

Building trust in the air:

Is airline corporate sustainability reporting taking off?

A close look at corporate sustainability reporting in the airline industry

November 2011



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Foreword

The airline sector is a truly global industry. It's an industry that's important and visible to huge numbers of people and with a very extensive supply chain. It has one of the largest groups of stakeholders of any sector, and airlines need to be responsive to all of them. Sometimes that means balancing conflicting interests. Clearly and honestly. Transparency builds trust – and trust is at the heart of every sustainable company.

Reporting is not just about communication. It's also about basing concrete, measureable actions in a robust corporate sustainability strategy that's integrated with a company's overall goals. That means better use of scarce resources, better compliance with increased regulations and more satisfied customers. Airlines are taking notice and working to improve their corporate sustainability reporting. Right now it's starting at the top, with the world's largest airlines taking the lead. Many have made a great start, but we think there's still room for improvement.

We reviewed 46 of the world's largest airlines, across all regions and segments, to see how their corporate sustainability reporting stacks up. Our methodology took a look across a whole range of factors around comprehensiveness and quality.

How does your airline compare with your peers? How can you take the lead? Are cross-industry standards important? We've got some suggestions. They're far from the final word, but we think they'll add to the debate. Give us a call if you'd like to continue the conversation.

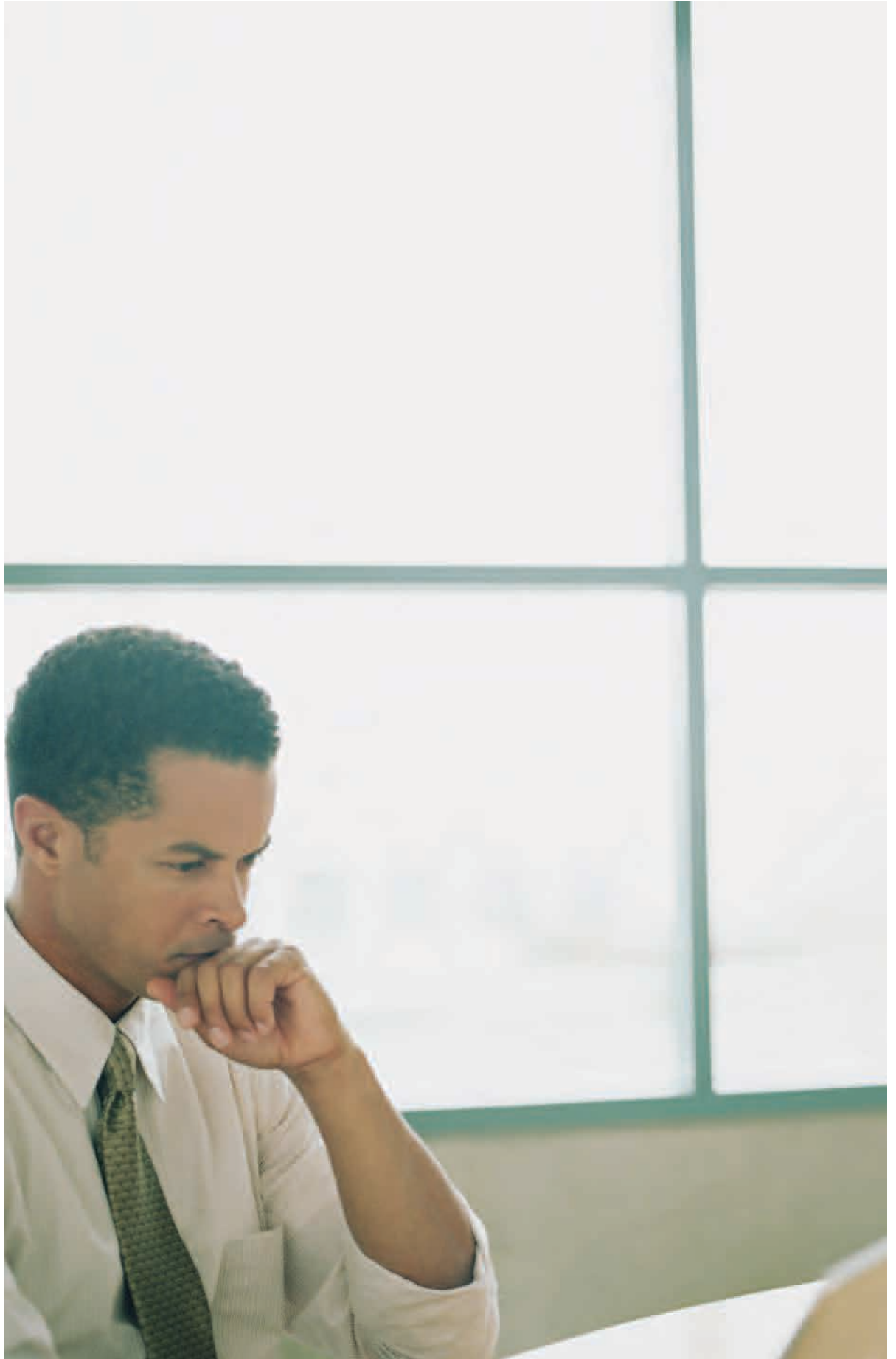


Klaus-Dieter Ruske
Global Transportation & Logistics Leader



Malcolm Preston
Global Sustainability Leader

***Transparency
builds trust – and
trust is at the
heart of every
sustainable
company.***



Executive Summary

Many airlines are now integrating corporate sustainability into their overall strategy. They're looking to engage with stakeholders and share their successes, to help build trust in the air. We've worked with a large number of major airlines on climate change and corporate sustainability. In the process we have heard from many of them that their companies are still struggling with some aspects of corporate sustainability reporting. We hope this report will help.

We reviewed 46 leading global and regional airlines to see how the industry stacks up on corporate sustainability reporting. The results were encouraging. Corporate sustainability principles are becoming increasingly important to airlines and so is solid reporting of their sustainability performance. That's partly due to changes in the industry. When government-owned airlines are privatised and need to win the trust of private investors, corporate sustainability reporting takes on new urgency.

Investors aren't the only factor. Taking care of the environment is becoming more important to passengers too, so making them aware of corporate sustainability can help win their loyalty and give 'greener' airlines a competitive edge.

Pioneers like British Airways, KLM and Lufthansa have been publishing corporate sustainability reports since the nineties, and we see a positive trend, with more airlines publishing corporate sustainability reports. The quality and level of disclosures made in the various reports is getting better, too.

The news wasn't all good though. We believe the sector still has work to do, particularly around making reports relevant for stakeholders.

Here's a closer look at some of the specific findings of our study:

The number of airlines reporting on corporate sustainability is increasing.

We found a 15% increase in 2010 compared to 2009: of the 46 airlines in our sample, 30 filed a report. That's 4 more than did so in 2009.

