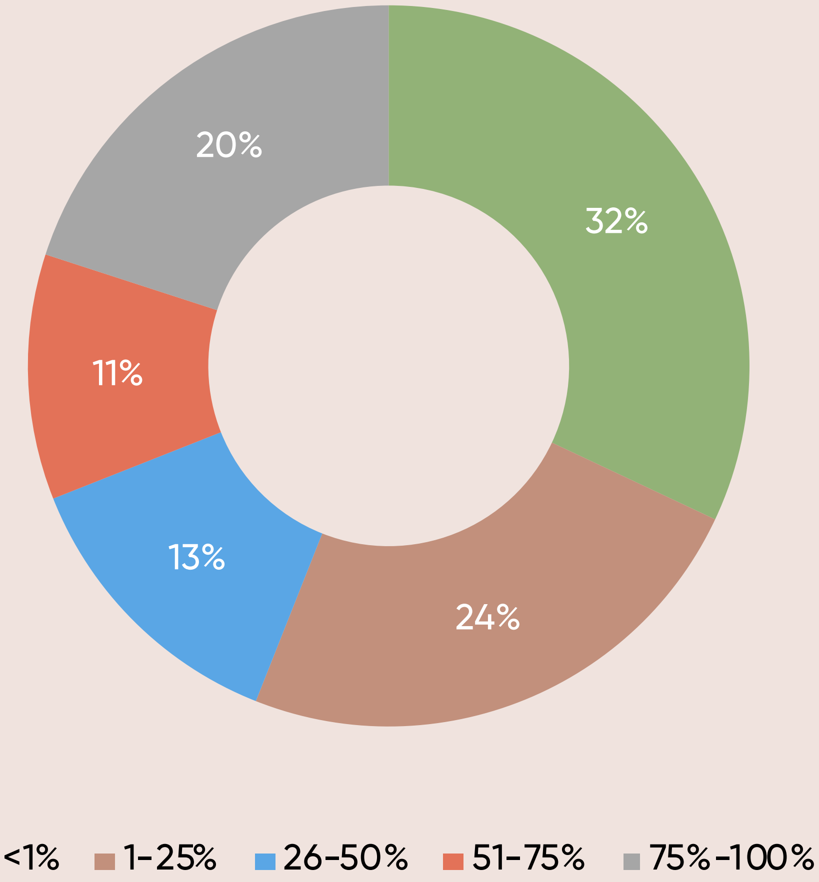
together business to achieve 100% renewable electricity across the entirety of their operations. It has over 240 global members[57] demonstrating the effectiveness of cross-industry collaborative initiatives for driving forward momentum for change, although uptake across the FTSE is still minimal.

The transition to a low carbon economy will also require a nation-wide move to EVs. This year 33% of companies in the FTSE 100 are incorporating EVs into their fleets or using charging stations. For example, BT trialled 23 electric vans in their fleet and have ordered 46 more. This is still low, but challenges remain for organisations, particularly with the lack of charging infrastructure nation-wide. The UK government has brought forward the ban on the sale of new petrol and diesel cars from 2050 to 2040, which we would hope will drive momentum, but at a national level there is an urgent need for better infrastructure to facilitate a more timely transition.

57 https://www.there100.org/companies

Renewable Electricity Use

This year our research has assessed how much of a company's electricity is powered by renewable sources (either purchased or self-generated)



Key Trend 3: SBTs and level of ambition

Net Zero requires rapid decarbonisation and this should be in line with limiting global warming to 1.5°C or well below 2°C. In order to achieve this ambition, organisations need to be setting science-based targets (SBTs).

At the very least, they should have some carbon reduction targets in place. It is increasingly important that organisations be targeting emissions company-wide (entire Scope 1 & 2) and not just for specific regions or portions of their operations, and our methodology has been updated this year to ensure that this is a factor in the awarding of points for any target setting. Consequently, there has been a decrease in the number of companies setting carbon reduction targets of any kind this year (from 81% in 2019 to 67%).

