

Stepping up

Strengthening Europe's corporate climate transition

CDP Europe Report | February 2023



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Executive summary

Progress but missing substance in European climate transition plans

This report explores how European companies are translating their climate commitments into action by assessing their progress on developing credible climate transition plans and integrating nature into their broader strategy.

49%

Around half of European companies (49%) now report having a climate transition plan in place to limit warming to 1.5°C

While progress in developing climate transition plans has been impressive, the depth and detail are often less reassuring.

Around half of the European companies responding to CDP's questionnaire this year report to have transition plans aligned with the Paris Agreement's 1.5°C limit. Yet when we analyze the ambition and transparency of those plans based on their disclosures to CDP, less than 5% of companies show the advanced transition readiness required to achieve the Paris goal. Most companies also fail to address the economy's impact on nature and its inherent connection with rising temperatures.

Climate transition plans are critical tools for leadership and Boards directing the initiatives needed to deliver on pledges made. External stakeholders are also demanding to see clear plans that set out concrete steps to drive change over time, and to understand how plans will adapt to shifting dynamics as technology, policy and commercial trade-offs evolve. That's why both the substance and disclosure of transition plans matter.

54%

54% of companies now link exec-level pay to climate, but under a third do so for climate, forests and water issues.

Regulators in both the United Kingdom and European Union will be requiring companies to produce public transition plans as soon as next year. Both sets of regulators will also mandate regular disclosures of plans as well as on progress being made toward their objectives.

Many aspects of companies' transition plans today are promising works-in-progress: adoption is still partial, but heading in the right direction. Even in the areas where the most progress has been made, there are important discrepancies between leaders and laggards.

Governance being a good example. To illustrate, while almost all companies (99%) have adopted Board-level climate oversight, only half (54%) have integrated climate KPIs into executive compensation.

Every company that impacts our environment needs not only clear targets - but clear plans to deliver and evidence they are doing so. EU regulation will soon bite – it will be the law for companies to have clear plans that transition their business models onto a 1.5 °C footing. And as expectations grow for companies to include nature in their broader transition planning, this report shows most companies still need to step up, and show investors, lenders and regulators that they are ready to act. We don't have time to waste.

Maxfield Weiss,
Executive Director CDP Europe



We need to see a step change in the scope and quality of European companies' transition plans in the next 2-3 years. Our analysis with CDP shows that, while there is progress in the adoption of transition strategies, a higher sense of urgency is required. Many transition plans still lack important elements, especially when it comes to translating strategic climate targets into concrete implementation and value chain engagement plans. This level of concreteness is necessary if companies want to be able to steer their business through the transition and credibly demonstrate to their stakeholders that they are on track to meet climate targets. Companies with an ambition to lead in the transition will need to go beyond climate and incorporate their commitments on biodiversity and nature into their transition agenda.

Cornelia Neumann
Partner at Oliver Wyman



Among these stories of partial adoption, three more structural gaps emerge in corporate transition strategies today:

1. Missing practicalities on how change will be delivered in climate transition plans

We assessed key actions across five core areas, based on industry standards and guidance on climate transition plans. While progress is strongest in putting in place governance structures and setting targets, it is weakest in setting out the internal and external implementation strategy, on elements such as financial planning and value chain engagement.

Internally, though 9 in 10 firms have initiatives in place to cut emissions, only 26% are able to assess the alignment of their spending and their revenue with their low-carbon transition. Externally, fewer than 40% are building climate concerns into supplier contacts. It is hard to execute a plan that is not connected to these critical business levers.

2. Neglecting the impact on nature

There is increasing realization that the global effort to combat climate change cannot be effective without addressing the nature crisis simultaneously. To reflect this, going forward transition plans will need to be enhanced to reflect firms' dependencies and impacts on nature and biodiversity. Companies are starting to realize this: in the first year of disclosure, 39% of companies in the CDP questionnaire reported having made any public commitments on protecting biodiversity, though the scope and ambition of the commitments varies significantly. Some companies are limiting their efforts to respecting already legally protected habitats and locales.

Among companies operating in areas that materially impact water and forests, only small percentages had defined objectives and metrics for protecting nature. For instance, only 7% of responding companies had robust targets across water, climate, and forests, and only 5% of companies source at least 90% of their commodities in a certified no-deforestation compliant manner.

40%

Up to 40% of outstanding European corporate loans – around €1.8 trillion – are financing companies showing limited progress to align with 1.5°C

About the report

This report uses data from 1,495 companies disclosing to CDP in 2022 on climate change (1,495), forests (183), and water security (311), headquartered in one of the EU Member States, European Free Trade Association Area countries, and the United Kingdom.

It includes companies disclosing to investors, in addition to companies self-selecting to disclose. It excludes companies disclosing only to corporate customers through CDP supply chain.

3. Disclosing insufficiently to secure finance

As financial institutions seek to make good on their commitments to net-zero, they will be increasingly scrutinizing corporate's transition plans. Indeed, 80% of financial institutions responding to CDP have begun to assess the transition plans of their clients in at least some sectors. Looking at the banking system, a mismatch is emerging. 36 of the top 50 banks in Europe have committed through the Net-Zero Banking Alliance to steeply cut their financed emissions. To hit their targets, they need their corporate clients to cut their emissions steeply – or to find new clients. Today, however, up to 20-40% of corporate debt relates to companies with only limited transition planning in place, meaning they either lack decarbonization targets aligned with a 2°C limit, or have failed to disclose at least half of the transition plan-related indicators included in the CDP questionnaire.

While many financial institutions are keen to engage with corporates in high-emitting sectors to help them transition, it is hard for them to do so with confidence without these core elements of a plan in place. Companies that do not make progress to address these gaps are likely to find financing harder to access over time.

A strategic exercise

Although all companies should be disclosing on all elements of a credible climate transition plan, they are not a one-size-fits-all exercise. Each company will face different commercial trade-offs and decarbonization levers that need to be evaluated as part of its business strategy, and so each will be unique. For instance, a key element of an automobile manufacturer's transition is its adoption of zero emissions vehicles which should be detailed in its transition plan with clear forward-looking sales targets and associated R&D-spend. Meanwhile, a financial institution should detail how it is adapting policies and decision-making to align its portfolio to environmental objectives.

Transition plans must also reflect the dynamic and uncertain economic environment companies operate in. While plans inevitably need to be revisited as technologies, regulation, and economics shift, investors and financial institutions – as well as the public and employees – are going to be increasingly less patient with backsliding. Like regulators, these stakeholders are not only going to demand plans that set out a vision of how the company can thrive while generating lower emissions. They are going to want to see clear strategies to deliver that vision.



Targeting transition



Targeting transition

Around half of CDP respondents now report to have a 1.5°C-aligned climate transition plan

The push for climate transition plans

Following several years of strong growth in climate commitments and target-setting by European businesses, the challenge today revolves around how to turn these pledges into action and real greenhouse gas (GHG) emissions reductions. Doing this will often require companies to make profound changes to their business and operating model. The climate transition plan has emerged as an important tool for corporates to drive such change by setting clear timelines for delivery, as well as manage the decarbonization process with financiers, suppliers, and other stakeholders. Emerging regulations in the European Union and the United Kingdom are pushing corporates to provide disclosures with information on their transition plans from 2023/2024 onwards.^{1,2}

The good news is that many companies are already leveraging existing disclosure frameworks and guidance, from such organizations as CDP, Task Force on Climate-related Financial Disclosures (TCFD), and Glasgow Financial Alliance for Net Zero (GFANZ), to start integrating transition planning in their strategies.^{3,4,5,6} **Around half of the companies disclosing to CDP in 2022 now report having a 1.5°C-aligned transition plan.** Still, organizations have a long way to go when it comes to developing and disclosing credible climate transition plans.

Stakeholders can judge a company's transition readiness across two different axes. On the one hand, they consider the ambition of a company's emissions reduction targets in terms of timeline and scope. On the other, they consider the feasibility of the company's plan to achieve these targets based on the transparency of its transition plan disclosures. These could include, for instance, a vision into how the corporate expects to shift its product and services portfolio over time.

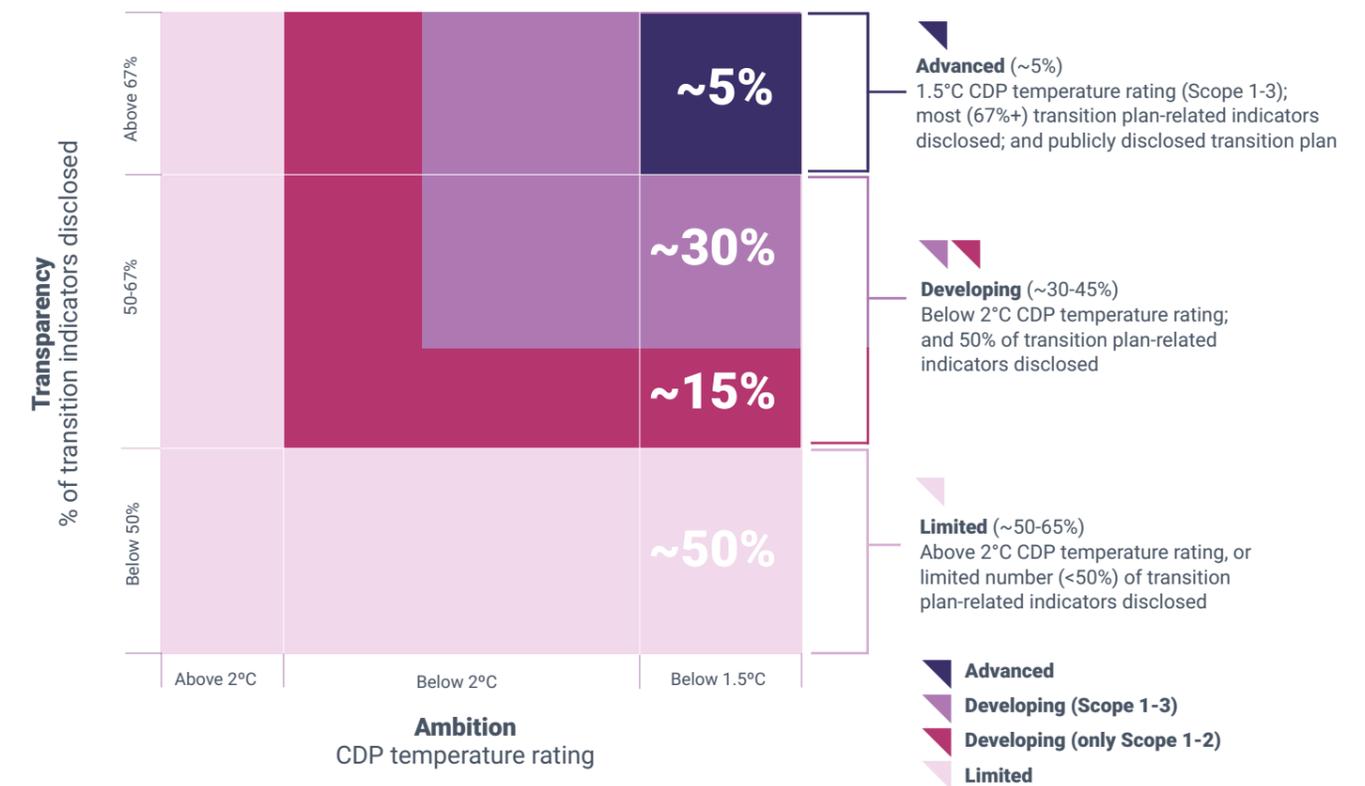
Under 5% of European companies show advanced transition readiness based on our high-level assessment of ambition and transition transparency proxies. These companies have set emissions reduction targets covering Scope 1, 2, and 3 emissions (full corporate value chains) which are aligned to a 1.5°C pathway.⁷ They also disclosed data on at least 14 of the 21 (67%+) climate transition plan data indicators covered in the CDP climate change questionnaire.⁸ Only 0.5% of respondents included all 21 data indicators in public transition plan disclosures and committed to targets that align with a 1.5°C pathway.

1 In the United Kingdom, the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 requires in-scope companies (e.g., publicly quoted companies, large private companies and LLPs) to incorporate TCFD-aligned transition planning disclosures in their annual report to reporting for financial years starting on or after 6th April 2022
 2 In the EU, the Corporate Sustainability Reporting Directive (CSRD) will require all large companies to disclose information on their climate transition planning alongside other social and environmental issues
 3 CDP formerly known as the Carbon Disclosure Project
 4 CDP (2021) Climate Transition Plans
 5 Task Force on Climate-related Financial Disclosures (TCFD) (2021) Guidance on Metrics, Targets, and Transition Plans
 6 Glasgow Financial Alliance for Net Zero (GFANZ) (2022) Expectations for Real-economy Transition Plans

Under 5% of companies have both a 1.5°C ambition and show progress to develop a transition plan

Importantly, there is a much larger group of companies in the process of developing transition readiness. A key consideration in assessing their transition readiness is the scope of emissions covered by reduction targets. Some companies have set targets that only cover Scope 1 and 2 emissions – those relating to their own operations or purchased energy, but exclude value chain (Scope 3) emissions, such as those connected to raw materials or components or the end use of sold products.⁹ Reducing Scope 3 emissions – which often represent the majority of emissions for companies – is also the most impactful thing many companies can do. Considering Scope 1 and 2 emissions, 45% of companies meet the criteria for our developing group, while including Scope 3 emissions reduces the percentage to 30%.

Figure 1
Ambition of emissions target and transparency on transition-related indicators
 % of companies



Source: Oliver Wyman analysis; CDP data; CDP temperature ratings dataset.

7 Based on the CDP temperature rating of these companies. CDP generates this metric by comparing corporate emissions target disclosures with science-based global warming trajectories. For a more extensive discussion of these ratings see CDP-Oliver Wyman (2022) Missing the Mark
 8 CDP (2021) Climate Transition Plans
 9 Scope 1 emissions include all direct GHG emissions that occur from sources that are owned or controlled by the company (e.g., owned process equipment); Scope 2 emissions cover those GHG emissions that result from the generation of purchased electricity consumed by the company; Scope 3 emissions cover 15 categories of all other indirect GHG emissions occurring in the value chain (e.g., transport-related activities such as employee business travel, waste disposal). Source The Greenhouse Gas Protocol (2004) A Corporate Accounting and Reporting Standard: Revised Edition

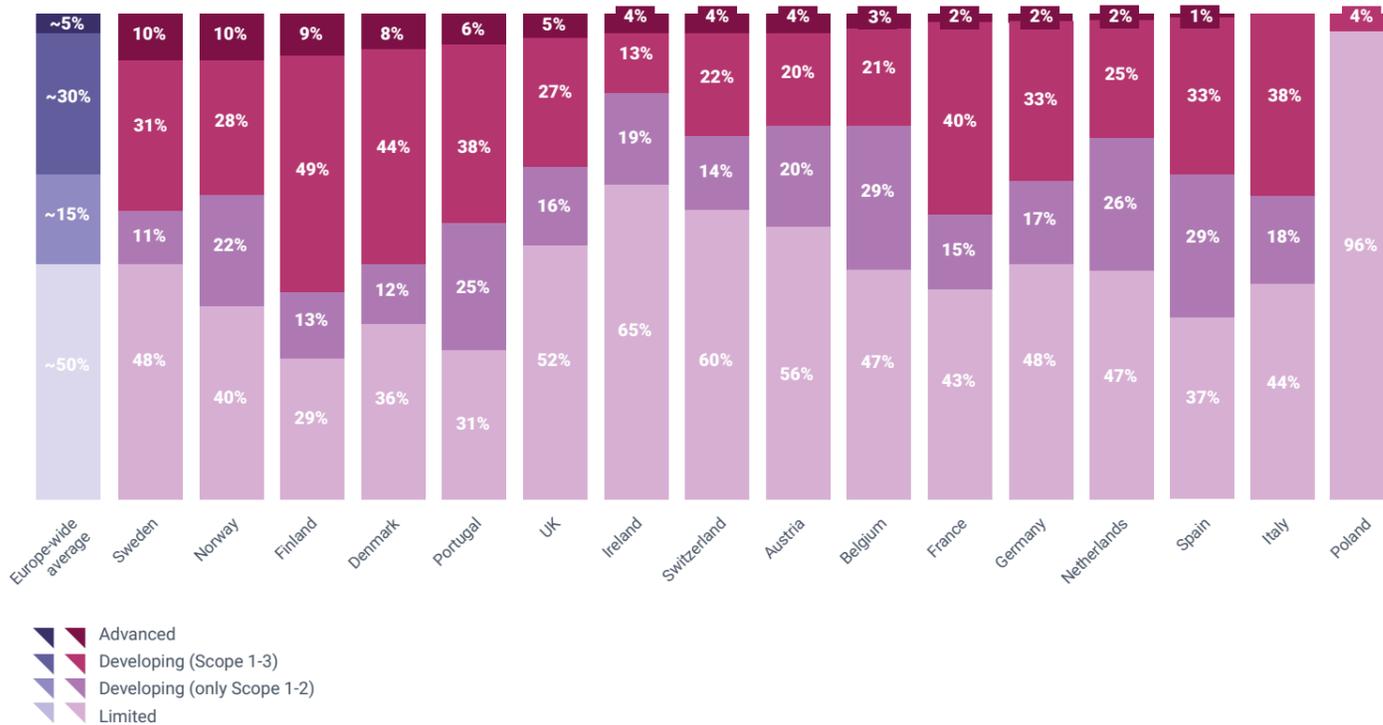
Targeting transition

Nordic companies are over twice as likely to show advanced transition readiness

Our analysis also shows that corporate transition readiness varies widely across European countries. For instance, companies from Nordic countries (Sweden, Norway, Finland, and Denmark) are around twice as likely to be *advanced* than the European average. This variation illustrates the difference in pace at which European economies are transitioning.

For instance, coal still dominates the Polish energy system.¹⁰ Conversely, Finland has set an ambitious 2035 net-zero goal for its economy, with a large part of its energy mix already from renewable sources.¹¹ Neste is an example of a Finnish company that shows more evidence of transitioning than other companies in its sector (see Neste case study).

