TAKING A STAND

LEADING THE WAY IN CLIMATE CHANGE REPORTING

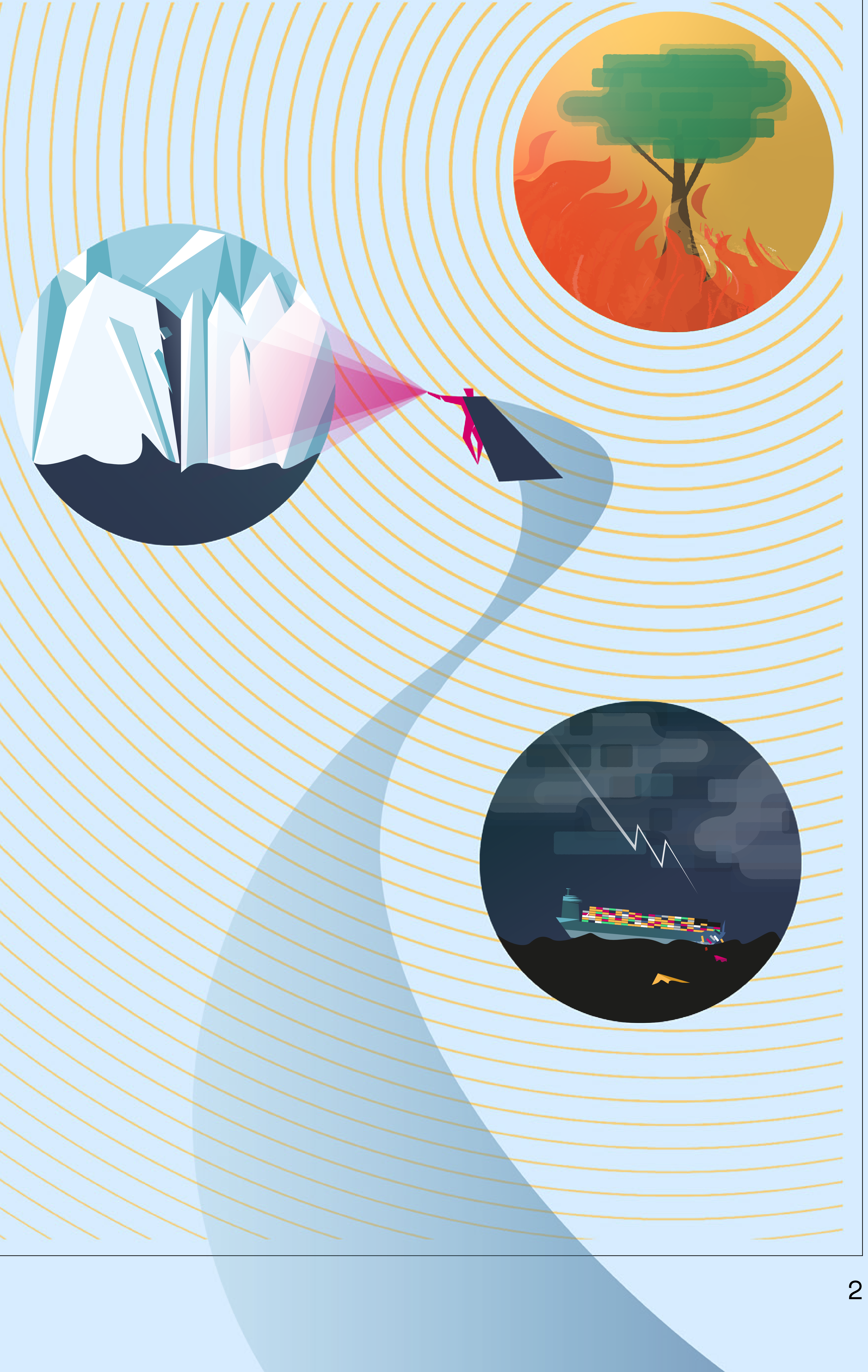
designportfolio

Contents

The ice caps are melting. Forest fires are ablaze throughout the Amazon. Floods, storms and droughts are worsening at an alarming rate. Who can save us?

Team Superstainability.

While superheroes with laser vision, weather control and psychic abilities can't swoop in to the rescue, companies can make a huge impact. Told through the story of Team Superstainability, this whitepaper provides a guide on how companies can best digest these urgent climate challenges and focus on what is key to them.



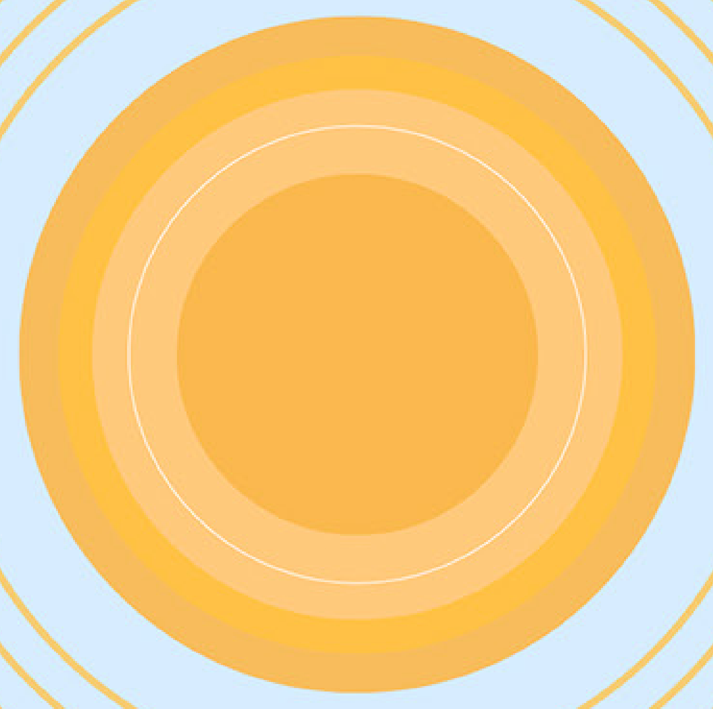
CLIMATE CHANGE MATTERS

Where previously it was a topic that was only brought up during extreme weather events, now there are climate superheroes, like Greta Thunberg, who are taking a stand for action against climate change, pushing it to the forefront of government debates and business agendas.

