FINANSTILSYNET
THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

Report

SURVEY OF COMPANIES' SUSTAINABILITY REPORTING

2020

CONTENTS

INTRODUCTION

Access to information is a prerequisite for market participants to be able to assess and price risk correctly, and for capital markets to function effectively. Disclosing relevant, consistent and material information on sustainability will give users of financial reporting a better basis for making decisions. High-quality sustainability reporting is necessary to enable stakeholders[1] to assess the impact the company has on society and the environment, and how sustainability affects the companies' risk assessments and decision-making processes.

Finanstilsynet's survey includes 209 listed companies, of which 193 have completed the questionnaire. The survey covers the reporting of sustainability information and climate risk and is based on the requirements of the Accounting Act, Section 3-3 c on social responsibility reporting. The survey also takes into account the content of EU legislation that has not yet been implemented in Norwegian law but is expected to enter into force shortly.

The sustainability reporting should include both qualitative and quantitative information and provide explanatory and supplementary information about the company's ability to manage material risks and to generate future earnings. This information may affect the value of the company's assets and the pricing of the company.

The survey covers how the companies work with sustainability reporting, what information they report and how this information is presented. The survey is based on self assessments of the sustainability reporting for 2019 to Finanstilsynet.

This report presents an overall picture of current reporting practices, and Finanstilsynet will consider further supervisory activity based on the observations from this survey. The objective of this report is to provide guidance for the companies in their further work on sustainability reporting.

Results from the survey

The questionnaire was distributed to 209 listed companies, of which 193 responded. The questions addressed a number of issues related to sustainability reporting in general and to climate risk reporting in particular.

Key findings from the survey:

- 36 companies do not report sustainability information.
- Only seven companies give affirmative answers to all the questions about sustainability.
- Only eight companies give affirmative answers to all the questions about climate risk reporting.
- Many companies have a sustainability strategy and processes that have been endorsed by their board of directors and management.
- Little information is provided on risk and materiality assessments.
- Few companies report the financial consequences of risks related to sustainability and climate change or take this into account in the valuation of assets and liabilities.
- Climate risk reporting is limited, and the risks are generally not quantified.

[1] By 'stakeholders' is meant all parties that have an interest in the company, for example investors, customers, suppliers, employees, authorities, consumers, special interest organisations, local communities and others.

The survey addressed the following issues related to sustainability in general

Business model and sustainability strategy

- given a description of the company's sustainability strategy
- accounted for how the sustainability strategy is linked to the company's business model
- established policies and procedures that integrate sustainability into the business
- accounted for the outcomes of the company's work on sustainability

Sustainability risk assessment

- established processes to identify, manage and monitor sustainability risk
- involved the board of directors and/or management in the process of identifying, managing and monitoring sustainability risks
- accounted for the sustainability risks that have been identified as relevant for the company, and for how such risks are managed and monitored
- accounted for how identified sustainability risks affect, or may affect, the company's business model, activities, outcomes and financial position
- specified the time horizon of identified sustainability risks in the short, medium and long term

Materiality in the context of sustainability

- conducted materiality assessments relating to identified sustainability risks
- based its risk assessment on financial and environmental materiality
- accounted for how materiality is assessed
- accounted for financial materiality
- used a materiality matrix

Sustainability KPIs

- used KPIs (key performance indicators) in the company's sustainability reporting
- used KPIs relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters
- involved the board of directors in decisions on which KPIs are of relevance to the company
- accounted for the use of KPIs:
    - *explained why the KPIs used are relevant*
    - *defined the KPIs used*
    - *described the method used to calculate KPIs and the assumptions underlying the choice of KPIs*
    - *described which part of operations is covered by the calculated KPI*
    - *described how each KPI is linked to the company's goals*
    - *described the historical development in KPIs*
    - *explained changes in the calculation of KPIs and the assumptions underlying the choice of KPIs*
- linked own KPIs to international, national, industry-specific and/or company-specific goals

The survey addressed the following issues related to climate risk

Climate risk

- established processes to identify, manage and monitor climate risk
- involved the board of directors and/or management in the process of identifying, managing and monitoring climate risk
- accounted for the climate risks that have been identified as relevant for the company, and for how such risks are managed and monitored
- accounted for whether identified climate risks are in the form of physical risk or transition risk
- accounted for how the company's activities affect the external environment, including the climate
- accounted for how climate risk affects, or may affect, the company's business model, activities, outcomes and financial position
- specified the time horizon of identified climate risks in the short, medium and long term
- quantified the financial consequences of climate change

Finanstilsynet’s observations

The survey has highlighted some key observations that can contribute to improving sustainability reporting and to providing decision-makers with useful information. The observations may be of use to the companies in their further work to ensure that future reporting provides relevant, consistent and material information. It is essential that the processes related to the company's sustainability reporting are endorsed by the board of directors and management and are integrated into the business.

Finanstilsynet's observations are summarised below and can be considered by the companies to improve their sustainability reporting.

The information should be presented in a consistent manner in the same section in the report, with a clear link to financial information.
- *to ensure that the information is easily accessible and comparable over time.*

To achieve this, the company may need to
- present the information the same section in the report
- present information in tables with references to where relevant details can be found
- ensure consistent use of terms
- explain how non-financial information affects financial information in cases where it has a quantifiable effect

An adequate description should be given of the company's business model.
- *to ensure a thorough understanding of the company's value creation.*

To achieve this, the company may need to
- give a clear and comprehensible description of the company's operations, value creation and expected development, including a description of the company's operating environment
- link the company's sustainability strategy to its business model
- account for the impact of the company's activities on its surroundings, and vice versa account for the outcomes of the company's sustainability strategy once such outcomes are available

The information provided should be relevant and material.
- *to ensure that the information is of use to decision makers.*

To achieve this, the company may need to
- provide relevant and material information, without increasing the volume of information
- assess whether the information currently provided is material and relevant for the company's operations
- conduct a materiality analysis taking into account the interests and expectations of relevant stakeholders
- rank material risks and opportunities identified by the company in a systematic manner, for example by using a materiality matrix, and indicate the time horizon of the risks
- conduct a materiality assessment of both financial and environmental issues

The KPIs that are used should be relevant and clearly defined.

- *to ensure transparency and comparability.*

To achieve this, the company may need to

- establish relevant and clearly defined KPIs
- explain why the selected KPIs are relevant for the company, describe the method used to calculate KPIs and the assumptions underlying the choice of KPIs, and describe which part of its operations is covered by the KPIs
- use KPIs that are identical to those used by the company's management for internal purposes
- link the KPIs to the company's goals and compare them with previous years' outcomes

The information provided should present a balanced and complete picture.

