Reporting matters

Climate change deep dive analysis

WBCSD 2018 Addendum Report

wbcsd

In partnership with ry.

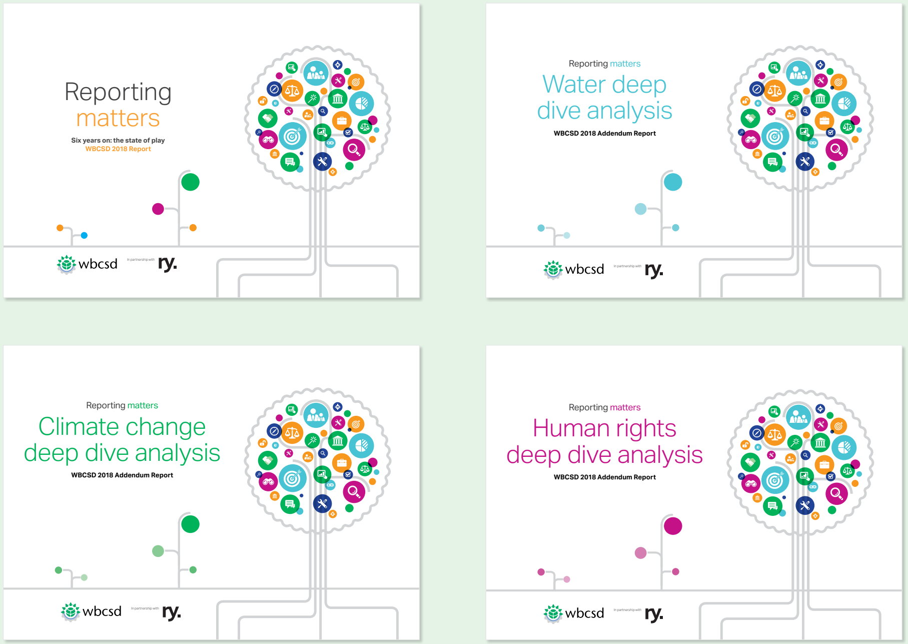
Climate change deep dive analysis

Sustainability reporting has come a long way since we started *Reporting matters*. During this time, we've seen companies take a more balanced approach to reporting and the evolution of reporting formats to better connect with audiences beyond traditional reporting stakeholders.

Our main report continues to focus on our evaluation framework, good practice examples and interviews with members. This year, we go deeper and look in detail at the underlying processes and impact of reporters' activities on three key issues – climate change, water and human rights – through a series of deep dive reports.

These deep dives focus on the evolving regulatory and reporting context and explore the underlying processes companies are adopting to address these three key issues, backed up by member case studies which show the links between reporting performance and impact.

In this Addendum Report



Climate change deep dive analysis

Reporting context

Around the world, governments, investors, consumers and communities are increasingly looking to the private sector to help answer the challenges that climate change poses. With USD $4 trillion worth of assets at risk from climate change by 2030, companies must understand and disclose their material climate-related opportunities and risks. It can define competitive success and even survival, as everything from access to capital, decision-making and strong value chains depend on developing a robust and transparent response.

Reporting developments around climate change

The Paris Agreement marks a significant milestone for climate change-related regulation and reporting. As they prepare for 2020, governments around the world have been responding with a wave of actions and commitments. The Chinese government, for example, has included environmental targets in its current five-year plan and France has committed to not use coal for generating power beyond 2022.

The Agreement increases expectations on business to drive action and disclosure, with stakeholders looking to understand corporate contributions towards nationally defined ambitions. Businesses must also capture rapidly changing market opportunities and risks specific to the countries in which they operate.

Examples include Norway, where petrol and diesel cars will be phased out by 2025, and the Netherlands, where all cars will be required to be emission-free by 2030.

A crucial development for reporting on climate change is the establishment of the industry-led Task Force on Climate-related Financial Disclosures (TCFD) in 2015. Its recommendations on how companies should report on climate-related issues span risk management, governance, strategy, targets and metrics. It encourages companies to integrate material climate change risks and opportunities into their processes and strategy by promoting disclosure through the mainstream annual report.

