

White Paper by WSP USA
January 2013

MAKING THE MOST OF THE CARBON DISCLOSURE PROJECT

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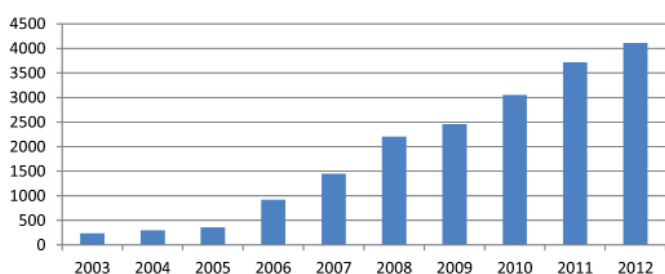


What is the Carbon Disclosure Project?

The Carbon Disclosure Project (CDP), a non-governmental organization, has evaluated corporations on their climate change risks, opportunities, impacts, associated business strategies and performance for over a decade. CDP sends out an annual questionnaire, the Investor Information Request, to thousands of the world's largest companies on behalf of 655 institutional investors as of 2012, holding \$78 trillion in assets under management.

Since its inception, the CDP Investor program (www.cdproject.net) has become the most significant global evaluation of corporate climate change policies and practices. In 2012, 81% of the 500 largest companies in the world responded to CDP, up from a response rate of 77% in 2008. This reflects in part an increasing recognition by corporations that their stakeholders, and, in particular, their shareholders care about the issue of climate change.

Number of Companies Responding to CDP Questionnaire



What does responding to the CDP involve?

In February each year, CDP sends the Investor Information Request to the largest companies globally, including the Global 500, the S&P 500 and the FTSE350. Companies have until the end of May to respond. Companies that do not automatically receive a questionnaire from CDP are welcome to participate in the reporting program.

Companies are requested to respond to the questionnaire using an online tool, providing details of their greenhouse gas emissions, performance trends, their goals for reducing emissions over time, information about their climate change governance, assessment of risks and opportunities related to climate change, and company strategies for addressing these. Using a pre-defined scoring methodology, responses are evaluated and scored for both disclosure and performance, and most scores are made public. Disclosure scores assess companies on the quality of their disclosure while performance scores assess achievement of performance improvement in relation to climate change. The top scoring companies in each sector receive a now coveted place on the Carbon Disclosure Leadership Index (CDLI) and the Carbon Performance Leadership Index (CPLI). As the CDP

program continues to evolve, with more emphasis on performance improvement, CDP is gaining a reputation for driving not just increased transparency but also meaningful actions by companies to realize GHG emissions reductions and product/service innovations.

Optimizing the CDP reporting process

Corporations often look outside for consulting assistance when developing their CDP response. This assistance may involve calculating corporate GHG emissions, conducting company-specific risk and opportunity assessments, and/or drafting language to best represent their current and planned strategies and performance. WSP has been assisting its clients to respond to CDP since its inception. The experience we have gained with clients including those listed at the end of this white paper has given us excellent insight into strategies for developing successful GHG management programs and CDP responses. In our experience, the CDP score is rapidly becoming a discussion point in the boardroom, and WSP is aware of several companies that have set specific goals for improving their score over time.

The following are tips that we recommend all responding companies follow in order to optimize their CDP reporting process:

- Do your homework before you start

If you responded to CDP last year, request specific feedback from the CDP team during the fall of the reporting year on your company's previous score and where they think you could improve.

Review previous responses from other companies in your sector, and make these available to internal stakeholders to help them understand what is expected.

Familiarize yourself with the questionnaire, the guidance provided by CDP and the scoring methodology, including any changes since the previous year. You do not need to wait until you receive the questionnaire from CDP – the documents are available on the CDP website before the questionnaire is sent out to companies.

