

10 THINGS TO CONSIDER...

...when disclosing carbon risks and benefits.



1 Responding to the Carbon Disclosure Project

Investors are increasingly requesting information on carbon risks and benefits in order to take climate change impacts into account in their investment decisions. The Carbon Disclosure Project (CDP) is the world's largest institutional investor collaboration, now bringing together 284 investors with collective assets under management of over \$41 trillion. Responding to the annual CDP questionnaire is a way to make sure that your company is represented accurately in this growing initiative - 72 % of the FT500 companies responded to the fourth iteration of the project in 2006. The CDP4 report and an open invitation to respond to CDP are available at www.cdproject.net.

2 Carbon and climate risk is just another business risk

Just as any other business risk, climate change involves the need to assess commercial implications of future risks. Climate change involves serious *physical risks* caused by extreme weather events, *regulatory risks* resulting from policy development, *competitive risks* as consumers are increasingly valuing environmental impacts, and *reputational risks* from either perceived inaction on climate change, or green-wash. It needs to be strategically managed and treated carefully as with any other business risk. Investors and other stakeholders will be interested in understanding how your business has assessed the risks, particularly quantitatively, and how they are being managed.

3 Describing the opportunities as well as the risks

Investors are not only looking at risk management but also how opportunities are integrated into corporate strategy. Addressing climate change issues can bring significant market-driven financial opportunities. A successful business in a low carbon economy is likely to be different to a successful business in today's economy and therefore lateral thinking and innovation are key to identifying and unlocking the business opportunities. Innovation can stimulate business growth and send clear signals to the market concerning long-term growth potential. Many examples of the success of this are outlined in The Climate Group's new report on low carbon business growth called 'In The Black: The Growth of the Low Carbon Economy'. <www.theclimategroup.org>

BP described the opportunities with new technology to build business in alternative and renewable energy in their response to CDP4. This includes solar, wind, hydrogen power and gas-fired power technologies.

4 Reporting on climate and carbon issues in context of your business

The context in which you operate is fundamental for understanding the implications of climate change for your business. Relevant physical and regulatory conditions should therefore be taken into account when reporting on climate and carbon issues. For example, as an automotive company, what low carbon technologies are you investing in given the increasing constraints on tail-pipe emissions, as a food production company, how are you managing changes in weather patterns and extreme weather conditions, as power company, how are you addressing potential changes in policy and legislation.

10 THINGS TO CONSIDER...

...when disclosing carbon risks and benefits.



5 Breaking down information to fit your business operations

Not only do emissions intensity and climate change-related risks and opportunities vary significantly within sectors but there can also be substantial variations between countries of operation and subsidiaries. Multi-national companies should consider providing uniform information for relevant business units, geographies and markets. This assists investors and other stakeholders to better understand the situation and provides background for the decisions the company and investors are taking on a strategic level.

6 Using a known standard to report your carbon footprint

Reporting in a consistent and comparable manner facilitates investment analysis. There are a number of available standards designed to facilitate reporting of carbon footprints. Using a known standard is a credible way of disclosing your carbon footprint.

>GHG Protocol developed by the
WBCSD and the WRI
(www.ghgprotocol.org)

>ISO 14064 developed by the
International Standards Organisation
(www.iso.org/iso)

7 Engaging investors on the issue where it is material to your business

Investors are not seeking to know everything in detail – they need to understand the most important aspects of climate change in the context of your business – therefore, provide information that is aligned with your business strategy. Engaging researchers and investment advisors on these issues is also an important part of the process.

8 Using your position on climate change to gain competitive advantage

The financial opportunities involved in managing climate change and carbon risk will create winners and losers. Companies who identify the commercial implications of climate change and disclose it well to investors will be in a better position to gain a competitive advantage as they will be able to demonstrate market leadership and business innovation that will prepare them to succeed in a low carbon economy.

9 Reporting forward-looking information

Companies should provide forward-looking information focusing on the expected financial implications of climate change, for example, as a result of asset damage and project delays from extreme weather events and regulatory risks such as tightening national and international regulations.

10 Challenging your investors

While more and more investors are paying attention to climate change, many have not yet begun to formally integrate net climate exposure into their investment decisions. The more investors that value company disclosure the stronger your competitive advantage will be. As you are being required to provide information on climate change issues, you should also ensure investors are using it in an appropriate way to ensure your business benefits due to its leadership on the issue. It is worthwhile discussing with investors the modeling and decision-making processes used, to improve methodologies for quantifying climate risks and enable their easier inclusion into financial assessments.