Australian Council of Superannuation Investors

Corporate Sustainability Reporting in Australia

An analysis of ASX200 disclosure

Featuring climate-related risk

July 2017

acsi

ABOUT ACSI

Established in 2001, the Australian Council of Superannuation Investors (ACSI) exists to provide a strong, collective voice on environmental, social and governance (ESG) issues on behalf of our members.

Our members include 37 Australian and international asset owners and institutional investors. Collectively, they manage over $1.5 trillion in assets and own on average 10% of every ASX200 company.

Our members believe that ESG risks and opportunities have a material impact on investment outcomes. As fiduciary investors, they have a responsibility to act to enhance the long-term value of the savings entrusted to them.

Through ACSI, our members collaborate to achieve genuine, measurable and permanent improvements in the ESG practices and performance of the companies they invest in.

ACSI staff undertake a year-round program of research, engagement, advocacy and voting advice. These activities provide a solid basis for our members to exercise their ownership rights.

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FOREWORD: THEN, NOW & NEXT

Ten years ago, ACSI published its first sustainability disclosure report, called "The Sustainability Reporting Journey". Our objective was to establish a starting point for measuring company practices and progress over time.

This year, for the first time, we have included climate-related disclosure by the ASX200 in our report. This was a direct response to increased interest from our members in climate-related risk.

As fiduciaries, our members are required to maximise long-term investment returns for their beneficiaries. Improved disclosure of climate-related risk enables them to make decisions about climate-related exposure in their investment portfolios.

Heightened investor expectations for improved climate-related disclosure are also evident globally. In May, a high-profile shareholder proposal brought the role of institutional investors into sharp focus. Shareholders in ExxonMobil, the world's biggest publicly listed energy company, voted to require the company to disclose climate change impacts.

Rather than a "tipping point" as some commentators opined, this occurrence was one of numerous actions by institutional investors over many years to improve sustainability disclosure. ACSI, on behalf of our members, has actively participated in this process, through our research, advocacy and engagement work.

Our sustainability report is both an analytical record and a vehicle of change. Ten years of data allows us to identify trends and changes over time and, importantly, weak reporters.

We use this data to encourage poor reporting companies to improve their disclosure, thereby facilitating stronger assessment and management of material sustainability risks.

By rating the sustainability disclosure of each ASX200 company and benchmarking it against their sector and the ASX200, we give companies an institutional investor's perspective on their performance. We know from experience that some find this discomforting, and that it acts as a stimulus for change.

Efforts to improve sustainability disclosure have yielded solid progress since we first began researching this topic. Most companies now understand the value of sustainability disclosure.

ACSI and its members are proud of the contribution we have made to improving sustainability disclosure over the past decade. Improvements include:

- The number of companies reporting to a "Leading" or "Detailed" level has increased from 39 in 2008 to 101 in 2016.
- The number of companies that did not report has almost halved from 31 in 2008 to 16 in 2016.

We are confident that market forces and shareholder pressure will encourage companies that do not report or report at a basic level to improve.

From our perspective, the next challenge is to embed greater meaning into sustainability disclosures. Beyond acknowledging the material sustainability risks they face, we want companies to articulate the steps they are taking to address them and to set targets to improve.

In addition, the level of climate-related disclosures lags that of sustainability reporting. Seventy ASX200 companies did not measure greenhouse gas emissions, have a policy or statement on climate-related risk or a related target in 2016. Disclosure of climate-related governance and risk assessment is now a focus area for us.

Louise Davidson
Chief Executive Officer

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EXECUTIVE SUMMARY

This report assesses the level of sustainability disclosure by ASX200 companies for the 2016 reporting period. It is the 10th annual sustainability disclosure review ACSI has undertaken. Given the prominence of climate-related risks for investors, this year's study includes for the first time a review of climate-related disclosures.

We believe that sustainability disclosure facilitates robust, evidence-based business decisions and long-term value creation. It is most effective when it discloses how material environmental, social and governance (ESG) risks are identified, managed and monitored. We consider that public disclosure is necessary to establish and maintain trust between a company, its shareholders and other stakeholders.

Sustainability disclosure has improved significantly in the ASX200

We have observed a marked improvement in disclosure practices since 2008. As per Graph 1:

- Only 39 ASX200 companies (19.5%) reported to a "Detailed" or "Leading" standard in 2008 compared to 101 (50.5%) in 2016.
- In 2009, 40 companies (20%) did not provide any sustainability reporting compared to only 16 companies (8%) in 2016.

The best reporters use internationally recognised external standards and/or verification

Global standards and external verification facilitate a high standard of reporting. Of the "Leading" and "Detailed" reporters:

- 59 ASX200 companies (30%) used Integrated Reporting or the Global Reporting Initiative (GRI) as a framework.
- 35 ASX200 companies (17.5%) undertook external verification of their reporting in 2016.
- As an emerging trend, 19 ASX200 companies (9.5%) referred to the United Nations (UN) Sustainable Development Goals in their reports and 17 of these reported at a "Detailed" or "Leading" level.

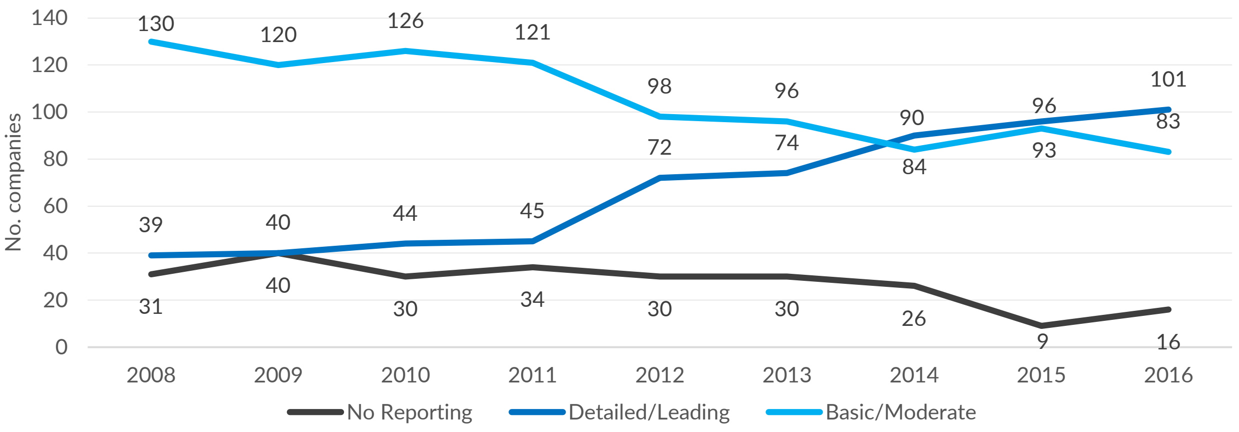
Majority of ASX200 funds invested in strong sustainability reporters

- Eighty-five cents in every dollar invested in the ASX200 in 2016 was invested in entities that report on material sustainability issues to a "Leading" or "Detailed" standard.

Leaders and laggards

- Thirty companies have been rated in the "Leading" category for the last four years.
- There are two companies, G8 Education Limited and SKY Network Television Limited, that have been rated "No reporting" for four consecutive years.

Graph 1: Broad trends in ASX200 reporting levels



Sector performance is mixed

Sectors under the greatest scrutiny such as banks lead disclosure while others such as telecommunications and software services are laggards.