Despite the decrease in overall carbon target setting, there is a continuing trend of increased SBT setting by companies across the FTSE 100. This year 57 companies have either committed to or set an SBT. This amounts to a 6% increase in the number of companies which have set SBTs and a 4% increase in the number of companies who are committed to setting one compared to last year. Given the large and growing number of companies committing to Net Zero, it will be increasingly important that these ambitious goals are supported by robust emissions reduction targets aligned with science.

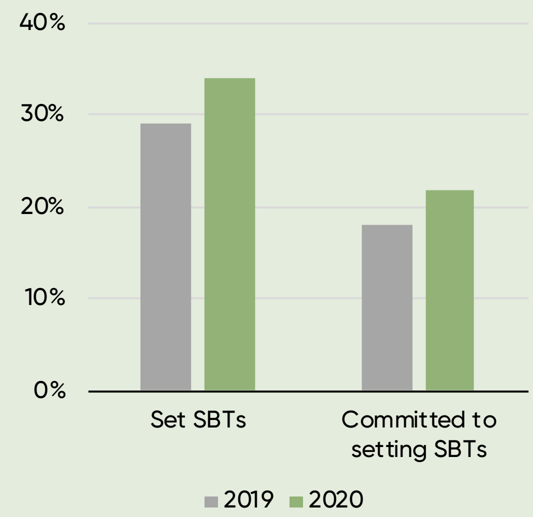
In 2019, the Science Based Target initiative (SBTi) raised the level of ambition required for a target to be deemed science-based. Any target set from October 2019 onwards must be aligned to a 1.5 or well below 2°C warming trajectory. Existing 2°C targets are not required to be changed immediately but, like any SBT, will be subject to review and revalidation every 5 years to bring them in line with the most up to date criteria. This will most likely necessitate they be aligned to at least well-below 2°C.

This year 51% of FTSE 100 SBTs are aligned with the new, more ambitious target compared to 28% in 2019. Given that the criteria update is less than a year ago and the rise in new SBTs in the last year is relatively small, this suggests that those setting SBTs are committed to reducing their emissions in line with science and being as ambitious as possible.

It is advised that if setting an SBT, an organisation should submit it to the SBTi for official validation. 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. Out of the FTSE 100 companies who have set an SBT, 46% are verified by the SBTi. Please note that currently there is no SBT methodology for financial institutions and therefore these companies are unable to obtain validation at this time. This has not deterred 58% of financial institutions in the FTSE 100 that have committed to setting an SBT or claim to have set one, including HSBC, London Stock Exchange, NatWest Group, and Standard Chartered Bank.

In 2018, the SBTi launched a project to develop the methodological framework for the Financial sector. This is currently in a public consultation period, with the final methods, criteria and guidance for the framework due to be launched

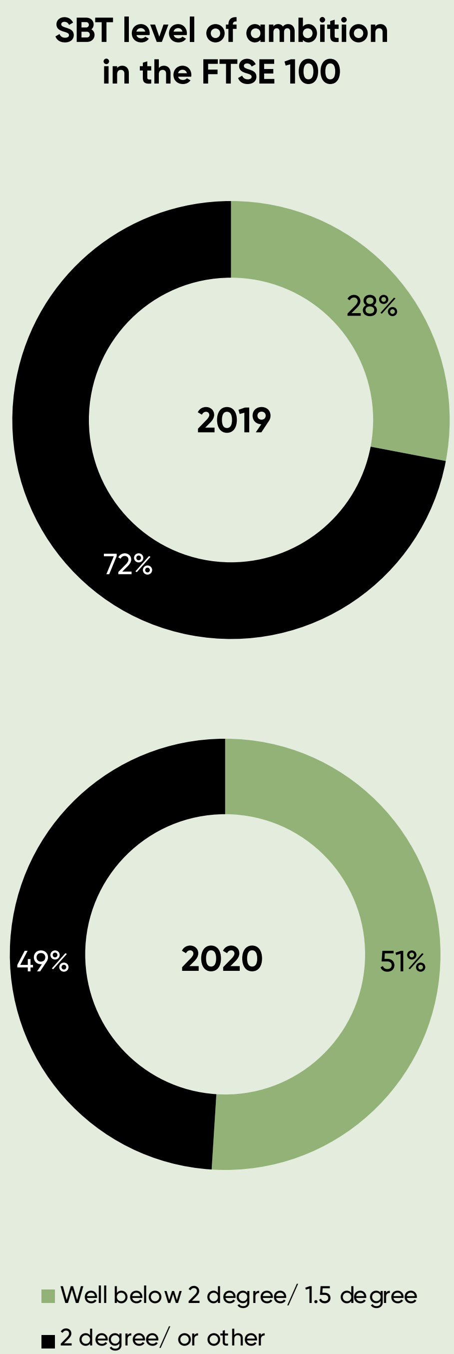
Company commitments to science-based targets in the FTSE 100