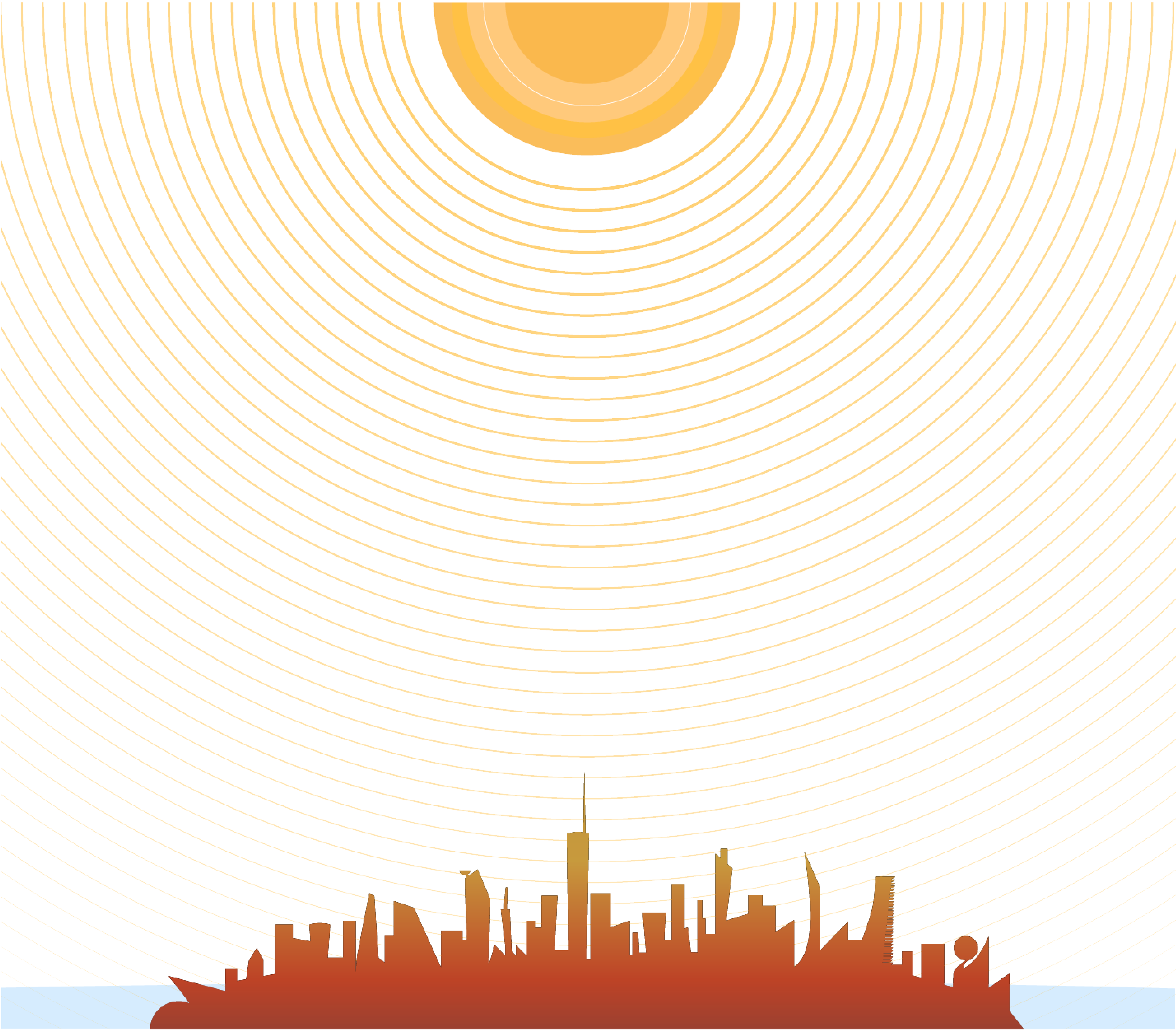
Over the past year, there has been a strong shift in how governments, customers and the investor community talk about climate change.

Greta is a Swedish activist who, at age 15, began protesting about the need for immediate action to combat climate change. Her “school strike for climate” in March 2019 led to an estimated 1.4 million students in 112 countries petitioning for action to be taken against climate change.

With climate change now in the media spotlight, demands from asset owners, investors and regulators are increasing and companies are being challenged to increase their climate disclosures and be more upfront about how climate change may impact both their operational and financial performance.



At the forefront of demonstrating superstainability is the UK, which has recently committed to achieving net zero carbon emissions by 2050.



WHY NOW?

2019 is on course to be in the top three warmest years ever recorded. According to a recent report from the Intergovernmental Panel on Climate Change (IPCC), this has increased the number of droughts and wildfires within the year, while also diminishing global crop yields and thawing permafrost in the Arctic and Antarctic. These effects are not limited to developing countries but are being felt globally.

Alarmingly, a number of US states are facing significant strains on their water supplies due to climate change, with water availability in New Mexico more stressed than in Eritrea in Africa.

The climate not only impacts communities and livelihoods, but also threatens businesses which rely on the global production of materials and services provided.

INCREASING DEMANDS

OVER 785 COMPANIES

and other organisations committed to support TCFD*

* https://www.fsb-tcfd.org/publications/tcfd-2019-status-report/

Companies have been reporting against sustainability for many years, but it is only more recently, following the 2015 Paris Agreement, that investors, lenders and insurers globally have become more aware of the implications of climate change. Action against climate change is therefore being promoted as both an investment risk and opportunity.

Investment houses have started using ESG investment benchmarking tools, such as the Transition Pathway Initiative (TPI), to assess company climate disclosures and progress against targets.

Meanwhile, the rise of companies reporting against the most renowned framework, the Taskforce on Climate-related Financial Disclosures (TCFD), demonstrates the appetite amongst the investor community for consistent and reliable information on climate-related disclosures and the impact climate change could have on a company's profitability. In June 2019, the TCFD reported that 785 global companies have committed to supporting the recommendations, with this number expected to rise over the coming months.

Transition Pathway Initiative (TPI)

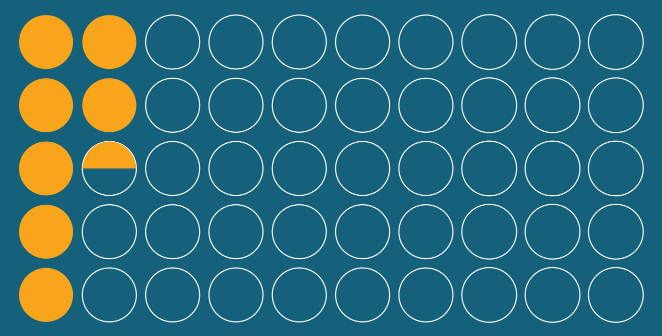
The TPI is supported globally by over 45 investors with over $15trn in assets. It is a benchmarking tool that assesses companies' preparedness for the transition to a low-carbon economy. Investors are increasingly asking companies for their TPI performance scores to demonstrate both their management of climate risks and actual carbon performance.

Regulations on company reporting are also increasing; the EU Non-financial Reporting Directive, for example, requires companies with more than 500 employees globally to report on social and environmental matters. Some countries have taken it a step further, with France passing legislation requiring companies and investors to report on how the social and environmental consequences of their activities are considered.

What is the Taskforce on Climate-related Financial Disclosures (TCFD)?

The TCFD was established to help companies develop climate-related disclosures that could promote the implementation of climate change-related strategies.

