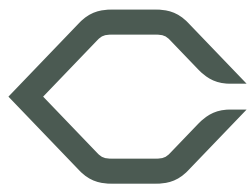


Taking stock of sustainability:

The sustainability reporting performance of the **FTSE 100**, **IBEX 35** and **CAC 40**



carbonclear[®]

September 2017



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Welcome

It's becoming apparent that the transition we need to make to a low carbon world, to manage the most serious impacts of climate change, is happening because of carrots rather than sticks.



There has been a clear increase in momentum over the past year in how companies manage their environmental stewardship responsibilities. Mostly, this is driven by market factors, specifically in the cost of renewable energy generation and the widespread adoption of renewables as a technology of choice by communities, businesses, regions and countries.

For consumers, whether individuals, businesses or governments, choosing low carbon options makes sense. We have reached a point where the environmentally sustainable choice is the better, and often more cost effective, option.

This year, one of our international clients has rolled out solar powered generation at sites in developing countries because it is the more economical and reliable energy source. As a business, they have aggressive carbon reduction targets. But the decision to commit to solar to power operations was driven by practical, economic considerations, rather than sustainability factors.

For the first time in some years, I'm feeling optimistic about the momentum of sustainability practices and the prospect of avoiding dangerous climate change.

This sense of optimism underpins our call for companies to be more ambitious in their approach to environmental sustainability. This Movement of Momentum is the foundation of our 2017 research and based on best practice trends we have identified across three of the main European indices (FTSE 100 in the UK, IBEX 35 in Spain and CAC 40 in France).

Movement for Momentum

We call on companies to:

- Understand what the risk of climate change means for their business operations by evaluating the impacts on their business of a 2°C climate scenario as recommended by the Task Force on Climate Related Disclosure.
- Increase the scale and ambition of carbon and energy reductions by setting science based targets, committing to renewable energy use and developing innovative products and services.
- Align sustainability metrics with business strategy to ensure that the measurement and reporting of data is driving decisions at the heart of company operations.
- Influence and encourage customers, employees and suppliers with clear and ambitious objectives.

Over the past seven years our research has shown that the companies who see the most tangible results are unafraid to set ambitious targets, align their business to sustainability goals, engage their whole value chain and stakeholders and are early adopters of new sustainability practices. We see this Movement of Momentum as the next step towards truly sustainable business and a necessity if we are to meet global carbon reduction goals.

If the companies researched to compile this report respond to this request for ambition, we could make significant progress on business emissions reductions from commercial operations.

I hope you enjoy our findings and are inspired to keep up the movement for momentum.

Mark Chadwick, CEO, Carbon Clear

Introduction

This year's research into the Sustainability Reporting Performance of businesses listed on the FTSE 100, IBEX 35 and CAC 40 indices has led us to ask: almost two years after COP 21 in Paris, where are we now?

We are in a world where we are on a rapid trajectory to overshoot the 2°C limit in increases in average global temperature. The pace of change is not quick enough.

The new President of the USA withdrawing his nation from the Paris Agreement is a blow to ensuring that the aims of the global agreement are met. Although the top-down Presidential pressure on the world's second largest emitter ceases to exist, over 2000 mayors, governors, college and university leaders, businesses, and investors have pledged to support climate action needed to meet the USA's commitment under the Paris Agreement. California, Washington, New York, Massachusetts, Vermont, Connecticut and Rhode Island alone represent 15% of the country's emissions.

Closer to home in the Carbon Clear London office where we conduct this research, we must also think about the impact of Brexit. Nobody can say what the UK exiting the European Union means for national, European and global climate action.

While the political situation remains uncertain, there are other drivers for change that ensure that business and organisation's response to climate change and sustainability issues advance to meet government and market demand.

An example of such an intervention is the launch of the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) that asks companies based in G20 nations to report certain Environmental, Social and Governance (ESG) factors in their financial reports so that this information is readily available for investors.

Indeed, the financial sector will play a pivotal role in ensuring that businesses adapt to a resource constrained and low carbon future. Where institutions decide to invest will be a catalyst for change.

We have decided to extend the 2017 research to cover three European indices – the FTSE 100, IBEX 35 and CAC 40. We are interested to see how some of the biggest companies in the world are: responding to legislation and investor calls for action; managing risk and future proofing business operations; innovating to maximise on energy and emissions reductions opportunities; and leading the way and inspiring action through engagement with stakeholders beyond company shareholders.

The past seven years of this research have been focused on best practice and celebrating the successes of companies forging the path of innovation. 2017 is still very much focused on best practice. Indeed, we have added a best practice scoring section to the research. These points are not added to the overall total score of companies, but it has allowed us to hone in on areas of leadership, and those companies doing it well are highlighted later in the report.

In our ongoing work delivering intelligent sustainability and supported by findings of this year's research we have identified four megatrends. From these trends, we'd like to encourage a Movement for Momentum for businesses.

Companies should:

- Understand what the risk of climate change means for their business operations.
- Increase the scale and ambition of carbon and energy reductions.
- Align sustainability metrics with business strategy.
- Influence and encourage customers, employees and suppliers with clear and ambitious objectives.



2017

key findings across all three indices



Companies that have committed to or set a science based target:



What are science based targets?

Science based carbon reduction targets (SBT) are aligned with the climate science that tells us what level of decarbonisation is required to limit global temperature increase to 2°C.



Divestment from fossil fuels

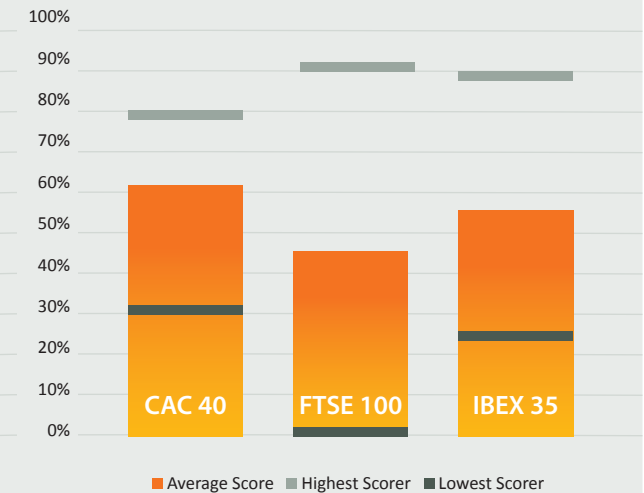
6 companies listed on the FTSE 100 have committed to divest from fossil fuels compared to 5 listed on the CAC 40 and 3 on the IBEX 35.



A driving force in France - L'article 173

Article 173 of the Law on Energy Transition for Green Growth requires publicly traded companies, banks and credit providers, and institutional investors to report on how they integrate ESG-Climate risks and issues into their decision-making. With this article, France becomes the first country to require extensive climate change reporting from its institutional investors.

Average score by index



Rising use of renewable energy





The Global Reporting Initiative (GRI)



What is the GRI?

The Global Reporting Initiative (GRI) is a non-profit organisation that provides guidance on how companies should report on sustainability and Environmental, Social and Governance (ESG) issues. The GRI guidelines have become the most widely used standard for sustainability & ESG reporting.

Identifying risk in the supply chain

More than double
the number of FTSE 100 companies assess supply chain risk compared to 2016!

2016: **24** 2017: **50**



Supporting the Sustainable Development Goals (SDGs)

Across all three indices 100 companies align to the SDGs.

Index	Aligning to SDGs	Percentage
FTSE		47%
IBEX		74%
CAC		67%

What are the SDGs?

The Sustainable Development Goals (SDGs), otherwise known as the Global Goals, are a universal call address some of the most important challenges we face – inequality, climate change, resource scarcity, etc. The SDGs strongly emphasise the role of private sector.

Climate change is a business risk and opportunity

% of companies that see climate change as a:

Index	Risk	Opportunity
CAC		
IBEX		
FTSE		



Best performing companies 2017

In 2017 we have seen an improvement in scores across the FTSE 100 and the IBEX 35 compared to 2016. This has also resulted in movement in the rankings which have also been affected by new entrants to the indices. The top scoring FTSE 100 companies, when compared like for like with the IBEX 35, perform better in percentage scores and have closer scores than companies on the Spanish index.

