Environment Agency

Environmental disclosures summary

Key findings of the the fourth major review of environmental reporting in the statutory annual report & annual accounts of the FTSE All-Share companies

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We are the Environment Agency. We protect and improve the environment and make it a better place for people and wildlife.

We operate at the place where environmental change has its greatest impact on people's lives. We reduce the risks to people and properties from flooding; make sure there is enough water for people and wildlife; protect and improve air, land and water quality and apply the environmental standards within which industry can operate.

Acting to reduce climate change and helping people and wildlife adapt to its consequences are at the heart of all that we do.

We cannot do this alone. We work closely with a wide range of partners including government, business, local authorities, other agencies, civil society groups and the communities we serve.

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Overview of findings

This fourth study of environmental disclosures by FTSE All-Share Index companies finds that all now discuss environmental topics in their annual reports and accounts. Around half report quantitative figures on at least one core key performance indicator (KPIs) – greenhouse gas (GHG) emissions, water or waste - in line with government guidance published in 2006.

This summary provides highlights of our report on environmental disclosures, which assesses environmental reporting in 2011-12 by 433 companies in the FTSE All-Share Index. It includes key findings from our analysis of qualitative and quantitative environmental disclosures in statutory annual report and accounts. We examined changes in reporting since our previous review in 2009-10. We have monitored environmental reporting in the annual report and accounts of Index constituents since 2004. Under the Companies Act 2006, listed companies must report on environmental matters in annual report and accounts where relevant. Listed companies that are incorporated in the UK will have to disclose carbon emissions in directors' reports for financial years ending on or after 30 September 2013.

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Key findings include:

In 2011-12, all 443 FTSE All-Share companies discussed an environmental topic in their annual reports. Sustainability/corporate social responsibility (CSR) was discussed most frequently, suggesting this is relatively high on boardroom agendas.

93% of FTSE All-Share companies now make qualitative environmental disclosures in the Directors' Report sections of their annual report and accounts.

80% of companies discussed pollution, up from 56% in 2006. This probably reflects awareness of new and stricter pollution controls that apply to operations in many places.

Discussions of environmental incidents, environmental targets and environmental taxes have also increased consistently since 2006. More widespread disclosure of targets to reduce impacts such as carbon emissions, energy use and water is likely to be enabled by more prevalent measurement.

49% of listed companies disclosed quantitative figures on at least one of three core key performance indicators (KPIs) - GHG emissions, water and/ or waste - in line with voluntary government guidance published in 2006. This is a significant increase from 28% in our previous analysis and indicates the availability of more standardised data. Companies that disclosed data in accordance with the government's 2006 environmental reporting guidance or 2009 carbon reporting guidelines had the highest weighted profit margins in the Basic Materials, Utilities and Oil & Gas sectors.

40% of companies disclosed GHG data in line with the 2006 government guidance. This is up from 22% providing absolute quantified data for total emissions in 2009-10. 8% of companies also disclose quantities of carbon emissions from different sources. This is in line with the government's carbon reporting guidance published in 2009. Overall, 61% quantified carbon emissions in some way. This indicates that the majority of companies have processes in place to measure and report emissions.

9% of companies reported quantitatively on all three core KPIs in accordance with the 2006 government guidance. Disclosure levels on GHG emissions, water use, and waste, in line with the recommendations, have increased steadily since 2006. 15% of companies provided figures on water use, up from 10% in 2009-10.

Table 1 sets out the high-level findings of the Environmental disclosures report.