2011
Revsied OECD Guidelines for Multinational Enterprises

2013
India Companies Act

2014
EU Directive Non-Financial Reporting (NFR)

2015
COP21 Paris Agreement

Task Force on Climate-related Financial Disclosures established by the Financial Stability Board (FSB)

2016
EU Non-financial reporting transposition deadlines

2017
French Energy Transition Law Articles 70 and 173

Recommendations of the Task Force on Climate-related Financial Disclosures

Climate change deep dive analysis

Reporting context continued

The TCFD recommendations have received endorsement from actors world wide. Examples include the EU High-Level Expert Group on Sustainable Finance which has proposed to revise its guidelines on non-financial information to align with TCFD, and the UK's Green Finance Taskforce which is targeting integration throughout the UK's corporate governance and stewardship reporting framework.

The TCFD recommendations are expected to increase the global trend towards more detailed climate reporting. A recent study in the United States revealed that 51% of American companies are now disclosing climate change-related risks within their 10-K filings – up from 42% in 2014.

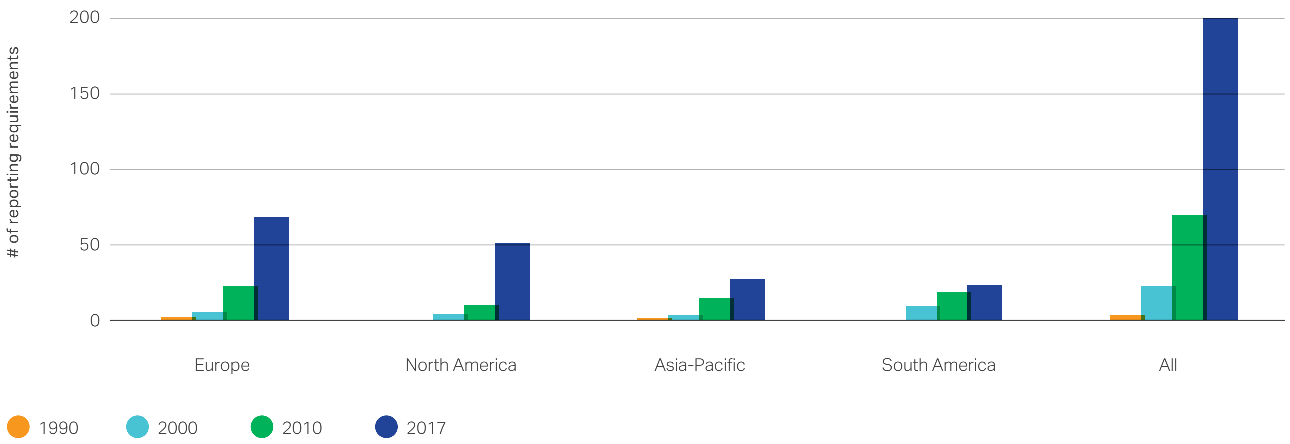
Another major provision influencing international reporting practices is Article 173 of the French Energy Transition Law for Green Growth, which is fully aligned with the TCFD recommendations. What makes Article 173 revolutionary is the reporting obligation for listed companies to disclose their financial risks associated with the effects of climate change and the actions they're taking to mitigate such risks. Article 173 also requires institutional investors to disclose the ESG criteria used in their investment decisions and how their investment policies align with national ecological and energy transition ambitions.

Another recent development is the intention of the Canadian Securities Administrators (CSA) to develop guidance and initiatives to educate investors and issuers about the disclosure of climate change-related risks, opportunities and financial impacts.

We fully expect these examples to be followed by new regulatory frameworks in other European and G20 countries. In time, these steps have the collective potential to produce significant developments in corporate climate action and reporting world-wide.

Please reference definitions of Channel, Reporting Obligation and Reporting provision in the glossary on page 10.