Interestingly, the country that has the most stringent legislation on ESG reporting – France – has a lower score for the leading company than either the FTSE 100 and the IBEX 35. Scores across the entire CAC 40 index are very close indicating that companies are responding to the requirements of national legislation and not necessarily pushing the boundaries of best practice. This also means that the CAC 40 has a higher average score (60%) than the IBEX 35 (56%) and the FTSE 100 (47%).

FTSE 100 Top 20

Rank	Company	Score	Movement
1	Marks & Spencer	90%	▲
2	BT Group	88%	▼
3 =	Kingfisher	82%	▲
	Unilever	82%	-
5	Land Securities	76%	▲
6 =	Diageo	75%	▲
	Mondi	75%	▲
8	SSE	74%	▲
9	AstraZeneca	71%	▲
10 =	Aviva	69%	▼
	Tesco	69%	▲
12	Hammerson	68%	▲
13 =	London Stock Exchange Group	66%	▲
	Barratt Developments	66%	▲
	CRH	66%	▲
15 =	Royal Mail Group	66%	-
	Pearson	66%	▲
	WPP	66%	▲
19 =	RELX	64%	▼
	Coca-Cola HBC AG	64%	▼

IBEX 35 Top 10

Rank	Company	Score	Movement
1	Acciona	89%	-
2	Telefónica	84%	▲
3 =	Ferrovial	83%	▼
	Iberdrola	83%	-
5	Gas Natural Fenosa	74%	▲
6 =	Red Eléctrica Corporación	72%	▲
7	Inditex	70%	▲
8	Endesa	68%	▲
9	Siemens Gamesa Renewable Energy	67%	▲
10 =	Banco Santander	66%	▲
	Repsol	66%	▲

CAC 40 Top 10

Rank	Company	Score
1	Schneider Electric	79%
2 =	Solvay	73%
	Unibail-Rodamco	73%
4	Veolia Environment	72.5%
	Peugeot	72%
5 =	Renault	72%
	Danone	72%
	Societe Generale	70%
8 =	Axa	70%
	L'Oreal	70%



MARKS &
SPENCER

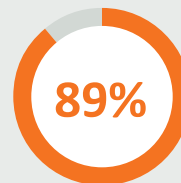


Marks & Spencer 90% – Overall top scorer and top of the FTSE 100 sustainability reporting performance rankings

Marks & Spencer are once again top of the FTSE 100 ranking, achieving not only the highest score within the FTSE 100, but the best score across the three indices.

The retail giant continues to drive innovation, through stakeholder consultations and engagement. The company continues to build on the successful Plan A programme for sustainability, which has saved £750 million in costs through efficiencies such as less energy and a reduction in packaging. Marks & Spencer recently released their Plan A 2025 commitment which integrates the Sustainable Development Goals into the programme and sets out ambitious objectives, such as the entire business model becoming zero waste by 2025.

 **acciona**

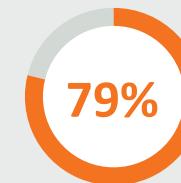


Acciona 89% – Delivering on the 2020 Sustainability Master Plan

For the second year in a row, Acciona have achieved the first position in the IBEX 35 ranking. It is important to highlight this accomplishment, especially considering that many of the companies in the IBEX 35 have increased their overall score compared to last year.

The company's commitment to sustainability is demonstrated by, among other initiatives, their active participation in COP22, where they announced the successful completion of the target they had set for 2016: becoming the first Spanish company in the IBEX 35 to achieve carbon neutrality. Additionally, Acciona was recognised as a world leader for its sustainable water management approach by CDP. Both of these objectives are part of their 2020 Sustainability Master Plan, a strategy which encompasses a variety of targets related to their value chain, the environment and climate change.

Schneider
 **Electric**



Schneider Electric 79% – Setting ambitious targets and working hard to meet them

Global energy management and automation specialist, Schneider Electric tops the CAC 40 ranking for sustainability reporting performance. The company measures and reports impacts using indicators from the 2015-2017 Planet & Society barometer to measure its ambitious commitments to sustainable development on a quarterly basis. This barometer tool addresses how the company is performing against 5 identified key megatrends, including Climate and Circular Economy. These results are presented by the CEO and CFO to institutional and sustainable, responsible and impact investors to demonstrate that sustainability is part of their long-term strategy. Schneider Electric is one of the few CAC 40 companies going beyond the requirements of legislation – by using an innovative tool to achieve reduction targets.

An aerial photograph of London, England, taken at sunset. The River Thames flows through the center of the city, with the Shard skyscraper standing prominently on the right bank. The sky is filled with warm, golden light from the setting sun, casting a glow over the city's buildings and streets. The overall scene is a panoramic view of the city's skyline.

The Sustainability Reporting Performance of the FTSE 100

This is the seventh year we have scored the sustainability reporting performance of the FTSE 100. Each year we update and enhance the scoring criteria to reflect our findings from the previous year, and best practice within sustainability reporting. This year we have developed four key areas that companies are scored against: Measurement and Reporting, Strategy and Governance, Targets and Reduction, and Engagement and Innovation. These, alongside the Best Practice Leaders section (which does not count towards the overall score), help us to identify which companies and industries are leading the FTSE 100 in sustainability reporting.

The 2017 key findings outline some of the most interesting facts that have been generated from the research. The industry sector performance focuses on those companies that have performed the best and those that have changed the most, demonstrating an improvement or a decline compared with last year.

Key findings

99

companies report on carbon



66

report Scope 3 data and 43 report Scope 3 beyond business travel



7

new entrants into the top 20

- Land Securities (76%)
- SSE PLC (74%)
- Tesco (69%)
- London Stock Exchange Group (66%)
- Pearson (66%)
- WPP (66%)
- Barratt Developments (66%)

42

companies report using the GRI framework

8

companies do not report to the CDP, 2 fewer than 2016

70

companies set carbon reduction targets



8

companies have already set science based targets (2 more than 2016). 10 more companies have committed to set an SBT in the future

6



companies provide evidence of divestment from fossil fuels, with a further 3 mentioning that they will in the future

39

companies view climate change as a risk to their business and record it as such in the risk assessment section of their annual reports

67

companies have reduced year on year emissions. Of these, 48 companies have reduced emissions compared with their targets whilst a further 13 have exceeded their target

42

state they are listed on the DJSI

14

companies offer a carbon neutral product



20

of the 33 companies that report market and location based emissions also produce their own renewable electricity

Targeting change through best practice

This year we have developed a 'Best Practice' section in the FTSE 100 scoring methodology, it is scored separately from the main ranking and gives a clearer indication of who the leaders in each section are. These leaders drive sustainability best practice and there is a positive correlation between those companies that score highly in 'Best Practice' and their overall position in the rankings.

We have chosen a few best practice leaders to focus on and highlight why they are sustainability leaders within the FTSE 100.



Smurfit Kappa Group – A circular business

A new entrant into the FTSE 100 for this year, Smurfit Kappa has integrated the ideals of a circular closed loop economy at the centre of its business. Smurfit Kappa actively engages and co-innovate with its customers to find solutions towards reducing upstream emissions and waste, while outlining to investors that this strategy can lower costs, improve efficiency, produce less waste and result in increased revenue. A circular economy is viewed as part of its competitive advantage over other companies within the sector. The company works to understand the financial benefit and the impact on sustainability that its products have throughout the value chain, from raw material to end of life.

Operating within a circular framework means Smurfit Kappa is constantly sharing knowledge, experience and expertise on sustainability with suppliers and customers. This increases the sustainability of the complete value chain and in turn increases the circularity of the business. The use of organic-by-products from the production process as a biomass fuel also makes this company stand out among others in the FTSE 100.



SSE – Improved reporting

SSE moves up through the rankings in 2017 to eighth place. The company demonstrates good quality carbon reduction planning alongside ambitious science based targets, which have been developed by assessing the future climate change opportunities to their business. With over £3.2bn invested in renewables since 2010, SSE is continuously reducing its environmental impact and promoting low carbon alternatives to its customers. Having greatly improved its reporting on engagement and innovation as well as clearer overall strategy, SSE have entered the top 10 for the first time.



