ESG 100 - THE OSLO STOCK EXCHANGE
An analysis of how the 100 largest companies on the Oslo Stock Exchange report on ESG
**Glossary**

**SUSTAINABILITY**
The concept was introduced in 1987 when the Brundtland Commission defined sustainable development as resource utilisation that meets the needs of the present without compromising the ability of future generations to meet their own needs. Corporate sustainability entails managing a business in a manner that ensures that decisions made today regarding economic, environmental, and social conditions will also work in the future.

**ESG**
ESG is an acronym for environmental, social and governance factors. CO2 emissions and energy consumption are examples of environmental factors, human rights and labour conditions are examples of social factors, and compliance with laws and internal company control mechanisms are examples of governance factors.

**SUSTAINABLE FINANCE**
Sustainable finance involves assessing ESG factors in financial decision-making processes with the aim of contributing to a more long-term approach to direct investments and debt financing of projects and companies.

**IMPACT INVESTING**
Impact investments are meant to generate positive, measurable social and environmental impact alongside financial return. Examples include development of solar or wind parks, circular economy solutions or microfinancing in developing countries.

**THE UN SUSTAINABLE DEVELOPMENT GOALS**
The 2030 Agenda for Sustainable Development, adopted by all UN Member States in 2015, sets out 17 sustainable development goals (SDGs). The goals embrace both developing and industrialised countries and have been broadly endorsed by the business community.

**CORPORATE SOCIAL RESPONSIBILITY (CSR)**
To engage in CSR means that, in the normal course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them. CSR is often used synonymously with sustainability.

**CORPORATE COMMUNITY ENGAGEMENT (CCE)**
This term refers to the activities that a company undertakes to enhance its relationships with, and contribute to the well-being of, the communities in which it has a presence or impact. CCE often involves contributions to charitable organisations, culture and sports, or support for volunteer work. It is used less to refer to responsible practices within a company itself.

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EXECUTIVE SUMMARY

For the third year running, The Governance Group has assessed the sustainability reporting of the 100 largest companies listed on the Oslo Stock Exchange. We assess the extent to which these companies provide relevant information about ESG goals, strategies, risks and opportunities.

We believe sustainability information is useful for executive boards, company management and investors only if it contains standardised and measurable information about the company’s material risks and opportunities. This year’s analysis reveals a clear improvement in ESG reporting on the Oslo Stock Exchange. Many companies, however, are still unprepared to meet stricter and broader ESG reporting requirements that will follow in the wake of regulatory changes.

Companies that successfully manage ESG factors face lower risks related to issues such as environmental and climate change regulations, as well as to supply chains, including the risk of corruption and human rights violations. Moreover, these companies increasingly benefit from a lower cost of capital and generally have better operational performance. Recent research also confirms that ESG investment funds have outperformed the global stock market, including during the Covid-19 crisis.

1 See previous reports on www.thegovgroup.org.
WHY DOES ESG REPORTING MATTER?

Comparing sustainability data across companies, sectors and countries is challenging, and the information provided is seldom consistent over time. Over the past decade, there has been a clear trend of sustainability reporting, but how relevant is the information disclosed in such reports for decision-makers in boardrooms, C-suites, and investment funds? Do ESG reports provide valuable information or are they just glossy publications? Does sustainability reporting add value for understanding company risk and opportunity?

For companies and investors, ESG strategies should be used as tools to minimise risk and maximise opportunity. Companies that manage ESG factors experience lower risks related to issues such as environmental and climate change regulations, as well as to supply chains, including corruption and human rights violations. Moreover, these companies increasingly benefit from lower cost of capital and generally have better operational performance. Recent research also confirms that ESG investment funds have outperformed the global stock market, including during the Covid-19 crisis.1

The EU Green Deal (adopted in June 2020) and taxonomy for sustainable economic activity marks a significant shift in the ESG landscape.2,3 The classification system, applicable from 2021, defines which activities and investments can be considered sustainable, both environmentally and in terms of promoting climate change mitigation.4 We are fast approaching a situation where stakeholders can compare investment opportunities across companies, sectors and countries based on a common standard. Consequently, developing more sustainable strategies and business models may become a real competitive advantage.

There are currently more than 200 different sustainability reporting standards, which, separately or combined, provide a wealth of more or less useful information.5

The problem is that many reporting standards overlap, resulting in a large reporting burden for companies, and in many instances the informational value of these reports is questionable. Norwegian and EU authorities are in the process of finalizing regulations that will require corporate sustainability reporting in line with the EU Taxonomy on sustainable economic activity. The Oslo Stock Exchange (Euronext) has also updated its guidelines for ESG reporting.

«Our assessments cast light on the utility value of sustainability reporting from an ESG perspective.»

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3 https://www.jpmorgan.com/global/research/covid-19-esg-investing
4 See fact box on the EU classification system on page 14
5 https://www.ft.com/content/c742ef9a-30be-328e-8bd2-a7b8870171a4

1 Background and methodology

1.1 The history of sustainability reporting

A sustainability report is usually hard “evidence” that a company systematically addresses ESG factors. Many companies choose to publish a separate sustainability report as an addendum to the annual report, while other companies integrate sustainability information into the annual report itself. To a greater or lesser extent, information about ESG factors is also included in the Board of Directors’ annual report.

Over the past 20 years, an increasing number of listed companies have chosen to report on sustainability. Simultaneously, financial analysts – who a decade ago only reviewed quarterly financial reports – have begun to include more ESG elements in their analyses. ESG criteria are currently applied to assets under management exceeding USD 30 trillion. Information about how companies manage ESG factors is increasingly used in investment decisions and capital allocation. However, it is still unclear whether sustainability reports provide material information for investment analyses.