There's still significant room for improvement in terms of the quality of corporate sustainability reporting in the airline industry.

We created a matrix for an 'ideal report,' with a theoretical 100% quality score if all possible bases are covered. Given that the needs of stakeholders differ, we consider any score above 80% to be an excellent report. Surprisingly, the average quality score for airlines in our sample was just 38%.

Some airlines are already doing well. Seven airlines earned an overall score of 'good' for the quality of their reporting (i.e., a score between 60% and 80%). Still, not one airline earned an 'excellent' rating (over 80%).

Around a quarter of the reports were fair in quality (scores of 40%-60%). But some reports can only be described as marginal (less than 20% of possible points). The 5 worst performers score an average of just 9% on our scale. To raise their scores, airlines need to take a comprehensive approach, integrate corporate sustainability with overall strategy and listen and respond to stakeholders.

Full integration of corporate sustainability reporting is still in its infancy.

A truly integrated report starts with company strategy and includes financial, environmental, social and governance information. It also helps the company communicate with stakeholders. All of the airlines we reviewed are falling short in at least some of these areas. For example, 23% of the airlines don't touch on economic measures at all in their corporate sustainability reports. And while 53% of the airlines have engaged in some form of stakeholder dialogue, we found that only 17% reported on the outcome.

Verification remains atypical and doesn't guarantee a comprehensive report.

37% of the reports in our sample were independently verified. While these reports are often more mature, there's still room for improvement. The average quality score of verified reports is 52%. Good advice from verifiers should help companies raise their scores.

There are many relevant corporate sustainability indicators airlines report on, but not all report on the same indicators.

We saw a wide range of indicators currently used in the industry. That's because not everyone agrees which indicators are most relevant. The development of GRI standards for the sector would be a big step forward. How can airlines best decide what to include? The first step is talking to stakeholders about what's most important.

When they do report on the same indicators, individual airlines often define them differently – so there's little to no comparability across the sector as a whole.

Take fuel efficiency and carbon emissions levels. Airlines use different data units, with some reporting in miles and some in kilometres. That's the smallest part of the problem, though, since data units are easy to convert. Underlying assumptions about how to define a passenger mile (or kilometre) differ too – and those are much less obvious to the casual reader, or sometimes not explained at all. The heart of the problem is the lack of cross-sector standards for key data parameters.

We expect corporate sustainability reporting to merge with financial reporting in the near future. Integrated reports will help stakeholders understand and compare risk and performance – and that's good news for companies and their stakeholders alike.



What can airlines do to take reports to the next level of excellence?

We've identified some key principles to enhance the quality and relevance of corporate sustainability reporting:

Airlines which clearly link their corporate sustainability strategy with overall corporate goals, vision and strategy stand out from the crowd.

Corporate sustainability reporting shouldn't be done in a vacuum. It works best when it's integrated with companies' overall targets, vision and performance.

One good way to accomplish this goal is through integrated reporting. While this may take the form of a report covering the financial annual report and the corporate sustainability reporting elements, the change needed is more fundamental than just merging two documents. Corporate sustainability can be most accurately understood in the context of a company's overall performance. A sustainable company must be economically sustainable, as well as leading on environmental and social issues.

This approach improves traditional annual reports as well, because financial reporting is increasingly dependent on non-financial measures. Issues like carbon exposure and employee diversity have an important impact on a company's risk levels and future performance – so they need to be reported alongside economic data.

That's why we expect corporate sustainability reporting to merge with financial reporting in the near future. Currently 6 of the Top 100 airlines issue an integrated report. The trend is upwards. Integrated reports will help stakeholders understand and compare risk and performance – and that's good news for companies and their stakeholders alike.

Credible, straightforward and relevant data is the foundation for strong corporate sustainability reporting.

A solid corporate sustainability report will help build trust with stakeholders. We think a credible presentation is important. It means reporting on all measures which are material – every airline should discuss fuel efficiency and noise levels, for example. This means following accepted guidelines where appropriate (60% use Global Reporting Initiative (GRI) reporting guidelines, with 17% scoring themselves an application level A) and avoiding excessive use of marketing language. Case studies which help put achievements and numbers in context can also improve a report.

Independent verification of the (integrated) report can play an important role in providing stakeholders with assurance that the corporate sustainability report is accurate, complete and unbiased – not just sales talk. It also helps improve quality.

Sector-wide standards would significantly improve reporting by making reports easier to compare.

Stakeholders will want to compare performance. It's good for everyone, as competition is the best way to encourage better performance. In order to achieve comparability, it's vital that the airline industry work together to create an industry-wide set of common standards, including reporting measures, best practices and guidance on industry-wide issues.

Building trust is the main concern for airlines. Trust in their machines, trust in their people and trust in their story. Just as many pilots have learned during their training: **AVIATE – NAVIGATE - COMMUNICATE**

Working together to define consistent sector standards should be a top priority for everyone involved in the industry, including airlines, trade organisations and potentially also regulators.

More airlines are reporting on corporate sustainability

Acting responsibly is the middle name of most airlines, which are used to stringent safety regulations and caring for customers. However they haven't always publicised their efforts. Thai Airways, for example, has a track record of over 50 years of supporting social activities. With corporate sustainability becoming increasingly important, the company has now started talking more about their achievements.

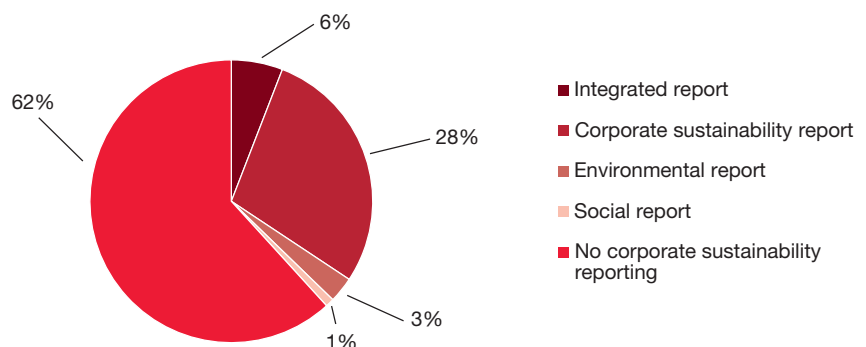
Back in 1992 British Airways became the first airline to publish a separate report on environmental measures, which became a corporate sustainability report in 2000 when social elements were added.

Eleven years later, corporate sustainability reporting has taken off. Our research shows that 38% of the Top 100 airlines publish a corporate sustainability report, including the six airlines who integrate their presentation of corporate sustainability reporting in their overall annual report and the three

airlines who publish an environmental report (see Figure 1).

For four airlines, the report considered in our analysis was their first corporate sustainability report. That's a 15% increase in corporate sustainability reporting compared to last year.