- *to make sure that the description is not selective and misleading.*

To achieve this, the company may need to

- give a balanced description of the impact of the company's activities on its surroundings, and vice versa
- avoid placing emphasis on positive aspects and disregarding or giving less weight to matters of a negative or challenging nature

Information should be provided about the company's exposure to climate change.

- *to enable stakeholders to consider the company's role in the transition to a low-carbon society*

To achieve this, the company may need to

- follow the recommendations issued by the TCFD[2] with regard to information on how the company's activities are exposed to climate risk, which includes physical risk and transition risk
- identify the assets that are, or may become, 'stranded assets' in the transition to a low-carbon society
- take climate risk into account when valuing assets

[2] TCFD – Task Force on Climate-related Financial Disclosures

SUSTAINABILITY INFORMATION AND REGULATORY FRAMEWORK

Sustainability reporting shall provide information on how the company contributes to sustainable development. The information should include both how the company affects its surroundings and how its surroundings affect the company with respect to environmental (E), social (S) and governance (G) factors[3].

High-quality sustainability reporting from the companies is necessary to enable their stakeholders to assess the impact the company has on society and the environment, and how sustainability affects the company's risk assessments and decision-making processes. The information provided should be relevant, consistent and material. There is also a need for quantitative information that is comparable and can be measured over time.

Current Norwegian regulations

Pursuant to the Accounting Act, Section 3-3 c, large companies shall provide a statement on social responsibility[4]. The provision applies to, among others, all companies that issue shares, bonds or equity certificates.

According to the provision, companies shall issue a statement describing how human rights, employee and social matters, gender equality and non-discrimination, the external environment and corruption are integrated in company's daily operations and in relation to its stakeholders. The statement shall, at a minimum, include information concerning guidelines, principles, procedures and standards used by the company to integrate the said considerations.

The Act does not set out specific requirements for *which* information is to be provided about these topics. However, the reporting requirements apply regardless of whether the company itself considers the topics to be relevant or material to its business. Sustainability information shall be included in the annual report or in another publicly available document. If the information is provided in a separate report and the company is required to submit an annual report, it shall be referred to in the annual report. There is no requirement for the information provided in accordance with Section 3-3 c of the Accounting Act to be audited. The auditor's role is currently limited to stating whether the content provided in accordance with Section 3-3 c of the Accounting Act is consistent with the company’s other financial reporting.

Current EU legislation

Developments in the reporting area increasingly reflect the new information needs of a broad group of stakeholders. Stricter requirements for information about non-financial matters have been included in the EU Accounting Directive[5] through an amending directive that adds new articles to the directive. The amending directive was adopted in the EU in 2014 and is referred to as the Non-Financial Reporting Directive (NFRD)[6].

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[3] ESG stands for Environmental, Social and Governance. These three factors form the core of sustainability.
[4] Act relating to Annual Accounts etc. (Accounting Act), Section 3-3 c, social responsibility presentation.
[5] Directive (2013/207/EU)
[6] Directive (2014/95/EU)

The NFRD has not yet been implemented in Norwegian law, but Finanstilsynet has found it appropriate to use the NFRD and associated guidelines as a starting point and a reference for the issues addressed by the survey. It is expected that the regulations will be implemented in Norwegian law in a relatively short time.

The NFRD requires large companies to prepare a non-financial statement that contains consistent and comparable information related to sustainability, including environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. The statement shall contain information to the extent necessary for an understanding of the company's development, performance, position and impact of its activities. The report shall provide a fair and comprehensive description of the company's business model, policies and the outcome of those policies, as well as relevant risks and non-financial KPIs. If the company has not pursued policies on sustainability, it shall provide a clear and reasoned explanation for not doing so. The company should also provide adequate information on matters that are highly likely to cause severe impacts, along with those that have already occurred.

The NFRD provides few guidelines for how companies should prepare such a statement. The companies may include the information in a non-financial statement in its annual report or issue a separate document. Companies may choose to use international, European or national frameworks when preparing their non-financial statements. The NFRD requires the auditor to ensure that a non-financial statement has been provided, but does not require an audit of its content.

In 2017, the European Commission published non-binding guidelines[7] to guide companies in reporting in line with the requirements of the NFRD.

In 2019, the European Commission published non-binding guidelines on reporting climate-related information[8] in accordance with the requirements of the NFRD. The guidelines have incorporated the recommendations for reporting climate risk from the ‘Task Force on Climate-related Financial Disclosures’ (TCFD) and are a supplement to the guidelines from 2017.

Non-binding guidelines – general principles

The guidelines contain six general principles for non-financial reporting. The reported information shall be:

- Material
- Fair, balanced and understandable
- Comprehensive, but concise
- Strategic and forward-looking
- Stakeholder orientated
- Consistent and coherent

Non-binding guidelines – key aspects

The guidelines also cover how the content requirements of the NFRD can be met through descriptions of the following aspects:

- The company's business model
- The company's policies and due diligence
- The outcome of the company's policies
- Principal risks and their management
- KPIs

[7] European Commission – Guidelines on non-financial reporting (2017/C215/01)
[8] European Commission – Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C209/01)

TCFD recommendations
The Task Force on Climate-Related Financial Disclosures (TCFD) published in 2017 a framework for financial reporting of climate-related risk. It recommends that companies and investors should report on how they take climate risk on board in their strategy processes, and how climate-related risk is identified, measured and managed. A key recommendation from the TCFD is that companies should use scenario analyses to stress test their business models against different climate policy scenarios.

According to the guidelines, the NFRD has a double perspective on reportable information:

1) Climate-related information should be reported if it is necessary for an understanding of the development, performance and position of the company. .
2) Climate-related information should be reported if it is necessary for an understanding of the external impacts of the company.

The first perspective is most relevant for investors, and the TCFD's recommendations for climate risk reporting are based on this perspective. The second perspective is relevant to a broader group of stakeholders, including consumers, employees and civil society. However, investors also need this type of information in order to better understand and measure the climate impacts of their investment portfolios.

New EU reglulations

The disclosure requirements of the NFRD are closely related to recent regulatory developments in the EU, in particular the regulation on sustainability-related disclosures in the financial services sector[9] and the regulation on the classification of sustainable financial activities[10]. Among other things, the latter regulation requires companies that are subject to the NFRD to report the proportion of the company's activities that qualifies as environmentally sustainable, as defined in the classification system[11]. The regulation sets forth that stakeholders need information to better assess, measure and manage the environmental and social impacts of their investments and decisions. These regulations have not yet been implemented in Norwegian law.

Regulation on sustainability-related disclosures in the financial services sector

In November 2019, the regulation on sustainability disclosures in the financial services sector (Regulation (EU) 2019/2088) was adopted in the EU. Most of the requirements of the regulation will apply in the EU from 10 March 2021.

