Carbon Reporting
Performance of the FTSE 100

EXECUTIVE SUMMARY

OCTOBER 2013

For the third consecutive year, Carbon Clear has undertaken an in-depth examination of the best practice carbon reporting processes and procedures of FTSE 100 companies. The report aims to analyse and demonstrate the extent and quality of carbon management reporting amongst the top 100 UK listed companies.

Our research shows there are many companies prepared to set the benchmark for best practice when it comes to carbon management. This is highlighted throughout the report, to encourage all companies to think about their own internal efforts and how they report their emissions. Best practice helps to drive forward the changes to business strategies that are needed to reduce our carbon impact.

The research has even more significance this year because of the carbon reporting obligation that becomes a legal requirement for all FTSE listed companies from the end of September 2013. We will examine how prepared companies are for the legislation later in the report.

A 2013 survey of climate science papers found that 97% of the research agrees climate warming is man-made. It is widely acknowledged that the carbon intensity of how we live must be addressed if we are to avoid the temperature rises that will lead to catastrophic climate change.

The implication for businesses is clear. At Carbon Clear, we believe managing carbon emissions effectively is the future for all organisations, so it makes complete sense to start today.

Summary performance of the FTSE 100

Key Findings

- Just over half of FTSE 100 companies disclose their carbon footprint in their annual report
- 56 companies are reporting some Scope 3 emissions
- Only one company scored top marks for engaging with their supply chain
- 41% of companies showed evidence that they are willing to go beyond just reporting their emissions and are seeking opportunities, risk mitigation strategies and adaptation strategies associated with climate change.
- Only 29 companies have carbon targets to or beyond 2020.

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Introduction

There have never been more drivers for companies to embrace carbon management. While the logic of reducing energy costs and minimising legislative and reputational risk is straightforward, the reality is that a meaningful shift to a lower-carbon business model can be hard, and requires significant commitment and vision. Corporate executives need to be able to identify clear commercial benefits to justify the associated investments in time, personnel and capital.

Consequently, relatively few organisations have successfully integrated carbon to the extent that it informs the products and services that they develop, who they work with and how they interact with their customers. This is a lost opportunity: at Carbon Clear, we believe that a successful shift to a lower-carbon way of doing business will be critical for future prosperity.

Value creation is integral to any carbon management strategy; engagement with customers, government, investors and stakeholders ensures "buy-in" for the company's reduction activities as well as enhancing commercial benefits. Investors want to see how publicly listed companies are mainstreaming sustainability into their businesses and supply chains to manage long term climate risks and ensure the company remains profitable. This is demonstrated by the popularity of investor-led indices such as the CDP, the FTSE4Good and the Dow Jones Sustainability Index.

Increased pressure for carbon reporting also comes from consumers, who want to know more about the products they buy, how they were made, and how they are sold. The Cooperative Group's 2012 Ethical Market Report shows that during the past five years the total value of the UK's ethical market has increased 33%, from £35.5bn to £47.2bn, despite challenging economic conditions.

How businesses manage their carbon emissions in the long term is of critical interest to Government. The UK has a legally binding carbon reduction target of reducing emissions by 80% compared to 1990 levels by 2050.

As such, the Government expects companies to play their part in helping to meet these targets and has introduced carbon legislation such as the EU ETS and CRC Energy Efficiency Scheme to provide a framework of financial incentives for businesses to reduce emissions. More recently mandatory greenhouse gas emissions reporting legislation requires publicly listed companies to report their carbon footprint in their annual report, placing the responsibility for reporting the footprint on Company Directors. The Intergovernmental Panel on Climate Change (IPCC) 5th assessment report, which states with increased certainty that humans are responsible for climate change, is only likely to further influence laws and regulations related to carbon emissions.

The boundaries for reporting emissions are also expanding. Large consumer-facing companies eventually look beyond their immediate organisational footprint when addressing their carbon impact and begin to integrate supply chain stakeholders into their programme. Many firms now include carbon performance criteria when assessing supply chain partners, so disclosure becomes a part of the tender process. Businesses wanting to supply to other businesses risk losing out to their lower-carbon competitors.

