OliverWyman

CDP
DISCLOSURE INSIGHT ACTION

Get the money moving

Meeting the European corporate transition challenge

CDP Europe Report | March 2024

Contents

Foreword

Sherry Madera
CEO of CDP

We are just five years away from 2030: the EU's date to achieve its 55% emissions reduction target and stay on track to meet the Paris agreement's 1.5°C goal. As we approach this milestone, this report shows how European companies are increasingly defining the 'what' and 'by when' of their climate goals well. But the focus - and required capital - must now shift urgently to the 'how'. That echoes strongly with CDP as an organization: when we started over 20 years ago, it was about generating data in the first place. Now, we must put it to use.

This report illuminates how high-quality data can provide a blueprint for companies to reorient their spending to achieve climate transition plans, creating more sustainable, efficient operations and supply chains. Data also lays the groundwork for much-needed access to capital and the findings here demonstrate how financial institutions can look towards engagement and funding strategies that spread risk and opportunity. With solutions in focus, the analysis points to the conditions that policymakers must help create in Europe so that green projects can grow to a commercial scale.

Our findings outline complex challenges which demand focused and creative solutions, yet they also present significant opportunities for industries to innovate and lead. This report shows that just 20% of companies are making strides on key action areas of their transition plans; from product innovation, to supplier engagement and business strategy. Considering this, our data is showing corporate stakeholders where there is scope to engage and increase progress. It will be by disclosing higher quality data that they can better access capital and compete with their peers. We must use this information as the foundation for action – as the impetus needed to move the money and close the implementation gap in time.

Thomas Fritz
Partner, Energy and Natural Resources, Co-head of Climate and Sustainability, Europe, Oliver Wyman

James Davis
Partner, Financial Services, Co-head of Climate and Sustainability, Europe, Oliver Wyman

This is the fifth assessment by Oliver Wyman and CDP of the progress made by European companies moving toward a more sustainable business model. Throughout those years, emissions in the region have trended downward. We also have seen a significant increase in the number of targets set by corporates to reduce greenhouse gas emissions as many of the region's largest financial institutions look to reduce emissions generated by their lending and investment portfolios. New momentum was provided by recent regulation in both the European Union and United Kingdom that make sustainability disclosures mandatory for many of the largest companies.

Yet European businesses are now bumping up against the commercial realities of moving toward greener business models. This year's report outlines the most important practical actions companies must take to deliver on those targets. These include directing a significant portion of capital expenditure toward sustainable activities, developing greener products and proactively managing the supply chain for sustainability. The analysis shows most industries making only limited progress on these types of initiatives.

The fundamental economics aren't moving fast enough to support change at the scale and pace needed, despite considerable effort by many companies and financial institutions. Rectifying that will require systemwide solutions, supported by government policies and incentives to help drive change. Failure to close the developing implementation gap could result in the region falling behind on emissions reduction pledges. And as other regions continue to step up with significant support for pivotal industrial sectors, we could see European companies losing out on investment financing, strategic control of supply chains and market share in key global industries.

There aren't many years before we reach 2030, a major milestone in the fight against climate change. Our hopes are that this report will provide insights that help prevent us from falling short when we do.

Executive summary

Only one in five European companies is making the kind of substantive changes necessary to move to a greener business model, even as more than half report having climate transition plans in place. An even larger number have set emission-reduction targets, including a portion for Scope 3 supply chain and end user emissions.

89%

of European market capitalization is represented in this report

7/10

companies dedicated less than 25% of their capital expenditures (CapEx) to projects that are aligned with their transition plan or a sustainable finance taxonomy

This research is based on an analysis of responses from over 1,600 European companies disclosing through CDP, representing 89% of the region's market capitalization. It assesses companies against a five-point framework looking at critical factors such as capital investment, new product development and supply chain management. While the data demonstrates progress by companies in reducing emissions over the last four years, it also reveals the substantial limits that still exist in implementing key aspects of transition plans and driving real change on business models.

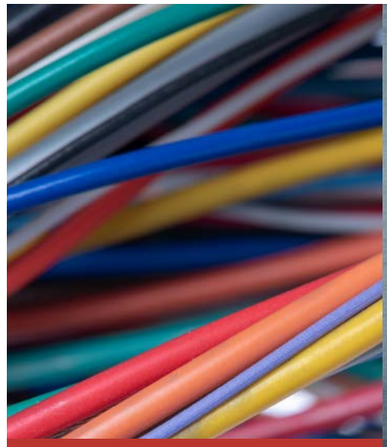
Insufficient investment capital

Levels of capital investment play a critical role in whether a company can achieve results. Yet 70% of European companies disclosing through CDP dedicated less than a quarter of their capital expenditures (CapEx) to projects that are aligned with their transition plan or a sustainable finance taxonomy. In some cases, accessing finance is part of the challenge. One-third of companies disclosing through CDP identified access to capital as a key concern in transition planning. That percentage rose dramatically among industries with higher emissions.

Often the common constraint for companies and financial institutions is that green business models remain less commercially attractive than the existing models they seek to replace. In many sectors, government policy has not yet shifted the economic landscape decisively enough in favor of greener products and services. At the same time, in many industries, the demand for "green" products or the willingness to pay a premium for those is still limited. There is a concern that while Europe has led the way in many aspects of climate regulation and policy, other regions have taken bolder action using incentives and industrial policy to attract investment capital and build competitive advantages in strategically important parts of the green economy.

Sectors that could help

To explore the practical realities companies are facing, we looked in greater detail at three critical sectors: electric utilities, steel, and automotive. All three are major emitters and play a pivotal role in the decarbonization of many other sectors. The good news is that the three are already investing more than most in the transition — with over 50% of CapEx going to green initiatives. Still, some important gaps and disconnects are apparent:



€285bn

By 2030, electric utilities could fall €285 billion short on required CapEx investments in renewables and grid upgrades that are key to the push to electrify and decarbonize transport and heavy industry.

87%

While 87% of steel companies offer some type of low-carbon products, revenue from green products accounts for only 22% of total sales. As a result, green steel production is expected to fall as much as 18 million metric tons (or 31%) short of demand by 2035.

90%

The vast majority (90%) of the automotive industry's carbon footprint is made up of Scope 3 emissions from its supply chain and end users. Yet only 11% of companies ensure that over 25% of their suppliers meet climate-related requirements.

Executive summary

Freeing up more investment money

The challenges companies highlighted in accessing capital come despite major commitments from the finance sector. Two-thirds of financial institutions disclosing through CDP say they are taking active steps to align their portfolios to an emissions pathway that curbs Earth's temperature increase to 1.5° Celsius above pre-industrial levels.

Most are seeking to do this through growing investment and lending into greener areas: Financial institutions globally disclosed through CDP in 2022[1] that they view the potential opportunities from the climate transition as 4.5 times greater than the risks. Meanwhile, exclusion policies remain mostly limited to coal and the most environmentally sensitive parts of the oil and gas industry.

Two-thirds of financial institutions disclosing through CDP say they are taking active steps to align their portfolios to an emissions pathway that curbs Earth's temperature increase to 1.5°C

Most financial institutions report that they are now actively assessing their client's transition plans as part of their lending and investing processes, suggesting that companies not able to set out a clear decarbonization path may find access to capital more challenging over time. In practice, however, it is the unique characteristics of decarbonization projects that can become hurdles. This includes their often-large-size, longer time horizons, unproven markets, misalignment with institutional risk appetites and the changing regulatory landscape they face.

1 https://www.cdp.net/en/research/global-reports/financial-services-disclosure-report-2022

50%+

of European financial institutions respondents have no plans to protect water security or set targets for preventing further deforestation

Only 1% of financial companies have set specific targets for water security

Only 9% of financial companies have set specific goals related to deforestation in their lending and investment activities

Nature matters

Efforts to prevent deforestation and protect water sources are the latest standards that are just beginning to take hold. Half of the world's economy is dependent on nature, according to the World Economic Forum, which makes its salvation critical to more than just climate. Forests and bodies of water also serve as natural carbon sinks and the outlook for climate change worsens without them.

But at this point, neither financial institutions nor industrial companies are routinely including concerns like deforestation and water security in their investment decisions or transition planning. The CDP disclosure data shows over 50% of financial institutions have no plans to protect water security or set targets for preventing further deforestation. Only 9% have set specific goals related to deforestation in their lending and investment activities and 1% have targets for water security. This low participation may change with new European Union nature reporting.

The need for collaboration

The report encourages greater collaboration across the financial sector to spread risk among banks, development banks, private equity firms, insurance companies, traditional infrastructure financiers and philanthropic organizations. It also calls on governments to take a more active role in leveling the playing field for climate transition products and technologies.

The data on both climate and nature reinforce the reality that no one industry can create a green transition without the support of the global economic community, governments and nongovernmental organization. As time ticks away to 2030, the year the EU promises to cut emissions 55% as part of its 2050 net-zero pledge, the need to significantly accelerate efforts could not be clearer.

The implementation gap

European companies are committing to climate action on a bigger scale than ever, yet four in five still struggle to translate these efforts into the kind of consequential changes that will shrink the region's carbon footprint at the pace needed.

87%

of disclosing companies report adopting emissions reduction targets

40%

of businesses say they will have climate transition plans within two years

The data comes from an in-depth review of responses from more than 1,600 European companies (including the United Kingdom) disclosing environmental data through CDP, the non-profit that runs the world's environmental disclosure system. These businesses represent 89% of European market capitalization. Companies were considered to be making substantial progress if they scored more than 50% across a five-factor framework, evaluating disclosures to 15 questions.

This implementation gap reflects the challenges many companies are encountering when trying to drive change in their business models. In many sectors, the fundamental economics are not evolving fast enough to make a swift, large-scale switch to greener business models commercially attractive.

While technologies are maturing rapidly, commercial business models remain underdeveloped and government policy has not yet shifted the economic landscape decisively enough in favor of greener products and services. As a consequence, many disclosing companies identified access to capital as a key concern for decarbonization efforts.

Where progress has been achieved

The good news is that commitment to climate action is deepening among European corporates. Among disclosing companies, 87% report adopting emissions reduction targets, up from 84% the previous year. Fifty-five percent say they have climate transition plans in place that set out how they will deliver their targets, up from 41% the year prior[1].

An additional 40% of businesses say they will have climate transition plans within two years, which would leave only about 5% without one. This reflects leadership among European corporates in committing to net-zero when compared with most global businesses. It also spotlights the successful efforts by regulators in the European Union and UK that are pushing companies by regulating disclosure of environmental impacts and climate transition plans. But the quality of emissions targets and climate transition plans matters. Companies need to ensure

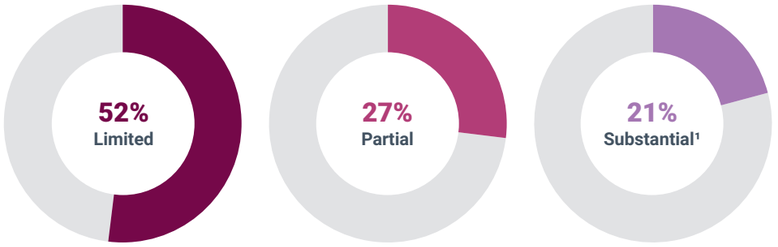
1 To ensure comparability of the data set, we selected companies that have reported data for the past two years

Figure 1
Progress toward a green business model

The implementation gap framework evaluates companies on five key drivers of business model change toward a green transition

- Steering the business
- Capital expenditure
- Supplier decarbonization efforts
- Engagement with customers
- Low carbon product and technology innovation

Distribution in percentages (%)



Source: Oliver Wyman analysis, CDP data

Info box
The Implementation gap evaluates the companies' progress toward a green business model

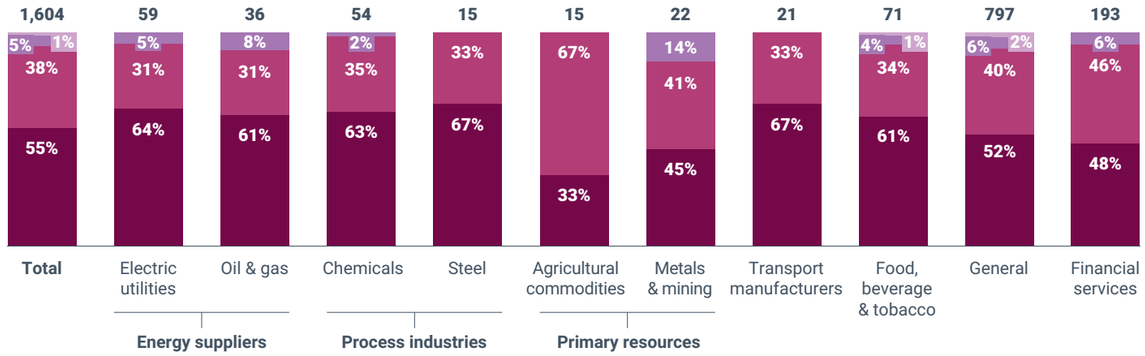
Area	Description	CDP elements and key data indicators used
CapEx alignment	Assessing how far this is being skewed toward green and transition initiatives	Identification of financial alignment and the percentage of capital expenditures (CapEx) aligned with either their own climate transition plan or the EU taxonomy
Low-carbon products	The development and commercial scaling of low-carbon products, service offerings and technologies	Portfolio of low-carbon products classified by the EU taxonomy and the proportion of revenue these products generated compared to total revenue
Value chain (upstream)	The proactive management of emissions in supply chains	How companies interact with their suppliers, the extent to which they contractually require suppliers to meet climate-related standards and the rate of supplier compliance with these requirements
Value chain (downstream)	Direct engagement with customers to incentivize them to cut emissions related to a company's products or services	How companies interact with their customers, particularly in terms of collaboration and innovation, and the rate of customer engagement
Steering	The restructuring of core business processes such as budgeting and performance frameworks to reinforce and achieve climate goals	Use of quantitative scenario analysis in shaping strategy and the alignment of the scenario with a temperature increase of less than 2°

Source: Oliver Wyman analysis, CDP data

The implementation gap

Figure 2
Companies with net-zero transition plans

Number of companies responding and answers



- Yes, we have a climate transition plan which aligns with a 1.5°C world
- No, but our strategy has been influenced by climate-related risks and opportunities and we are developing a climate transition plan within two years
- No, our strategy has been influenced by climate-related risks and opportunities, but we do not plan to develop a climate transition plan within two years
- No and our strategy has not been influenced by climate-related risks and opportunities

Source: Oliver Wyman analysis, CDP data

that their targets are rigorous enough to cut emissions at the pace required to reach net-zero by 2050. Climate transition plans also must be credible and implemented through strategic actions and business model changes that are bold enough to deliver their stated goals. Very few companies have a credible plan in place, as revealed by our last joint research.

