

Accelerating action

CDP Global Water Report 2015

Written on behalf of 617 investors with US\$63 trillion in assets



Stanley Black & Decker uses CDP's water questionnaire and associated education programs and workshops as a framework to assist us in setting strategic and tactical initiatives on water stewardship that will lead to our more responsible use of freshwater resources, and to help ensure the right to water for current and future generations.

Stanley
Black & Decker

This year marks the sixth year of CDP's water program. Since its launch a large and growing number of institutional investors have begun using the platform to engage with companies on water exposures and opportunities. While substantial progress has been made in corporate water disclosure, companies' reliance on this precious resource is increasing at a time when water security around the world is worsening.

This explains why 617 institutional investors, managing US\$63 trillion in assets, have come together through CDP's water program to ask 1,073 publicly listed companies¹ to provide information on how they are prepared for, and adapting to, worsening water security.

This year's 2015 Global Water Report analyzes the 405 companies that responded to their investor's request, offering a snapshot of the current global state of corporate water management. It also takes a deep dive into trends in water management over the last five years among some of the largest companies in the world that have been consistently reporting to the program. The report is intended to help companies that are sensitive to, or have major impacts on, water availability or quality, as well as inform investors and major multinationals about how their portfolio companies and suppliers are managing these risks, and positioning themselves to participate in the water value revolution.

The report finds that:

Acting to improve water security remains a fundamental business imperative for many companies. Almost two-thirds of responding companies report exposure to water risk, with reported financial impacts in 2015 totaling more than US\$2.5 billion. Companies face constraints to growth from water scarcity, and changing patterns of consumer behavior are leading to reassessments of corporate strategy. However, some companies are identifying market opportunities from water stewardship. Disclosures to CDP vividly illustrate the compelling business case for action.

Corporate water stewardship is becoming better understood, and leaders are emerging.

Engaged investors want to see strategic, corporate water stewardship integrated into standard business practice – and leading companies are beginning to do so. The water scoring methodology developed by CDP provides a blueprint for leadership on water issues, and can help companies work towards such leadership. The naming, for the first time, of those 8 companies joining CDP's Water A List will help raise performance across the market.

Tackling water challenges remains a CSR issue and action is urgently needed to close the gap.

Analysis of responses over five years illustrates considerable progress in water management – but also serious areas of weakness. Supply chain risks, incomplete water risk assessments, a lack of meaningful water policies, and far from universal disclosure, all need to be addressed as a matter of urgency.

Water stewardship offers clear benefits to at-risk companies.

Transforming business as usual operational approaches to water management into strategic water stewardship efforts reduces risk, enhances strategic preparedness, improves investor appeal and makes businesses more resilient. Through its water program, CDP is supporting companies and investors to take action and confront what is almost certain to be one of the defining environmental challenges of the 21st century, to their own benefit and to the benefit of their wider stakeholders.

¹ CDP's water program focuses on the largest companies in the world as determined by the MSCI All Country World Index (ACWI) filtered by those business activities with the ability to impact water resources, including the following Global Industry Classification Standard (GICS) sectors: Consumer Discretionary, Consumer Staples, Energy, Health Care, Industrials, Information Technology, Materials, and Utilities