The regulation imposes a number of disclosure requirements on financial market participants and financial advisers with respect to how sustainability risk considerations are integrated into their risk assessments and investment advice. This includes any negative impacts that their investment processes and investment decisions have on sustainability factors.

[9] EU Commission – Sustainability-related disclosures in the financial services sector
[10] EU Commission – The establishment of a framework to facilitate sustainable investment
[11] In the classification system, activities are defined as sustainable, not individual companies or sectors.

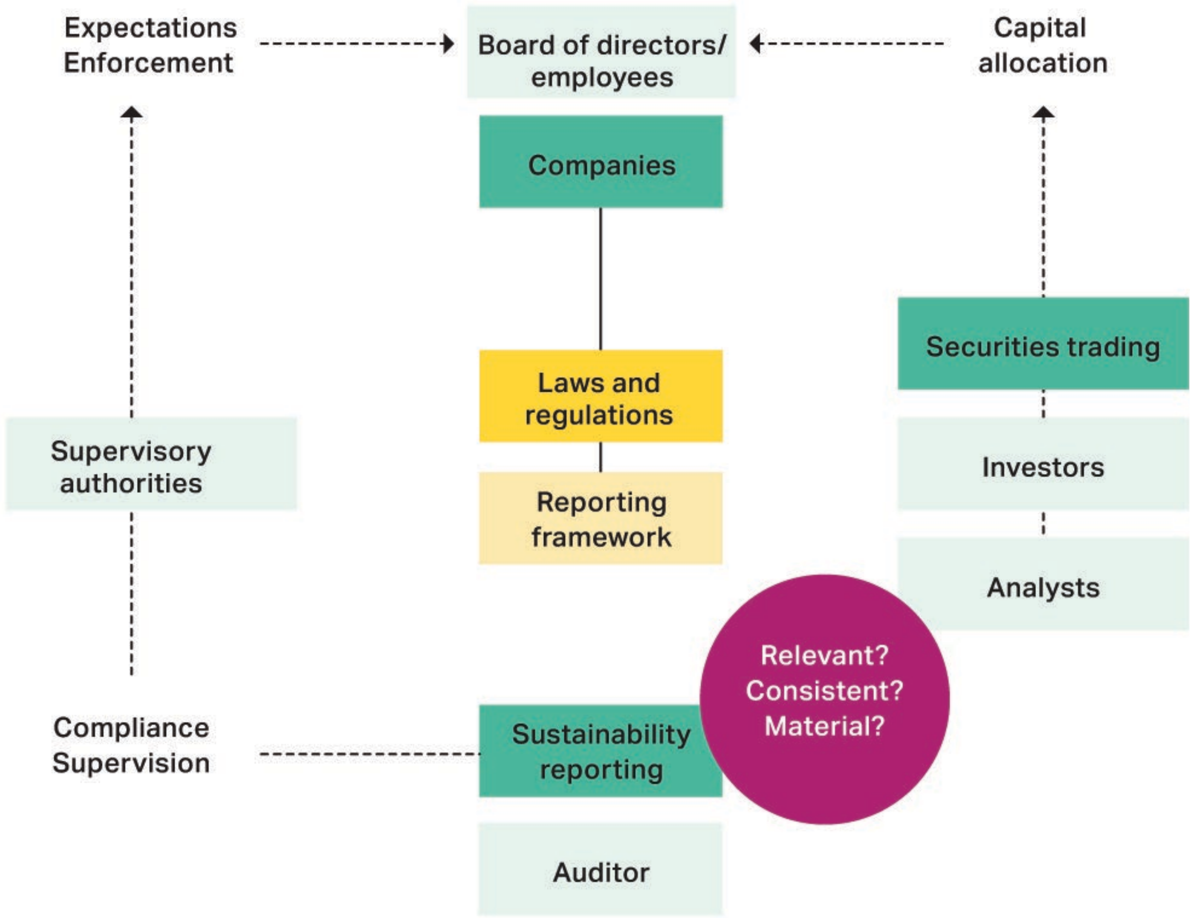
Regulation on the classification of sustainable investments

Regulation (EU) 2020/852 establishes criteria for determining whether an economic activity qualifies as sustainable. The regulation was adopted in June 2020 and applies from 12 July 2020. Parts of the regulation apply from 2022 and 2023.

The regulation establishes a common ground for defining the environmental sustainability of activities and investments. The rules of the regulation are intended to make it easier for investors to compare investment opportunities and to incentivise companies to make their business models more environmentally sustainable.

The classification system will also form the basis for a European standard for green bonds and a pan-European labelling scheme for green financial products aimed at consumers.

The context of sustainability reporting



Source: Finanstilsynet

REPORTING OF SUSTAINABILITY INFORMATION AND CLIMATE RISK – KEY FINDINGS FROM THE SURVEY

Purpose of the survey
The main purpose of the survey is to gain an overview of how listed companies work with sustainability reporting, what information the companies report and how this information is presented. The survey only covers information that the companies report to the market.

The survey included all companies that issue shares, bonds and/or equity certificates with Norway as their home state as at 31 December 2019, excluding third country issuers. The survey is based on self assessments of the sustainability reporting for 2019 to Finanstilsynet.

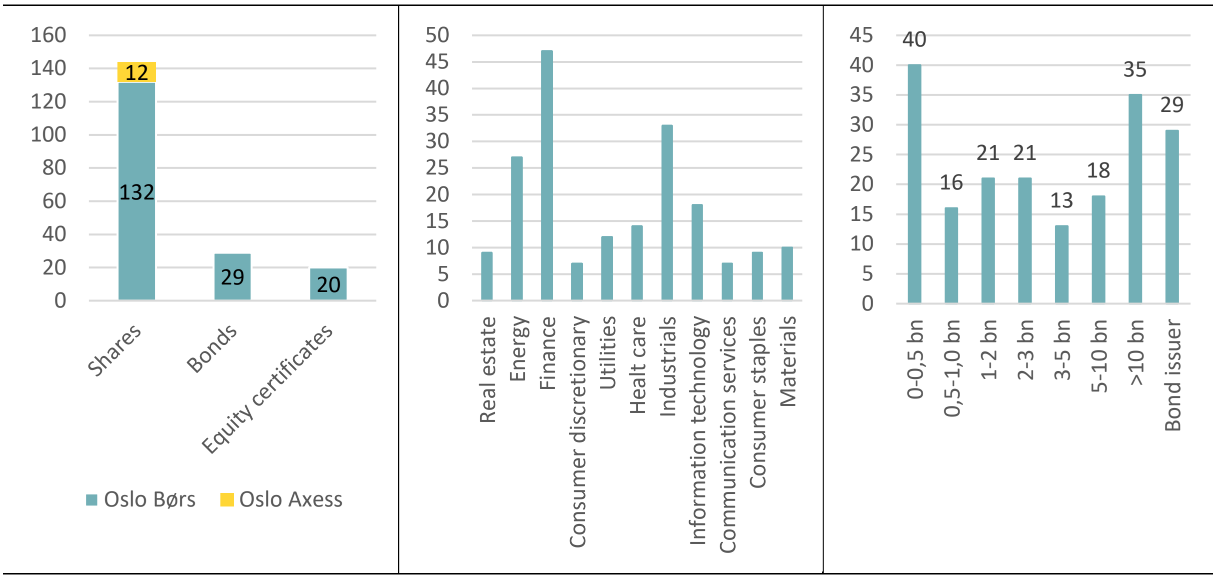
The survey covers the disclosure requirements of the Accounting Act, Section 3-3 c. Since there are no specific rules or guidelines for reporting such information in Norwegian law, Finanstilsynet has, as mentioned above, chosen to use the Non-Financial Reporting Directive (NFRD) as a reference, even though the directive has not yet been incorporated in Norwegian law. Hence, the questions in the survey also take the NFRD requirements into account. The survey will thus highlight how the companies meet current reporting requirements and to what extent they report in line with the principles and assessments laid down in the NFRD. The presentation of the results also reflects these requirements.