WPP – Engaging on the SDG's

Having jumped back into the top 20 this year, WPP continues to show excellence in its strategy towards carbon reductions with a thorough plan detailing potential areas of carbon savings. WPP has demonstrated exceptional industry partnership and engagement with the United Nations through the launch of 'Common Ground', a collaboration between the six biggest advertising agencies in the world, in support of the SDG's. Through this initiative, it is using the power of communication to help increase awareness and make progress in the sustainable development agenda.



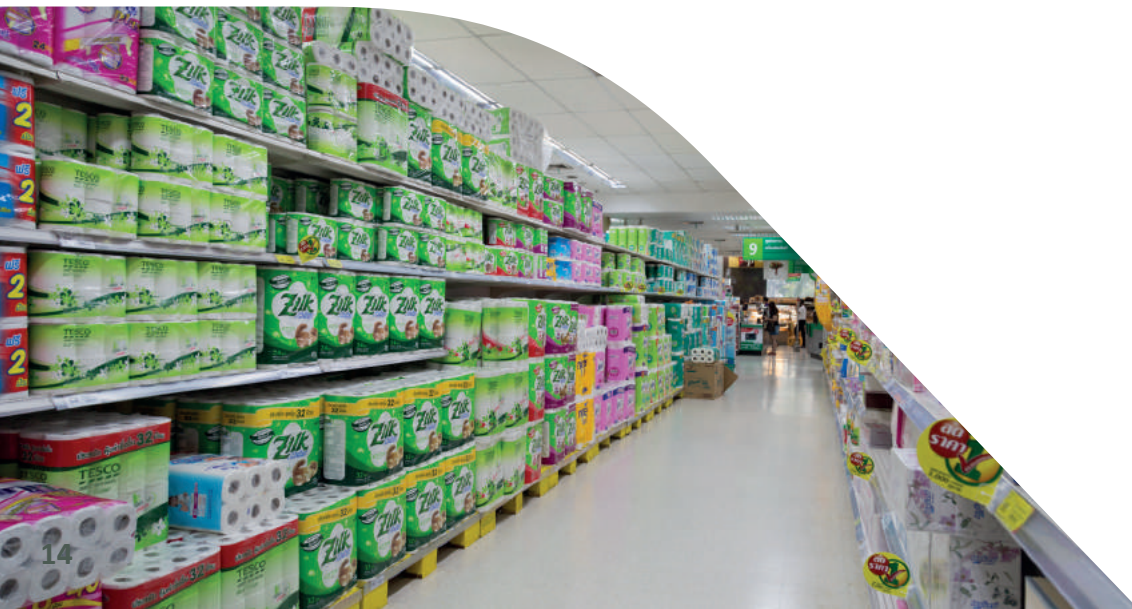
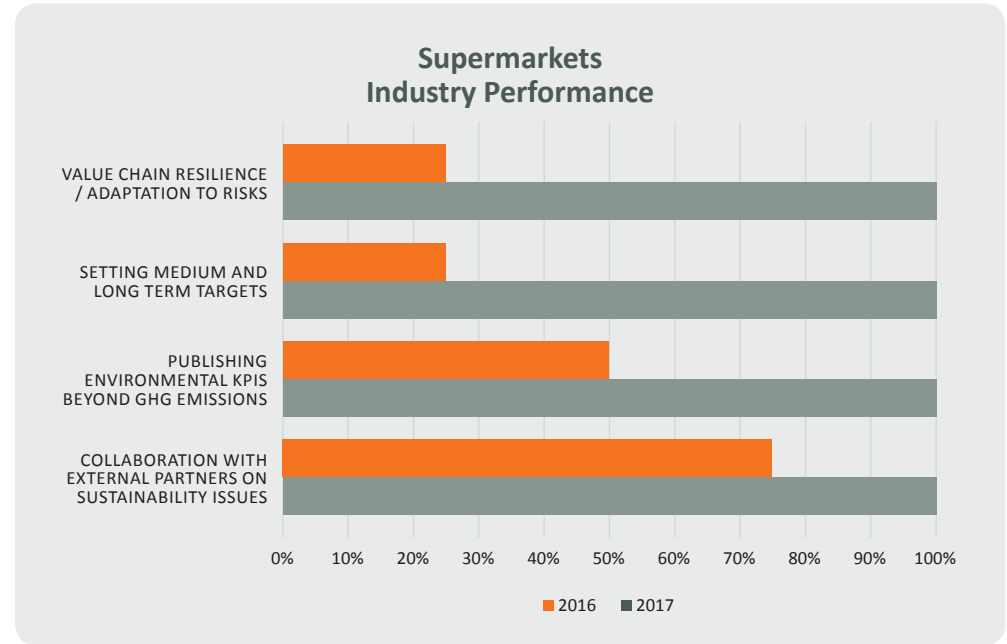
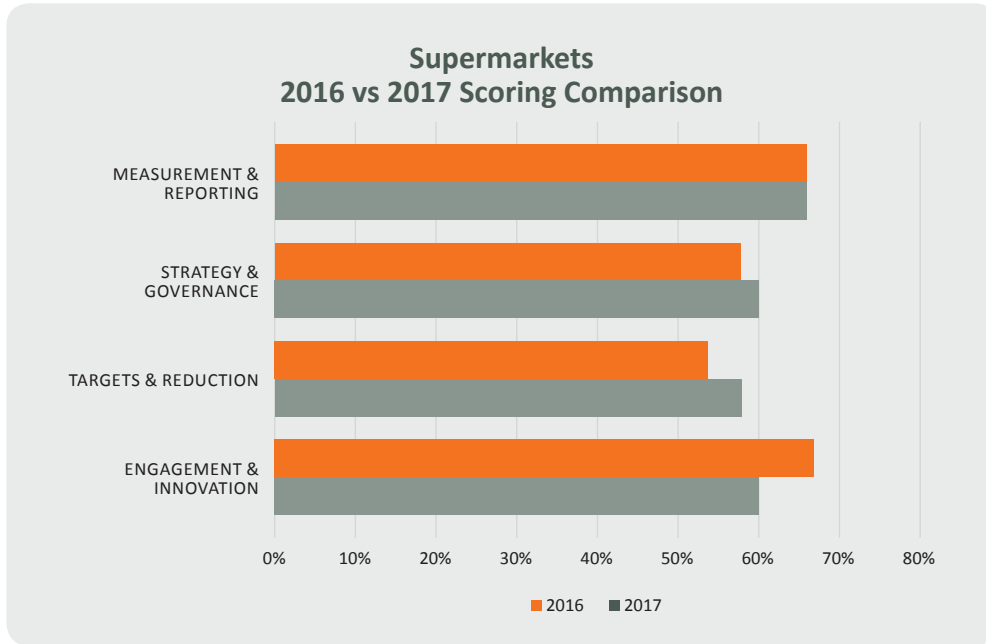
Industry focus

The analysis of performance by industry is an important part of our research, it demonstrates the drivers of sustainability reporting performance and the best path to environmental sustainability by industry sector.

Most sectors have improved on their average score for 2017. Supermarkets have again performed well with an average of 61%, an increase of 2% from 2016. Property Development and Investment have also scored well as a sector with an average score of 61% compared to 54% in 2016. Engineering and Machinery is again the worst performing sector but has a 2% increase in average sector score from 2016, to 28%.



Industry focus: Supermarkets

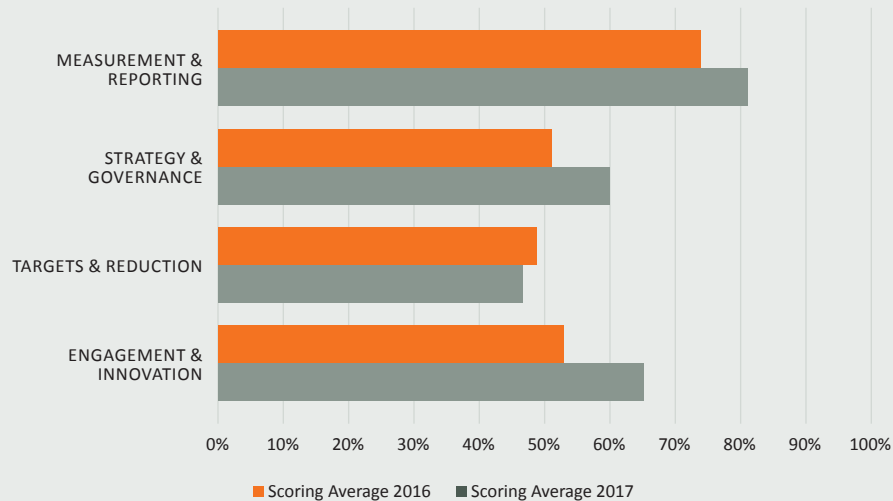


Supermarkets are joint highest scoring sector with an average score of 61%, up from 59% last year. There are a number of drivers for this increase. For instance, both Marks & Spencer and Tesco joined the ambitious trend of setting carbon reduction targets that are aligned to climate science in 2017.