Table 1: Key trends in environmental reporting in annual reports and accounts

	Percentage of companies			
	2004	**2006**	**2009-10**	**2011-12**
Number of FTSE All-Share companies analysed:	506	537	458	**443**
Percentage of FTSE All-Share companies with a qualitative environmental disclosure:	89	98	99	**100**
Percentage of FTSE Small Cap companies with a qualitative environmental disclosure:	80	97	98	**100**
Percentage of FTSE All-Share companies with an environmental disclosure in audited sections of their annual reports and accounts:	10	35	36	**61**
Percentage of FTSE All-Share companies with a quantified disclosure on one or more of the three core KPIs (GHG emissions, water and waste):	27	42	67	**70**
Percentage of FTSE All-Share companies with a quantified disclosure on one or more of the three core KPIs in accordance with government guidelines:	10	15	28	**49**
Percentage of FTSE All-Share companies with quantified disclosures on all three core KPIs in accordance with government guidelines:	-	3	6	**9**

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Implications of results

Carbon, water and waste data disclosed in annual reports is becoming increasingly robust, with more companies than ever publishing environmental data in line with government guidelines. Since the 2006 guidance on reporting environmental performance was introduced, disclosures have more than quadrupled. Our analysis of reporting trends since 2004 has found that once companies put in place systems and processes to monitor environmental data, the quality of measurement and reporting improves rapidly. Companies that measure, manage and disclose environmental impacts in annual reports and accounts recognise the benefits of doing so and quickly improve the quality of data.

Although corporate environmental disclosure levels have increased significantly since 2004, they appear to be reaching a plateau. There is now a wider gap between those that report well and those that don't. This could create opportunities for companies that monitor and manage environmental performance to benefit from early-mover advantage.

The government's plans to strengthen corporate environmental disclosure in the UK, specifically on mandatory carbon reporting, will encourage widespread, standardised quantitative reporting on environmental impacts in annual reports and accounts. The introduction of mandatory GHG reporting for publicly-listed companies in the UK will help ensure carbon data reaches a consistently high standard across all companies in the near term. Defra will publish new GHG guidance to support the mandatory reporting requirements, along with revised guidance on reporting on other environmental KPIs.

Reducing environmental impacts across listed companies is important to maintain the natural capital that the UK economy depends on. Clear and accurate disclosure of environmental performance can deliver improvements including:

- cost savings through energy and resource efficiency

- lower exposure to carbon liabilities and volatile fossil fuel costs
- informed comparisons of companies with sector peers by investors, thereby providing further incentives for companies to improve their performance
- efficient allocation of capital to meet long-term sustainable investment goals
- the development of more sustainable products, brands and business strategies

There is increasing evidence of a link between good environmental governance and strong financial performance. Managing environmental impacts and related costs demonstrates good business practice, and generally results in a lower cost of capital. Many investors are starting to integrate comparable environmental data into financial analysis, and environmental performance data are becoming more widely available through financial information providers such as Bloomberg and FactSet.

Many companies that already measure the impacts of their direct operations are starting to look at wider issues of resource use and pollution embedded in supply chains in order to increase accountability for upstream impacts, reduce exposure to rising input costs, and strengthen brands.

Levels of qualitative disclosure

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Existing disclosure frameworks have led to discussion of environmental topics across the FTSE All-Share Index, as well as to more robust disclosures on environmental performance in annual reports and accounts.

All FTSE All-Share companies discussed environmental matters in their annual report and accounts in 2011-12. We looked for certain keywords to analyse discussion of environmental topics in each company's annual report and accounts. Widespread discussion of environment-related subjects indicates directors' awareness that some environmental issues are relevant to business performance. Sustainability or corporate social responsibility (CSR) issues were discussed most frequently, by 97% of companies in the Index.

Table 2: Top 10 environmental topics discussed by companies

Environmental topics	Percentage of companies			
	2004	2006	2009-10	2011-12
Sustainability/ CSR	26	57	45	**97**
Pollution	32	56	79	**80**
Waste management	76	82	89	**79**
Energy	28	48	57	**78**
Climate change	24	48	62	**70**
Environmental target	32	34	40	**69**
Compliance	18	41	55	**61**
Water	29	43	24	**43**
Environmental management system	30	33	61	**37**
Biodiversity/ land use	24	35	57	**34**

61% of companies reported on compliance in 2011-12. This is up from 41% in 2006 and 55% in 2009-10. Reporting on environmental provisions and liabilities increased from 8% in 2006 to 10% in 2011-12. 10% of companies in the Index discussed their license to operate, up from 6% in 2006. However, discussion of environmental risk management across the Index fell from 18% in 2009-10

to 14% in 2011-12. This is a concern for investors who require strategic and comprehensive forward-looking information on risks and opportunities.