The survey consists of two parts. The first part concerns reporting of sustainability information in general, while the second part covers information related to climate risk. The results presented are based on answers given in the companies' self assessments, and Finanstilsynet has not considered their correctness.

The survey does not cover the extent of companies' reporting. Experience gained by other supervisory authorities in this field shows that the number of pages that include non-financial information has increased significantly in recent years and that such information represents a larger share of the total reporting. The fact that the volume of information is increasing does not necessarily indicate that it is of higher quality.

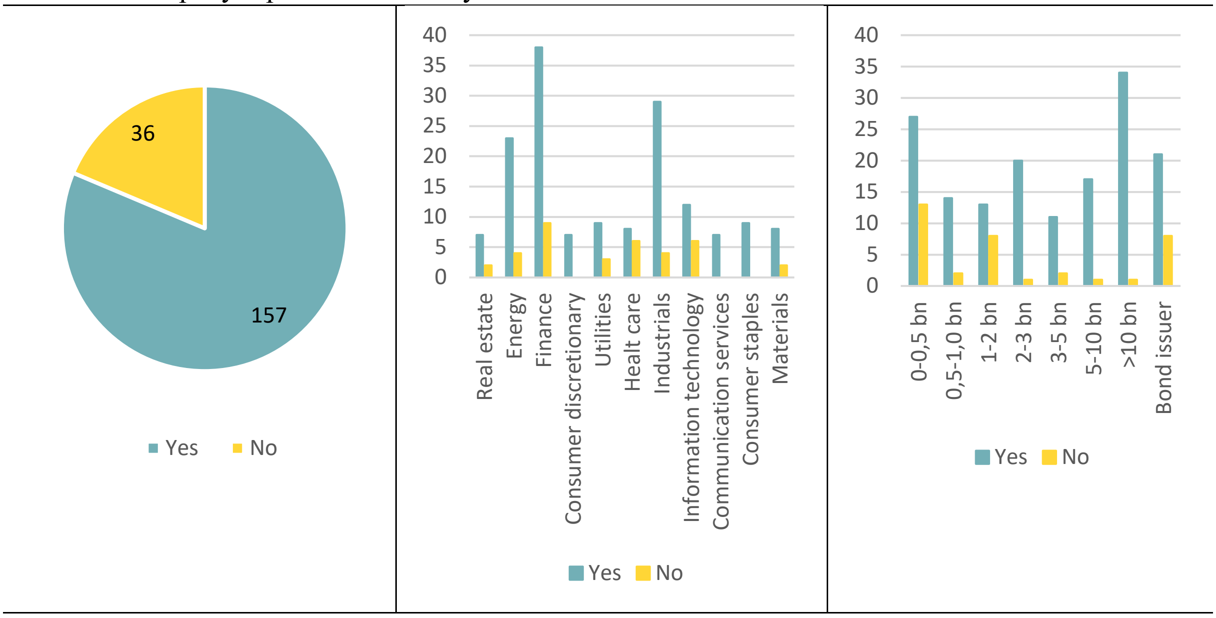
Companies included in the survey
The questionnaire was distributed to 209 listed companies, of which 193 (92%) responded. All of the companies included in the OBX index as at 31 December 2019 responded.

Distribution of companies by issuer type[12], sector[13] and market capitalisation



Source: The companies' self assessments

Does the company report sustainability information?



Source: The companies' self assessments

157 of the 193 companies that responded to the survey, state that they report sustainability information. Finanstilsynet notes that as many as 36 companies, or just under 20 per cent, state that they do not report any form of sustainability information, even though the companies are required to report such information.

Content and presentation

According to the majority of the 157 companies stating that they report sustainability information, their reporting covers environmental, social and employee-related matters, observance of human rights

[12] The category 'Shares' includes companies issuing listed shares and companies issuing both shares and fixed-income securities. The category 'Bonds includes companies issuing only listed bonds. The category 'Equity certificates' includes companies issuing listed equity certificates and companies issuing both listed equity certificates and bonds.

[13]The classification into sectors corresponds to the one used at Oslo Børs/Oslo Axess. Equity certificates are included under 'Finance'.

and anti-corruption. The majority also state that they provide such information in their annual reports, or both in the annual report and in a separate sustainability report.

Reporting frameworks

According to the NFRD, companies may use suitable frameworks as guidance when preparing sustainability information. If the company has relied upon a framework, it should be specified.

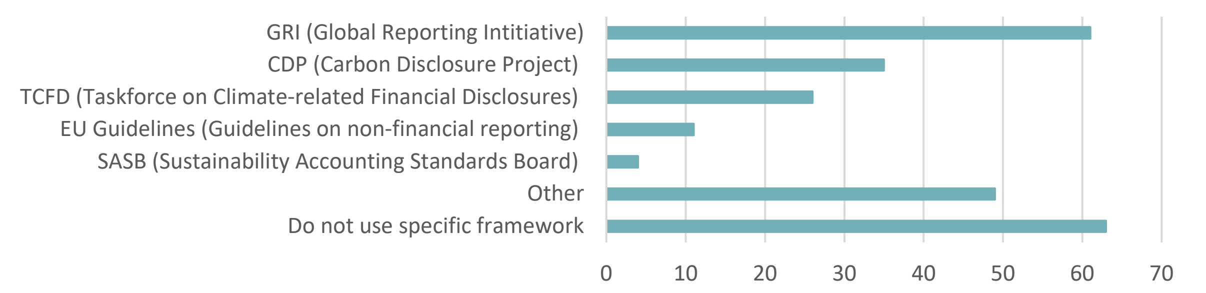
None of the existing frameworks cover all areas and none can be used on a standalone basis to ensure that the reporting meets the disclosure requirements. On the contrary, there are a number of frameworks for reporting sustainability information that cover different or overlapping areas of information and use different approaches. There is no uniform structure for presenting sustainability information, which reduces both transparency and comparability across companies.

