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ESG Disclosure Score

1.0 Background

Investors increasingly consider ESG (Environmental, Social & Governance) factors as part of their decision making and engagement processes.

Issuers are responding with greater levels of transparency and disclosing more data, often applying global standards that were created to facilitate consistent disclosure in particular areas of investor focus, such as GRI (Global Reporting Initiative) and SASB (Sustainability Accounting Standards Board).

In addition, there is a growing variety of regulatory requirements across many countries and well as surveys requesting further information that are sent to companies by investors and assessment organisations.

As one of the largest exchanges in the World, with the most geographically and sectorally diverse issuers and investor base, London Stock Exchange has been helping issuers navigate the disclosure landscape for many years, for example by:

- Chairing the UN Sustainable Stock Exchange Model Guidance on ESG Reporting;
- Launching LSEG's own Issuer ESG reporting guidance; and
- Making available to issuers their FTSE Russell ESG Ratings, developed for investor clients.

The ESG Disclosure Score builds on this support by providing a mechanism by which issuers can better assess their current levels of quantitative ESG disclosure relative to industry sector average and understand which additional metrics could be disclosed to help give investors a clearer picture.

2.0 Approach

The ESG Disclosure Score is intended as a tool for issuers to consider good practice in disclosure of key quantitative ESG metrics, by providing an indication of the most relevant ESG metrics in the issuer's industry sector and showing how their quantitative disclosure across these areas compares to industry peers.

The ESG Disclosure Score is a percentage figure that represents the aggregated level of disclosure against certain quantitative ESG data points drawn from global standards, used by FTSE Russell and that are considered to be relevant for the issuer's sector (see below for categories by industry).

It does not represent any judgement on the nature of the disclosure i.e. whether specific policies or figures on emissions or diversity etc. are good or bad – investors will determine this for themselves. The score simply reflects that data is being disclosed providing an indication of transparency to investors. Individual scores are not made

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public: they are provided only to issuers along with the average and top scores in their industry for comparison.

The ESG Disclosure Score is an additional tool provided by London Stock Exchange for its issuers: there are no additional mandatory requirements. Given the growing importance of ESG data to investors, it is hoped that the ESG Disclosure Score will prove helpful in considering increased disclosure on key quantitative ESG metrics.

It is important to note that good reporting goes much wider than the key quantitative metrics that are covered here and issuers should review our Guide to issuer ESG reporting for more comprehensive guidance.

However, investor appetite for consistent quantitative data is growing, giving value to issuers from this focus on numeric focused measures.

3.0 Issuers in FTSE Russell's ESG research universe

London-listed issuers that are covered by FTSE Russell for ESG research (those included in the FTSE All-Share ex Investment Trust Indexes) will have scores produced for them annually. Scores are derived from the publicly disclosed data that FTSE Russell holds for those issuers for the key ESG disclosure metrics identified per industry sector.

The ESG Disclosure Score is produced annually based upon the latest disclosures assessed and published by FTSE Russell. It is provided in confidence to issuers, via the Issuer Services platform, with an industry average score to enable peer group comparison. This is in addition to the issuer's 'absolute' ESG Rating (from 1-5) that is currently provided. Please note that as this is researched and updated annually for each issuer, there can sometimes be a lag between the date that data is published by an issuer and that on which it will be updated on the platform. Issuers may raise queries via the Issuer Services platform.

The ESG Disclosure Score is provided by London Stock Exchange to issuers free of charge as part of a suite of tools and guidance, with the goal of helping to improve transparency and public information exchange between issuers and investors around ESG matters. Neither the scores nor commentary relating to them should not be published within marketing material or any endorsement of performance by London Stock Exchange inferred.

4.0 Issuers not covered by FTSE Russell

To provide support for all London-listed companies, an online tool has been developed that will enable those issuers not researched by FTSE Russell to self-calculate an indicative ESG Disclosure Score.

Issuers select their industry and are guided through a process to identify the ESG metrics that they are currently disclosing data against, with guidance on the way that those metrics should be disclosed, including reference to the relevant global standards. The tool will: derive an indicative percentage ESG Disclosure Score; provide an industry comparison; and highlight which disclosure metrics could be enhanced.

As scores are self-certified rather than being independently calculated by London Stock Exchange no claims may be made by issuers relating to their score: the tool and the scores derived are provided as a service to issuers by London Stock Exchange to assist them in enhancing their disclosure, along with published issuer guidance.