The largest and most consistent trend in increased reporting occurred in references to pollution, environmental incidents, environmental targets and environmental taxes. The second-highest level of environmental reporting was on pollution (80%). Pollution controls are currently being implemented or strengthened in many of the countries in which FTSE All-Share companies operate. Discussion of targets for impacts such as water, energy, carbon emissions and waste increased steadily from 34% in 2006 to 69% in 2011-12.

Three environmental impacts were among the most discussed topics - waste management (79%), energy (78%) and climate change (70%). Levels of discussion of keywords relating to climate change increased from 48% in 2006 to 62% in 2009-10. In 2009, Defra and the Department of Energy & Climate Change published guidelines on how companies can measure and report GHG emissions. In order to measure GHG emissions, companies must monitor energy use. The percentage of FTSE All-Share companies discussing energy use increased from 48% in 2006 to 78% in 2011-12.

The level of discussion of water in annual reports and accounts increased from 24% in 2009-10 to 43% in 2011-12. This reflects the potential materiality of water issues in the UK and other regions that face growing water scarcity and flood risk.

More than 90% of companies discussed environmental topics in sections including Directors' Reports. We found that 93% of the 443 FTSE All-Share companies refer to one or more of the keywords in the Directors' Report section of annual reports and accounts. Under draft Greenhouse Gas Emissions (Directors' Reports) Regulations released in March 2013, UK-incorporated companies that are also listed on the main market of the London Stock Exchange (LSE) or in the European Economic Area must disclose greenhouse gas (GHG) emissions in their directors' reports.

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Levels of quantified disclosure

Defra published voluntary guidance in 2006 - Environmental Key Performance Indicators: Reporting Guidelines for UK Business. The Defra guidelines explain ways to quantify 22 sector-specific environmental KPIs for reporting environmental impacts in annual reports and accounts. Most companies have no more than three KPIs. The most commonly used KPIs relate to greenhouse gas (GHG) emissions, water use and abstraction, and waste. In 2009, Defra published separate guidelines to explain how to measure and report GHG emissions.

Companies covered by the mandatory carbon reporting requirements will have to report on GHG emissions, measured in carbon dioxide equivalents (CO_2e), for financial reporting years ending on or after 30 September 2013. Companies must report on material emissions for which they are responsible and state which methodology has been used. Defra plans to publish new GHG guidance to support the mandatory reporting requirements, along with updated guidance on environmental KPIs.

This study categorises quantitative reporting on GHG emissions, water and waste in the annual reports and accounts of FTSE All-Share companies in 2011-12 into the following groups:

- no quantification
- general quantification, such as an intensity figure rather than absolute impacts
- quantified disclosures that meet 2006 government guidelines
- quantified disclosures that meet 2009 government guidelines on carbon reporting

Our analysis found that 30% of companies still did not report data on environmental impacts, and we are now seeing much smaller increases in levels of quantitative disclosure. The small drop in

the percentage of companies that do not quantify any data at all, from 33% in 2009-10, represents a slowdown in the decline in non-disclosure of environmental performance. There is a growing gap between companies which lead the way on disclosure and companies that are not transparent. This could suggest a widening divergence in corporate environmental monitoring and performance, particularly among the larger publicly listed companies. The government's planned carbon reporting rules and revised environmental reporting guidance aim to drive improvements in the quantity and quality of environmental disclosures. This will help to create a level playing field for environmental reporting by companies and help elicit more standardised, comparable data.