Figure 1: Total number of reporting requirements related to climate change between 1990–2017 by region



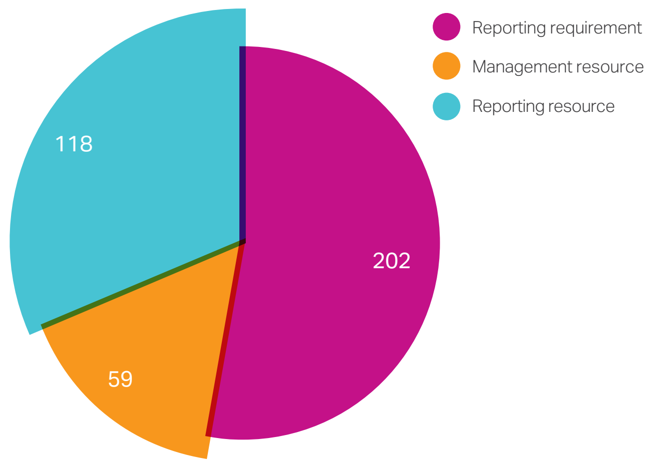
Key reporting trends on climate change

To understand trends and developments in climate reporting, we used data and research from the Reporting Exchange,[1] which maps over 1,790 sustainability reporting provisions across 60 countries, covering the world's largest economies and 93% of the world's GDP.

Types of reporting provisions

Our research identified 379 reporting provisions related to climate change, covering 54 countries of the 60 currently included in the Reporting Exchange. Of these, 202 provisions are reporting requirements and 177 are reporting and management resources. The latter provide guidance for companies around topics such as GHG emissions reporting, climate mitigation and adaptation. There is currently overlap in some provisions, which can limit their effectiveness and create confusion among reporters. By way of an example, in Hong Kong we found eight certification and award schemes related to climate change and energy.

Figure 2: Reporting provisions related to climate change



[1] The Reporting Exchange data was extracted June 2018 representing over 1790 reporting provisions in 60 countries.