Figure 2
Nordic companies are twice as likely to be transitioning onto a 1.5°C path
% of companies, by country



Note, countries with less than 25 respondents (e.g., Luxembourg, Iceland) have been excluded from this graph; Source: Oliver Wyman analysis; CDP data; CDP temperature ratings dataset

¹⁰ International Energy Agency (IEA) (n.d.) Poland country profile
¹¹ International Energy Agency (IEA) (n.d.) Finland country profile



Case study NESTE

Neste is investing in innovation and R&D to explore new scalable raw materials to diversify its product portfolio towards one that is more compatible with a low-carbon economy. Some 25% of its employees work in research, product development and engineering, and around two-thirds of its capital expenditure is invested in renewable products¹.

The company is now the world's leading producer of renewable diesel and sustainable aviation fuel (SAF). This demonstrates that refining companies in the oil and gas sector can build a successful low-carbon business. With customer engagement vital, it has a platform for corporate airline customers to source SAF to reduce Scope 3 related to business travel.

Moving forward, it plans to halve the use phase emission intensity of its sold products and have a nature-positive impact throughout its value chain by 2040.

To embed climate within key business decision-making processes, Neste has updated its investment framework with explicit climate criteria, including emissions impact and an internal carbon price. Impacts on nature and biodiversity are also part of the decision-making process: the company subjects investments that may impact biodiversity to a thorough analysis e.g. using World Bank and IFC standards to build a comprehensive questionnaire covering biodiversity, water and soil.

Neste is currently developing a systematic approach to building a biodiversity framework and roadmap to achieve a nature positive value chain by 2040. For instance, it is undertaking a materiality assessment and in-depth site-level impact assessments, and engages with the Science Based Targets Network and NGOs like Fauna & Flora International.

¹ World Benchmarking Alliance (n.d.); "Neste"

Targeting transition

80%

Around 80% of European financial institutions disclosing to CDP report that they already assess the alignment of their corporate customers with a 1.5°C-world

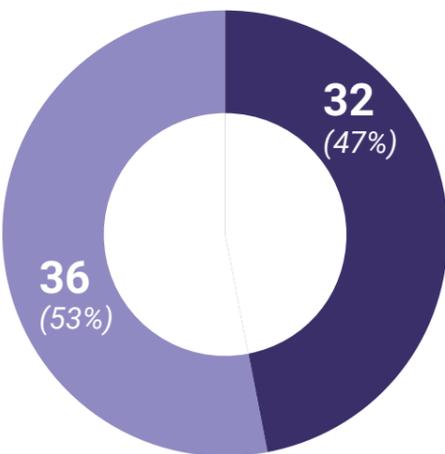
Transition finance needs credible transition plans

Financial institutions will play an important role in the corporate transition journey. 36 out of the largest 50 banks in Europe – controlling among them €32.4 trillion in total assets – have committed through the Net-Zero Banking Alliance (NZBA) to reduce their financed emissions.^{12,13} Around half have already set initial targets for high-impact sectors. For instance, 66% of European NZBA members that set sector-specific targets have now established targets for the power sector. These typically aim to reduce financed emissions with around 45% to 70% per-kilowatt by 2030.

To deliver on these targets, banks are increasingly looking to understand the ambition level and quality of their clients' transition plans. Around 80% of European financial institutions submitting to CDP

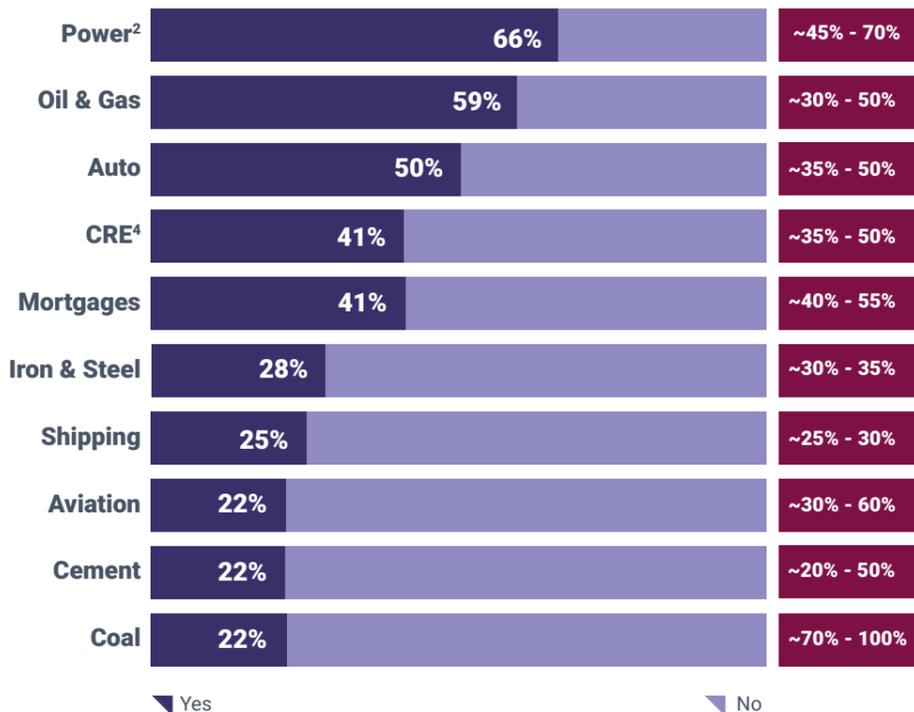
Figure 3
Net-zero committed banks are in the process of adopting sector-specific targets

Adoption of sector-specific targets
% of European NZBA members¹



▾ Sector-specific targets not available
▾ Sector-specific targets available

Adoption of sector-specific targets, by portfolio category
% of European NZBA members with sector-specific emissions reduction targets



Typical reductions targeted by 2030³

Note, these graphs only show NZBA members that also respond to the CDP Europe questionnaire; 1. Russian companies do not respond to the CDP Europe questionnaire and thus these figures exclude Russian NZBA members; 2. Electric utilities; 3. Expressed in the 'financed' emissions intensity; 4. Commercial Real Estate
Source: Oliver Wyman analysis; Net-Zero Banking Alliance (NZBA) Members (status as of 31 December 2022); Oliver Wyman analysis

12 An analysis of the balance sheets of these banks shows that typically ~10-20% of their total assets consist of corporate lending. Based on their balance sizes that implies ~€3-6 trillion in corporate lending activity, source: Capital IQ data
13 The industry-led Net-Zero Banking Alliance is an industry-led, UN-convened group of global banks, currently representing over 40% of global banking assets, which are committed to aligning their lending and investment portfolios with net-zero emissions by 2050

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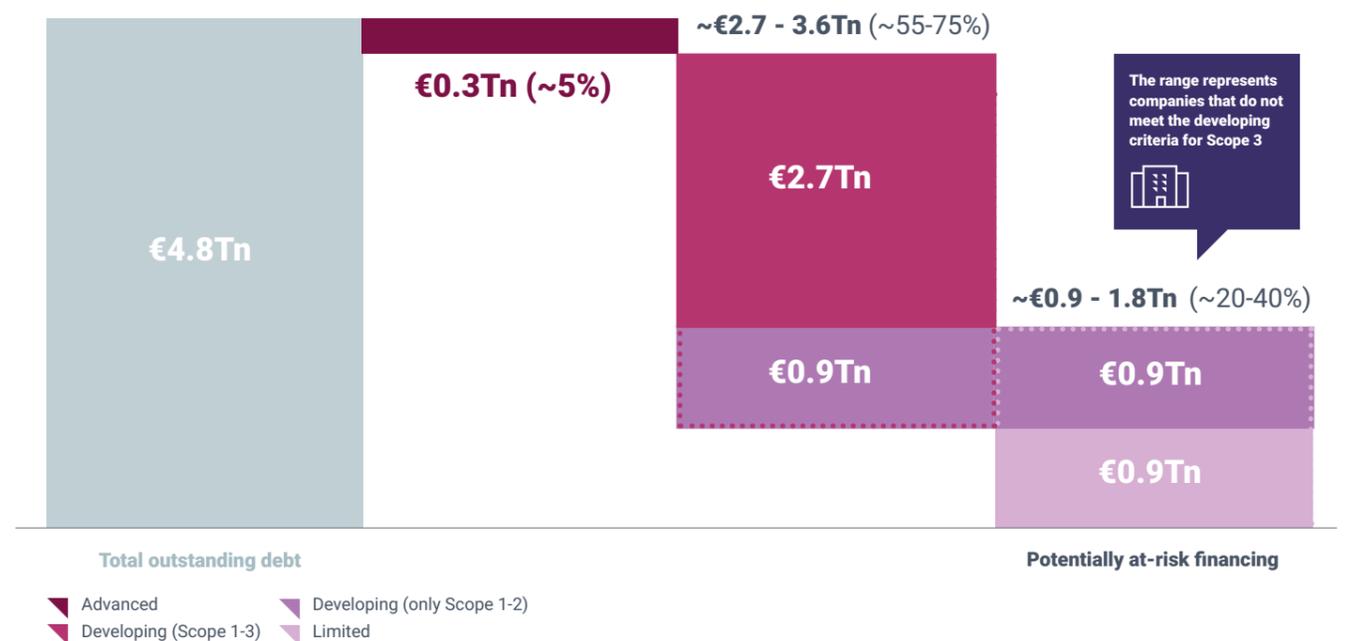
Up to €1.8 trillion in outstanding corporate debt is financing companies without clear transition progress

state that they have already started to assess the alignment of their corporate customers with a 1.5°C-world in at least some sectors. And, most of them report to have plans to expand this in the near future.

As a result, companies unable to credibly demonstrate their transition readiness are likely to see access to financing become more challenging. Some banks have already committed to stop lending to companies without credible transition plans in key sectors. Based on our high-level evaluation of corporate transition readiness, we estimate that between €900 billion to €1.8 trillion, or the equivalent of around 20% to 40%, of corporate debt that is financing CDP disclosers is potentially at risk over time.

But any company that only shows transition ambition on its Scope 1 and 2 should recognize the need not to be complacent. Financial institutions are increasingly including Scope 3 emissions in their guidance to borrowers. So even with strong targets on Scope 1 and 2 emissions, and some elements of a credible climate transition plan in place, financing could be at risk eventually.

Figure 4
Up to €1.8 trillion in outstanding corporate debt is financing companies without clear transition progress
Total outstanding debt financing (€Tn), by category



Note: where needed we used the average EUR exchange rate to convert debt figures; Source: Oliver Wyman analysis; CDP data; CDP temperature ratings dataset; Bloomberg; European Central bank; Euro foreign exchange reference rates

Targeting transition

Financial institutions can play a pivotal role in hastening progress by working closely with corporate clients to help them understand what actions are necessary

Our evaluation also revealed that larger companies typically demonstrate more transition readiness. These companies tend to be better resourced to build the capabilities required to drive transitions. The fact that half of the companies classified as *limited* represent only about 20% of the total debt illustrates the advantage larger companies have.

Significant differences can be noted across sectors. In the electric utilities sector, for instance, where target-setting by banks is most advanced and efforts by the sector have already produced emissions reductions, only between 5% and 15% of debt financing is potentially at risk. That compares to more than half (56% to 58%) of the debt in the agricultural commodities sector, where transition pathways to reach 1.5°C are less well developed. Ultimately, financial institutions can play a pivotal role in hastening progress in sectors like agricultural commodities by working closely with corporate clients to help them understand what actions are necessary to improve their transition plans and protect

their financing. The finance sector can also play an important role by highlighting to policymakers the challenges and potential roadblocks facing corporates.

None of this is to suggest that financial institutions will or should walk away from financing the highest emitting sectors. GFANZ, the umbrella organization for net-zero initiatives by financial institutions, defines transition finance as not just the financing of “pure green” projects and climate solutions but also companies of all kinds with clear and credible climate transition plans in place. Indeed, there is a growing recognition that financing needs to grow in some high-emitting sectors where particularly large-scale investments are needed to support the transition; the electrification of transportation systems and the conversion of carbon-intensive steel plants to green steel are two good examples. Robust, credible plans are a critical tool to allow financial institutions to finance such industries with confidence.

Figure 5
GFANZ transition financing strategies illustrate how financial institutions can finance emissions reduction

Transition finance refers to investment, financing, insurance, and related products and services that are necessary to support an orderly, real-economy transition to net zero as described by the four key financing strategies below			
Transition finance strategy	GFANZ description	Example financing activity	
Climate solutions	Financing or enabling entities and activities that develop and scale climate solutions This strategy encourages the expansion of low-emitting technologies and services, including nature-based solutions, to replace high-emitting technologies or services, remove greenhouse gases from the atmosphere, or otherwise accelerate the net-zero transition in a just manner.	<ul style="list-style-type: none"> • A producer of green hydrogen • Regenerative agriculture investments 	
Aligned	Financing or enabling entities that are already aligned to a 1.5°C pathway This strategy supports climate leaders and signals that the financial sector is seeking transition alignment behaviour from the real-economy companies with which it does business.	<ul style="list-style-type: none"> • A company with an SBTi-validated target that reports demonstratable progress against the target 	Roughly maps to <i>Advanced</i> transition maturity
Aligning	Financing or enabling entities committed to transitioning in line with 1.5°C -aligned pathways This strategy supports both high-emitting and low-emitting firms that have robust net-zero transition plans, set targets aligned to sectoral pathways, and implement changes in their business to deliver on their net-zero targets.	<ul style="list-style-type: none"> • A company that is implementing energy efficiency and clear energy projects to reduce its operational emissions 	Roughly maps to <i>Developing</i> transition maturity
Managed phaseouts	Financing or enabling the accelerated managed phaseout of high-emitting physical assets This strategy facilitates significant emissions reduction by the identification and planned early retirement of assets while managing critical issues of service continuity and community interests.	<ul style="list-style-type: none"> • Fossil fuel producer with plans for an early decommissioning of carbon-intense assets on a timeframe that is consistent with broader 1.5°C pathways 	

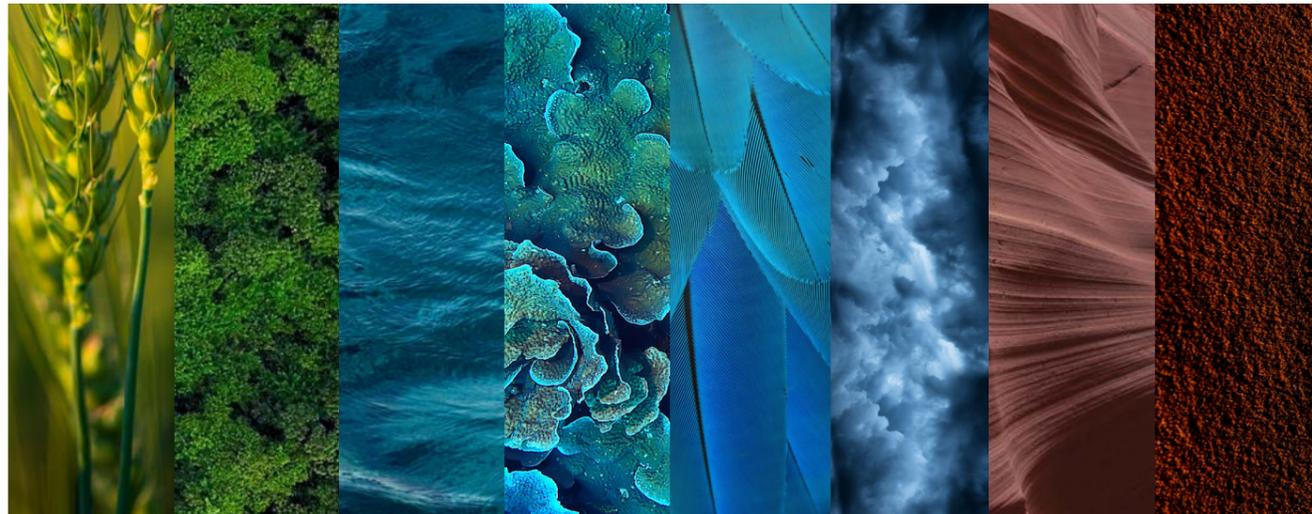


Source: Glasgow Financial Alliance for Net Zero (GFANZ) (2022) Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations, and Guidance; Oliver Wyman analysis

Targeting transition

The new nature vanguard

A growing area of focus is the need for corporations to recognize their impact on nature, the connection between nature and rising temperatures, and the ultimate importance of integrating efforts to preserve nature into corporate strategies and transition plans. Limiting warming to 1.5°C is unachievable without protecting and restoring nature – with forests, wetlands, oceans, and all of Earth’s natural ecosystems critical for not only the planet’s survival but for the survival of the global economy, society, and biodiversity.



The updated Global Biodiversity Framework (GBF) at COP15 commits countries to protect 30% of the planet’s land and sea; cut, phase out, and otherwise reform environmentally harmful subsidies; and increase finance flows for protecting and restoring nature.¹⁴ Through Target 15, it also has a requirement to ensure that all large companies assess and disclose their risks, impacts and dependencies on nature by 2030, setting the world on a path to make nature-related disclosures on biodiversity and ecosystems such as water and forest, and eventually protection business norms.¹⁴

Europe is at the vanguard in integrating nature impacts into its regulatory policy framework, for environmental reporting, through an extension of the incoming Corporate Sustainability Due Diligence Directive (CSDDD).¹⁵ This could lay the foundation to incorporate nature within the transition planning of companies (see Figure 6). More broadly, the European Commission’s proposal for a nature restoration law includes legally binding nature-related targets at both national and EU-levels.

