

## CDP's Water Security Sample – Investor request 2021

This document outlines the process through which CDP, on behalf of its network of investor signatories, selects companies to request to respond to the water security questionnaire.

CDP recognizes that not all industrial activities have a significant role to play in reducing negative impacts in pursuit of a water secure future. We therefore apply several criteria that focuses on those businesses for which water security is likely to represent a significant environmental and financial issue. These steps ensure that businesses around the world are only requested to report on the issues that matter most to their investors and have the biggest potential environmental impact.

### What criteria is used to select companies?

The following environmental and financial criteria are used to select companies:

- ▼ **Water impact assessment:** Does any aspect of the value chain associated with the given industrial activity have the potential to detrimentally impact upon and/or be impacted by water security?
- ▼ **Water impact rating:** How significant are the potential water security impacts associated with the industrial activity?
- ▼ **Revenue threshold:** How much company revenue is associated with this industrial activity?
- ▼ **Water Apparel Sample:** This contains the top 100 companies in the sector by market cap, alongside other large apparel companies with high water impact ratings. This focus on apparel is driven by an initiative funded by the Swiss Agency for Development and Cooperation (SDC) to improve water stewardship throughout the apparel and textile value chain.

To ensure **continuity** and comparability of the data, the sample also includes companies that were requested and responded to investors in the previous year but dropped out of the sample for other reasons, such as changes in market cap or ownership.

These steps are described in greater detail below. Other criteria may be considered on a case-by-case basis.

### 1. Water impact assessment

CDP conducts a thorough assessment of the relevance of water issues for each of the 200 industrial activities in our [Activity Classification System](#). For each industrial activity, we assess the relevance of water issues across each stage of the industrial value chain – 1) direct operations, 2) supply chain and 3) product use.

For each stage of the value chain, the water impact assessment establishes:

- A. Dependence on relatively high volumes of freshwater withdrawal and/or consumption associated with the activity.

B. Water pollution/degradation potential associated with the activity (chemical, biological or thermal).

This results in a total of six indicators for each activity. The assessment is informed solely by independent, trusted academic and industry recognized sources, such as UN reports, Multilateral Development Bank publications, company disclosures and trade and academic publications.

## 2. Water impact rating

CDP then uses a rating system to establish the significance of an industrial activity’s potential impact upon water security, relative to other activities, for each stage of the value chain. Based on the extensive research conducted, each stage of the value chain for each industrial activity is scored between 0 and 3 points according to the severity of the potential impact:

- ▼ High = 3
- ▼ Medium = 2
- ▼ Low = 1
- ▼ None / Not Relevant = 0

Activities receive a minimum score of 0 points and a maximum score of 18 points. The results of this assessment inform the prioritization of activities with the highest potential to impact water security, as described in the third step below.

## 3. Revenue threshold

Finally, CDP combines the water impact rating with the revenue data from the various industrial activities associated with each company [requested to disclose climate change data](#). The higher the potential impact of the activity on water security, the lower the revenue threshold for the activity. This ensures that companies engaging in the most impactful activities will be included in the sample, even if those activities only represent a small part of their overall business. Conversely, the lower the potential impact, the higher the revenue threshold. This ensures the size and volume of operations are accounted for, even when the activity in question has a relatively low potential to impact on water security. We use financial data available in the final quarter of the previous calendar year.

Score from Step 2	Water impact	Revenue threshold
0 – 4	None / Low	Activity not included
5 – 7	Medium	US\$ 1,000 million
8 – 10	High	US\$ 750 million
11 – 14	Very High	US\$ 500 million
15 – 18	Critical	US\$ 100 million

A company will be requested to disclose to investors through CDP's water security questionnaire, if:

- ▼ The impact rating of the CDP-ACS Activities it is involved in is either critical, very high, high or medium (see Appendix 1 for list of CDP-ACS Activities and associated water impact rating); and
- ▼ The company's revenue associated with the activity exceeds thresholds laid out in step 3.

The result of this process is a list of industrial activities for which water security is likely to represent a significant environmental and financial issue, thereby ensuring that only relevant businesses around the world are requested to report on water security issues to their investors.