Companies that responded to investors request to disclose water related data

38%

Respondents reporting detrimental impacts related to water

27%

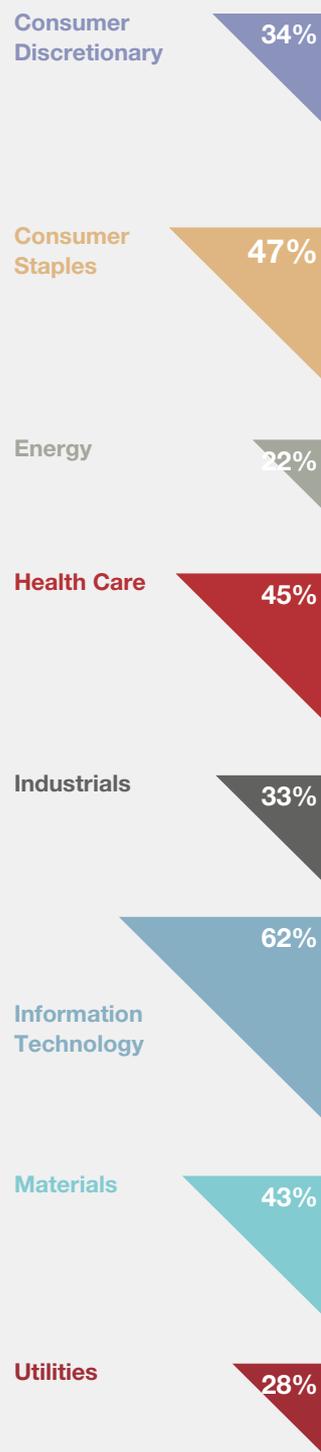
Number of risks reported

3201

Respondents reporting opportunities

73%

Figure 1: Response rate by sector



CDP's Water A List

Defining leadership

Our analysis illustrates that water can be a significant driver for innovative growth but can also be a source of substantial business failure. Given the complex nature of water risks, business-as-usual operational approaches to water management may no longer be fit for purpose. A growing number of companies are recognizing that they may need to transform their approaches if they are to meet the challenge of water security and remain competitive.

What engaged investors want to see, and what leading companies are beginning to implement, are integrated, strategic, business plans that factor in water stewardship. The effective mitigation of corporate water risk and realization of opportunity involves not only an understanding of a company's water dependency, but the context in which it operates, and how this relates to other water users.

In 2013, CDP embarked on the development of a water scoring methodology that enables us to deepen the support we provide to responding companies as they work to transform current standards of corporate water management to meaningful stewardship. This year, for the first time, CDP has applied this methodology across all responding companies. Of these, 8 companies have achieved an 'A' rating, joining CDP's Water A List.

Our approach, informed by insights gained from CDP's corporate water dataset as well as a range of stakeholders including the **Alliance for Water Stewardship**, the **UN CEO Water Mandate**, **Ceres**, the **World Resources Institute**, and **WWF**, assessed companies against a range of water stewardship actions which seek to establish best practice. By scoring companies' water stewardship efforts, and recognizing leading companies, we aim to raise the market beyond where it would otherwise be on water issues.

The results have been used to benchmark corporate water performance, to help companies and their investors better understand the strengths and weaknesses of their water management. It is our intention that companies use this methodology to navigate their responses to improved water security and by investors and purchasers to identify those companies most likely to succeed in a water insecure future.



Investor attitudes have changed over the last five years, as there is increasing recognition that there are environmental limits to economic growth. CDP data helps us analyse companies on the sector level comparing performance against their peers, understanding how companies are addressing risks, and also looking at opportunities.

Schroders (US\$447 billion)





A List leaders

CONSUMER DISCRETIONARY

Ford Motor Company (USA)

Toyota Motor Corporation (Japan)

CONSUMER STAPLES

Asahi Group Holdings, Ltd (Japan)

Colgate Palmolive Company (USA)

INFORMATION TECHNOLOGY

Rohm Co., Ltd. (Japan)

MATERIALS

Harmony Gold Mining Co Ltd (South Africa)

Kumba Iron Ore (South Africa)

Metsä Board (Finland)

Commentary

Select Members of CDP's Water Advisory Council

Water is the lifeblood of the economy. It is the element that binds us together creating deep and complex interdependencies between companies, communities and natural ecosystems. Pressure is growing for investors and companies to build long-term resilience to water security into their businesses.

As the Chinese proverb states, not only can water float a boat, it can sink it also. It is becoming increasingly apparent that the mismanagement of water can result in significant business and social failure but its sustainable management can also be a significant driver for innovative, sustainable growth for all.