- The **best performing sectors** for sustainability reporting were banking, and energy and utilities, with 86% of companies rated “Leading” or “Detailed”.
- The **worst performing sectors** for sustainability disclosure were:
  - Consumer services, with 20% of companies rated “No reporting”.
  - Retail, and food and beverage and staples, each had 17% of companies rating as “No reporting”.
  - Telecommunications, software and services (14%) and media (11%) rated “No reporting”.
- The **best performing sector for climate-related disclosure was banking**, with five out of seven banks reporting three key indicators: emissions, a policy and a target.

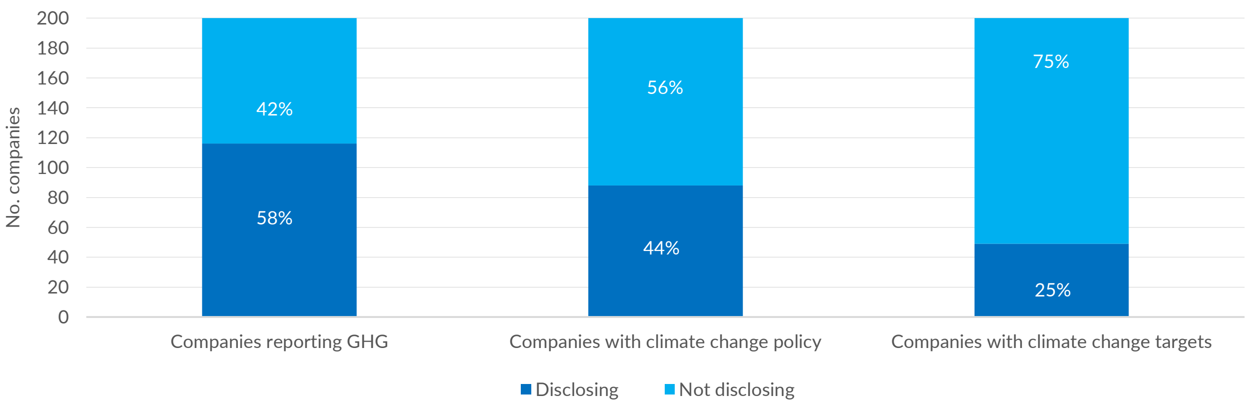
Majority of ASX200 report greenhouse gas emissions

An analysis of three climate-related indicators demonstrates that many companies are measuring emissions and have policies on climate change (Graph 2).

- 116 ASX200 companies (58%) **reported on greenhouse gas emissions** in 2016.
- 88 ASX200 companies (43%) published **policy statements acknowledging climate change** as a business risk.
- 49 ASX200 companies (25%) disclosed a **climate or energy efficiency-related target**.

Going forward, the Task Force on Climate-related Financial Disclosures (TCFD) Framework will enable companies to use a consistent disclosure system which improves the ease of producing and using climate-related disclosures. We endorse the TCFD framework and note that it includes detailed sectoral guidance for energy, materials and building, transportation, and agriculture and food companies. Several companies in Australia have already committed to report to this new standard.

Graph 2: ASX200 reporting of climate-related indicators



*Figures in bars refer to percentage of ASX200

Conclusions

Most companies consider a high level of ESG disclosure to be valuable. We anticipate that pressure from investors and a growing awareness of negative impacts of supply chain, labour and human rights, climate change and other environment and social risks will encourage improved disclosure.

We encourage board and company scrutiny of material risks, their management and disclosure. We recommend the TCFD framework as the preferred internationally recognised framework for enabling alignment of climate-related disclosure with investors’ needs.

BACKGROUND & METHODOLOGY

This is the tenth year in which ACSI has assessed the sustainability disclosure of the largest listed Australian companies. Our first report, published in 2008, examined the sustainability reporting practices of ASX100 companies. In 2009, we expanded our research to include the ASX200. This year, in light of increased investor interest in climate-related risk, we have also assessed climate-related disclosure by the ASX200.

Sustainability disclosure enables the investment community to understand and evaluate a company's processes and performance for identifying, managing and measuring economic, environmental and social risks and opportunities.

We believe that robust and transparent disclosure of ESG governance, management and performance supports better decision-making and long-term value creation. It also helps to establish and maintain trust between a company, its shareholders and other stakeholders.

RESEARCH METHODOLOGY

The research and conclusions in this report are based on a desktop analysis by ACSI analysts of publicly available information for the 2016 reporting year. Depending on the reporting period for each company, this includes information for the fiscal year ending 30 June 2016 or the calendar year ending 30 December 2016. The cut-off date for information to be included in our analysis was the end of March 2017.

The list of companies in our review includes all companies in the ASX200 on the 31 March 2017 (see Appendix B).

Our research includes information provided in a company's annual report, website and standalone sustainability report (if one exists). We do not preference one form of reporting over another. However, if sustainability information is difficult to access this may inhibit our ability to review it.

DISCLOSURE NOT PERFORMANCE

Our aim is to determine the extent to which companies are disclosing governance and management processes and performance data as well as setting targets to improve them, particularly in areas that are material to the success of the company. We do not assess the performance of a company's management of sustainability risks.

We regard constructive engagement with companies as an important tool for encouraging better performance. Each year ASCI holds over 150 meetings with listed companies to discuss their ESG management and performance. As part of the current review, we wrote to the chairs of each ASX200 company to advise them of their company's disclosure levels relative to sector peers, sector leaders and the ASX200 average.

LEVELS OF SUSTAINABILITY DISCLOSURE

We have identified five levels of sustainability disclosure. We use the following definitions when assessing which level to apply to a company:

1. "No reporting"

There is no meaningful reporting on sustainability management or performance. To move beyond "No reporting", a company must do more than merely discuss ESG risks or make a commitment to sustainability. There must be reporting on ESG risk management processes and performance.

2. "Basic"

The company reports on material sustainability risks to a limited extent. For example, the company might provide basic information and statistics on health and safety but not on other sustainability risks.

Alternatively, the company may identify a range of sustainability risks, but the information provided is superficial and does not include qualitative or quantitative performance metrics.

3. “Moderate”

The company identifies and provides some meaningful disclosure of its sustainability management and performance which goes beyond one or two material risks.

4. “Detailed”

The company identifies and provides detailed disclosure of a range of material sustainability risks. The company discloses a process for identifying material sustainability risks and provides performance data for multiple risks. At least one quantitative target for a material risk is included.

5. “Leading”

The company discloses its performance against a substantive number of material sustainability risks and includes detailed information and data on its risk management processes and outcomes. This typically includes the disclosure of targets and performance across a range of risk areas, with a discussion of the materiality of those issues and how they are incorporated into the company’s overall strategy. A process for identifying material sustainability risks is disclosed.

The company may apply or be moving towards the use of globally recognised reporting standards, such as the GRI or Integrated Reporting frameworks (although this is not a prerequisite for “Leading”). External assurance verification of sustainability reporting data is preferable (although not mandatory). It is not necessary for a company to produce a standalone sustainability report to be rated as “Leading”.

CLIMATE-RELATED DISCLOSURE

We examined three climate-related indicators:

1. If the company measured greenhouse gas emissions in 2016.
2. If there was a statement or policy acknowledging climate science, corporate undertakings to address climate change risk or scenario analysis of the impacts of alternative carbon prices on company portfolios.
3. If the company disclosed a climate-related target(s). The target could be an absolute, an intensity, a renewable or multiple targets regarding greenhouse gas emissions or energy reduction.

GLOBAL DEVELOPMENTS IN REPORTING

Sustainability reporting in Australia is impacted by global developments. In this section, we highlight important developments related to climate change, integrated reporting, the Sustainable Stock Exchanges Initiative, the United Nations Sustainable Development Goals and the European Union (EU) Shareholder Rights Directive.

TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

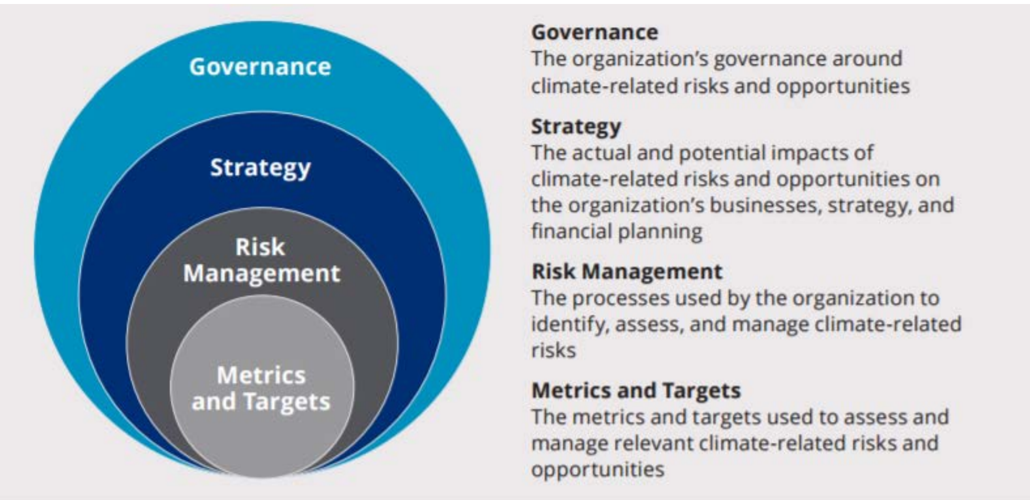
In June 2017, the TCFD released a framework with recommendations for a consistent set of financial risk disclosures for voluntary use by companies.[1] The framework considers the physical, liability and transition risks associated with climate change and sets a benchmark for effective disclosure across industries.

The work of the TCFD helps companies to understand what disclosure financial markets require to measure and respond to climate change risks and opportunities. It encourages companies to align their disclosures with investors' needs and include climate-related assessment in their financial reporting.

It is anticipated that the framework will be adopted by investors and companies as the "gold" standard for disclosure. The core elements of the framework (governance, strategy, risk management and metrics and targets) are set out in Figure 1.

The framework recommends that all companies disclose governance and risk management elements and, where climate-related risk and opportunity are assessed to be material, that implications for strategy, metrics and targets be disclosed.

Figure 1: Core elements of TCFD recommendations



Source: TCFD, *Recommendations of the Task Force on Climate-related Financial Disclosures*

[1] TCFD, *Recommendations of the Task Force on Climate-related Financial Disclosures*, *December 14 2016*, https://www.fsb-tcfd.org/wp-content/uploads/2016/12/16_1221_TCFD_Report_Letter.pdf>.

INTEGRATED REPORTING

The global framework for Integrated Reporting, which seeks to improve investor disclosure by including non-financial data in annual reports, has been in place since 2013. It is gaining momentum globally albeit from a small base.

In 2017, the International Integrated Reporting Council (IIRC) reported that over 1,000 companies used some form of integrated reporting globally.[2] Nearly 50% of the 500 CEOs, CFOs and COOs surveyed by the IIRC said they were moving towards integrated reporting, with 35% saying they will adopt it in the next two to three years.

Source: Sustainable Stock Exchange Initiative, *2016 Report on Progress*, 2016, page 3.

Source: Stephen Haddrill, Speech to IIRC event, 27 May 2015.

SUSTAINABLE STOCK EXCHANGES INITIATIVE

Since 2009, the Sustainable Stock Exchanges (SSE) initiative has worked with stock exchanges around the world to develop more sustainable capital markets by monitoring initiatives that exchanges are taking to require ESG reporting and related actions.

Twenty-three stock exchanges have committed to introducing ESG reporting guidance since September 2015.[3] Fifty-eight out of 82 stock exchanges (70% of listed equity markets globally) examined by the SSE initiative in 2016 have made a public commitment to advancing sustainability in their market. Twelve exchanges currently incorporate ESG information in their listing rules and 15 provide formal guidance to issuers.

In June 2017, the ASX announced that it had become a signatory to the SSE initiative. This follows the introduction of the ASX requirement for listed companies to "comply or explain" under Principle 7.4 of the ASX Recommendations (which came into effect for the 2015 reporting year). Principle 7.4 states that "a listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risk".

Currently, the Hong Kong exchanges, Singapore Exchange, Bursa Malaysia and Stock Exchange of Thailand[4] have more prescriptive requirements than Australia. Those countries require ESG reporting under a listing rule. In addition, a small but increasing number of exchanges are offering ESG training to company market participants (including on how to integrate sustainability into investment decision-making). This group includes the London Stock Exchange, United States (US) Nasdaq and Hong Kong Exchanges.[5]

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[2] Associazione Italiana degli Analisti e Consulenti Finanziari, *Integrated Reporting: What do financial analysts ask?*, 2015, <Integrated Reporting: What do financial analysts ask?http://integratedreporting.org/wp-content/uploads/2016/04/QUADERNO-AIAF-n.-166-REPORT-INTEGRATO-abstract-EN-1.pdf>.
[3] Sustainable Stock Exchanges Initiative, *2016 Report on Progress*, 2016., < http://www.sseinitiative.org/wp-content/uploads/2012/03/SSE-Report-on-Progress-2016.pdf>.
[4] Ibid.
[5] Ibid.

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGS)

Many businesses around the world use the SDGs as a framework for reporting and setting sustainability targets (Figure 2). The 17 SDGs include 169 aspirational targets for implementation by the year 2030.

A 2016 survey of more than 1,000 CEOs of UN Global Compact companies found that 87% believe that the SDGs present an opportunity to rethink approaches to sustainability. [6] Eighty-five per cent see cross-sector coalitions and partnerships as essential for the transformation and achievement of the SDGs.

In 2017, the ACCSR examined trends in sustainability reporting and found that the top five SDGs that companies are addressing are gender equality, good health and well-being, industry innovation and infrastructure, climate action and decent work and economic growth.[7]

This year, for the first time, we considered whether companies are using the SDGs as a framework for sustainability disclosure in our review.

Figure 2: UN Sustainable Development Goals

Source: United Nations Sustainable Development Goals

EUROPEAN UNION (EU) SHAREHOLDER RIGHTS DIRECTIVE

The EU Shareholder Rights Directive makes it easier for companies to identify their shareholders, and assist shareholders to exercise their rights, including the right to participate and vote in general meetings.[8] The Directive requires institutional investors to disclose their policy on integrating shareholder engagement in their investment strategies or explain why they do not do so.

In March 2017, new tools to strengthen large EU companies' focus on long run performance were approved by the European Parliament. The changes give shareholders a say on directors' remuneration, making it easier to link remuneration to performance and long-term interests.

[6] UN Global Compact and Accenture Strategy, *Agenda 2030: A window of opportunity*, 2016, < https://www.accenture.com/t20161216T041642__w__/us-en/_acnmedia/Accenture/next-gen-2/insight-ungc-ceo-study-page/Accenture-UN-Global-Compact-Accenture-Strategy-CEO-Study-2016.pdf#zoom=50>.
[7] Sustainable Stock Exchanges Initiative, *2016 Report on Progress*, 2016., < http://www.sseinitiative.org/wp-content/uploads/2012/03/SSE-Report-on-Progress-2016.pdf>.
[8] European Parliament, *Long-term shareholder engagement and corporate governance statement*, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2017-0067+0+DOC+XML+V0//EN#BKMD-5>.