These influencing factors have all been incorporated into this research, to highlight how leading companies are making the most of their carbon management strategies, enhancing their carbon reporting performance and successfully engaging with their stakeholders

Methodology

Carbon Clear has three aims in carrying out this research into the carbon reporting performance of the FTSE 100:

- to identify best practice;
- to create opportunities for companies to benchmark their carbon reporting with others in their sector; and
- to encourage a deeper engagement between carbon initiatives and reporting.

To achieve these aims we continually build on the scoring criteria. This year we have stretched the scoring criteria to dig deeper into companies' performance.

Carbon Clear collected data for the research solely from publicly available information during July 2013 as we believe carbon management best practice is disclosing information in a public forum that is readily accessible to any interested third party. Documents reviewed included 2012 corporate sustainability reports, annual reports, and additional links from company websites, including sustainability micro-sites.

All companies were scored in four broad subject areas in order to identify and promote best practice. The exact scoring criteria was developed this year, building on the core criteria we have assessed companies against for the past two years and reflecting those practices that Carbon Clear believes are key to a successful carbon management strategy, whilst building on the core criteria we have assessed companies against for the past two years.

In addition, each company was mapped to Carbon Clear's Carbon Maturity curve – a five stage process charting the evolution from basic carbon management activities towards a mature and integrated strategy. This allows an insight into the elements of carbon management that have not yet been achieved by companies in the FTSE 100 that would allow a higher level of performance in this analysis.

The research criteria were based on four subject areas:

Measurement, reporting and verification

Measurement, reporting and verification is the central element of the research because good data forms the lynch pin of an effective carbon management programme. This competency area focussed on how companies manage their carbon emissions and the disclosure of carbon footprint data and methodology.

This year the criteria for this category included:

- whether companies include Scope 3 emissions in their carbon measurement and reporting and to what extent;
- whether companies externally audit carbon footprint data; and,
- to what extent carbon data is incorporated into companies' annual reports.

Carbon strategy

Carbon strategy is critical to ensure businesses are getting the most from any carbon management programme. A carbon strategy ensures appropriate and ambitious goals for carbon management and drives value rather that making carbon management a tick-box exercise..

This year the criteria for this category included:

- • the nature of companies' carbon reduction targets and the strength of their reduction plans;
- • any evidence of a person or team responsible for carbon management and the level of seniority;
- • whether there is consideration of the future climate change risks to business and the need for business supply chain resilience and adaptation to risks.

Carbon reduction

Carbon reduction is a central feature of an effective carbon management strategy, helping drive cost savings and lower emissions and making a contribution to society's climate change goals.

This year the criteria for this category included:

- whether carbon reductions can be demonstrated and to what degree;
- an assessment of plans to achieve targets;
- whether the company offsets its carbon emissions, and any intention to achieve verifiable carbon neutrality through the PAS 2060 standard.

Engagement

Engagement with stakeholders is the key to both achieving carbon reductions and to gaining commercial benefits from a low-carbon approach. Stakeholders include staff, consumers, the supply chain, investors, government and the wider community.

This year the criteria for this category included:

- whether companies engagement extends beyond providing information to influencing consumer behaviour;
- the extent to which companies are engaging with the supply chain to improve suppliers' own carbon management activities;
- whether external recognition has been gained through the achievement of certification or awards, such as the Carbon Trust Standard.

Summary Results

- Companies scored best in the measurement, reporting and verification performance area with an average score of 63%
- The average performance score for carbon strategy is 55% which is higher than the 2012 average score of 47%.
- Companies scored worst in the carbon reduction section with an average performance score for carbon reduction of 34%.
- The average performance score for engagement is 47% which is lower than the 2012 average score of 52%.
- The overall average performance score was 32 out of a maximum score of 65.