¹⁴ The core of the GBF includes commitments to protecting 30% of the world’s land and sea by 2030, restoring 30% of the planet’s degraded ecosystems, and plans for wealthy nations to provide \$30 billion for biodiversity by 2030. See also COP 15 (2022) Kunming-Montreal Global biodiversity framework

¹⁵ European Commission (2022) Regulation on nature restoration

Figure 6
Upcoming key Regulatory climate transition plan disclosure requirements in Europe

 European Union	
Legal requirement	Description of example disclosure requirements ■ Key areas of overlap
<p>Corporate Sustainability Reporting Directive (CSRD) and ESRS</p> <p>Status & application</p> <ul style="list-style-type: none"> Published in OJ1, ratification period for EU member states European Commission to adopt Delegated Acts on ESRS Phased implementation until 2029 depending on company type 	<ul style="list-style-type: none"> Transition plans are specifically called for in the European Sustainability Reporting Standards (ESRS) E1 (climate) and E4 (biodiversity), as well as in the CSRD. The first delegated act will focus on sector-agnostic criteria, and is expected by 30 June 2023; the second DA will cover sector specificities, and is expected in 2024. Double materiality: sustainability risks affecting the company and companies’ impact on society and the environment. Forward-looking qualitative and quantitative information including targets and progress. Information relating to intangibles: social, human, and intellectual capital. Reporting in line with SFDR and the EU Taxonomy.
<p>European Union Taxonomy Delegated Act on remaining objectives</p> <p>Status & application</p> <ul style="list-style-type: none"> Publication of the standards by European Financial Reporting Advisory Group (EFRAG) in November 2022 Adoption of the first set of the ESRS by the European Commission expected in June 2023 Phased implementation from January 2024 until 2026-20282 depending on company type 	<ul style="list-style-type: none"> This is a framework law that classifies which economic activities can be classified as green across six environmental objectives. It functions as the underpinning for the entirety of the EU green finance ecosystem. Companies now have to follow a three-step process – 1) substantially contribute to one of the objectives; 2) do no significant harm to aforementioned objectives; and 3) comply with minimum safeguards – before screening for KPIs. For disclosing companies, the KPIs are determined by the CSRD, and its delegated rules. Undertakings within scope of the CSRD will have to: evaluate what percentage of their turnover, capital expenditure, and operating expense are directed towards sustainable activities. In turn, the CSRD determines which assets financial players will have to disclose upon under the Sustainable Finance Disclosure Regulation (SFDR). Lastly, the EU TR underpins forthcoming EU green laws in the legislative pipeline, such as the Green Bond Regulation.
<p>Corporate Sustainability Due Diligence Directive (CSDDD)</p> <p>Status & application</p> <ul style="list-style-type: none"> Proposed by the European Commission in February 2022 Pending agreement between Council, Parliament and Commission in 2023-24 – negotiations could be in May 2023 	<ul style="list-style-type: none"> Sets out mandatory framework for companies to carry out due diligence throughout their supply chain and to identify and prevent adverse impacts related to human rights and the environment. According to the Commission proposal, Article 15 requires EU companies with over 500 employees and €150 million in net worldwide turnover to have transition plans aligning their strategy and business models with a global warming limit of 1.5°C. Obliges Member States to monitor companies’ operations and emission reduction plans and how the variable remuneration of executive directors is linked to the achievement of sustainability objectives.

 United Kingdom	
Legal requirement	Description of example disclosure requirements ■ Key areas of overlap
<p>Mandatory climate-related financial disclosure requirements</p> <p>Status & application</p> <ul style="list-style-type: none"> Into effect since April 2022 Phased implementation until January 2023 depending on company type 	<ul style="list-style-type: none"> Large firms (e.g., listed and large private companies) need to incorporate Taskforce for Climate-related Financial Disclosures (TCFD)-aligned disclosures in their annual report Recommendation (but currently no legal requirement) to follow the guidance from the TPT Disclosure Framework
<p>Transition Plan Taskforce (TPT) Disclosure Framework</p> <p>Status & application</p> <ul style="list-style-type: none"> Published for consultation in November 2022 until February 2023 No legal requirement but FCA encourages companies to consider TPT Disclosure Framework 	<ul style="list-style-type: none"> Outline of overall climate-related ambitions and priorities including and an overview of interdependencies with nature and ‘just transition’ GHG emissions reduction targets and climate change mitigation actions, including an explanation of how the transition plan will be embedded within the organisation (e.g., changes to business planning and operations, product offerings, policies and conditions, and governance) Quantification of capital requirement and other resource allocation for transition plan delivery, including scenario sensitivity analysis on underlying assumptions and dependencies in transition plan Planned engagement with external shareholders, including supply chain, industry peers, and public sector Explicit statement on carbon credits usage, costs, and quantity to illustrate intent for future use of offsets

¹ OJ is an abbreviation for Official Journal n. It is the official gazette of record for the European Union. Only legal acts published here are binding.
² SMEs have a voluntary opt-out until 2028; Source: European Commission, UK TPT, UK Department for Business, Energy & Industrial Strategy, CDP, Oliver Wyman analysis

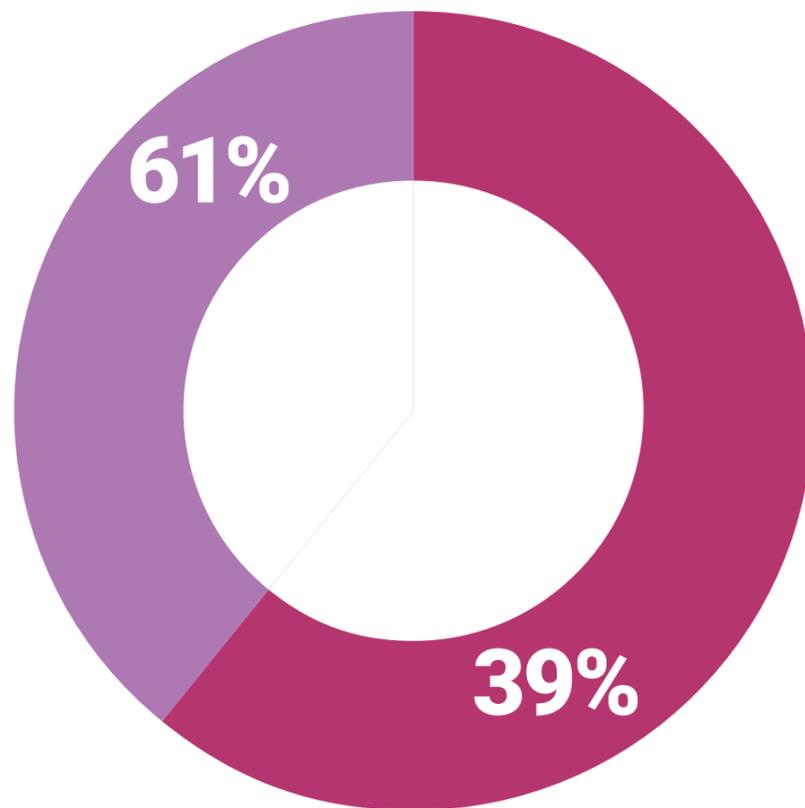
Targeting transition

Many companies do not yet consider ambitious nature-related targets in their corporate strategies

Still, many companies do not yet consider ambitious nature-related targets in their corporate strategies. While nearly 40% of companies have publicly made some type of commitment on biodiversity protection, the scope and ambition of these pledges vary significantly. Some companies have promised bold steps towards a net-positive nature target, while others are limiting their efforts to respecting already legally protected habitats and locales.

We see that only 7% of the around 100 companies responding to all three CDP questionnaires on climate, water, and forest have set robust targets to reduce their impacts. That's up from 5% last year.¹⁷

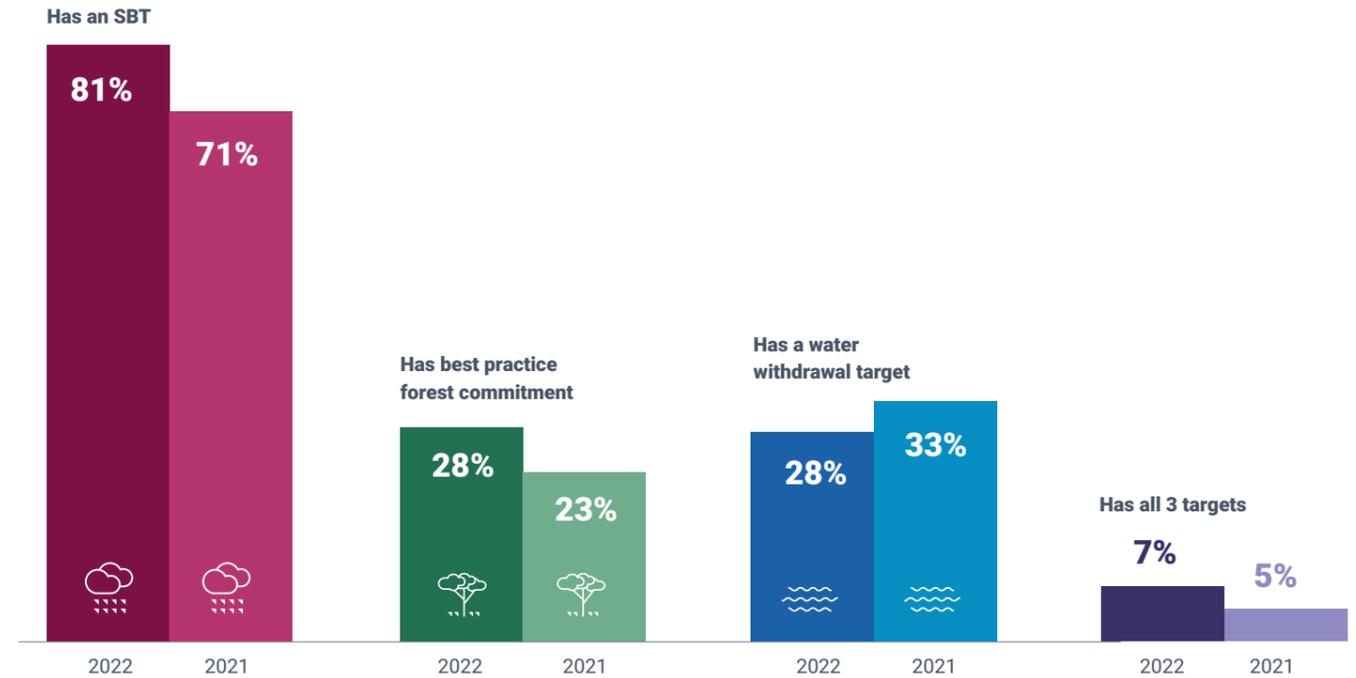
Figure 7
Nearly 40% of companies indicated to have made any type of public commitment on biodiversity
 Adoption of public biodiversity commitments, % of companies



Adoption of a public biodiversity commitment
 No public biodiversity commitment

Note, this year, CDP also asked respondents to the climate questionnaire up to six questions on biodiversity. These figures are based on input from 1,318 climate questionnaire respondents. Source: Oliver Wyman analysis; CDP data

Figure 8
Only 7% of companies have robust targets across water, climate and forests
 Adoption of environmental targets, % of companies with relevant targets



Note: The analysis is based on a sample of 95 companies, which includes the organizations that have answered all three CDP questionnaires; Source: Oliver Wyman analysis; CDP data

7%
 Only 7% of companies responding to all three CDP questionnaires have set robust targets to reduce their impacts

This is an important group in which to look for improvement as our data suggests that companies that act on multiple environmental areas are more ambitious on climate. For instance, while only 29% of companies responding to the climate questionnaire has set SBTs, 81% have set SBTs when looking at those responding to all three questionnaires.¹⁸

Granted, nature risks are inherently complex – reflecting the unique characteristics of specific locations and the interconnections between ecosystems. But initial guidance is now available – notably from the Taskforce for Nature-related Financial Disclosures (TNFD) and Science-based Targets for Nature (SBTN) – for corporates to use to inform their approach and prioritize areas for action.^{19,20} With the existence of these guidelines, nature issues are likely to rise in prominence for financial institutions, some of which helped craft them. Albeit complex, companies need to start integrating nature-related considerations in a phased approach – starting simple, refining, and increasing the scope and ambition over the next few years.

¹⁷ CDP-Oliver Wyman (2022) Now for Nature

¹⁸ Based on SBTi data (last accessed January 2023)

¹⁹ Taskforce for Nature-related Financial Disclosures (TNFD) (2022) The TNFD Nature-related Risk and Opportunity Management and Disclosure Framework Beta v0.3

²⁰ Science-based Targets for Nature (SBTN) (2020) Initial Guidance for Business

Targeting transition

Case study IAG

International Airlines Group (IAG) is one of the world's largest airline groups with 533 aircraft flying to 279 destinations and carrying around 118 million passengers each year (pre-COVID). In 2019, IAG were the first airline group in the world to commit to net-zero emissions by 2050 and is now working to transition its business, using the following levers to decarbonise:

- Fleet modernisation: This includes renewing its fleet with modern, more fuel-efficient aircraft as well as longer-term investments in innovative companies such as the hydrogen-aviation venture, ZeroAvia. Together with route planning and efficiency efforts, these initiatives will drive 50% of the expected emissions reductions by 2050.

- Investing in sustainable aviation fuel: IAG has committed to using 10% sustainable aviation fuel (SAF) by 2030 and, with the right policy support, they believe that this figure could reach 60% by 2050. To achieve this, IAG is partnering with existing and emerging SAF suppliers to support a rapid ramp-up of SAF production capacity. IAG has already committed \$865m to SAF purchases and investments to date, securing 25% of its 2030 target. Use of SAF equates to 30% of the expected emission reductions by 2050.

- Carbon offsets and removals: IAG has been a strong proponent of the global CORSIA scheme to limit net emissions from aviation through the use of certified, high-quality carbon offsets. As the development of carbon removal technology matures, these solutions will begin to be implemented alongside offsets. Removals will be used to mitigate any residual emissions in 2050 and contribute 20% of the expected emissions reductions by 2050.

Through its memberships in industry associations and stakeholder engagement, IAG advocates for a global climate policy framework for the sector. As testimony to IAG and its peers' advocacy efforts, both the International Civil Aviation Organisation and International Air Transport Association (IATA) are now committed to a 2050 net-zero target. This makes aviation the only sector where both industry and governments have pledged to meet this goal.

Featured case study L'Oréal



Very early on, L'Oréal decided to address the challenges arising from the global environmental crisis considering that our performance is both financial and extra-financial. That is why our sustainability program, L'Oréal for the Future, aims for a more radical transformation, to reflect the scale of global challenges and ensure our activities are respectful of the Planet's boundaries.

On climate change, our overarching objective is to align to the 1.5°C scenario and we will reduce our CO2 emissions by 50% per finished product (25% in absolute terms) by 2030, and reach net zero emissions in 2050. We have reduced our industrial sites' CO2 emissions by 91% in 2022 (compared to 2005) while our production volume increased by 45% over the same period. We already improved energy efficiency across all our facilities (buildings, equipment, etc.), increased local renewable energy use wherever possible and achieved the targets set for our sites without carbon offsetting projects.

By 2030, 100% of the water used in our industrial processes will be recycled and reused in a loop. We continue to innovate to reduce water consumption from the use phase of our products aiming to a 25% reduction compared to 2016 by 2030 (on average and per finished product).

By 2030, 95% of our ingredients will be biobased, derived from abundant minerals or from circular processes. Thanks to Green Sciences, we explore the new frontiers of scientific discovery while creating a beauty which respects the planet throughout the product life cycle, from the sustainable supply of raw materials to the composition of our formulas, while respecting biodiversity, natural resources, and the aquatic environment.

We are recognized for our role and responsibility in pursuing and scaling up actions to ensure the sustainable use of forest-related materials, along with the protection and restoration of forests and their related ecosystems. We implement action plans to ensure the sustainable supply of soya oil, palm oil and wood-fiber based products (cardboard and paper for packaging) so that none of its products is associated with deforestation.

At L'Oréal, we see sustainability as our "license to innovate and operate". We want to address the challenges facing the world and accelerating our efforts on a global scale. Through this in-depth transformation, we hope to be a catalyst of change in our own industry and beyond, and to inspire our consumers to act with us.

Barbara LAVERNOS, Deputy Chief Executive Officer of L'Oréal, in charge of Research, Innovation & Technology



Featured case study Landsvirkjun



Landsvirkjun is an energy company fully owned by the people of Iceland. We generate over 70% of electricity in Iceland, solely from renewable energy sources, hydropower, geothermal power, and wind power.

Our emission intensity is among the lowest known in energy generation, or 3,6g CO₂-eq/kWh, and we have committed to reaching carbon neutrality by end of year 2025.

Our vision is a sustainable world, powered by renewable energy. It is inevitable that more green energy must be harnessed if climate goals are to be met. As a renewable energy company, we seek to contribute to the global energy transition, prioritizing climate issues in all facets of our operations, and utilising the resources we are entrusted with in a sustainable and efficient manner and with respect for nature.

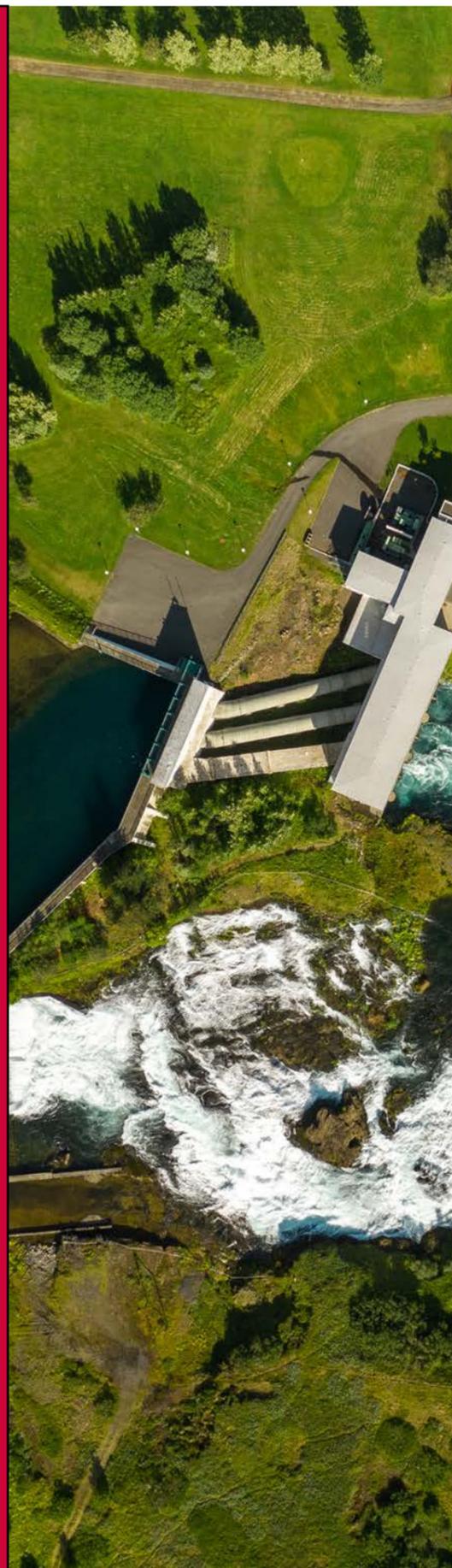
Iceland is in a unique position with electricity and district heating generated almost entirely from renewable energy sources. The Icelandic government has set a target for fossil fuel-free Iceland in 2040. Landsvirkjun will be at the forefront of leading Iceland's remaining energy transition, with several renewable energy projects under development and actively supporting the decarbonization of the transport sector.