- Plan carefully

Use the questionnaire to:

- complete a gap analysis and determine what additional work is required before responses can be drafted
- identify internal stakeholders that need to contribute
- determine if outside help is needed

Give yourself enough time, including time for internal approvals and GHG verification, particularly if this is your first year of reporting.

Treat CDP reporting as a project; form a cross-functional team, prepare a project schedule, establish regular check-ins and set internal deadlines for producing drafts. Your team may be comprised of stakeholders from a range of business functions such as corporate sustainability, facilities, transportation, procurement, risk, legal, finance and marketing and communications.

- Use your time and resources effectively

Download the MS Word version of the questionnaire from the CDP website which is useful for capturing and managing input from multiple stakeholders. As you complete the questionnaire, have the online tool open at the same time so you know exactly what is being asked of you. Be cognizant of any character limits as specified in the guidance document so you do not need to reduce large amounts of text at the last minute.

Provide as much detail as possible, including company-specific information in the form of case studies and examples. Assume that the internal approvals process will reduce the amount of information so start with more rather than less.

Address each specific question individually—do not cross reference other responses. Repeat information, as appropriate, because each individual question is rated solely on the response provided to that question.

Update key inputs to the CDP report, including the GHG emissions inventory, on a routine (e.g. quarterly) basis rather than waiting and rushing to complete these tasks once per year. Complete the year-end inventory and GHG verification as early as possible to allow sufficient time for quality review and to investigate material changes in emissions when compared with previous years.

In our view, the CDP program is most effective when companies treat it not merely as an external communications tool but also as a means to drive internal change. CDP scores are increasingly reported on global stock indices, e.g. Google Finance and the Bloomberg Terminal, and CDP is a term that is now understood in the boardroom with executives more likely to be concerned with company ratings. Those with responsibility for managing internal climate change strategy should make use of CDP to engage senior decision-makers, to educate employees regarding the importance of climate change to the business and to further their company's investments in climate change activities relevant to their core business. For example, companies can use CDP as a lever to explore risks and opportunities from climate change and make adjustments to their long-term business strategy which may ultimately affect their bottom line. This gets to the crux of what is important to institutional investors backing CDP, i.e. do the companies in which they invest face risks and opportunities that have meaningful implications for their financial investments, and how well are the companies in which they invest positioning themselves to realize strategic business value associated with the risks and opportunities they face?

Opportunities for an improved CDP response

With each year that passes, CDP raises the bar to encourage improvement in the responses that companies provide. For CDP 2013, CDP has expanded Scope 3 emissions reporting. In the past, companies responding to CDP could report on one or a few Scope 3 GHG emissions categories and disregard other categories. CDP has modified the Scope 3 question (CDP 2013 question 14.1) to include a table that requires a response for all fifteen Scope 3 categories defined by the GHG Protocol Scope 3 Standard. For each category, companies will need to report emissions or explain why they have not provided data. There are significant disclosure points associated with this question,

which should drive more companies to develop complete Scope 3 inventories consistent with the GHG Protocol standard. Companies will also be required to report in the main Investor questionnaire whether they engage with elements of their value chain on GHG emissions and climate change strategies.

Responding companies are placing increased emphasis on the quality of their responses, both by expanding their responses to address changes made by CDP, and by improving their response from the previous year. As disclosure scores increase across all sectors, there is less room for improvement, and we expect an increasing emphasis on performance score improvement. To date, the performance score has taken into account aspects such as:

- Integration of climate change risks and opportunities into overall business strategy
- Implementation of emission reduction targets
- Achievement of year over year absolute and intensity-based emission reductions resulting from emission reduction activities
- Board-level oversight for climate change performance
- Existence of staff monetary incentives towards improved climate change performance
- Verification of emissions data

While the scoring weight for the risk and opportunity assessment section has been reduced for CDP 2013, there is still a particular scoring emphasis on this section of the questionnaire as investors seek to understand how well corporations understand the specific business impacts they potentially face from climate change. In this section, companies are asked to identify business-specific risks and opportunities resulting from climate change that could cause a substantive change to their business operations, revenues or expenditures, and, if they consider that they do not face such risks and opportunities, to explain why. Companies on CDP leadership indices are recognized as having mature climate change management programs with an understanding of the related long-term risks and opportunities. CDP leadership companies have integrated this level of awareness into their strategic thinking, and as a result, they are able to provide robust responses to the risks and opportunities questions. CPLI companies, in particular, tend to provide long-term risks/opportunities, specific examples of methods in the implementation phase used to manage risks/opportunities, and quantitative financial implications and costs.