RESEARCH FINDINGS: SUSTAINABILITY DISCLOSURE

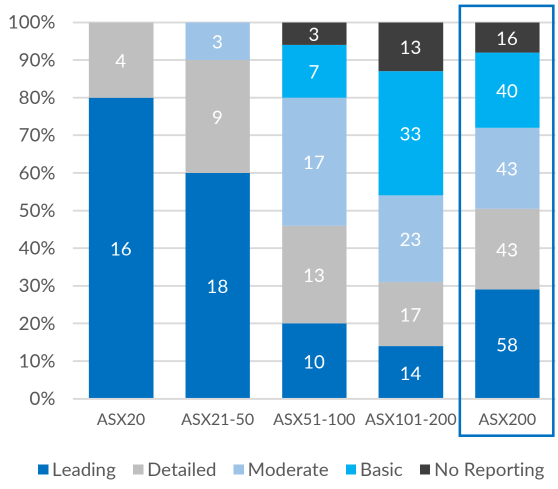
KEY FINDINGS

In 2016, 184 ASX200 companies (92%) provided some level of sustainability disclosure. This suggests that the need to disclosure ESG issues is widely recognised among the largest listed companies in Australia. We observed a wide range of disclosure standards across the ASX200. Generally, we found that larger companies were more likely to disclose more thoroughly than smaller companies.

As illustrated in Graph 3, all companies in the ASX20 reported to a "Leading" or "Detailed" level. In the ASX21-50, 18 companies (62%) reported to a "Leading" level, 9 companies (31%) reported to a "Detailed" level and 3 companies (10%) reported to a "Moderate" level.

In the ASX51-100, only 3 companies (6%) did not undertake any sustainability disclosure and only 7 companies (14%) reported to a "Basic" level. In the ASX101-200, 13 companies (13%) did not report, 33 companies (33%) reported to a "Basic" level and 31 companies (31%) reported to a "Leading" or "Detailed" level.

Graph 3: Sustainability disclosure by ASX index, 2016



*Figures in bars refer to number of companies

Among the ASX200, 101 companies (51%) reported to a "Leading" or "Detailed" level in 2016. This is a marginal improvement on the 96 companies (49%) that reported to a "Leading" or "Detailed" level in 2015 (Table 1). From this, we concluded that 85 cents of every dollar invested in the ASX200 was invested in entities that reported to a "Leading" or "Detailed" level.

Eighty-three ASX200 companies (42%) reported to a "Moderate" or "Basic" level in 2016. In 2015, this figure was 93 companies (47%). Sixteen ASX200 companies (8%) did not report on sustainability issues in 2016. This was up from eight (5%) in 2015.

Significantly, although 16 companies did not undertake sustainability reporting in 2016, more than half of all ASX200 companies reported to a high standard ("Detailed" or "Leading").

Table 1: ASX200 sustainability reporting levels

	No. of companies	% of ASX200	No. of companies	% of ASX200
	2015		2016	
Leading	61	31	58	29
Detailed	35	18	43	22
Moderate	45	23	43	22
Basic	48	24	40	20
No reporting	9	5	16	8
Leading/ Detailed	96	49	101	51
Moderate/ Basic	93	47	83	42

Note: There were only 198 components to the ASX200 index as at 31 March 2016 and our 2016 analysis was based on this index. Total percentages may not add to 100 due to rounding.

We observed significant changes in disclosure levels by companies in 2016. This year, to qualify as a "Leading" or "Detailed" reporter, we required companies to set sustainability targets and report on their performance against these targets. Our disclosure ratings were upgraded for 26 companies and downgraded for 23 companies (Table 2).

Sixteen companies did not undertake sustainability reporting, compared to nine companies in 2015. Of the seven additional companies that did not report, six companies were new to the ASX200 index in 2016. We expect that these companies will begin reporting and has written to them to encourage this.

Table 2: Changes in reporting levels 2016 from 2015 (number of companies)

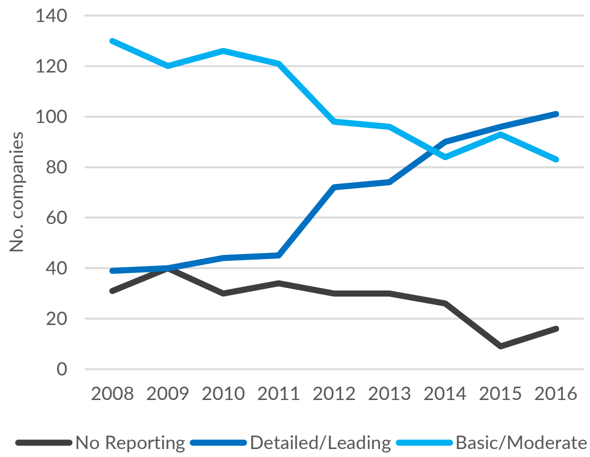
Upgrades	26
Downgrades	23
No change in reporting level	136
New companies in index	15
Total companies rated in 2016	**200**

LONG TERM TRENDS IN SUSTAINABILITY DISCLOSURE

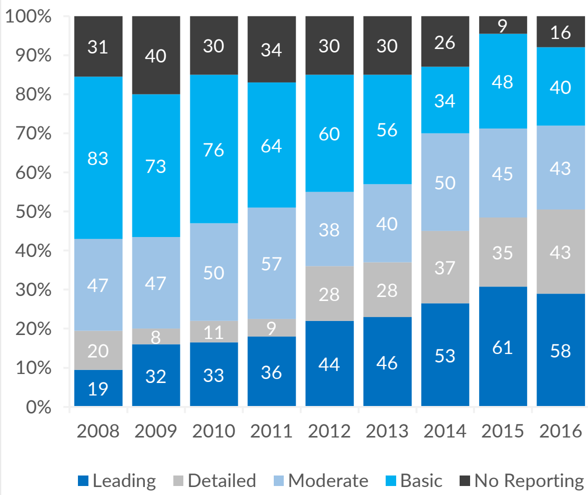
How has ASX200 sustainability disclosure changed over time?

We have been collecting data on the level of sustainability disclosure by ASX200 companies since 2008. Graph 4 illustrates that the number of companies reporting to a "Leading" or "Detailed" level has increased from 39 in 2008 to 101 in 2016. One hundred and thirty companies (65%) reported to either a "Basic" or "Moderate" level in 2008. This fell to 83 companies (41.5%) in 2016. The number of companies that did not report has almost halved from 31 in 2008 to 16 in 2016.

Graph 4: Broad trends in ASX200 reporting levels



Graph 5: Detailed trends in ASX200 reporting levels

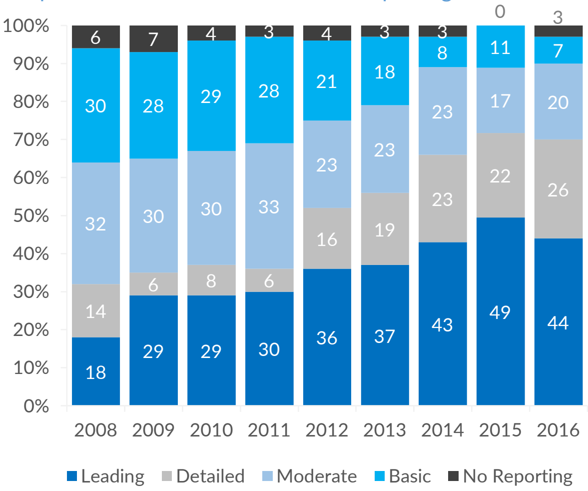


*Figures in bars refer to number of companies

ASX100 AND ASX101-200

Among the ASX100, there was an improvement in reporting levels every year from 2008 to 2015. However, in 2016 three companies did not report (compared to no non-reporters in 2015) and the number of "Leading" reporters fell by six to 43 companies. The three "No reporting" companies were all from different sectors: food, beverage and staples, consumer services and telecommunications, software and services. In each case, the companies had reported at a basic level previously. We have sought an explanation for this change from these companies.