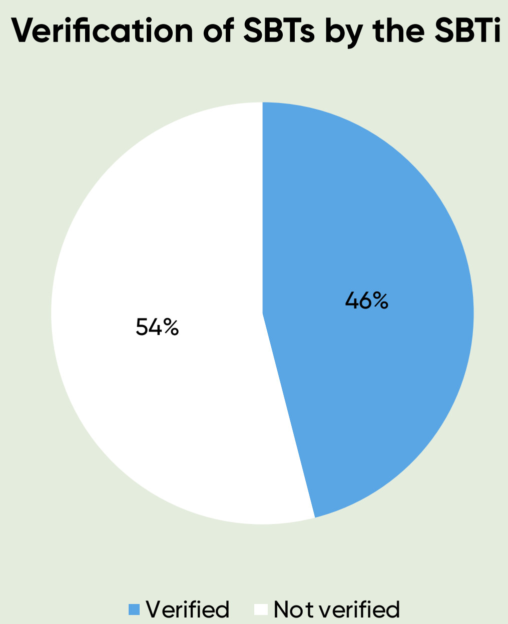


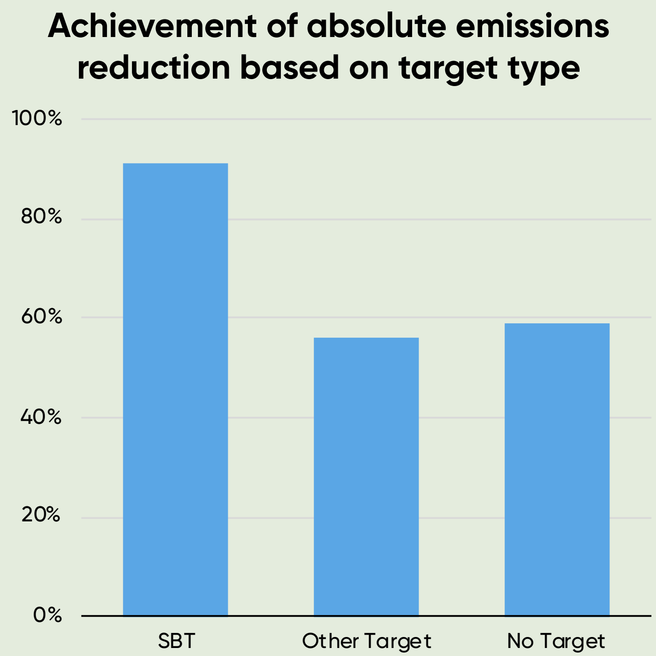
in Autumn 2020[58]. In the interim, to avoid unfair penalisation of financial companies unable to achieve validation, we have not scored this criteria in our research this year.

Ambitious companies that set SBTs continue to be more likely to achieve emissions reductions. 91% of companies which set an SBT display absolute reductions in their Scope 1 and 2 carbon emissions compared to only 59% of companies that do not set a carbon reduction target. It is also worth noting that only 58% of companies setting non-SBT targets show a reduction in absolute Scope 1 and 2 emissions, which surprisingly is lower than companies who are not setting any carbon reduction target. This demonstrates the effectiveness of the SBT movement for encouraging ambitious publicly-declared targets which drive corporate action on emissions.