Table 1, on page 3, summarizes areas where companies may find the greatest opportunities to improve scores in 2013.

How is the CDP program evolving?

As it grows in sophistication, CDP is diversifying. In addition to the core Investor program, there are now CDP programs focused on water disclosure, public procurement, cities, and corporate supply chains. Most recently, CDP has announced a merger with the Forest Footprint Disclosure (FFD) to be completed by 2014.

In 2011, CDP launched Carbon Action, a program which encourages companies to report emissions and take action to reduce their emissions. In the program's inaugural year, CDP targeted companies in high emitting industries and those in industries with potentially significant supply chain emissions. In 2012, Carbon Action was extended to include all companies in the Global 500 and FTSE All-World 800 indices. Each year, companies

Table 1: Opportunities to Improve Scores in 2013

Opportunity	Impact	Level of Impact	Level of Effort
Risks & Opportunities (Q5 & Q6)	<ul style="list-style-type: none"> Provide examples of methods (in the implementation phase) used to manage risks/opportunities. Provide specific data points for financial implications and costs of management; a quantitative range is sufficient. Identify climate-related risks beyond a 10-year timeframe which demonstrates long-term, strategic thinking. 	High	High
Scope 1 + 2 verification (Q8.6a, b & Q8.7a, b)	<ul style="list-style-type: none"> Verify Scope 1+2 emissions This is a prerequisite for inclusion in the CPLI. In 2012, 100% of CDLI companies reported Scope 1 verification complete or underway (98% with Scope 2) with last year's certificate available; they were awarded the full points available for their statement. 	High	Low
Emissions performance - absolute (Q12.1a - renumbered)	<ul style="list-style-type: none"> Provide a direct link between emissions reductions and specific emissions reductions activities. Performance points awarded are scaled based on level of achievement. 	High	High
Emissions performance - intensity (Q12.2, Q12.3, Q12.4 - renumbered)	<ul style="list-style-type: none"> Provide a direct link between emissions reductions and specific emissions reductions activities. Performance points awarded are scaled based on level of achievement. 	High	High
Scope 3 reporting (Q14.1 - amended and renumbered)	<ul style="list-style-type: none"> Provide emissions for all fifteen Scope 3 categories defined by the GHG Protocol Scope 3 Standard. 	High	High
Scope 3 verification (Q14.2a, b - renumbered)	<ul style="list-style-type: none"> Verify Scope 3 emissions. In 2012, almost 80% of CDLI companies reported Scope 3 verification complete or underway with last year's certificate available; they were awarded the full points available for their statement. 	High	Low
Supply chain engagement (Q14.4a, b, c, d - new)	<ul style="list-style-type: none"> Respond to the new supply chain questions (previously part of the Supply Chain questionnaire). 	Low	Medium

are asked to publicly report emissions, carbon reduction targets and ROI-positive investments in projects while demonstrating progress via carbon reduction and energy efficiency activities. Carbon Action is additional and complementary to the CDP Investor program.

The CDP Water Disclosure program, launched in 2010, has initially focused on high water-intensity sectors including chemicals, pharmaceuticals, construction and utilities. For 2013, CDP is expanding its global reach to target companies from these sectors that are in the Global 500, the S&P 500, the ASX 100 and the JSE 100. CDP has not ranked or scored company responses to date; however the CDP team is currently developing a scoring methodology and intends to evaluate company responses as early as 2014. We anticipate that the Water Disclosure program will evolve in much the same way as the CDP Investor program.