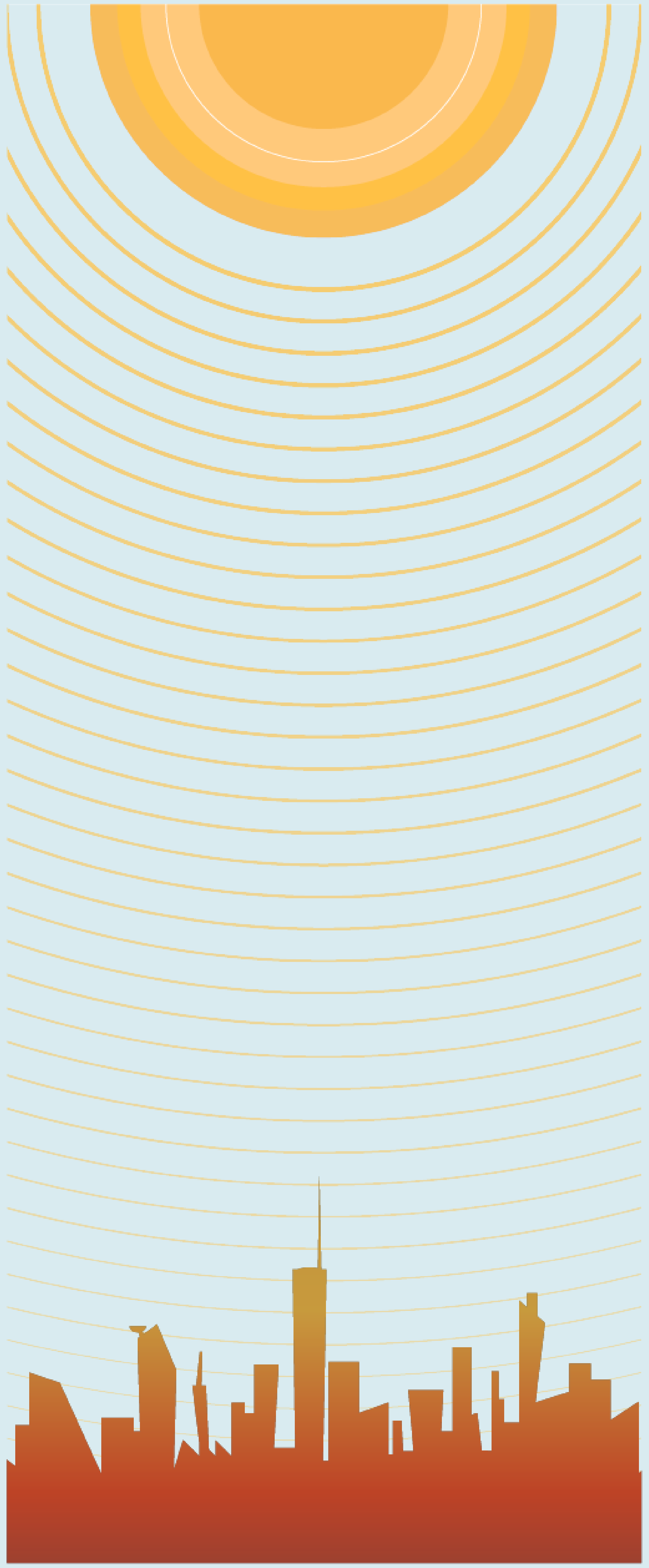
The recommendations provided by the TCFD give companies guidance on how to determine the impact of climate change under different temperature scenarios, and the financial and operational implications of climate change-related decisions. A tough task some might say; however, companies are incentivised to embark on this reporting journey, driven by the opportunity to future-proof their business and lead by example, as this will reduce the risk of being left behind in the transition to a low-carbon economy.



15%

of the FTSE 100 report in line with TCFD recommendations

While embarking on this reporting journey may seem like a tough task, companies are incentivised by the opportunity to future-proof their business and lead by example, reducing the risk of being left behind in the transition to a low-carbon economy. As Spider-Man was once famously told: “With great power comes great responsibility!”



WHERE TO START?

Being a superhero is hard work. With increasing government and public pressure, as well as scrutiny from investors, it is important for companies to clearly understand how regulations and reporting requirements feed into each other, while continuing to convey a strong company story and report on what is material.

This guide provides three recommendations on how companies can best digest these climate challenges and build a powerful strategy:

UNDERSTAND

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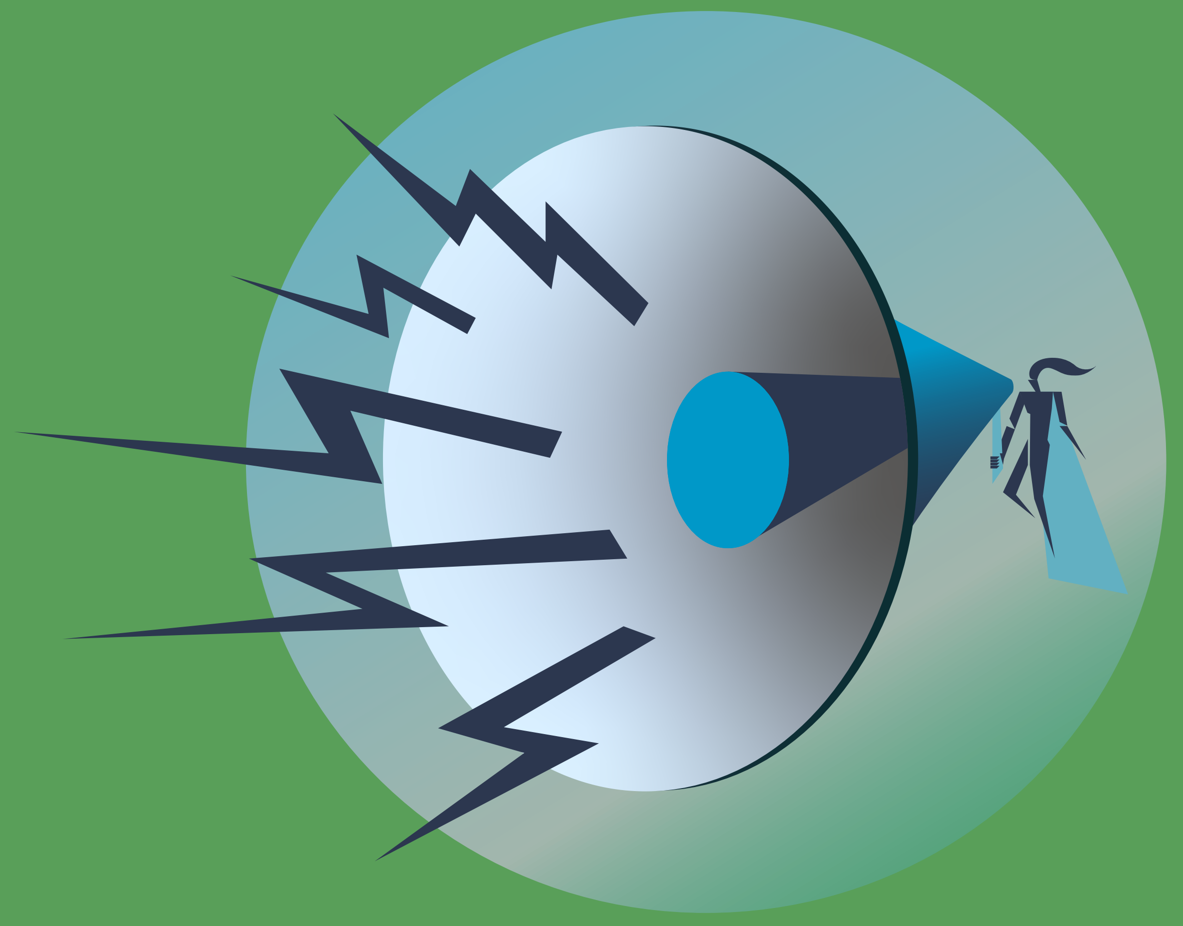
ENGAGE