5.0 Benefits

5.1 Existing issuers:

- Highlights key sector-material ESG metrics for considering disclosure areas that may be improved.
- Improved understanding of relative performance in ESG disclosure compared with peers
- An opportunity to use this knowledge and information to enhance dialogue with investors that have a focus on ESG disclosure and performance

5.2 Potential issuers

- Benefit from ESG disclosure tools and support aligned with globally recognised ESG disclosure standards and methodologies used by FTSE Russell, providing the opportunity to achieve good practice in quantitative ESG data disclosure ahead of IPO

5.3 Investors:

- Issuers are more aware of the materiality of ESG matters in their industry and provided with information that may help them to improve disclosure on key areas of interest.

6.0 Future developments

London Stock Exchange is considering the potential for awarding an ESG Disclosure Mark to issuers that demonstrate high levels of disclosure relative to their industry sector and/or in absolute terms.

The approach will build on market feedback on the ESG Disclosure Score, along with analysis of issuer ESG Disclosure Scores and 'absolute' ESG Ratings.

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7.0 Key ESG disclosure categories by industry

The ESG disclosure score is calculated based upon the level of disclosure against the metrics considered by FTSE Russell to be the most material to investors for different industries. This is drawn from existing ESG standards including: GRI (Global Reporting Initiative); SASB (Sustainability Accounting Standards Board); and CDP (formerly the Carbon Disclosure Project) and based upon expertise built over 18 years of commercial activity in ESG data and indexes, working with investors and other market participants. The material metrics by industry sector are:

7.1 Financials

- Carbon emissions
- Energy use
- Social & Community investment
- Staff turnover rates
- Share of temporary staff
- Employee training hours
- Political contributions
- Independent directors
- Female directors
- Corruption fines
- ESG fines

7.2 Utilities

- Carbon Emissions
- Energy use
- Hazardous waste
- Non-recycled waste
- Recycled waste
- Environmental fines
- Environmental management
- NOx emissions
- SOx emissions
- Volatile Organic Compound emissions
- Social & Community investment
- H&S management
- H&S training
- Lost-time incidents
- Staff turnover rates
- Share of temporary staff
- Employee training hours
- Political contributions
- Independent directors
- Female directors
- Corruption fines

7.3 Basic Materials

- Carbon Emissions
- Energy use
- Hazardous waste
- Non-recycled waste
- Recycled waste
- Environmental fines
- Environmental management
- NOx emissions
- SOx emissions
- VOC emissions
- Water Use
- Water recycled
- Social & Community investment
- H&S management
- H&S training
- Lost-time incidents
- Staff turnover rates
- Share of temporary staff
- Employee training hours
- Employee fatalities
- Political contributions
- Independent directors
- Female directors

7.4 Oil & Gas

- Carbon Emissions
- Energy use
- Hazardous waste
- Non-recycled waste
- Recycled waste
- Environmental fines
- Environmental mgmt.
- Water Use
- Social & Community investment
- H&S management
- H&S training
- Lost-time incidents
- Staff turnover rates
- Share of temporary staff
- Employee training hours
- Employee fatalities
- Political contributions
- Independent directors
- Female directors
- Corruption fines

7.5 Consumer Goods, Customer Services & Healthcare

- Carbon emissions
- Energy use
- Social & Community investment
- Staff turnover rates
- Share of temporary staff
- Employee training hours
- Independent directors
- Female directors

7.6 Industrials, Technology & Telecomms

- Carbon emissions
- Energy use
- Social & Community investment
- Staff turnover rates
- Share of temporary staff
- Employee training hours
- Political contributions
- Independent directors
- Female directors
- Corruption fines

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8.0 Disclosure data detail

For the above categories, the information required is:

8.1 Carbon Emissions

- Three years of total operational Green House Gas (GHG) emissions data (Scope 1 & 2) typically via CDP (below).
- Scope 1 emissions are direct emissions from company owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. See www.ghgprotocol.org for more information.
- Scope 1 emissions should include a breakdown by GHG type with a gross figure for each GHG and the Global Warming Potential for that gas.
- CDP (formerly the Carbon Disclosure Project) manages one of the most widely used international standards for reporting emissions (www.cdp.net).
- Other global standards include TCFD (Taskforce for Climate-related Financial Disclosure); GRI (Global Reporting Initiative: www.globalreporting.org) section 305-1 & 305-2 and SASB (Sustainability Accounting Standards Board: www.sasb.org) section 110a.1