With 54 members and 6,000 collective suppliers in 2012, the CDP Supply Chain program received 2,415 responses to the information request, up from 715 in 2009. This trend demonstrates that suppliers may be responding to growing pressure from corporate clients who are increasingly focused on supply chain performance and are requiring transparency about emissions-related information.

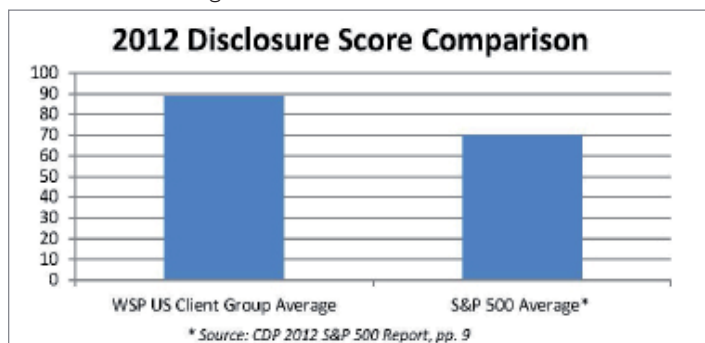
In addition to diversifying, CDP is investing in further strengthening its programs, with the specific intention of helping companies to improve their reporting and ultimately their management of climate change and water issues. CDP continues to increase the guidance available on its website for responding companies and has established a number of partnerships with software and consulting companies aimed at offering high quality assistance to companies interested in improving their reporting and management processes.

Given these improvements, CDP will likely continue to increase its prominence in the voluntary climate change and sustainability reporting arena.

WSP and CDP

WSP was recently selected as a U.S. consultancy partner to CDP for a third year. As a specialist consultancy in environmental, sustainability and energy management issues, WSP is now referenced by CDP as an approved partner to help reporting organizations measure and manage their GHG emissions: <https://www.cdproject.net/en-US/OurNetwork/Pages/consultancy-partners.aspx>

WSP's Investor CDP clients in the period 2005-2012 have included Bank of America Merrill Lynch, Gap, Wells Fargo and Tiffany & Co. and other leading companies in sectors such as financial services and pharmaceutical. Several of our clients were included in the CDLI for their sector in 2012. The average disclosure score of WSP's 2012 US CDP clients was 89 while the average disclosure score for the S&P 500 was 70, as shown in the diagram below.



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WSP is a global business providing management and consultancy services to the built and natural environments. Our business specializes in environmental, buildings, and transportation. With nearly 15,000 people across 300 offices in 35 countries, we have the scale to support and scope to innovate.

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Our specialist environmental practice helps organizations around the world manage risks and maximize opportunities related to environmental liabilities and regulations, sustainability, climate change, energy and health & safety. Whether it's environmental permitting for mining operations; climate adaptation plans for cities; GHG mitigation and sustainability strategies for corporations; or geotechnical designs for new developments, we will help to create competitive advantage for our clients.

Find out more at www.wspgroup.com/usa

WSP helps organizations to quantify and report their GHG emissions and to identify, evaluate and implement cost-effective means to achieve GHG reductions. We assist clients to participate in not only today's voluntary GHG management programs but also regulatory programs such as California's GHG Mandatory Reporting Program and the U.S. EPA's GHG Reporting Program (GHGRP).

WSP works closely with its clients to shape strategic and sustainable approaches to improving business performance and reporting in an increasingly carbon conscious economy. Our team of GHG, energy and environmental experts has a proven track record of success with some of the world's leading global brands with whom we have long-standing relationships. We have been providing environmental and sustainability services since 1995 and have assisted over 100 clients to develop GHG inventories. Our reputation is built on our business-focused change management approach, underpinned by technical excellence.

Connect with us



For more information on responding to the CDP and about WSP services, please contact:
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