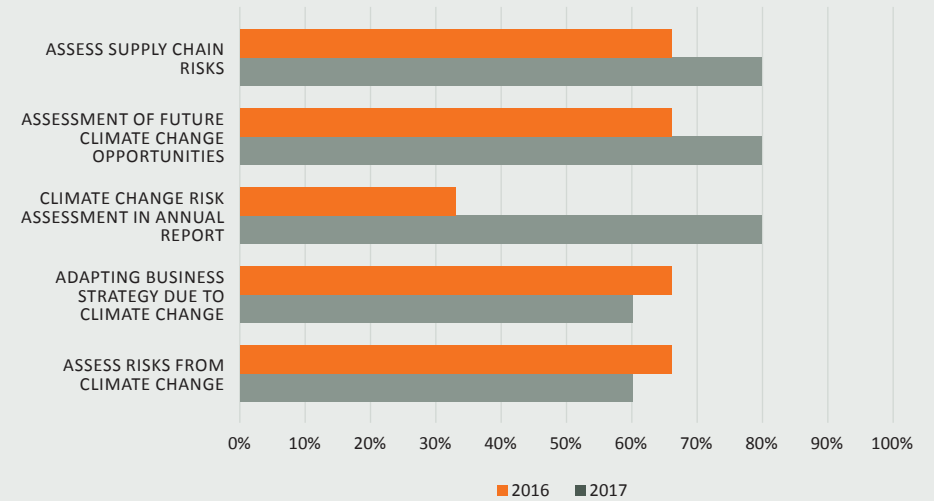
Companies in this sector have also improved overall in key areas of reporting. Marks & Spencer, Tesco, Sainsbury's and Morrisons all assessed the wider impacts of climate change by detailing value chain resilience and/or adaptation to these risks - only Marks & Spencer had done so in 2016. Tesco was the only company in the sector to report both medium and long term carbon reduction targets in 2016, but all companies this year have scored successfully for this section. Marks & Spencer and Tesco join Sainsbury's and Morrisons this year in publishing environmental key performance indicators beyond GHG emissions in their annual reports.

Industry focus: Property Development and Investment

Property Development and Investment
2016 vs 2017 Scoring Comparison



Property Development and Investment
Assessment of Climate Change Risks and Opportunities



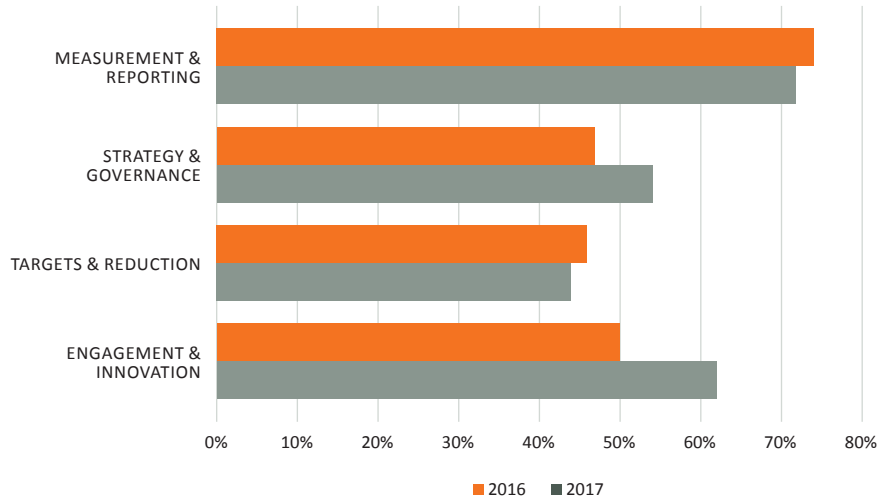
The property development and investment sector has seen positive improvement in 2017, in part due to increased pressure from government and stakeholders. There have been encouraging improvements in measurement and reporting performance in this sector, however there is still work to be done on target setting and demonstrating reductions.

Acknowledgment of the material risks climate change will bring to normal business operations is evident in this year's research. More than double the number of companies in this sector provide a climate change risk assessment in their 2017 annual reports, up from 33% in 2016 to 80% in 2017. However, recognition of the risks does not transpire to adapting business strategy to account for the impact of climate change: we see a decrease in companies demonstrating business strategy adaptation. In contrast, this sector continues to assess the opportunities that climate change could provide, showing a more positive attitude towards the impact of climate change.

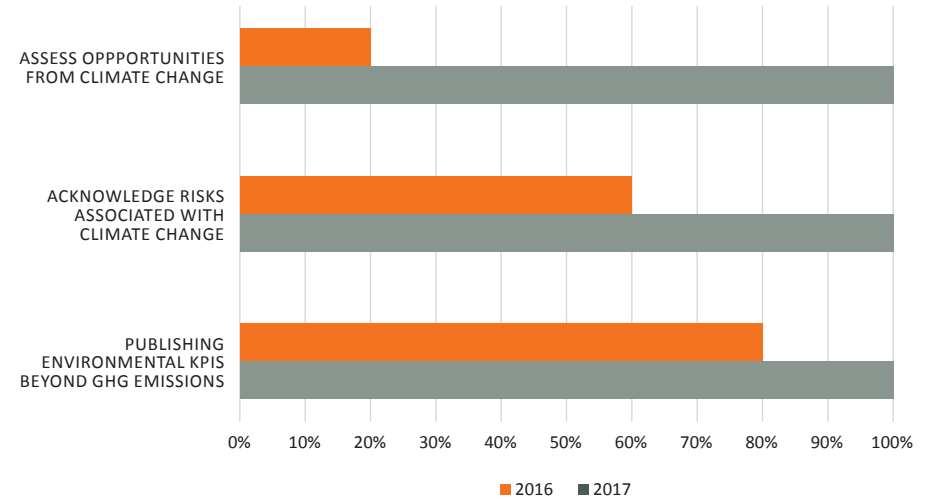


Industry focus: Food, Beverages and Tobacco

Food, Beverage and Tobacco
2016 vs 2017 Scoring Comparison



Food, Beverage and Tobacco
2016 vs 2017 Scoring Comparison



This year the Food, Beverages and Tobacco (FBT) industry's average score increases to 55%, an improvement of 5% from 2016. Like the supermarket sector, FBT companies are largely consumer-facing which means there is a greater chance of public pressure on these companies to integrate sustainability into their business practices and in turn promote their sustainability efforts.

In 2017, we see this translated into focus areas such as environmental targets as well as assessments of climate related risks and opportunities. For example, Imperial Brands joins the likes of Unilever, Diageo, British American Tobacco and Associated British Foods in publishing environmental key performance indicators (KPIs) beyond GHG emissions in their annual report. In addition, all companies in this sector have demonstrated progress by setting targets for these KPIs.

It is important to note that all FBT companies acknowledge the risks associated with climate change and assess future climate change opportunities for their businesses. This is especially noteworthy because only Unilever had scored a point for this in 2016.

Megatrends in sustainability reporting from across Europe

In our ongoing work delivering intelligent sustainability solutions, and supported by the findings in this years research, we have identified four megatrends. In this section, we take a look at these trends and the activities of companies across the three indices that we have scored.

1 Understanding the risk of climate change for business operations

The Task Force on Climate-related Financial Disclosures¹ (TCFD), chaired by Michael Bloomberg and with support from Mark Carney encourages organisations to disclose the impact climate change is likely to have on their business. This includes physical and transition risks, opportunities from the transition to a low-carbon economy and financial impacts.