Graph 6: Detailed trends in ASX100 reporting levels

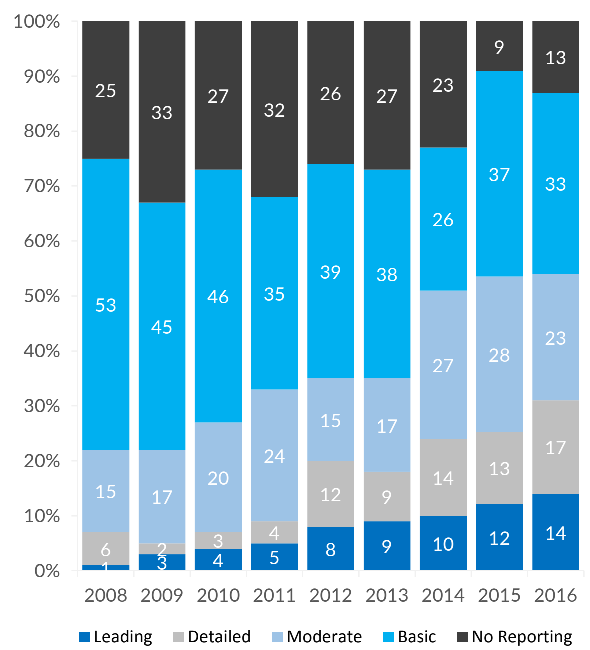


*Figures in bars refer to number of companies

In 2016, the trend towards "Leading" and "Detailed" reporting among ASX101-200 companies continued. However, there were fewer "Moderate" and "Basic" reporters compared to 2015 and four additional companies that did not report.

The 13 "No reporting" companies we identified came from a broad range of sectors, including: food, beverages and staples, retailing, consumer services, healthcare, materials, retail, telecommunications, software and service, real estate and media.

Graph 7: Detailed trends in ASX101-200 reporting levels



*Figures in bars refer to number of companies

EXTERNAL VERIFICATION

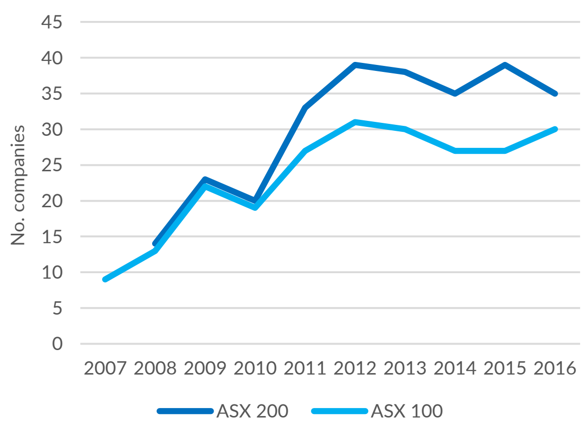
External verification or assurance increases investor confidence in the quality of sustainability performance data, making it more likely it will be relied on and used for decision-making. While external verification of sustainability disclosure shares similarities with external audit of financial reporting, there are important differences.

For example, it is often clearer what financial reporting is intended to measure and there are long-established procedures for financial auditing. Sustainability reporting covers diverse topics, and the issues that are most critical to manage, measure and disclose vary by sector and even by company.

Sustainability disclosure often involves a mix of quantitative and qualitative information and verification is limited. Quantitative sustainability disclosure is not usually measured in monetary units and internal control systems and data collection processes may not be as developed as systems and processes for financial information.

External verification by listed companies increased sharply from 2009 to 2013 (Graph 8), although the overall trend has been flat since then. In 2016, three more ASX100 companies undertook external verification than in 2015. However, among the ASX200 there were only 36 companies that undertook external verification in 2016 compared to 39 in 2015.

Graph 8: ASX companies undertaking external verification



REPORTING FRAMEWORKS

An increasing number of ASX200 companies now apply the GRI Standards (Graph 9). In 2016, 60 ASX200 companies (30%) used the GRI as a framework for reporting compared to 21 (10.5%) in 2008 and 38 (19%) in 2013. Forty-three ASX100 companies (21.5%) used the framework in 2016 (one less than in 2015).

Graph 9: ASX companies using the GRI

Five ASX200 companies indicated in their 2016 disclosures that they are working towards adopting the GRI Standards.

The Integrated Reporting framework was formally used by four ASX200 companies in 2016. A much larger number of companies (19 in total) used or referred to the UN Sustainable Development Goals as a framework in 2016.

SECTORAL PERFORMANCE

While all sectors are exposed to sustainability risks, the urgency and importance of addressing these risks and the degree of proactive management differs sharply among sectors. Graph 10 illustrates the difference in disclosure levels across sectors.

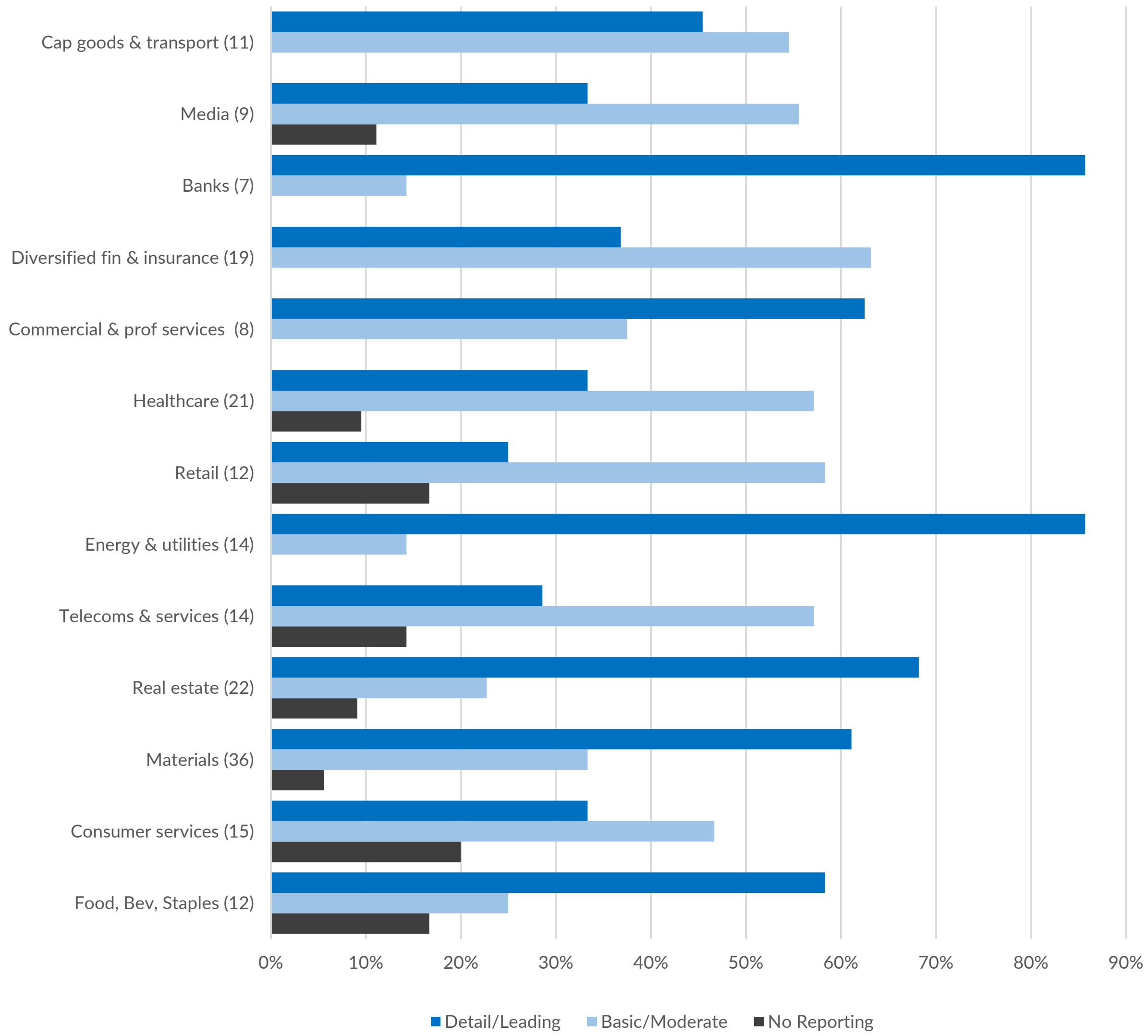
The most consistent and comprehensive reporting sectors in 2016 were banks and energy and utilities, with 86% of companies in each sector reporting to a “Leading” or “Detailed” level. The next best reporting sectors were real estate, commercial and professional services and materials, with 68%, 63% and 61% of companies respectively reporting to a “Leading” or “Detailed” level.