Climate change deep dive analysis

Reporting context continued

Figure 3: Reporting requirement obligation type by region

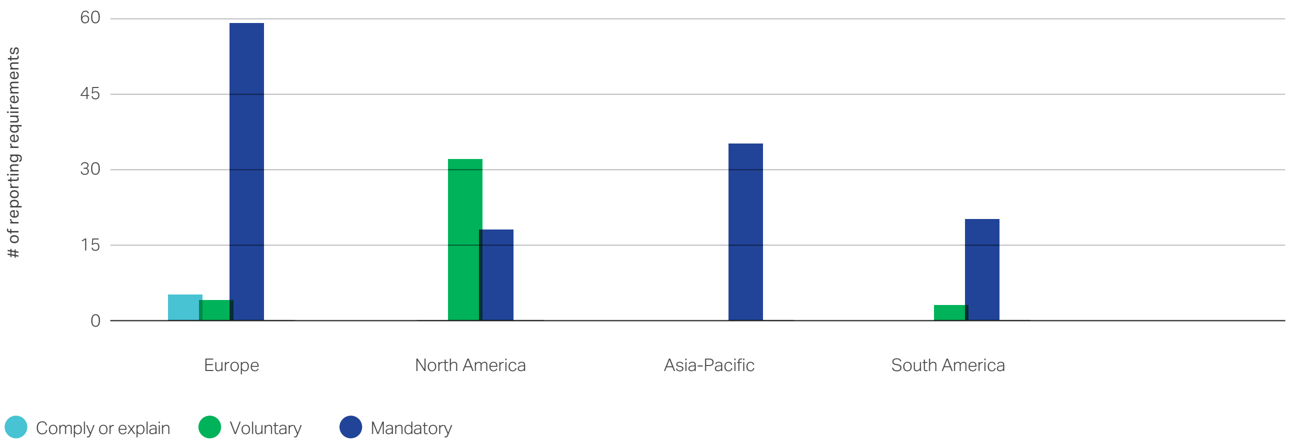


Figure 4: Reporting requirements by obligation type

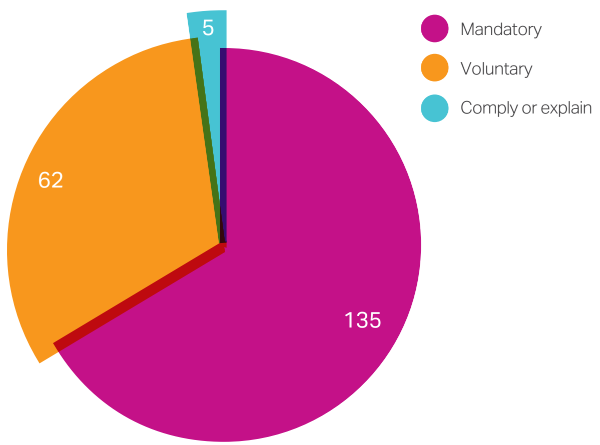
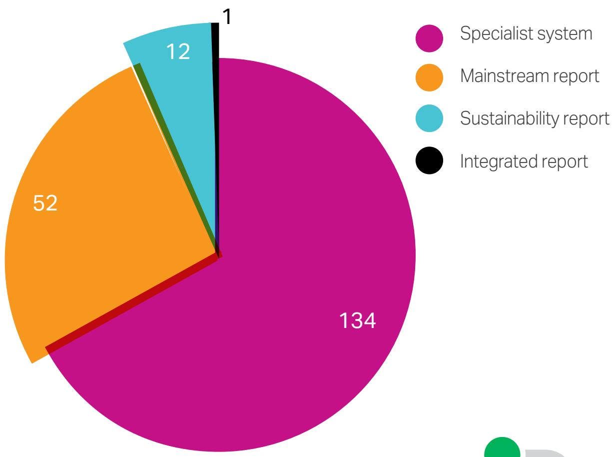


Figure 5: Reporting requirements by disclosure channel



Obligation of reporting on climate change

Our research shows that the majority (67%, 135) of reporting requirements are **mandatory**. Mandatory reporting requirements help to create a level playing field for companies so that no one company is at a disadvantage by disclosing information. Regional differences show that Europe, South America and Asia-Pacific have mostly mandatory reporting requirements.

Voluntary requirements represent 31% (62) and **comply or explain** only 2.5% (5) of reporting requirements. Voluntary requirements represent most of the requirements in North America and include frameworks like the GRI and the CDP Climate Change Reporting Framework.

Channel of disclosure

The majority (66%, 134), of climate-related reporting requirements involve information being submitted through specialist systems. Some investors and other stakeholders have called for climate information in mainstream reports to be expanded to increase access and transparency. Efforts such as the EU Directive on Non-Financial Disclosure and TCFD will increase disclosure in mainstream reports, although current reporting requirements that steer disclosure through the mainstream report represent only 26% (52) of the total.

The Reporting Exchange is *the* global resource for sustainability reporting.

WBCSD launched the Reporting Exchange in 2017, in partnership with the Climate Disclosure Standards Board (CDSB) and Ecodesk, to help business navigate the often confusing world of corporate reporting. It's a free, online platform that brings corporate sustainability reporting requirements and resources from 60 countries and 70 sectors together on one single online platform. The Reporting Exchange data used in this report was extracted in June 2018 and represents over 1,790 reporting provisions in 60 countries.

Climate change deep dive analysis

The state of climate change reporting

This year, in addition to our critical review of sustainability reporting by 158 WBCSD member companies, we examined disclosure related to three key issues – climate change, water and human rights – to gain a holistic picture of the state of reporting on specific topics. Our research on climate change reporting is based on the review of companies' main source of sustainability disclosure.

Material:
The company considers climate change material when the topic is identified as important to the operations of the organization from the perspective of both the company and its external stakeholders.

Highly material:
Climate change is considered highly material when the topic is explicitly mentioned or clearly prioritized as highly significant to the organization's operations. This information may have been presented in the materiality matrix or in a statement.