The announcement of the new Sustainable Development Goals brings with it an air of opportunity. For the first time, the private sector as a whole is viewed as a key implementer with much to gain; and is expected to play a significant part in realizing the sustainable future that has been envisioned.

It is no coincidence therefore that we are supporting CDP as it brings about a step change in corporate water management, catalyzing a movement away from business as usual. Over the past six years, we have been working with CDP to pioneer the only global system to support companies in making and communicating meaningful and effective action to improve water security. This year marks a significant milestone as CDP formally introduces corporate water scoring.

CDP's water scores will catalyse and support the private sector in its role as implementers. The scores are a key component in driving improved disclosure and corporate water stewardship.

- ▶ **For investors,** scores will highlight those companies more prepared than others in the face of rising water challenges, and provide consistent performance data enabling comparisons within and between sectors.
- ▶ **For companies,** scores and associated benchmarking will help strengthen their response and further improve resilience.

As a not-for-profit that works to deliver sustainable economies, CDP strives to move the market ahead of where it would otherwise be on environmental issues. The developments this year will make an important contribution to improved water security for all.

Companies, governments and investors must move quickly, efficiently and collectively if the global challenges posed by water security are to be addressed. An improved and transparent data set, of sufficient granularity, will significantly support meaningful action. The markets will favor companies that lead a collaborative approach to water as a vital shared resource, to ensure sustainable revenue generation and contribute to a more resilient future.

We are proud to be part of this exciting initiative and we look forward to continued work with CDP to catalyze the rapid step change that is so desperately required.

Magdalena Kettis, Nordea
Piet Klop, PGGM
Jason Morrison, Pacific Institute
Stuart Orr, WWF International

Paul Reig, World Resource Institute
Naomi Rosenthal, South Pole Group
Hélène Valade, SUEZ

Conclusion

Water security may well be the defining environmental issue of the 21st century. The potential impact is huge, the challenges posed are significant and the opportunities are great. While solutions may be complex, requiring coordinated action from businesses, individuals and governments, the costs of inaction – constrained social and economic growth – overshadow these complexities.

This year's report is a call to all companies to close the gap. To take ownership of the water impact of the businesses they run, and to take responsibility for water externalities, building greater business resilience.

While a growing number of stakeholders have recognized that reporting can uncover risks and opportunities that would otherwise go unnoticed, disclosure has yet to be accepted as standard practice across all water-vulnerable industry sectors. This must change.

Disclosure is the first step in a process towards achieving greater water security. As we have seen, corporate water management tends to evolve from an initial focus on direct operations, to a wider appreciation of water

issues throughout a company's value chain, to its full integration into a company's strategic vision. CDP's water program is intended to help companies move through this process, recognizing that companies need to build capacity and understanding over time.

Our ultimate goal is to raise the market as a whole beyond where it would otherwise be in the fight to improve water security. We want all companies to improve their water stewardship. We anticipate that the pathway we have provided through our questionnaire, guidance and scoring methodology will enable those companies beginning their journey to work towards improved water stewardship and will continue to challenge those leading the way.

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Our sincere thanks are extended to the following

Individuals

Constantina Bichta, Isabelle Juillard Thompsen, Jason Morrison, Martin Ginster, Piet Klop, Stuart Orr, William Ambrose, Paul Reig, Betsy Otto, Jessica Alsford, Nadira Nadine

Companies

Ford, Metsa

Organizations

Bloomberg, Alliance for Water Stewardship, Defra, European Water Partnership, Global Reporting Initiative, IIGC, INCR, Interfaith Center on Corporate Responsibility, Investor Group on Climate Change, National Business Initiative (South Africa), Net Balance Foundation, Norges Bank Investment Management, United Nations Global Compact, United Nations Principles for Responsible Investing, World Resources Institute, WWF

Scoring partners

EY, FCS, KPMG, South Pole Group



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Design and production



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