Initially, companies reported on sustainability factors primarily to enhance their corporate image. Reports were often wordy and illustrated with pictures of “green nature” and happy children, and had more in common with the companies’ marketing material than their annual reports. At the turn of the century, voluntary international reporting standards emerged which led to improved reporting. The Global Reporting Initiative (GRI) became the most widely used framework, but a host of standards for various industries have emerged, including standards for the verification of sustainability reports.

PHASE 2: VAGUE LEGAL REQUIREMENTS (2009–2014)

Parallel to the voluntary reporting trend, various national and regional legal obligations requiring companies to report on their sustainability impact emerged. Denmark was an early mover, making it mandatory for stock exchange listed companies to report on company guidelines and results in the areas of environment, anti-corruption, labour, and human rights at the board level. Norwegian authorities quickly followed suit by introducing § 3-3 in the Norwegian Accounting Act, which requires the boards of all large companies to report on the same factors as their Danish counterparts. In 2014 the EU introduced similar wording in its accounting directive. However, all these reporting requirements were vague and short on specifics.


A combination of corporate branding-motivated and legally required reporting has created a confusing landscape for sustainability reporting, which runs the gamut runs from legally required and reluctant minimum reporting to detailed and colourful reports covering hundreds of pages. In this somewhat chaotic landscape, a third driving force emerged: The financial sector began demanding specific and comparable sustainability information to be used for investment analyses, and in some cases credit and insurance pricing processes. The financial sector’s quest for ESG disclosures started with investors who were searching for candidates to include in ethical or environmental funds or looking simply to exclude the worst companies (e.g. the worst polluters or labour rights violators).

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However, during this period several “traditional” investors started including sustainability criteria in their standard company analyses. This decision was based on the notion that good corporate governance within sustainability leads to better financial results. Bloomberg and MSCI, two of the largest providers of company research to the financial sector, reported more than a 20 per cent growth in sales of sustainability data in 2017.\textsuperscript{10}

**PHASE 4: FROM NOISE TO SUBSTANCE**  
(2017–2019)

The correlation between returns and good management of ESG factors is being more credibly documented. The financial sector is broadening and deepening its requirements for ESG information, creating new challenges for corporate communications departments.\textsuperscript{21} At the same time, legal interpretations have appeared that maintain that an asset manager’s failure to consider ESG factors may be a breach of fiduciary responsibility. Discussions were consequently held regarding the legal responsibility of boards and company accountants to provide correct ESG information. This coincided with a notable increase in shareholder ESG activism.\textsuperscript{12}

The old-style sustainability report, with its anecdotal descriptions, was clearly falling short when faced with the financial sector’s demand for substance. Sustainability reporting thus increasingly began to be aligned with ESG assessments produced by research firms such as Sustainalytics, MSCI, Bloomberg and ISS. These assessments are based on publicly available information and place the onus on companies to disclose relevant and accurate sustainability information.

**FASE 5: SPECIFIC REGULATION IN THE PIPELINE**  
(2019–present)

At present, national and international authorities are quickly developing regulatory measures regarding ESG. Of special note are the EU’s Green Deal, the classification system for sustainable economic activity (EU Taxonomy) and the Task Force on Climate-related Financial Disclosures (TCFD), which are beginning to result in more specific reporting and legal requirements increasing the importance of ESG in credit and investment decision processes.\textsuperscript{13} Coal, oil and gas face tougher times ahead, and the hunt for green solutions is driving up stock prices of “typical” ESG equities. The Norwegian Financial Supervisory Authority is also taking a more active role, especially when it comes to topics related to climate risk.\textsuperscript{14}

\textsuperscript{7} Why It’s So Hard to Be an ‘Ethical’ Investor, Wall Street Journal, Sep 3, 2018  
\textsuperscript{9} S&P Global Ratings, Our Approach to Assessing ESG in Ratings  
\textsuperscript{10} Record Year of Growth for MSCI ESG Research og Bloomberg 2017 Impact Report  
\textsuperscript{12} Harvard Business Review, 05 2019  
\textsuperscript{13} https://www.fsb-tcfd.org/  
\textsuperscript{14} See 2.8, Report to the Storting, St. 22 (2019–2020), Financial Markets Report 2020
The financial sector is particularly interested in reporting on how companies are prepared to deal with the consequences (physical and regulatory) of climate change. Company research on ESG demands far better data quality than what today’s sustainability reports have been designed to provide.

Are companies able to provide ESG information that is valuable for analysts in asset management firms and credit institutions? Are there differences across industry sectors, company size and profitability or ownership? A thorough examination of these questions is necessary to understand how well-prepared companies are for a future where sustainability information is included by ever more financial market participants in their analyses of companies.

The financial markets’ increasing demand for ESG information has radically changed investor relations communication on sustainability. With a shift from voluntary information to clear investor expectations and legal requirements regarding ESG factors, sustainability now has an impact on companies’ access to capital, pricing of debt and insurance. Although this phenomenon is, for the time being, limited in volume and scope, companies are increasingly placing more importance on sustainability communication.

For analysts to correctly value a company, there is a need for more information on the company’s ESG performance and its governance approach to managing sustainability risks and opportunities.

The companies were scored on a point scale from 0 to 4: 0 indicates that the issue was not mentioned; 4 indicates solid reporting on an issue, including a good explanation of why the issue is material, how the company addresses the issue and solid reporting of the year’s results and status, as well as clearly stated goals and the company’s strategy to achieve these goals.

Our starting point has been to determine to what extent listed companies succeed in providing specific sustainability information that is relevant for decision-makers. An important criterion to receive a top score in our assessment is linked to a company’s ability to set specific goals for sustainability, and to integrate sustainability with overall reporting of strategy, risk and results performance. A sustainability report that is not integrated with overall reporting in the annual report indicates that sustainability is lacking in the actual management of the company.
Laws and regulations impose requirements on market participants, including companies’ public reporting.