Our holistic approach to sustainability is integrated in all our operations and a vital part of how we generate income and focus our expenses. We at Landsvirkjun aim to be at the forefront of environmental and climate issues.

- ▶ Our policy and business model reflects our support for Iceland's climate obligations, and global action against climate change.
- ▶ We have taken actions to adapt our infrastructure to climate change and develop new power stations to meet increased demand for renewable electricity.
- ▶ We actively engage in development and cooperate with other stakeholders to create opportunities for e-fuel and green industrial activities in Iceland.
- ▶ We have launched a climate action plan to reduce emissions caused by our operations and already achieved 65% reduction in carbon intensity since 2005.
- ▶ Our environmental and climate ambitions are integrated into communication with all our stakeholders.

Climate and environmental issues have never been more important, and we all have a role to play. Landsvirkjun will continue to set the bar high and take actions towards a sustainable future powered by renewable energy.

Jóna Bjarnadóttir, EVP Community and Environment



Transition in progress



Transition in progress

~75%
of companies have key gaps in their engagement strategy

~80%
of companies have key gaps in their implementation strategy

Disclosure, insight and action

A climate transition plan is a time-bound action plan that clearly outlines how an organization will achieve its strategy to pivot its existing assets, operations and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations, i.e., halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C.

Transition planning is a strategic exercise. Companies must define a set of objectives, metrics, and governance mechanisms to align their business activities with a 1.5°C, and eventually nature positive, economy. A key element in climate transition planning is to bring climate into internal governance. Many companies have made progress in these areas. For instance, virtually all European companies have board-level oversight of climate topics, and four out of five companies with board-level oversight also indicate to have climate-related board expertise present.

Disclosure alone is not enough – it needs to lead to accountability and transformation; hence the relevance of climate transition plans as part of a business’s strategy. Put simply: plans must go beyond simply listing goals; they must spell out how these objectives will be achieved. Progress on this front is less consistent.

CDP has identified 21 key indicators in its climate change questionnaire across eight elements against which companies should set objectives and make them public to develop a credible transition plan.²¹ This report groups these elements across five analysis areas.²² We selected a number of key indicators to assess progress across all of them.

Looking at key actions in these areas shows that between 75% and 80% of companies have key gaps in implementation strategy and engagement strategy, compared with the around 60% for the governance, and objectives and priorities areas.

Comparing sectors reveals a wide discrepancy in progress. Take agricultural commodities. Here, we see only 24% of companies that both report to have 1.5°C-aligned transition plans and reported data suggests that they holistically integrated climate risks and opportunities in their strategy. Electric utilities (54%) have made much more progress. It is hard to deliver on emissions reductions in line with 1.5C without a clear strategy, and all agricultural commodities companies have a key gap in their implementation strategy, compared to only around 40% of electric utility companies.

²¹ See CDP (2021) Climate Transition Plans
²² These analysis areas are also identified in other commonly-used transition plan guidance for real-economy companies and financial institutions see also: Glasgow Financial Alliance for Net Zero (GFANZ) (2022) Expectations for Real-economy Transition Plans and Glasgow Financial Alliance for Net Zero (GFANZ) (2022) Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations, and Guidance

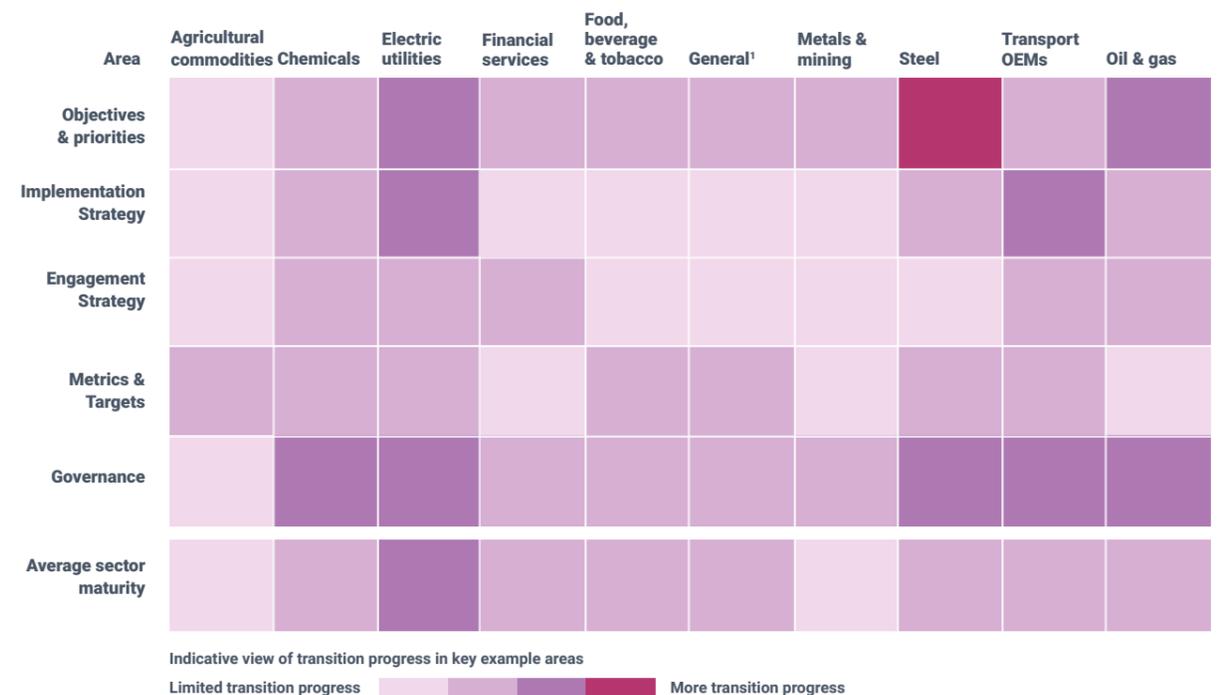
Figure 9
Many companies have key gaps in their climate transition planning

Area	Description	CDP elements and key data indicators used	Companies with key gaps
Objectives & priorities	Strategy of the organization describing its short, medium and long-term reduction ambitions and commitments	<ul style="list-style-type: none"> • Strategy: Disclosure of a "1.5°C world" aligned transition plan • Risks and opportunities: Holistic consideration of climate-related risks and opportunities as part of the organization's strategy 	~60%
Implementation Strategy	Description of how the company will transition its business activities and operations (e.g., product portfolio) to align with its objectives & priorities	<ul style="list-style-type: none"> • Financial planning: <ul style="list-style-type: none"> - Integration of low carbon products and services into commercial offerings - Ability to assess the alignment of spending (e.g., OPEX, CAPEX) and revenue with their low carbon transition • Low carbon initiatives¹: participation in low carbon initiatives 	~80%
Engagement Strategy	Description of how the company will engage across its value chain and on public policy in support of its objectives & priorities	<ul style="list-style-type: none"> • Value chain engagement¹: <ul style="list-style-type: none"> - Adoption of holistic value chain engagement (e.g., involving both up- and downstream stakeholders) - Integration of climate-related KPIs into supplier contracts • Policy engagement: Alignment of policy engagement activities with the organization's climate ambition & strategy 	~75%
Metrics & Targets	Quantitative metrics disclosed by the company including targets against to measures its progress	<ul style="list-style-type: none"> • Targets: CDP temperature ratings of the adopted emissions reduction targets • Scope 1, 2 & 3 accounting with verification: Disclosure of key Scope 3 emissions categories 	~70%
Governance	Governance mechanisms that are put in place to provide oversight, incentivize, and support the implementation of the transition plan	<ul style="list-style-type: none"> • Governance: <ul style="list-style-type: none"> - Integration climate-related requirements into board-level oversight - Presence of board-level climate-related expertise - Integration of climate-related KPIs into C-level executive remuneration - Integration of climate-related data into mainstream financial reporting 	~60%

Note, The names and descriptions of the various areas are based on widely-used frameworks and guidance such as those used in GFANZ publications. The CDP elements and key data indicators used provide an overview of all data points considered in the report to illustrate progress in a particular area. As indicated, this excludes scenario analysis from the CDP Credible Transition Plan framework; 1. CDP Climate Transition plan element Value chain engagement & low carbon initiatives is split across the engagement strategy and implementation strategy areas; Source: Oliver Wyman analysis, CDP data

Figure 10
Sectors are at different stages of advancing transition actions

Progress to act in key climate transition-related areas



Note, the average sector maturity row is based on the entire sample and also includes sectors not listed here (e.g., paper & forestry, coal); 1. This includes a broad range of sectors including grocery retail covered in the section 3 deep-dive; Source: Oliver Wyman analysis; CDP data

Transition in progress

Steering the ship

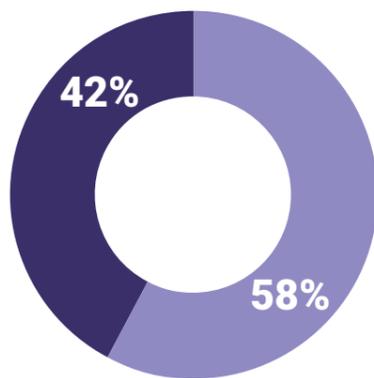
Even in the areas where the most progress has been made, there are important discrepancies between leaders and laggards. Governance is a good example: 42% of companies have established board accountability, built climate expertise at the board level, integrated it as a key performance indicator for determining remuneration of C-level executives, and included climate data in their mainstream financial reporting. The remaining 58% of the companies have a key gap in at least one of these four elements.

Ultimately, the key differentiator across companies is the extent to which climate objectives affect executive pay: Only around 54% of companies have integrated climate KPIs into executive compensation.

An additional pivotal gap emerges when we look at the integration of nature-related protection strategies into governance. While around two-thirds of companies with specific water and forest-related exposures report to having board-level expertise on those topics, less than half use progress on water and forest objectives as key performance indicators for calculating a portion of C-level executive compensation.

Figure 11
Linking executive pay to climate progress is a key gap in governance for almost half of all respondents

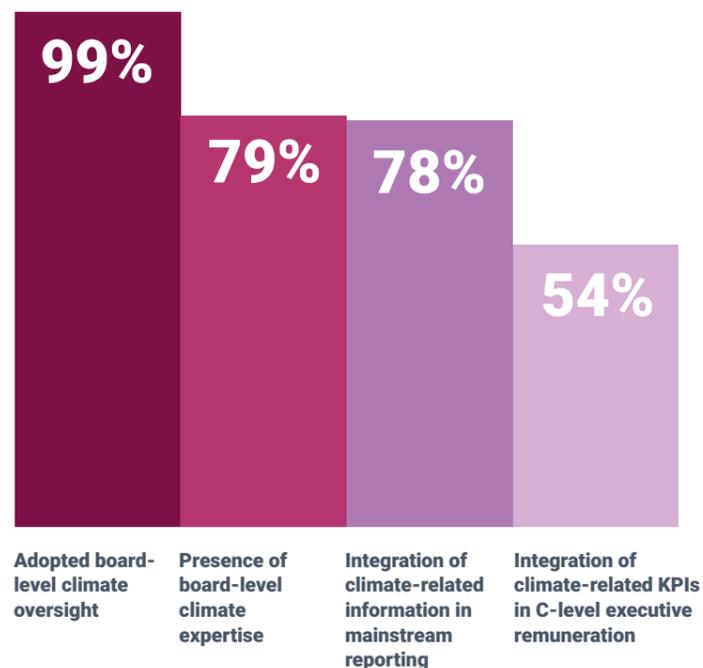
Key gaps in implementation strategy,
% of respondents



■ Companies with key gaps
■ Companies without any key gaps

Source: Oliver Wyman analysis; CDP data

Integration of climate-related considerations across key governance aspects
% of respondents by governance category

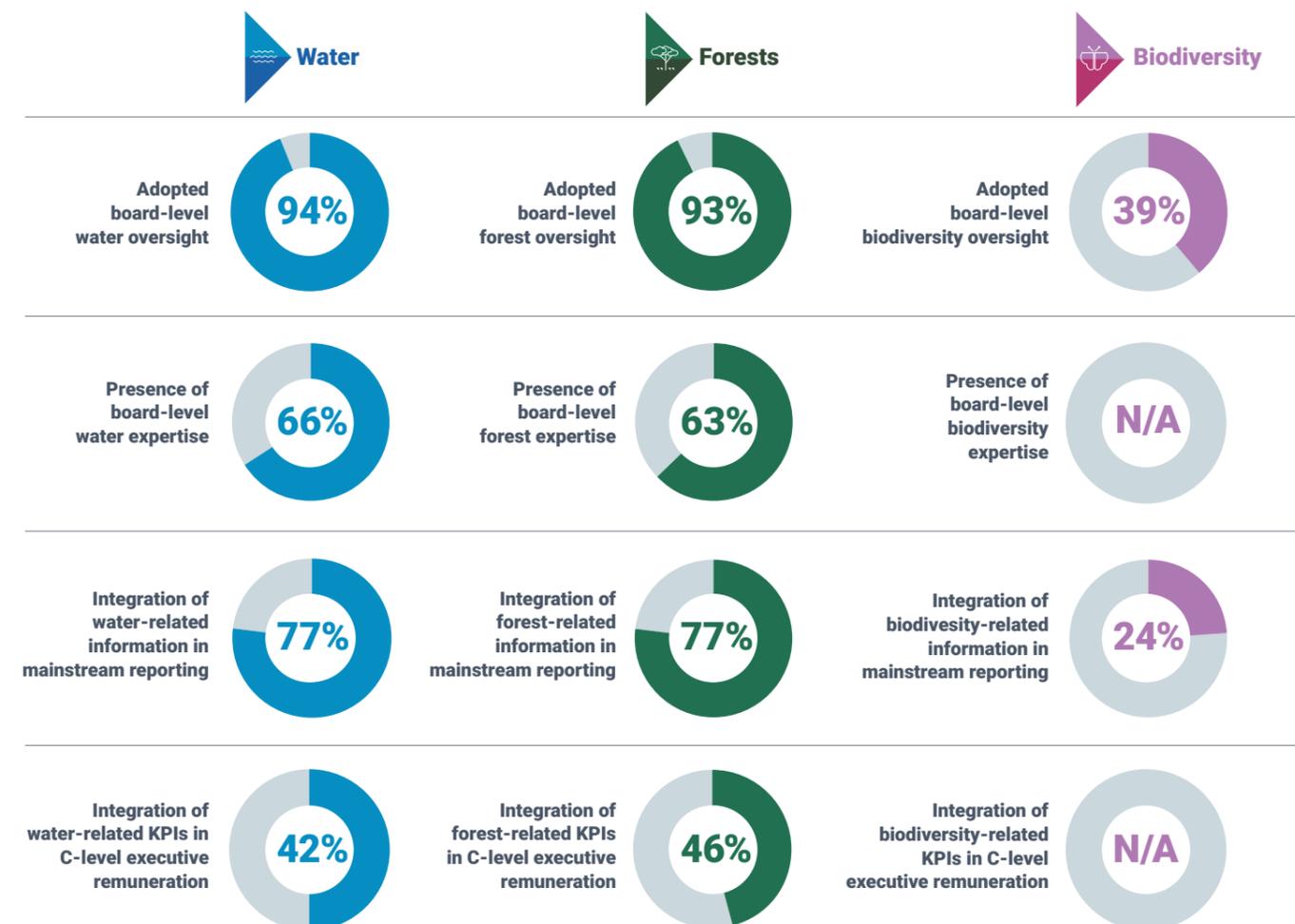


31%
of companies have integrated environmental KPIs across water, climate, and forests comprehensively in executive remuneration

Looking at respondents of all three questionnaires, only 31% of responding companies have integrated environmental KPIs across water, climate, and forests comprehensively in executive remuneration. In CDP's first year of asking companies to disclose efforts on biodiversity, 39% of companies reported having board-level oversight on the topic.

On a more positive note, 71% of companies responding to all questionnaires that they already report holistically environmental data in their mainstream financial reporting—well in advance of when the European Union's landmark mandatory reporting law, the Corporate Sustainability Reporting Directive (CSRD), takes effect in 2024. On biodiversity alone, however, that percentage drops to less than 25%.