Top 20 Performers with % Score

1 Marks and Spencer 91%

2 BT Group 89%

3 National Grid 82%

4 Aviva 78%

5 Unilever 77%

6 Reed Elsevier 75%

6 TUI Travel 75%

8 Sainsbury's 74%

8 BSkyB 74%

10 British Land Company 72%

10 Barclays 72%

10 Whitbread 72%

10 HSBC 72%

14 RSA 71%

14 Kingfisher 71%

14 Diageo 71%

17 Lloyds Banking Group 69%

17 Pearson 69%

19 Morrisons 68%

20 United Utilities 66%

20 RBS 66%

20 Tesco 66%

20 Centrica 66%

"Building good relations with current and future employees, customers, and investors, as well as governments, NGOs, and communities where we live and work adds to our competitive advantage."
Kevin Agnew, Global Environment Manager
Reed Elsevier, ranked joint 6th

Supply Chain

Scope 3 emissions often form a huge part of an organisation's overall emissions profile, in some sectors contributing to over 90% of their overall global impact. Very few companies have an accurate picture of these impacts however, due to the difficulty in measuring and influencing what goes on further down the supply chain. This picture is increasingly changing however, due to growing consumer and investor pressure around the provenance of raw materials and the methods with which they're produced.

Measuring Scope 3 and supply chain emissions now forms a key part of voluntary schemes such as CDP and the Global Reporting Initiative, with the expectations on businesses to do so becoming ever greater. Measuring supply chain emissions allows early identification of both current and future risks to organisations by highlighting emissions hotspots and acts as a crucial starting point in identifying where potential cost savings and efficiency enhancements can be made.

A recent report for The Economics of Ecosystems and Biodiversity (TEEB) for Business Coalition found that the largest share of un-priced natural capital costs to businesses stem from GHG emissions (38%), the vast majority as a result of resource intensive supply chains[1].

Our research has shown that a small number of companies scored strongly in this section, however, over 80% of companies earned fewer than 50% of the supply chain points, with many failing to earn any points at all.

The most forward thinking companies however, are looking beyond the collection and disclosure of supply chain data and begin to think about what else they can achieve.

Many have realised that relying on an inefficient value chain means that not only are they more at risk to a number of exposures such as volatile commodity prices, but also that they'll be unable to make the most of the many opportunities in a resource constrained future.

FTSE 100 supply chain reporting leaders

Key Findings

- 26 companies report Scope 3 emissions beyond business travel.
- 4 companies excelled at providing proof of reductions in supply chain footprint, with a further 21 companies providing limited evidence.
- 75% of companies in the FTSE 100 provide a questionnaire about carbon emissions for their suppliers or consider carbon emissions as part of their procurement policy.

1 "Natural Capital at Risk: the top 100 externalities of business.", TEEB,

Risks and opportunities

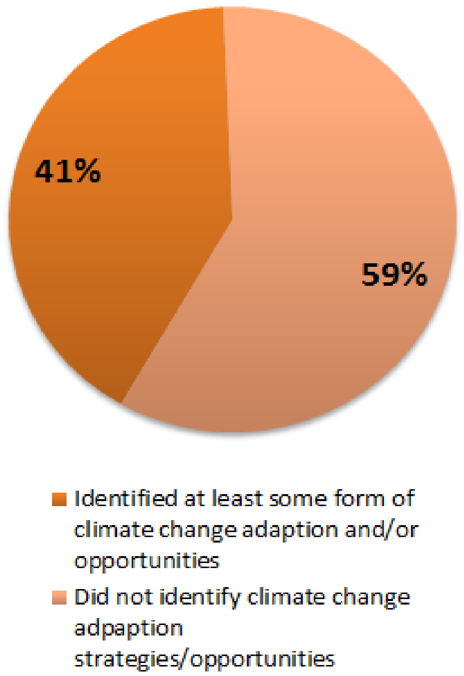
Non-financial factors present both opportunities and risks for companies. The ability of an organisation to recognize opportunities and risks, and act effectively in relation to them, will determine whether that company creates or maintains value. Natural capital attracts significant investor interest as changes can often result in financial consequences within a time frame that will be relevant for at least some capital markets participants.