In the financial market, equities and bonds are traded at prices based on projections for companies’ future value creation.

Companies depend on capital - this is ensured through the raising of debt (loans / bonds) or collection of equity (shares).

The Board, management and employees report and make decisions that affect the company’s operations.

Public reports from the companies provide a basis for understanding how the business is run. Minimum requirements for reporting are set by laws and regulations. The Board of Directors decides how transparent and concrete the reporting is to be. Managers, banks and rating agencies can also influence how companies report.
1.4 Assessment criteria

The assessment criteria are based on the three ESG dimensions:

**Environment**
- E1 Climate emissions
- E2 Climate risk
- E3 Other environmental factors

**Social**
- S1 Human rights
- S2 Human resource development
- S3 Absenteeism and injury reporting
- S4 Equality

**Governance**
- G1 Materiality assessment
- G2 Reporting standard
- G3 Suppliers
- G4 Whistleblower mechanism
- G5 Corruption risk
- G6 Board ESG involvement
- G7 ESG opportunities

Below is a short description of criteria for each sub-category; these are explained in more detail in chapter 2.

**E1 Climate emissions**: To receive a top score, a company must have a standard climate account, specific reduction targets and a stated climate strategy.

**E2 Climate risk**: To receive a top score, a company must provide reporting on climate risk in line with the TCFD’s recommendations (see separate fact box, page 12).

**E3 Other environmental factors**: Relevant reporting on one or more of the EU Taxonomy’s four other environmental areas: sustainable use and management of water and marine resources; circular economy, waste reduction and recycling; prevention and control of pollution; protection of ecosystems.

**S1 Human rights (HR)**: To receive a top score, a company must identify relevant HR risks and describe how it handles them in accordance with the UN Guiding Principles and due diligence, in addition to presenting relevant results and targets.

**S2 Human resource development**: To receive a top score, a company must report on relevant topics regarding recruitment, career development and skills enhancement, as well as results, strategy, and targets.

**S3 Absenteeism and injury reporting**: To receive a top score, a company must provide complete reporting of injury incidents and sick leave, as well as specific targets and a strategy in the area. Companies with high risk for potential injury are expected to provide more extensive reporting.

**S4 Equality**: To receive a top score, a company must provide complete figures of gender balance for the board, top management, and the company as a whole, as well as describe targets and strategy for achieving/improving gender balance and diversity.
SAMPLE AND DATA SOURCES

The analysis encompasses the 100 largest companies (by market capitalisation) listed on the Oslo Stock Exchange as of 31 December 2019. All companies are subject to the reporting requirements in the accounting laws where they are legally domiciled and the Oslo Stock Exchange’s recommendations for sustainability reporting. This analysis is based on publicly available information, including material available on the Web, from annual and sustainability reports for 2019. For most companies, the information was easily available. In cases where the information was not readily available, or was published after the middle of June, relevant information may have been omitted. Communication through other channels was not used as a basis for assessment. In cases where subsidiaries refer to reporting by the parent company, we used the parent company’s reporting as a basis for the analysis, even though it is not formally a part of the subsidiary’s reporting.

WEIGHTING

E, S and G factors are seldom weighted equally by the financial sector, and different participants assign importance subjectively. Environmental factors, especially climate-related ones, receive a high weighting due to the attention and increased regulatory pressure in this area. Governance issues traditionally also receive a high weighting since poor risk management and control, especially linked to corruption, may have severe financial consequences for companies.

We have chosen to account for this in the total scoring of each company and have therefore given equal weighting to environmental and governance factors, while social factors are weighted 30 per cent. In the assessment of each individual criterion there is no specific weighting, simply an annotation of each sub-score.

IMPARTIALITY AND QUALITY CONTROL

Norway is a small country and The Governance Group counts many of the 100 largest listed companies on the Oslo Stock Exchange among its clients. To ensure an impartial and consistent assessment process, an external validation was performed by the Norwegian Business School (BI) – Centre for Green Growth. BI has controlled our scoring of all companies for which The Governance Group has been directly involved in the company’s reporting process.

All the companies were independently evaluated by two analysts from The Governance Group before the results were collated. In cases where there was disagreement on scoring, a third adviser was consulted.

The assessment criteria were developed by The Governance Group and quality controlled by a reference group consisting of professionals employed by two different financial companies without ties to the analysis — Lars Erik Mangset (KLP) and Marte Løfman (Grieg Investor) — in addition to an academic partner, Per Espen Stoknes at BI – Centre for Green Growth.
The assessment of environmental factors is based on the EU classification system for sustainable economic activity (see fact box page 14). However, we emphasise that we have not considered whether a company’s business activity is aligned with the forthcoming Taxonomy Regulation, since that would require a comprehensive technical analysis of several factors. As an example, the classification system requires that a company must a) have less than 100 grams CO2 per unit produced and b) a minimum CO2 emission reduction target of 50%.

In our analysis we assess whether a company a) provides a climate account and b) has a stated reduction target. We believe this indicates whether the company is prepared to report in line with the classification system but not whether this is aligned with the EU Taxonomy.

We have combined the remaining four categories in the classification system into one common category since these categories have not been specified yet by the EU, are fairly overlapping and often relevant to specific sectors.