One key criterion for gauging the rigor of targets is whether they cover Scope 1 through 3 emissions or just Scope 1 and 2, which cover a company's operations and energy purchases. Of the targets set by some 1,400 disclosing businesses, only around 50% extend to emissions produced by suppliers and end users, which are considered Scope 3 and the hardest to quantify and control.

Another benchmark is whether corporate targets are validated by the Science Based Targets initiative (SBTi) : In this analysis, only 40% of targets covering Scope 1 and 2 emissions are approved science-based targets (SBTs), which are those that are aligned with 1.5° Celsius. Some sectors, such as oil and gas, can't qualify their targets as SBTs as guidance from the initiative for those sectors is not yet in place.

The five factors

The focus of our research this year has been to evaluate how successfully climate transition plans are being implemented and identify the factors that drive results and block progress. This approach looks beyond the areas where corporates have already advanced — such as establishing high-level strategic goals, environmental governance structures and target-setting — and focuses on actions that produce real changes in how businesses operate.

The assessment is based on company disclosures related to the five factors we have determined to be most crucial to the incorporation of decarbonization goals into the business models of companies:

Here are the five pivotal elements:

1
Capital expenditures (CapEx) assessing how far this is being directed toward green and transition initiatives

2
Product innovation the development and commercial scaling of low-carbon products, service offerings and technologies

3
Supplier decarbonization efforts the proactive management of emissions in supply chains

4
Engaging with customers direct engagement with customers to incentivize them to cut emissions related to a company's products or services

5
Steering the business the restructuring of core business processes such as budgeting and performance frameworks to reinforce and achieve climate goals

Our research team evaluated responses from companies disclosing through CDP after analyzing 15 questions across our five pivotal factors. For instance, on product innovation, we considered not just whether companies had developed a portfolio of low-carbon products, but the share of revenue that came from the portfolio. In many cases, corporates have green products, but they remain only a small part of the overall business. On capital expenditures, key questions revolved around the percentage of overall CapEx allocated to climate-related initiatives.

Companies that scored 50% or higher on 15 questions were recognized as making substantial progress. On the other hand, companies that scored between 25% and 50% were seen as demonstrating partial progress, while those scoring below 25% were considered as having limited progress.

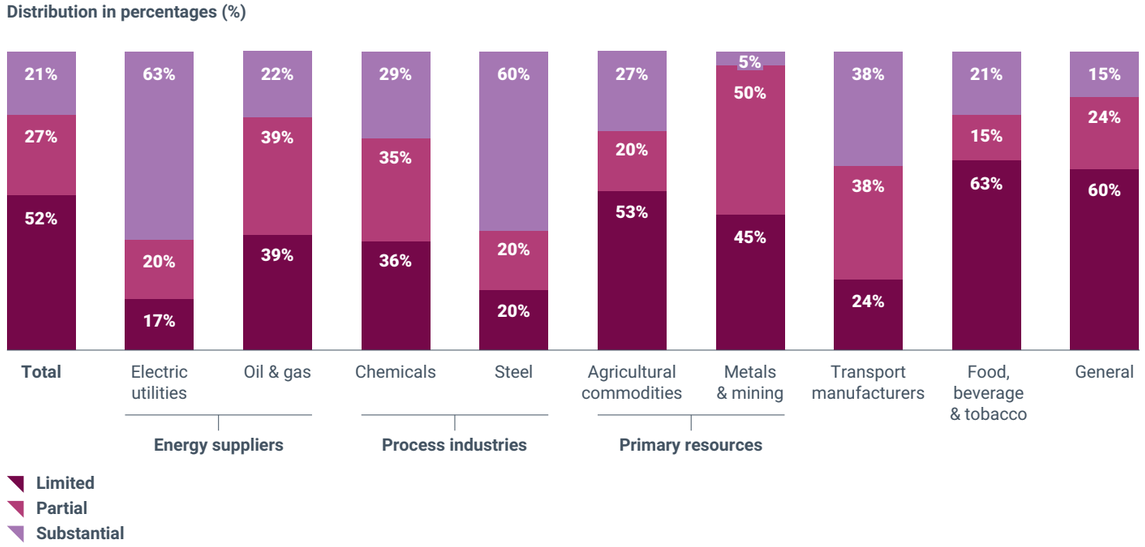
The implementation gap

But even the strongest performers did not score high in every category. These uneven results should be expected as each factor is not equally relevant to every industry. For instance, while capital expenditures are vitally important to making progress for electric utilities, supply chain management figures less prominently. For automotive companies, the reverse is the case, with supply chain management probably one of the most vital factors in any auto industry decarbonization effort. Even allowing for this, many companies score poorly across all five factors.

Industry-specific impacts

Electric utilities scored the highest among the industry segments evaluated. This makes sense because renewable power has long been a central focus of efforts to mitigate climate change, which along with supportive government policies has allowed the renewable energy industry to reach profitable commercial scale. Considerable government incentives helped make wind and solar power competitive with traditional energy, allowing utilities to pursue decarbonization as a viable commercial strategy.

Figure 3
Utilities, steel and transport manufacturers lead on closing the implementation gap



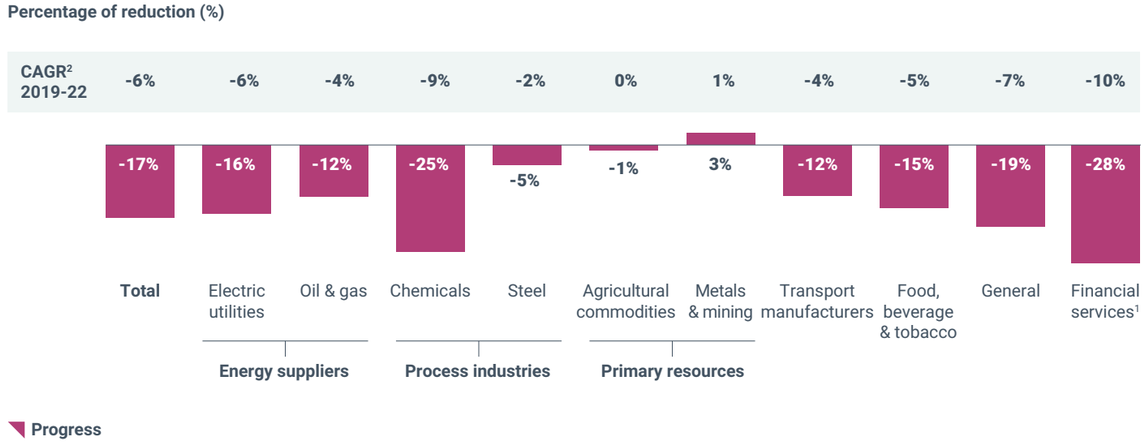
Source: Oliver Wyman analysis, CDP data

By contrast, the relative lack of progress in agricultural commodities and food, beverage & tobacco is concerning, given the importance of these sectors not just to emissions reductions but also to the wider nature agenda.

For the most part, sectors that have been successful in translating targets and plans into business model changes have delivered greater emissions reductions. Overall, between 2019 and 2022, European corporates disclosing through CDP managed to cut emissions by 17% across Scopes 1 and 2. The path of emissions reductions over these years was complicated by the sharp decline in economic activity during the COVID-19 pandemic and the disruption in production caused by the invasion of Ukraine and soaring energy prices. Generally, EU emissions have been trending downward, especially when it comes to the region's reliance on fossil fuels. This contrasts with the trend in global emissions, which began setting new records after the pandemic subsided.

In our assessment of CDP questionnaire responses, some of the big leaders were chemicals and utilities. In contrast, agricultural commodities, metals and mining saw minimal cuts or no cuts at all. To meet the goal of reducing emissions by 45% by 2030, urgent progress is needed in the areas where progress has so far been limited.

Figure 4
Reduction of Scope 1 and 2 emissions, 2019-2022



Notes: 1. Financial services without including financed emissions; 2. Compound Annual Growth Rate.
Source: Oliver Wyman analysis, CDP data

The implementation gap

1/3

of the European corporates disclosing through CDP reported access to capital as a key concern for decarbonization projects

The challenge in accessing finance

An important hurdle for corporate decarbonization is accessing capital for financing new low-carbon technologies and products, and transforming current business models.

One-third of the European corporates disclosing through CDP reported access to capital as a key concern for decarbonization projects — with even higher percentages among high-emitting sectors. This is despite widespread commitments by European financial institutions (FIs) to net-zero under the banner of industry groups like the Glasgow Financial Alliance for Net Zero and considerable investments in new teams and capabilities focused on climate change.

The difficulty some companies are running into accessing capital likely reflects similar complications facing FIs as they seek to grow their lending and investments in the climate transition. For example, required investment needs are often large and timelines are long. Some technologies are not yet commercially proven and the economics of the businesses can be highly dependent on government policy. This means the financing may not fit well within existing frameworks, sometimes involving first-time investments by FIs in areas where they lack a track record to assess risks and their capabilities and processes are still developing.

The main pain points around decarbonization projects cited by disclosing companies are:

- Longer than usual time horizons for investment returns
- The frequently changing regulatory environment
- The risk models applied to investment opportunities
- Lengthy and bureaucratic application processes
- The risk of over-indebtedness

"The obstacle facing both corporate clients and financial institutions is the lack of viable business models that make green business endeavors more attractive than their carbon counterparts"

These pain points are particularly evident among some of the energy-intensive industries critical to the transition. At the end of the day, the obstacle facing both corporate clients and FIs is the lack of viable business models that make green business endeavors more attractive than their carbon counterparts.

In the area of power generation, the problem is a little different. While more than 50% of power generation companies reported similar concerns about accessing capital, many also fear taking on more debt. Some companies in the sector worry that they will face a credit downgrade if they sought new financing. That makes lending to the

Figure 5
Many companies cite access to capital as a key concern

Companies identifying access to capital as key factor influencing their financial planning
Distribution in percentages (%)

Source: Oliver Wyman analysis, CDP data

Figure 6
Painpoints faced by corporates in accessing capital

Unstable and competitive environment	Policies, both new and existing, are expanding in their scope and ambition, e.g., EU Taxonomy and Green Claims Directive Industry regulations like CBAM[1] can significantly affect industries by causing unforeseen price increases due to rising ETS prices Developments outside the EU, such as IRA[2], might shift investor focus due to more lucrative investment options beyond the EU
Time horizon for investments	Companies need to make long-term investment decisions, e.g., for the next 20-30 years Today's profitable business cases may not remain sufficient or regulation-compliant in the future
Financial institutions' risk models	Traditional risk assessment models do not adequately cater to many projects related to the transition Specific models for climate-related risk assessment are needed, but financial institutions are still in the process of creating and implementing those
Funding application processes	Application processes are in part lengthy and bureaucratic Mid-sized projects may be too small to be eligible for external funding but too expensive for the companies to finance them themselves
Capital structure	Companies face constraints on taking more debt or risk, which could jeopardize their credit ratings, especially if they are highly leveraged

Notes: 1. Carbon Border Adjustment Mechanism (CBAM); 2. Inflation Reduction Act (IRA).
Source: Oliver Wyman analysis, CDP data

The implementation gap

Governments worldwide have begun intervening with new mandates and financial incentives to catalyze private sector activity

Practical realities

Governments worldwide recognize that capital is still not flowing quickly enough. They have begun intervening with new mandates and financial incentives to catalyze private sector activity. In Europe, the Green Deal package of initiatives has led to some of the world's strictest disclosure regulations, including the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR). Europe has also pioneered taxing carbon content through the Carbon Border Adjustment Mechanism (CBAM) and mobilized billions of euros in investment to subsidize the climate transition.

Despite these efforts, there are growing concerns that other regions are adopting more aggressive industrial policies to attract investments and secure competitive advantages in crucial technologies for the transition. For example, in the United States, the 2021 Infrastructure Investment and Jobs Act and the 2022 Inflation Reduction Act included substantial subsidies and tax credits to bolster green business models. That included incentives to encourage consumer purchases of electric vehicles (EVs) and the construction of EV charging capacity, support for additional manufacturing facilities to produce low-carbon products such as EV batteries and alternative fuels like sustainable aviation fuel and renewable diesel. China has also been proactive for many years with policies that support investment in strategic industries like EV production and their related supply chains.

How organizations navigate this shifting economic environment and deliver the business model changes that are needed for the green transition of course differ from sector to sector. Reflecting this, the following sections of the report benchmarks three of the most important industries against our five factors that will eventually facilitate the economy's journey to net-zero.

We explore capital investment with a focus on the utilities sector, new product development with a focus on the steel sector and supply chain management with a focus on the automotive sector. We then return to the topic of how the transition can be financed and the role FIs should play in support.

Featured case study
Beiersdorf AG

Mankind is currently facing one of its greatest ever challenges: to drastically limit global warming. Only with a net-zero economy will we be able to keep our ecosystems functioning, which are essential for humans to thrive on Earth. As such, we all must act now and we are doing our part at Beiersdorf by taking strong measures to drive the transformation of skin care toward eco-friendly practices across the whole value chain.

With our CARE BEYOND SKIN Sustainability Agenda, we are setting ambitious targets, such as our climate target, which aims to reduce greenhouse gas emissions across Scopes 1, 2 and 3 by 30% in absolute terms before end of 2025 (vs. 2018). Our group-level climate target is approved by the Science Based Targets initiative (SBTi) to be in-line with scientists' recommendation to limit global warming to 1.5 degrees.

We take strong efforts to deliver towards our climate target, involving all functions of the business. We also involve our suppliers and have created strong partnerships across the value chain to reduce the emissions of our products. During 2023, we continued to rework our assortments and implemented more sustainable formulas and packaging solutions. With these efforts, we managed to reduce the CO_2-footprint of our NIVEA Lip Care (Labello) products and NIVEA Sun assortment. Furthermore, we implemented a minimum of 50% recycled aluminum in our aerosol cans, which are filled in our newly built factory in Leipzig, Germany. The factory is our second climate-neutral operation, after Berlin.

Many milestones have also been achieved with EUCERIN, our dermo-cosmetic skin care brand. For example, an innovative refill jar was created, which allows consumers to purchase a refill capsule only and simply reuse their existing outer jar. This innovative solution saves more than 90% of plastic and aims to establish a reuse habit with consumers.

At Beiersdorf, we truly care for skin and we truly care beyond skin. In 2024, we will announce new sustainability targets for the timeline 2025+. We will keep our ambition levels high and we will keep delivering towards a net-zero economy.