See page 14 ▶

TELL YOUR STORY



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UNDERSTAND

The world is ending – who will save us?

To successfully ensure a strong and future-proofed climate-related strategy, it is fundamental that companies abolish working in silos and embrace communication across various teams. Only in this way can companies truly and effectively establish a clear strategy to mitigate the risks and seize the opportunities of climate-related issues.

Leadership should work together and oversee climate change-related decisions and work with suppliers to enable them to implement solutions to reduce their impact on the climate. Companies will have to look at the risks and opportunities of climate change and how the company is strategically positioned to future-proof its business.

In order to help companies embark on this journey, we have put together some recommendations on how to best approach this new challenge, implement best practice and report on it effectively.

The climate strategy checklist:

1. Look at your peer group
2. Engage senior leadership
3. Review your supply chain
4. Assess risks and opportunities
5. Develop your strategy

1 LOOK AT YOUR PEER GROUP

Climate benchmarking

Reviewing your peer group is the first key step to understanding how to implement a strategic and operational approach to climate change.

This is an opportunity to understand how competitors are reporting against climate change-related risks and the possible opportunities that may arise through the transition to a low-carbon economy.

Want to know how you perform against your peer group in climate disclosure reporting? Get in touch to receive your personalised benchmarking report.

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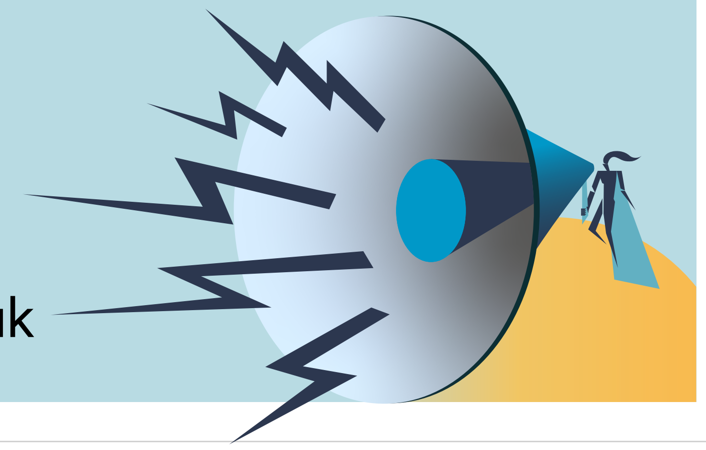


+ Look at the wider sector and select those companies that are reporting on climate change issues. A quick way is to check whether they are reporting against the TCFD, which will help assess how your peer group is taking into account climate change in decision making, or if climate change is considered a principal risk.

+ Companies that address climate change should be screened to assess whether their operations and supply chains are in your home country. This will give you good insight into what your peer group is doing to mitigate its climate impact in the area in which you operate.

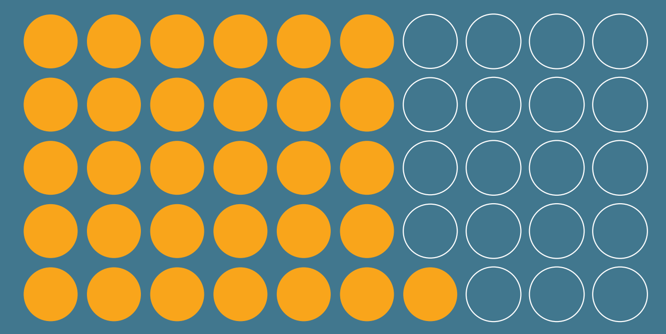
+ Assess how companies address climate change-related risks, opportunities, strategy and governance. This is an opportunity to understand how other companies are developing their strategy and seeking new opportunities from an asset acquisition/disposal or product development perspective.

+ Identify those companies that have demonstrated strong commitment towards the transition to a low-carbon economy and analyse what practical actions they are taking to integrate climate change into decision making and their overall strategic approach.

21%

increase in the number of FTSE 100 companies that acknowledge climate change in their annual report since 2017.

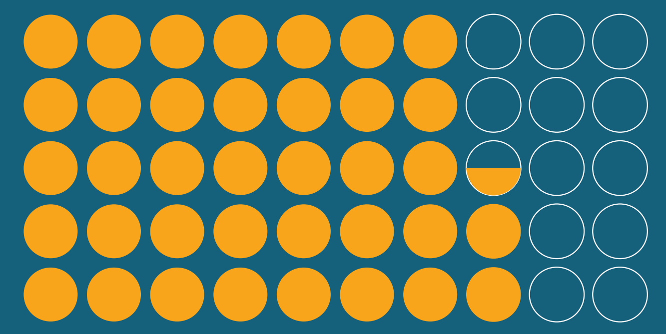
2017



62%

of FTSE 100 companies address climate change

2018



75%

of FTSE 100 companies address climate change

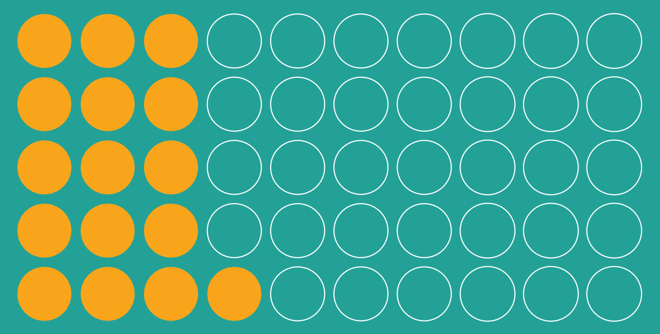
2 ENGAGE LEADERSHIP

Engaging the board and senior management team is an essential next step. It should be their responsibility to assess how climate-related issues might impact your company from a financial and operational perspective.