Figure 12
Integration of nature aspects into governance is lagging climate across all key categories
Integration of nature-related considerations across key governance indicator



Note, figures are based on 311 responses in the water questionnaire, 153 responses in the forest questionnaire and 1,418 responses in the biodiversity section of the climate questionnaire. The biodiversity questions did not include any questions on the presence of board-level expertise or integration into remuneration.; Source: Oliver Wyman analysis; CDP data

Transition in progress

29%

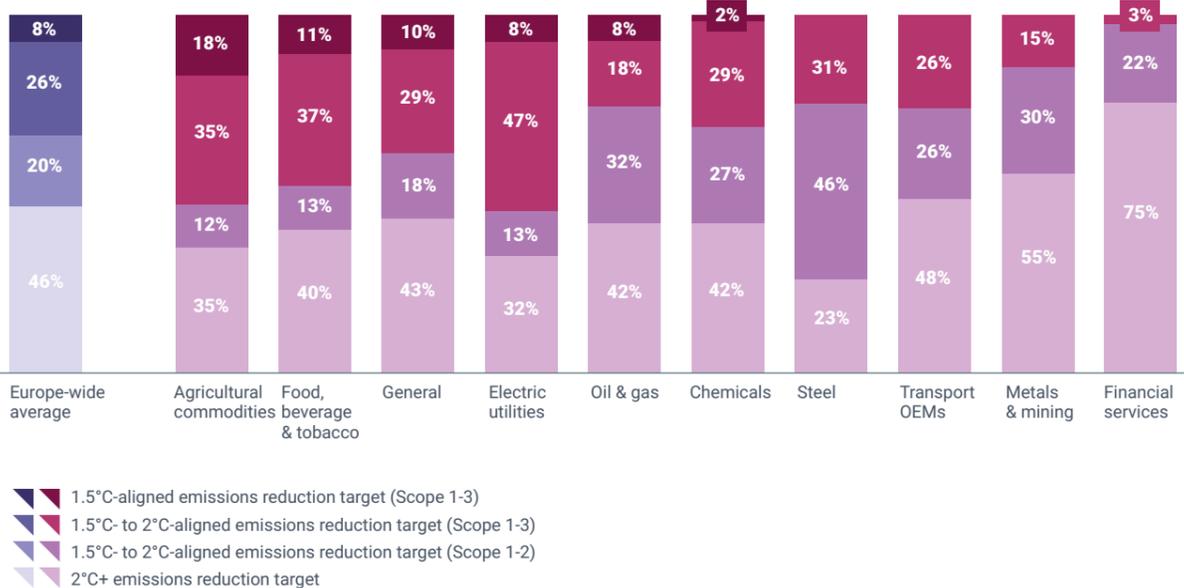
By now, 29 percent of companies have an approved SBT (up with 21% from the previous year)

Measuring progress

On metrics and targets, there is continued momentum in the commitment and adoption of science-based targets (SBTs), but this is still an area of significant divergence. Today, 29% of companies have an approved SBT, up from 21% the previous year; based on market capitalization, that percentage jumps to 57%.²³

Nevertheless, many companies still have not adopted sufficiently ambitious targets covering their entire value chain. Using the CDP temperature ratings dataset – which gives more weight to Scope 3 emissions reduction targets when of higher relevance – only 8% are aligned with 1.5°C. across all scopes.²⁴ On a Scope 1 and 2 basis alone, 54% of companies have emission targets aligned with 2°C or lower. This also shows significant differences across sectors illustrating the difficulty of some sectors such as steel and oil & gas to set ambitious targets to reduce their full value chain emissions.

Figure 13
Ambition of emission reduction targets across sectors
% of companies, by category



Note, the total column is based on the entire sample and also includes sectors not listed here (e.g., paper & forestry, coal); Source: Oliver Wyman analysis; CDP temperature ratings dataset

1/4

Only around a quarter of leading companies are capable of assessing the alignment of their operating expenses, capital spending, and revenue with a 1.5°C pathway

The heart of the matter

The true challenge with transition planning is turning company strategy into a concrete implementation and engagement strategy. Detailing how the company will shift its business activities and operations as well as engage with its value chain and on public policy to deliver on its transition strategy.

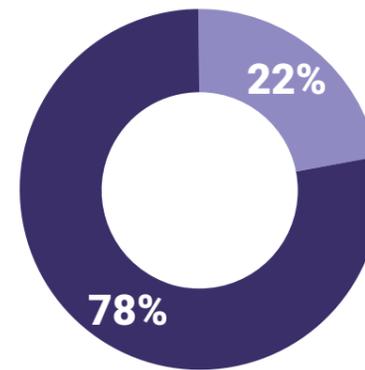
Analysis shows significant gaps in implementation strategy for close to four out of five companies. Many companies have not yet integrated climate-related KPIs into their financial planning, for instance. Nor have they started the low-carbon transition of their commercial portfolio.

Only around a quarter of leading companies are capable of assessing the alignment of their operating expenses, capital spending, and revenue with a 1.5°C pathway. The Enel case study provides an example of a company that has aligned its capital expenditures clearly with its transition goals (see ENEL case study).

Figure 14
Almost 4 in 5 respondents are lagging across at least one key transition implementation area

Key gaps in implementation strategy

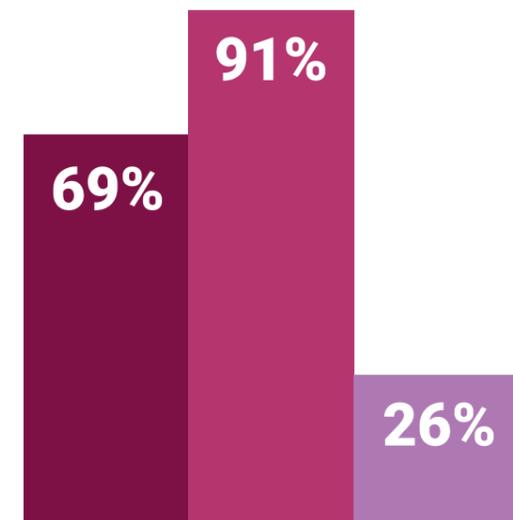
% of respondents



Companies with key gaps
Companies without any key gaps

Integration of climate-related considerations across key implementation strategy aspects

% of respondents by implementation strategy category



Offering of low carbon products & services
Engagement in emission reduction initiatives
Ability to assess alignment of spending/revenue with a 1.5 degrees C world

1. Companies that report to engage in emissions reduction initiatives without providing foundational information such as the targeted/achieved emissions reductions are marked as no; Source: Oliver Wyman analysis; CDP data

Transition in progress



Case study Enel

Italian-based Enel is Europe's largest electric utility and has a commitment through the Science Based Targets initiative (SBTi) to reach net zero by 2040 across its Scope 1-3 emissions, without the use of carbon capture technologies.

Over the next decades, Enel will completely phase out its reliance on fossil sources – including completing a coal phase out by 2027 - and fully replace this with renewable electricity generation. To achieve this, Enel is investing around €17 billion in generation capacity and batteries until 2025, adding around 21 GW of new renewable capacity. The objective is to have 79% of installed capacity from renewable sources and batteries by 2025. Enel is also investing around €15 billion in the grids required to facilitate the transition by 2025, including growing the number of connections, improving quality and resilience, and driving customer digitization through smart grids. The company expects to have digitalized approximately 80% of customers on the grid by 2025.

Enel has placed renewable-powered electrification as a key priority of its business strategy, expanding its range of products and services to electrify other sectors, such as transportation and buildings. In particular, it expects to install 1.4 million electric vehicle charging points by 2025, from around 0.5 million estimated in 2022. To support a systemic impact, the company also regularly participates in industry associations and consultation groups to push for a Paris-aligned policy framework. Enel has a dedicated policy to guide its wider stakeholder engagement, it challenges unaligned proposals from industry associations and, if needed, will leave associations or exit geographic markets that fail to show sufficiently ambitious climate commitment.

While 69% of companies now offering products and services considered to be low-carbon, there were significant differences across sectors. For instance, only 40% of food, beverage, and tobacco producers indicated that they had adopted such low-carbon practices as using bio-based, compostable packaging or offering plant-based meat alternatives, while more than 96% of electric utilities now offer their customers low-carbon energy generated by offshore wind and/or hydropower.

39%

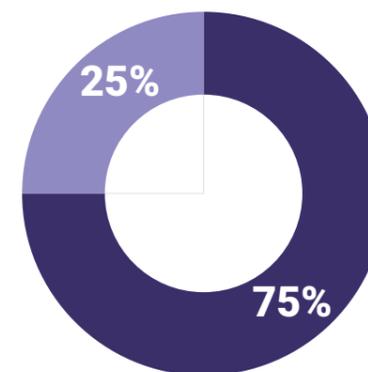
of the companies have not publicly committed to align their policy engagement activities with the Paris Agreement.

Turning to engagement strategy, most companies (93%) reported that they engaged with their value chains on climate-related issues in some way. Yet, the scope or depth of that engagement was for most very limited. Furthermore, 39% of the companies did not publicly commit to align their policy engagement activities with the Paris Agreement. As a result, we find that 75% of companies have at least one key gap in their engagement strategy.

The most common gap emerging from the data is lack of integration of climate KPIs into supplier contracts. Many companies have not yet put the tools in place to enforce meaningful transition by their suppliers. On a positive note, at least some of the leading companies, such as Carrefour, have been increasingly integrating climate KPIs with tangible enforcement clauses in their supplier contracts (see Carrefour case study in section 3).

Figure 15
Over 60% CDP respondents have not yet integrated climate-related components in supplier contracts as part of their engagement strategy

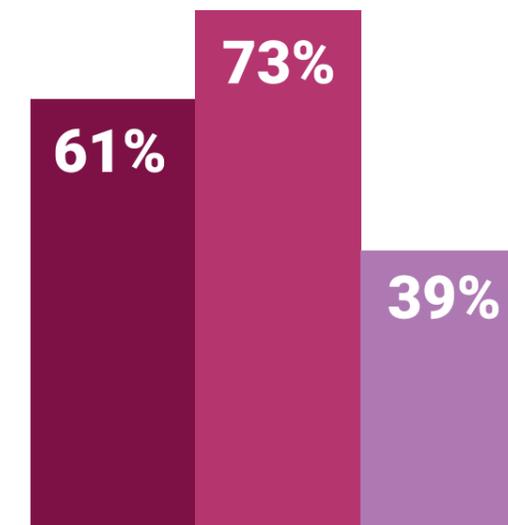
Key gaps in implementation strategy
% of respondents



▾ Companies with key gaps
▾ Companies without any key gaps

1: These are companies that engage both up- and downstream across their value chain; Source: Oliver Wyman analysis; CDP data

Integration of climate-related considerations across key implementation strategy aspects
% of respondents by implementation strategy category



Alignment of policy engagement activities with the Paris Agreement

Holistic value chain engagement¹

Integration of climate-related components into supplier contracts

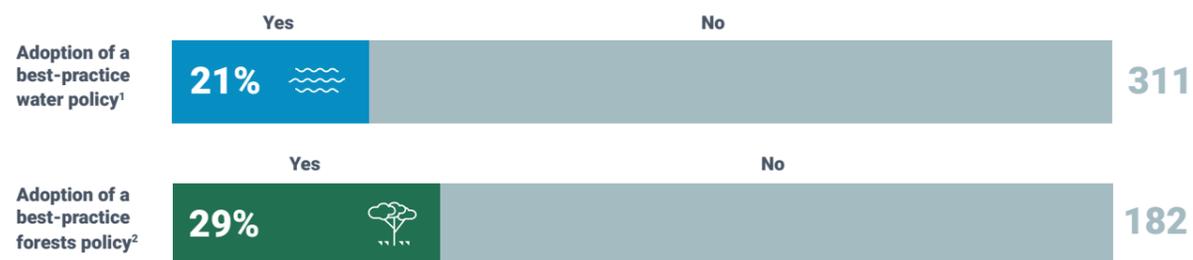
Transition in progress

Now for nature

One important way in which companies can lower their environmental impact is to set policies guiding action on specific topics such as deforestation, and this is an area where progress is lagging.

For instance, only 29% of companies reported a best-practice timebound forests policy in place that includes a zero-deforestation commitment and social and remediation elements, although this is high compared to 14% globally. Among agricultural commodity companies with industrial activities that have profound impacts on forests, none has such a policy. Meanwhile, just 21% of companies disclosing to CDP on water security have adopted a best practice water policy.

Figure 16
A large majority have not adopted best-practice policies to drive action on water and forests
% of companies



1. CDP defines a best practice water policy as a documented public policy which scope contains the description of business dependency on water and business impact on water, water target and goals, acknowledgment of the human right to water and sanitation, commitment to align with public policy initiatives, reference to international standards and water initiatives, description of water-related standards for procurement, commitments beyond regulatory compliance and water-related innovation, recognition of environmental linkages and commitment to water stewardship and/or collective actions; 2. CDP defines a best practice no deforestation policy as publicly available general or commodity specific company-wide no-deforestation policy with social and remediation elements that include timebound milestones and targets – see also CDP (2022) Understanding CDP's 15 forest-related key performance indicators; Source: Oliver Wyman analysis; CDP data

Based on these numbers, there is room for improvement when it comes to reducing the environmental footprint of product and services portfolios. Currently, fewer than half self-classify any of their current products and services as having a low impact on water resources.

When it comes to companies disclosing on forests, the progress is more substantial: (85%) source at least some certified commodities. Yet, this is limited to a share of their sourcing volume. Only 5% of companies report that at least 90% of one of their commodities is certified in a certification scheme that provides assurance of no-deforestation/no-conversion. More broadly, fewer than half of the responding companies in the climate questionnaire indicated that they had programs in place to help them advance their biodiversity-related commitments.

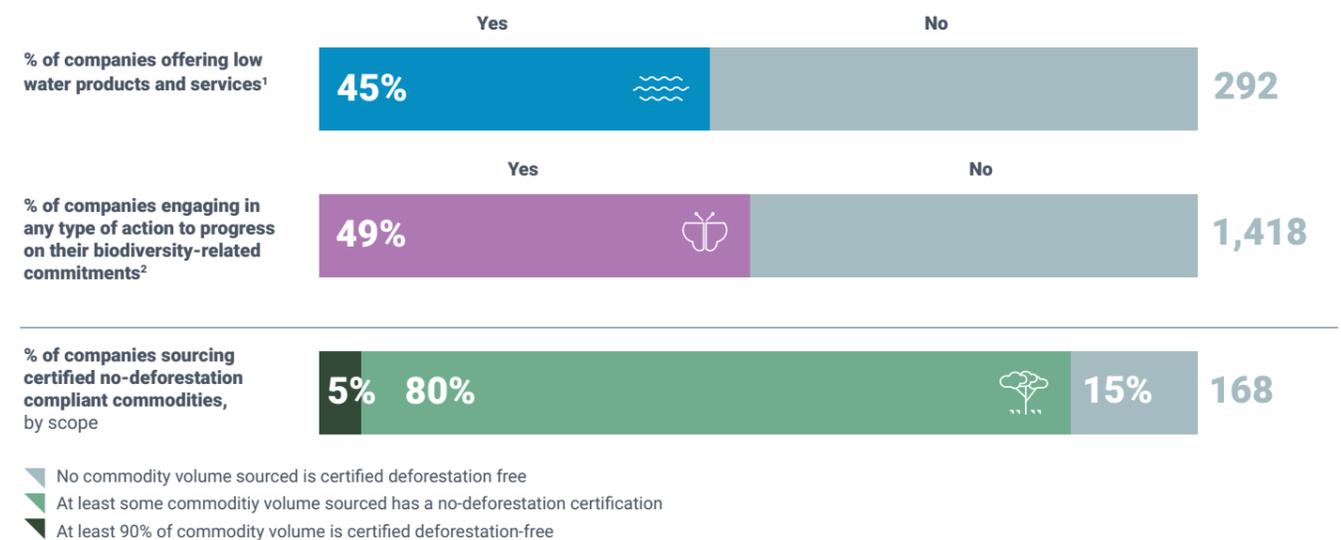
13%

only 13% of companies have assessed the impact of their up- and downstream value chain on biodiversity

We see a similar picture on value-chain engagement on biodiversity, water, and forest topics. While most companies indicated that they are engaging with their direct suppliers on environmental topics, only leading companies were demonstrating the kind of in-depth engagement that could drive meaningful change. For instance, only 13% had assessed the impact of their up- and downstream value chain on biodiversity. An example of a company that is working to enhance the transparency of the nature impact of its value chain is LVMH (see LVMH case study).

On water, for instance, almost three-quarters of firms indicated to engage with their suppliers. Yet only 41% requested water-related management information on at least half of their supplier-related spending, indicating a lack of depth in the engagement.

Figure 17
Many companies have not made meaningful progress reducing the nature-related impact of their activities.
% of companies



Note, figures are based on 292 responses in the water questionnaire, 168 responses in the forest questionnaire and 1,418 responses in the biodiversity section of the climate questionnaire. Some companies reported to be engaging in action to progress on their biodiversity-related commitments but did not report to have made any commitments in a separate CDP question – these are also included here.

1. Definition of "low water" is not provided by CDP but according to self-reporting of surveyed companies;
2. This includes all companies that report at least some commodity volume as no-deforestation certified but less than 90%

Transition in progress

Meanwhile, 86% of the forest questionnaire respondents indicate that they are engaging with suppliers from which they buy directly from²⁵. However, only 3% provide financial and technical assistance to these direct suppliers as part of this. Moreover, only 30% of traders, manufacturers and retailers work beyond first tier suppliers through capacity building. Greater engagement with indirect suppliers is vital, especially in light of the EU's Directive on Corporate Sustainability Due Diligence (CSDD) proposal that stipulates companies take appropriate measures to identify (potential) environmental impacts at the level of indirect business relationships in their value chain.²⁶

Consideration of sector-specific decarbonization pathways and nature-related challenges are key in the development and assessment of implementation and engagement strategies. We will explore this more in-depth in the next section.

Figure 18
Supplier engagement on nature topics is widespread - but depth is lacking

Supply chain engagement on water topics, % of companies



Supply chain engagement on forest topics, % of companies



Supply chain engagement on biodiversity topics, % of companies



Note, figures are based on 253 responses in the water questionnaire, 168 responses in the forest questionnaire and 1,418 responses in the biodiversity section of the climate questionnaire
1. Respondents indicating that they do not know if they request their suppliers about water use are marked as no;
2. This refers to KPI 12 of the CDP Forests Accountability Framework Core Principles: Financial & technical assistance to direct suppliers including supporting suppliers to set their own no deforestation/conversion commitments across their entire commodity operations and develop public time-bound action plans with clear milestones; 3. These are companies that engage both up- and downstream across their value chain;

25 Processors, traders, manufacturers and retailers only
26 European Commission (2022) Proposal for a Directive on Corporate Sustainability Due Diligence

Case study

LMVH

Louis Vuitton Moët Hennessy (LVMH) Group is a luxury conglomerate that owns up to 75 brands across six sectors, spanning wines and spirits, fashion and leather goods, perfumes and cosmetics, watches and jewellery, selective retailing, and other activities. Under its LIFE 360 programme, LVMH has identified four strategic pillars covering value chain transparency, biodiversity, climate change and the circular economy.