#### **4. Continuity criteria**

Companies requested as part of the water security sample in the previous year and submitted a response to investors will automatically be requested again. This ensures continuity in companies receiving an annual request for disclosure regardless of slight changes to its revenue or market capitalization and ensures stability in the data set presented to investors on a year-by-year basis.

Please note that the sample does not consider those companies that are not deemed relevant according to our criteria but volunteer to respond to the CDP water security questionnaire and submit their response to CDP's investor signatories (known as "self-selected companies").

Reporting to investors through CDP's water security questionnaire provides companies with an opportunity to demonstrate that they are managing detrimental impacts and associated risks in a robust way.

To discuss disclosing through CDP, companies should contact their account manager or [local CDP office](#).

#### **5. Water Apparel Sample Rationale**

CDP, alongside a consortium of other NGOs, is beginning Year 2 of a 3-year project, funded by the Swiss Agency for Development and Cooperation (SDC), to improve water stewardship throughout the apparel and textile sector. This sector has a high impact on water quantity and quality across its whole value chain.

CDP's [state-of-play assessment of the apparel and textile sector](#), based on 2019 responses, indicates that transparency is lagging compared to other sectors, especially when it comes to water-related metrics. Just 21% of the largest 100 apparel and textile companies, by market cap, reported water-related data through CDP in 2019. Greater transparency is needed to drive accountability and action in the sector, and as such there is an increase in the number of apparel-related companies included within the sample this year.

The sample of apparel companies requested was prioritised based on market cap (ensuring that the top 100 apparel companies, by market cap, were included), water impact rating and whether the company currently discloses through CDP's climate and/or forests questionnaires.

## Appendix 1

CDP Industry	CDP Activity Group	CDP Activity	Water impact rating
Apparel	Textiles & fabric goods	Apparel design & manufacturing	Critical
		Luggage & bags	Very High
		Textiles	Critical
Biotech, health care & pharma	Biotech & pharma	Biotechnology	Medium
		Pharmaceuticals	Critical
	Health care provision	Health care facilities	Medium
	Medical equipment & supplies	Health care supplies	High
		Medical equipment	Very High
Food, beverage & agriculture	Crop farming	Biofuel supply	Very High
		Cocoa bean farming	Critical
		Cotton farming	Critical
		Fruit farming	Critical
		Grain & corn farming	Critical
		Other crop farming	Critical
		Other oilseed farming	Critical
		Palm oil farming	Critical
		Rice farming	Critical
		Soybean farming	Critical
		Sugarcane farming	Critical
		Vegetable farming	Critical
	Fish & animal farming	Aquaculture	Critical

		Cattle farming	Critical
		Fishing	High
		Other animal farming and processing	Critical
		Poultry & hog farming	Critical
	Food & beverage processing	Alcoholic beverages	Very High
		Animal processing	Very High
		Baked goods & cereals	Very High
		Chocolate confection	Very High
		Coffee	Very High
		Dairy & egg products	Very High
		Fruit, nut & vegetable processing	Very High
		Grain & corn milling	Very High
		Non-alcoholic beverages	Very High
		Non-chocolate confection	Very High
		Oilseed processing	Very High
		Other food processing	Very High
		Palm oil processing	Very High
		Seafood processing	Very High
		Soybean processing	Very High
		Sugar	Very High
Tea	Very High		
Logging & rubber tapping	Logging	Very High	
Logging & rubber tapping	Rubber farming	Critical	
Tobacco	Tobacco products	Very High	
Fossil fuels	Chemicals	Basic plastics	Critical
	Coal mining	Coal extraction & processing	Very High
	Oil & gas extraction & production	Natural gas extraction	Critical
		Oil & gas extraction initial	Critical
	Oil & gas processing	Oil & gas refining	Critical
Oil & gas retailing	Oil & gas marketing & retailing	Medium	