Jean-François-Pascal Pascal
Vice President Corporate Sustainability, Beiersdorf

Beiersdorf

Featured case study
L'Oréal

For L'Oréal Groupe, acknowledging our responsibility towards people and the planet is an integral part of our sustainability commitments. We are more convinced than ever that our financial, social and environmental performance are inherently linked.

Our first environmental objectives date back to 2005. Our sustainability approach has strengthened and expanded over the years and in 2020, we decided to take a step further by committing to align our activities to what the latest climate science requires. With L'Oréal for the Future, we have set ambitious sustainability commitments and concrete objectives for 2030.

More than three years after the launch of this program, significant progress has been achieved. Firstly, in tackling climate change. At the end of 2023, L'Oréal reached 91 % renewable energy for its sites[1]. To align ourselves with the 1.5°C scenario, we will reduce our CO2 emissions by 50% per finished product (25% in absolute terms) by 2030 and achieve net-zero emissions in 2050. These advances have been made possible by improving the energy efficiency of all our facilities (buildings, equipment, etc) and covering our energy needs with local renewable energy whenever possible.

To contribute to sustainable water management, we are investing in our industrial sites. By 2030, 100% of the water used in our group's industrial processes will be recycled or reused. At the end of 2023, 39% of the L'Oréal's plants had water recycling facilities. Furthermore, we continue innovating to reduce water consumption during the product usage phase, aiming for a 25% reduction compared to 2016 per finished product, on average.

Another significant commitment is that by 2030, 95% of our ingredients will be biobased, derived from abundant minerals, or from circular processes. At the end of 2023, L'Oréal reached 65 % on this target. Through Green Sciences, we explore new frontiers of scientific discovery while creating beauty products that respect the planet throughout their lifecycle. Our 2030 Forest Policy covers a wider range of forest-related raw materials to ensure the sustainable supply of soy oil, palm oil and wood-fiber-based products so that none of our products is associated with deforestation.

We believe in the power of collective sustainable innovation to reach our ambitious goals and are engaging our extended ecosystem to support and accelerate transformation. Together with our partners, suppliers, stakeholders and consumers, we are building a positive force to create a more resilient and inclusive future.

Antoine Vanlaeys
Chief Operations Officer of L'Oréal

L'ORÉAL

1 Operated sites, excluding safety and security installations.

Featured case study
MM Group

The MM Group (MM) is a global leader in consumer packaging, providing packaging solutions for cartonboard and folding cartons including kraft papers, uncoated fine papers, leaflets and labels. MM promotes sustainable development through innovative, recyclable packaging and paper products.

MM produces packaging and paper products made from renewable, fibre-based raw materials and actively contributes to avoiding plastic waste. As a company with a legacy spanning over more than 130 years and rooted in a family core shareholder group, our vision extends far beyond the immediate horizon. With a steadfast commitment to long-term market perspectives, we intertwine our growth strategy with our core values, tradition and long-term thinking. Therefore, sustainable development is an essential part of our corporate identity.

The MM Group operates within a sector known for its significant resource and energy demands, placing it at the forefront of responsibility towards people and society. As the impacts of climate change become increasingly evident, MM faces a dual challenge: physical risks that threaten specific sites and strategic risks with the potential to impact an entire division or the Group as a whole. Through examination of various climate change scenarios and their anticipated impacts on (environmental) ecosystems, the MM Group has cultivated a deep understanding of the associated risks and opportunities. Based on this insight, we have established targets and implementation measures. MM has set itself an ambitious 1.5°C science-based, near-term target and is committed to a net-zero target. Furthermore, the MM Group is a TNFD Early Adopter which underlines our company's holistic approach to sustainability.

Given that MM's products are derived from renewable raw materials and have a recycling rate above 80%, our sustainability strategy is increasingly centred around decarbonization efforts to elevate our overall sustainability performance. To reduce the corporate as well as the product carbon footprint, different measures are being implemented or planned to minimize our Scope 1 and 2 emissions, highlighting our commitment to minimise our environmental impact. In 2023, as part of a strategic project, all 71 production sites developed measures in terms of energy efficiency, reducing energy consumption and/or carbon dioxide reduction. This project was part of MM's sustainability strategy and linked to our remuneration policy. This approach establishes a direct connection between individual contributions and our collective sustainability achievements.

Stephan Sweerts-Sporck
Head of Investor Relations and Corporate Communication, MM Group

MM

Featured case study
Symrise

At Symrise, we set ourselves the goal of minimizing our environmental impact more than a decade ago, having first disclosed through CDP in 2010 on climate change. We realized early on that growth and sustained profitability go hand in hand with improving sustainability performance. We seek to demonstrate how the efficient use of natural raw materials can have a beneficial impact on our company's growth, efficiency and portfolio. CDP has recognized our environmental leadership and action with a triple A score across climate change, forests and water security from 2020-2022 and also in 2023 on climate and water as well as an A- for forests.

As the first company in our industry to have a climate commitment externally approved by the Science Based Targets initiative (SBTi) in 2017, Symrise became one of the first 100 SBTi-certified companies in the world. We commit to reduce absolute Scopes 1 and 2 greenhouse gas (GHG) emissions 80% by 2028 from a 2020 base year. This is alongside reducing absolute scope 3 GHG emissions from purchased goods and services 30% by 2030 from a 2020 base year and continuing to annually source 100% renewable electricity through 2030.

To achieve our targets, Symrise is bundling its environmental activities in global projects, including a strong Low-Carbon-Transition-Plan project where we replace petrol-based energy generation systems with renewable energy where possible. The installation of 4,800 square meters of photovoltaic modules on the roof of our fragrance plant in Granada, Spain now generates around 1.6 million kilowatt hours of electricity each year, covering 15 percent of the production facility's electricity demand.

We at Symrise intend to continue investing in measures to create a greener economy and society and to serve as a role model for corporate environmental action into the future.

Bernhard Kott
Chief Sustainability Officer at Symrise

symrise

Driving up green capital investment

A focus on the utilities sector

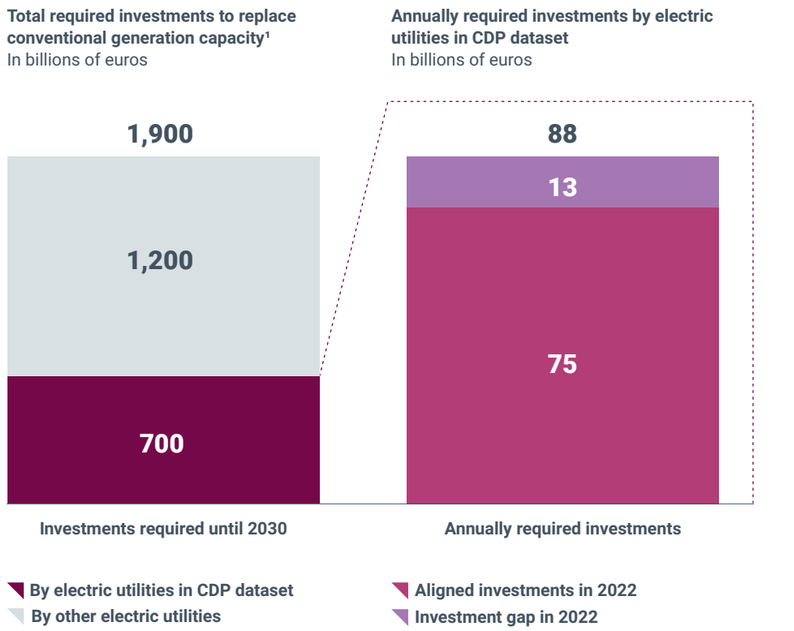
Driving up green capital investment

The electric utilities industry could become a key enabler of decarbonization in many other industries because all companies depend on the generation of electricity

Increasing the flow of capital into transitioning sectors is critical. Take, for instance, the electric utilities industry — a heavy emitter but also at this point a frontrunner among industrials on decarbonization. The sector, accounting for 30% of European corporate emissions, could become a key enabler for meeting climate targets in many industries because all companies depend on the generation of electricity to some extent. Any effort to replace conventional generation capacity with renewable energy would reduce the carbon footprints of all industries.

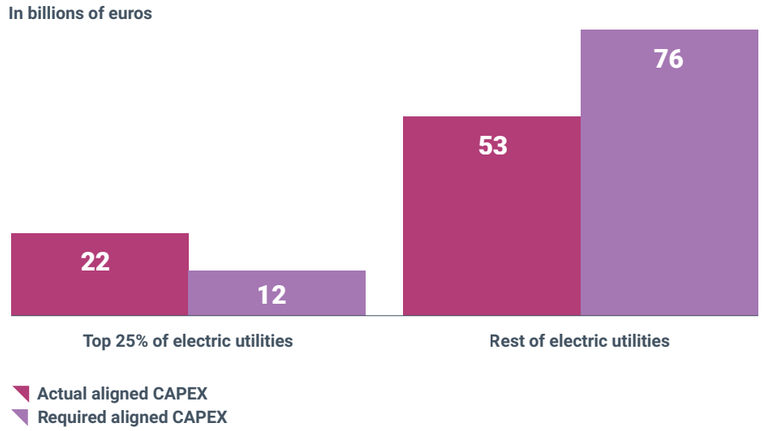
But despite its potentially pivotal role, the utilities industry also finds itself falling short on needed investment. Seven in ten electric utilities companies disclosed through CDP that they struggle with limited access to capital.

Figure 7
Capital investment utilities need to make to achieve emissions reduction



Notes: 1. Including coal-and oil-based but not gas-based power generation capacity; 2. Total conventional power generation capacity in EU to be replaced = 230GW; 3. Including only electric utilities that generated conventional power in 2022 and grid operators.
Source: Oliver Wyman analysis, CDP data, IEA data, Capital IQ data (23.11.2023), rounding errors may occur

Figure 8
Capital expenditures by utilities aligned with needs of climate transition



Note: 1. Top 25% of electric utilities according to our implementation framework.
Source: Oliver Wyman analysis, CDP data, Capital IQ data (23.11.2023).

€285 bn

The European electric utilities investment gap would reach 285bn by 2030 if the shortfall continues

Analyzing the utility sector's CapEx needs

Moving forward, we calculate that the sector should be investing at least €1.9 trillion by 2030 to replace some 230 gigawatts of conventional generation capacity, which depends on oil, coal and lignite. Investment is also needed to upgrade the grid to accommodate more renewable energy, particularly from onshore and offshore wind as well as from low-voltage inputs from rooftop solar panels and other consumer generation efforts.

For instance, investments made by electric utility companies disclosing through CDP in 2023 fell 15% short of what was needed. In 2022, a cumulative €75 billion was spent versus the €88 billion that companies in the sector need to invest every year to reach 1.5°C aligned net-zero goals. Considering all European electric utilities, this investment gap would widen to €285 billion by 2030 if that annual shortfall were to persist.

Meanwhile, electricity demand is predicted to grow 30% by 2030. Besides economic and population growth leading to an increase, this new demand would reflect increased electrification of heating and transport, including EVs and the expansion of the hydrogen market in Europe to serve industrial users.

This impending increase in demand suggests the industry must make up the gap in investment now if it is to avoid a spike in emissions and falling behind on climate transition plans.

Driving up green capital investment

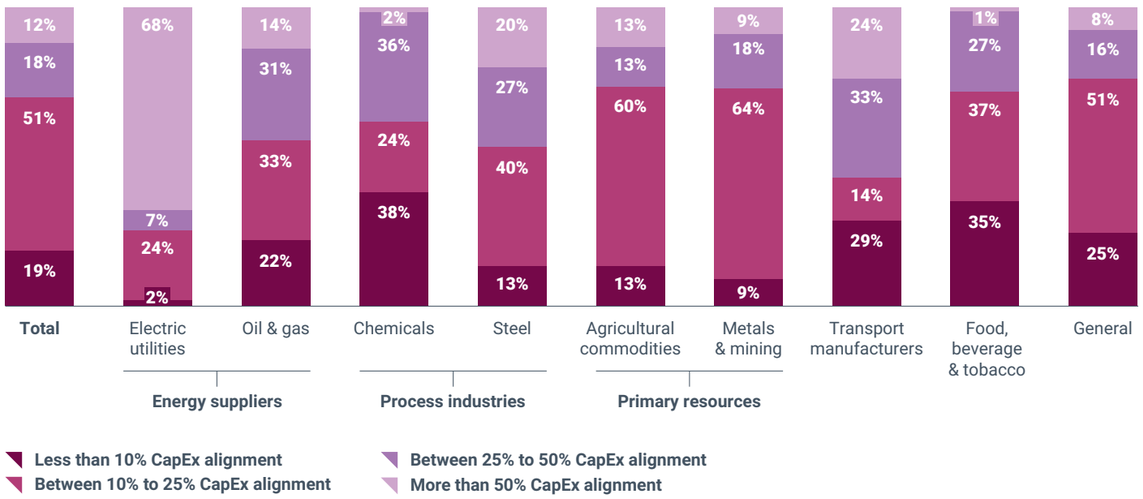
More needed in other sectors

The power sector is by far the largest single area requiring CapEx, accounting for around US$2 trillion. This amount is part of the US$2.8 trillion in incremental capital investment needed globally by 2030, as per the net-zero scenario proposed by the International Energy Agency.

Investment is also needed in many other sectors, where industrial and transport assets must be replaced or overhauled, or new energy sources developed. In these industries, green CapEx levels tend to run far lower. Only steel, electric utilities and transportation — over 20% of the companies analyzed — are spending more than 50% of CapEx on areas aligned with climate transition plans or sustainable finance taxonomy. In some sectors, fewer than 10% of companies meet this threshold. Overall, 70% of companies align less than 25% of their CapEx toward their transition plan or a sustainable finance taxonomy.

Figure 9
Green capital expenditures vary widely across industries

Distribution in percentages (%)



Source: Oliver Wyman analysis, CDP data

Case study
E.ON

The E.ON Group is one of Europe's largest operators of energy networks and energy infrastructure and a provider of innovative customer solutions for approximately 47 million customers. E.ON incorporates sustainability into its business model as part of its strategic approach, which includes engaging in innovative partnerships, initiating nature-focused projects and maintaining a future-oriented vision. E.ON's commitment to sustainability is reflected in its joint discussion of carbon dioxide (CO_2) decarbonization performance and financial performance.

An illustrative example of E.ON's collaborative efforts is its partnership with a brewery and steel producer. Through this initiative, E.ON facilitated the transfer of excess heat from steel production to the brewery's operations, optimizing both processes. This collaboration created an income stream from energy efficiency for the steel producer and provided carbon-neutral energy for the brewery.