Further, available frameworks are structured in a way that allows companies, to a certain extent, to choose what they want to report. The reporting may provide misleading information if the company places more emphasis on positive matters and disregards or gives less weight to matters of a negative or challenging nature. Companies should seek to present a balanced and complete picture of how its activities affect the environment, and vice versa.

The use of frameworks may, in spite of the weaknesses mentioned, contribute to a more systematic and structured approach to reporting sustainability information and to ensuring that matters that are material to the company are included in the reporting. Even though there are many frameworks to choose from, the use of frameworks could make it easier for stakeholders to compare information reported from different companies.

The European Commission's non-binding guidelines have been prepared on the basis of a number of available frameworks, and companies are encouraged to use frameworks when preparing non-financial statements.

Reporting frameworks, number of companies



Source: The companies' self assessments

More than a third of the 157 companies that report sustainability information, state that they do not use specific frameworks in their reporting. Several companies also state that they use Euronext's guidelines for ESG reporting[14].

Verification of sustainability information

According to the NFRD, the company's auditor must ensure that a non-financial statement has been provided.

[14] Euronext – Guidelines to issuers for ESG reporting

Verification of sustainability information by an external party can improve the quality of sustainability reporting by reducing the risk of errors and inaccuracies in the reporting and increase stakeholder confidence in the reporting. However, it is important to note that the verification of sustainability information in most cases provides limited assurance. This differs from a verification of, for example, the annual accounts, which provides reasonable assurance. A verification that provides limited assurance entails that the risk of errors and deficiencies is higher than verifications that provide reasonable assurance, and the control procedures that are implemented are of a more general nature and less comprehensive. If the assurance engagement is performed by an auditor, ISAE 3000[15] is normally used as a basis.

According to the majority of the 157 companies stating that they report sustainability information, their sustainability reporting has not been verified. It is reasonable to expect that an increasing share of companies will have their sustainability reporting verified in the future as a result of new legislation in this area. In addition, investors and other stakeholders will increasingly require formal quality assurance of the content.

Business model and sustainability strategy

According to the NFRD, a brief description of the business model must be provided, as well as information on the policies pursued in relation to sustainability matters [16]and the outcome of those policies.

The European Commission's non-binding guidelines provide supplementary information and examples, and state that the company is expected to describe its business model in a clear, understandable and factual manner. The company should avoid immaterial disclosures of promotional or aspirational nature which distract attention from material information, and changes to its business model are expected to be explained.

Companies should provide a fair view of their policies and objectives relating to sustainability matters and disclose how they are planning to deliver on those objectives. The company shall disclose due diligence processes implemented throughout the value chain. If the company has no policies relating to sustainability matters, this must be justified. Significant changes in policies and due diligence processes must be accounted for.

A useful, fair and balanced view of the outcome of their policies should be provided. The company may consider explaining the relationship between financial and non-financial outcomes. The company should include relevant KPIs in its analysis of the outcomes and explain these.

A clear and understandable description of the company's business model will enable stakeholders to make independent assessments of the sustainability reporting. In order to understand how the company works with sustainability and the outcomes of this work, stakeholders also need information about the company's sustainability strategy. The description should explain how the business is organised to fulfil the sustainability strategy. The strategy and the business model can provide an understanding of how the company is managed. In order to be effective, the sustainability strategy should be an integral part of the company’s operations. Clear policies and procedures are therefore an important governance instrument in the company's efforts to realise its strategy. In order to ensure that the sustainability reporting will be of value to stakeholders, the company should report the outcomes of its work on sustainability in a transparent, relevant, consistent and balanced manner.

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[15] International Standard on Assurance Engagements
[16] Sustainability matters include environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

88 (56%) of the 157 companies stating that they report sustainability information, including 17 OBX companies, answered yes to all four questions concerning business model and sustainability strategy. This means that 88 companies report that all aspects mentioned below have been taken into account in their sustainability reporting.

Business model and sustainability strategy

- given a description of the company’s sustainability strategy
- accounted for how the sustainability strategy is linked to the company's business model
- established policies and procedures that integrate sustainability into the business
- accounted for the outcomes of the company’s work on sustainability

The majority of the companies state that they have established policies and procedures that integrate sustainability into the business, and that they have a sustainability strategy that is communicated externally. However, few companies link the sustainability strategy to their business model and account for the outcomes of the strategy.

Sustainability risk assessment

According to the NFRD, information must be provided on the principal risks related to the company’s operations, including its business relationships, products or services which are likely to cause adverse impacts on the company or its surroundings, and on how the company manages those risks.

The European Commission's non-binding guidelines provide supplementary information and examples, and stipulate that the company should provide information on principal risks and on how they are managed and mitigated in the short, medium and long term. The company is expected to explain how the risks may affect the company's business model, operations, financial performance and the impact of its activities. The company is expected to provide material information, regardless of whether it stems from its own decisions or actions or from external factors, and to explain the processes used to identify and assess such risks, and also include material information on on supply and subcontracting chains. The company is also expected to explain any material changes to its principal risks and to the way they are managed.

In order to be able to meet the risks and opportunities facing the company related to the transition to a more sustainable society, the company should establish good processes for identifying, managing and monitoring sustainability risks and opportunities. It is important that this work is endorsed by the board of directors, which is responsible for the overall strategy of the company. Sustainability risks and opportunities may have a direct impact on the company's financial position in the short and long term by affecting the company's access to capital, cost of capital, market access, brand value, reputation and permits that the company needs to operate.

28 (18%) of the 157 companies stating that they report sustainability information, including nine OBX companies, answered yes to all five questions concerning sustainability risk assessments. This means that 28 companies report that all aspects mentioned below have been taken into account in their sustainability reporting.

Sustainability risk assessment

- established processes to identify, manage and monitor sustainability risk
- involved the board of directors and/or management in the process of identifying, managing and monitoring sustainability risks
- accounted for the sustainability risks that have been identified as relevant for the company, and for how such risks are managed and monitored
- accounted for how identified sustainability risks affect, or may affect, the company's business model, activities, outcomes and financial position
- specified the time horizon of identified sustainability risks in the short, medium and long term

Many, but far from all, companies have established processes for identifying, managing and monitoring sustainability risks, which in many cases have been endorsed by the board of directors and management. Many have also accounted for the risks that have been identified as relevant for the company, and for how such risks are managed and monitored. However, few companies link identified risks to their business model, activities, outcomes and financial position, or specify a timeframe for the risks.