Figure 1: The level of reporting



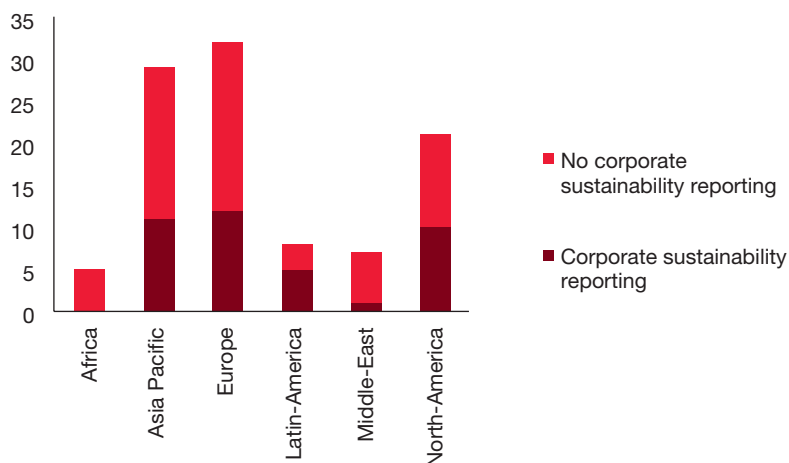
Source: PwC analysis of Top 100 airlines as reported in Airline Business

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Airlines in the Americas are reporting somewhat more on their corporate sustainability activities, compared to other regions (63% of the Latin-/South-American airlines and 45% of the North-American airlines publishes a corporate sustainability report, versus 38% in Asia and Europe) (see Figure 2).

Figure 2: Corporate sustainability reporting per geographical area



Source: PwC analysis of Top 100 airlines as reported in Airline Business

Right now most reporting is voluntary. But governments around the world are increasingly looking at making elements of corporate sustainability reporting mandatory. Companies who are already reporting will have a significant head-start.

Their increased focus on sustainability may cost money in the short run, but it will lead to value creation in the long run. Airlines that deal strategically with the environmental impact of their business will have a major advantage when resources get scarcer, climate change impacts more severe and regulations become stricter. The same goes for social reporting, where in several regions it's becoming more and more difficult to find high-quality employees.

Excellent sustainability reporting is integrated, relevant and verified

How are airlines doing? Some are already well on their way – but there’s still a lot of upward potential.

Our benchmark sample included 46 airlines (see Methodology and sample). We took a closer look at the corporate sustainability reports of the 30 of these who are currently reporting and scored each report against a comprehensive set of criteria in areas like relevance, clarity, reliability and stakeholder engagement, among others.

A report that meets all of our criteria could score a theoretical 100%. In practice, we believe that anything above 80% would represent an excellent score. Reports in the 61%-80% range we classified as ‘good’. These reports are hitting a lot of the right measures, but could still improve.

Overall, seven airlines earned an overall score of ‘good’. Not one airline scored ‘excellent’. Another quarter of the reports were fair in quality (scores of 41%-60%), but the 5 worst performers scored quite low, with an average of just 9%.

How did the best reports stand out? The high performers in our sample did a particularly good job of profiling their company, using a consistent corporate social responsibility policy, providing clear data and engaging in a dialogue with stakeholders (see Figure 3). We found that getting the data right is more straightforward than making sure that

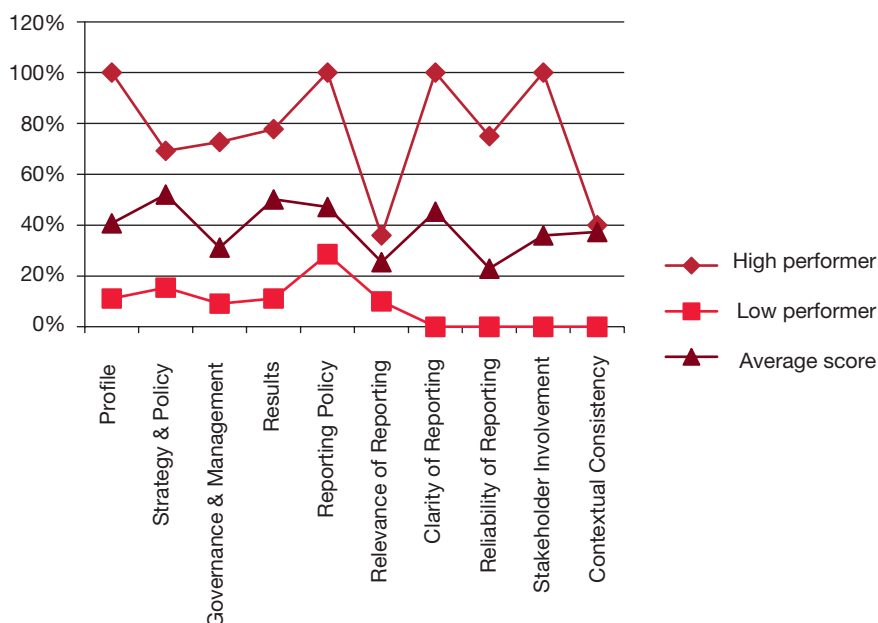
it’s truly relevant and putting the report in the appropriate context. Even the best performers in our sample score lower in these areas.

How can airlines bring reporting quality up to the next level? We think integration, comprehensiveness, verification and stakeholder dialogue are the keys to company-level improvement.

The 7 highest quality reports: (in alphabetical order)

Air France KLM
Delta Air Lines
Iberia
LAN Airlines
Lufthansa
Southwest Airlines
UPS

Figure 3: Airlines' performance on elements of corporate sustainability reporting



Company strategy needs to be the starting point of any corporate sustainability report. This is one area where some airlines can still improve their performance.

Integrating corporate and corporate sustainability strategy and governance leads to better reporting

We found that high quality corporate sustainability reports generally connect the company's overall strategy to its corporate sustainability strategy. These airlines report clearly on their corporate goals and vision and explain how their environmental and social strategies help the company's overall profitability.

This approach is not yet the norm. Only 40% of the corporate sustainability reports we studied provide a specific explanation of the relationship between corporate strategy and the corporate sustainability strategy.

Most reports don't make a direct link to the positive effect on profit from efficiency improvements resulting from

sustainable practices. And while it is possible to argue that higher profit margins can lead to more available resources for reinvestment into the business and rewarding employees, these benefits don't get discussed at all.

Managing and monitoring the execution of the corporate sustainability strategy is just as important as defining it. Good corporate governance should provide the company's leadership with incentives to ensure the interests of the various stakeholders are pursued and that help facilitate effective monitoring.