58 https://sciencebasedtargets.org/financial-institutions/







Key Trend 4: Scope 3

Many organisations find that Scope 3 emissions make up the largest part of their carbon footprints. Therefore, companies failing to disclose and take action on these emissions are omitting an important aspect of their environmental impact and not providing full transparency. If we are to reach our global Net Zero target in time, we must account for and act on our full climate impacts. Therefore, Scope 3 emissions reporting and emissions reduction targets are now firmly established best practice.

Across the FTSE 100 three quarters of companies are calculating and disclosing at least some of their Scope 3 emissions footprint. However, when we look at the proportion of companies disclosing two or more Scope 3 emissions categories the percentage drops to 57% and to just 14% when looking for transparency on all 15 value chain categories.

Similarly, of the 67% of FTSE 100 companies that set carbon reduction targets only 49% of companies include any Scope 3 emissions. However, a select few companies in the FTSE 100 are setting ambitious Scope 3 targets, paving the way for other businesses. Astrazeneca has set a SBTi approved, 1.5°C aligned target to reduce all their Scope 3 emissions by 25% per million USD of sales by 2025 against a 2015 baseline. They aim to implement innovative technology in order to achieve this goal, including the development of carbon free inhalers. The company have shown reduction across multiple Scope 3 categories this year demonstrating that their ambitious approach yields results.

Scope 3 must be included for an SBT if emissions constitute over 40% of their overall company footprint. Our research shows that 22% of companies in the FTSE 100 have committed to setting an SBT and will, therefore, have to include Scope 3 in their targets to gain validation.

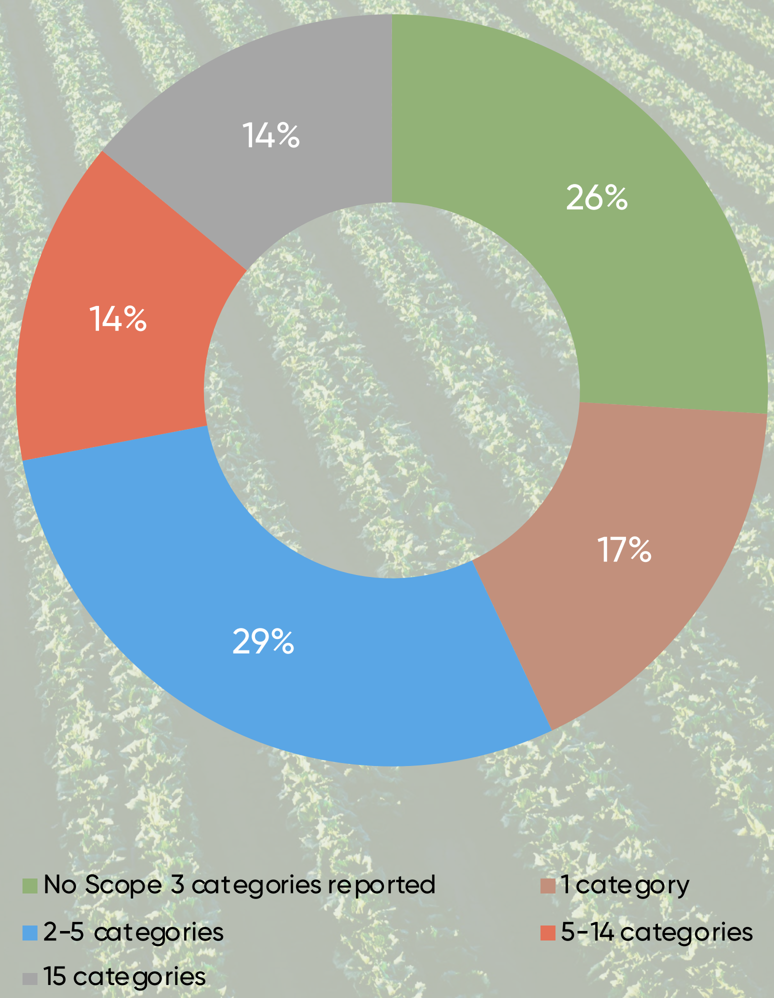
Despite only a limited number of targets, 43% of all FTSE 100 companies have reported some reduction in their Scope 3 emissions in at least one Scope 3 category. However, only 20% show reductions across multiple categories. Achieving emissions reductions are of course more challenging as these emissions lie outside of a company's direct control. Therefore, stakeholder engagement is crucial to gaining success.