The survey shows that the work to identify, manage and monitor sustainability risk has been endorsed by the company's board of directors and management in most companies that have established relevant processes for this. However, all key roles are more actively involved in the process of identifying sustainability risks than in the work to manage and monitor such risks.

45 (29%) of the 157 companies stating that they report sustainability information, state that they have *not* established processes to identify, manage and monitor sustainability risks. 29 companies (18%) state that they have neither accounted for identified relevant risks nor for how these are managed and monitored. Finanstilsynet questions the relevance of a company's sustainability reporting if it has no processes for identifying, managing and monitoring sustainability risk.

Materiality in the context of sustainability

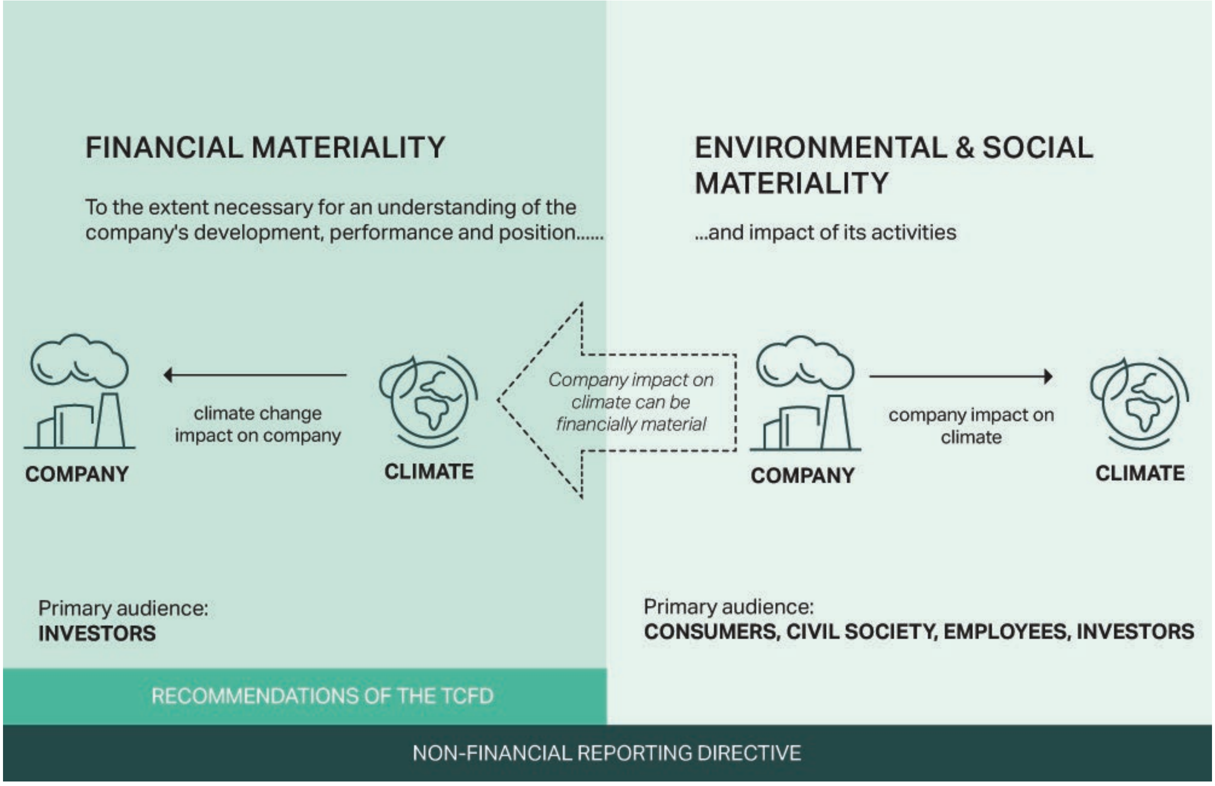
According to the NFRD, the non-financial statement must disclose information that is necessary to understand the company’s development, performance, position and impact of its activities.

The European Commission's non-binding guidelines present ‘materiality’ as one of six key principles. The guidelines emphasise that the NFRD introduces a new element in the materiality assessment, i.e. the company’s impact on society. The company’s impacts may be both positive and adverse, and the sustainability reporting should cover both in a clear and balanced way. Materiality should be assessed in a context, and both company-specific and sectoral considerations should be included in the assessment. The company’s materiality assessment should be based on how important the information is in understanding its development, performance, position and impact, taking into account both internal and external factors.

A thorough materiality assessment is necessary to ensure that information provided in the sustainability reporting is relevant to the company and its stakeholders. The materiality assessment should be transparent and rank the sustainability risks and opportunities identified by the company in a systematic manner. A materiality matrix can be an effective tool to compile the results of the company's materiality assessments. In such a matrix, the company will rank risks along the y-axis (importance to stakeholder assessments and decision-making) and the x-axis (economic, environmental and social impacts), where materiality increases the further one moves on each axis.

When assessing sustainability issues, the materiality perspective is twofold[17]. The company should consider both financial materiality[18] and the impact of the company's activities on the environment and society. Materiality related to sustainability information thus has a broader scope than the financial materiality we are familiar with from financial statements. The two materiality perspectives will increasingly overlap, as positive or negative impacts in the long run could result in business opportunities or risks that are of financial significance to the company.

The following chart from the TCFD framework can help to illustrate the double materiality perspective:



31 (20%) of the 157 companies stating that they report sustainability information, including nine OBX companies, answered yes to all five questions concerning materiality related to sustainability. This means that 31 companies report that all aspects mentioned below have been taken into account in their sustainability reporting.

Materiality in the context of sustainability

- conducted materiality assessments relating to identified sustainability risks
- based its risk assessment on both financial and environmental materiality
- accounted for how materiality is assessed
- accounted for financial materiality
- used a materiality matrix

The majority of the companies that report sustainability information have also conducted materiality assessments related to identified sustainability risks. However, one-fourth of the companies state that

[17] Referred to as 'double materiality'.
[18] Financial materiality relates to information that is necessary to understand the company's financial performance or position, where its omission or misstatement could influence the decisions of users taken on the basis of this information.

they have not assessed materiality. Finanstilsynet questions the value of and relevance of sustainability reporting when materiality has not been assessed. Some companies have taken the double materiality perspective into account, while somewhat fewer companies have accounted for their materiality assessments. Relatively few companies link sustainability to financial materiality. This indicates that materiality is not sufficiently included in the sustainability risk assessment processes.