Overall, our analysis shows that the best reporting among the 100 largest companies on the Oslo Stock Exchange is on E-factors, with very solid development of reporting on climate risk. Nevertheless, many companies appear to be unprepared for the EU’s classification system; more than half the companies lack a climate account and emission reduction targets.
E1 Climate emissions

Considering the Paris Agreement, there is no need to explain how important it is for a company to address and report reliably on climate emissions. We have emphasised companies’ descriptions of their own emissions status, in line with established principles for climate accounting, and their reporting of how emissions challenges are handled. To receive a top score, a company must provide a standard climate account and have specific future reduction targets and a stated climate strategy.

As the graph illustrates, nearly half of the companies provide solid and reliable reporting on climate emissions. Twenty-four companies received a score of 3, indicating good reporting of results and a description of the management system. However, these companies still lack what the best companies provide, namely specific reduction targets and a clear strategy to achieve these goals. Surprisingly, 29 companies either make no mention of climate emissions at all (6 companies) or mention it only briefly (23 companies). Given the size of the companies in the assessment sample, this indicates poor risk management.

E2 Climate risk

Banks, insurance companies, investors and authorities are concerned about the economic consequences of climate change. This applies to physical climate changes, which will result in, among other things, increased damage to assets, operational disruptions, and raw material shortage due to extreme weather and ecosystem changes. Concerns also apply to “transitional risk”, namely changes in the framework conditions due to stricter climate regulation and changes in market preferences. These changes are harder to predict, but if we are going to reach the goal set forth in the Paris Agreement, significant changes must be expected in legislation, technology, the competitive landscape, and market dynamics. This will trigger changes in investor and consumer behaviour, especially for companies with high emissions. The key for investors is to identify which companies are best positioned to yield good returns in the transition to a low-carbon society.

16 UNFCCC in Paris – two years after The Paris Agreement, Office of the Prime Minister, December 2017
TCFD RECOMMENDS STATEMENTS ON:

INVolVEMENT OF THE BOARD
- The Board’s follow-up of climate-related risks, including opportunities
- The company’s management of risk

STRATEGY
- Climate-related risks and opportunities for the business over different time horizons
- Climate-related risks and opportunities for the company’s business areas, strategy and financial plans
- Scenario analysis for different temperature increases (including a less than 2° change)

RISK MANAGEMENT
- The company’s processes for identifying and addressing climate-related risks
- The company’s processes for managing climate-related risks
- The processes for identifying, assessing and managing climate risk in the company’s risk management system

MEASURING AND TARGETS
- The relationship between the measurements for climate-related risks and strategy as well as risk management
- The company’s greenhouse gas emissions (Scope 1, 2, and possibly 3) and associated risks
- The targets the company uses to monitor climate-related risks, and how the targets are achieved
In climate risk reporting, the emphasis is not so much on how a company impacts the climate through its own emissions as on what financial consequences climate change may have for the company’s bottom line. The only established framework for reporting on companies’ climate risk has been developed by a commission from the Financial Stability Board (see fact box above).

The recommendations specify what climate-related reporting should include about strategy, risk management, measuring and targets. Complete reporting will give a picture of the board’s and management’s role in handling climate risk, what strategy the company is pursuing, how risk is identified, analysed, and handled, and specific targets and results.17

The recommendations were launched in 2017, which means this is the third year with annual reporting.

E3 Other environmental factors

Relevant reporting on one or more of the EU classification system’s four remaining environmental categories includes the following factors:

a) sustainable use and management of water and marine resources
b) circular economy, waste reduction and recycling
c) pollution prevention and control
d) protection of ecosystems

These four factors address the remaining environmental issues targeted by the EU Taxonomy in addition to climate change mitigation and climate change adaptation and their relevance varies depending on the company’s business activities. These factors have therefore been assessed collectively: we assess whether the companies report on what is environmentally material for them and how these factors are handled, as well as relevant results, targets and strategies.

Many companies score well in this sub-category, covering several company-specific issues such as ship recycling, the effect of building projects on biological diversity, and waste disposal and digital solutions to different environmental problems.

One issue that has yet to receive much attention, although we expect this to change, is the circular economy, for which few companies currently have pertinent parameters or a reporting format.

The trend is clearly moving in the right direction: 23 companies received a top score this year, compared to 7 companies last year, despite a significant tightening of requirements this year to achieve a top score.

Correspondingly, the number of companies with a score of 0 has fallen from 75 in 2018 to 28 this year. Last year, 78 companies received a score of 0 or 1, implying no meaningful reporting, while the number is 44 this year. Overall, this represents the most dramatic change in reporting behaviour in our data set.

Nevertheless, it is worrying that 44 of the 100 largest companies on the Oslo Stock Exchange do not report on their exposure to climate risk, despite the word “risk” being mentioned more than 300 times in annual reports.

17 If a company has not reported on climate risk in the annual report but has received a score of C or higher from the CDP, the company still receives a score of 3 because it has provided a complete climate account, set emission reduction targets and reported on how climate risks are handled. To receive a score of 4 the information must be included in the annual report.
The EU classification system (Taxonomy) for sustainable economic activity is a set of definitions that will ensure that investors, companies and issuers have a standardised and universal understanding of what will qualify as sustainable in the transition to a low-carbon society with a resource-efficient economy. The goal is to establish an international standard that defines what activities and investments can be considered sustainable for the environment and the climate.

The Taxonomy specifies that sustainable activities must contribute significantly to at least one of six specific goals:

1) Climate change mitigation
2) Climate change adaptation
3) Sustainable use and protection of water and marine resources
4) Transition to a circular economy
5) Pollution prevention and control
6) Protection and restoration of biodiversity and ecosystems

Moreover, two types of activity can be defined as sustainable: a) activities that in themselves contribute to achieving one or more of the defined environmental goals, or b) enabling activities that help others achieve one of the six goals.

