



Australian Council of Super Investors Inc.

The Sustainability Reporting Journey

Sustainability Reporting Practices of
S&P/ASX 100 Companies

Study commissioned by the Australian Council of Super
Investors Inc. and conducted by Responsible Investment
Consulting

EXECUTIVE SUMMARY

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About the Authors

Australian Council of Super Investors

The Australian Council of Superannuation Investors ("ACSI") is a not for profit organisation formed in April 2001 to provide independent research and education services to superannuation funds, in relation to the corporate governance practices of companies in which they invest.

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Responsible Investment Consulting

Responsible Investment Consulting was established in 2006 by Gordon Noble and Betty Kotevski and specialises in providing institutional investors with advice on implementing responsible investment practices across investment portfolios. Responsible Investment Consulting is a professional service provider signatory to the United Nations Principles for Responsible Investment (PRI) and publisher of *Responsible Investment News*, a weekly newsletter that provides readers with updates on responsible investment issues.

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Executive Summary

Research objectives

In April 2006, the United Nations Principles for Responsible Investment (“PRI”) was established as a common framework to assist institutional investors to incorporate environmental, social and corporate governance (“ESG”) risks into investment ownership practices.

Two years after their launch, over 350 signatories managing in excess of \$US14 trillion have endorsed the PRI. In Australia, over 60 superannuation funds, fund managers and professional service partners have signed up to the six principles that make up the PRI. While it is too early to assess the impact the PRI are having globally on investment markets, there is no doubt that a great deal of intellectual energy is currently being expended assessing how to apply the Principles across investment portfolios. As a result of this work, greater attention is being focused on the need for investors to access timely, comparable and material information on the ESG risks faced by a company, how these risks are managed, and the company’s performance in managing those risks. The production of this kind of information is now commonly referred to as “sustainability reporting”.

This research project seeks to benchmark the sustainability reporting practices of the S&P/ASX 100 (“ASX 100”) companies as at March 2008. The principal objective of the study is to provide a starting point to measure the market’s practice and progress over time.

ASX 100 companies were chosen as the basis for this research for two reasons. Firstly, it was felt that the largest companies in Australia’s listed markets have a greater capacity to report on ESG risks. Secondly, as investment grade companies, ASX 100 companies represent a significant proportion of the Australian equity investments of ACSI members. The performance of these companies in managing ESG risks can impact on the investment returns of ACSI members over the long-term.

In this report, the Global Reporting Initiative (“GRI”) had been identified as the most useful framework for reporting, and is therefore considered to be “best practice” for the purposes of this report. There are a number of reasons for this, but the two principal reasons are:

- The GRI framework has achieved international support and acceptance, and is already recognised as the most appropriate reporting framework by leading ASX 100 companies.
- The GRI enables investors to compare information across companies, both domestically and internationally. The investor community is also involved in the ongoing process to develop and refine the GRI guidelines. This means that the GRI framework can respond to the needs of stakeholders, including investors.

For the purposes of this research, we used the GRI definition of sustainability reporting:

“Sustainability reporting is a process for publicly disclosing an organization’s economic, environmental, and social performance.”

To qualify as “sustainability reporting” for the purposes of this study, it was important that a company reported its *performance* against its sustainability targets or objectives and did not simply discuss those targets or objectives. This is consistent with earlier studies and literature in this area.

It is important to note that the research does not give a qualitative assessment of the substance of the ASX 100’s sustainability reporting, but rather a *quantitative* analysis of the extent or amount of sustainability performance data provided by each company.

Key findings

Sustainability reporting levels of ASX 100 companies

- 17% of ASX 100 companies currently do not report on sustainability issues.
- 33% of ASX 100 companies report on sustainability in some limited form: for instance, selected OHS statistics.
- 27% of ASX 100 companies provide an increased level of disclosure: either through dedicating a section of the company financial report to sustainability, producing a sustainability report or enhanced website disclosure. In most cases, these companies are covering all aspects of sustainability reporting: i.e. environment, economic and social.
- 7% of ASX 100 companies report on sustainability by making some reference to the internationally recognised sustainability reporting framework, the GRI. In most cases, these companies are covering all the aspects of sustainability reporting: i.e. environment, economic and social, but also make reference to, or take into account, the GRI. There was a great deal of variety in the ways that GRI was mentioned, with some companies reporting they were progressively moving towards GRI as a reporting framework while others reported that they had established internal GRI working groups to progress towards full GRI reporting.
- 16% of ASX 100 companies report on sustainability according to the GRI’s G3 framework and guidelines.

Methods of reporting

- The research confirmed the findings of previous research on this subject, which is that companies are reporting on sustainability in a variety of formats: annual reports, discrete sustainability reports and through website disclosure.
- Of those companies that do report on sustainability:
 - 74% of ASX 100 companies report through their annual report.
 - 53% of ASX 100 companies provide some degree of reporting on their website.
 - 37% of ASX 100 companies produce a stand-alone sustainability report.

Overall observations

- Sustainability reporting is developing quietly in many ASX 100 companies: although they may not be producing a stand-alone sustainability report, many are making some sustainability disclosures through their websites and annual reports. There is currently a graduated performance of reporting on sustainability by ASX 100 companies, which can be characterised as a series of steps on a sustainability journey. One of the important conclusions of this report is that the market is not divided in a black and white way between those companies which report on sustainability issues and those which do not. Most companies do report on sustainability but the extent of reporting differs significantly between them and it is this difference that this report is trying to highlight.
- Australia is lagging other parts of the world in reporting against the GRI. As noted above, only 16% of ASX 100 companies are currently structuring their sustainability reporting against the GRI's G3 standard, compared to 38% of the S&P 100 Index.
- While 83% of ASX 100 companies report on sustainability at some level, only 16% of companies structure their reporting according to GRI G3. The difference between those companies that report at some level, and those that structure their reporting according to GRI G3 represents an opportunity for improvement in sustainability reporting practices. Investors should encourage ASX100 companies that do report at some level to move towards reporting against GRI. The benefit for investors of increased reporting against GRI is to increase the proportion of companies that are providing information in a consistent format that assists integration of ESG issues into investment processes.
- Of the 83 ASX 100 companies reporting on sustainability, only 30 companies made clear the boundary of their sustainability reporting: that is, the extent of the company's entities or activities covered in their reporting. Of these 30, only 15 companies' reporting covered all of the company's entities or activities. This means that for companies that report on sustainability issues, investors only have some

level of confidence that the reporting covers all activities under a company's control in only 18% of cases. There is a need for greater clarity about which entities and activities of the company are covered in its sustainability reporting if investors are to accurately assess a company's ESG risk exposure.