70% of companies reported general quantified data on at least one of the three core KPIs – GHG emissions, water and waste. This was up slightly from 67% in 2009-10. The level of disclosures that adhere to government guidelines on corporate environmental reporting (2006) for all three KPIs increased from 6% in 2009-10 to 9% in 2011-12. Since 2006 there has been a steady increase in the level of disclosures on GHG emissions, water use and waste that are in line with government recommendations.

Almost half of FTSE All-Share companies (49%) now provide data in accordance with the government's environmental reporting guidelines (2006) on at least one KPI – carbon dioxide emissions, water or waste. This is a sharp increase on 28% in 2009-10. Reporting in line with the guidance has more than quadrupled since 2006. The trend towards more standardised disclosures suggests that more companies have systems in place to monitor environmental impacts. Greater adherence to the guidance was accompanied by a fall in the percentage of companies reporting data that can be used to calculate environmental impacts – classified as "quantification from which data can be derived". For instance, data on energy use can be converted to CO_2e emissions data using emissions factors. Similarly, the share of companies providing general quantification fell from 27% in 2009-10 to 16% in 2011-12. Findings suggest that once companies begin to collect environmental data, the quality of monitoring and reporting improves relatively rapidly.

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Table 3: Key trends in the disclosure of quantified environmental data in statutory annual reports and accounts

Percentage of FTSE All-Share companies reporting quantified figures on:	2004	2006	2009-10	2011-12
One or more of the three core environmental KPIs (GHG emissions, water and waste)	27	42	67	**70**
One or more of the three KPIs in accordance with 2006 government guidance	10	15	28	**49**
All three KPIs in accordance with 2006 government guidance	-	3	6	**9**
GHG emissions	-	29	62	**61**
GHG emissions in accordance with 2006 government guidance	-	12	22	**40**
GHG emissions in accordance with 2009 government guidance	-	-	-	**8**
Water	-	12	25	**26**
Water in accordance with 2006 government guidance	-	4	10	**15**
Waste	-	27	41	**44**
Waste in accordance with 2006 government guidance	-	8	12	**25**

In 2011-12, the highest level of compliant disclosure was for GHG emissions (40%). This was a marked increase from 2009-10, when 22% of companies reported absolute quantified data for total emissions, without necessarily defining the scope of emissions. The level of compliant disclosures has almost quadrupled since 2006, when Defra introduced the guidelines. 8% of companies provided quantitative figures on carbon emissions broken down by source, as recommended by the government's carbon reporting guidance (2009). Companies are advised to report separately on emissions from operations (Scope 1) and from purchased electricity (Scope 2).

61% of companies quantified GHG emissions in some way, such as providing carbon intensity figures. This indicates that a majority of companies collect data and have systems and processes in place to measure and report emissions from operations. Among FTSE 350 companies, general quantification of GHG emissions almost halved between 2009-10 and 2011-12 – to 17%. Levels of carbon disclosure in line with the government's 2006 guidance increased to 46% among FTSE 350 companies.

Companies that measure emissions are better positioned to manage carbon, set targets to reduce emissions and report on progress. Data on emissions from operations and electricity use can inform investment decision-making and help identify risks and opportunities during the transition to a low-carbon economy. Investors can incorporate more standardised carbon data into financial analysis of exposure to carbon costs. Carbon data can help institutional investors, as major shareowners and bondholders, to identify low-carbon companies within sectors.

The highest levels of disclosure in line with the government's 2006 guidelines were made by Utilities companies (75%). The highest level of disclosure on GHG emissions against the government's 2009 carbon reporting guidelines (10%) was among 111 companies in the Industrials sector. Between 7% and 9% of companies in the Consumer Goods, Financials and Health Care sectors also disclosed in line with the guidelines.

Reporting on water use in line with the 2006 guidance increased to 15%, up from 10% in 2009-10. The level of disclosures on quantities of water abstracted annually has more than tripled since 2006. It is important to distinguish between quantities of water abstracted and purchased from Utilities companies.