The risks associated with climate change will inevitably vary in importance for different companies and sectors. With this in mind, it is essential that companies begin to integrate their climate change risks into their risk management portfolios and communicate these to stakeholders.

Identification and mitigation of climate change risks allows companies to realise opportunities to gain competitive advantage and become leaders in their sector. Leading companies have already shown that there are material financial benefits associated with their response to climate change, whether this is with market opportunities or energy saving schemes.

Companies are not only showing what they are doing to reduce their carbon emissions, but also why they are doing it, strengthening their business model and seeking competitive advantage. Of the FTSE 100, 41% showed evidence that they are willing to go beyond merely reporting their emissions and are instead seeking opportunities, risk mitigation strategies and adaptive procedures associated with climate change.

Companies' approaches to climate change risk



Key Findings

- Just under half of all FTSE companies assess future climate change risks in relation to business operations.
- 41 companies mention business or supply chain resilience to climate change risks.

Carbon targets

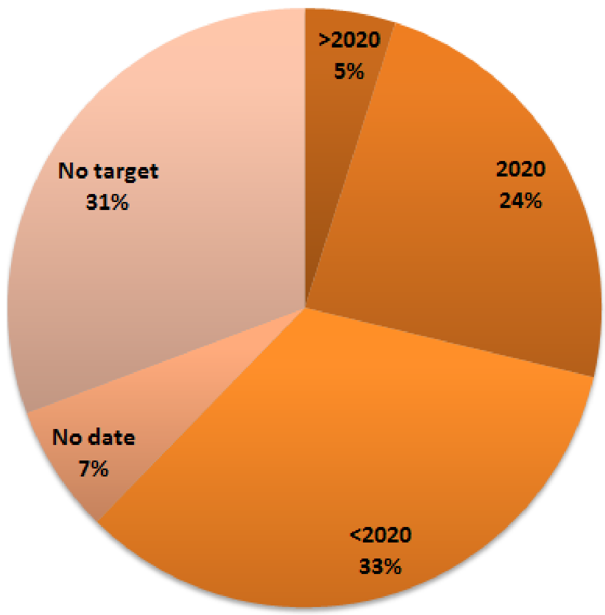
The 2008 Climate Change Act requires the Government to publish a series of five-year budgets that put the country on a path to achieving an 80% reduction in greenhouse gas emissions by 2050. The first Carbon Budget (2008-2012) limits greenhouse gas emissions to 3,018 million tonnes CO2 equivalent (MtCO2e) - 23% below 1990 levels. The second Carbon Budget (2013-2017) is geared to achieve a 29% emissions reduction, and the third Carbon Budget (2018-2022) put the Government on track to achieve 35% reduction below 1990 levels.

To assist the UK Government in meeting these targets, it is essential that the largest companies take active steps to either reduce their emissions or face additional legislative burdens.

Our research shows that 69% of companies have some form of emissions reductions target. 28% have set an absolute target whilst 38% have set a target based on carbon intensity. Moreover, 6% have only set an energy target and while reaching the target may correspond to a reduction in GHG emissions, there is no specific focus on their carbon emissions footprint.

Our research found that just 9 of the FTSE 100 have set an absolute emissions reduction target beyond 2020. Whilst companies have shown willingness to set targets, currently they do not go far enough to match the ambitions set out by the UK Government.

Emissions reductions targets of the FTSE 100



Key Findings

- 69% of companies set some kind of carbon reduction target.
- 23 companies provided an in depth and comprehensive plan stating how they will achieve their carbon emissions reduction targets
- 17 FTSE 100 companies are currently exceeding their stated targets

Compliance

From September 2013, all companies listed on the Main Market of the London Stock Exchange will need to include disclosures on greenhouse gas emissions (GHG) in their annual report, following changes to the Companies Act 2006. The amendments will build on existing financial and non-financial reporting practices, meeting needs for business transparency to stakeholders, and addressing the importance of carbon emission as material information that guides company strategy and risk management activities.

Whilst some companies have reported their greenhouse gas emissions alongside financial data voluntarily for years, many have not. This year we found that only 52 companies of the FTSE 100 would meet the requirements specified by Mandatory GHG Reporting if they applied to 2012 reports.