Some airlines take steps to ensure good corporate governance, for example by making (senior) management accountable for meeting targets and reporting on the corporate sustainability 'key performance indicators' (KPIs) the company has defined. Airlines may also want to consider if trying certain

KPIs, for example around specific diversity metrics or emissions levels, to performance-based pay for executives could further strengthen performance.

What's always critical is making sure that corporate sustainability issues are addressed at the highest levels of the company. That means the executive with overall responsibility should be sitting in the C-Suite. CFO's experience in financial reporting may lend itself to making sure that the corporate sustainability reports created under their supervision are accurate, complete and relevant. Making the CFO responsible also helps when companies look to link financial data with corporate sustainability issues.

"The need for consistent and transparent reporting is indisputable. It's inextricably linked to all the actions you take and all the efforts you make to drive your corporate sustainability programme."

Inka Pieter
Head of KLM CSR & Environmental Strategy

Several airlines issued their corporate sustainability report six to twelve months after the end of the reporting period. More timely reporting would have a bigger impact.

Taking the next step: an integrated report

For many companies, the next step is publishing an integrated report. Such a report puts a company's entire business into context. Corporate sustainability strategies can be understood better in the context of a company's overall performance. Some companies also use their website or other communication channels to present additional, detailed information or more frequent updates on important sustainability projects or goals. Making information available through more than one platform helps companies get the message out about their corporate sustainability activities.

That's important because non-financial measures are becoming more and more critical for the broad set of stakeholders involved in corporations. Non-financial information can help shareholders to estimate risks involved in operations. It can help (potential) employees assess their career perspectives. And it can guide suppliers towards new products and services. The (integrated) annual report of the future will serve all stakeholders, from shareholders to employees, customers, suppliers, competitors, airports, environmental organisations, labour unions and many more.

Currently 6 of the Top 100 airlines publish an integrated report. Notable examples include Iberia in Spain, Southwest in the US, SAS in Sweden and Qantas in Australia.

There's another key benefit to integrated reporting. It forces a company to report on corporate sustainability elements on the same schedule as financial reporting, so results are published sooner. Several of the airlines in our sample issued their corporate sustainability report six to twelve months after the end of the reporting period. More timely reporting represents a significant opportunity for privately owned airlines, or those considering privatisation, because the number of users of corporate information around non-financial factors is increasing.

With the establishment of several green indexes like the Dow Jones Sustainability Index, the S&P US Carbon Efficient Index, STOXX Global ESG¹ Leaders and the FTSE4Good ESG Ratings, investors can now include environmental, social and governance factors in their investment decision making process.

¹ Environmental, Social and Governance

Investors are considering emissions too. Independent, not-for-profit organisations like the Carbon Disclosure Project (CDP) and the Environmental Investment Organisation (EIO) are encouraging companies throughout the world to measure, manage, disclose and ultimately reduce their greenhouse gas emissions. These standards aren't always based on the same CO₂ results and monitoring methodologies though.

How can companies make sure they have all the data they need to meet investors' needs and comply with emerging regulations? Using standardised reporting formats is a good start. These let users of corporate sustainability information analyse data more easily. GRI has already started with the development of an XBRL taxonomy. Companies using XBRL can tag the sustainability data in their reports (see *What is XBRL?*). That in turn helps investors, auditors and other users access and compare GRI data points more quickly and easily.

So if airlines start by tracking the data needed to meet the most rigorous standards (for example, flight level emissions), they can use it to create the reports needed for other uses.

These types of technologies should also help companies in the shift towards integrated reporting, by improving the data collection process.

What is XBRL?

XBRL is an XML based internet language (like HTML), which allows tagging of data. By standardising the tags through a so called taxonomy, a standard dataset is created, allowing users to easily extract needed data from a report. A tag "Overall CO₂ emission – Scope 1" would extract the Scope 1 CO₂ emissions from a report. An analyst comparing a large set of reports can easily request a report showing the Scope 1 emissions for all XBRL reports. This facilitates and speeds up the analysis process and will improve quality, as analysts don't have to copy information from PDF or hardcopy documents anymore.

Refer to <http://www.xbrl.org> for more information.

What is GRI?

The Global Reporting Initiative (GRI) is a multi-stakeholder organisation that pioneered the world's most widely used sustainability reporting framework.

The Reporting Framework sets out the Principles and Performance Indicators that organisations can use to measure and report their economic, environmental, and social performance.

The cornerstone of the Framework is the Sustainability Reporting Guidelines. The third version of the Guidelines – known as the G3 Guidelines – was published in 2006. The fourth generation guidelines are currently being developed and are expected to be published in 2013.

Source: <http://www.globalreporting.org>

Making sure the corporate sustainability (or integrated) report is comprehensive and relevant

How should airlines decide what to include in a corporate sustainability report? We believe it's important to cover all the bases. That means environmental and social measures are important, but so is economic and corporate governance information. There aren't as many precedents for corporate sustainability as there are for financial reporting, which has been around – and mandatory – for many years. Corporate sustainability is still voluntary in most countries.

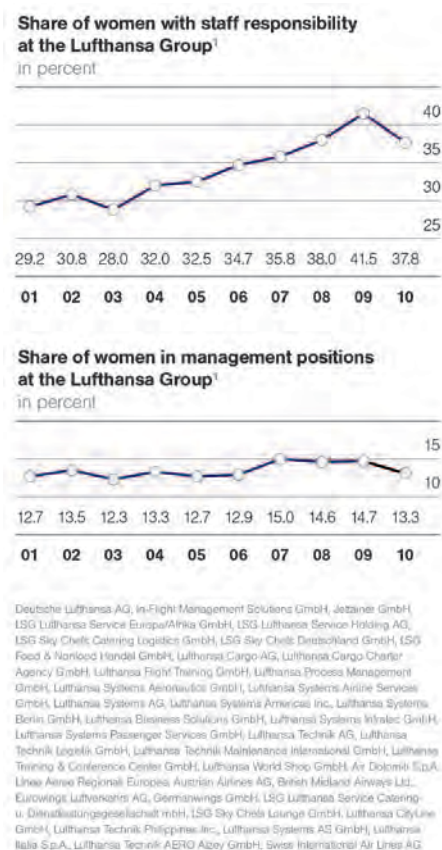
Applying reporting guidelines like the G3 guidelines of the GRI, AccountAbility's AA1000 framework, the Accounting for Sustainability project or ISO 26001 help the readers of a corporate sustainability report understand the basis for reporting. It also gives guidance to the preparers of the reports to ensure quality and comprehensiveness. The most widely-used guidelines now available are the GRI reporting guidelines (see *What is GRI?*).

The majority of the airlines (60%) in our sample (see Methodology and sample) which publish an annual corporate sustainability report use the GRI G3 guidelines as a basis. We found that airlines applying GRI guidelines in their corporate sustainability reporting tend to publish higher quality corporate sustainability publications. However, the use of GRI guidelines is no guarantee for higher quality of reporting.