The sectors with the highest number of “Basic” or “Moderate” reporters were: diversified finance and insurance (63%), retail (58%), healthcare (57%), telecommunications, software and services (57%) and media (56%).

Consumer services recorded the weakest levels of sustainability disclosure, with 20% of companies rated “No reporting”. Retail and food and beverage and staples each had 17% of companies rating as “No reporting”, followed by telecommunications, software and services (14%) and media (11%).

We anticipate that poor sectoral disclosure will improve over time as awareness of the risks involved in supply chain, labour and human rights, climate change and other environmental and social issues increases and sustainability disclosure is recognised as an effective communication tool for investors and other stakeholders.

Graph 10: Percentage of total sector reporting



* Number of companies is in parenthesis in brackets beside sector label

LEADERS AND LAGGARDS

Leaders

Some companies have consistently outperformed others in their sustainability disclosure practices. The companies listed below have been considered by us to report to the highest level for four or more consecutive years. These companies ensure their reporting on sustainability risks prioritises the needs of shareholders by addressing the range of material risks, linking the issues to corporate strategy and providing data on performance against risks.

Table 3: Companies rated “Leading” for last 4 years

Company Name	Index	Sector
AGL Energy Limited	50	Energy and Utilities
Amcor Limited	50	Materials
Australia and New Zealand Banking Group Limited	20	Banks
Alumina Limited	100	Materials
BHP Billiton Limited	20	Materials
Brambles Limited	20	Commercial & Professional Services and Supplies
Commonwealth Bank of Australia	20	Banks
Charter Hall Group	200	Real Estate
Cromwell Property Group	200	Real Estate
CSR Limited	100	Materials
Dexus Property Group	50	Real Estate
Fortescue Metals Group Ltd	100	Materials
GPT Group	50	Real Estate
Insurance Australia Group Limited	20	Diversified Financials and Insurance
Incitec Pivot Limited	50	Materials
Mirvac Group	50	Real Estate
Macquarie Group Limited	20	Diversified Financials and Insurance
National Australia Bank Limited	20	Banks
Origin Energy Limited	50	Energy and Utilities
Orica Limited	50	Materials
Oil Search Limited	50	Energy and Utilities
Qantas Airways Limited	50	Capital Goods and Transportation
Rio Tinto Limited	20	Materials
Stockland	50	Real Estate
Transurban Group	20	Capital Goods and Transportation
Telstra Corporation Limited	20	Telecommunications, software and services
Westpac Banking Corporation Ltd	20	Banks
Wesfarmers Limited	20	Food, Beverage and Staples Retailing
Woolworths Limited	20	Food, Beverage and Staples Retailing
Woodside Petroleum Limited	20	Energy and Utilities

Laggards

We define a laggard as a company that has not reported its sustainability risks for four or more consecutive years. In 2016, there were two laggards - G8 Education Limited and SKY Network Television Limited. In addition, three ASX100 companies - Aristocrat Leisure Limited, Domino’s Pizza Enterprises Limited and TPG Telecom Limited, have been downgraded from “Basic” to “No reporting”. We have communicated our disappointment to each company.

RESEARCH FINDINGS: CLIMATE RELATED DISCLOSURE

Four developments have increased the prominence of climate risk and disclosure in the Australian investment community:

- The June 2017 Financial Stability Board's TCFD report.
- Australia's ratification of the Paris Agreement in November 2016.
- The November 2016 legal opinion of barristers Mr Noel Hutley SC and Mr Sebastian Hartford-Davis[9] which sets out why directors should carefully consider the impact of climate risks on a company's business strategy and performance as part of the duty of care and diligence they owe to the company under Australian corporations law.
- Geoff Summerhayes' (board member of the Australian Prudential Regulation Authority) February 2017 speech[10] which articulated the regulator's new expectations on businesses to begin (if they haven't already started) engaging in scenario-based climate analysis describing how climate risk might impact business operations and strategies.

Responding to increasing investor demand for climate-related disclosure, we decided to examine climate-related disclosure practices of the ASX200.

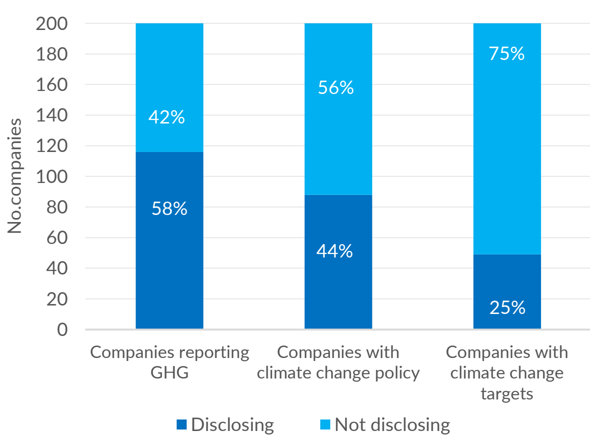
KEY FINDINGS

Greenhouse gas emissions

We assessed how many ASX200 companies reported greenhouse gas emissions (GHG) in the 2016 reporting period and found that 116 ASX200 companies (58%) reported their GHG inventories (Chart 11). This is a strong performance relative to the 47% figure reported in a global survey of 4,469 large, global companies in 2016.[11]

The Australian reporting figures may have been influenced by the fact that in Australia companies over a certain threshold of emissions are required to report under the National Greenhouse and Energy Reporting Act (NGERS).[12] In a range of overseas jurisdictions, greenhouse gas reporting is not required by law, although since the 2015 Paris Agreement, regulatory requirements have become more demanding.