To be considered sustainable, an activity cannot lock investments in economic activity that undermines long-term environmental goals, and they must have a materially positive environmental impact in a life-cycle perspective. The activity must also comply with the minimum safeguards in labour and human rights conventions (i.e. ILO, UN Global Compact, OECD Guidelines for Multinational Enterprises).

The Taxonomy Regulation will result in significant changes in financial analysis and risk perception among investors and credit lenders. Additionally, repercussions can be expected in several sectors since financing models and the pricing of capital will reward real environmental improvements. The financial markets are already preparing for the implementation of the EU Taxonomy, while investors who previously took little notice of environmental factors have begun rebalancing their portfolios with explicit reference to the classification system.

The introduction of the EU Taxonomy provides a legal framework for sustainable economic development. The Taxonomy will be implemented through EU legislation (delegated acts) in several phases beginning at the end of 2020 until the end of 2022. For listed companies, the Taxonomy will entail a significant tightening of the legal requirements for non-financial reporting (the NFRD Directive) of sustainability factors. Companies in the financial sector, initially all providers of investment products and services within the EU, will be required to report on and market their products and services with reference to the classification system. The EU Commission is expected to set forth proposals for regulatory changes by the end of 2020.
Reporting in line with the EU taxonomy

Our analysis of the companies’ reporting does not provide an assessment of how the 100 largest companies on the Oslo Stock Exchange would rank according to the classification system. However, it does provide insight into which companies provide disclosures required to undergo a classification screening. Companies that do not appear to have basic climate and environmental data, management systems or targets will face challenges in documenting the information such a process demands.

Based on this logic, we assume that companies with a score of 3 or 4 have many of the necessary processes in place since data on environmental footprint, management systems and specific targets are required to achieve these scores.

The graph illustrates how many companies appear to be capable of providing the information required to classify whether an economic activity is sustainable applying the Taxonomy Regulation. The scores are evenly distributed around 40/60, with a somewhat higher score for climate emissions reporting and the collective category “other environmental factors”. The latter category is currently not specified by the EU.

Our provisional conclusion is that many Norwegian companies have the basic data required for the classification process. However, Norwegian companies also face a significant challenge in that many of them are currently strongly linked to the petroleum industry and in real terms cannot be classified as sustainable in accordance with the EU Taxonomy. These companies will probably have to fundamentally change their business models.

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**THE EU TAXONOMY**

Companies reporting relevant information

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<table>
<thead>
<tr>
<th># of companies</th>
<th>Climate emissions</th>
<th>Climate risk</th>
<th>Other environmental factors</th>
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<td>46</td>
<td>40</td>
<td>48</td>
</tr>
<tr>
<td>Data is not reported</td>
<td>54</td>
<td>60</td>
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Social factors address a broad spectrum of topics and have historically received less attention than environmental factors. However, there are signs that this is about to change. We have chosen to focus on elements that typically are given a high weighting in ESG analyses, namely human rights, human resource development, injury reporting and absenteeism, and equality. Labour rights have not been explicitly included as a factor since this area is covered by Norwegian law and is included in our assessment of governance factors. We have also considered whether reporting is in accordance with the UN’s Guiding Principles which includes the ILO’s core conventions.

Our main impression is that reporting on areas that are explicitly regulated by Norwegian law – equality and occupational health and safety – is more thoroughly and meaningful than reporting on less clearly regulated areas such as human rights and human resource development.
S1 Human rights

Human rights are receiving increasing attention from institutional investors and banks, usually with reference to the UN and OECD Guiding Principles. The rating agencies Sustainalytics and MSCI also include assessments of human rights as part of their ESG rating of companies.

Reporting on measures taken to uphold human rights appears to be a challenge for many of the companies on the Oslo Stock Exchange, and only six companies receive a top score in this category. These companies report on the human rights challenges they face and how they handle them, including a good description of governance documents and due diligence procedures. However, 66 companies merely mention the human rights issue, making little attempt to address it in their reporting (score of 1 and 2), and 4 companies do not mention human rights at all. Most large companies, independent of sector, appear to address the issue.

S2 Human resource development

The recruitment and development of competent employees is important for all businesses. In this area there are few standard reporting requirements, something that often results in general descriptions of different measures that contain little valuable information for external readers. Good reporting on this issue demands statistical information linked to skills development, leadership development programs and employee appraisal interviews. Fifteen companies received a top score in this category based on reporting that provides a good picture of established measures for, and the status of, internal employee development.

The UN Guiding Principles are the prevailing international standard for how businesses should address human rights. The Principles are divided into three sections and include:

- the State duty to protect human rights through national legislation and to protect against abuse within the state’s own jurisdiction, including from third parties as businesses.

- the corporate responsibility to respect human rights, beyond adhering to the laws and rules in the country they operate in and to carry out due diligence to comply with this responsibility.

- the State duty to provide access to remedy for victims of business-related abuse and legal or non-legal complaint and compensation mechanisms and to encourage businesses to participate in or provide non-legal complaint schemes for parties that are involved in their business.

The responsibility to protect human rights rests with national authorities, who, through national legislation, have imposed independent rights and duties on businesses to ensure that human rights are upheld. Human rights cover a broad spectrum of issues and Norwegian Law regulates several of these, for example through the Working Environment Act and the Gender Balance and Diversity Act. Countries such as France and the UK have enacted specific legislation regarding business and human rights.

Several companies on the Oslo Stock Exchange report in accordance with the UK Modern Slavery Act. In 2018 the Norwegian Government formed an Ethics Information Panel which recommended that businesses should be required to report on corporate social responsibility and supply chain management.

The EU has confirmed that beginning in 2021 companies will be required to report on human rights. A “social taxonomy” is in the works from the EU and will function along the same lines as the green classification system.