Materiality and strategy

Our analysis reveals that a majority of companies evaluate climate change as an issue that has substantial business impacts. A clear majority (79%) of 158 companies highlight climate change as a material issue, and 60% of companies define climate change as a highly material issue. We assessed disclosure of climate change-specific strategy for addressing climate change issues and found that, although climate change is material to most companies, only 40% detailed a specific climate change strategy in their reporting. Our sector analysis indicated that 77% of companies in the Oil & Gas supersector included in the review have a defined climate change strategy, making it the leading supersector when it comes to climate change strategy disclosure. The Automobile & Parts supersector also appears to be ahead of the pack in disclosing climate change strategy; while 66% of companies in this sector identify climate change as a material issue, all of them presented a clear climate change strategy.

Figure 6: Climate change materiality and strategy by supersector

	Identify climate change as material	Highlight a specific climate change strategy
Supersector	% of companies	% of companies
Automobiles & parts	66%	66%
Basic resources	100%	20%
Chemicals	85%	38%
Construction & materials	100%	50%
Food & beverage	71%	28%
Health care	53%	20%
Industrial goods & services	90%	71%
Oil & gas	90%	77%
Personal & household goods	100%	25%
Technology	100%	50%
Utilities	92%	41%

Targets and indicators

We found that 93% of companies provide climate change performance indicators and 82% disclose a specific, measurable, achievable, relevant and time-bound (SMART) target to address climate change issues. Across all companies, over half of climate change targets have 2020 as their end date. This will be an important year in terms of target setting; our finding correlates across water and human rights targets as well. As this deadline approaches, it will be imperative that companies set new robust, long-term, measurable and quantifiable climate change targets and indicators for the future.

Science Based Targets

Science Based Targets (SBT) are emission reduction targets that are aligned with global mitigation goals, as agreed in the Paris Agreement. A target is considered "science-based" if it is in line with the level of decarbonization required to keep global temperatures below 2 degrees as prescribed in the Fifth Assessment Report of the IGPCC.

Our analysis reveals that only 27% of companies have so far acknowledged the Science Based Targets in their reports.

over

490

companies have committed to the Science Based Targets.

Climate change deep dive analysis

The state of climate change reporting continued

Governance

In response to the growth in climate-related reporting requirements and recommendations, companies are increasingly showing evidence of commitment to climate change in their governance structures. We focused on board-level oversight on climate change issues as one way for a company to demonstrate leadership commitment to addressing climate risks and opportunities.

Despite the high percentage of companies that consider climate change material, our analysis indicates only 22% of them explicitly mention board oversight on climate change issues. We conducted a regional analysis for this indicator and the findings show that the regions with the highest disclosure on board oversight were North America and Europe; 31% of companies in North America and 27% in Europe provided clear evidence of board oversight. The findings directly correlate with the high level of mandatory reporting requirements in these regions.

Figure 7: Companies highlighting board oversight for climate change by region

	Targets
Region	**% of companies**
Africa	0%
Asia	11%
Europe	27%
Latin America	0%
Middle East	0%
North America	31%
Overall	22%

TCFD and scenario-based content

While the launch of the TCFD in 2015 represents a monumental step in terms of reporting on climate change and climate-related issues, our analysis found that only 28% of companies that identify climate change as material acknowledge the TCFD. The TCFD recommendations may have received global endorsement, but there is clearly a need to engage businesses to align their actions with TCFD. Detailed sector analysis shows that the Oil & Gas supersector is leading the way in terms of TCFD acknowledgment, with 67% of companies acknowledging the TCFD in their sustainability reports. This is a reflection of the sector's early adoption of the TCFD recommendations and companies' efforts to align with the recommended actions. Our regional analysis indicates that companies in Europe are leading in their acknowledgment of the TCFD, with 44% of European-based companies that mention climate change as a material issue also acknowledging the TCFD and its recommendations.