Waste impacts saw disclosures in accordance with Defra's 2006 guidance increase from 12% in 2009-10 to 25% in 2011-12. The percentage of companies providing data on tonnes of waste generated has risen sharply from 8% in 2006. This may reflect a greater awareness of waste management liabilities and of the opportunities to improve resource efficiency to reduce costs.

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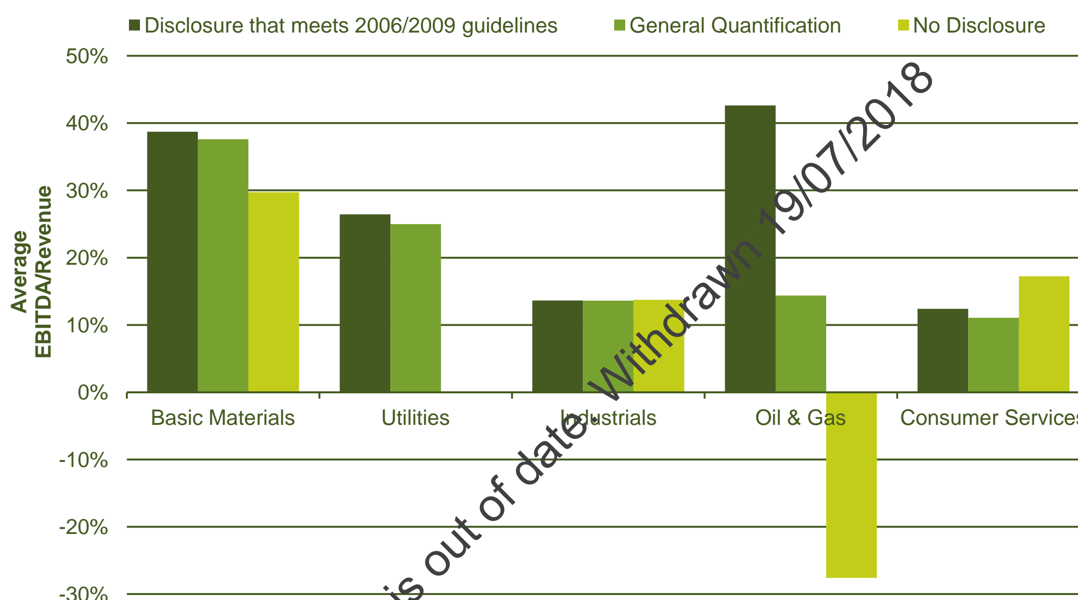
Disclosure, environmental efficiency and financial performance

Carbon disclosures were assessed against profitability in the FTSE All-Share in five carbon-intensive sectors – Basic Materials, Utilities, Industrials, Oil & Gas and Consumer Services. For each company in these sectors, profit margins were measured as operating income or earnings before interest, taxation, depreciation and amortisation (EBITDA) relative to revenue, measured in British Pound Sterling (£).