	Oil & gas storage & transportation	Oil & gas pipelines & storage	Medium
	Other materials	Glass products	Medium
Hospitality	Bars, hotels & restaurants	Fast food	High
		Food & beverage amenities	High
		Hotels & lodging	High
	Entertainment facilities	Gambling	None
		Recreation & entertainment facilities	None
Infrastructure	Construction	Energy infrastructure construction	Very High
		Infrastructure Construction	High
		Non-residential building construction	Very High
		Renewable energy construction	Very High
		Residential building construction	Very High
		Transportation infrastructure & other construction	Very High
		Utility line construction	Medium
	Energy utility networks	Electricity networks	Low
		Gas utilities	Medium
	Land & property ownership & development	Infrastructure upkeep & management	None
		Land sales & leasing	None
		Real estate owners & developers	Medium
	Non-energy utilities	Recycling	Low
		Waste management	Low
		Waste water management	None
		Water supply networks	None
	International bodies	Government agencies	Agencies local
Agencies national			None
Agencies regional			None
Government banks		Government banks	None
Government bodies		Government local	None
		Government national	None
		Government regional	None

	Supranationals	Supranationals	None
Manufacturing	Diversified Industrials	Diversified Industrials	Very High
	Electrical & electronic equipment	Batteries	Very High
		Communications equipment	High
		Computer hardware	Very High
		Electrical equipment	Very High
		Electronic components	Very High
		Electronic equipment	Very High
		Household appliances	None
		Semiconductors	Very High
		Leisure & home manufacturing	Accessories
	Furniture		High
	Homeware		None
	Sporting goods		None
	Toys & games		None
	Light manufacturing	Automotive interior	Medium
		Munitions	Medium
		Other building products	None
		Other containers & packaging	None
		Pollution control equipment	None
		Tires	Very High
	Metal products manufacturing	Fabricated metal components	High
		Metal containers & packaging	High
	Paper products & packaging	Paper packaging	Very High
		Paper products	Very High
	Plastic product manufacturing	Plastic products	Very High
	Powered machinery	Agriculture, construction & mining machinery	Very High
		Engines & motors	High
		Industrial machinery	Very High
		Other vehicle equipment & systems	Very High

	Renewable energy equipment	Other renewable energy equipment	None
		Solar energy equipment	Very High
	Transportation equipment	Aerospace	Very High
		Automobiles	Very High
		Heavy vehicles	Very High
		Railroad rolling stock	High
		Recreational vehicles	Very High
		Shipbuilding	High
	Wood & rubber products	Finished wood products	High
		Rubber products	Very High
Materials	Cement & concrete	Cement	Critical
		Concrete products	Very High
	Chemicals	Agricultural chemicals	Critical
		Biofuels	Very High
		Inorganic base chemicals	Critical
		Nitrogenous fertilizers	Critical
		Non-nitrogenous fertilizers	Critical
		Other base chemicals	Critical
		Personal care & household products	Critical
		Specialty chemicals	Critical
	Metal smelting, refining & forming	Aluminum	Very High
		Copper	Very High
		Iron & steel	Very High
		Metal processing	Very High
		Other non-ferrous metals	Very High
		Precious metals	Very High
	Metallic mineral mining	Bauxite mining	Critical
		Iron ore mining	Critical
		Other non-ferrous ore mining	Critical
		Precious metals & minerals mining	Critical



	Other materials	Ceramics	High
		Other non-wood building materials	None
	Other mineral mining	Other non-metallic minerals	Very High
	Wood & paper materials	Pulp & paper mills	Very High
		Sawmills & wood materials	Medium
Power generation	Biomass & waste generation	Biomass & waste generation	High
	Nuclear power generation	Nuclear generation	Very High
	Renewable power generation	Geothermal generation	Low
		Hydro generation	Very High
		Other renewable generation	None
		Solar generation	High
		Wind generation	Medium
	Thermal power generation	Fossil generation	Very High
Power generation		High	
Retail	Convenience retail	Hypermarkets & superstores	High
		Supermarkets, food & drugstores	High
		Apparel stores	Very High
		Department stores	Very High
		Discretionary delivery retail	None
		Specialist retail	None
	Trading, wholesale, distribution, rental & leasing	Agricultural products wholesale	Medium
		Animal products wholesale	Medium
		Chemicals wholesale & distribution	Very High
		Construction & building materials dealing & distribution	High
		Consumer goods wholesale & rental	Medium
		Food & beverage wholesale	Medium
		Home & office wholesale	None
		Industrial machinery distribution	None
Metals supply, wholesale & trading	Medium		