Figure 8: Companies acknowledging TCFD by region

	Targets
Region	**% of companies**
Africa	0%
Asia	19%
Europe	44%
Latin America	17%
Middle East	0%
North America	7%
Overall	28%

Conclusion

Our analysis shows a clear gap between the strategic importance of managing risks and opportunities around climate change, and providing stakeholders with transparent information to help guide their decision-making. While 41% of companies clearly discuss climate change risks in their reports, only 9% discuss the opportunities of climate change. [2] And while the majority of companies clearly evaluate climate change as a material issue and there is some correlation between materiality and climate change strategy, there is still a long way to go in terms of climate change-specific governance and setting targets beyond 2020.

WBCSD's work: CEO Guides

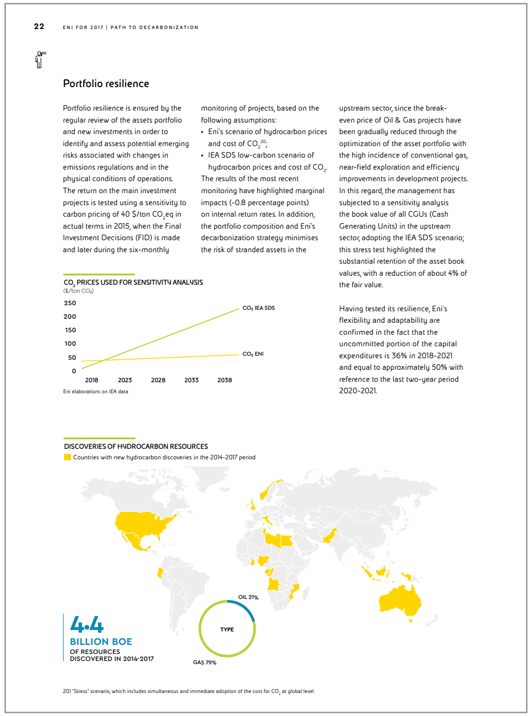
Our CEO Guide to climate-related financial disclosure can help your organization navigate the TCFD recommendations.

[2] Based on the 115 member companies with data on Bloomberg Terminals. Accessed 18 September 2018.

Climate change deep dive analysis

Eni discusses the TCFD

TCFD Oil & Gas Preparer Forum member, Stefano Goberti, Executive Vice President of Planning and Control, answers questions about Eni's approach to implementing the TCFD's recommendations.



22 ENI FOR 2017 | PATH TO DECARBONIZATION

Portfolio resilience

Portfolio resilience is ensured by the regular review of the assets portfolio and new investments in order to identify and assess potential emerging risks associated with changes in emissions regulations and in the physical conditions of operations. The return on the main investment projects is tested using a sensitivity to carbon pricing of 40 \$/ton CO_2eq in actual terms in 2015, when the Final Investment Decisions (FID) is made and later during the six-monthly monitoring of projects, based on the following assumptions:

- Eni's scenario of hydrocarbon prices and cost of CO_2[20];
- IEA SDS low-carbon scenario of hydrocarbon prices and cost of CO_2.

The results of the most recent monitoring have highlighted marginal impacts (-0.8 percentage points) on internal return rates. In addition, the portfolio composition and Eni's decarbonization strategy minimises the risk of stranded assets in the upstream sector, since the break-even price of Oil & Gas projects have been gradually reduced through the optimization of the asset portfolio with the high incidence of conventional gas, near-field exploration and efficiency improvements in development projects. In this regard, the management has subjected to a sensitivity analysis the book value of all CGUs (Cash Generating Units) in the upstream sector, adopting the IEA SDS scenario; this stress test highlighted the substantial retention of the asset book values, with a reduction of about 4% of the fair value.

Having tested its resilience, Eni's flexibility and adaptability are confirmed in the fact that the uncommitted portion of the capital expenditures is 36% in 2018-2021 and equal to approximately 50% with reference to the last two-year period 2020-2021.

20) "Stress" scenario, which includes simultaneous and immediate adoption of the cost for CO_2 at global level.