The TCFD recommends scenario planning for a 2°C world. Scenario planning allows business analysis that is flexible or robust for a range of futures. It is also a useful tool to understand the strategic implications of climate-related risks and opportunities and to inform stakeholders about how the company is positioning itself in light of these risks and opportunities.

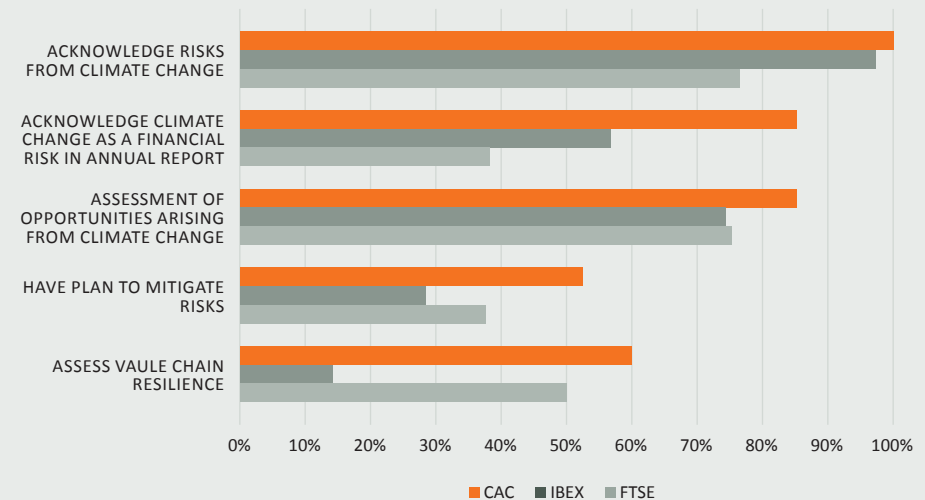
In the FTSE 100, the number of companies that have mentioned climate change in the risk section of their annual reports has almost doubled since last year – 39% of companies compared to 23% in 2016. The IBEX 35 have also seen an increase in businesses stating climate risk in their company reports – 57% up from 37% in 2016. As encouraging as this is, it also means that many companies on the index are not assessing climate risk as a risk to their business. Indeed, compared with 85% of the CAC 40 acknowledging climate change as a business risk, it's clear that more ambition is required.

How businesses assess risk and adapts to it, will dictate the level of disruption to business operations. Through their international supply chains, distribution networks and global markets, businesses are exposed to the risks of extreme weather around the world. 50% of FTSE 100 companies assess supply chain risk and value chain adaptations, more than double the 24% of companies that did last year. In the IBEX 35, 14% of companies assess supply chain risks. The CAC 40 companies are making far more progress on assessing supply chain risk with 60% of companies examining and reporting assessments of adaptations in the value chain.

It's also important that businesses understand the opportunities that arise from adapting to climate change and the transition to a low carbon world. CAC 40 companies are again leading the way here with 85% assessing such opportunities. FTSE and IBEX companies perform similarly, with 75% and 74% assessing opportunities respectively.

1. www.fsb-tcfd.org

Assessment of Climate Change Risks and Opportunities



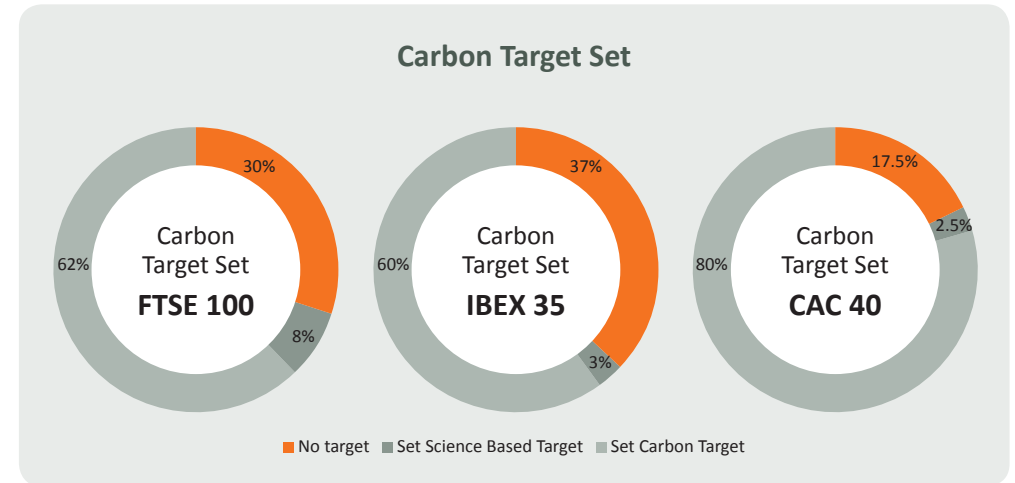
Megatrends in sustainability reporting from across Europe

2 Increasing the scale and ambition of carbon and energy reductions

Setting targets to reduce carbon emissions and energy consumption is a vital part of meeting the terms of the Paris Agreement. 83% of CAC 40 companies set reduction targets compared to 70% in the FTSE 100. 63% of companies in the IBEX 35 set carbon reduction targets.

Science based targets consider the bigger picture

To limit global average temperature increases to below 2°C in line with the Paris Agreement, the Science Based Targets initiative (SBTi) has called on the business community to set emissions reductions targets that are in line with climate science. 11 companies across the 3 indices currently set science based targets (8 in the FTSE 100, 2 in the CAC 40 and 1 in the IBEX 35).



The ambitious nature of science based targets can work in favour of business performance.

TESCO

A Trend-Setter for Science Based Targets

In 2017 Tesco made solid sustainability commitments and is therefore in the top 20 of the FTSE 100 ranking. The company demonstrates its desire for leadership in setting science-based climate targets by being the first corporate in the world to publicly align itself with a 1.5°C climate change target. The ambitious SBT is part of a wider effort to become a zero-carbon business by 2050. Tesco has also joined the RE100 programme and has committed itself to sourcing or generating 100% renewable electricity by 2030.



Megatrends in sustainability reporting from across Europe

Finding a route to achieve reductions facilitates innovation in low-carbon technology, driving cost-cutting efficiencies throughout the business. Our analysis shows companies setting SBTs perform almost identically compared to those with targets not based on climate science: there should be no reason to be deterred from setting an ambitious target, for fear of missing it.

Renewable energy – the onward march

Businesses that have set ambitious carbon reduction targets are increasingly looking at how to make their electricity supply 100% renewable, and therefore become climate neutral.

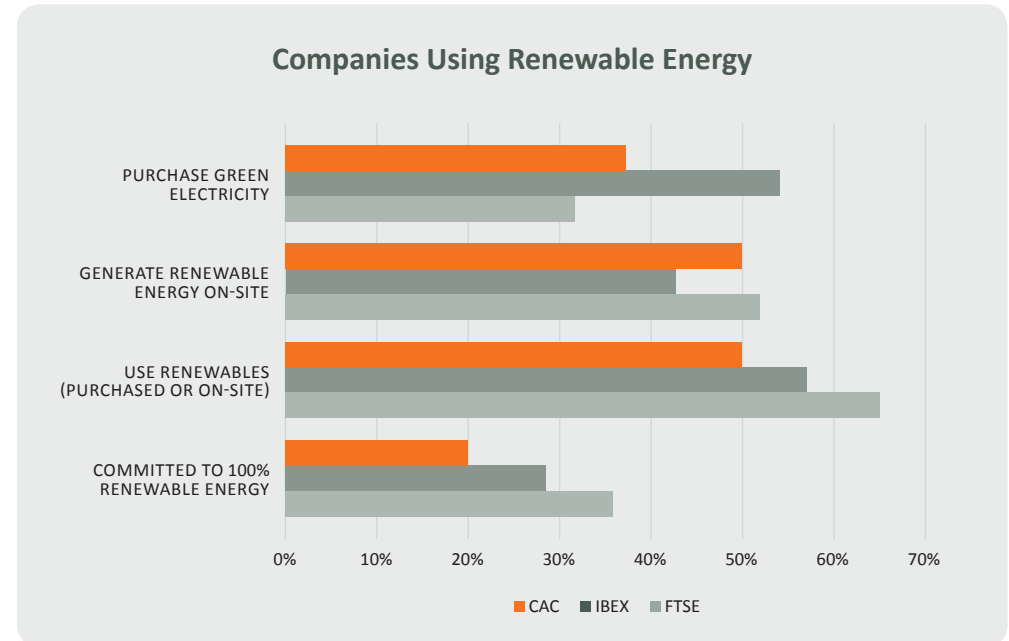
Companies typically adopt complimentary approaches to reach their 100% renewable energy target, combining procurement methods such as green tariff contracts with suppliers, unbundled renewable energy attribute certificates (RECs), power purchase agreements (PPAs) and on-site generation projects.