8.2 Energy use

- Three years of total energy consumption data is disclosed. Typically, this may be via CDP (below).
- A single, combined figure for all fuel sources i.e. electricity, gas, fuel, measured in kilowatt hours (kWh) of energy is preferred.
- If fuel sources are separated this should be clear and use comparable units.
- Companies should include their data centres in their disclosure.
- Key global standards for this include SASB (Sustainability Accounting Standards Board: www.sasb.org) section 130a.1, GRI (Global Reporting Initiative: www.globalreporting.org) section 302-1 and CDP: www.cdp.net).

8.3 Hazardous waste

- Disclosure of three years of hazardous waste generation (tonnes).
- This refers to substances released to land and water only: those released to air such as Green House Gases, Sox & NOx should be reported separately.
- Hazardous waste is usually treated / diverted for treatment (sometimes it is clinical waste which is incinerated) and disposed of separately to other wastes.
- Clarity and transparency is vital in your disclosure, being as specific as possible, reflecting recognised categories of hazardous waste.
- Key global standards for this include SASB (Sustainability Accounting Standards Board: www.sasb.org) section150a.1 and GRI (Global Reporting Initiative: www.globalreporting.org) section 306-2

8.4 Non-recycled waste

- Disclosure of three years of non-recycled waste generation (tonnes).
- This is generally waste that is sent to landfill or incinerated.
- It is important to differentiate between treated, recycled and non-recycled for this to be considered disclosed.
- Normalized data such as non-recycled waste per unit of revenue is acceptable, provided that it can be consolidated to a corporate level
- Providing granular data in addition to a consolidated figure is particularly useful for certain industries. However, if it is disclosed in multiple different units, e.g. 100 tonnes of scrap, 500 litres of oil, 20 pieces of car body etc, it is vital to highlight the relevance to the production process.
- Key global standards for this include GRI (Global Reporting Initiative: www.globalreporting.org) section 306-2 and SASB (Sustainability Accounting Standards Board: www.sasb.org) section 150a.1)

8.5 Recycled waste

- Disclosure of three years of waste recycled (tonnes).
- This includes waste that is re-used as it is, as well as waste that goes through a recycling process as it may have ended up in landfill otherwise. This includes waste recovered, e.g. spread on land, or composted.
- It is important to differentiate between waste that is treated, recycled and not recycled in order for this to be considered as disclosed, using consistent measurement (tonnes)
- It cannot be considered disclosed if data is inconsistently measured - as this makes it difficult for an investor to consolidate. Similarly, if data is broken down by site/division/operations without an explanation of how much of the business they represent, investors cannot reasonably establish that it represents 100% of operations.
- Key global standards for this include SASB (Sustainability Accounting Standards Board: www.sasb.org) section 150a.1 and GRI (Global Reporting Initiative: www.globalreporting.org) section 306-2.

8.6 Environmental fines

- Total costs of environmental fines and penalties during financial year.
- Figures must be specific and complete.
- A clear, specific and complete statement that no fines were levied to any part of the business or its subsidiaries is required to give confidence of zero fines, e.g. "There were no public sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year ended..."
- Responses such as 'no significant fines' is considered as non-disclosure, unless clearly linked to a specific disclosure standard such as GRI, which does provide for minimum thresholds for some industries.
- Further details can be found from the GRI (Global Reporting Initiative) website: www.globalreporting.org) section 307-1

8.7 Environmental management

- Percentage of sites covered by recognised environmental management systems such as ISO14001 or EMAS.
- An example of this would be: Widget plc has four sites (A1, A2, A3, A4), of these 2 sites (A2, A3) are certified to ISO14001. A1 contributes to 50% revenues, A2 contributes to 20% revenues, A3 & A4 contributes to 15% each.
- ISO 14001 is a systematic framework to manage the immediate and long-term environmental impacts of an organisation's products, services and processes to help organisations: minimise their environmental footprint; diminish the risk of pollution incidents; provide operational

improvements; ensure compliance with relevant environmental legislation; and develop their business in a sustainable manner. See www.iso.org for further information.
- EMAS (the EU Eco-Management and Audit Scheme) is a premium management instrument developed by the European Commission for companies and other organisations to evaluate, report, and improve their environmental performance. EMAS is open to every type of organisation eager to improve its environmental performance. It spans all economic and service sectors and is applicable worldwide. For more information see: https://ec.europa.eu/environment/emas/index_en.htm