Graph 11: ASX200 reporting of climate-related indicators



*Figures in bars refer to percentage of ASX200

[9] Centre for Policy Development and Future Business Council, *Climate Change and Directors' Duties*, Legal opinion by Noel Hutley and Sebastian Hartford-Davis, 7 October 2016, <https://cpd.org.au/wp-content/uploads/2016/10/Legal-Opinion-on-Climate-Change-and-Directors-Duties.pdf>.
[10] Geoff Summerhayes,, *'Australia's new horizon: Climate change challenges and prudential risk'*, (Speech delivered at the Insurance Council of Australia Annual Forum, 17 February 2017) < http://www.apra.gov.au/Speeches/Pages/Australias-new-horizon.aspx>.
[11] Corporate Knights, *Measuring Sustainability Disclosure, 2017*, <http://www.sseinitiative.org/wp-content/uploads/2016/07/SSE2016Final.pdf >.
[12] Thresholds for registration and reporting under the National Greenhouse and Energy Reporting Act 2007 are defined in Section 13 of the Act which is accessible at: < https://www.legislation.gov.au/Details/C2017C00054 >.

Policy statements

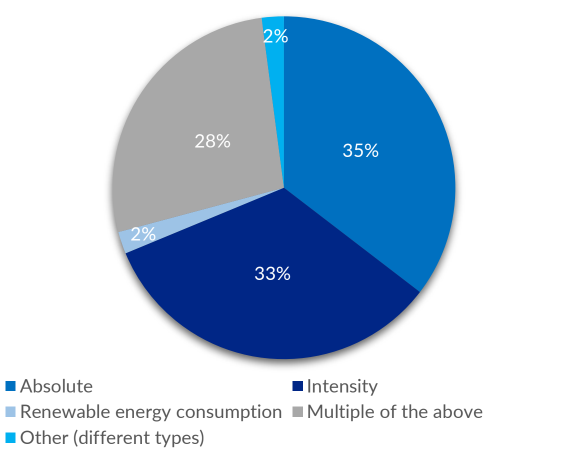
Eighty-seven ASX200 companies (44%) had a policy statement or other statement acknowledging climate change as a risk. These statements include perspectives on climate science, corporate undertakings to address climate change risk or scenario analysis of the impacts of alternative carbon prices on company portfolios.

Types of climate-related targets

Forty-eight ASX200 companies (24%) disclosed a climate-related or energy efficiency target in 2016. Of those companies that had a target, 36% were absolute reduction targets, 33% were intensity reduction targets and 27% were multiple targets (Graph 12).

As this is the first year that we have collected these statistics, we will be keen to trace trends over time. We expect the level of disclosure of climate-related financial risks to increase significantly over time given the growing expectations of governments, regulators, investors and broader stakeholders of ASX200 companies.

Graph 12: % of companies with climate-related or energy target



Overall performance

Ninety-eight ASX200 companies reported on two of the three indicators while 33 companies reported on all three. Seventy ASX200 companies did not measure greenhouse gas emissions, have a policy or statement on climate-related risk or a related target in 2016.

SECTORAL PERFORMANCE

Climate-related indicators

There was a degree of commonality among the "Leading" reporters for sustainability disclosure and climate-related indicators.

The five sectors with the highest level of disclosure of greenhouse gas emissions data by companies were:

1. Energy and utilities with 93%.
2. Banks with 86%.
3. Materials with 75%.
4. Food, beverage and staples with 75%.
5. Real estate with 68%.

The five sectors with the highest proportion of companies disclosing a climate change policy or a statement acknowledging climate-related risk were:

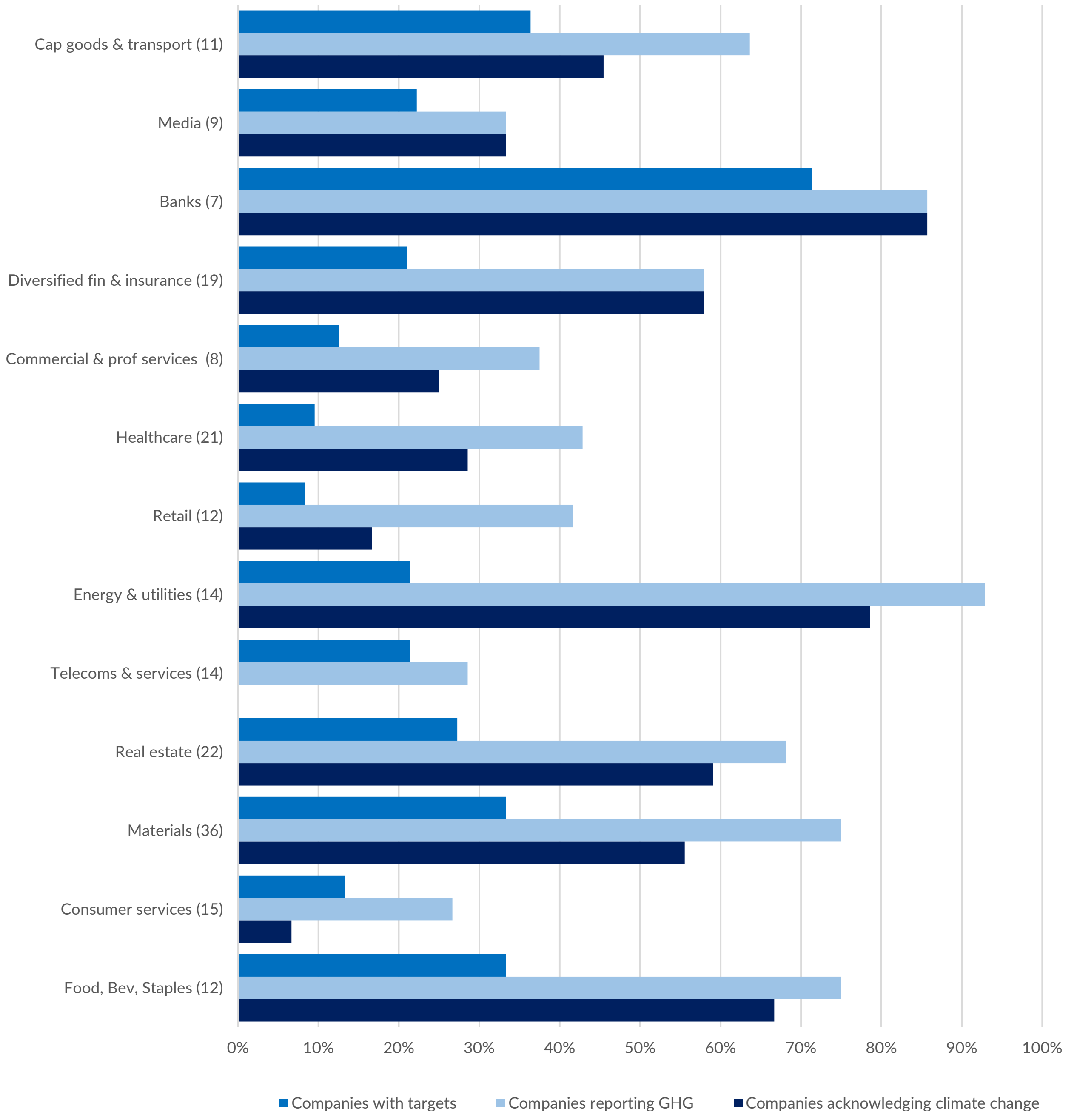
1. Banks with 86%.
2. Energy and utilities with 79%.
3. Real estate with 59%.
4. Food, beverage and staples with 58%.
5. Diversified financials and insurance with 58%.

The banking sector had a high proportion of companies with a climate or energy related target – five of the seven banks (71% of the sector) had targets. In comparison, only 4 companies (21%) of the diversified financials and insurance sector had targets.