Value chain transparency is the key enabler required to achieve all these strategic pillars. With brand image and credibility key for a luxury group, LVMH has recognised the need for a transparent and traceable approach. It aims to integrate 100% of strategic suppliers into dedicated traceability systems to embed eco-design principles across all new products by 2030. LVMH now collaborates with Fairly Made and Source Map, that support the company which both support with traceability software and data to build the capabilities to achieve this.

LVMH has also defined specific targets for reducing their impact on biodiversity, climate change mitigation, and circular economy (e.g., 100% sourcing of strategic raw materials to be certified for ecosystem and water resource preservation) and has initiatives in place across its brands. For instance, It is moving supply chains out of areas of high environmental and reputational risk, such as the Amazon for its leather sourcing. It works with farmers in the supply chain to implement regenerative practices and monitor its impact, including regular analysis of soil carbon content. On a product level, it is improving reparability of its products to improve durability and reduce waste, and using alternative materials to replace virgin plastic use. For consumers, it engages in cross-industry initiatives like the EcoBeautyScore Consortium, which aims to develop an environmental impact scoring system to support consumers making more sustainable cosmetic purchase decisions.

As LVMH progresses from piloting these projects to rolling them out across its entire suppliers' network, further building out its dedicated value chain traceability systems will be key.

Featured case study Symrise AG



Symrise has made the principles of sustainability a key component of its operations many years ago. Designed primarily to protect the climate, water and forests, our interconnected measures have earned us top grades from the CDP many times. This success motivates us to continuously optimize our sustainability activities, as we realize their significance in our efforts to protect the climate. That's why we aim to establish climate-positive operations starting in 2030 with our clearly defined action plan.

In combination with many other measures that minimize our consumption across all levels or make our processes more efficient, the circular economy forms a component that we apply extensively to our raw material and product portfolio. We want to focus on circular processes as much as we can – by using 100 percent of raw materials when possible, avoiding waste and returning materials to processes. To help reduce the impact on nature, we source our raw materials responsibly and use them efficiently. At the same time, we aim to ensure that, ideally, all products we manufacture are fully biodegradable and can be safely returned to nature after use.

For consumer goods that end up back in the natural environment after use, the circular economy offers five central principles that we successfully apply at Symrise:

1. Regeneration of nature: Rather than exploiting nature, we rebuild natural capital.
2. Sustainable agriculture: We promote concepts such as regenerative agriculture, agroecology, agroforestry and conservation agriculture throughout our value chains. This allows us to exert a positive impact on nature.
3. Composting and anaerobic decomposition: Through decomposition of organic substances such as food byproducts and other biological materials, compost or biogas can be generated, which we provide for additional use in agriculture or for power generation.
4. Cascaded utilization: With cascaded utilization, we use raw materials across several levels.
5. Extracting biochemicals from byproducts creates source materials for new products.

Outlook

The Symrise business model has always used byproducts and co-products from other industries to create new value. We thus tap sustainable sources of raw materials, develop process innovations and alternatives to raw materials, expand our portfolio, consistently increase the percentage of sustainable and circular raw materials, and systematically apply the principles of green chemistry. This ultimately allows us to reconcile our economic interests with environmental and social aspects.

Bernhard Kott, Chief Sustainability Officer



Sector deep-dives



Sector deep dives

1/4

Less than a quarter of automobile manufacturers provide EV sales and future product mix targets

Credible climate transition plans are sector specific. They investigate concrete levers to reduce emissions and benefit nature, while acknowledging the commercial trade-offs for companies. This section highlights levers for companies in three diverse sectors: automobile manufacturers, financial services companies, and grocery retailers.

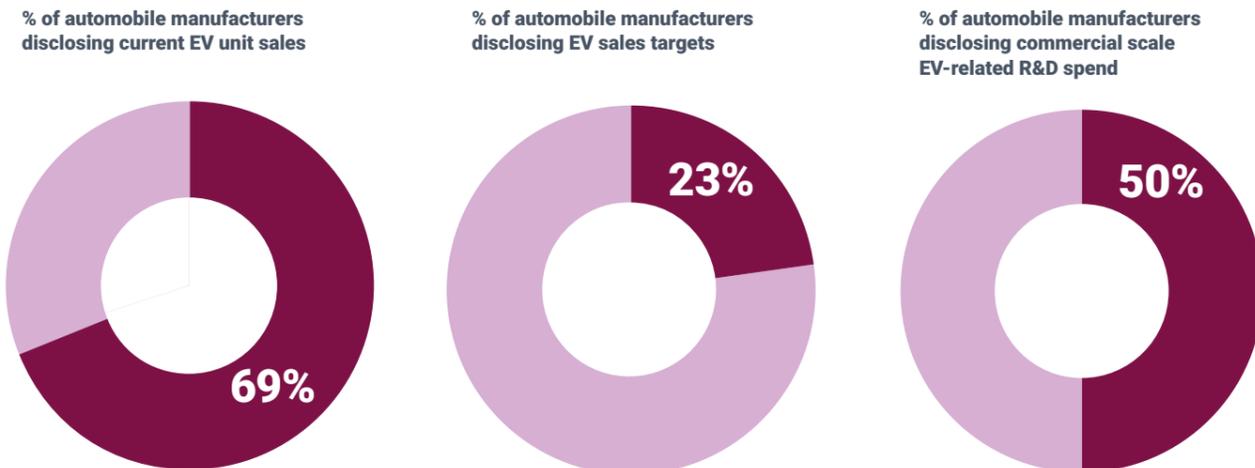
3.1 Automobile manufacturers

Decarbonization strategies for automakers must focus on both manufacturing – including emissions from their production, energy that powers it, and all along their raw material and parts supply chain – and downstream emissions from the use of the vehicles they produce. In particular, robust plans must include:

- Implementation: how car companies plan to decarbonize its own operations through more energy- and raw materials-efficient processes and use of renewable energy
- Implementation: how auto manufacturers will shift their product portfolios from internal combustion engines (ICE) to zero-emissions vehicles to reduce the downstream emissions emerging from the use of their vehicles
- Engagement: how automakers will work with suppliers to decarbonize the production of car components and raw materials

Many existing actions do not go far enough and are not comprehensive enough. Almost seven out of 10 automakers report information on specific emission-reduction initiatives ongoing at their own production operations over the past year. For their suppliers upstream and customers downstream – parts of the value chains that account for 99% of the emissions reported to CDP – disclosures often lack similar detail.

Figure 19
Automobile manufacturers show a lack of clarity on their future adoption of EVs



Source: Oliver Wyman analysis; CDP data

27 European Financial Reporting Advisory Group (EFRAG) (2022) Draft European Sustainability Standards: ESRS E1 Climate Change
28 The first delegated act that will mandate these reporting requirements is expected by end of June 2023

11%

Only 11% of car companies are collaborating with suppliers to help them transition to low-carbon operations

For example:

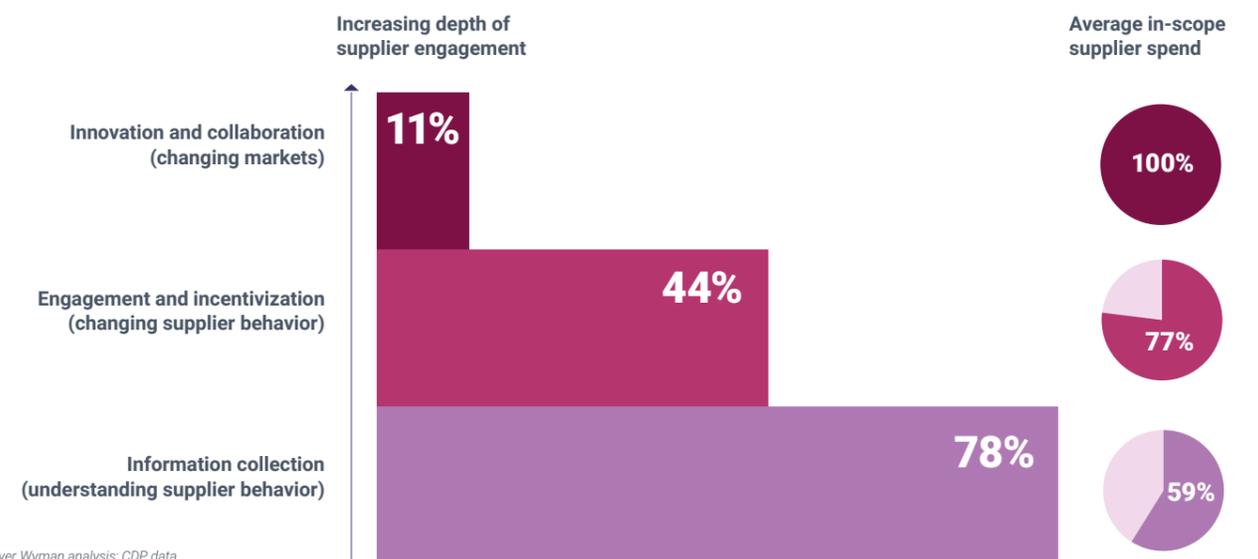
- While almost 70% of companies report current electric-vehicle (EV) sales, less than a quarter provide goals for future EV sales and the eventual product mix of the companies. This makes it difficult for investors to assess whether the automakers' product strategies are aligned with 1.5°C and whether they show sufficient ambition and feasibility. More stringent reporting requirements coming from the European Financial Reporting Advisory Group (EFRAG) could make guidance on changes in companies' product and service portfolios and adoption of new technologies mandatory^{27,28}
- Half of car companies do not disclose their spending on EV research & development (R&D), meaning investors have limited information to assess the degree of commitment the manufacturers are making to the successful transition to a net-zero product portfolio .

Over three-quarters of automotive manufacturers disclose some information on supply-chain engagement, but it is often limited to the collection of supplier information and does not involve any requirements or pressure on suppliers to cut emissions in their operations. In other words, pursuing transformative engagement is the exception:

- Only 11% of car companies are collaborating with suppliers to help them transition to low-carbon operations, such as hydrogen-powered steel production, to secure new lower carbon raw materials
- Less than one-third of companies have integrated climate into their supplier contracts

Figure 20
Supplier engagement is widespread - but often limited to information sharing

% of automobile manufacturers engaging with suppliers and average in-scope supplier spend, by type of supplier engagement



Source: Oliver Wyman analysis; CDP data

Sector deep dives

None of Automobile manufacturers show advanced transition readiness according to the criteria used in Section 1

69%
of financial institutions are taking action to align their portfolios to 1.5°C

Judging by automaker disclosures on implementation and engagement, the sector is not ready for delivering the transition. None of the car companies show advanced transition readiness, according to the criteria used in this report's Section 1, while between 50% and 60% could be considered developing. This implies that the remaining companies 'representing up to half of outstanding debt to automotive manufacturers' could face more expensive financing when financial institutions begin to ration financing to companies without credible transition plans.

In contrast, companies that can credibly demonstrate their ability to transition may be able to access sustainable financing at a cost advantage. Volvo Cars is an example of an automaker that has set clear guidance on the actions it's taking to reduce emissions across its own operations, and all along the value chain, both upstream and down. (See Volvo Cars case study).

3.2 Financial services companies

Financial institutions (FIs) can support a net-zero nature-positive transition by shifting their investment, lending, and underwriting activities towards more sustainable activities and by engaging clients on their own transitions. Credible transition planning of a financial institution must, therefore, provide clarity on:

- Implementation: how it is adapting policies and decision-making criteria to steer investment portfolios in line with its environmental objectives
- Engagement: how it is integrating environmental objectives into engagement strategies to support and encourage the transition of clients and portfolio companies

Implementation is more advanced on climate than nature: 69% of financial institutions report to be taking action to align their portfolios to 1.5°C. Many institutions that have joined one of the GFANZ-aligned alliances are translating their net-zero portfolio commitments into sector-specific targets (see Figure 3). Others, such as the KBC Group, indicated they are taking a more bottom-up approach committing to sector-specific reduction targets first (see KBC case study). In contrast, only 35% of leading companies have also started to integrate nature into their strategies, for instance by taking action on biodiversity. (see Aviva case study).



Case study Volvo Cars

Between 2018 and 2025, the Swedish carmaker Volvo Cars aims to cut CO2 emissions by 40% per average car. This will involve a 25% reduction in both operational and supply chain emissions, as well as a 50% drop in tailpipe emissions per average car. To achieve this, it is addressing emissions across their value chain and adopting circular economic principles.

For its operations, Volvo Cars targets a 60% reduction in Scope 1 and 2 between 2019 and 2030. A key focus is energy: it now powers its global plants using 66% climate neutral energy¹, including 94% climate neutral electricity. Their Gothenburg plant was their first to achieve climate neutrality, through a shift to biogas and district heating, in 2021.

Volvo plans to be a fully electric car company by 2030. It will launch one new electric vehicle (EV) model annually and it is investing heavily in EV industrial infrastructure. This includes the construction of a battery Gigafactory in Gothenburg in partnership with Northvolt, and a new EV-only car plant in Slovakia.

To help achieve a 25% reduction in supply chain emissions per average car, Volvo Car's Tier 1 suppliers are requested to switch to 100% climate neutral energy by 2025. Carbon intensive material is in focus. Aluminium suppliers are directed to approved smelters that use climate-neutral electricity in the refining process. Meanwhile, the company plans to become the first automaker to use near zero-emissions steel from Swedish steelmaker SSAB. Circular targets to help reach this goal include securing 25% recycled² and biobased content in new vehicles by 2025.

¹ Volvo Cars facilitates its shift climate neutral energy through a combination of own investments, closing long-term power purchasing agreements (PPA) or the acquisition of energy attribute certificates (EACs)

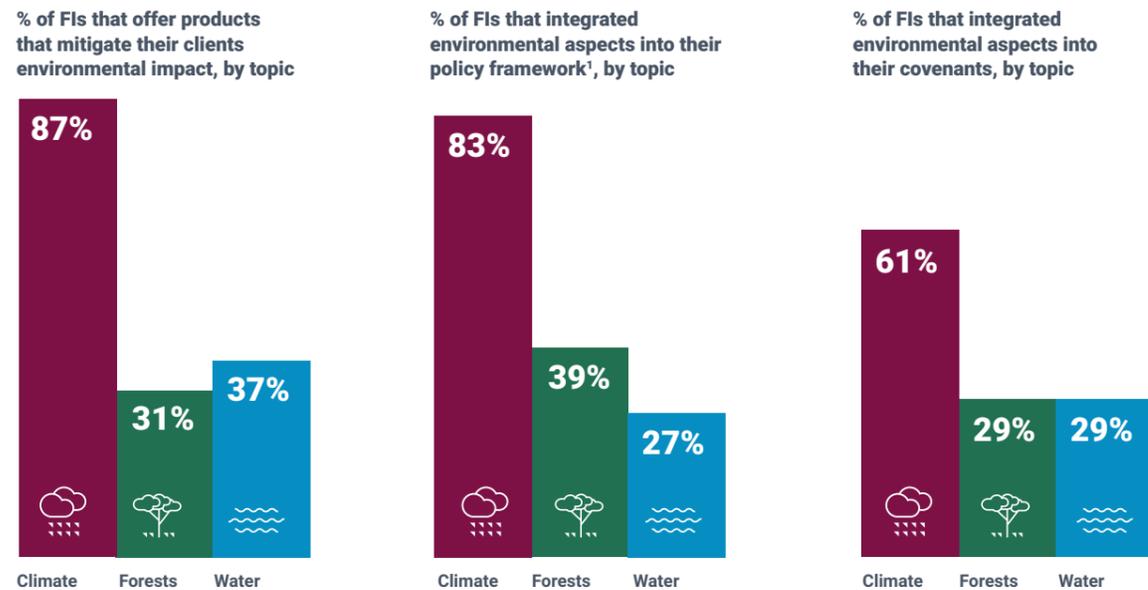
² Volvo Cars uses the ISO 14021 standard as a basis for its definition of recycled content for all materials except steel where it uses the definition of World Steel

Sector deep dives

35%
of financial institutions report to act on biodiversity and climate change

The gap between climate and nature is also clear when specific implementation actions are compared. Significantly more financial institutions reported that they have integrated climate priorities into their commercial offerings, policy frameworks, and covenants than the number reported doing the same on behalf of forests and water. The Aviva and KBC case studies include examples of nature-related products such as a surety offering and an environmental advisory partnership as well as the integration of environmental criteria through sector-specific policies.

Figure 21
The implementation of nature-related considerations into decision-making is still significantly lagging climate



1. This covers integration through environmental requirements and/or exclusion policies; Source: Oliver Wyman analysis; CDP data

Turning to engagement, the financial sector reported making good progress on integrating climate into engagement strategies. But there is room for more. For instance, only 6% of NZBA banks supported CDP's engagement strategies.

Science-Based Targets campaign in 2021-2022 – the lowest participation rate of all GFANZ alliances.²⁹ Moreover—the proportion of financial institutions reporting to have integrated both climate and nature is also quite small. Only 13% of banks and 7% of insurers engage their clients on both. Asset managers report to have made more progress, likely reflecting

Case study Aviva

Aviva, the largest UK insurer, aims to reach net-zero financed emissions for its investments and underwriting activities by 2040 – ten years ahead of the GFANZ commitment – and align with the global goal of reversing biodiversity loss by 2030.

The company was one of the first financial institutions to publish a climate transition plan with nature-positive components, and has now published a biodiversity report outlining tangible actions. Aviva has taken a leadership role in industry and regulatory initiatives such as GFANZ and the UK Transition Plan Taskforce, to help shape the sector's agenda on transition planning in a way that meets its needs as an investor and underwriter.