The level of materiality of climate change will differ between industries; some companies may be directly impacted by regulations, whilst others may be subject to potential disruptions in their supply chains due to climate change-related events. Once the senior management team has assessed the impacts, the key findings and recommendations should be presented to the board.

Consider these four points:

- How can climate change be incorporated in board decision making?
- Could climate change performance be embedded into remuneration pay?
- Should a board-level climate committee be set up to ensure continued focus?
- Should a dedicated non-executive director with climate and carbon expertise be appointed?



32%

of FTSE 100 companies list climate change as a principal risk

3 REVIEW YOUR SUPPLY CHAIN

Over the past few decades, an increasing number of natural disasters have affected companies either directly or indirectly. Due to the complexity of supply chains, it is important that companies have a clear understanding of their own supply chain, looking beyond their direct suppliers, to assess key areas of vulnerability.

While it may be tempting to establish a strategic approach to climate change by following what the industry peer group is doing, it is important to understand which geographical locations they operate within and where their suppliers are based. Different areas may or may not be subject to more prominent climate-related events, and therefore will be exposed to different transitional and physical risks.

According to BSR Climate Change Nexus: Supply Chain*, companies that can successfully navigate these risks, meet changing consumer expectations, protect workers and adapt to changing technology will be better placed to compete given the impacts and uncertainties created by climate change.

* https://www.bsr.org/en/our-insights/report-view/climate-change-and-supply-chain-the-business-case-for-action

Transitional risks

Risks related to transitioning to a lower-carbon economy may stem from policy, legal, technology, market and reputational issues.

Physical risks

These may have financial implications for organisations. Examples are direct damage to assets and indirect impacts from supply chain disruption.

Supply chain resilience – Diageo plc

In August 2019, the drinks giant Diageo plc announced it would invest £180m in biomass boilers, water recovery equipment and solar arrays across its African plants, in a bid to make its supply chain more resilient against the effects of climate change in the region.

The investment is expected to save 42,000 tonnes of carbon and 2 billion litres of water a year. This will help secure the future of brewing and continue to support communities in the region which they rely heavily on.

> "We have a responsibility as a local manufacturer and employer in Africa to grow our business sustainably – creating shared value – and this significant investment continues our work to pioneer sustainable solutions for our local supply chains."
>
> Ivan Menezes, Chief Executive, Diageo plc

4

ASSESS CLIMATE-RELATED

RISKS AND OPPORTUNITIES

Once the supply chain has been clearly mapped out and any hotspots identified, it is possible to determine how the transitional and physical risks may impact a company's value chain.

A process for observing political, legal and economic shifts should be established, to monitor the impacts of weather events or increasing consumer pressures.

Looking beyond compliance, companies should seek to be ahead of the curve and seize new commercial and technical opportunities. Reshaping priorities enables companies to gain a competitive advantage by improving customer loyalty and brand recognition.

5 DEVELOP A CLIMATE STRATEGY

It is essential that once risks and opportunities have been identified, a climate strategy is developed. It is important to keep in mind that a company's approach to mitigating climate change risks should be translated, shared and integrated amongst other areas of the business and should be taken into account in all levels of decision making.

Depending on the circumstances, a climate strategy should be underpinned by:

→ investment in innovative and alternative "green" technologies;

→ development of sustainable products from sustainable sources; and

→ increasing competence internally and externally on climate-related risks and opportunities.

In order to monitor strategic progress, companies should set and report against science-based targets. Science-based targets allow companies to set greenhouse gas emission reduction targets in line with climate science and they clearly communicate the ROI to the investor community.

Climate strategy action wheel

Incorporating our sequence of continual actions and improvements in your climate change mitigation strategy will help maintain best practice standards within your organisation.

ENGAGE

Can Team Superstainability rise to the challenge?

Communicating the drive behind a company's climate-related journey with wider stakeholders is essential in developing a meaningful climate strategy, while clear communication between IR managers and the investor community is vital in ensuring climate risks are being dealt with promptly throughout the entire supply chain.

The board, the senior leadership team and the IR team have to be in sync to ensure that activities are communicated to internal and external stakeholders in a consistent manner.

ENGAGE SUPPLIERS

Companies know that they must create robust, long-term supplier relationships in order to enhance their competitive advantage. But they now also need to take an extra step and help their suppliers to implement solutions to minimise their impact on the environment.

Companies should therefore engage with all of their suppliers to help them analyse the social, environmental and financial ROI of carbon-reducing solutions and help them understand the benefits of sustainable solutions going forward.

Embedding climate change adaptation questions into the tender process is another way in which larger companies can use their buying power and collaborative supplier relationships to drive fundamental changes in how contractors deliver goods, services and works.

TALK TO EMPLOYEES

Once an approach to tackle climate change has been established, the next step companies should take is to talk with their key stakeholders: their employees.

Employees should be aware of their company's commitment to reducing its impact on climate change and in return employee feedback should be taken into account when it comes to setting up initiatives.

Implementing a training programme and hosting a "climate roadshow" are good ways to reach out to all employees, and should focus on your company's climate resilience strategy, providing practical examples on how employees can "do their bit" to help make a success of the strategy.

To understand more about how to implement a sustainability strategy and engage with employees, see the five tips in our previous issue, "Demonstrating Superstainability".

Read more ▶

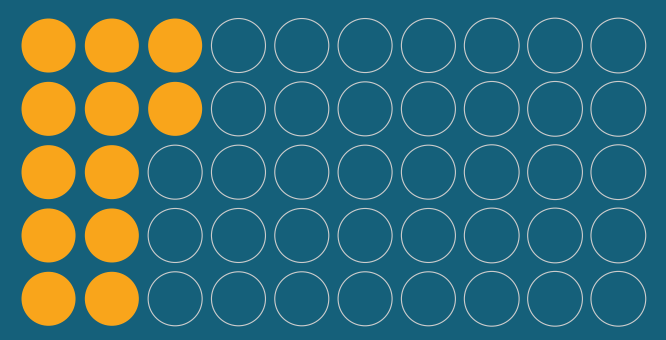
Workforce representatives

In line with the new UK Corporate Governance Code, companies will have to appoint a workforce representative to the board. This role could also act as an intermediary between the board and employees on climate-related issues and initiatives, enabling companies to mitigate the risk of employee activism.

At Amazon, for example, over 7,700 employees have demanded that the online retail giant sets more ambitious targets to reduce its impact on climate change, a move which has gained support from investors.

COMMUNICATE WITH INVESTORS

Climate change is the elephant in the room that investors have started to point at. With the growing focus on environmental issues, investors have started to demand greater climate-related disclosures.



24%

increase in climate change acknowledgement in FTSE 100 reports between 2017 and 2018

340

investors around the world, with

C. $34 TRILLION

in assets under management, are asking companies to report under TCFD*

See page 5 ▶

Once commitments have been made on a corporate level and internal stakeholders have been properly engaged, companies can communicate their commitments to the investor community. Webinars, investor meetings and roadshows are a great chance for companies to showcase their commitments to transitioning to a low-carbon economy and to address how it is linked to the company's strategic outlook.