Sectors with a high relative exposure to climate-related risks (including greenhouse gas emissions pricing, exposure to litigation and exposure to extreme weather events such as cyclones and floods) include materials and energy and utilities. The data shows that these sectors did not have a high proportion of companies with targets. Only 12 companies (33%) of the materials sector had a target and only three companies (21%) of the energy and utilities sector had a target.

The TCFD highlights the importance of disclosure for those sectors which are likely to have material risks and the Framework offers supplemental guidance for the energy, transportation, materials and building and agriculture, food and forest product sectors.

Graph 13: Climate-related indicators reported by sector



*Number of companies is in parenthesis in brackets beside sector label

APPENDIX A: 2016 ADDITIONS & REMOVALS TO THE ASX200

This report is based on the composition of the ASX200 index as of 31 March 2017. Appendix A highlights the changes in the list of companies analysed in 2017 compared to the 2016 study.

COMPANIES ADDED

Code	Company
A2M	The a2 Milk Company Ltd
CYB	CYBG PLC
ECX	Eclipx Group Limited
GXY	Galaxy Resources Limited
IFN	Infigen Energy
INM	Iron Mountain Incorporated
LNK	Link Administration Holdings Limited
NAN	Nanosonics Limited
NXT	NEXTDC Limited
ORE	Orocobre Limited
RSG	Resolute Mining Limited
RWC	SAI Global
SAR	Saracen Mineral Holdings Limited
VVR	Viva Energy REIT
WEB	Webjet Limited

COMPANIES REMOVED

Code	Company
AIO	Asciano Ltd
ASB	Austal Limited
BRS	Broadspectrum Limited
CVO	Cover-More Group
LNG	Liquefied Natural Gas Ltd
MSB	Mesoblast
OFX	Ozforex Group
PBG	Pacific Brands Ltd
PRG	Programmed Maintenance
REC	Recall Holdings Ltd
SAI	SAI Global Ltd
SHV	Select Harvests
VRL	Village Roadshow

APPENDIX B: COMPOSITION OF ASX200

As at 31 March 2017, the cut-off date for information to be included in the analysis for this report.

The a2 Milk Company Ltd	Bluescope Steel Limited
Abacus Property Group	Boral Limited
Aconex Limited	Brambles Limited
Adelaide Brighton Limited	Breville Group Limited
AGL Energy Limited	Brickworks Limited
ALS Limited	BT Investment Management Limited
Altium Limited	BWP Trust
Alumina Limited	Caltex Australia Limited
Amcor Limited	Carsales.com Limited
AMP Limited	Challenger Limited
Ansell Limited	Charter Hall Group
APA Group	Charter Hall Retail REIT
APN Outdoor Group Ltd	CIMIC Group Limited
ARB Corporation Limited	Cleanaway Waste Management Limited
Ardent Leisure Group	Coca-Cola Amatil Limited
Aristocrat Leisure Limited	Cochlear Limited
Asaleo Care Limited	Commonwealth Bank of Australia
ASX Limited	Computershare Limited
Aurizon Holdings Limited	Corporate Travel Management Limited
Ausnet Services Limited	Costa Group Holdings Limited
Australia And New Zealand Banking Group Limited	Credit Corp Group Limited
Australian Agricultural Company Limited	Cromwell Property Group
Australian Pharmaceutical Industries Limited	Crown Resorts Limited
Automotive Holdings Group Limited	CSL Limited
Aveo Group Stapled	CSR Limited
Bank of Queensland Limited	CYBG PLC
Bapcor Limited	Dexus Property Group
Beach Energy Limited	Domino's Pizza Enterprises Limited
Bega Cheese Limited	Downer EDI Limited
Bellamy's Australia Limited	Duet Group
Bendigo and Adelaide Bank Limited	DuluxGroup Limited
BHP Billiton Limited	Eclipx Group Limited
Blackmores Limited	Estia Health Limited

Evolution Mining Limited
Fairfax Media Limited
Fisher & Paykel Healthcare Corporation Limited
Fletcher Building Limited
FlexiGroup Limited
Flight Centre Travel Group Limited
Fortescue Metals Group Ltd
G.U.D. Holdings Limited
G8 Education Limited
Galaxy Resources Limited
Gateway Lifestyle Group
Genworth Mortgage Insurance Australia Limited
Goodman Group
GPT Group
Graincorp Limited
Greencross Limited
Growthpoint Properties Australia
GWA Group Limited
Harvey Norman Holdings Limited
Healthscope Limited
Henderson Group Plc
HT&E
Iluka Resources Limited
Incitec Pivot Limited
Independence Group NL
Infigen Energy
Insurance Australia Group Limited
Investa Office Fund
Invocare Limited
IOOF Holdings Limited
IPH Limited
IRESS Limited
Iron Mountain Incorporated
Isentia Group Limited
James Hardie Industries Plc
Japara Healthcare Limited
JB Hi-Fi Limited

Lendlease Group
Link Administration Holdings Limited
Macquarie Atlas Roads Group
Macquarie Group Limited
Magellan Financial Group Limited
Mantra Group Limited
Mayne Pharma Group Limited
McMillan Shakespeare Limited
Medibank Private Limited
Metcash Limited
Mineral Resources Limited
Mirvac Group
Monadelphous Group Limited
Myer Holdings Limited
MYOB Group Limited
Nanosonics Limited
National Australia Bank Limited
National Storage REIT
Navitas Limited
Newcrest Mining Limited
News Corporation
NEXTDC Limited
Nine Entertainment Co. Holdings Limited
Northern Star Resources Ltd
Nufarm Limited
Oil Search Limited
Orica Limited
Origin Energy Limited
Orocobre Limited
Orora Limited
OZ Minerals Limited
Pact Group Holdings Ltd
Perpetual Limited
Platinum Asset Management Limited
Premier Investments Limited
Primary Health Care Limited
Qantas Airways Limited

QBE Insurance Group Limited	St Barbara Limited
Qube Holdings Limited	Steadfast Group Limited
Ramsay Health Care Limited	Stockland
REA Group Limited	Suncorp Group Limited
Regis Healthcare Limited	Super Retail Group Limited
Regis Resources Limited	Sydney Airport
Resmed Inc.	Syrah Resources Limited
Resolute Mining Limited	Tabcorp Holdings Limited
Retail Food Group Limited	Tassal Group Limited
Rio Tinto Limited	Tatts Group Limited
SAI Global	Technology One Limited
Sandfire Resources NL	Telstra Corporation Limited
Santos Limited	The Star Entertainment Group Limited
Saracen Mineral Holdings Limited	TPG Telecom Limited
Scentre Group	Trade Me Group Limited
SEEK Limited	Transurban Group
Seven Group Holdings Limited	Treasury Wine Estates Limited
Seven West Media Limited	Vicinity Centres
Shopping Centres Australasia Property Group	Virtus Health Limited
Sigma Pharmaceuticals Limited	Viva Energy REIT
Sims Metal Management Limited	Vocus Group Limited
Sirtex Medical Limited	Webjet Limited
SKY Network Television Limited	Wesfarmers Limited
Skycity Entertainment Group Limited	Western Areas Limited
Sonic Healthcare Limited	Westfield Corporation
South32 Limited	Westpac Banking Corporation Ltd
Southern Cross Media Group Limited	Whitehaven Coal Limited
Spark Infrastructure Group Forus	Woodside Petroleum Limited
Spark New Zealand Limited	Woolworths Limited
Spotless Group Holdings Limited	Worleyparsons Limited

Duet Group delisted after 31 March 2017 but are included in this study.

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