For its own transition plan, the company is engaging with its suppliers, customers, and investees as well as developing new products with a positive environmental impact. It provides surety bond guarantees to the existing activities of Canadian mining companies, to ensure that land is restored to its original condition in case of bankruptcy. It also recently launched a stand-alone insurance cover for EV charging points, is investing heavily in renewables – including £110m investment into EV charging point installation company Connected Kerb - and has earmarked £100m for nature-based solutions funding by 2030.

The company is also expanding its environmental engagement with companies it invests in. It launched a program in 2021 targeting its portfolio's biggest emitters to engage them to set robust net-zero targets with clear plans, and intends to divest from all companies that have not made sufficient progress by 2024. In addition, it has launched an initiative to decarbonize the supply chain of its claims' activities through supplier collaboration.

1. Glasgow Financial Alliance for Net-Zero (GFANZ) consists of banks, insurers, asset owners, asset managers, financial service providers, and investment consultants. All GFANZ alliance members have All members independently committed to the goal of achieving net-zero emissions across their portfolios by 2050

29. The campaign provides an easy way for financial institutions to directly and collaboratively ask the world's highest impact companies to set a 1.5°C target, therefore allowing equity and debt portfolios to align with net-zero and the Paris agreement. In 2022, financiers with \$37 trillion supported this campaign; source: CDP (2022) CDP Science-Based Targets Campaign: Final Progress Report: 2021-22 campaign

Sector deep dives

80%

Over 80% of FIs report that they are assessing the alignment of at least some of their clients with a 1.5°C world

the pre-existing capabilities and strategies for engaging investees that many already possessed and into which climate and nature could be integrated. Nonetheless, more than three-quarters of asset managers have yet to integrate climate and nature into engagement strategies with their portfolio companies.

A key enabler to achieving their environmental commitments is a financial institution's ability to assess the credibility of a corporate's transition planning. Financial institutions are working to build the data and infrastructure to assess progress, and to support engagement with corporates. Over 80% of financial institutions reported they were assessing the alignment with a 1.5°C world of at least some of their clients, and most are planning to increase the scope of their assessment across a larger part of their portfolio. More than one in four also reported they were integrating nature-related aspects as part of their client risk assessment processes.

For this, it is important that financial institutions build sector-specific expertise within the organization. Typically, it is easier to engage with corporates as they have more expertise themselves already. However, also small, and midsize clients need to transition and financial institutions such as KBC have developed approaches to support this (see KBC case study).



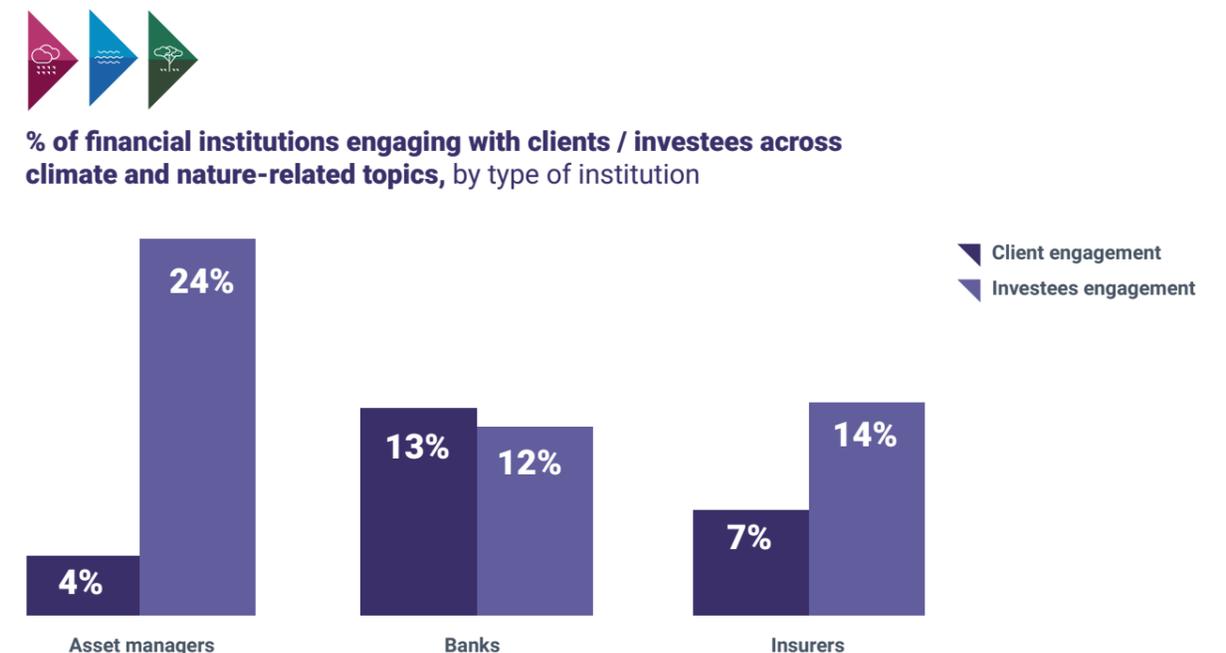
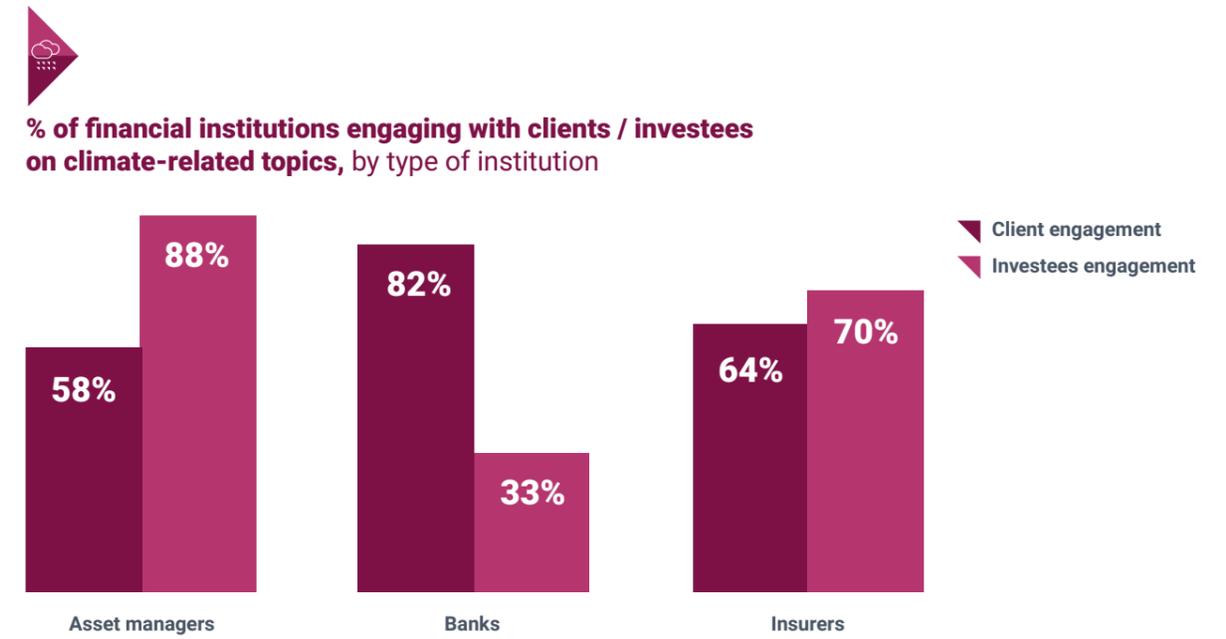
Case study KBC

Belgian bank and insurer KBC discloses comprehensively on its engagement strategy – one of the key elements of a robust climate transition plan. It set sector-specific emissions reduction targets following an assessment of eight sectors covering two-thirds of its lending activities and associated Scope 3 emissions. The targets aim to reduce the emission intensity across KBC's portfolios - ranging from 14% for steel to 81% for passenger cars by 2030. It has also committed to setting a target through the SBTi.

KBC works with small to mid-sized companies, which are often in the early stages of their transition journey but will be affected by new regulation such as the Corporate Sustainability Reporting Directive (CSRD). Education and advisory play a key role to kick-start their climate actions. To that end, KBC's Sustainable Finance Programme was set up to embed climate among its 40,000+ employees, particularly its front-line relationship managers.

For example, KBC has a training programme to equip every client-facing manager with sustainability expertise – where gamification helps employees see consequences of climate-related client decisions. And it incentivizes action: relationship managers have climate targets set by product and have explicit objectives to discuss climate issues with clients. For instance, referrals to its partnered sustainability advisory agency are a remuneration KPI – more than 200 referrals have already been made. Moreover, the bank provides clients with access to relevant expertise and tooling (e.g., an internally developed carbon footprint calculator) to facilitate these conversations.

Figure 22



Source: Oliver Wyman analysis; CDP data

Sector deep dives

90%

Almost 90% of grocery retailers engage both their upstream and downstream supply chain on climate

3.3 Grocery retailers

Another sector with a substantial environmental footprint is the food industry. Agriculture and food systems are responsible for 31% of human-caused GHG emissions and have a substantial impact on nature, with the global food system representing one of the biggest drivers of water use, land-use change, habitat destruction, and biodiversity loss.

Grocery retailers play a significant role in the food value chain as a link between consumers and food producers. In fact, grocery retail is one of the most value-chain dependent sectors in the economy: 97% of its total emissions are Scope 3 and three-quarters of those are upstream. Their most important nature-related impacts, such as deforestation, also occur deep within their value chains.

Thus, for grocery retailers, the engagement strategy is key for achieving impact reductions throughout the value chain. While dealing with suppliers is obviously one of the quickest ways to protect nature, grocers also can effect change by influencing their customers' consumption patterns – promoting, for instance, sustainable diets and discouraging food waste.

1/3

Slightly over one-third of require suppliers to meet climate-related requirements through contracting

Upstream, many retailers appeared to have made limited progress embedding their engagement strategies in supply chains as a clear gap exists between intention and action. For example:

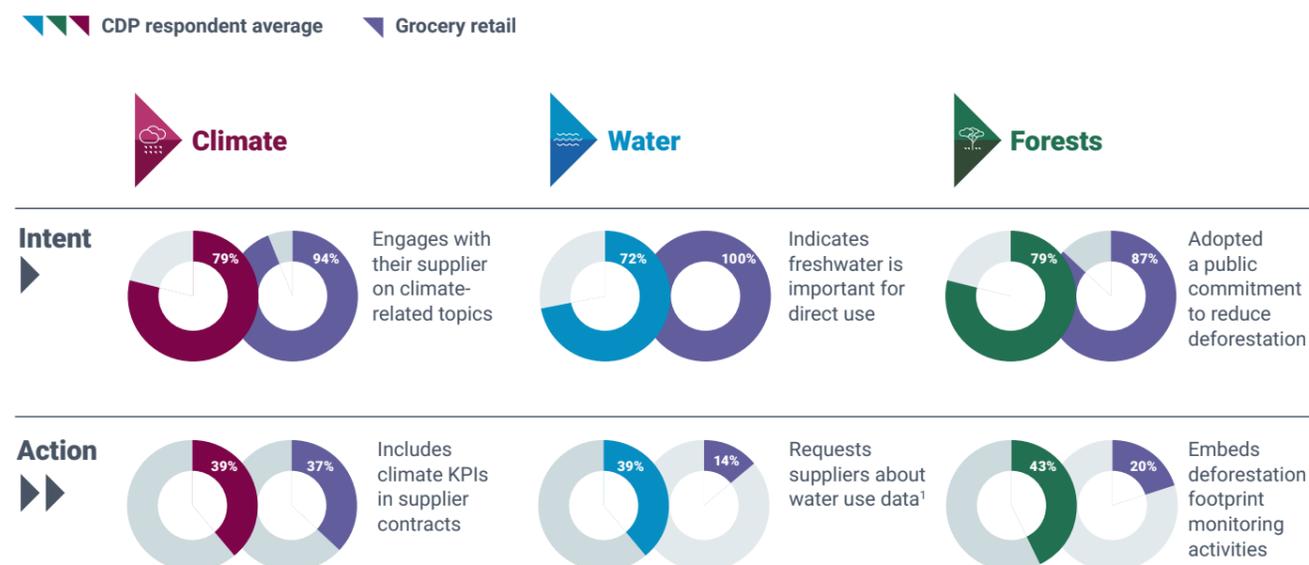
- Almost all grocery retailers claim to involve their value chain on climate, but slightly over one-third use contracts to require suppliers to adhere to best climate-related practices. On the other hand, grocery chain Carrefour demands contractually its top 100 suppliers to set SBTs by 2026 (see Carrefour case study)
- All grocers indicate the vital importance of having sources of good quality freshwater available. But when it comes to vetting their suppliers on water-use practices: Only 14% of retailers receive water-related information over more than half of their supplier-related spend
- Almost 90% of grocery retailers have made public statements on reducing deforestation. Yet only one out of five have embedded deforestation monitoring activities

Downstream, retailers can influence customers and nudge them into making more sustainable choices. Almost 90% of responding retailers indicated that they involve both their upstream and downstream supply chain in their own climate efforts. In practice, most of the reported downstream activities are around education and information-sharing. For example, since 2019, Finnish grocery store chain K-Ostokset has provided a calculator for customers to use to assess the carbon footprints of their purchases. British grocer Tesco has created product labelling that allows customer to shop more sustainably.

But there is much more grocery retailers could do to influence customer decisions towards sustainable outcomes. For instance, they could leverage their commercial tools to nudge clients in the sustainable direction such as by giving preferential product placement to more sustainable products.

In sum, the grocery retailer sector publicly indicates strong ambition but is not yet delivering against the rhetoric. As scrutiny of transition plans increases, grocery retailers will begin to feel the heat from consumers and regulators without more follow-through and eventually may find their access to capital restricted, leaving companies like Carrefour with distinct advantages.

Figure 23
Grocery retailers are strong on intent, but lack in action to reduce their environmental footprint



1. Respondents indicating that they do not know if they request their suppliers about water use are marked as no; Source: Oliver Wyman analysis; CDP data

Sector deep dives



Case study Carrefour

Carrefour is a global retailer with activities in over 30 countries. It first launched a climate action plan in 2018 to reduce the environmental impact of its value chain, for its 2026 strategy, it is now engaging its full ecosystem to reduce its impact.

With 98% of its emissions Scope 3, Carrefour requires its top 100 suppliers to have set science-based targets aligned with 1.5°C by 2026. Suppliers without approved 1.5°C targets will be delisted from 2026 (with a potential delisting process beginning by mid-2024).

Carrefour has also committed to have a deforestation-free supply chain for its private label beef by 2026. To achieve this, the company has an expert forests committee in Brazil to advise on initiatives to combat deforestation, with a €10M support fund. Initiatives such as an alert process to identify farms suspected of illegal deforestation – monitoring 40,000 farms daily - are in place.

The business is also tackling waste. For instance, it has so-called reverse vending machines in stores to collect plastic from customers - part of a target to recover 100% of store waste by 2025. It also engages its private label suppliers to ensure that 100% of its packaging will be recyclable, reusable, or compostable by 2025.

On the consumer side, Carrefour plans to increase the sale of certified products (e.g., organic food) by 40%. In this way, it is shifting consumer demand to products that are more sustainable and healthier.

With these changes requiring collaboration across the business, Carrefour has linked executive bonuses to sustainability KPIs since 2020. In May 2023, it will launch one of the first employee green shares program in France. Carrefour has also issued recently two sustainability linked bonds.

Featured case study Beiersdorf AG



Rooted in our history, the Beiersdorf promise to protect, care and nurture is driving positive action for a more sustainable future. Combating and mitigating climate change is the central challenge of our time and as one of the largest skin care companies in the world, we recognize our role in tackling this.

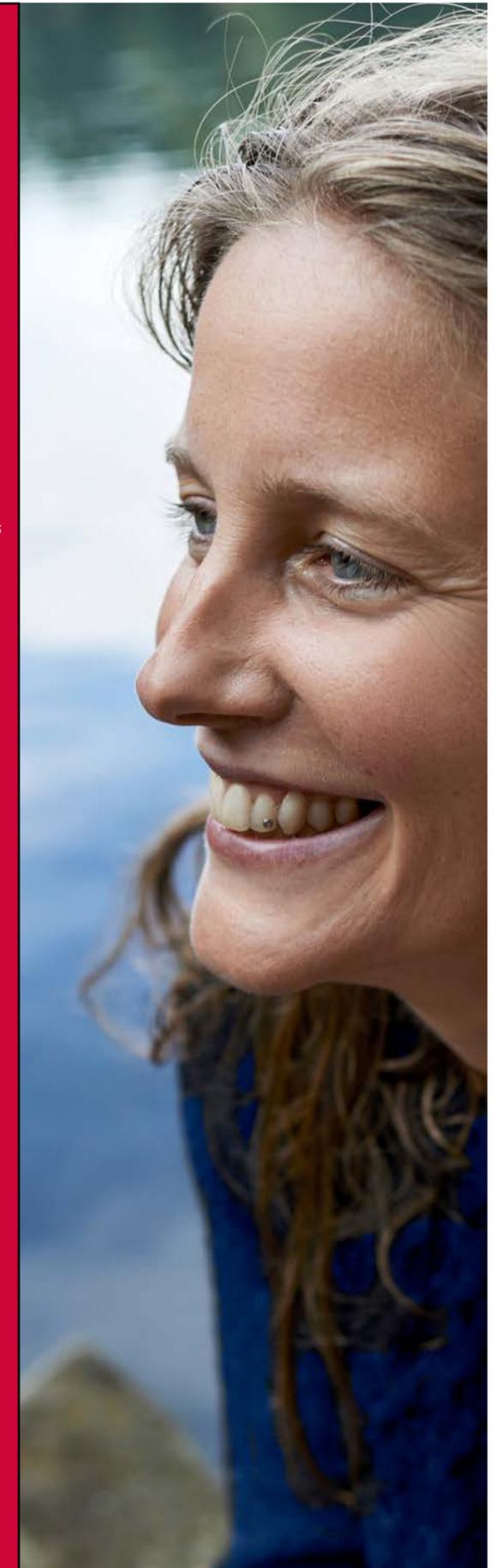
Since 2020, our CARE BEYOND SKIN Sustainability Agenda has been an integral part of our corporate C.A.R.E+ strategy. We are taking a holistic approach to driving climate protection forward at all levels in our company. We have set ourselves one of the most ambitious targets in our industry: to reduce our absolute greenhouse gas emissions (Scope 1, 2 and 3) by 30% by 2025 compared to 2018. Our climate target is based on the latest scientific findings and is recognized by the Science Based Targets initiative (SBTi). Since 2018, we have succeeded in reducing emissions by 12.7% in all areas despite corporate growth. Since 2019, we have been using 100% electricity from renewable sources for all production sites and affiliates worldwide. We also converted our first production site in Berlin to operate climate neutral as of January 2022 via the switch to biogas. By 2030 our target is to achieve climate-neutral operations in all our factories.