Four FTSE 100 companies score best practice leader points for renewable energy. They purchase green electricity from verifiable sources, have onsite renewable energy generation and demonstrate the power generated as well as having a commitment to renewable energy.

The number of companies generating power through onsite renewable technologies continues to increase year on year (52% 2017, 48% 2016, 41% 2015). However slight the increase compared to last year, this is a continual step in the right direction by the companies of the FTSE100. This increase is down to more companies retrofitting technologies to sites that they already own, to reduce their carbon footprint and ensure a reasonable price for power into the future.

Despite this, 2017 has seen a significant drop compared to 2016 in the number of companies purchasing renewable electricity from 48% in 2016 to 32% in 2017. This is due in part to our more stringent scoring criteria: only renewables backed by a verified green tariff, power purchase agreement or RECs/REGOs scored points. In tandem, few companies mention the RE100 initiative within their reports, although 36 FTSE 100 companies have committed to use 100% renewable energy in the future and 7 already do so.

It is a different story for IBEX 35 companies. More than half (54%) of the IBEX 35 buy renewable energy, an increase of 11% compared to 2016. 3 companies have committed to RE100 and are already 100% renewable and another 7 have plans to increase the amount of renewable energy consumption.



The French electricity grid is one of the least carbon intensive in the world, due to the large share of nuclear energy power generation in the national energy mix. Despite this, 38% of companies in the CAC 40 do purchase renewables, and half generate some onsite. This tends to be for sites outside of France, however. The biggest difference is seen in the number of companies committing to 100% renewables, just 20% of the CAC have made this commitment and no companies are securing 100% of their energy from renewable sources. This is likely down to the already low carbon grid mix.

Megatrends in sustainability reporting from across Europe

3 Aligning sustainability metrics with business strategy

Collecting data and reporting on sustainability metrics is the first step in a robust environmental strategy. This information acts as a lens through which to take decisions on future strategy and targets to ensure the business is prepared for the future risks of climate change and poised to take up the opportunities of a low carbon future.

Stakeholder demands on companies to measure, report and act on non-financial and Environmental, Social and Governance (ESG) metrics is a driver of action. Once these metrics have been collected, companies can begin to understand how to integrate the management of climate risk into their business strategy.

As all the companies across the three indices we have researched are publicly listed, they need to respond to investor demands. This is demonstrated by the number of companies that report to CDP – 161/175. The CDP network² of investors and purchasers, representing over \$100 trillion of assets under management, uses data from CDP disclosures to make better-informed investment decisions. Similarly, other sustainability indices, such as DJSI, provide valuable information about companies' sustainability performance to investors. 113 companies across the three indices are listed in at least one sustainability index other than CDP.

GRI also acts as important framework for reporting ESG data and metrics. We found in 2016 that IBEX 35 companies were much more likely to report to GRI than FTSE 100 firms. For 2017 94% of the IBEX 35 report to GRI guidelines. 80% of CAC 40 companies use GRI as a reporting framework and less than half of the FTSE 100 - 42% - use GRI to report. Companies that used the GRI framework scored on average 16% higher than those who didn't, clearly showing that a robust structure does help improve a company's sustainability reporting performance.

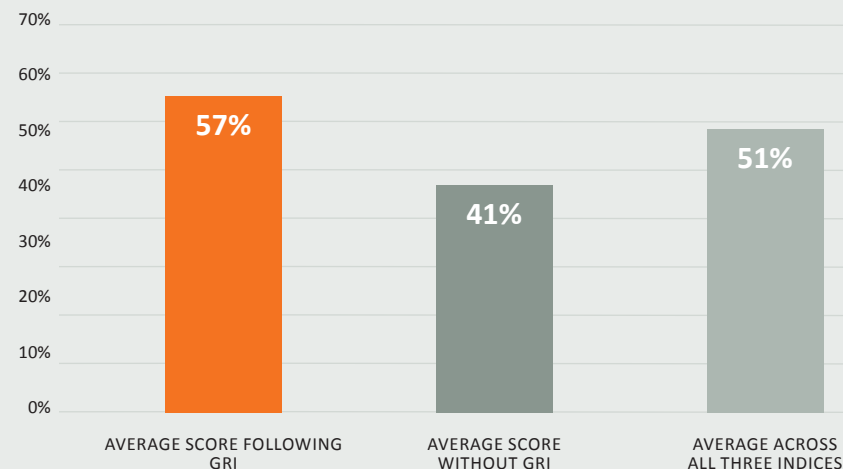
LSEG - asking companies to report ESG factors



London Stock Exchange Group

London Stock Exchange Group (LSEG), the index that lists thousands of companies - including the FTSE 100 - this year issued guidance setting out recommendations for good practice in ESG reporting for companies listed on the stock exchange. The global guide responds to demand from investors for a more consistent approach to ESG reporting, which is now a core part of the investment decision process. The intention is to help companies gain a clear understanding of what ESG information investors would like to see provided by companies. For the first time in 2017, LSEG has entered the top 20 rankings because of the leadership demonstrated through the guidance issued to companies on the index.

Average Score of Companies Following the GRI



The effects of legislation

Legislation is also a driver of reporting and embedding sustainability across the business.

This is most apparent in France, where mandatory ESG reporting has long been a feature of environmental legislation. Grenelle 2 was introduced in 2010 and requires companies, both listed and not, with more than 500 employees, to report on ESG-related actions.

Article 173 of the Law on Energy Transition for Green Growth expands on Grenelle 2 by requiring ESG reporting from all listed companies, banks and credit providers, and notably institutional investors.

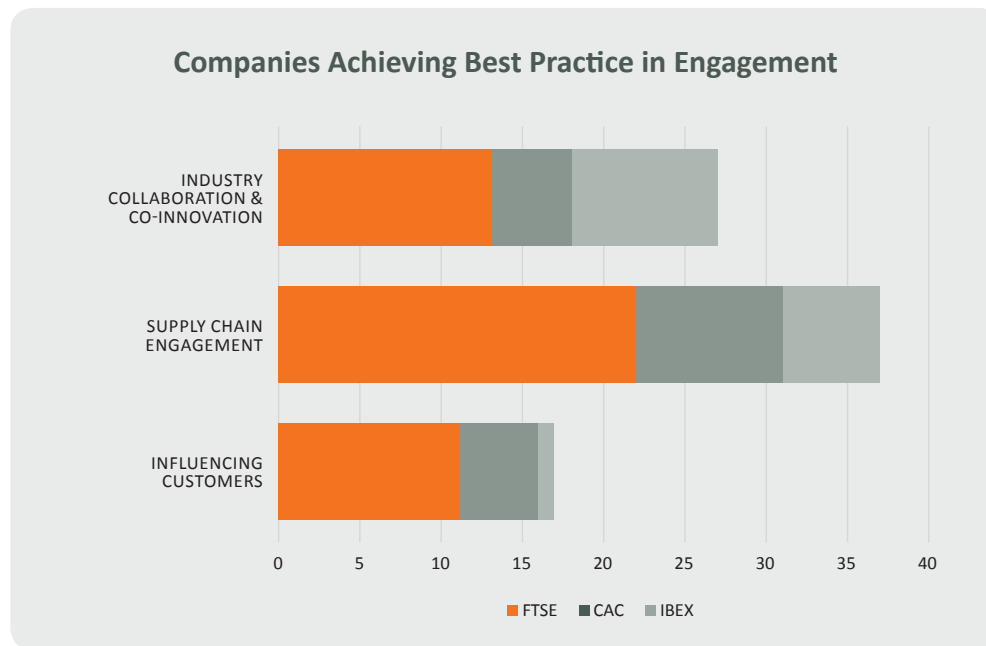
As all French companies are mandated to do the same, companies across the CAC 40 index have scores that are aligned, with very little variability compared to the other indices. The French regulation has the least direct impact on the Target & Reduction section, where average scores are also the lowest in the index. This suggests that on average, while companies are complying with the regulation, they are not going beyond the requirements. There are, however, companies that are innovating and integrating sustainability throughout all parts of their business. These companies are best practice leaders because they are going further than required, in an environment where compared to the FTSE 100 and IBEX 35, a lot more is legislated.