Moreover, mandatory GHG reporting will not be restricted to the UK. The European Commission is considering a requirement for large companies, including those listed in the UK, to disclose relevant and material information about sustainability as part of their annual and consolidated financial statements.

Those companies that do just enough to comply, and they are numerous, are missing out. By undertaking more thorough assessment and integrating carbon management into their business processes, they can introduce cost saving measures and uncover market opportunities. Companies need to adopt non-financial reporting tools to link non-financial information to financial within their annual reports to maximise the benefits of this requirement.

Case Studies

BT

Ranked: Second

BT has performed very well this year, rising from sixth place in the 2012 rankings to second place for 2013. For the first time this year, BT has extended its carbon reporting to cover all of its corporate value chain as defined by the Greenhouse Gas Protocol Scope 3 accounting and reporting standard. BT encourages suppliers to report annually on their performance through CDP and also runs its own supply chain annual survey. Supplier participation in reporting to CDP is 55% higher than the global average of 39%, which suggests that their supplier engagement activity on carbon reduction is taking effect.

BT also focusses on the development and use of formal processes to assess the environmental and social risks and opportunities facing the organisation. The company benchmarks peer companies' sustainability reports to gauge the most important issues as well as assessing the issues stakeholders say are important and how significant they are to BT's operations. BT reviews these findings to determine the financial, reputational and strategic importance of each issue to the company, and to identify any exceptions or surprises.

BT states that the company recognises the importance of setting targets for reducing energy use. All of this is underpinned by an extensive energy engagement campaign with employees.

A deserved second place ranking for a company that does much to effectively manage its emissions.

TUI Travel

Ranked: Joint 6th

TUI Travel has for the first time ranked in the top 20 of Carbon Clear's research. As a travel operator selling flights and holidays, TUI Travel recognises the impact that its business has on the environment. In light of this, TUI Travel has worked extensively to assess the risks and opportunities of climate change to its operations, aiming to embed carbon management into key business practices in order to limit its contribution to climate change.

In addition, TUI Travel has some robust carbon targets, aiming by 2015 to operate Europe's most fuel-efficient airlines and save more than 20,000 tonnes of carbon from ground operations.

TUI Travel also engages its employees on sustainability issues, though the Sustainability Customer Communication Awards, which encourage their businesses to showcase best practice. A knock-on impact of this is that 87% of TUI's businesses are communicating with customers on sustainable development issues.

The company also works with their supply chain. Environmental and social contractual standards for accommodation suppliers have been introduced by TUI Travel's mainstream tour operating businesses and other entities across the Group. The minimum contractual standards require each hotelier to initiate or continue to develop a sustainability programme, managing their impacts on the environment, their employees and the local community.

Finally, TUI is one of the few FTSE 100 companies that offset their carbon emissions, its complete commitment to the environment.

An all-round well developed carbon management programme and a well deserved entry into the top ten.

"TUI Travel launched a set of 20 ambitious sustainability commitments in 2012 as part of our Sustainable Holidays Plan. Key to the success of these commitments is being able to engage two key stakeholder groups - our customers & colleagues – so that they will rate TUI Travel as a leader in delivering more sustainable holidays. One of the ways we calculate this engagement is by totalling the number of holidaymakers who engaged in initiatives such as carbon offsetting – many of our businesses offer this to customers and we have channelled significant funds to projects in destinations with demonstrable sustainability benefits."