Sustainability KPIs

According to the NFRD, non-financial KPIs[19] which are relevant to the company must be disclosed.

The European Commission's non-binding guidelines provide supplementary information and examples, and state that the KPIs reported should be identical to those used by the company's management for internal purposes in order to ensure that the information provided is relevant and useful, transparent and comparable. The company should report the KPIs necessary to understand the entity's development, performance and position and impacts of its activity. The company is expected to provide a fair and balanced view by using both general, sectoral and company-specific KPIs in its reporting. KPIs should be used consistently from one reporting period to the next, and changes should be explained.

The use of KPIs can be an effective way of communicating and can help to quantify sustainability goals and to link the goals to financial performance. KPIs can also be verified as data points and are thus suitable for measuring performance over time. In order for the company's stakeholders to be able to put the KPIs in context, they should be linked to the company's goals and compared with previous years' performance. It is also important that the KPIs are transparent, so that it is clear to stakeholders how they are arrived at. This can be achieved by providing a good definition of the KPIs, explaining why the selected KPIs are relevant for the company, show the calculation method and underlying assumptions and describe which part of its operations is covered by the KPIs.

23 (15%) of the 157 companies stating that they report sustainability information, including seven OBX companies, answered yes to all five questions concerning sustainability KPIs. This means that 23 companies report that all aspects mentioned below have been taken into account in their sustainability reporting.

Sustainability KPIs

- used KPIs (key performance indicators) in the company’s sustainability reporting
- used KPIs relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters
- involved the board of directors in decisions on which KPIs are of relevance to the company
- accounted for the use of KPIs:
    - *Explained why the KPIs used are relevant*
    - *Defined the KPIs used*
    - *Described the method used to calculate KPIs and the assumptions underlying the choice of KPIs*
    - *Described which part of operations is covered by the calculated KPI*
    - *Described how each KPI is linked to the company's goals*
    - *Described the historical development in KPIs*
    - *Explained changes in the calculation of KPIs and the assumptions underlying the choice of KPIs*
- linked own KPIs to international, national, sectoral and/or company-specific goals

Approximately two-thirds of the companies use KPIs in their sustainability reporting. The majority of the companies that use KPIs involve the board of directors in decisions on which KPIs are of

[19] Key Performance Indicator

relevance to the company, and the majority also account for the KPIs used. The survey shows variation between the areas for which KPIs are used as well as the number of KPIs used.

Company-specific goals are most frequently used, which can be challenging for stakeholders when comparing different companies in a sector and across sectors. Despite the fact that company-specific goals are reported to be most frequently used, the survey also shows that the companies to a lesser extent describe *how* the KPIs are linked to the company's goals. If the reported KPIs are not linked to the company's goals or previous outcomes, it will be difficult for the company's stakeholders to put its performance in context and understand the company's development and outcomes, as well as its exposure to sustainability risks.

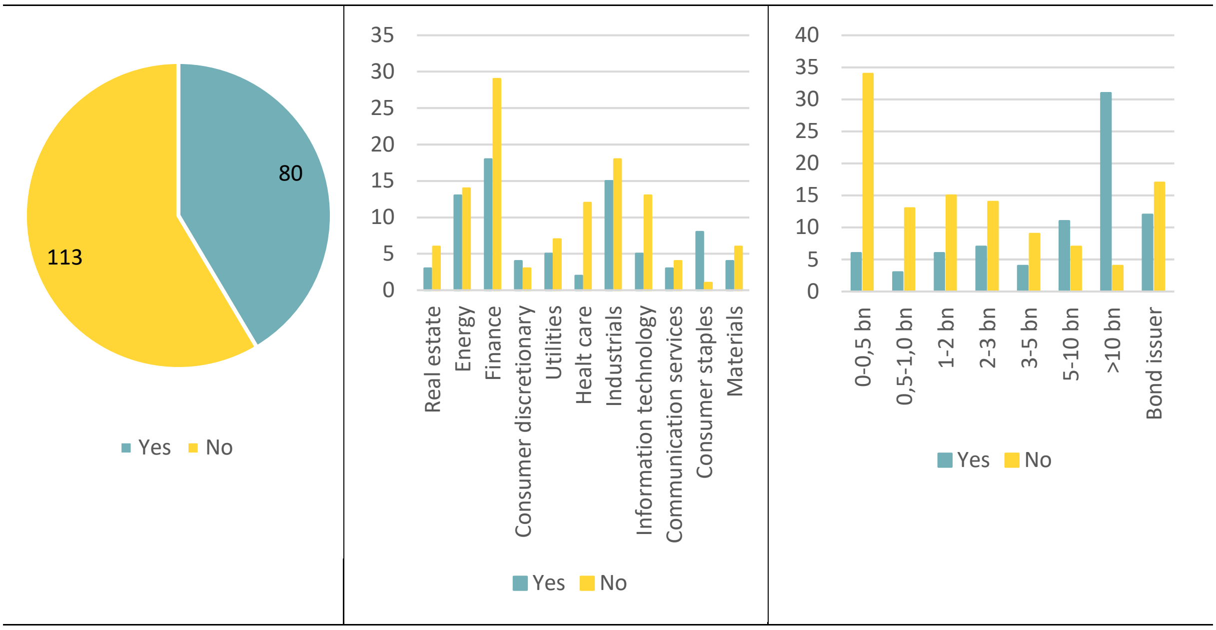
Reporting of climate risk

According to the NFRD, information should be provided on both the consequences of climate change for the company and the company's impact on the climate.

The European Commission's non-binding guidelines for climate-related information provide guidance on what should be included in the reporting in accordance with the NFRD. The guidelines are based on recommendations from the TCFD.

There is strong focus on the need for good reporting of climate-related information. Reporting of climate-related information enables the company's stakeholders to understand the risks and opportunities facing the company. A stated goal to reduce the company's carbon imprint and to report this in a good way may contribute to lowering the company’s cost of capital and to attracting a more diversified investor base. In a world where climate change is receiving increasing attention, good reporting in this area will be essential for succeeding in the transition to a low-carbon society.

Has the company accounted for climate change in its reporting?