This year our research showed that half of companies exhibit supplier co-innovation or engagement initiatives beyond basic minimum supplier criteria. For example, luxury fashion house, Burberry, work closely with their suppliers to improve the sustainability of materials used in their garments ensuring responsible sourcing and sustainable farming practices. They have a strong Responsible Procurement Policy and in 2019 they report that through engaging with their suppliers on energy efficiency and renewable energy, they are achieving measurable reductions in their supply chain emissions. Companies, like BT and Barclays, are also increasingly requesting that their suppliers disclose their CDP submissions, thereby encouraging companies to report and demonstrate their sustainability credentials.

In addition to this, 51% of companies engage with their consumers on sustainable behaviour, with 18% offering incentives for sustainable purchasing decisions. Barclays, for example, offer a Green Home Mortgage which gives customers a lower interest rate for properties with higher energy efficiency ratings, and National Grid offer rebates and incentives for purchasing their energy efficient products.

Across the FTSE 100, FMCG companies showed the highest levels of supplier engagement with 100% of companies engaging suppliers beyond just basic supplier standards. This is likely to be due to this industry having complex supply chains vulnerable to climate risk, but also open for many opportunities for improved products and services in a time of growing environmental concern.

Inclusion of GHG Protocol categories in Scope 3 emissions reporting



Conclusion

This year's research shows that companies in the CAC 40, DOW 30, FTSE 100 and IBEX 35 are continuing to adapt and develop their response to climate-related sustainability and to ensure alignment with reporting best practices. Even with the changes in our scoring criteria this year, many companies are still scoring highly and continuing to meet the rising bar of best practice, if not raise it higher themselves.

In particular, this year has witnessed a huge increase in the number of companies committing to Net Zero or carbon neutrality as well as a rise in companies setting SBTs in line with a 1.5 or well below 2°C pathway. A year on from the UK's commitment to reach Net Zero by 2050, it is imperative that businesses strive to achieve this goal across their operations in order to effectively decarbonise the economy, ensure we are successful in our global ambition, and ultimately avoid the worst impacts of climate change.

The top scoring companies are going the extra mile across all four areas of our scoring methodology: Measurement & Reporting, Strategy & Governance, Targets & Reduction and Engagement & Innovation. These leading companies are not only fully disclosing their carbon footprints and actively reducing their emissions across all Scopes, but are further engaging their consumers and suppliers as well as other key stakeholders in order to encourage sustainable behaviours across the entirety of their value chain.

Our results have in particular highlighted that more companies are assessing and managing climate risks and opportunities facing their business with a massive increase in the number of companies fully aligning to the four pillars of the TCFD recommendations. Since their release in 2017, they have played a role in what has been a seismic shift in the perception of climate change as a material financial risk that needs to be addressed and adequately reported.

At the beginning of this year, Larry Fink, Chairman and CEO of BlackRock, the world's largest asset manager with nearly $7 trillion in investments, wrote his open letter to CEOs predicting a "fundamental reshaping of finance". In it he stated "in the near future – and sooner than most anticipate – there will be a significant reallocation of capital"[59] driven by climate risk. Our research this year has demonstrated that the power wielded by the investment community is shaping the disclosure landscape and driving forward progress. Not addressing climate change could now be the biggest commercial risk a company could take.

Despite the promising trends, there remains a concerning performance gap, particularly for FTSE 100 companies. Scores range from 0-92%. This suggests that the overall performance of the index continues to be pulled up by the high performers, and that those lower scoring companies are still failing to step up and address the ever-advancing risks of climate change. All organisations, particularly those who have the influence of the FTSE 100, must urgently transform their business models to address the global climate emergency.

Looking forward, the time we have remaining for action is quickly ebbing away. The next few years will be critical for determining the outcomes of climate change. As the world faces a crippling pandemic, we must keep in mind that the crisis of climate change could be far worse and that today is a unique opportunity to "build back better" and avert it. To do so, there will be challenges to overcome, global recession not least of them.