James Whittingham, Group Environment Manager,
TUI Travel, ranked joint 6th

Kingfisher

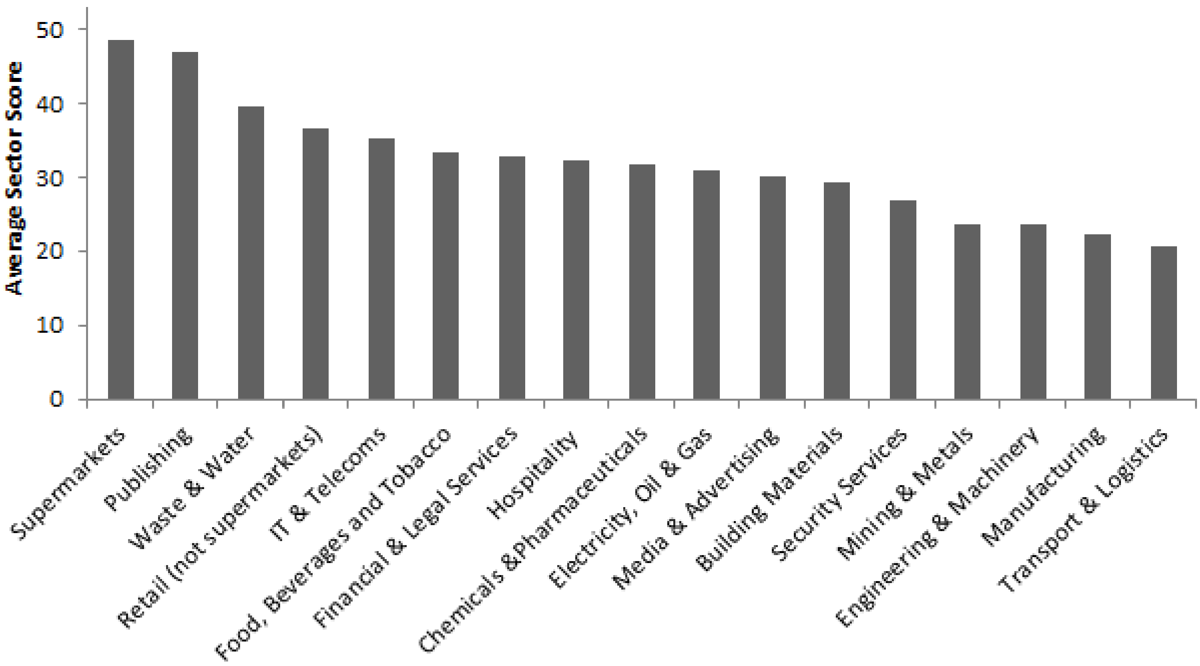
Ranked: Joint 14th

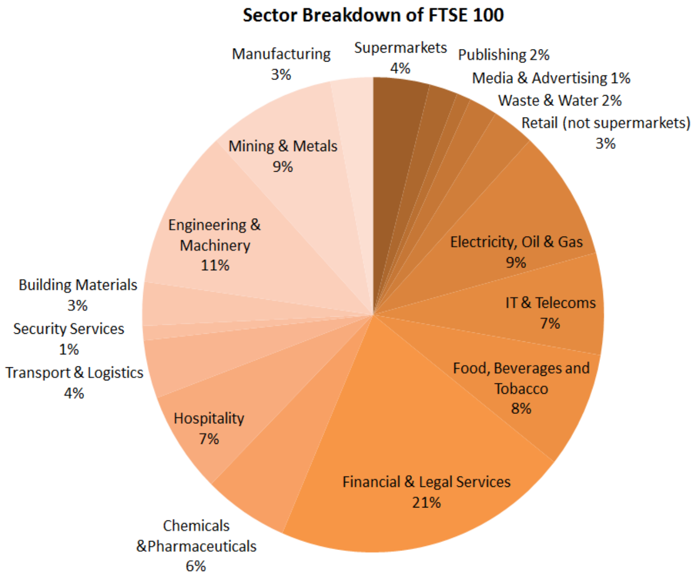
Kingfisher has remained in the top 20 for the third year in a row. As a large company, Kingfisher acknowledges that it is not only its responsibility to reduce its impact on the environment and society, but also to aim to have an overall positive impact. It is for this reason that the European home retail business has developed its 2012 sustainability report into a "net positive" report. This has improved its communication by cutting down the volume of information presented and including only information that is material to the company.

Kingfisher has targeted four key areas, focusing on timber, energy, innovation and communities. Within each section Kingfisher states long term targets to 2050 with interim targets focusing on different parts of the business such as consumer behaviour and building emissions. This holistic approach allowed Kingfisher to score solidly across all sectors.