How much 'hard data' do airlines' corporate sustainability reports include? Less than you'd think. Many airlines are quite vague about their actual accomplishments. On average the airlines covered well under half of the measures that we believe are relevant for stakeholders.

Reports which include detailed overviews of their results in well-organised tables or extensive graphs stand out. For example, Lufthansa provides clear charts showing the percentage of women with staff responsibility and in management positions as part of their social reporting (Figure 4).

Figure 4: An example of a clear presentation of statistical data in a corporate sustainability report



Source: Lufthansa Sustainability Report 2011

Facts and figures are important, but so is qualitative information about company performance in relation to its strategy and goals. This is one area where case studies can tell vivid stories about how strategic goals are being implemented in daily operations. One good example is the information Emirates includes about how route improvement programmes are helping the airline fly more efficiently (see *How Emirates is implementing Route Improvement Programmes*).

Responding to stakeholder concerns

When airlines explain how their actions impact various stakeholders they take the first step towards entering into a productive dialogue. Listening is important too, and so is taking action to address the issues most important to those placing their trust in the company. When UPS designed their first sustainability report in 2003, they came up with a structure that covered every internal stakeholder in the company. That helps the company make sure their report talks about the issues that are most relevant. And they're consulting with external stakeholders too (see *How UPS is listening to stakeholders – 'A Year of Dialogue'*).

When we looked at how airlines report on stakeholder interactions, we found that many are falling far short of what we see as the ideal case. That's where airlines start by defining who their stakeholders are and why they're important. The next step is to show how they're meeting stakeholders needs, including a description of how they enter into dialogue with them. Finally, reports should let readers know exactly how the company responded.

How UPS is listening to stakeholders – 'A Year of Dialogue'

In *Sustainability is ... Sustainability at UPS 2010*, Lynnette McIntire, UPS's Director, Global Reputation Management, describes how the company consulted with its stakeholders as part of expanding the sustainability programme.

UPS asked stakeholders about their expectations of T&L companies and what makes a sustainability leader. They also wanted to know which public policy issues, key performance indicators and metrics were most important, and how the company should engage with NGOs, customers and others.

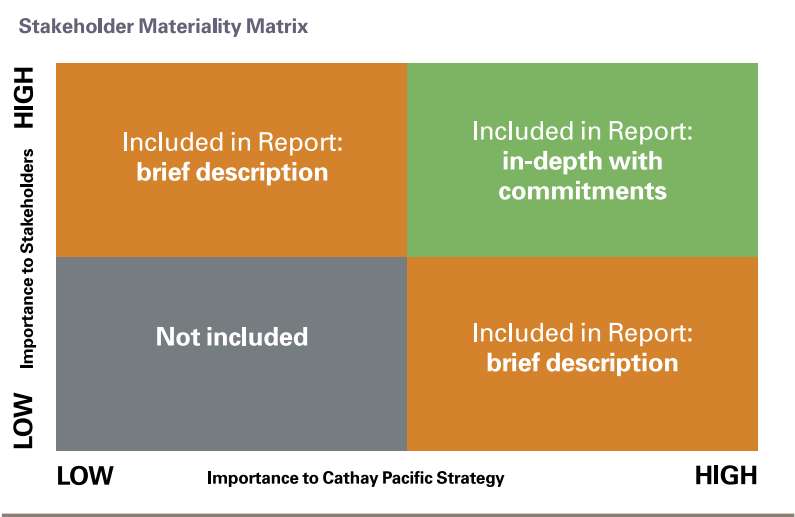
UPS heard from stakeholders that comprehensive reporting is critical to maintain their respect. They see leadership in terms of innovation, change and impact. When it comes to the T&L industry as a whole, the sector is generally well-respected but faces major challenges in the areas of fuel conservation, addressing climate change, investing in clean energy and widespread adoption of alternative fuel fleets. Most of the stakeholders UPS talked to had only limited knowledge of the company's sustainability initiatives. That encouraged UPS to be more aggressive about communicating its current activities. The company will also look for more programmes that demonstrate innovation, change and impact beyond UPS in order to keep its leadership position.

“Growth for LAN is closely related to commitment to stakeholders. It’s one of the key pillars of our sustainability strategy and enables us to fulfil our vision to be evaluated as one of the Top 10 airline companies of the world.”

Enrique Cueto
CEO, LAN

One good way to show how different strategy elements affect various stakeholders is to use a materiality matrix. That's a visual representation of how the company plans to address issues that are important to key stakeholders. A materiality matrix can be used both to help decide on corporate sustainability priorities and to present them externally, as Cathay Pacific has done in the chart below (see Figure 5).

Figure 5: Cathay Pacific stakeholder materiality matrix



Source: Cathay Pacific Sustainability Report 2009

Verification shows you're confident in company data – and verifiers are in a great position to help their clients improve

We think independent verification is an important way of showing stakeholders your company is confident that data is accurate and complete. In many countries it's mandatory for financial reporting, but only just over a third of the airlines we studied go this extra step to build trust in their corporate sustainability reporting.

That's partly because many airlines have only started issuing a report in the last few years. We've found that companies tend to wait a few years to get their systems fine-tuned before having reports verified. Verified reports tend to be more mature. Still, with an average score of just 52%, there's room to make these reports a lot better. We believe that independent verifiers should act responsibly and talk to their clients about the relevance and comprehensiveness of their corporate sustainability reports.

37%
of the corporate sustainability reports we reviewed were independently verified

The time has come for sector-wide standards

Even great reports won't meet all the needs of investors and other stakeholders until airlines work together as an industry and agree on sector-wide standards.

While generic guidelines are a good start, it's also important to tailor reporting to specific industry sectors. Airlines need to work together to make sure that there is consistency around the most important measures for the sector.

Currently it's very difficult to directly compare airlines' reports. Let's say you're a consumer – or a corporate travel manager – who wants to fly with the “greenest” airline. With one airline reporting carbon dioxide (CO₂) emissions in kg CO₂/ 100 PK², whereas another airline reports in g CO₂ / RPK³, you'll be hard-pressed to decide which is emitting less CO₂. Most of the airlines we looked at report in metric units (e.g. liter per tonne-kilometre), but not all. We think using metric units across the board makes sense, as they are the most widely used globally.

Units of measurement are just the tip of the iceberg though. Only a very limited number of airlines explain the underlying assumptions of their calculations in their glossary or methodology description. An airline which uses a **planned** distance to calculate emissions per passenger-kilometre can't be compared to another airline which uses **actual** distance.

There are a whole range of areas where sector agreement would improve reporting for everyone. It's already happening in some related industries; in June 2011, GRI issued a tailored version of the G3 guidelines for airport operators.