A human rights due diligence process is a key component of the UNGP. This process encourages companies to map, prevent and limit the risk of human rights abuses caused by their own business activity or by suppliers or business partners. Furthermore, it calls for companies to mitigate the actual consequences of human rights abuses and explain how they deal with the negative consequences to their business.
S3 Absenteeism and injury reporting

This category covers traditional occupational health and safety management and statistics and appears to be well established, partially because it is more regulated by existing legislation than many other ESG topics. To receive a top score, a company must provide complete reporting of results on absenteeism and injury incidence, as well as specific goals and a strategy to achieve them. Companies whose activity exposes workers to a high risk of potential injury are expected to provide more thorough reporting.

Eighty per cent of the companies have good or very good reporting on this issue, including solid reporting of results and a good description of risk reduction strategies and measures. Three companies failed to report anything meaningful here. Consequently, they can hardly be seen as compliant with the minimum requirements in the Norwegian Accounting Act (§3.3a and c).

S4 Equality

This issue is covered rather well, in part because of Norwegian legal requirements for large companies regarding gender equality and non-discrimination, which apply to all the companies in the sample. To receive a top score, a company must report on gender balance for the company overall, as well as for the board and top management, while providing a good description of measures and results. Twenty-six companies received a top score, and 35 companies provide reporting that is solid, albeit lacking in terms of strategy and measures. Only one company makes no mention of the issue at all.
Governance factors are defined in many ESG ratings as technical requirements for corporate governance, for example dividend policy, equal treatment of shareholders, board composition and independence, board committees, incentive schemes, and risk management and internal control systems. In general, Norwegian companies address these governance factors, and the Oslo Stock Exchange has long required listed companies to report on corporate governance and name executive top management in the annual report or in documentation referred to in the same report, including the information that is required according to the Norwegian Accounting Act § 3-3 b. Deviations from these recommendations must be accounted for.

In our analysis of governance factors, we have therefore emphasised management, follow-up, and control of sustainability. As a result, in this category we have stressed companies’ approach to identifying material ESG factors, their use of ESG reporting standards, their description of supply-chain management and their strategy for green growth.
G1 Materiality assessment

A good materiality assessment is key to laying the groundwork for an effective approach to ESG, even to the extent that a poorly defined ESG approach statistically results in poorer returns than the absence of any emphasis on ESG.20 A materiality assessment provides the basis for setting priorities regarding ESG strategy and management and involves a dialogue with important stakeholders. To receive a top score, a company must describe material sustainability factors and how these have been identified, including the perspective of stakeholders and their involvement in the process.

Twenty-three companies do not appear to have performed a materiality assessment, while 67 companies perform periodic assessments. Fifteen companies provide a good description of the assessment and dialogue with stakeholders. Twenty-nine companies have solid reporting but lack specific information on priorities, thus falling short of the top score.

There are two main explanations for why companies did not receive a top score on this criterion. One is that the assessments are outdated or too generic. Companies that have undergone significant strategic or operational changes not reflected in an updated assessment will not receive a top score. Another explanation for a low score is incomplete information about stakeholder involvement. Even if a company reports convincingly on materiality assessments with great matrices and graphs, they do not receive a top score if the stakeholder perspective is lacking. This is aligned with the GRI standards’ strict reporting requirements regarding stakeholder involvement.

G2 Reporting framework

There are several different standards for reporting sustainability information. The most established, international standards for sustainability reporting are the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the UN Global Compact and Integrated Reporting (IR). GRI and SASB contain detailed requirements on what type of information must be reported and are the most used reporting standards. Applying GRI or SASB does not guarantee good sustainability reporting, but it does ensure a minimum standard for quality, methodology and comparability across countries and sectors. To receive a top score, a company must use a recognised reporting standard and the report must be externally verified.

Forty-four companies disclose that they have reported in accordance with the GRI or SASB standards. Of these, 19 reports have been externally verified and therefore received a top score. While external verification does not in itself assure that the company’s reporting is better, it sends a clear signal to the outside world that the company takes sustainability reporting seriously and that it is willing to let external sources critically evaluate content. Companies that received a score of 2 employ one of the standards but apply it incorrectly or with enough mistakes that the use of the standard cannot be considered valid.
G3 Management of suppliers

Most large companies have an extensive network of suppliers with significant corruption risk attached and an unclear policy regarding human rights, labour conditions, and the environment. To receive a top score, a company must describe relevant risks in their supply chain and how these are addressed: What requirements are in place and how are these monitored, and what results or deviations have been reported?

Awareness about the need for greater focus on management of suppliers from a sustainability perspective is reflected in proposals to legislate disclosure requirements regarding these issues. Thirty-two companies provide detailed reporting in this area, whereas eight companies have chosen not to comment on their supplier management policy.

G4 Whistleblower mechanism

The possibility of filing a complaint or grievance about reprehensible incidents or conditions is important for good ESG management. If a company does not have a whistleblower mechanism in place that lets employees report on possible breaches in the handling of environmental, social and governance issues, a situation may arise where management and the board do not take the necessary remedial action to avoid damage to the company’s ability to operate normally. This in turn may seriously damage the company’s reputation. In a 2018 update of the British recommendations for corporate governance, high priority was given to establishing a whistleblower mechanism. New rules for whistleblowing were introduced in Norway this year, but many consider them inadequate.

It is good practice to establish a channel that lets external sources report on issues the company appears to handle poorly. Regarding environmental, social and governance issues, the violation of norms is often something that can be observed by people outside the company. In such instances, it is important for the company’s board and management to have a mechanism in place that facilitates the reporting by external parties of potential violations of internal guidelines or existing regulations.