Eni has been a member of the TCFD from day one. Why did you choose to get involved from the start and support this initiative?

We want to play a leading role in the energy transition, supporting the objectives of the Paris Agreement. To do so, we've established a decarbonization strategy focused on operational efficiency (less emissions from our own operations); a low-carbon upstream portfolio, with a shift to more natural gas; and renewables and low-carbon R&D to ensure long-term sustainability and progress towards a low-carbon future. Among our peers in the Oil & Gas supersector, we're the only organization to belong to the TCFD. We see it as a unique chance to raise the level of global awareness on climate change and a major milestone to support enhanced transparency and the development of disclosures from industry on climate-related risks and opportunities. Eni is honored to be taking part in the TCFD.

A crucial practical step for companies considering disclosures according to the TCFD's recommendations is to foster internal collaboration and integration across different functions and disciplines. How do you practically approach this within Eni?

Within Eni, professionals from the finance, control & planning, investor relations, legal, sustainability, health, safety and environment (HSE), risk management and communications departments meet and work together to support the implementation of TCFD recommendations. The insights, skills and perspectives we gain from these disciplines contribute to a more holistic approach and understanding of our climate-related risks and opportunities.

Within our governance structures, the Board of Directors plays a central role in managing issues linked to climate change, assisted by three Board Committees: the Sustainability and Scenarios Committee, the Control and Risk Committee and the Remuneration Committee.

In July 2017, we further enhanced the Board's grip on long-term energy market trends and the influence of geo-politics and technological innovation by establishing a dedicated Advisory Board. The Advisory Board is composed of leading international experts and advises the CEO and the Board of Directors on factors influencing long-term value creation, particularly focusing on the main geopolitical, technological and economic trends, including issues related to the de-carbonization process.

The process of managing risks and opportunities related to climate change is a part of our Integrated Risk Management Model, developed to ensure management takes risk-informed decisions, accounting for current and potential, future risks – including medium-and long-term ones – through a comprehensive, integrated approach.

Climate change deep dive analysis

Eni discusses the TCFD continued

One of the most significant and challenging recommendations from the TCFD is for organizations to describe the resilience of their strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
How do you address and assess resilience within Eni?

Many factors affect resilience against climate-related impacts and risks. Therefore, a range of approaches may be used to assess the potential impacts of climate change on the business, and the resilience of the company's strategy to those impacts. At Eni, portfolio resilience is tested by regular review of the asset portfolio and of new investments in order to identify and assess potential emerging risks associated with climate change, such as changes in CO_2 emissions regulations and the physical conditions of operations. We consider, for example, capital flexibility and portfolio adaptability, the sensitivity and resilience of actual production and ongoing investments to price changes, capital committed over time and returns expected. Specifically, this includes, for instance, a resilience test on upstream Cash Generating Units, applying the International Energy Agency Sustainable Development Scenario.

To support the development of disclosures, it's crucial that both preparers and users understand expectations, challenges and opportunities. How do you engage with users and seek to address their needs in your disclosures?

Over the past four years, we have strengthened Eni both operationally and financially. We are now entering a renewed phase of enhanced industrial expansion, driven by business integration and focused on efficiency. Financial discipline and a strong commitment to GHG mitigation and to exploring new low-carbon products will unlock growth opportunities and generate greater shareholder value. To support and give evidence of this, we provide a range of disclosures through our Integrated Annual Report, Sustainability Report, Path to Decarbonization report, Strategic Plan, Financial Results, Investor Presentations, Fact Sheets and Data Tools. We also hold regular analyst and investors meetings and calls, including annual investor days in London, Milan and New York. During the discussions and deliberations within the Task Force, challenges and opportunities were shared among companies, banks, insurers, and investors. As part of the TCFD Oil & Gas Preparer Forum, we listened to a group of Environment, Social, Governance (ESG), Rating Institutions (RI), credit and sell-side analysts to understand their perspectives. But this is only the beginning – we look forward to wider and deeper dialogue on TCFD implementation and what it means for the Oil & Gas sector.