In 2019 the UN Emissions Gap Report stated that we need to reduce global emissions by 7.6% every year between 2020 and 2030 to not miss our chance to avoid the worst of climate change. Global emissions are predicted to fall between 4 and 7% in the wake of the pandemic[60], which might come close to our annual target, but required unprecedented international lockdowns to achieve. In 2021, this report will be assessing the impacts to businesses of this unparalleled global crisis, whilst hoping to see considerably more progress in our urgent transition to Net Zero.

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 a precedent for all companies across the FTSE 100 and beyond, and demonstrate the possibility of facilitating the transition to a low carbon economy whilst maintaining economic success.

59 https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter
60 https://www.nature.com/articles/s41558-020-0797-x

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 rigour of a company's reporting, including the disclosure of carbon footprint data and its calculation methodology. EcoAct also assessed: the use of market and location-based emissions; inclusion of multi-category Scope 3 emissions information in data and reporting; 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 realise their environmental sustainability 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 (transition 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 penalised 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 behavioural 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. gaining commercial benefits from a low carbon approach and influencing wider change. Stakeholders include consumers, the supply chain, investors, government and the wider community.

The extent of internal and external engagement is considered, for example if a company is successfully influencing stakeholder behaviour, rather than simply providing them with information, they receive additional merit. Any co-innovation with suppliers, NGOs or government is recognised as excellent engagement. This might include developing new technologies, products or processes with an environmental benefit, but will provide evidence of collaborating to facilitate progress towards our global climate goals.

Your climate experts.
Your partner for positive change.

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

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

EcoAct UK
ukoffice@eco-act.com
+44 (0) 203 589 9444

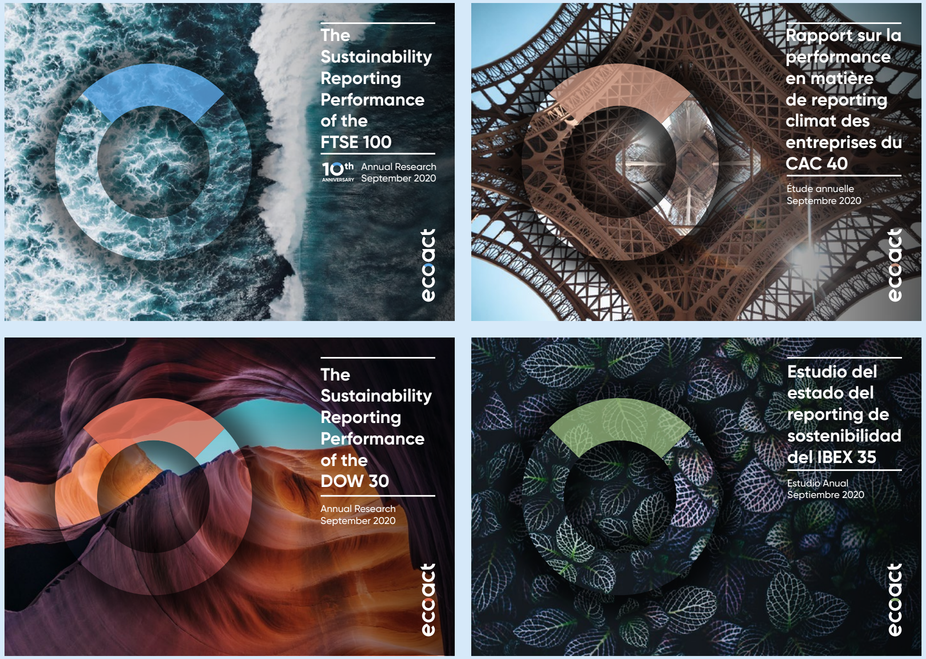
EcoAct France
contact@eco-act.com
+ 33 (0) 1 83 64 08 70

EcoAct Kenya
info@climatepal.com
+254 708 066 725

EcoAct USA
usaoffice@eco-act.com
(+1) 646-757-8174

EcoAct Spain
contacta@eco-act.com
+34 935 851 122

EcoAct Turkey
turkeyoffice@eco-act.com
+90 (0) 312 437 05 92



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