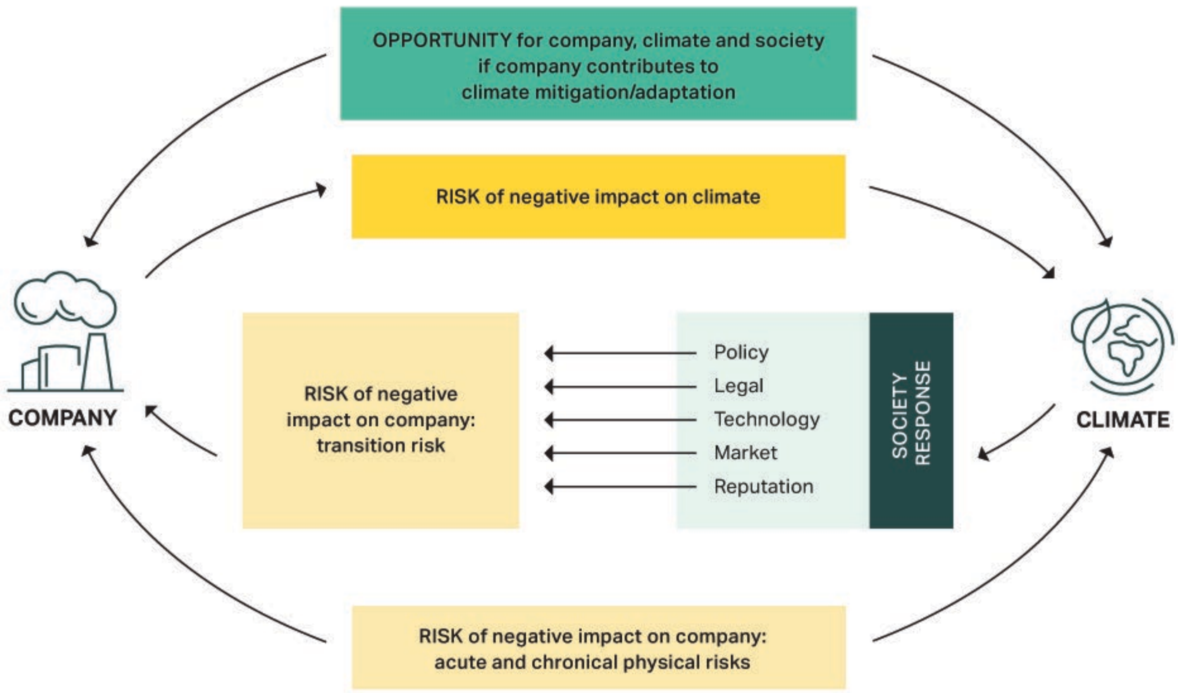
Source: The companies' self assessments

Only 80 of the 193 companies that responded to the survey state that they have accounted for climate change in their reporting.

Climate risk assessment

Costs related to climate change are associated with the effects of global warming and with measures to mitigate change. Climate risk refers to the uncertainty posed both by physical climate changes (physical risk) and by the transition to a low-carbon society in the form of measures and technological developments (transition risk).

Climate-related risks and opportunities



Source: Consultation Document on the update of the Non-Binding Guidelines on Non-Financial Reporting

In order to enable the company to understand the risks it is facing, it should establish processes for identifying, managing and monitoring climate risk. As for sustainability reporting in general, it is important that this work is endorsed by the company's board of directors and management.

The survey shows that less than half of the companies have established processes for identifying, managing and monitoring climate risk. For the majority of the companies that have established such processes, this work has been endorsed by management, and in many cases also by the board of directors. About half of the companies that responded have accounted for the climate risks they have identified as relevant. Far fewer have accounted for how identified risks are managed and monitored, nor have they distinguished between physical risk and transition risk. While the majority of the companies have disclosed how their activities affect the external environment, few have accounted for how climate risk may affect the company's business model, activities, performance and financial position. About half of the companies that have disclosed identified climate risks have indicated a timeframe for such risks. Quantifying the financial consequences of climate change seems to be the most challenging aspect of the climate risk reporting, and fewer than 10 per cent of the companies state that they have done so in their reporting.

Materiality and climate risk

When assessing materiality related to climate-related information, the company should apply a longer time horizon than is traditionally the case for financial information. The company should not assume that the effects of climate change are not material on the grounds that climate change is considered to be of a long-term nature. Measures against climate change also have consequences. Technological developments, carbon pricing and regulations may change global market conditions for carbon-intensive goods and services. The transition from fossil fuel to renewable energy may lead to a decrease in the value of fossil fuel-related assets and reserves, which may cause challenges for companies and financial institutions. Given the far-reaching consequences of climate change and the transition to a low-carbon society, a large majority of companies are likely to face climate risk.

Only one-third of the 193 companies that responded to the survey state that they have conducted materiality assessments addressing identified climate risks. The majority of the companies that have conducted materiality assessments have also accounted for climate risks which are material today, while fewer companies account for climate risks that may become material in the future.

Scenario analysis and climate risk

Scenario analyses are primarily a tool for identifying risk by evaluating potential outcomes and should not represent a forecast for the most likely development. Scenario analyses are to a lesser extent based on 'extrapolation' of the past or the extension of past trends but should be based on the knowledge available at any time. Such analyses can be a useful tool for the company, both to understand the strategic implications of climate risk (and opportunities) and to inform its stakeholders about the company's response.

Only 29 (15%) of the 193 companies that responded to the survey state that they have used scenario analyses to assess climate-related risks and opportunities.

Climate gas emissions

For the purpose of this report, climate gas emissions mean emissions of greenhouse gases. The World Resource Institute (WRI) has established a protocol (Greenhouse Gas Protocol) to develop internationally accepted standards for reporting greenhouse gas emissions. The protocol defines greenhouse gas emissions based on three 'scopes'.

1) Scope 1 emissions, which are direct emissions from sources owned or controlled by the company.
2) Scope 2 emissions, which are energy-related, indirect greenhouse gas emissions from sources of energy purchased and used by the company.
3) Scope 3 emissions, which are all other indirect emissions that occur in the company's value chain, including both upstream and downstream emissions. Such emissions are a consequence of the company's activities, but stem from sources that are not owned or controlled by the company.

Reporting of greenhouse gas emissions can be useful information for the companies' stakeholders, as it is measurable and specific. In addition, it provides an opportunity to compare companies and sectors.

About half of the 193 companies that responded to the survey stated that they disclose greenhouse gas emissions generated by the company's activities, and the majority disclose scope 1 and scope 2 emissions. Relatively few companies disclose scope 3 emissions, which may be because such emissions are challenging to estimate. Only one-third of the companies state that they have specific targets for reducing greenhouse gas emissions.

Stranded assets

Stranded assets are assets that may be of reduced or no value as a result of changes in external parameters, including changes in technology, regulations, markets or societal habits. An assessment of stranded assets is relevant for all sectors that are exposed to climate risk and is not limited to the oil and gas sector.[20]

Approximately one-fifth of the 193 companies that responded to the survey state that they have stranded assets. More than half of the companies that have identified stranded assets, have stated that they have not taken climate risk into account in the valuation of these assets. This could entail a risk of significant errors in the companies' financial statements and should be addressed by both the companies and their auditors.

[20] The oil and gas sector is included in the 'Energy' sector in Finanstilsynet's survey.

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