By engaging with the investor community, companies can reduce the emerging risk of active and passive shareholder activism, as in the case of Exxon Mobil, where at the 2017 AGM, shareholders won a "historic" climate vote against the board's advice, signalling unease about climate change amongst major investors.

Companies should also engage with investors to better understand what data they are looking for and what systems to use to interpret ESG data, enabling them to provide valued information.

* TCFD 2019 status report
https://www.fsb-tcfd.org/publications/tcfd-2019-status-report/

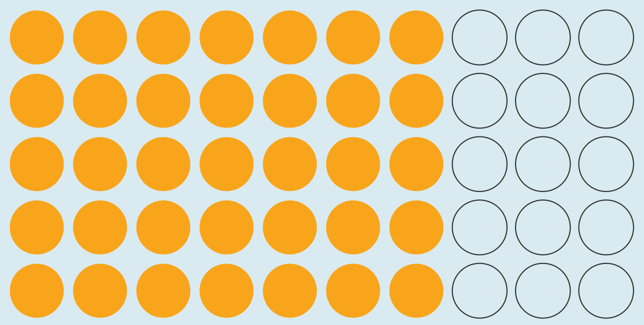
SHARE WITH CLIENTS AND CUSTOMERS

Companies have the power to change consumer behaviour by providing them with knowledge about their products and services and how they can help limit the impacts of climate change. Depending on where a company sits in the value chain, there are different ways to engage with customers and clients.

For companies that engage with the everyday consumer, the challenge lies with communicating simple, inspiring stories to influence behaviour.

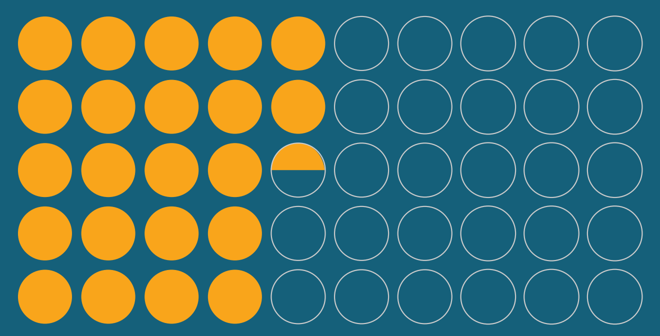
On the other hand, for business-to-business clients, the challenge lies with convincing smaller companies to change their usual practices for the long-term financial and social benefits.

Developing a brand that showcases not just sustainability but also climate benefits is the biggest challenge, but with 70% of Europeans worried about climate change*, this is something all companies in the value chain need to embrace and communicate clearly with their clients and customers to encourage them to "make the right products or service choice".



70%

of Europeans are worried about climate change*



45%

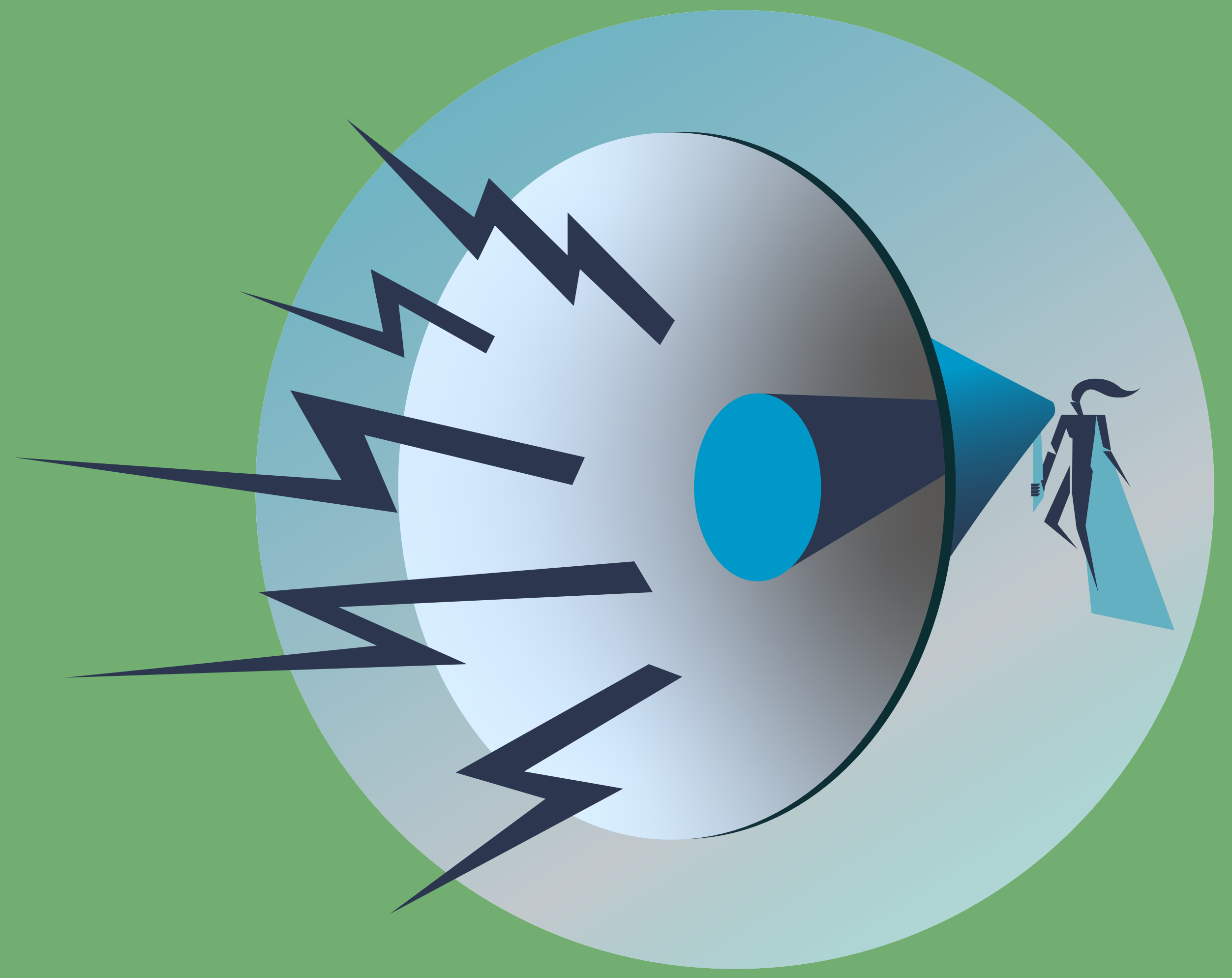
of young Britons between 18 and 24 years old say that environmental issues are some of the nation's most pressing concerns**

Developing a brand that showcases not just sustainability but also climate benefits is the biggest challenge.