E.ON's commitment to environmental sustainability extends to initiatives aimed at bolstering nature and biodiversity. A key project involves managing ecological corridors beneath power lines, covering an area of approximately 70,000 hectares. By utilizing artificial intelligence and satellite imagery for tree recognition, E.ON has identified trees that can remain without compromising infrastructure safety, this approach boosts biodiversity and transforms these areas into thriving ecosystems.

From 2024 through 2028, E.ON plans to invest €42 billion in Europe's energy transition. The major part of the investment is directed toward the expansion, modernization and digitalization of energy networks. E.ON currently aligns 98% of its investments with the EU taxonomy for sustainable activities.

Collaboration across E.ON's value chain plays a crucial role in advancing the company's sustainability objectives and fostering a collective movement toward a more sustainable energy future. For E.ON, these collaborative efforts highlight the importance of industrywide cooperation and a long-term commitment to achieving a net-zero world.

Managing the value chain

A focus on the automotive sector

2

Managing the value chain

Scope 3 emissions caused by vehicle owners account for more than 75% of total automotive emissions, while only about 10% are covered by science-based targets

For many industries, Scope 3 emissions, those generated by supply chains and end users, represent their most significant exposure to greenhouse gases. That's the case for the automotive industry, where effectively managing the dynamics of the value chain poses its biggest challenge. This is particularly true in relation to reducing downstream emissions caused by vehicle owners and/or through the use of sold products, which account for more than 75% of total sector emissions. Only about 10% of Scope 3 emissions are covered by science-based targets. Upstream, disclosures by transport manufacturers through CDP show only 7% of supply chain emissions are covered by science-based targets.

Regulations, evolving market dynamics and intensified global competition in the EV market are helping to drive automakers' progress on environmental issues. The sector presents a powerful prototype for how an alternative, lower carbon product can breathe new life into an industry. Almost eight out of ten car companies see EVs as an opportunity to maximize revenue and profit.

This is particularly true given the European ban on the sale of new internal combustion cars that comes into effect in 2035. This leaves both car companies and consumers with no choice but to transition to EVs. Confirming this outlook is the fact that 59% of total industry research and development over the next five years will be invested in EVs, even though they represent only 13% of current sales. The new R&D has a specific emphasis on battery manufacturing, which is expected to evolve into a €450 billion global industry by 2035 through EV demand. Europe aims to significantly expand its total installed production capacity, with as many as 50 new gigafactories planned for 2030.

59%

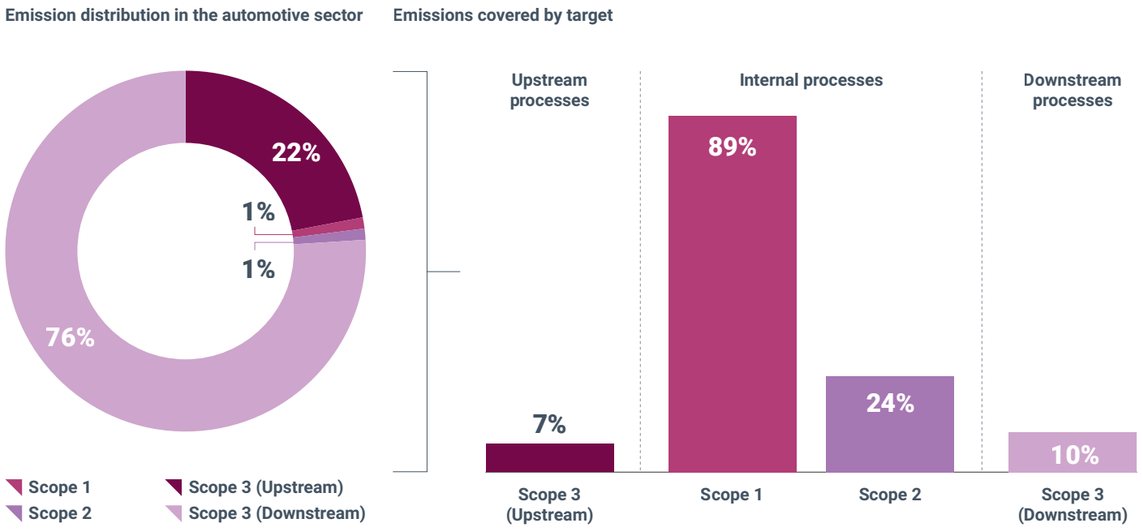
of total research and development over the next five years will be invested in EVs, even though only 13% of current sales come from them

Cross-industry partnerships

Beyond what they can do themselves to decarbonize, car companies are heavily reliant on various suppliers for green product innovation. The most obvious example is green steel. This has led several automakers to invest in or establish long-term purchase agreements with the handful of green steelmakers, including Sweden's H2 Green Steel, US-based Boston Metal and Germany's Salzgitter Low CO2 Steelmaking.

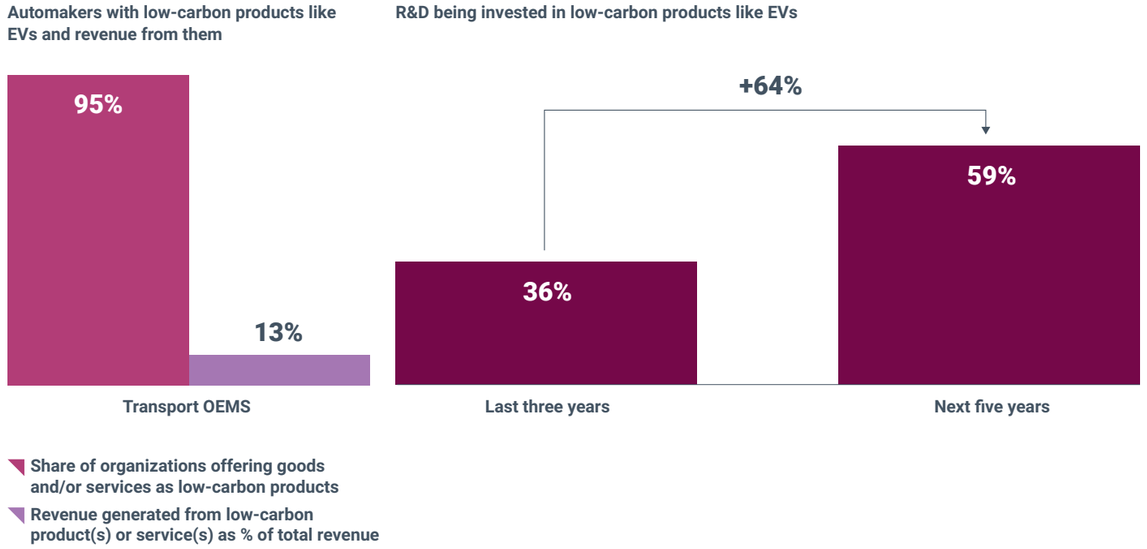
Thanks to regulation and generous subsidies, the prospects for a solid EV market are strong. Yet half of automotive manufacturers disclosed access to capital as a key concern. As a strategic response to free up more investment capital, a few major car companies are splitting their operations into two distinct units: one dedicated to internal combustion engine (ICE) vehicles and the other to EVs.

Figure 10
Scope 3 emissions are automotive's big hurdle, but little progress realized



Source: Oliver Wyman analysis, CDP data

Figure 11
Most automakers sell electric vehicles and upped R&D but sales revenue lags



Source: Oliver Wyman analysis

Managing the value chain

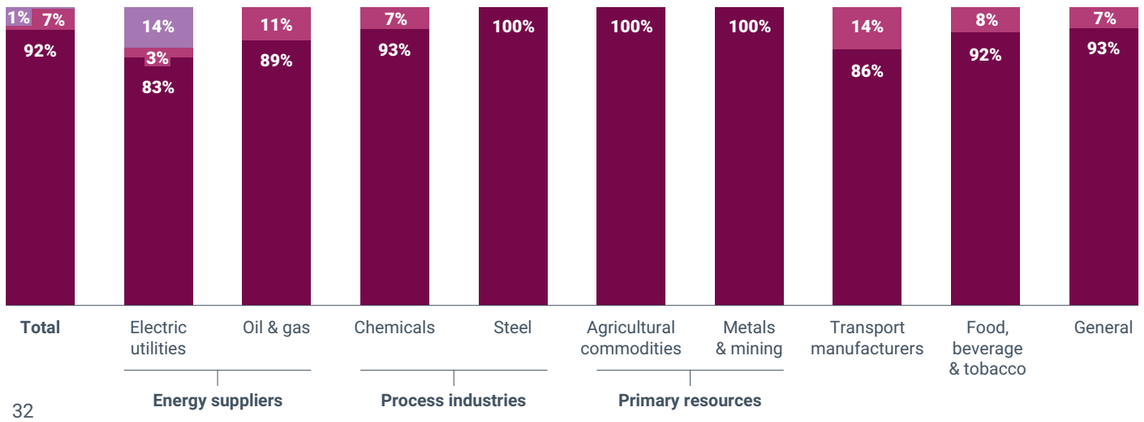
They are also seeking financing from non-financial partners. For example, one large automaker splitting EVs from ICEs is collaborating with other car companies, a telecommunications company and a major oil and gas producer to help finance its EV unit. It is keeping a majority stake in the anticipated EV IPO.

Challenges in other industries

Across industries, only 11% of companies have more than 25% of their suppliers meeting climate-related requirements as part of their purchasing process. And only 8% of these make this a contractual requirement.

Figure 12
Few industries have made deep progress in purchasing contract requirements

Distribution in percentages (%)



Source: Oliver Wyman analysis, CDP data

32

Case study
Solvay

With a legacy of over 160 years of history, Solvay is a leader in a range of markets ranging from peroxides and soda ash to silica, specialty phenols and rare-earth formulations. These are vital in numerous industries numerous end-markets including construction, automotive, health and consumer goods. Consistently recognized as a shaping force in sustainability, Solvay has accelerated its path to deliver carbon neutrality before 2050, particularly by building on strengths in process innovation and technology development. This path is underpinned by recently announced projects and innovations.

In partnership with the energy and water company Enowa, Solvay plans to build the world's first carbon-neutral soda ash production plant in Neom, Saudi Arabia. Set to operate by 2030, this renewable energy-powered facility constitutes a new standard in sustainable soda ash production by converting seawater brine into soda ash and integrating the innovative e.Solvay process.

Meanwhile, its "STAR" factory program, launched in 2021, is transforming manufacturing sites into industry benchmarks in terms of sustainability performance. Already implemented in half of Solvay's sites, the program aims to reach 42 sites by the conclusion of 2024. One notable example of its impact is evident in Włocławek, Poland, where Solvay has managed to curtail freshwater intake by 8% in 2023 compared to the previous year, while maintaining similar production levels, relying on innovative water reuse and recycling strategies developed under the program.

As another example, Solvay's bio-circular silica represents a significant breakthrough in the tire industry, providing a sustainable solution that addresses environmental concerns without compromising performance or cost. Through a proprietary process, Solvay extracts silica from rice husk ash, a renewable raw material and agricultural byproduct of rice milling and modifies its surface properties to enhance its compatibility with rubber matrices. This circular-based silicate process, coupled with renewable energy integration at its plant in Livorno, Italy, will achieve an overall 50% reduction in CO_2 emissions per ton of silica. Solvay is the first company to commit to producing circular, highly dispersible silica (HDS) at a European site within a concrete timeframe. In effect, plans have been made to build a new facility in North America that will also use bio-based, circular and local raw materials and Solvay is investigating similar projects in Asia and South America. For bio-circular highly dispersible silica, a promising future awaits.

Case study
Lenzing

Lenzing, an Austrian-based regenerated cellulose fiber company, has made significant investments of more than €200 million in various projects to drive green technology and processes recently. The company's investment approach goes beyond traditional financial metrics, focusing on improving along multiple impact categories, including reducing emissions and pollution.

For example, one of their successful products, LENZING™ ECOVERO™ branded viscose, emits 50 % less carbon dioxide than the industry average. Lenzing's portfolio helps brands and retailers of the textile and nonwoven industry reduce Scope 3 emissions and meet its sustainability goals. Enabling investments in facilities in Indonesia and China were supported by a successful track record of Lenzing's sustainable products with customers and the prior alignment on customer requirements.

With biodiversity as a priority, Lenzing invests in biodiversity corridors and projects to protect local flora and fauna. Lenzing launched an afforestation and conservation project in Albania in 2018, aiming to reforest 20 hectares by 2023. As part of this project, Lenzing also established a "tree nursery" to cultivate seedlings for future reforestation projects and provide a sustainable source of income to local community. Lenzing supports a forestry school to educate individuals in forest management and conservation practices.

Lenzing implements both the biological and technical cycles of the circular economy. The company's products are made from renewable raw material wood and are biodegradable, closing the natural loop of the biological cycle. Lenzing also focus on recovering and reusing chemicals during fiber production, offering fibers with recycled content from pre-consumer (scraps from garment making) and post-consumer textile waste. Through collaborations, such as with Swedish company Södra, Lenzing expands its recycling efforts to include post-consumer waste, such as hotel blankets and bed sheets into its recycling processes by transforming these materials into fibers once again.

Lenzing's budgeting process involves identifying projects with strong customer value and business cases based on sustainability benefits. Lenzing collaborates with key accounts, partners and suppliers to understand challenges, desired outcomes and create solutions. Lenzing's procurement function integrates sustainability criteria and incentives into supplier negotiations to promote emissions reduction and sustainability practices in the value chain.

Scaling new low-carbon products

A focus on the steel sector

3

Scaling new low-carbon products

87%

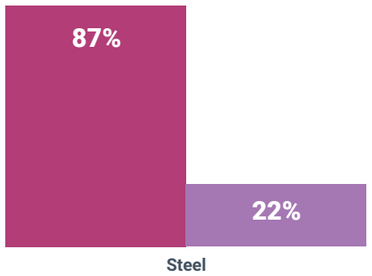
of steel companies now offer some type of low-carbon products

Green steel, which touches so many industries - from automotive and construction to shipbuilding and aerospace - has the potential to decarbonize several sectors simultaneously. In fact, the prospect of green steel production has kicked off a small revolution in the sector, with 87% of steel companies now offering some type of low-carbon product. The challenge, however, is scaling. Today these products account for only 22% of revenue.