To receive a top score, a company must describe internal and external whistleblowing channels and report on violations and how these have been followed-up.
The requirements are comprehensive, but they are far from concisely outlined. In our review of company reports, several companies fall short in complying with the law’s requirements. In addition, a handful of companies fail to disclose on all the required topics or fail to disclose that they have not established guidelines, principles, procedures, and standards. In our view, the law is too general and lacking in specifics. Taking this view into account has led us to conclude that it is not feasible to evaluate whether companies are in compliance with the Norwegian Accounting Act on ESG reporting and whether company boards have fulfilled their duty in this area. We have therefore chosen not to include the sub-score on “ESG involvement from the board” in the total score for each company.

Nevertheless, the remaining results are somewhat disconcerting: 3 companies make no mention of corruption risk, and 22 and 21 companies, respectively, provide reporting that either mentions it only briefly (score of 1) or is so incomplete that the reader is hard pressed to discern a policy in practice (score of 2). This is discouraging given the number of corruption cases involving Norwegian companies in recent years where both the board and management have lost the trust of significant shareholders.

The Norwegian Accounting Act requires large companies to disclose how they address human rights, labour rights, equality and non-discrimination, social conditions, the external environment, and prevention of corruption when developing their business strategies. The disclosure must, at a minimum, provide information about guidelines, principles, procedures, and standards that are employed by the company to ensure legal compliance in its business strategy and daily operations and in relation to its stakeholders. The law also requires companies that do not have such guidelines, principles, procedures, and standards to disclose this in their reporting.

The requirements are comprehensive, but they are far from concisely outlined. In our review of company reports, several companies fall short in complying with the law’s requirements. In addition, a handful of companies fail to disclose on all the required topics or fail to disclose that they have not established guidelines, principles, procedures, and standards. In our view, the law is too general and lacking in specifics. Taking this view into account has led us to conclude that it is not feasible to evaluate whether companies are in compliance with the Norwegian Accounting Act on ESG reporting and whether company boards have fulfilled their duty in this area. We have therefore chosen not to include the sub-score on “ESG involvement from the board” in the total score for each company.

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19 If the Norwegian Code of Practice for Corporate Governance (published by The Norwegian Corporate Governance Board) has not been followed, the deviations from the Code’s recommendations must be accounted for.
22 UK Corporate Governance Code, July 2020, Principle 1 e
23 https://lovdata.no/dokument/SHPPM/jm-2020-02
25 3-3 c, Lov om årsregnskap m.v. (regnkaploven) (Accounting Act).
Leading by example – the best sustainability reporting

On the following pages, companies with best-in-class reporting on the different dimensions (E, S and G) are presented.
Environmental reporting

COMPANIES WITH TOP SCORE:
Norwegian Property, Gjensidige, Mowi, Orkla, Lerøy, Grieg Seafood, Europris, Equinor, Yara International, Norsk Hydro, Entra and Borregaard.

Entra

Entra receives a top score on all environmental criteria. The company has a solid climate account, verified by the company’s accountant, and presented in line with the guidelines from EPRA Sustainability Best Practice Recommendations. Entra has set ambitious goals for reducing CO2 emissions and detailed strategies to achieve these goals. The company’s reporting covers several of the requirements in the EU classification system. It is especially noteworthy that Entra includes emissions from waste towards the company’s goal of reducing CO2 emissions and includes this in their scenario analyses.

Borregaard

Borregaard topped last year’s ranking and is among the companies that provides the best reporting on environmental criteria. The company has a solid climate account, reports thoroughly on management and initiatives, and has set targets for the reduction of greenhouse gasses in line with the level required to limit the global temperature increase to 1.5 degrees Celsius by 2050, based on the requirements in the Science Based Targets Initiative. Borregaard provides solid information about their work on climate risk and received a score of A from the CDP in 2019 – overall this results in a top score on climate risk reporting. Borregaard also reports thoroughly and meaningfully on the other environmental topics, including initiatives, goals and results linked to water and waste, air pollution and impact on ecosystems.
Reporting on social factors

**COMPANIES WITH TOP SCORE:**

Orkla, Yara International and Norsk Hydro (top score on all factors).
Telenor, Equinor, Aker BP and Aker Solutions (top score on three out of four factors).

**Orkla**

Orkla is among the best companies when it comes to reporting on social criteria. Their reporting on human rights and human resource development is especially noteworthy. Orkla receives a top score on reporting of measures tied to human rights by, among other things, linking due diligence with Orkla’s own guidelines on human rights. Orkla also receives a top score on human resource development, with a lucid description of measures to increase employee and management competence and participation in employee appraisal interviews.

**Norsk Hydro**

Norsk Hydro’s reporting of its work on human rights is solid, including how the management system on human rights works in practice, how the company monitors the human rights conditions of its suppliers, how employee training on human rights is carried out and especially how Hydro executes and monitors due diligence processes. Norsk Hydro also provides a thorough GRI index with useful references to the UN Global Compact, ASI (Aluminum Stewardship Initiative), and ICMM (International Council on Mining and Metals).
COMPANIES WITH TOP SCORE:

Mowi, Yara International and Norsk Hydro (top score on all factors).
Scatec Solar, Sparebank 1 SMN and Sparebank 1 Østlandet (top score on four out of five factors).

Reporting on governance factors

Yara International

Yara clearly demonstrates that sustainability plays an important role in the company’s management systems. Worth noting is their emphasis on the management of their suppliers, their work on sustainability, and their work on anti-corruption. Yara has developed a separate set of ethical guidelines for suppliers and business partners which is detailed and applicable in practice.