8.8 NOx emissions
- Disclosure of three years of NOx emissions (tonnes).
- Key global standards for this include SASB (Sustainability Accounting Standards Board: www.sasb.org) and GRI (Global Reporting Initiative: www.globalreporting.org) section 305-7
- NB: Under the Global Reporting Initiative (section EN20) NOx emissions are captured with SOx, however to count as disclosed, SOx and NOx figures must be reported separately.

8.9 SOx emissions
- Disclosure of three years of SOx emissions (tonnes).
- Key global standards for this include SASB (Sustainability Accounting Standards Board: www.sasb.org) and GRI (Global Reporting Initiative: www.globalreporting.org) section 305-7
- NB: Under the Global Reporting Initiative (section EN20) SOx emissions are captured with NOx, however to count as disclosed, SOx and NOx figures must be reported separately.

8.10 Volatile Organic Compound (VOC) emissions
- Disclosure of three years of volatile organic compounds (VOC) emissions (kilograms).
- VOC's are compounds such as Benzine.
- VOC's should be disclosed separately rather than consolidated.
- Normalized data such as emissions per unit production is acceptable, provided your company only produces one thing (e.g. cars, aircraft, computers, etc).
- Key global standards for this include SASB (Sustainability Accounting Standards Board: www.sasb.org) section 120a.1 and GRI (Global Reporting Initiative: www.globalreporting.org) section 305-7

8.11 Water Use
- Three years of total water use is disclosed in an appropriate, consistently measured unit, including both freshwater and salt water.
- Best practice is to disclose water data separated into water withdrawal, water used and water discharged (at same levels of quality).
- Normalized data such as water use per unit of production is acceptable provided your company only produces one thing, e.g. cars, aircraft, computers, etc, otherwise water consumption per unit of revenue can be accepted irrespective of the number of types of products produced - as revenue can be consolidated at a corporate level
- This data should be relevant to your business and may be in more relevant units e.g. a water utility company may report in litres/day.
- Key global standards for this include SASB (Sustainability Accounting Standards Board: www.sasb.org) section 140a.1, GRI (Global Reporting Initiative: www.globalreporting.org) section 303-1 and CDP: www.cdp.net).

8.12 Water recycled
- Percentage of water recycled for use within own operations.
- This should be a total consolidated percentage figure for the whole organisation.
- Key global standards for this include SASB (Sustainability Accounting Standards Board: www.sasb.org) section 140a.1, GRI (Global Reporting Initiative: www.globalreporting.org) section 303-1 and CDP: www.cdp.net).

8.13 Social & Community investment
- Total amount of corporate or group donations and community investments made to registered not-for-profit organisations.
- An aggregated figure for donations across global operations should be provided, including cash donations, in-kind donations and voluntary hours using a consistent monetary value equivalent.
- In-kind donations include products and services.
- Key global standards for this GRI (Global Reporting Initiative: www.globalreporting.org) section 201-1

8.14 Health &Safety management
- Percentage of sites with OHSAS 18001 (or ISO 45001, which is replacing it).
- This is the international standard for occupational health and safety. The goal of the certification is to reduce workplace hazards and boost employee morale. OHSAS 18001 is a framework for an occupational health and safety (OHS) management system and is a part of the OHSAS 18000 series of standards. Along with OHSAS 18002, it can help organisations to put in place the policies, procedures and controls needed for to achieve the best possible working conditions and workplace health and safety, aligned to internationally recognized best practice.
- See www.bsigroup.com and www.iso.org for more information.

8.15 Health &Safety training
- Number and percentage of staff trained on health and safety standards within the last year.
- Only trainings separate from induction and explicitly cover health and safety aspects should be included.
- Health and Safety training is particularly important in sectors where injury rates and fatalities are yearly issues. By disclosing the number and proportion of staff trained annually, companies demonstrate an ongoing commitment to reducing and avoiding this risk.
- GRI (Global Reporting Initiative: www.globalreporting.org) sections 403-5, 403-8 provides a consistent global standard for this.