Figure 13

Green steel accounts for less than a quarter of revenue but demand is growing

Companies offering low-carbon products versus revenue from them



Share of organizations offering goods and/or services as low-carbon products

Revenue generated from low-carbon product(s) or service(s) as % of total revenue

Expected demand of green steel by key industries

Industry	CAGR 2025-2035 (%)	Size 2035 (Mt)	Demand
Automotive	28	19.3	High
Energy	61	9.4	Nearly high
Construction	50	6.8	Partial
White goods	30	6.7	Partial

Notes: 1. Depends on the energy mix of the electricity grid; 2. Emissions depend on carbon intensity of hydrogen electrolysis.
Source: Oliver Wyman analysis, European Commission,WorldSteel , CDP data

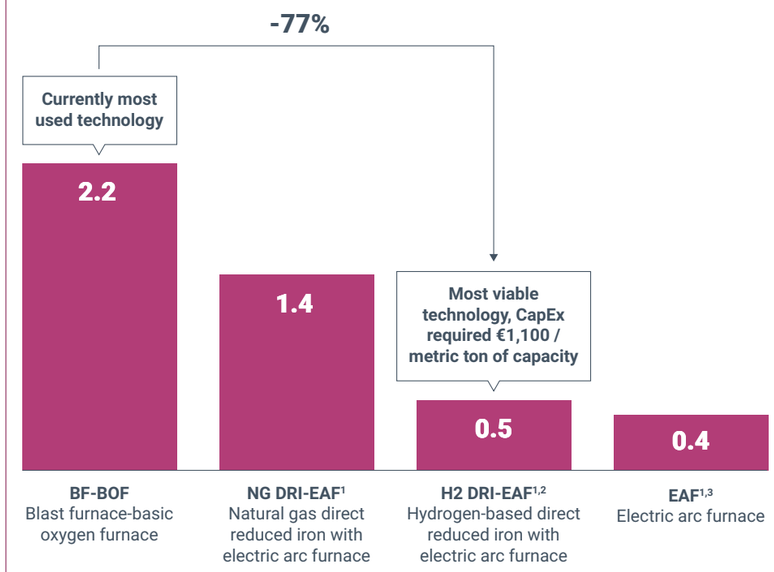
Once considered one of the most carbon-intensive industries, the transition from using a traditional blast furnace-basic oxygen furnace and coke to a hydrogen-based direct reduced iron in electric arc furnaces is transforming steel. In Europe, this transformation is reshaping the landscape for renewables, green hydrogen and iron ore mining and processing, as well as demand for new capital equipment.

However, the transition involves a 20-30% price premium on green steel, increasing as the percentage of CO2 content declines. For instance, reducing CO2 emissions from 2.1 Mt CO2/Mt the Rockwell hardness scale (HRC) to below 1 Mt CO2/Mt HRC can add up to €300 per ton.

Figure 14

Low-carbon steel cuts emissions 77% and costs €1,100 per metric ton of new capacity

CO_2 intensity per metric ton of steel
Metric tons of CO_2 per ton of steel



Carbon intensity

Notes: 1. Depends on the energy mix of the electricity grid; 2. Emissions depend on carbon intensity of hydrogen electrolysis; 3. Using scrap.
Source: Oliver Wyman analysis, European Commission, WorldSteel, CDP data

"Green steel demand is expected to surpass supply in 2030"

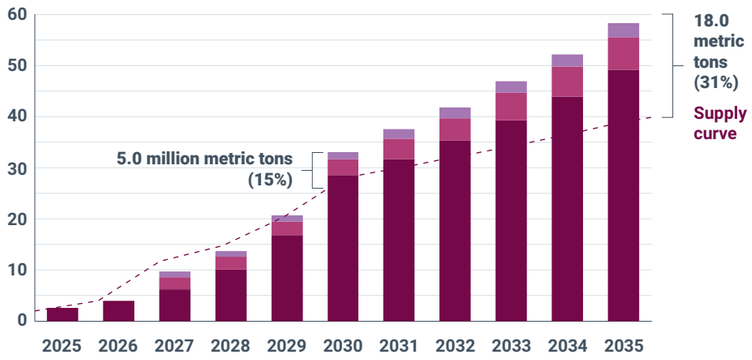
Despite higher prices, there seems to be a ready-made market for many green industrial products, with demand significantly outpacing the supply. Already, green steel demand in 2030 is expected to surpass supply, with the shortfall reaching as much as 18 million tons (31%) by 2035.

Demand is expected to grow to around 49 million metric tons at a compound annual growth rate (CAGR) of 34% between 2025 and 2035 from a mere 2.5 million today. In 2026, this growth will be bolstered by regulation, including the phasing out of the EU emissions trading system (ETS) free allowances and introduction of a Carbon Border Adjustment Mechanism (CBAM). Such policy support could increase demand by another 9.1 million metric tons by 2035.

Scaling new low-carbon products

Figure 15
Rising green steel demand creates a shortage of 18 million metric tons by 2035

Green steel demand until 2035 per demand driver
In metric tons



- Base demand
- Demand because of free allowance phase out
- Demand because of CBAM

Source: Oliver Wyman analysis, CDP data

Key findings

- **CBAM**
  Starting in 2026, **imported grey steel into Europe will be subject to an extra tariff** making grey imports more expensive and European green steel more attractive
- **Free allowance phase out**
  Starting in 2026, European steel producers will **gradually lose their free allowances**, which in turn raises grey steel prices further driving green steel demand
- **Base demand**
  Driven by the carbon reduction goals of the separate industries and their demand growth

Incorporating green steel will help key sectors meet their emission reduction targets

This rise in demand is expected to be partly helped by rising prices on traditional gray steel, which would make European green steel more competitive. Key sectors driving this demand include automotive, energy and construction, with expected CAGRs of about 28%, 61% and 50% respectively between 2025 and 2035. All three are under pressure to meet their own emissions reduction targets and incorporating green steel — one of their most important raw materials — helps their efforts.

Companies also acknowledge the risk of failing to act: 20% of European companies disclosing through CDP expect to lose business to alternative, low-carbon products if they fail to offer their customers similar environmentally friendly options.

Figure 16
At the tipping point for buying green, those without products will lose out

Anticipated climate-related risks and impact on financial metrics
# of nominations

		Costs		Revenue		CAPEX
		Increased direct costs	Increased indirect (operating) costs	Decreased revenues (demand)	Decreased revenues (production capacity)	Increased capital expenditures
Physical	Acute physical	**214**	**157**	**37**	**313**	**77**
	Chronic physical	**135**	**119**	**54**	**179**	**28**
Regulations	Emerging regulation	**307**	**338**	**95**	**11**	**56**
	Current regulation	**113**	**153**	**19**	**15**	**20**
Economic	Market (Product substitution)	**180**	**96**	**383**	**14**	**21**
	Reputation	**11**	**11**	**227**	**10**	**3**
Capabilities	Technology	**60**	**41**	**91**	**11**	**74**
	Legal	**23**	**21**	**8**	**1**	**4**

>100 **>200** **>300**

Source: Oliver Wyman analysis, CDP data

Key findings

- Companies anticipate that physical risks, including acute and chronic, might lead to increases in cost and decreased revenue due to reduced production capacity
- Regulations, especially emerging regulation, are number one driver for direct and indirect cost
- Market and reputational risks are number one driver for reduced demand, demand side all about market and reputation
- Fewer companies consider technological or legal risk types to have an impact on their financial

Scaling new low-carbon products

Europe's steel industry is at a crucial point. In no industry is the need for a better flow of funds more pressing

Rising need for financing

There are few industries with a more pressing need for financing than in steel. The transition to low-carbon technologies and feedstock will require a CapEx investment of around €1,100 per metric ton of capacity — about the amount needed for developing a new H2 DRI-EAF plant, which is currently the most viable technology. This substantial requirement will put pressure on steelmakers and is one of the drivers of higher prices for green steel. Given that a metric ton at the end of 2022 costs between €638 and €970 per metric ton, depending on the type, the required investment is a sizable operational expenditure to support.

To ease this financial burden, policymakers are implementing various financial support mechanisms, such as the Innovation Fund, which is the EU fund for climate policy that has a focus on energy and industry and direct government contributions. Notable examples include the €143 million contribution to SSAB's project, €1 billion to Salzgitter's SALCOS project and €515 million for ArcelorMittal's projects in Germany and Spain.

Europe's steel industry is at a crucial point. Key challenges include a required 8% increase in power generation, over five million tons of green hydrogen and 120 million tons of direct reduction-grade pellets — double the current global supply. The H2-DRI-EAF process, which cuts carbon intensity by about 77%, needs 1.5 times more electricity than traditional methods, making green steel about 20% more expensive. Hydrogen, representing 50% of green steel costs and electricity together account for 60% of production costs, underscoring the importance of adding more affordable renewable energy.

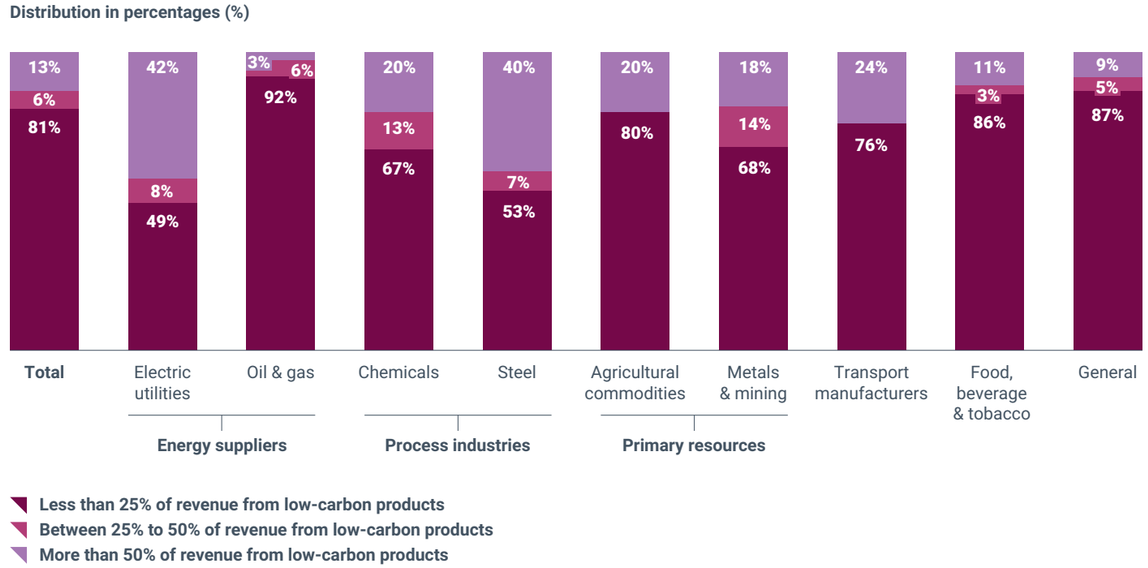
Commitment is crucial for maintaining market competitiveness and complying with evolving environmental regulations

How governments can help more

In the arena of international competition, policy support plays a critical role in shaping the green steel industry, as well as most industrial efforts at decarbonization. The US, with approximately 70% of its steel already produced using lower-emission electric arc furnaces, has a significant operational cost advantage over European producers.

In addition, the sector received a major boost from direct subsidies offered under the Inflation Reduction Act, as well as incentives provided for green hydrogen and renewable electricity. This creates a 30% operating cost difference in favor of US producers. Meanwhile, European steel producers are at a crossroads, given the phasing out of the EU ETS system that has been fundamentally reshaping their operational and financial landscapes.

Figure 17
Low carbon products represent a small share of revenue in most industries



Source: Oliver Wyman analysis, CDP data

European steel producers are at a crossroad, given the phasing out of EU ETS system which is fundamentally reshaping their operational and financial landscapes

European steel producers, operating under the EU ETS system, currently benefit from free carbon allowances covering approximately 80% of their CO2 emissions. But the December 2022 Climate Deal introduced a pivotal change, implementing gradual but substantial reductions in these allowances by 2030 and their complete elimination by 2034. This shift, coupled with the introduction of the Carbon Border Adjustment Mechanism (CBAM) from 2026 to 2034, which initially excludes electric arc furnaces, is set to significantly alter the cost dynamics between domestic mill production and imports. With the steel industry responsible for about 5% of Europe's total CO_2 emissions, these changes present notable financial challenges for mills that fail to transition.

As a result, steel companies are showing a medium-to-high level of commitment and performance in their adoption of green steel, largely influenced by impending regulations and market demands. Companies disclosing through CDP demonstrate their drive to meet the growing demand for low-carbon products in industries such as automotive, energy and construction. This commitment is crucial for maintaining market competitiveness and complying with evolving environmental regulations.

The challenge is scaling

One of the biggest hurdles facing low-carbon products is building the business to commercial scale, with revenue derived from these products still relatively low. Currently, a substantial 81% of companies generate less than a quarter of their total revenue from low-carbon products.

Scaling new low-carbon products

Case study
SHS – Stahl-Holding-Saar

SHS – Stahl-Holding-Saar (SHS), a German steel company with its two large subsidiaries Aktien-Gesellschaft der Dillinger Hüttenwerke (Dillinger) and Saarstahl AG (Saarstahl), is committed to reducing carbon emissions through significant investments in green technologies. The company's transformative project, "Power4Steel" aims to achieve a 55% reduction in carbon emissions by 2030 and reach net-zero emissions by 2045. To achieve this, SHS – Stahl-Holding-Saar is investing approximately €3.5 billions until 2030 in constructing two large-scale electric arc furnace plants and one large-scale DRI plant.

SHS – Stahl-Holding-Saar has already made progress in its sustainability efforts. The company offers low carbon products through Saarstahl Ascoval, a plant acquired in 2021 and Saarschmiede Freiformschmiede. Both electric arc furnace plants allow for carbon-reduced pre-material. Dillinger and Saarstahl have started offering plates with 50% and long-products with 70% reduced carbon footprint. The major reduction in group-level carbon emissions is expected in 2027/2028 when the new plants go into full production.