* https://www.europeansocialsurvey.org/docs/findings/ESS8_pawcer_climate_change.pdf

** https://yougov.co.uk/topics/politics/articles-reports/2019/06/05/concern-environment-record-highs

TELL YOUR STORY



Read all about it! Can we save the planet?

Tackling climate change is more than just setting processes and procedures. Companies should bring on board as many stakeholder groups as possible (through strong partnerships and collaborators) to help them shift their perspective on the subject, and turn risk into opportunity.

The one thing that is clear is that transparency on climate-related disclosures must be improved; this includes improving the quality of the information reported to ensure that companies make progress against targets and that they are accountable for their actions.

REPORTING CLIMATE DISCLOSURES

Every company's equity story is different and unique, and its climate change story should be too.

Regulators have always tried to steer companies away from seeing reporting as a box-ticking exercise. A company's climate disclosure should be considered as an opportunity to break free from the norm and push the reporting boundaries by being transparent and frank about the challenges and opportunities ahead.

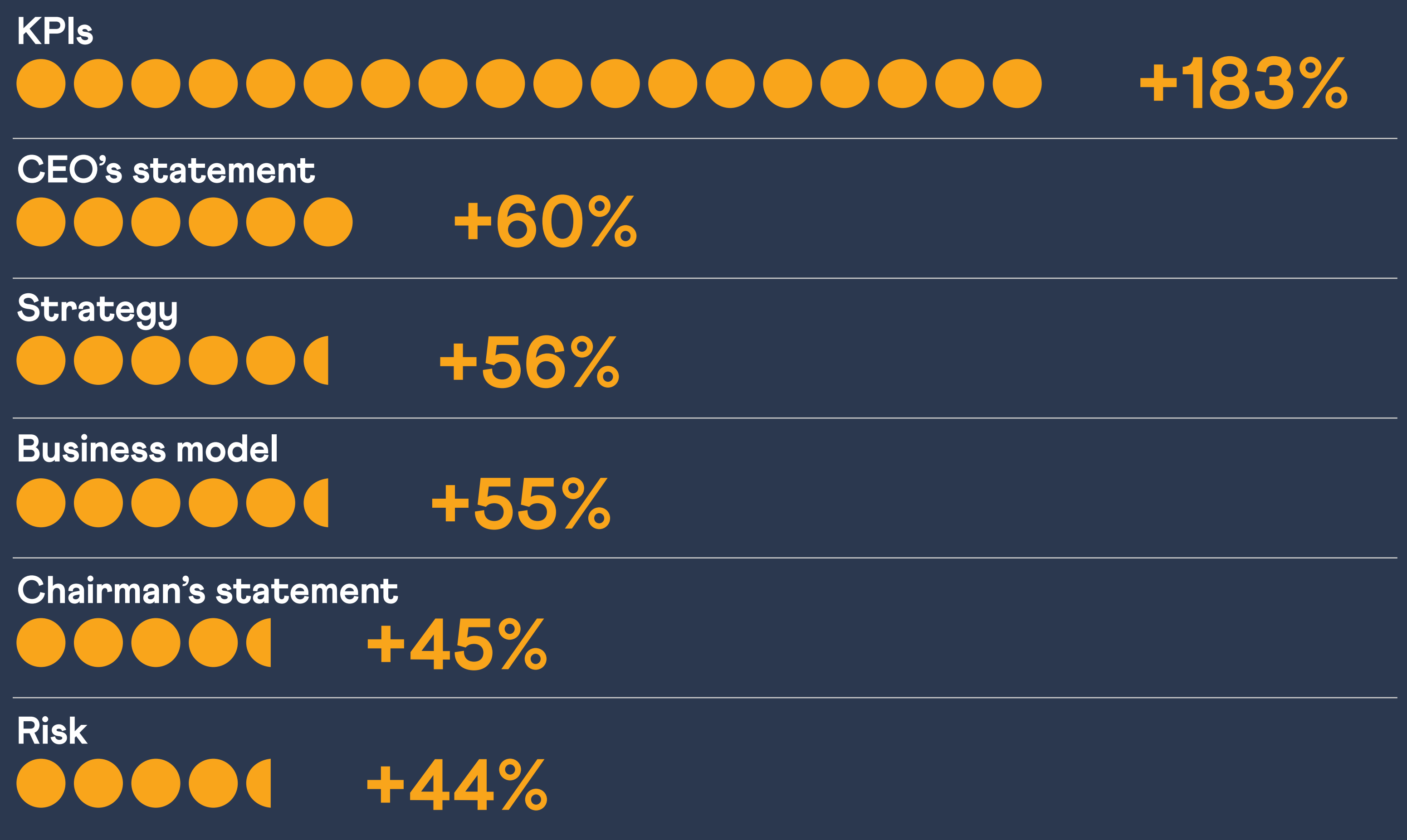
Despite being a regulatory-based document drafted to target the shareholder audience, the annual report or a sustainability report should be considered as the pillar of a climate change story and a canvas to portray a journey towards a low-carbon economy. Intertwining the climate change-related information with the strategy, business model, risk and governance disclosure is essential to demonstrate the company's willingness to consider climate-related matters in decision making.

On the other hand, the climate-related disclosure on the website will gain attention from the wider audience, being suppliers, customers or governments. Creativity and content should merge to create a well-curated selection of case studies and videos to support the climate change story.

Thus, the annual report, the sustainability report and the website should not be considered as separate entities, but as a combined project that enables companies to narrate the same story to different stakeholders.

Where do FTSE 100 companies address climate change in their annual reports?

Increase from 2017 to 2018



Which sectors of the FTSE 100 provided the highest level of detail on climate change in 2018?

1. Oil and gas producers
2. Electronic and electrical equipment
3. Beverages
4. Mining
5. Forestry and paper

REPORTING CLIMATE DISCLOSURES
CONTINUED

Reporting on climate change might be daunting at first, as there is a lot to take into consideration. Here are our top ten tips to help with sharing the climate change story in your annual report and on your website.

How to report on climate change in the annual report:

- → Refrain from isolating the disclosure of climate change to the sustainability section.
- → Demonstrate your company's commitment to reduce GHG emissions by reporting the indirect emissions associated with business travel, procurement, waste and water (scope 3 emissions*).
- → Demonstrate how climate change is linked to your company's key resources and relationships, as well as the value chain, within the business model.
- → Climate change-related risks could be integrated into a company's environment and human rights policy.
- → If material to a company, climate change should be reported as an individual principal risk in the risk section.

How to report on climate change on the website:

- → Use case studies and videos to clearly tell the climate story.
- → Include a link to the environmental or climate change policy on the website.
- → Include interactive KPIs to demonstrate your company's progress to reduce environmental impact, such as GHG emissions and water usage.
- → Update the content on the website when it is considered more relevant, not just in line with the annual report publication.
- → Include third-party research on the website for the wider audience to access and understand the global impacts of climate change.