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8.16 Lost-time incidents

- Lost-time incident rate (LTIR) or Lost-time incident & fatality rate (LTIFR), over last three years.
- It is important to be clear about the absolute number of accidents and the time lost versus hours worked or a representative volume.
- A definition of lost-time can include accidents, injuries and fatalities. Disclosures should be clear how this is being reported.
- GRI (Global Reporting Initiative: www.globalreporting.org) section 403-9 provides a consistent global standard for this.

8.17 Staff turnover rates

- Full time staff voluntary turnover rate calculated against the average number of Full Time Employees during the year to create a consistently comparable figure year on year.
- The figure should not include retirements and deaths, though these can be reported separately.
- The UN PRI (Principles for Responsible Investment: www.unpri.org) and GRI (Global Reporting Initiative: www.globalreporting.org) section 401-1 provides clear reporting guidance.

8.18 Share of temporary staff

- The percentage of the workforce that is employed temporarily or on a contract basis.
- GRI (Global Reporting Initiative: www.globalreporting.org) section 102-8 provides a consistent global standard for this.

8.19 Employee training hours

- Hours spent on employee development training to enhance knowledge or individual skills.
- This can be total hours as a company, or average hours per employee.
- It should not include training time on company policies (e.g. safety, code of conduct) as it I intended to reflect your company's investment in developing human capital, particularly through training that expands the knowledge base of employees.
- GRI (Global Reporting Initiative: www.globalreporting.org) section 404-1 provides a consistent global standard for this.

8.20 Employee fatalities

- Number of work-related employee fatalities over last three years.
- Include disclosure of zero fatalities, if that was the case.
- Employee fatalities should be captured separately from contractor fatalities and both listed.
- Key global standards for this include SASB (Sustainability Accounting Standards Board: www.sasb.org) section 320a.1 and GRI (Global Reporting Initiative: www.globalreporting.org) section 403-9.

8.21 Political contributions

- Disclosure of total amount of political contributions made:
- Donations to Political Action Committees in the U.S (a way to pool money from companies, etc. to action political advocacy) should also be disclosed.
- Indirect contributions should also be included. This is defined by the Global Reporting Initiative (GRI) as: "Any financial or in-kind support to political parties, their representatives, or candidates for office made through intermediary organizations such as lobbyists or charities or support given to organizations such as think tanks or trade associations linked to or supporting particular political parties or causes."
- Clarity is important in statements reflecting no political contributions – for example, stating that the company policy is to make no political contributions and there are no exceptions in this financial year / time period.
- GRI (Global Reporting Initiative: www.globalreporting.org) section 415.1 provides a consistent global standard for this.

8.22 Independent directors

- Number and percentage of independent Directors on the board.
- An independent director is defined as one with no conflicts of interest.
- Your company should identify who specifically on the Board is independent according to a recognised corporate governance code from within your own jurisdiction.
- ICGN (International Corporate Governance Network: www.igcn.org) and OECD (Organisation for Economic Co-operation and Development: www.oecd.org) provide advice on disclosure for this.

8.23 Female directors

- Number and percentage of women on the board.
- Whilst this may appear to be obvious, companies should be clear who specifically on their Board is female.
- ICGN (International Corporate Governance Network: www.igcn.org) and OECD (Organisation for Economic Co-operation and Development: www.oecd.org) provide advice on disclosure for this.

8.24 Fines

8.24.1 Corruption fines:

- Disclosure of the individual and total cost of fines, penalties or settlements in relation to corruption.
- Reporting of no fines or incidents should be clear and specific, for example: 'There were no legal actions, fines or sanctions relating to anti-corruption, anti-bribery, anti-competitive behaviour or antitrust or monopoly laws or regulations.'
- GRI (Global Reporting Initiative: www.globalreporting.org) section 205-3 and SASB (Sustainability Accounting Standards Board: www.sasb.org) section 510a.2 provides clear reporting guidance on reporting on corrupt practices.

8.24.2 ESG Fines

- Provisions for fines and settlements specified for ESG (Environmental, Social or Governance) issues in audited accounts.
- A separate figure for provisions for ESG-related fines, rather than inclusion in a consolidated figure is required.
- This does not relate to provisions/reserves created for environmental protection.
- The UN PRI (Principles for Responsible Investment: www.unpri.org) and GRI (Global Reporting Initiative: www.globalreporting.org) section 307-1 provides clear reporting guidance on reporting on ESG-related fines.