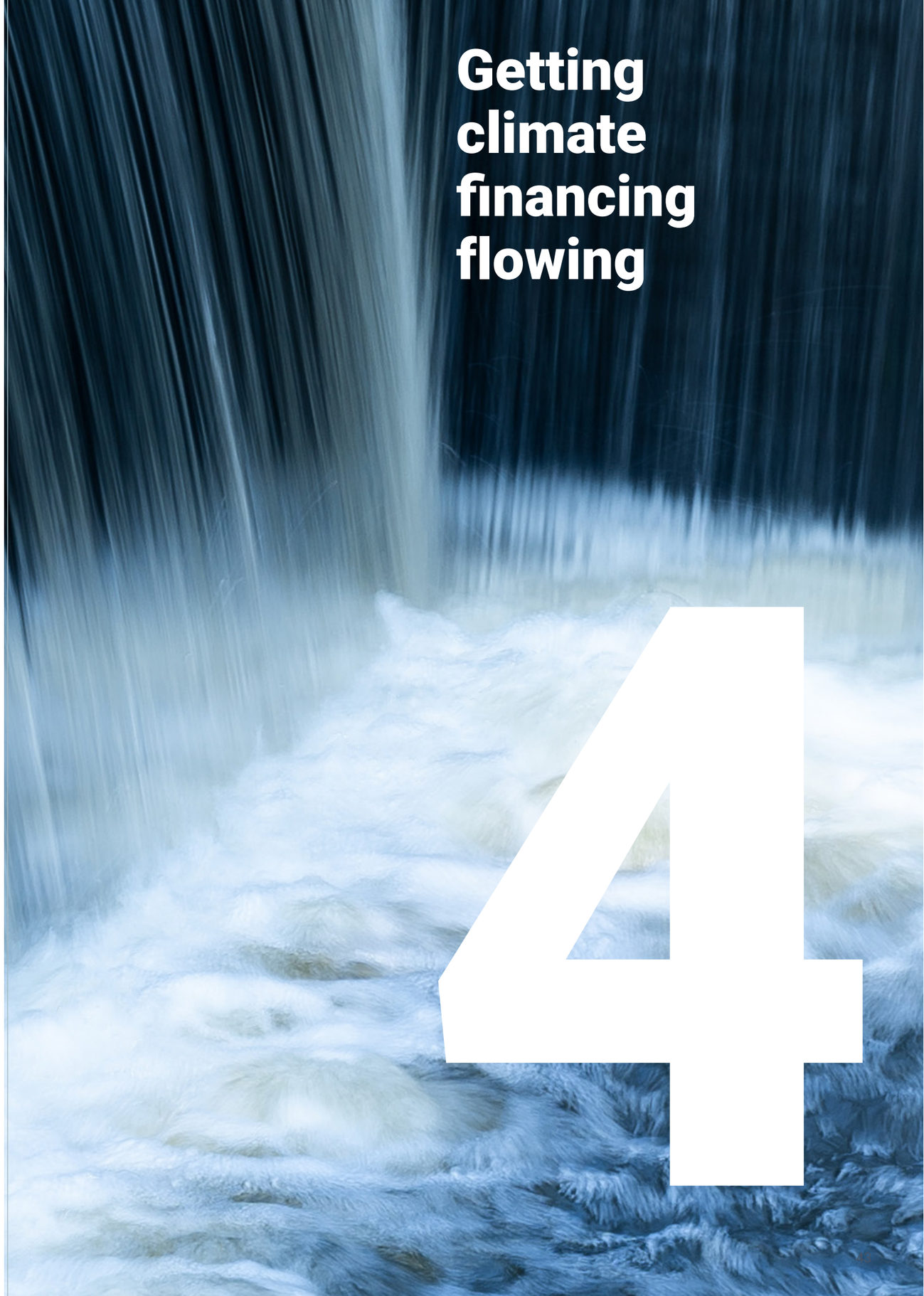
The market trends, particularly in the automotive industry, align with SHS group's sustainability strategy. The company recognizes the importance of engaging with stakeholders such as customers, investors and regulatory bodies. SHS – Stahl-Holding-Saar remains flexible and responsive to the changing landscape, staying updated on the latest developments.

Strategic partnerships are crucial to SHS – Stahl-Holding-Saar's sustainability objectives. The company collaborates with partners that bring expertise in areas like scrap sourcing and cradle-to-cradle recycling. These partnerships help SHS – Stahl-Holding-Saar explore new areas and find innovative solutions to reduce its carbon footprint. The company focuses on continuous material development to create better and lighter steels that meet evolving customer requirements.

SHS – Stahl-Holding-Saar aims to improve water usage efficiency and to address social aspects such as worker welfare. The company strives for overall environmental efficiency and plans to offer sustainable jobs within Europe.
While there are risks associated with future regulations and market demands, SHS – Stahl-Holding-Saar recognizes the opportunity to strategically realign itself as steel industry in Europe and to make an important contribution to the energy transition. The growing demand for “low-carbon” products presents significant opportunities for the company to offer its customers sustainable solutions.

SHS – Stahl-Holding-Saar is investing in green technologies, strategic partnerships and continuous material development to achieve its sustainability goals. The SHS group with Dillinger and Saarstahl are key players in the industry and aim to further contribute to a greener future.

Getting climate financing flowing



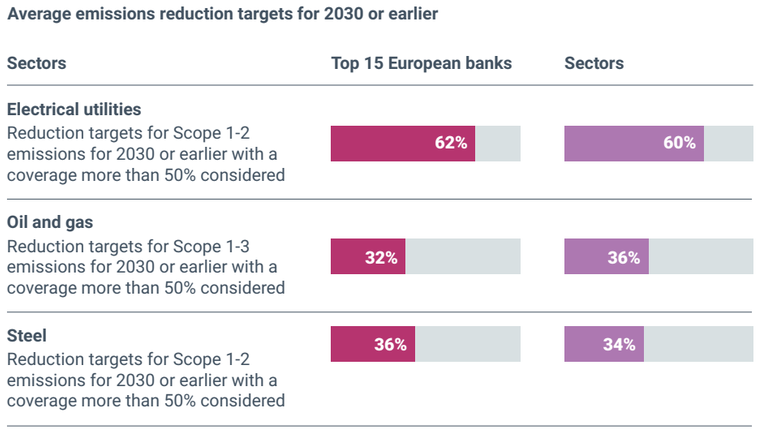
Getting climate financing flowing

Several European banks are working with the oil and gas, power generation and steel sectors to help them adopt low-carbon technologies and product lines

The financial sector's commitment to support the green transition has been underscored by pledges to reach net-zero. These pledges have been backed up by targets to reduce the emissions of their lending and investment portfolios in line with Paris Agreement targets. Hitting these targets will mean investing in and lending to businesses that are either already low emitters, or rapidly reducing their emissions.

An analysis of the targets of the top 15 banks in Europe illustrates the bank's dependency on the progress of their clients. Banks' net-zero commitments require them to set targets for key sectors and most have started with three of the heaviest emitting areas, oil and gas, power generation and steel. The targets the banks have set closely track the targets set by the industries themselves. For instance, the banks set the toughest target for power generation — a reduction of 62% by 2030, typically based on the International Energy Agency's (IEA) net-zero scenario. Companies in the sector set targets that vary between 42% and 80%, with an average of about 60%. Similarly, in oil and gas, the banks set a target of 32% reduction while industry's goal is a 36% reduction.

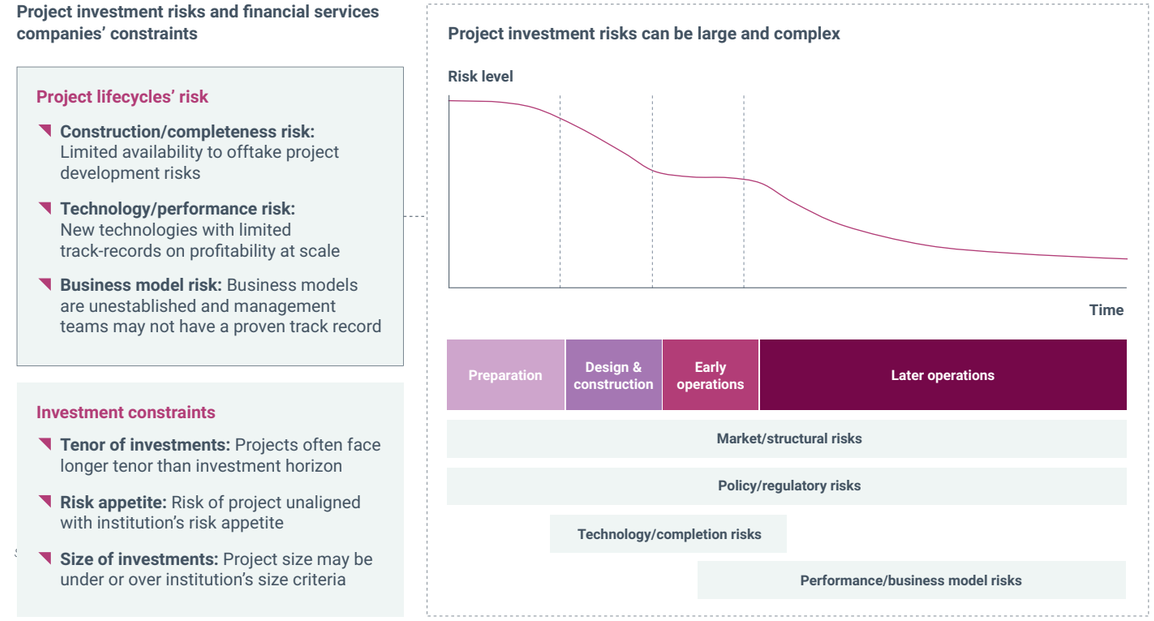
Figure 18
Emissions targets for top European banks mirror the targets of their clients



- **Meeting the targets set by the banks implies a reduction of overall European emissions by 20-25%**

Source: Oliver Wyman analysis, CDP data

Figure 19
Financing the transition presents particular challenges



An analysis by Oliver Wyman suggests that by 2050, industries will need to direct $50 trillion into climate-related projects to reach a net-zero economy

This target overlap should be encouraging for the financial sector, as it suggests companies in these industries are committed to reducing their emissions at the pace the FIs need them to. Yet the picture is complicated by skews within portfolios and holdings of other companies not included in this analysis. For example, some may have exposures to emerging markets corporates who are likely to reduce emissions at a lower rate, while some of the harder to abate industries like real estate, aviation, food and agriculture may be more problematic. And, ultimately, it depends on companies driving the business change that will be needed to deliver against these targets.

More growth than risk

The best way for FIs to meet these targets is through growth in low carbon and transition areas. Financial institutions identified to CDP in 2022 that they see the impact of climate and nature-related opportunities to be 4.5 times greater than the risks. The opportunity they see is linked to the huge flow of investment that will require financing, advice and risk-management.

An analysis by Oliver Wyman suggests that by 2050, industries will need to direct US$50 trillion into climate-related projects to reach a net-zero economy. A positive sign is the steady rise in transition investment over the past two decades — up an average of 20% a year between 2005 and 2022 when it hit a record US$1.1 trillion, according to a 2023 report by the International Association of Credit Portfolio Managers.

Seizing these opportunities presents challenges for financial institutions, given the unique characteristics of the investments required.

Innovative financing models are needed

Seizing the growth opportunity

Leading FIs are spending more time seeking to overcome these challenges. For instance, some are exploring blended financing models. These aim to bring together different sources of capital, including development banks, private equity firms, insurance companies, traditional infrastructure financiers and even philanthropic organizations, in addition to leveraging the FIs' own balance sheets and the public capital markets. This approach not only diversifies risk but also broadens the support base for emerging technologies.

They are also seeking to develop new products and services. Two thirds of FIs disclosing through CDP claimed to have developed products and services to invest or lend to in renewable energy, green buildings and equipment and low-emission transport. Areas such as sustainable agriculture, nature-based solutions and carbon removals are also attracting considerable attention.

Internally, FIions must also address potential obstacles. This includes revising their own policies, risk management strategies and assessment methodologies to ensure they are not impeding investments. Equally important is the development of expertise to accurately evaluate the unique financing challenges within this sector. But FIs must also reach out to different stakeholders. For example, they should actively collaborate with governments and other stakeholders to foster an environment conducive to this kind of investment.

Drawing red lines where needed

At the same time, FIs face growing pressure to draw clear red lines around businesses that they are not willing to finance. There is a danger that this could prevent them from financing some of the very industries that most need the capital to drive emissions reductions.

For that reason, exclusionary policies are focused on the most harmful activities. Most prominent among these is coal, where nearly half of FIs have either already discontinued involvement or are in the process of phasing out all coal-related activities. The clear policies around coal financing reflect the policy environment. Currently, 13 countries in the European Union have successfully phased out coal, while an additional 14 countries have committed to becoming coal-free by 2030.

But only about 18% of European FIs have exclusion policies in place around oil and gas. Even in those cases, it’s rarely a blanket policy.

Figure 20

Green products offered by financial institutions are most widespread in energy, buildings and transport

Green products and services offered by financial institutions
Percentage (%) of companies offering product

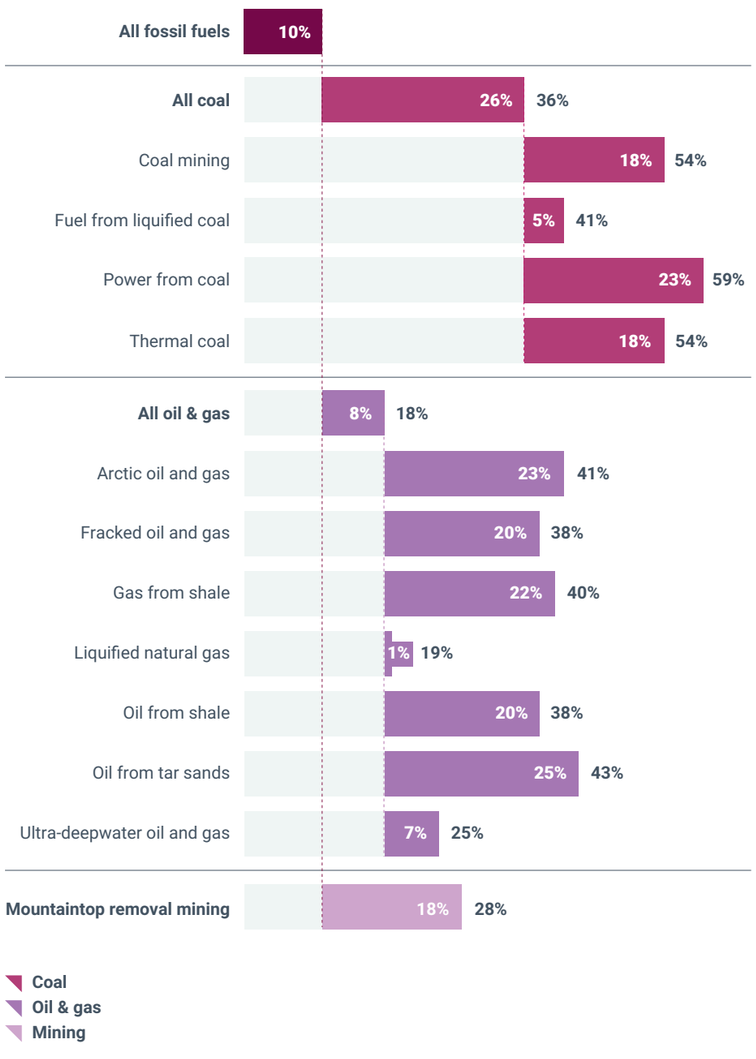
	Total	Banking	Investing	Insurance
Primary resources				
Renewable energy	**68%**	80%	84%	66%
Green buildings and equipment	**68%**	91%	74%	55%
Low-emission transport	**56%**	69%	65%	59%
Process industries				
Sustainable agriculture	**30%**	39%	42%	10%
Nature-based solutions	**25%**	25%	42%	14%
Carbon removal	**23%**	25%	37%	7%
Emerging climate technology	**22%**	16%	35%	24%
Paperless/digital service	**19%**	13%	34%	21%
Fortified buildings	**11%**	15%	15%	3%
Risk transfer mechanisms for under-insured or uninsured	**7%**	1%	15%	10%
Energy suppliers				
ICT solutions	**1%**	1%	0%	0%
Manufacturing and industry	**1%**	1%	0%	0%
Sustainable land and marine	**1%**	1%	0%	0%
Sustainable water infrastructure infrastructure	**1%**	1%	0%	0%
Waste valorisation and circular economy	**0%**	0%	0%	0%

Source: Oliver Wyman analysis, CDP data

Getting climate financing flowing

Currently, 13 countries in the European Union have successfully phased out coal, while an additional 14 countries have committed to becoming coal-free by 2030

Figure 21
Exclusion policies of banks are limited to coal and the most environmently sensitive parts of oil & gas and mining



Source: Oliver Wyman analysis, CDP data

18%

of European financial institutions have exclusion policies in place around oil and gas

The World Economic Forum calculates that more than half of global gross domestic product is dependent upon nature, many financial institutions have been slow to recognize the risks connected with the loss of nature

Exclusion policies for oil and gas mainly cover oil from tar sands, Arctic oil and gas, and fracked oil and gas. The recent call issued by COP28 for the phasing out of fossil fuels will increase scrutiny on oil and gas policies, with the financing of the exploration and development of new fields a particular area of focus.