* https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

REPORTING CLIMATE DISCLOSURES

CONTINUED

Once companies have taken all the necessary steps to start contributing to the transition to a low-carbon economy, it is time to shout about it.

Want to know how you perform against your peer group in climate disclosure reporting? Get in touch to receive your personalised benchmarking report.

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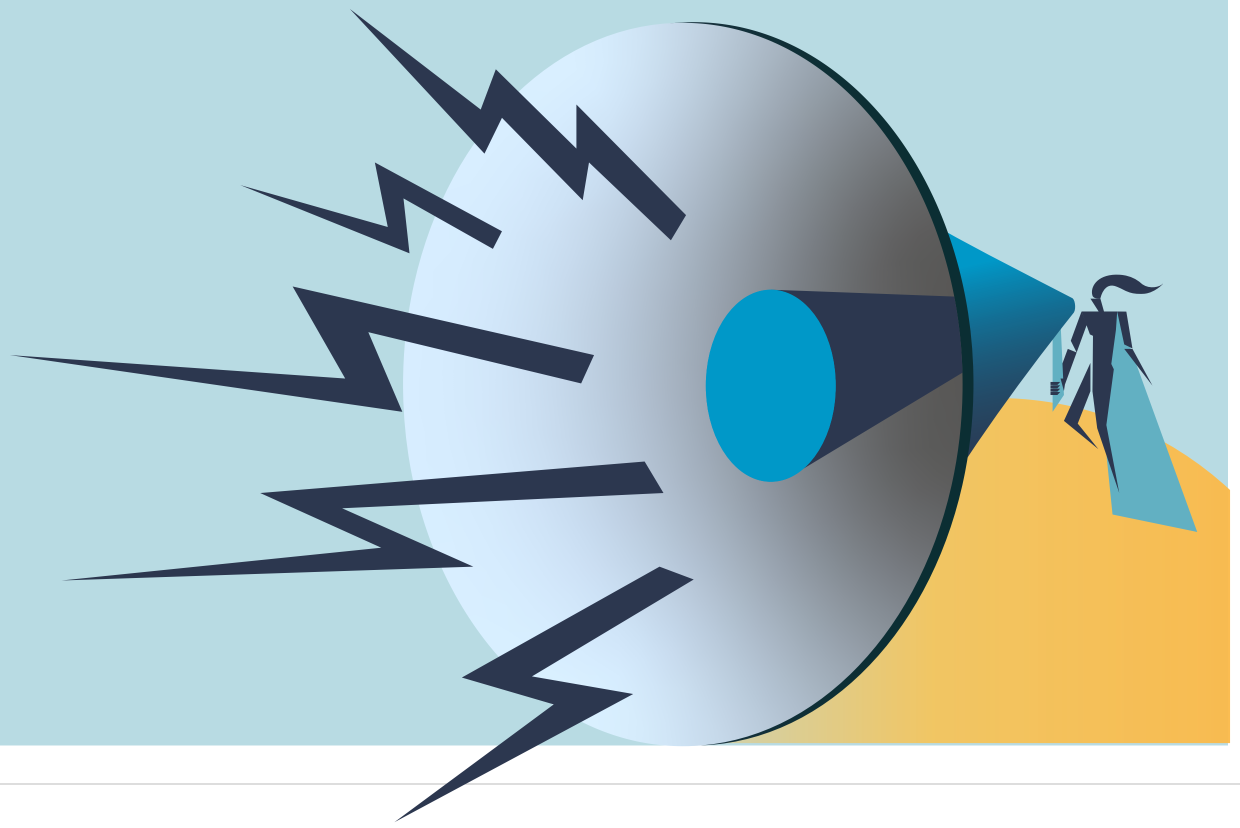

Think outside the “annual report” box

Annual filings such as annual reports are a great way of informing the investment community of the progress made over the year. However, companies can report on the activities related to climate change on a regular basis at investor presentations and roadshows and by updating the website.

Tailor the story for the audience

In order to successfully tell the story, it is important to tailor it to the key audience you are trying to tell it to.

Whilst investors mainly focus on the risks and opportunities of climate change, suppliers may be interested in understanding how climate change-related activities can be implemented in codes of conduct, and customers may wish to understand how your company’s products and services are designed to take into consideration the environmental footprint in the product lifecycle.

Quality over quantity

Content is key, and your climate change-related story should be narrated in the same manner as other matters. In order to do so, senior leaders should get together and develop a clear communication approach for internal and external stakeholders, which is reviewed regularly. This should be underpinned by a strong information-sharing approach, either through a communications platform or through inter-departmental meetings.

LOOKING FORWARD TO 2050

Blockchain technology

Companies are racing to develop the right blockchain technology to help fight climate change by improving carbon emission trading and facilitating clean energy trading.

Internal carbon pricing

Companies are placing a monetary value on GHG emissions, which businesses can factor into investment and business decisions. There are different forms of internal carbon pricing, which can be implemented into a company's business strategy. Internal carbon pricing allows companies to move towards a low-carbon economy by investing in renewables or assessing the financial viability of projects.

Net zero carbon 2050 – UK legislation

This commitment would make the UK the first member of the G7 group of industrialised nations to legislate for net zero emissions. Such commitment requires the Government and UK companies to work together to move towards a low-carbon economy.

Carbon tax

Governments have started to implement carbon taxes for those companies that produce GHG emissions. Companies operating in Europe have to follow the EU emissions trading system (EU ETS) which focuses on reducing GHG emissions by creating a carbon market where companies can receive and buy emission allowances. In case of a no-deal Brexit, the UK will fall out of the EU ETS and the UK will introduce a new national carbon tax to determine the price of emissions.*

* https://www.gov.uk/government/publications/meeting-climate-change-requirements-if-theres-no-brexit-deal

DOES CLIMATE CHANGE CONFUSE YOU? WE'RE HERE TO HELP.

At Design Portfolio, we can help you to not just communicate your sustainability story, but to understand what's really important to you and how this can be embedded throughout your business. We can provide:

1. The right support to enhance your sustainability reporting journey by helping you navigate existing and emerging sustainability reporting frameworks.
2. The opportunity to identify those issues that are most important to your stakeholders and relevant to the business.
3. The right tools to develop a strategy that is fit for purpose, challenges sustainability norms, is competitive and helps you mitigate against your material issues.
4. Engaging and memorable sustainability collateral that goes beyond your average corporate campaign.

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ABOUT DESIGN PORTFOLIO

Design Portfolio is a team of more than 60 communication specialists. We are strategic advisors, creative thinkers and compelling storytellers. We are trusted partners to companies of all sizes and all stages of growth, helping them to tell their unique stories effectively to their stakeholders. We advise on strategic direction, create engaging narratives and memorable brands, and ensure that each client's story is told consistently through:

→ Corporate reporting
→ Websites
→ Branding
→ Sustainability
→ Investor presentations
→ Video and animation
→ Employee communications

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