As protecting forests (and biodiversity) and other natural carbon sinks are crucial to fighting climate change, we have also set ourselves the target of zero deforestation for the sourcing of key renewable raw materials such as palm, soy, and paper by 2025. Already since the end of 2021, the palm (kernel) oil derivatives used in product formulations have been sourced exclusively from sustainable, certified sources. Projects are also underway in cooperation with WWF Germany to train and support local smallholders in Indonesia and Malaysia in sustainable and deforestation-free cultivation.

Furthermore, we have also reached a milestone related to water security. As part of the strategic partnership with WWF Germany, we have conducted a global water risk analysis and are currently developing long-term context-based water targets that go beyond the current target to reduce water in the production process by 25% per manufactured product by 2025 (base year 2018).

We will continue to “transform the norm” and make a measurable and positive contribution to our environment and society with ambitious commitments to foster a more inclusive society – inspiring consumers to also CARE BEYOND SKIN along the way.

Jean-François Pascal, Vice President Corporate Sustainability



Featured case study

AB InBev



As the world's leading brewer, AB InBev is invested in creating a future with more cheers through shared prosperity for our people, our business and the planet. We believe that a strong ESG agenda is vital for our future. From building a resilient and agile value chain to solidifying our role as a trusted partner to identifying and capturing new sources of business value, ESG plays a key role in fulfilling our company purpose and enabling our commercial vision.

Our ESG Strategy focuses on eight strategic priorities that help us embed ESG into the fabric of our organization: Smart Drinking & Moderation, Climate, Water Stewardship, Sustainable Agriculture, Circular Packaging, Ethics & Transparency, Entrepreneurship and Diversity, Equity & Inclusion.

Our approach to paving the way in climate action is based two key pillars: embedding sustainability into our business strategy and following the best available climate science when setting targets and developing initiatives to achieve decarbonization.

In 2021, we announced our ambition to **achieve net zero across our value chain by 2040**. This ambition was a natural extension of the science-based target we set in 2018 that aligns with reduction requirements to limit global warming to 1.5°C. We are committed to transforming our operations and to reducing our emissions in line with levels required to meet the goals of the Paris Agreement.

Our 2025 Sustainability Goals allow targeted action and progress mapping towards our long-term net-zero ambition: 100% of our purchased electricity will be from renewable sources, and we will reduce our carbon emissions intensity by 25% across our value chain by 2025.

Our business is closely tied to the natural environment: agricultural crops and water are our key ingredients, we require raw materials for packaging and we need energy and fuel to brew, transport and cool our beers. Our business is also closely connected with local communities and people across our global footprint. We know that understanding the potential climate-related risks and opportunities for our business and value chain should inform our long-term climate strategy. This is why we have announced an ambition to achieve net zero across our value chain by 2040.

Every year, we work cross-functionally to identify and implement initiatives that deliver both financial and environmental gains. This approach is:

- ▶ **Strengthened by inclusivity.** We believe collaboration is key to decarbonizing the value chain. That is why we engage the wider industry by partnering with suppliers, retailers and start-ups with breakthrough climate solutions.
- ▶ **Underpinned by nature-based solutions.** Engagement with farmers in our value chain will help scale regenerative agriculture practices to enrich soil health while increasing carbon capture. We also believe implementing nature-based solutions can improve watershed health and help tackle climate change.
- ▶ **Focused on local impact.** We are prioritizing local emissions reduction in our operations and across our value chain, including through investment to drive local innovation.



Conclusion

Climate transition planning is a critical tool for corporates to establish disciplined, early action towards meeting strategic climate objectives and provide stakeholders with transparency about progress. Robust transition plans consider industry-specific decarbonisation and nature restoration levers and the commercial trade-offs faced by companies.

This report highlights the efforts of companies leading the way in transition planning. These companies are shifting product portfolios, integrating environmental criteria in investment decisions, and collaborating along value chains to reduce emissions and engage in commerce in a nature-positive manner.

Most companies however need to step up on transition planning. Key gaps include not having a 1.5°C-aligned transition plan, a lack of a concrete implementation strategy and failure to comprehensively engage with the value chain. Stakeholders expect organizations to have a plan for a commercially smart transition and demonstrate tangible progress towards achieving that. Mounting pressure from these stakeholders – regulators and financiers in particular – will have tangible implications for companies that fail to deliver on their transition.

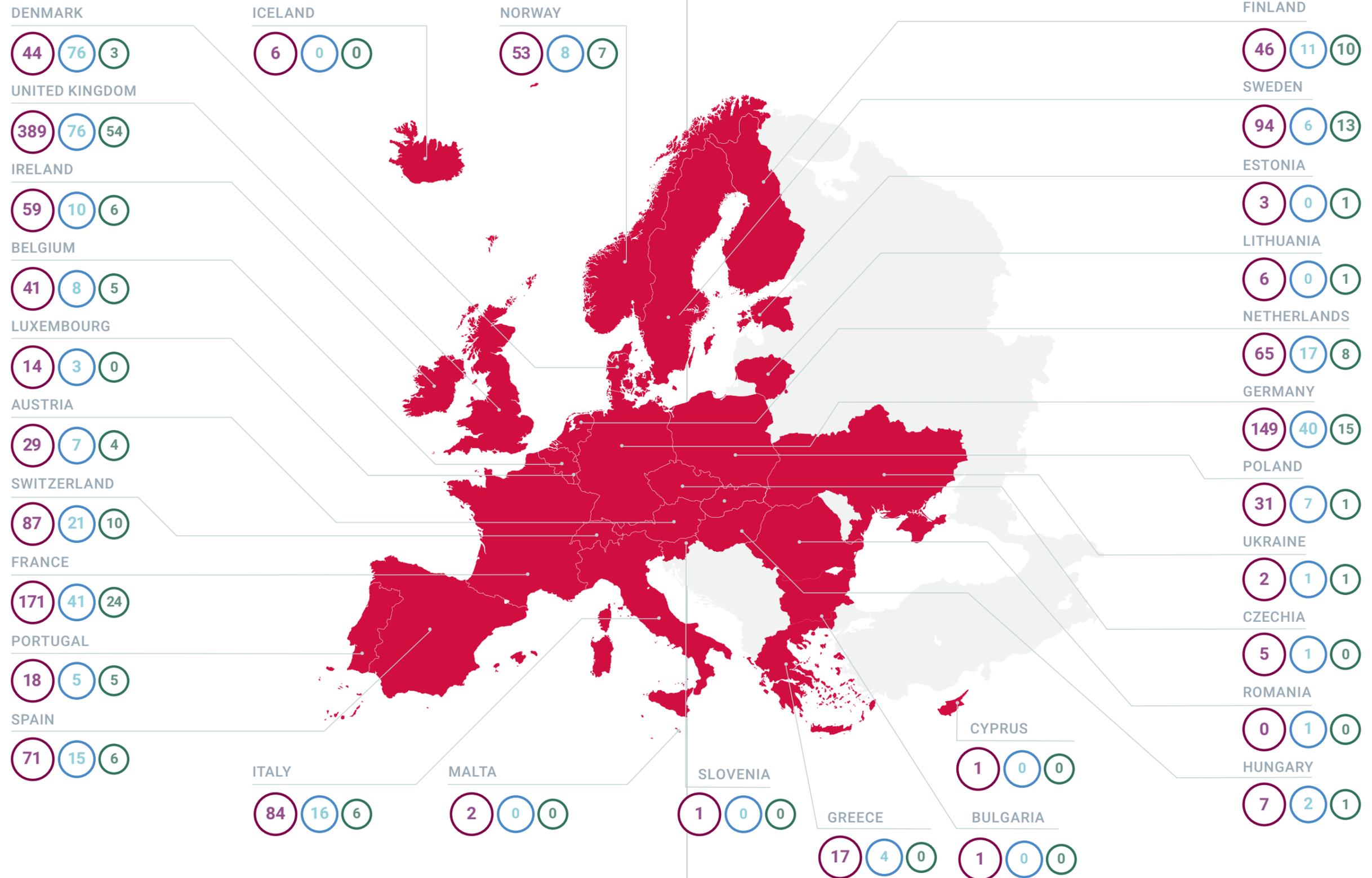
Appendix: Overview of CDP disclosures

- Climate change disclosers
- Water security disclosers
- Forests disclosers

1495
total climate
change
disclosers

311
total water
security
disclosers

183
total forests
disclosers



Map displays companies included in this report analysis and disclosing through CDP in 2022 to the capital market request, including companies reporting through their parent companies, and some private companies that self-selected to disclose.

The A List Europe

Name	Country	Climate	Forests	Water
Beiersdorf AG	Germany	A	A	A
Danone	France	A	A	A
FIRMENICH SA	Switzerland	A	A	A
Lenzing AG	Austria	A	A	A
L'Oréal	France	A	A	A
LVMH	France	A	A	A
Metsä Board Corporation	Finland	A	A	A
UPM-Kymmene Corporation	Finland	A	A	A
Mondi PLC	United Kingdom & Northern Ireland		A	A
Symrise AG	Germany	A	A	A
Borregaard ASA	Norway	A	A	
TETRA PAK	Sweden	A	A	
Unilever	United Kingdom & Northern Ireland	A	A	
Barry Callebaut AG	Switzerland		A	
Essity	Sweden		A	
Anheuser Busch InBev	Belgium	A		A
AstraZeneca	United Kingdom & Northern Ireland	A		A
Brembo SpA	Italy	A		A
Carlsberg Breweries A/S	Denmark	A		A
Coca-Cola Europacific Partners	United Kingdom & Northern Ireland	A		A
EDP - Energias de Portugal S.A.	Portugal	A		A
Givaudan SA	Switzerland	A		A
Holcim Ltd.	Switzerland	A		A
Jerónimo Martins SGPS SA	Portugal	A		A
Koninklijke DSM	Netherlands	A		A
Koninklijke Philips NV	Netherlands	A		A
Novartis	Switzerland	A		A
Schaeffler	Germany	A		A
Veolia Environnement SA	France	A		A
Verescence	France	A		A
BASF SE	Germany			A
Hermes International	France			A
Miquel y Costas	Spain			A
STMicroelectronics International NV	Italy			A
Volkswagen AG	Germany			A
Accenture	Ireland	A		

Name	Country	Climate	Forests	Water
ACCIONA GENERACION RENOVABLE SA	Spain	A		
ACCIONA S.A.	Spain	A		
AENA SME SA	Spain	A		
Atlantica Sustainable Infrastructure PLC	United Kingdom & Northern Ireland	A		
Atos SE	France	A		
Banco Santander	Spain	A		
Barratt Developments plc	United Kingdom & Northern Ireland	A		
Bayer AG	Germany	A		
British American Tobacco	United Kingdom & Northern Ireland	A		
BT Group	United Kingdom & Northern Ireland	A		
Burberry Group	United Kingdom & Northern Ireland	A		
CaixaBank	Spain	A		
Capgemini SE	France	A		
Capita Group	United Kingdom & Northern Ireland	A		
Carmila SA	France	A		
Carrefour	France	A		
Cellnex Telecom SA	Spain	A		
Centrica	United Kingdom & Northern Ireland	A		
Chiesi	United Kingdom & Northern Ireland	A		
Deutsche Bahn AG	Germany	A		
Deutsche Telekom AG	Germany	A		
Diageo Plc	United Kingdom & Northern Ireland	A		
DNB Bank ASA	Norway	A		
E.ON SE	Germany	A		
EDF	France	A		
ENEL SpA	Italy	A		
ERG S.p.A	Italy	A		
Ericsson	Sweden	A		
Europcar Mobility Group	France	A		
Ferrovial	Spain	A		
Fiskars Corporation	Finland	A		
GEA Group AG	Germany	A		
Gecina	France	A		
Grupo Cooperativo Cajamar	Spain	A		
Heineken NV	Netherlands	A		
Iberdrola SA	Spain	A		

The A List Europe

Name	Country	Climate	Forests	Water
Imperial Brands	United Kingdom & Northern Ireland	A		
Inditex	Spain	A		
INDRA	Spain	A		
Ingka Holding B.V.	Netherlands	A		
Inmobiliaria Colonial	Spain	A		
International Consolidated Airlines Group, S.A.	United Kingdom & Northern Ireland	A		
Intesa Sanpaolo S.p.A	Italy	A		
Italgas	Italy	A		
ITV	United Kingdom & Northern Ireland	A		
J Sainsbury Plc	United Kingdom & Northern Ireland	A		
KBC Group	Belgium	A		
Kering	France	A		
Kingfisher	United Kingdom & Northern Ireland	A		
Klepierre	France	A		
Kone Oyj	Finland	A		
Koninklijke KPN NV (Royal KPN)	Netherlands	A		
KPMG UK	United Kingdom & Northern Ireland	A		
La Banque Postale	France	A		
La Poste	France	A		
Landsec	United Kingdom & Northern Ireland	A		
Landsvirkjun	Iceland	A		
LANXESS AG	Germany	A		
Lundbeck A/S	Denmark	A		
Mayr-Melnhof Karton Aktiengesellschaft	Austria	A		
Mercedes-Benz Group AG	Germany	A		
Mercialys	France	A		
Morgan Sindall Group plc	United Kingdom & Northern Ireland	A		
National Grid PLC	United Kingdom & Northern Ireland	A		
Nordic Semiconductor ASA	Norway	A		
Nos SGPS	Portugal	A		
Novo Nordisk A/S	Denmark	A		
Novozymes A/S	Denmark	A		
Ontex Group NV	Belgium	A		
Ørsted	Denmark	A		
Österreichische Post AG	Austria	A		
Pandora A/S	Denmark	A		
Pirelli	Italy	A		
PostNL	Netherlands	A		
Proximus	Belgium	A		
PUMA SE	Germany	A		

Name	Country	Climate	Forests	Water
Red Eléctrica Corporación, S.A.	Spain	A		
REMA1000	Norway	A		
Robert Bosch GmbH	Germany	A		
Royal BAM Group nv	Netherlands	A		
Sacyr	Spain	A		
Saint-Gobain	France	A		
SANOFI	France	A		
Scatec ASA	Norway	A		
Schindler Holding AG	Switzerland	A		
Schneider Electric	France	A		
Schroders	United Kingdom & Northern Ireland	A		
Senior Plc	United Kingdom & Northern Ireland	A		
Siemens Gamesa Renewable Energy SA	Spain	A		
Signify N.V.	Netherlands	A		
Sopra Steria Group	France	A		
SpareBank 1 Østlandet	Norway	A		
SSE	United Kingdom & Northern Ireland	A		
Storebrand ASA	Norway	A		
Superdry	United Kingdom & Northern Ireland	A		
Tele2 AB	Sweden	A		
Telefónica	Spain	A		
Telekom Austria AG	Austria	A		
Tendam Global Fashion Retail	Spain	A		
The Navigator Company	Portugal	A		
thyssenkrupp AG	Germany	A		
TietoEVRY	Finland	A		
Titan Cement International	Greece	A		
TK Elevator GmbH	Germany	A		
UBS	Switzerland	A		
Unibail-Rodamco-Westfield	France	A		
Valeo Sa	France	A		
Vestas Wind Systems A/S	Denmark	A		
VINCI	France	A		
Vodafone Group	United Kingdom & Northern Ireland	A		
Volvo Car Group	Sweden	A		
Weir Group	United Kingdom & Northern Ireland	A		
Wereldhave	Netherlands	A		
WH Smith	United Kingdom & Northern Ireland	A		
Zurich Insurance Group	Switzerland	A		

in partnership with:



CDP contacts:

Maxfield Weiss

Executive Director

Corporate Engagement

David Lammers

Deputy Director

david.lammers@cdp.net

Supply Chain

Lucas Porsch

Associate Director Supply Chain

lucas.porsch@cdp.net

Reporter Services

Celia Knipper

Associate Director Reporter Services

celia.knipper@cdp.net

Disclosure enquiries

disclose.europe@cdp.net

Capital Markets

Laurent Babikian

Global Director

CDP temperature ratings

Nico Fettes

Head of Product Development

nico.fettes@cdp.net

Policy Engagement

Mirjam Wolfrum

Director

Mona Freundt

Associate Director

mona.freundt@cdp.net

Media enquiries

Josh Snodin

Associate Director

media.europe@cdp.net

Oliver Wyman contacts:

Rob Bailey

Partner

rob.bailey@oliverwyman.com

James Davis

Partner

james.davis@oliverwyman.com

Cornelia Neumann

Partner

cornelia.neumann@oliverwyman.com

Jeroen Schmitz

Associate

jeroen.schmitz@oliverwyman.com

Alejandro Alonso

Senior Data Analyst

alejandro.alonso@oliverwyman.com

Suzanne van der Meijden

Principal

suzanne.vandermeijden

@oliverwyman.com

CDP Europe

c/o WeWork

Potsdamer Platz-Kemperplatz 1

10785 Berlin, Germany

www.cdp.net

Twitter: @cdp

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CDP Europe Board of Directors

Christoph Schröder, Ph.D. (Chair),

Armin Sandhoevel, Ph.D.,

Richard Benjamins

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CDP Europe gratefully acknowledges EU funding support

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