Megatrends in sustainability reporting from across Europe

4 Influence and encourage customers, employees and suppliers with clear and ambitious objectives

Our research has always had a strong focus on best practice to drive action, initially within the FTSE 100 and now the IBEX 35 and CAC 40. But the influence should not stop there. Companies that are leaders in environmental sustainability have great scope to encourage customers, employees, suppliers and other stakeholders to do more.

This year we tracked best practice for companies engaging with customers, suppliers and within their industry.



Consumers

Companies that differentiate their corporate brand by having carbon neutral product, services or by being a carbon neutral entity often find an increase demand for their offerings, as research² suggests that over half of people would be more loyal to a brand if they could see that it was taking steps to reduce its carbon footprint.

Companies that are leading on customer engagement not only produce and offer low carbon products, but actually reward or incentivise the purchase or use of more sustainable products, over a less sustainable one. For example, Intercontinental Hotel Group implement a 'Greener Stay' programme across the Americas, for guests staying at Holiday Inn and Holiday Inn Express hotels. Guests that stay for more than one night are encouraged to make more environmentally conscious decisions and can opt out of housekeeping in return for receiving additional points on their loyalty programme.

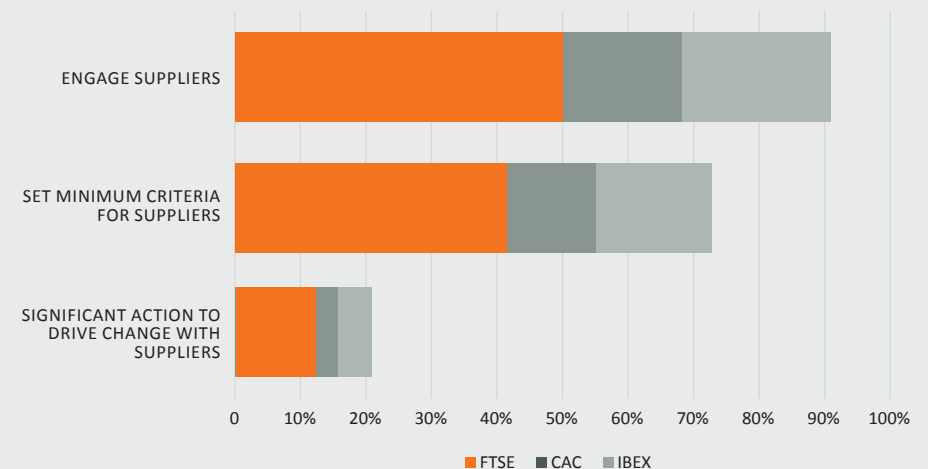
2. www.hbr.org/2016/10/the-comprehensive-business-case-for-sustainability

Megatrends in sustainability reporting from across Europe

In the CAC 40, 93% of companies are influencing customer behaviour by providing sustainable product choices. This is higher than both the other indices (FTSE 63%, IBEX 83%), and represents in part the make-up of the CAC (heavy in manufacturing, retail, telecoms and energy), but also an understanding across the board of the opportunities arising in sustainable products, with 34/40 openly acknowledging expanding climate related opportunities.

The number of companies producing a carbon neutral product or service in the FTSE 100 has almost doubled from 2016 (8% to 14%). Six of these companies are within the top 20. The adoption and development of carbon neutral products shows a changing attitude by companies across the FTSE 100 to reduce the carbon impact that their products may have, and provide for the demand from environmentally minded consumers. Of the 14 companies that offer a carbon neutral product or service, half offset all or some of their carbon emissions and 5 are completely carbon neutral, showing that companies are finding new ways to achieve carbon neutrality, though renewables and innovative design.

Engagement Versus Action on Supplier Sustainability



Suppliers

18% of FTSE 100 companies score points for co-innovation with suppliers this year. This is an increase on the 8% in 2016. With 88% of companies engaging with suppliers, this shows an increased appetite within the FTSE to not only engage, but to effect meaningful change in their supply chain.

In the CAC 40, almost every company reports engagement with their suppliers on sustainability issues, with only one not reporting this. However, when it comes to taking action, only 30% of companies work with suppliers to reduce their carbon emissions, and 15% of companies are co-innovating with their suppliers on sustainability issues.

91% of IBEX companies engage with suppliers, and there is much stronger action towards actual change, with 34% of companies evidencing co-innovation with their supply chain. However, despite performing the best in the 3 indices, this is still only one third of companies. Across the board many still see the supply chain as an afterthought to the companies' impact.

While most companies do engage with their supply chain, and many do set minimum sustainability criteria for them to achieve, there is still a huge gap in the number of companies actually taking action to help suppliers decrease their footprint.



Focus on the financial services sector

The financial sector plays a crucial role in distributing money throughout the global economy and therefore has a central role in the rapid transition to an adapted future.

Financial institutions are uniquely exposed to a number of climate-related risks due to direct physical impacts and the high expectations surrounding their role in the transition to a low-carbon economy.

Some financial institutions are already taking action to understand and mitigate climate risk. Such activity must take place across the whole industry if we are to minimise the potential social and economic damage of climate change.

Activities that financial institutions should consider in the global transition to a low-carbon economy are:

- Investment in renewable energy and energy efficiency technologies
- Management of fossil fuel exposure, possibly through divestment
- Moving investment to less impactful or more innovating players
- Developing low-carbon products and services
- Energy efficient real estate portfolios
- Incorporating climate risk into wider investment risk modelling
- Collaboration with industry peers and policy-makers

FTSE 100

The financial sector represents over 15% of the FTSE 100, but consistently score below average in sustainability reporting with 45% (overall average 47%)- up from 39% for 2016.

Although 14/20 companies set carbon reduction targets, none have a SBT, although 3 are now committed to setting a target based on climate science in the future. 7 companies divest or are considering divesting from fossil fuels. The number of companies assessing the opportunities climate change generates for their business (i.e. investment in low carbon energy producers) has increased from 2 (2015) to 7 (2016) to 16 (2017), indicating the industry realisation of the potential for growth in a decarbonising economy.

IBEX 35

The financial sector represents over a quarter of the IBEX 35. Just one of the companies in this sector is in the top 10. The financial sector average is 53% (overall average 56%)- up from 47% last year.

The majority of financial organisations offer low carbon products or services to their customers and provide a good level of detail. One of the key focus areas for this sector is around Scope 3 emissions, especially investments. Only 2/9 companies provide some sort of evidence of plans to divest from fossil fuels and two more mention it in annual reporting.

The other important focus area is risk and opportunity identification. While some of these companies provide greater level of detail of their climate change risks and opportunities in platforms such as the CDP, only three include climate change as a risk in annual reporting.

CAC 40

The financial sector represents one tenth of the CAC 40. Two companies in this sector are in the top 10, both scoring 70%. The financial sector average is 64% (overall average 60%).

Financial institutions perform well in the CAC 40. They all report on and assess the risks and opportunities of climate change to their business. They also recognise the need to transition to a low-carbon economy, with 75% of financial services companies stating that they are already transitioning (38% of CAC 40 companies transitioning). All the financial companies are engaging with their customers through this transition by providing and informing them on their available low-carbon, sustainable products (compared to 68% of CAC 40 companies). All the companies within the financial sector have set carbon reduction targets (80% of CAC 40) and have committed to setting science based targets within the next two years (28% of CAC 40 companies).

Financial institutions lead the way with portfolio footprinting and divestment, with all companies in the financial sector stating their intention to divest from fossil fuels (compared to a CAC 40 average of 13%). However, the extensive legislation in France on companies reporting environmental sustainability performance may have a role to play. Article 173 forces institutional investors to divulge the footprints of their portfolios, as well as include climate change related risks in investment analysis.