		Pharma & health care supplies wholesale & distribution	High
		Technology hardware wholesale & distribution	High
		Textile & apparel wholesale	High
		Transportation equipment wholesale & dealing	None
		Vehicles & machinery rental & leasing	None
		Wood & paper products wholesale	Medium
Services	Commercial & consumer services	Commercial services	None
		Consumer services	None
		Travel services	None
	Financial services	Asset managers	None
		Banks	None
		Insurance	None
		REIT	None
	Industrial support services	Energy services & equipment	None
		Industrial services	None
		Mining & metals support services	None
		Transportation support services	None
	IT & software development	IT services	None
		Software	None
	Media, telecommunications & data center services	Media	None
		Servers & data centers	Very High
		Telecommunications services	None
	Other services	Education services	Low
		Health care services	Low
Real estate services		None	
Print & publishing services	Print publishing	None	
	Printing services	None	

	Specialized professional services	Engineering services	None
		Other financial	None
		Other professional services	None
	Web & marketing services	Marketing	None
		Web-based services	None
Transportation services	Air transport	Air freight	Medium
		Passenger airlines	Medium
	Intermodal transport & logistics	Intermodal transport	Medium
		Logistics	None
	Marine transport	Cruise lines & ferries	Medium
		Marine freight	Medium
	Passenger transport	Passenger transport	None
	Rail transport	Passenger rail	None
		Rail freight	Medium
	Road transport	Bus & taxi	Medium
Road freight		Medium	

## Appendix 2

The cut-offs for regions/groupings covered by indexes or stock exchange indexes used in the selection of companies requested to disclose climate change data to investors as part of the Climate Change sample:

- ▼ **South Africa:** 100 of the largest companies in South Africa based on market capitalization;
- ▼ **Asia ex-JICK:** 250 of the largest companies in Asia excluding Japan, India, China and Korea
- ▼ **China:** 100 of the largest companies in China based on market capitalization;
- ▼ **India:** 200 of the largest companies in India based on market capitalization;
- ▼ **Korea:** 200 of the largest companies in Korea based on market capitalization;
- ▼ **Japan:** 500 of the largest companies in Japan based on market capitalization;
- ▼ **Australia:** 200 of the largest companies in Australia based on market capitalization;
- ▼ **New Zealand:** 100 of the largest companies in New Zealand based on market capitalization;
- ▼ **Latin America:** 500 of the largest companies in Latin America based on market capitalization;
- ▼ **S&P 500:** 500 of the largest companies in the USA based on market capitalization;
- ▼ **Canada:** 200 of the largest companies in Canada based on market capitalization;
- ▼ **Benelux:** 150 of the largest companies in the Netherlands, Belgium and Luxemburg based on market capitalization;
- ▼ **CEE:** 100 of the largest companies in Central & Eastern Europe (Poland, Czech Republic, Hungary, Baltic States) based on market capitalization;
- ▼ **DACH:** 350 of the biggest companies in Austria, Germany, and Switzerland by market capitalization;
- ▼ **Euro:** 300 of the largest companies in Europe based on market capitalization;
- ▼ **France:** 250 of the largest companies in France based on market capitalization;
- ▼ **UK:** 450 of the largest companies in the UK based on market capitalization;
- ▼ **Spain:** 84 of the largest companies in Spain based on market capitalization;
- ▼ **Portugal:** 31 of the largest companies in Portugal based on market capitalization;
- ▼ **Italy:** 100 of the largest companies in Italy based on market capitalization;
- ▼ **Ireland:** 40 of the largest companies in Ireland based on market capitalization;
- ▼ **Nordic:** 260 of the largest companies in Denmark, Norway, Finland and Sweden based on market capitalization;
- ▼ **Russia:** 40 of the largest companies in Russia based on market capitalization;
- ▼ **Turkey:** 100 of the largest companies in Turkey based on market capitalization;
- ▼ **Global 500:** 500 of the largest companies globally based on market capitalization;
- ▼ **Emerging markets:** 800 of the largest and midsized companies in the emerging markets based on market capitalization;
- ▼ **FTSE All-World:** 800 of the largest global companies in developed countries based on market capitalization;
- ▼ **MSCI ACWI:** All the companies that are a constituent of the MSCI ACWI index; and

▼ **Benchmark:** Companies that have been constituents of the MSCI ACWI at least one quarter since 2015.