We're not the only organisation calling for more sector specific guidance. IATA agrees – and they're taking steps to support airlines in managing their environmental performance (see *IATA Environmental Assessment (IEnvA)*). Standards for new aircraft are under development too (see *CO₂ Standard for new aircraft*).

There will certainly need to be debate to agree on how to measure key indicators and which indicators are most important. We think that's healthy for the industry and its stakeholders.

IATA Environmental Assessment (IEnvA)

In June 2011, IATA commenced the development of a new, sectoral-based environmental management system (EMS). The IATA Environmental Assessment (IEnvA) Program will be an independently certified EMS designed to assess and improve the environmental performance of an airline including best practice for environmental standards, monitoring, management and reporting.

CO₂ Standard for New aircraft

The International Civil Aviation Organization (ICAO), with support from the wider aviation community, is developing a global carbon dioxide (CO₂) standard for certification of new aircraft aimed for adoption by 2013. The new standard would include an approved methodology and CO₂ metric, under specified reference conditions.

² Kilogrammes CO₂ per 100 passenger kilometres

³ Grammes CO₂ per 100 revenue passenger kilometres

A closer look at corporate sustainability reporting indicators

Corporate sustainability reporting needs to include environmental, social, economic and corporate governance data. For many companies, environmental indicators are getting the most attention. That's partly because the upcoming inclusion of airlines flying to and from Europe in the EU Emissions Trading System (EU ETS) is firing interest in emissions data. Most airlines also have a strong focus on improving fuel efficiency, and some are piloting the use of biofuels. Still, even in the environmental area, there are significant gaps.

When it comes to social indicators, many airlines are including key issues in their reports, but they often don't reference concrete data. Economic indicators and corporate governance tend to get even less attention. Let's take a closer look at each area.

Environmental reporting

Airlines' activities affect the environment. Emissions and noise are the two areas which are the most visible, but water usage and waste are important too.

The airline industry as a whole has ambitious goals to reduce emissions, as documented in the IATA's report, *A global approach to reducing aviation emissions – First step: carbon neutral growth from 2020*. These include collective commitments to cap aviation CO₂ emissions starting in 2020 (carbon neutral growth) by achieving an average improvement in fuel efficiency of 1.5%

per year from 2009 to 2020, and reach a reduction in CO₂ emissions of 50% by 2050 relative to 2005 levels.

There's a whole range of possible responses to help achieve these targets. The IATA's 'four pillars' focus on improving technology and operations, as well as infrastructure and developing new economic instruments. And many airlines are working together with aircraft manufacturers, airports and governments to make some of these a reality (see *How Emirates is implementing Route Improvement Programmes* and *How KLM is flying into the future on used cooking oil* for just two examples). Many other airlines have similar programmes underway.

How Emirates is implementing Route Improvement Programmes

In *The Emirates Group Environmental Report 2010/2011*, the company describes how the airline is working together with air transport authorities around the world and taking a leading role in the negotiation of new flight paths or 'flexible tracks' to reduce fuel burn, emissions and flight times.

By continuously analysing meteorological factors during a flight, Emirates has the ability to identify and exploit strong tail winds, or avoid unfavourable conditions. Moving away from the restrictions of a system of fixed flight paths means the company can implement an approach to route planning that adapts to actual airspace conditions.

Once the new routes are evaluated and approved by relevant authorities, they are available for all airlines to use, representing significant ongoing savings in fuel and carbon emissions for the aviation industry.

How KLM is flying into the future on used cooking oil

KLM's press releases describe how the company is pioneering commercial biofuel flights. KLM started with a series of flights operated partly on biokerosene. The flights will be operated on biofuel made from used cooking oil. That adds up to substantial reductions in CO₂ emissions and minimum negative impact on biodiversity and food supply. All biofuels used by KLM also have to meet precisely the same technical specifications as traditional kerosene and must not require any adjustments to aircraft engines or infrastructure.

Yet 30% of the airlines in our sample (see Methodology and sample) don't report their total CO₂ emissions. Even more – 60% – fail to report on NO_x emissions (mono-nitrogen oxides). Reporting on unburned hydrocarbon (UHC) emissions is rarer still, with only 17% reporting these. Fuel dumps are another important environmental measure but only 23% disclose them. We think companies should report CO₂ and NO_x at a minimum, and preferably all four measures.

Emissions are closely linked to fuel efficiency, which is also essential to an airline's overall cost base. So we found it quite surprising that 33% of the airlines we studied don't include any measures of fuel efficiency in their corporate sustainability report. For those that do report fuel efficiency, the level of detail varies widely – and so do the definitions of how data is calculated. This is one area where we feel that industry-wide standards are urgently needed.

The airlines reporting on their fuel consumption and CO₂ emissions generally also include disclosures on their improvement measures. The most frequently noted improvement measure

is the investment in new technologies, mainly new generation aircraft. Many also talk about efficient flight planning, one-engine taxiing and descent approaches.

Still, a lot of airlines are still lagging behind best practice. The majority only report on direct CO₂ emissions (see Figure 6). More and more, reporting on Scope 2 and Scope 3 emissions – those purchased or produced indirectly – is seen as the gold standard for accountability.

About 40% of the airlines in our sample disclose their water and electricity consumption (see Figure 7). Around 40% report on waste, and a similar number of airlines have a waste recycling programme. Most airlines which report on waste also include qualitative disclosures on their waste programmes. We believe that water consumption and waste efforts should be part of every company's reporting. Collecting and publishing data on electricity consumption also makes sense, particularly for companies looking to report on Scope 2 emissions.

Figure 6: Scope of emissions reporting

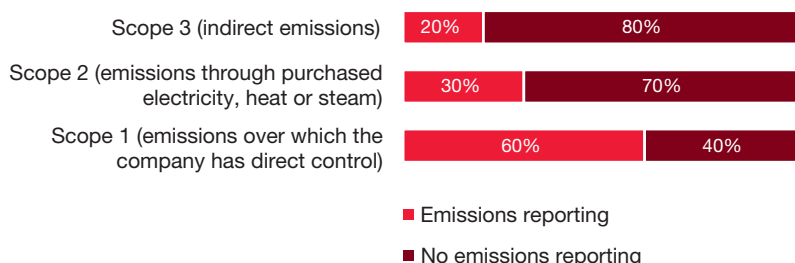
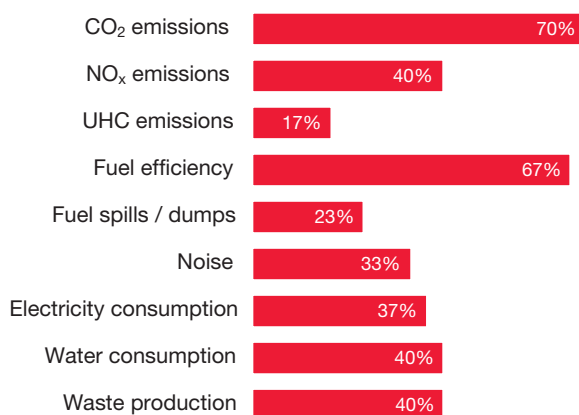


Figure 7: Percentage of airlines reporting on various environmental measures



Another major concern for airlines' stakeholders is noise levels at landing and take-off. That's an area where airlines can work together with airports on monitoring and working to reduce noise levels. Around a third of the airlines we studied reported on noise levels in their corporate sustainability reports.