Targeting loss of nature

Another area of growing focus for FIs is deforestation, water security and the wider biodiversity agenda. While the World Economic Forum calculates that more than half of the global gross domestic product is moderately or highly dependent upon nature, many FIs have been slow to recognize the risks connected with the loss of nature. Besides threatening economic stability, a failure to restore nature and ecosystem health will prevent the world from reaching net-zero emissions.

For instance, only 9% of FIs have established objectives in lending and investing regarding deforestation and a mere 1% have set targets for water security, despite the importance of the water supply in many industrial processes.

Many European FIs have now started to look for more nature-related disclosure from their portfolio companies. Four in 10 FIs consider information on deforestation and water security as part of their due diligence and risk assessment. A little over a third offer products or services that enable clients to mitigate deforestation and protect water sources.

This is an area in which FIs can take the lead, given the reluctance among companies to push forward. Over 56% of FIs disclosing through CDP say they have no intention of establishing corporate targets for stopping deforestation and 64% say they have no plans to act to ensure water security within the upcoming two years either. Even for those FIs not seeking to take a leadership role, attention will be needed on these issues, given the new EU rules now compelling companies to demonstrate that their supply chains are free from practices that lead to deforestation.

Case study
Storebrand

Storebrand, a Nordic player in the market for long-term savings and insurance, was one of the first companies to integrate sustainable investments into its portfolio some 30 years ago. Storebrand's culture fosters a sense of pride among its employees about working towards sustainability goals.

Storebrand has set science-based targets (SBTs) for its operations and investments as part of their commitment to achieve net-zero emissions by 2050. The company actively collaborates with suppliers and partners to ensure they meet their targets.

Storebrand has implemented a set of initiatives to further reduce emissions as well as an internal carbon tax, to finance carbon removal projects.

Storebrand's approach to sustainable investments is extensive and guided by the belief that companies addressing and handling climate-related risks and opportunities have better long-term returns. The company executes its strategy using three tools: investing more in solution-oriented companies, influencing investee companies and excluding companies that are not in line with their exclusion policy.

As part of its commitment to sustainability, Storebrand has excluded coal and deep-sea mining companies, as expressed in their recent nature policy for investments. Storebrand also considers exclusion criteria for companies lobbying against both the Paris Agreement and the Convention on Biological Diversity. Additionally, the company assesses sustainability for all investments and asset classes, aiming to have 15% of its assets under management invested in companies that contribute to solutions to the Sustainable Development Goals. They even have specific funds targeting solutions for equal opportunities and renewable energy.

Storebrand not only focuses on sustainable investments, but also extends its commitment to sustainability in other areas. In retail banking, they offer more attractive mortgage rates for energy-efficient homes and provide advice on reducing emissions. In the insurance segment, Storebrand incorporates environmental aspects into pricing and product development, emphasizing loss prevention and circular economy principles to mitigate climate risk.

Storebrand believes that the most sustainable approach lies in taking proactive measures to prevent damage from occurring in the first place.

Case study
Zurich Insurance

Zurich Insurance Group, a Swiss insurer with global operations, has pledged to achieve net-zero carbon emissions by 2030 within its own business activities and by 2050 across its underwriting and investment portfolios. To reduce its carbon footprint in the investment portfolio, Zurich has established reduction targets for equity, corporate debt and real estate assets under management. Since 2019, Zurich has achieved a 12% reduction in the carbon intensity of these financed assets for Scopes 1 and 2.

Zurich proactively engages with investees. One example is its ongoing discussions with a major European utility company, which were initiated in 2019 and are focused on encouraging the firm's shift from coal power to renewable energy sources. This has resulted in the utility company committing to invest €50 billion to enhance renewable energy capacity to 50 gigawatts by 2030.

By 2025, Zurich plans to allocate 5% of its investment portfolio to impact investments—those that offer both financial returns and positive environmental or social impacts. From US$2.8 billion in 2017, these investments have grown to US$6.3 billion in 2022. These investments, which span green bonds, social and sustainability bonds, private equity and infrastructure debt, have resulted in the avoidance of 3.2 million metric tons of CO2 equivalent emissions, which benefited 4.7 million people in 2022 alone.

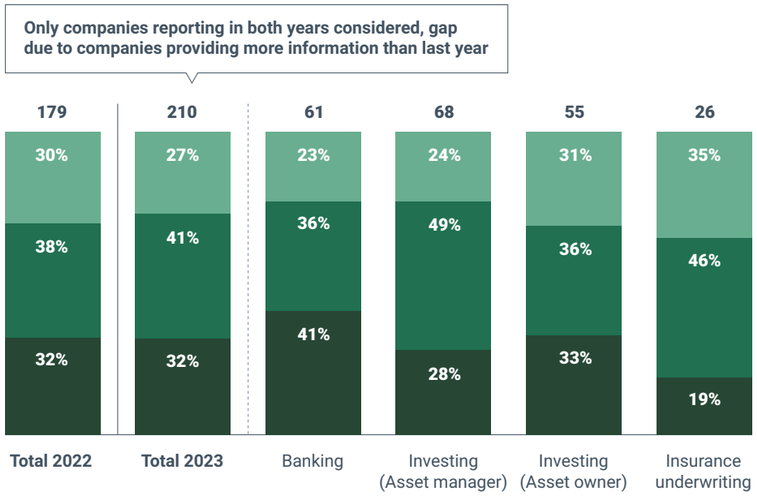
In addition to setting net-zero targets, Zurich has contributed to developing green bond markets. Zurich has earmarked US$5 billion for investments in alternative energy and collaborated on a methodology with BlackRock to assess the impact of green bonds.Zurich's incorporation of ESG factors extends to underwriting and risk assessment with initiatives like Zurich Resilience Solutions, which provides risk management services to enhance environmental sustainability and climate resilience.

Through structured initiatives, investments and collaborations Zurich is making progress toward their net-zero commitments.

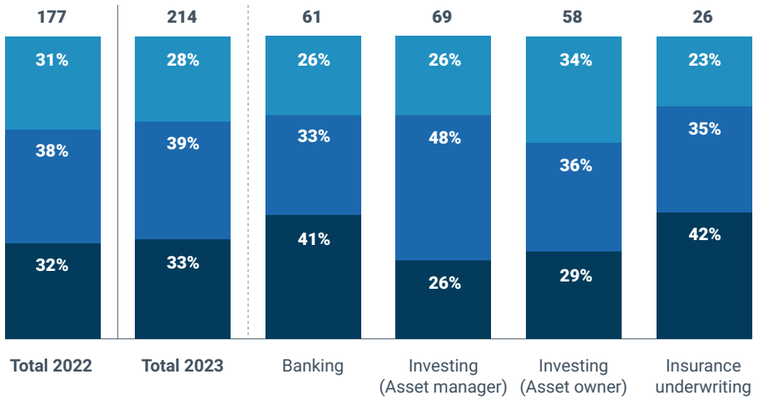
Getting climate financing flowing

Figure Nature 1
Few financial institutions are evaluating risk exposure related to water and forests, but many are planning to

Companies assessing forest-related risk exposure
Number and percentage (%) of companies



Companies assessing water-related risk exposure
Number and percentage (%) of companies

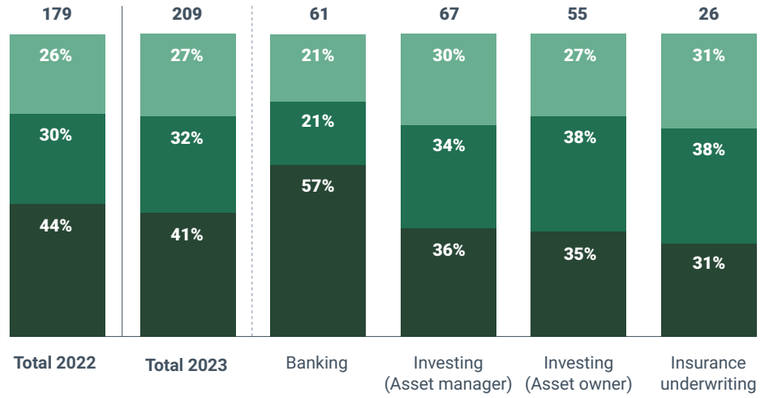


Yes
No, but we plan to within the next two years
No and we do not plan to in the next two years

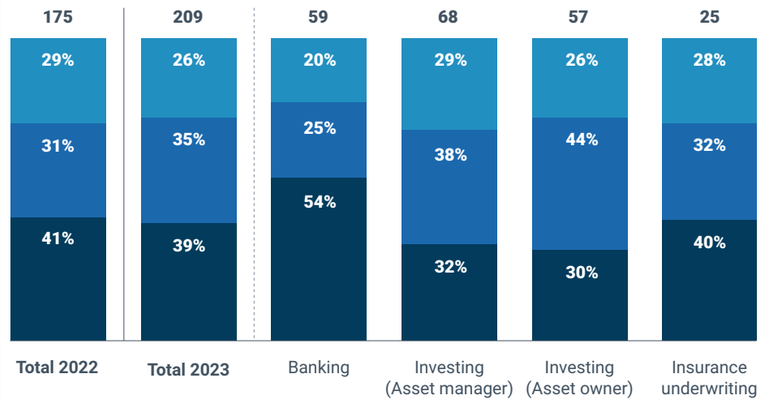
Source: Oliver Wyman analysis, CDP data

Figure Nature 2
Financial institutions show limited progress in using water & forest data for risk assessments

Forest-related data considered in due diligence and risk assessments
Number and percentage (%) of companies



Water-related data considered in due diligence and risk assessments
Number and percentage (%) of companies



Yes
No, but we plan to do so within the next two years
No and we do not plan to in the next two years

Source: Oliver Wyman analysis, CDP data

Case study
KBC Group

KBC Group, a Belgian bank-insurer, is committed to supporting its individual and small and medium-sized enterprise (SME) clients in their sustainable transition. In addition to offering sustainability-linked loans, KBC has developed a suite of tools to help customers understand and manage their environmental impact. These tools provide comprehensive information and resources related to sustainability.

In addition, KBC Group has taken the proactive step of becoming an early adopter of the Taskforce on Nature-related Financial Disclosure (TNFD). The bank has committed to aligning its reporting with TNFD recommendations by 2025.
To simplify the reporting process for SMEs and provide tailored advice, KBC is piloting a digital platform. This platform aims to streamline data collection, aggregation and carbon footprint calculations required under the Corporate Sustainability Reporting Directive (CSRD). It will also offer a one-to-many approach, which is particularly beneficial for managing an SME portfolio.

For SMEs and clients in the agricultural sector, KBC has recently established a specialized subsidiary called ecoWise. This subsidiary provides energy efficiency advisory services to customers. By the end of 2023, ecoWise had already supported 249 SMEs and had provided advice to 45 businesses in the agricultural sector. On average clients that worked with ecoWise were able to decrease their energy- related costs by 15% to 25%. Additionally, KBC has developed detailed footprint calculators for agricultural customers in key markets.

For retail customers, KBC is integrating sustainability features into –an award winning mobile app it developed. These features include energy consumption comparisons between the customer's property and the neighbourhood, as well as renovation cost calculations. To ensure a focus on sustainability, KBC has limited the availability of retail investment products on its app to sustainable funds that don't comply with article 8 or 9 under the Sustainable Finance Disclosure Regulation (SFDR). Conventional funds are only accessible through the branch network and its contact centers. KBC also incentivizes mortgage clients to improve the energy rating of their homes by offering a reduced interest rate during the loan duration.

The success of these initiatives can be attributed to KBC's multiyear awareness building and training of its relationship managers.

KBC integrates sustainability into its governance structure, allocates budgets for green initiatives and incorporates sustainability-related performance indicators in evaluation processes. During the planning cycle, KBC sets targets for green production volumes, including renewable energy, energy-efficient housing, low-emission vehicles, and advisory services.

Case study
La Banque Postale

La Banque Postale, a leading French bank, has made significant sustainability efforts. The bank has emission reduction targets validated by the Science Based Targets initiatives and signed the Net Zero Banking Alliance commitment letter. It aims for net zero emissions by 2040 and actively participates in international initiatives, including the Principles for Responsible Banking and the Equator Principles.

La Banque Postale offers green loans to support environmental projects for local authorities, social housing landlords, hospitals, healthcare providers and companies. It issued its first green bond in 2019 to finance renewable energy projects.

One of its key initiatives is the implementation of an Impact Weighting Factor System that measures the effects of different activities on environmental, societal and territorial dimensions. To do so, the bank has developed 13 key performance indicators (KPIs), with four out of five focusing on the environment. The purpose is for activities with positive impact to progressively influence more loans and investment decisions across the bank.