Focus on the Sustainable Development Goals

It is no secret that we face numerous global challenges: eradicating poverty, adapting to climate change, reducing gender inequality, securing food supplies and universalising access to clean water, alongside others. The Sustainable Development Goals³ (SDGs) laid out by the UN in September 2015 formalise these challenges into 17 global goals, with 169 sub-targets to be achieved by 2030. The SDGs strongly emphasise the role of the private sector⁴ in achieving their ambitions.

Almost 74% of the IBEX 35 mention the SDGs in their reporting, although only a few companies align strategies with the United Nations' Agenda for Sustainable Development. Companies such as Acciona, Inditex and Endesa have identified the relevant and material SDGs for their operations and aligned their targets and objectives with their SDG commitments, showing a good level of integration.

Less than half of the FTSE 100 mention the SDGs. 47 mention in some form, how their products or services can help achieve various goals or how their company already aligns with the relevant SDGs. The best performing companies state that they have changed the company vision or sustainability goals to align with those of the SDGs, whilst outlining plans to help achieve every goal. However most do not fully engage with the SDGs or outline commitments and plans to help accomplish the ambitious targets.

67% of CAC 40 companies are mentioning and aligning their sustainability efforts to the SDGs. Companies like Crédit Agricole or Airbus are incorporating the SDGs into their reporting frameworks showcasing how their work is directly contributing. L'Oréal actively considers and integrates the SDGs when developing projects and programs for the company.

The companies driving the SDGs forward actively engage with the UN and work in partnership and collaboration within their own industry and other sectors.

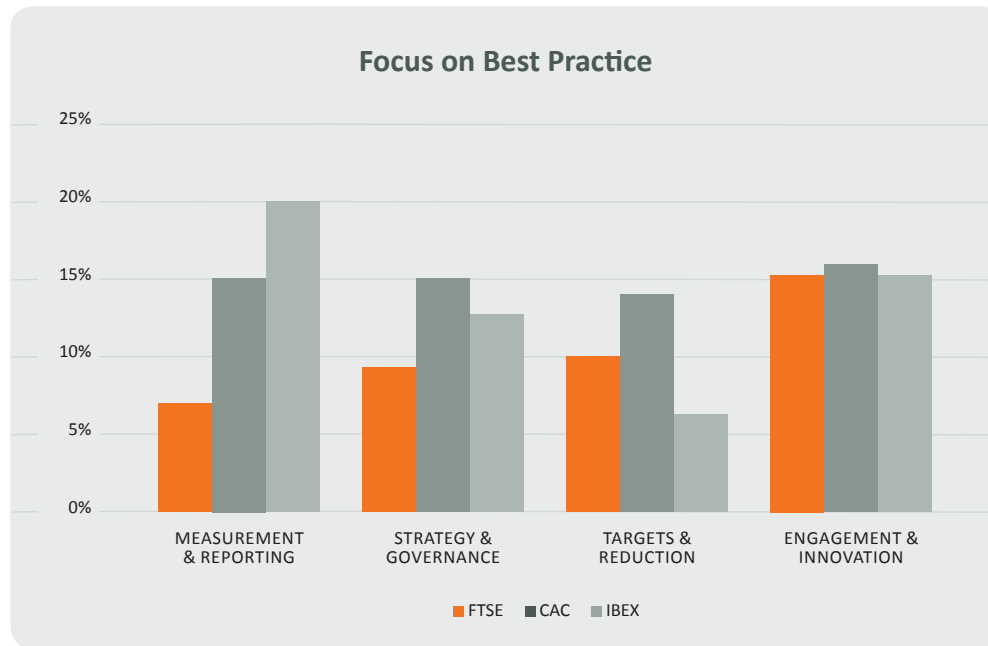


3. <https://sustainabledevelopment.un.org/>

4. <http://www.un.org/sustainabledevelopment/blog/2015/09/un-forum-highlights-fundamental-role-of-private-sector-in-advancing-new-global-goals/>

Focus on best practice

For the first time, this year we have developed a 'Best Practice' section. Companies are awarded best practice points where they were going above and beyond what is expected and leading the way for other business to follow. These points were available for 13 different areas in which companies could show leadership, from comprehensive reporting, ambitious target setting to engagement of supply chain and customers. These points were not included in overall scoring, they are used to highlight Best Practice leaders.



The above chart shows the percentage of available best practice points scored by companies across 4 key areas. The CAC 40 consistently picked up around 15% of available points across all 4 areas. This pattern is representative of the legislation driven reporting that has meant the CAC all reach a certain threshold, and from that stepping point certain areas of best practice are in reach for those who want to do more.

Surprisingly, given a lack of mandatory reporting requirements, the IBEX is leading the way in measurement and reporting of sustainability information. However, 33/35 IBEX companies report using the GRI framework and this structured format appears to drive home complete reporting. Indeed, all of the 7 IBEX companies who show best practice in reporting use the GRI framework, all 6 in the CAC and 5 of the 7 in the FTSE also follow GRI.

When it comes to targets and reduction, all three indices achieve less than 15% of the available best practice points. Best practice in targets and reduction not only consists of setting targets based in climate science, but companies must also communicate those targets well (including long term and interim goals, as well as Scope 3 targets), and show progress towards real reductions in their carbon footprint. They must also demonstrate the areas in which they are offering low carbon alternative to their customers.

With so few science based targets and a lack of clearly communicated low carbon products the IBEX is lagging behind in this area. The CAC was by far the best at offering low carbon products, with over 2/3rds of companies communicating this.

While the FTSE does have the most science based targets, only 6% achieve best practice in target setting and communication. Setting, communicating and achieving ambitious targets is obviously challenging but, as we have already shown, ambition often leads to innovation, something that will be key to reaching global carbon targets.



Conclusion

This year's research into the FTSE 100 shows genuine improvement across several industry sectors which has resulted in the overall average score increasing. There has been a substantial growth in the number of companies co-innovating with suppliers to address their own, and others', sustainability challenges. In order to address the global challenge of climate change, there needs to be increasing cooperation and innovation within industries and across different sectors, to share knowledge so that we may all progress into a sustainable future.

Although there have been improvements across the FTSE 100, many companies are failing to report on aspects that they have previously reported on. These companies have a long way to go to catch up to the leading companies, that are continuously improving and driving sustainability within their sectors. These industry leaders are influencing others by setting ambitious sustainability objectives for themselves and encouraging their value chain to advance and grow sustainably as well.

There are many risks arising from climate change, not assessing these and failing to address them will likely have an impact to business operations. Companies that have addressed risks have now moved onto assessing the opportunities that climate change can present, the top sustainability performers can provide countless examples of how assessing the opportunities have benefited them. Through thorough assessment of risks and opportunities businesses will be better placed to deal with market opportunities and customer demands.

The best performing industry sectors and companies are consistently improving their performance year on year. They constantly achieve this through measurement and reporting of sustainability metrics, which are aligned to the overall business strategy.

We would like to congratulate this year's top performers in the FTSE 100; especially Marks & Spencer for leading the 2017 Sustainability Reporting Performance ranking, continuing to excel and having genuine ambition to achieve change within their company and beyond.

How we carry out our ranking of the Sustainability Reporting Performance

The research is based solely upon publicly available information readily accessible to an interested third party. This is because we believe that in order for companies to be transparent in managing their carbon emissions 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 2016/17 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.

Each company is judged against 74 criteria across 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. Carbon Clear also assessed: the use of market and location based emissions; inclusion of multi category Scope 3 emissions information in data and reporting, and; the amount of historical carbon data provided and the use of historical data as a benchmark.

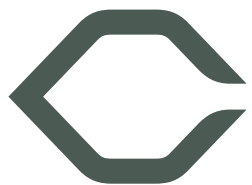
Strategy and Governance considers the strategy that companies are taking to realise their environmental sustainability targets; if the carbon data has been externally audited; if there has been an assessment of future climate change risks and opportunities; if adaption of their supply chain to climate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

Targets and Reduction considered whether companies have set carbon reduction targets 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. This section also looked at companies' energy efficiency, staff behavioural change initiatives, and type of energy consumption or generation. We also examine whether companies develop low-carbon products and if companies purchase carbon offsets.

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

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





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