Social reporting

Social reporting can be a great way for airlines to reach a whole range of stakeholders, including employees, customers and the communities they impact. Lots of airlines include this information, but they don't always target ways to improve. Only 43% of the airlines include forward looking objectives about the social aspects of their operations in their sustainability reports.

Employees get a lot of attention in social reporting. Still, around 40% of the airlines don't comment on their internal social policies and procedures like employment conditions, working conditions, human rights and safety.

Most airlines would agree that customers are critical, and around half report the number of passengers transported. Yet when it comes to some of the areas that affect customers most, like lost baggage and service disruptions, reporting is spotty at best. Only around a quarter of the airlines report on customer complaints generally and just 10% of the airlines give details about lost baggage.

Other areas that limit customer satisfaction, like service disruption and safety incidents involving customers, also didn't get much attention. And while it may make sense to focus on the positive, including data on negative issues like these can also help a company document progress over time – and potentially stand out from the competition.

Airlines are more forthcoming about their involvement in the community. 77% of them did report on how they're actively promoting social projects, for example around education, culture or health, promoting volunteering, providing pro bono services or sponsoring social activities.

How American Airlines is engaging with employee stakeholders

In American Airlines' online sustainability report, they describe the company's Employee Resource Groups. Made up of employees from a wide range of cultural backgrounds and experiences, these groups give employees a way to provide guidance on AA's internal policies, communications and marketing initiatives.

An example: In 2010, the Asian-Pacific Islander Employee Resource Group, or APIERG, played a pivotal role in opening up the company's new Asian routes. Group members served as translators at meetings and events. They provided training and cultural advice to flight attendants and other employees who would be coming into contact with customers on the new routes, to help them better understand and address customer expectations in an unfamiliar culture. The group even helped design in-flight menus for the new routes. APIERG also helped market the inauguration of the routes.

“SAS has been publicly reporting on environmental issues for nearly two decades and currently publishes an integrated report based on GRI. We now see reporting moving in a direction where the social responsibility element is rapidly gaining importance.”

Lars Andersen Resare
Director Environment & Sustainability, SAS

Economic reporting

While most of the corporate sustainability reports included in our study do cover one or two financial measures, overall they don't pay much attention to the economic aspects of sustainability. The majority of airlines do report on the financial results of the company, but 23% of the airlines don't report on economic measures at all (see Figure 8). The measures most frequently disclosed are net revenues and net profit (see Figure 9). Other reporting measures include operating income, profit before tax and margin figures.

Even those companies that do report limited economic information generally don't include the non-financial elements of economic reporting. Issues like the prevention of bribery and corruption, fair competition and pricing, the impact on the labour market and the impact of investments and divestments (including acquisitions and divestments of business units) aren't usually talked about, even though the information is critical for stakeholders of privately owned airlines who want to assess the risk profile of the company.

Governance and management approach

We found that corporate governance in general received little attention in corporate sustainability reporting. Many airlines do report on high level corporate governance elements like the board structure and a description of what different governance bodies do. Very few connect this information directly to corporate sustainability, though. For example, only 10% of the airlines we studied told us that how executives get paid also depends at least in part on corporate sustainability results. And none of the airlines actually quantifies the impact of corporate sustainability on how much executives take home.

Monitoring and controlling activities are an important aspect of how an organisation is managing sustainability. These are as critical for corporate sustainability activities as they are for financial measures, so it's important that companies describe their processes and how they embed them into the management system. Only six of the 30 airlines issuing reports included information on monitoring and controlling.

Figure 8: Number of financial measures reported in corporate sustainability reports

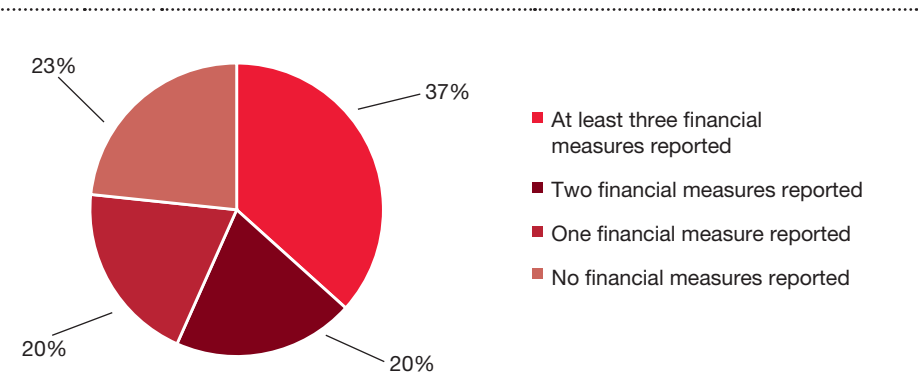
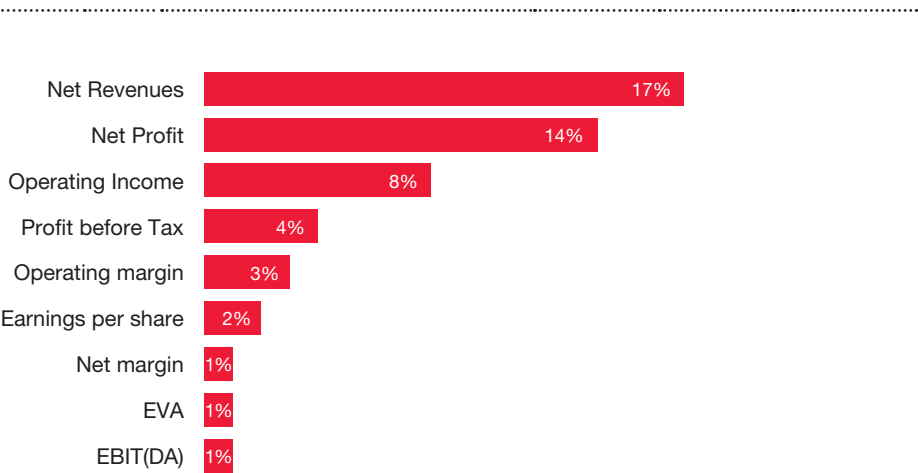


Figure 9: Financial measures included in corporate sustainability reports



0%

Airlines disclosing quantitative information on the impact of corporate sustainability on how much executives take home

The future of airline corporate sustainability reporting

Airlines contribute enormously to global prosperity. In August 2011, the US Department of Transportation's Federal Aviation Administration (FAA) estimated that civil aviation supported over 10 million jobs, contributed US\$1.3 trillion in total economic activity and accounted for 5.2% of total US Gross Domestic Product (GDP) in 2009. Considered globally, the industry's impact on the world economy is staggering.