Figure 1: Profit margins weighted by the quality of GHG disclosure



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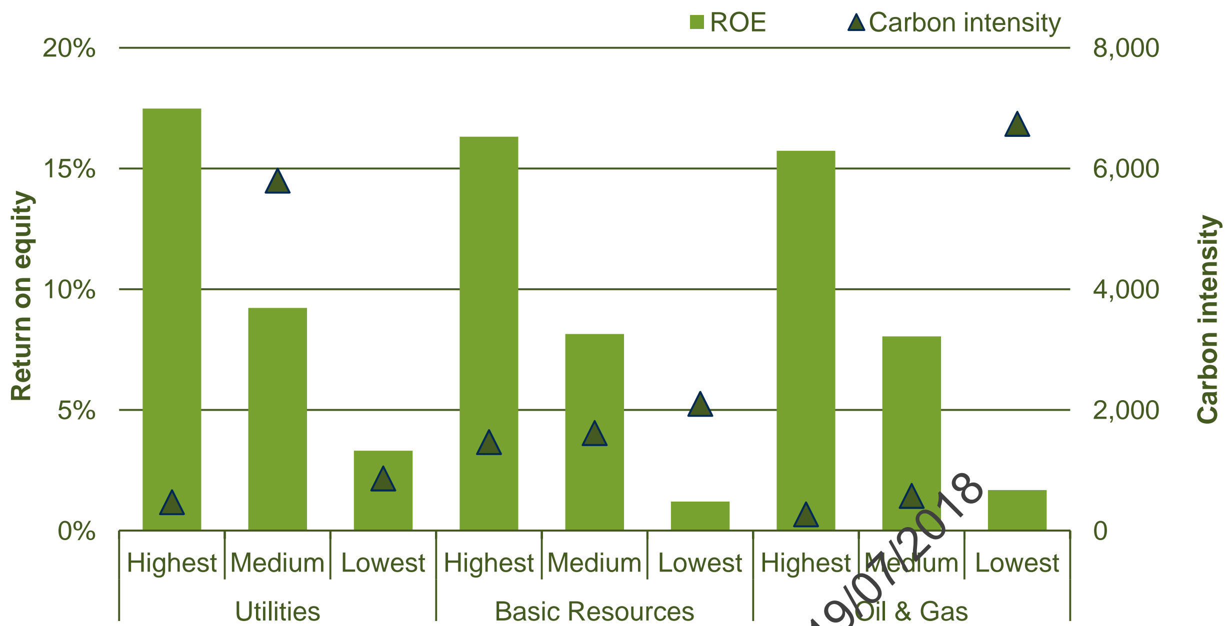
Companies that disclosed data in accordance with the government's 2006 environmental reporting guidance or 2009 carbon reporting guidelines had the highest weighted profit margins in the Basic Materials, Utilities and Oil & Gas sectors. The trend is most pronounced in the Oil & Gas sector where companies that did not disclose any of their GHG emissions in their annual report and accounts made a financial loss.

Building on this analysis comparing profit margins and the quality of GHG emissions disclosure, we analysed financial performance against environmental performance on the three KPI's – carbon, water and resource intensity. In order to compare companies of all sizes within each sector, quantities of carbon emissions, water use and waste were normalised by revenue, which provides a relatively stable financial metric that is linked to production.

Ratio return on equity (ROE) was used as an indicator for profitability. Companies that disclosed environmental data were ranked on (ROE) in each sector and grouped into three categories based in their financial performance (high, medium or low). Average ROE was measured against average carbon, water or waste intensities for companies in each sector and each financial group. The resulting evidence is anecdotal only, and further statistical tests would be required to examine correlation and causality in relationships between environmental and financial disclosure and performance.

Figure 2: Operating profit margin versus carbon intensity (high carbon impact sectors)



The strongest link between environmental efficiency and financial performance was found between ROE and carbon efficiency, measured as tonnes of CO_2e per £ million revenue. The most profitable companies in their sectors tended to be the most carbon efficient. This is most evident in the Basic Resources, Oil & Gas, Real Estate and Construction & Materials sectors, where companies with the lowest average ROE had the highest average carbon intensity. Out of the three environmental performance indicators, carbon intensity data was the highest quality and had the strongest relationship with financial performance. It is the only KPI analysed for which a detailed, widely-used international corporate accounting standard is available – the GHG Protocol.

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About Trucost

Trucost has been helping companies, investors, governments, academics and thought leaders to understand the economic consequences of natural capital dependency for over 12 years.

Its world leading data and insight enables its clients to identify natural capital dependency across companies, products, supply chains and investments; manage risk from volatile commodity prices and increasing environmental costs; and ultimately build more sustainable business models and brands.

Key to Trucost's approach is that it not only quantifies natural capital dependency, it also puts a price on it, helping to provide insight into environmental risk in business terms.

It isn't "all about carbon"; it's about water; land use; waste and pollutants. It's about which raw materials are used and where they are sourced, from energy and water to metals, minerals and agricultural products. And it's about how those materials are extracted, processed and distributed.

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