Advanced reporting techniques for a company that has integrated carbon reporting into their business model.

Results by Sector





- For the third year in a row, the Supermarket sector scored the highest average scores.
- High scoring sectors: Supermarkets; Publishing; Waste & Water
- Low scoring sectors: Transport and Logistics; Manufacturing; Mining & Metals; Engineering and Machinery
- Financial and Legal Services Sector is the most populated category with 21 companies; average score for this sector is 50%

Inferences about performance of some sectors with small sample size should be made with caution

Comparisons with previous years

Key comparisons

2013 scoring criteria were reviewed and updated to reflect emerging trends and legislation. Widening the scoring criteria this year has allowed those companies who are going beyond basic carbon management to score considerably higher than they may have done in other years. Whilst it is difficult to make complete comparisons with previous year's research due to amended scoring criteria, there were a number of trends and changes worth highlighting.

- Many companies have matured beyond implementing energy saving technology and are now exploring other initiatives to reduce their emissions. For example, 39 companies now purchase green energy to power at least some parts of their business, compared to only 25 in 2012, whilst 44 companies are generating their own renewable energy (note that these two factors are not mutually exclusive).

- Offsetting seems to have become a more attractive option, with 19 companies doing some form of offsetting compared to 13 in 2012. Six companies claim to be carbon neutral and one company has the PAS 2060 carbon neutrality standard.

- 66 companies have achieved some sort of reduction in either absolute footprint or carbon intensity, up from 61 in 2012. Whilst this may not be sufficient progress to meet UK Government targets, it is an encouraging sign that companies are reducing their emissions.

- 72 companies are engaging with either government, industry or the community on climate change, compared to 66 the previous year

- 5 companies have changed their reporting practices to embrace Integrated Reporting. These companies obtain higher than average scores compared to those who do not.

- 90 companies report a team dedicated to sustainability or carbon.

- ISO 14001 Environmental Management System certification rose from 50 to 67.

Conclusion

The analysis this year shows that FTSE 100 companies continue to report and measure their carbon emissions but the extent that different companies do this to is variable. Overall, the top performers extended their lead over the laggards, demonstrating that an in-depth and well developed scoring criteria really rewards those who have performed well and penalises those that do not take their carbon management seriously.

Companies that have been best practice leaders for the past two years continue to do so this year including Marks and Spencer, Aviva, BskyB, and Sainsbury's.

There are a number of new entrants to the top 20 rankings this year. There are also companies that have dropped down the rankings, reflecting the fact that their carbon management programme hasn't kept pace with the best practice leaders.

There are also a number of companies that continue to underperform, remaining at the bottom of the FTSE rankings for the past three years, which is disappointing considering FTSE 100 companies are often viewed as business leaders and are often expected to set best practice benchmarks in their sectors. Furthermore, this is a missed opportunity for these companies in terms of cost savings, brand differentiation and staying abreast of the fast moving regulatory environment.

The principles of good carbon reporting that we have discussed in this report do not only apply to publicly listed companies – they are applicable to companies of all different sizes that want to reduce their carbon impact. Making a positive contribution to the planet, reducing expenditure and making businesses more efficient are all logical, business drivers that we believe will influence UK companies for many years to come.

We look forward to 2014 and are keen to learn the impact that mandatory GHG emissions reporting will have on the carbon reporting of the FTSE 100.

There is a journey involved to become a best practice leader and this reports signposts the steps companies need to take to reach the top. We want to encourage companies to focus on the steps they are already taking to manage their carbon emissions and realise the opportunities to develop their carbon management programme.

ABOUT CARBON CLEAR

Carbon Clear is a world-leading carbon management company that provides advisory services and carbon offset credits to organisations across Europe, the Middle East and North America.

Carbon Clear is a founding member of the International Carbon Reduction and Offset Alliance (ICROA), and was on the advisory board developing the British Standards Institute's recently released PAS 2060 specification for Carbon Neutrality.

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