To illustrate, La Banque Postale now offers "Impact Real Estate Loans" that incentivize energy efficiency. The loan's interest rate is determined based on the KPI rating, with top-notch properties receiving a discount of up to 20 basis points. Additionally, properties undergoing home improvement work aimed at improving energy efficiency can benefit from an additional five basis points reduction. "Impact Real Estate Loans" are now a core mortgage offer of La Banque Postale.

To ensure the success of these initiatives, La Banque Postale has partnered with energy efficiency startups and technology companies. These collaborations enable the clients to simulate the impact that various improvement projects will have on a property direct them toward qualified contractors and advise them about public subsidies they might qualify for.

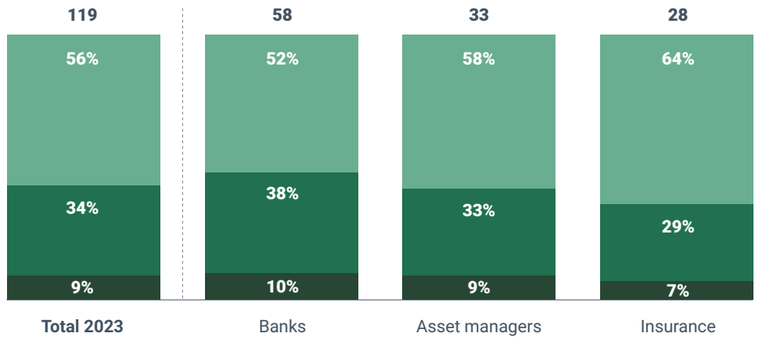
La Banque Postale extends its sustainability initiatives across its business lines. For example, it considers the Impact Weighting Factor ratings when proposing deals to the risk committee. For low-ranking projects, there is a change in the scheme of delegation (for credit validation) to make sure that sustainability considerations are carefully weighted in the decision-making process.

Overall, La Banque Postale's sustainability efforts demonstrate its commitment to environmental and social responsibility. By integrating sustainability into its decisions and offering innovative financial products, the bank contributes to a more sustainable future.

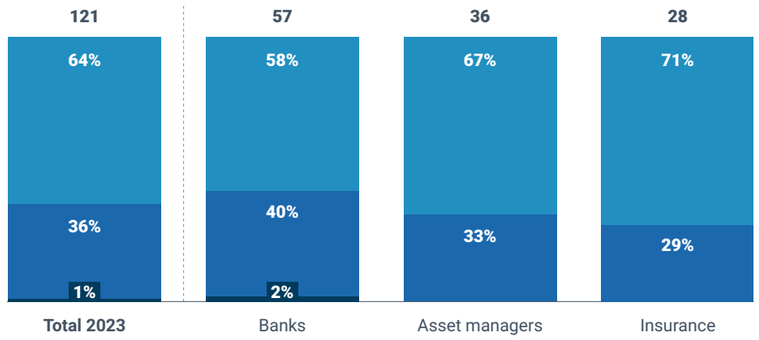
Getting climate financing flowing

Figure Nature 3
Limited targets for deforestation-free and water-secure finance activities

Targets set for deforestation-free lending, investing and/or insuring
Number and percentage (%) of companies



Targets set for water-secure lending, investing and/or insuring
Number and percentage (%) of companies

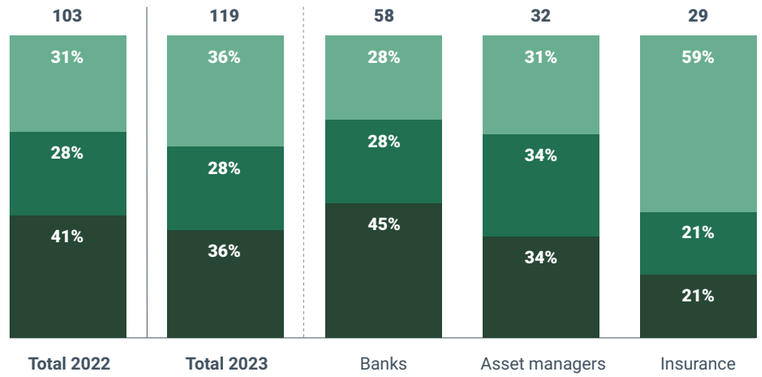


Yes
No, but we plan to set targets within the next two years
No and we do not plan to set targets in the next two years

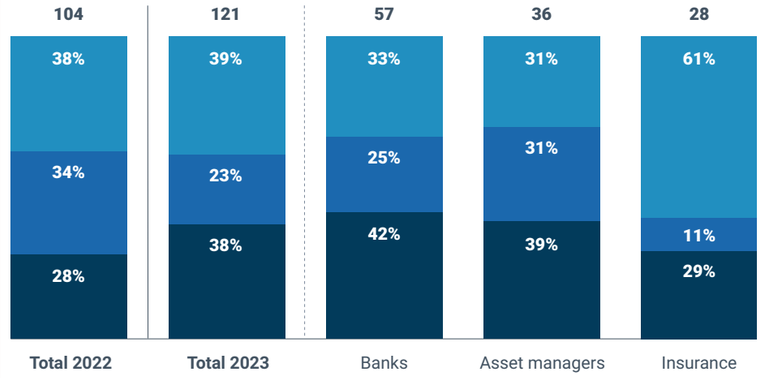
Source: Oliver Wyman analysis, CDP data

Figure Nature 4
Financial institutions companies show limited progress in using water & forest data for risk assessments

Deforestation products and services
Number and percentage (%) of financial institutions



Water insecurity products and services
Number and percentage (%) of financial institutions



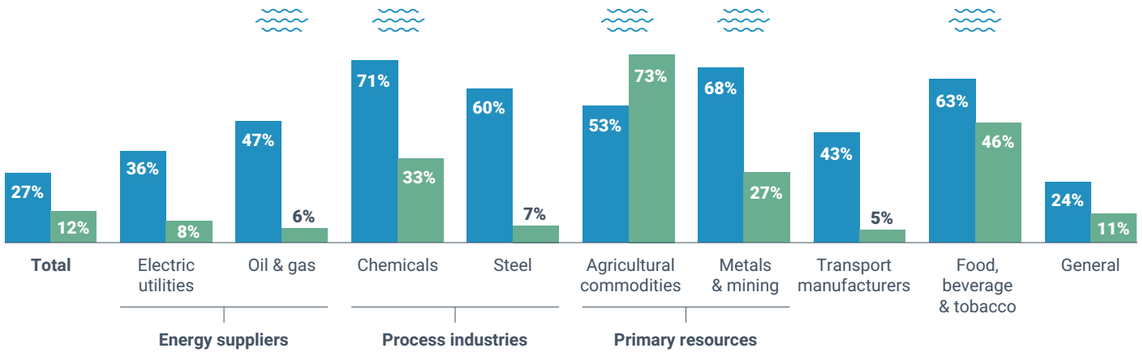
Yes
No, but we plan to address this within the next two years
No and we do not plan to address this in the next two years

Source: Oliver Wyman analysis, CDP data

Getting climate financing flowing

Figure Nature 5
Lower levels of disclosure on forest and water across most sectors

Companies disclosing through CDP on water security and deforestation management as a percent of climate change participation
Percentage (%) of companies



Source: Oliver Wyman analysis, CDP data

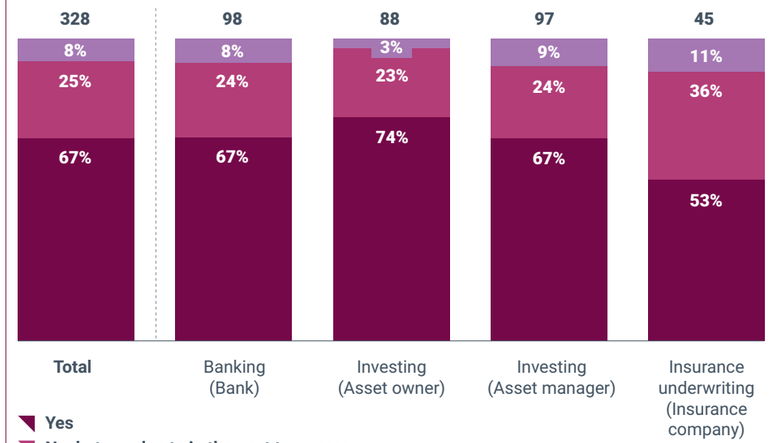
Engaging with climate improvers

Realizing the transition away from a carbon-based global economy will require the whole economy to move and FIs are starting to assess the progress of the broad base of corporates on climate and nature in making financing decisions. Almost all European FIs disclosing through CDP (93%) now evaluate risks and opportunities associated with climate change within their portfolios — with 89% integrating climate-related information, including emissions data, reduction targets and climate transition plans, into their due diligence and risk assessment processes for lending.

Furthermore, 67% of FIs are going beyond this and are taking active steps to align their portfolio emissions with the Paris Agreement's 1.5° C target. As part of this they are actively assessing whether their clients (for banks) or investees (for investors) have strategies that are aligned with a 1.5° C world. 87% of FIs report to be doing this for at least some companies and 26% are doing it for all companies. This means digging into the substance of climate transition plans to form a view as to how likely the company is to hit their targets. If corporate clients miss their targets, then FIs will miss theirs too. While the EU Taxonomy has clearly defined what can be considered 'green', this is a very narrow slice of activity, typically less than 10% of an overall portfolio. By developing frameworks to assess the quality of corporate climate transition plans, financial institutions can identify 'climate improvers' as well as 'green champions' and track finance to this broader universe of companies that are critical to driving the transition.

Figure 22
Most financial services companies are now actively managing their portfolio to align with 1.5°C

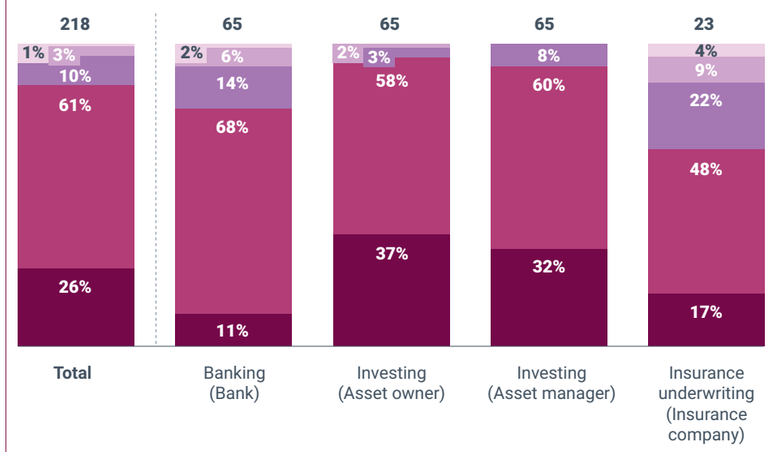
Number of companies and percentage (%) of companies



Source: Oliver Wyman analysis, CDP data

Figure 23
Most financial services companies are assessing whether the corporates they finance are aligned with 1.5°C

Number of companies and percentage (%) of companies



Source: Oliver Wyman analysis, CDP data

Getting climate financing flowing

Our analysis shows that doing this well would require digging deeper into the progress that is being made in changing businesses. Looking across the categories of a transition plan, progress is strongest in some of the areas that companies have worked on first — such as setting targets and establishing top-level governance. These are also some of the easiest areas to assess. Understanding how companies are tracking in transforming their businesses requires engaging more closely and considering the decarbonization levers most relevant in their sector.

Figure 24
Heatmap: Disclosure against five key transition plan elements analysed

Percentage (%) of companies showing progress and comparison versus 2022

	Total	Agricultural commodities	Chemicals	Electric utilities	Food, beverage & tobacco	General	Metals & mining	Oil & gas	Steel	Transport OEMs
Objectives and priorities	57% ↑	31%	61%	62%	64% ↑	56% ↑	42%	57%	73%	63%
Implementation strategy	58% ↑	33% ↑	96% ↑	92%	48%	51% ↑	71% ↑	59%	89% ↑	90%
Engagement strategy[1]	33% ↑	18%	39%	47%	33% ↑	29% ↑	31% ↑	52% ↑	27% ↑	44%
Metrics and targets	37%	46%	28%	50%	51%	37%	16%	13%	36%	44%
Governance	61% ↑	38% ↑	72%	82% ↑	66% ↑	56% ↑	63% ↑	67% ↑	91% ↑	81% ↑
Average sector maturity	49%	33% ↑	59% ↑	67%	53% ↑	46%	45% ↑	50%	63% ↑	64%

Limited transition progress — More transition progress ↑ Comparison of progress (2022 versus 2023)

Source: Oliver Wyman analysis, CDP data

A problem that requires collective action

European companies have made considerable progress in setting SBTs, engaging with climate transition plans and have also made headway in reducing emissions. Yet the pace and scale of change is behind where it needs to be. Many companies still are not sufficiently tackling the kind of fundamental business model reinvention needed, such as redirecting capital expenditures to the energy transition and other green ventures, developing and scaling low-carbon product lines and restructuring supply chains. Financial institutions, on the other hand, are yet to fully realize their potential role and responsibility as catalysts.

The shared challenge is that, in many cases, the economics of green business models are less attractive and riskier than the existing ones they seek to replace. Collective action between corporates and FIs can help overcome some of these challenges by reducing and sharing the risks. But this must be backed by incentives and a stable environment from supportive government policy that encourages the kind of long-term thinking and decisions necessary to achieve net-zero.

in partnership with:

OliverWyman

CDP
DISCLOSURE INSIGHT ACTION

CDP contacts:

Ariane Coulombe
Associate Director, European Disclosure
ariane.coulombe@cdp.net

Torun Reinhammar
Associate Director, Capital Markets
torun.reinhammar@cdp.net

Mona Freudt
Associate Director, Policy and Government Partnerships
mona.freundt@cdp.net

Disclosure enquiries
disclose.europe@cdp.net

Media enquiries
Adam Szentes
Senior Communications Officer
adam.szentes@cdp.net

Oliver Wyman contacts:

James Davis
Partner
james.davis@oliverwyman.com

Thomas Fritz
Partner
thomas.fritz@oliverwyman.com

Cornelia Neumann
Partner
cornelia.neumann@oliverwyman.com

Ruth Krainer
Associate
ruth.krainer@oliverwyman.com

Fiona Beer
Senior Consultant
fiona.beer@oliverwyman.com

Judith De Leon Kalk
Senior Consultant
judith.deleonkalk@oliverwyman.com

Dennis Manteuffel
Partner
dennis.manteuffel@oliverwyman.com

CDP Europe
c/o WeWork
Potsdamer Platz-Kemperplatz 1
10785 Berlin, Germany

www.cdp.net
X: @cdp

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