It's not just a factor in mature markets like the US. Air travel in emerging markets in the Middle East and Asia is growing fast. Dubai is making its name as a transportation hub linking east and west, and both the Indian and Chinese governments are counting on aviation to help keep their countries' economic growth on an upward trajectory.

There are major challenges though, especially around environmental issues. Balance is key. And so is good sustainability reporting that takes a holistic approach.

What will the best airline corporate sustainability reports look like in the future? For one thing they won't necessarily be separate reports. We expect corporate sustainability reporting will most often be integrated with traditional annual reporting and verified by an independent third-party.

Outstanding reports will use established guidelines like those published by GRI, supplemented by sector standards. New tools like XBRL will help make sure that data can be generated accurately and quickly, and make it available for analysis by external parties.

They'll be relevant for a broad audience. Stakeholder concerns, and how the airline is addressing them, will be clearly described. Great sustainability reports will use case studies and qualitative data to help bring the facts and figures to life, but they'll avoid overly-flowery sales talk.

Most of all, they'll help support airlines in making their businesses more sustainable. That's good news for everyone, from investors to regulators. And the next generation of travellers will appreciate it too.



Methodology and sample

To make sure we had a solid coverage of all geographies, we also added other companies from the top 5 airlines for all regions (Africa, Asia-Pacific, Europe, Latin America, Middle-East and North-America). And we've included the Top 5 low-cost carriers and the Top 5 (pure) cargo carriers to make sure those segments are covered. That created an overall sample of 46 airlines, 30 of which published a corporate sustainability report in 2010/2011 (as of August 2011).

We gathered data from the latest publicly available corporate sustainability reports as posted on company websites as of August 2011. We included social reports, environmental reports, sustainability reports and integrated reports, as available. We have not considered other corporate sustainability sources, such as information on corporate websites, where these are not part of an official corporate sustainability report which covers a specific timeframe. Our methodology focuses on a number of core elements of corporate sustainability reporting, including:

General business profile: to what extent the company describes its general profile, including company structure, activities, brands, countries it operates, etc.

Strategy and policy: how does the company describe its sustainability policies and to what extent is the sustainability strategy integrated in the overall strategy.

Governance structure and management approach: describes to what extent the various governance bodies are involved, how the monitoring and control of corporate sustainability activities is set up, which incentives are in place, etc.

After talking with airlines worldwide about EU ETS, we wanted to understand how well the industry stacks up in terms of reporting on corporate sustainability. To find out, we took a close look at the Airline Business Top 100 airlines by revenue, as published in August 2011. As the majority of the airlines reporting on corporate sustainability are included in the Top 25, we have taken this as the starting point for our sample.

Results: from a qualitative perspective, to what extent is the company reporting on economical, social and environmental aspects.

Corporate social reporting policy: does the company use corporate sustainability reporting standards or guidelines, is the scope of the report clearly defined, are methods of measuring, calculating and estimating disclosed, etc.

Relevance of reported measures: are the measures that a reader would expect disclosed (e.g. fuel efficiency, greenhouse gas emissions, waste, noise, number of passengers, number of safety incidents, etc.).

Clarity of the report: focuses on the structure of the report and the extent to which key indicators are defined.

Reliability of the report: focuses on external verification of the report.

Stakeholder involvement: describes the company's process of identifying stakeholders and engaging in discussions with stakeholders.

Contextual consistency: focuses on the extent the report fits in the broader picture of the industry, the state of the economy, the company's overall strategy, etc.

The overall score per airline is calculated as a percentage. The maximum score would be 100% if all elements considered in our questionnaire are disclosed in the report. The overall scores are interpreted in the table below.

When we discuss specific reporting trends in this paper, we are generally referring to the 30 airlines in our sample who have published a corporate sustainability report. We've clearly indicated the source when findings are based on a different sample (such as the full Top 100 list of Airline Business or the 46 airlines included in our total sample).

The airline industry has undergone some significant consolidation recently, with the mergers of United and Continental, British Airways and Iberia, and LAN and TAM. As the most recent data available for these newly formed groups still consists of separate corporate sustainability reports, we have included these individual airlines in our sample separately. The consolidated data informs the conclusions presented in this publication.

To learn more about the findings and discuss how your airline stacks up, please refer to the following section for our contact details.

Overall scoring range	Classification
0-20%	Marginal reporting
21-40%	Reporting has significant room for improvement
41-60%	Fair reporting
61-80%	Good reporting
81-100%	Excellent reporting

The following airlines are included in our analysis:

Airline	Airline Business Top 25	Regional Top 5	Cargo Top 5	Low cost carrier Top 5
AeroMexico		X		
Air Berlin				X
Air Canada	X			
Air China	X	X		
Air France-KLM	X	X		
AMR Corporation	X	X		
ANA Group	X	X		
Atlas Air			X	
Avianca		X		
Cargolux			X	
Cathay Pacific	X	X		
China Eastern Airlines	X			
China Southern Airlines	X			
Delta Air Lines	X	X		
EasyJet				X
EgyptAir		X		
El Al Airlines		X		
Emirates	X	X		
Ethiopian Airlines		X		
Etihad Airways		X		
FedEx	X	X	X	
GOL Transportes Aereos		X		X
International Airlines Group (British Airways)	X	X		
International Airlines Group (Iberia)	X	X		
Japan Airlines Corporation	X	X		
Kenya Airways		X		
Korean Airlines	X			
LAN Airlines		X		
Lufthansa Group	X	X		
Nippon Cargo Airlines			X	
Qantas	X	X		
Qatar Airways	X	X		
Royal Air Maroc		X		
Ryanair				X
SAS Group	X	X		
Saudi Arabian Airlines		X		
Singapore Airlines Group	X			
South African Airways		X		
Southwest Airlines	X	X		X
TAM Linhas Aereas	X	X		
Thai Airways	X			
THY Turkish Airlines	X	X		
United-Continental Holdings (Continental)	X	X		
United-Continental Holdings (United)	X	X		
UPS			X	
US Airways	X			

PwC team

Our goal in conducting this comparative analysis was to gain an insight into the quality of corporate sustainability reporting in the airline industry and to help the industry improve. We're happy to discuss any corporate sustainability reporting and sustainability related matters with you personally. That could include taking a closer look at how your company compared to the overall sample, if your company is one of the 46 we studied (see Methodology and sample). Please contact the editorial team or just call your local PwC office.

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