Climate change deep dive analysis

Glossary and acknowledgments

Glossary

Channel

The route of disclosure and the communication of published information.

- **Mainstream report:** Annual reporting packages which organizations are required to deliver under the corporate, compliance or securities laws of the country in which they operate, providing information to existing and prospective investors about the financial position and performance of the organization.
- **Integrated report:** An integrated report explains to providers of financial capital how an organization creates value over time. An integrated report aims to provide insight about the resources and relationships used and affected by an organization – these are collectively referred to as "the capitals."
- **Sustainability report:** A report published by a company or organization about the environmental and social impacts caused by its everyday activities, communicating sustainability performance and impacts.
- **Specialist systems:** Allow companies to disclose information through online response systems, questionnaires or forms often directly to a given organization or authority.

Reporting obligation

The extent to which companies must comply with the reporting provision.

Mandatory: A mandatory provision imposes an obligation on the organizations within its scope to report or respond.

Comply or Explain: Comply or Explain requires companies to comply with requirements or explain why they have not done so.

Voluntary: Voluntary provisions have no defined obligation but are often more detailed, providing opportunities for innovation.

Reporting provision

The collective term for reporting requirements, reporting resources and management resources.

The Reporting Exchange geographical coverage

Argentina	Greece	Peru
Australia	Guatemala	Philippines
Austria	Honduras	Poland
Bolivia	Hong Kong	Portugal
Brazil	Hungary	Romania
Canada	India	Singapore
Chile	Indonesia	Slovakia
China	Ireland	South Africa
Colombia	Israel	South Korea
Costa Rica	Italy	Spain
Croatia	Japan	Sweden
Czech Republic	Kazakhstan	Switzerland
Denmark	Luxembourg	Taiwan
Ecuador	Malaysia	Turkey
El Salvador	Mexico	United Kingdom
Finland	Netherlands	United States
France	Norway	Uruguay
Germany	Panama	Vietnam

Acknowledgments

WBCSD team

Lead authors: Austin Kennedy, Johanna Tähtinen, Michael Ofosuhene-Wise

Research analysts: Lisa Klingstedt, Carola Massardi, Emilia Pfeiffer

Editorial support: Andy Beanland, Luke Blower

Managing Director, Redefining Value: Rodney Irwin

We would like to express our sincere thanks to all WBCSD staff, member companies and partners who kindly contributed interviews, quotes and support throughout the review and editorial process.

Radley Yeldar team

Ashleigh Gay, Senior Sustainability Consultant

Amber Bedford, Project Manager

Matthew Wyatt, Senior Designer

Graham Sutton, Production Manager

Climate change deep dive analysis

About the research partners

This project is a joint collaboration between WBCSD and Radley Yeldar

About the World Business Council for Sustainable Development (WBCSD)

WBCSD is a global, CEO-led organization of some 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees. Our Global Network of almost 70 national business councils gives our members unparalleled reach across the globe. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

www.wbcsd.org

Follow us on Twitter and LinkedIn

About Radley Yeldar

We're RY, an independent creative consultancy. We want to create a world that believes in business through our standout work. How? By combining strategic insight with creative flair, we get to the heart of the matter, and touch those they need to reach. We connect organisations to real people and help them to tell one story, clearly and simply, across all that they say and do.

Our 200-strong team of specialists has been working with multinationals, start-ups, private companies and public bodies for more than 30 years. As a family-owned business, we're better placed to take a long-term view. We want to be the best place to work where the best work gets done, determined to standout ourselves as the most inspirational agency to work with and for.

www.ry.com

Follow us on Twitter and LinkedIn

Disclaimer

World Business Council for
Sustainable Development
Maison de la Paix
Chemin Eugène-Rigot 2B
CP 2075, 1211 Geneva 1
Switzerland

Radley Yeldar
24 Charlotte Road
London
EC2A 3PB
T +44 (0)20 7033 0700
E-mail hello@ry.com

www.wbcsd.org www.ry.com