Mowi

Mowi’s sustainability reporting is solid for most criteria and is among the best for governance factors. Especially worth noting is the company’s effort to identify material sustainability issues and their reporting of whistleblower mechanisms. Our assessment methodology emphasises not only the description of the materiality assessment process but also regularity in updating it. Mowi provides solid information about its work to continuously monitor material value drivers. Furthermore, Mowi’s reporting on whistleblower channels is transparent and includes descriptions of internal and external mechanisms and disclosure of incidents and follow-up status.
4 ESG 100 ranking

<table>
<thead>
<tr>
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**Rating Legend**

- **A**: Excellent reporting in line with best practice. Good description of material issues and relevant results. Clear strategy and specific, quantifiable targets.
- **B**: Good reporting that covers important issues. Includes a materiality assessment, is based on a recognised reporting standard, and provides some specific, quantifiable targets.
- **C**: Solid reporting based on a recognised standard. Includes fundamental and specific sustainability information but lacks specific targets.
- **D**: Straightforward reporting on some issues but lacks a systematic approach or a verifiable use of recognised reporting standards.
- **E**: An attempt at sustainability reporting but no recognised standard is followed. Difficult to gauge priorities and lacking in quantifiable information.
- **F**: No reporting or very incomplete reporting.
ESG analyses have primarily been risk-oriented, focusing mainly on companies’ potential negative impact on people and the environment. This focus on risk still characterises sustainability reporting. However, there is significant investor interest in the growth possibilities arising from the green transition: renewable energy, carbon capture, climate-neutral buildings and cars, circular economy solutions for reuse and upcycling, and green technology in general. What companies already demonstrate solid strategic initiatives to capture a market position in a low-carbon society?

Assessments

Sixty-nine companies mention ESG opportunities, but few provide meaningful reporting on the subject. The companies that received a score of 1 or 2 mention that there are opportunities within green products and services, and some provide examples without specific information about market potential.

To receive a top score on this criterion, a company must provide a specific description of sustainable growth opportunities, as well as quantify goals and outline its strategy to reach these goals. Very few companies provide this level of reporting. Only eight companies give an impression of reliability with an indication of actual (potential) revenues, the level of R&D, growth targets and a strategy to take market share within sustainable economic activity. Eighteen companies provide extensive information on business opportunities for their products and services but without quantifying goals or offering a clear strategy.

At present it is difficult to provide objective and specific assessments of reporting on strategically targeted ESG business opportunities. Nonetheless, we have attempted to give an overview of the opportunities described and targeted in ESG reporting and to evaluate how specific and relevant these are.

The reporting on strategic ESG opportunities is in an early phase and we have therefore not included this parameter in the overall scoring of the companies.
Three main conclusions can be drawn from the analyses of the companies’ strategic ESG opportunities:

1. A LOT OF SDG BUT LITTLE USD

The companies often mention ESG opportunities in a sustainable but non-financial perspective. Put differently, they often provide insight into how products and services may contribute to solving global challenges, for example citing the potential to reduce social inequality by developing and offering IT and communication solutions. The reporting is often linked to the UN Sustainable Development Goals (SDGs). However, from an investor perspective, it is the “business case”, or the growth potential linked to sustainable products and services, that is relevant – and as long as quantifiable targets regarding the real effect on profitability or growth potential are lacking, the reporting is of little value.

2. A LOT OF UPSIDE, LITTLE DOWNSIDE

Many of the companies analysed clearly present opportunities for future growth based on sustainable products and services but forget to address the potential negative consequences of the same initiatives. One example of this is the fish farming industry: The industry emphasises CO2 efficient food production (a climate-friendly way of feeding a growing global population) but often fails to address the production’s potentially destructive impact on ecosystems. Our overall impression is that the companies’ reporting does not provide analysts with a full picture of their sustainability initiatives.

3. RISK REDUCTION IS NOT A GROWTH STRATEGY

The companies often provide solid analyses of macroeconomic trends and the largest global risk factors they face. Climate-related risk is high on this agenda. Many companies then proceed to make a methodical “miscalculation” by describing how they address these risks while claiming that this will give them a competitive edge in the “green” transition.

Reducing emissions reduces a company’s risk but does not automatically create a growth opportunity in this transition. A recurring theme is that companies describe ESG opportunities tied to different technologies they have developed, for instance advances in production that will make them more carbon efficient and give them a competitive edge. In reality, the focus on “opportunities” here is merely an explanation of how the companies minimise ESG risk. It is not about actual market growth opportunities in the transition to a sustainable world.

If we are to reach the Paris Agreement’s goals, we need to develop new energy sources, new homes, and new transport and food supply systems and alter consumption patterns. This is the future scenario companies need to prepare and position themselves for. Reporting on a more energy-efficient processor or a reduction in air travel is missing the mark. We see considerable room for improvement in this area.

**Key findings**

**Storebrand**

Storebrand offers a thorough description of why sustainable investments are financially favourable in a long-term perspective based on both expected returns and changes in investor preferences. A solid presentation of approach, ambitions, goals, initiatives, and results related to investment in “Solutions” earns Storebrand a top score.

**Examples that inspire**

Among the companies that received a score of 3 or 4 on ESG opportunity, we have highlighted some good practice.
Aker Solutions takes a clear stance in its focus on sustainable technologies, “Solutions”, with significant business potential. With its concrete goal of generating 20 percent of its revenues from sustainable solutions and 25 percent of revenues from low-carbon solutions by 2030, the company is among the most forward-looking on the Oslo Stock Exchange when it comes to goals linked to sustainability opportunities.

Vow (formerly Scanship Holding) clearly conveys how the increased global demand for clean and green solutions will enable the company to prosper in a green future.

Elkem explains in-depth why their products are critical components in solutions for many of the large sustainability-related challenges the world faces, for example, the need for clean transport and the storage and further development of renewable energy.

Equinor’s annual report reflects the company’s understanding that it must make substantial changes going forward to ensure that it remains viable in a carbon-efficient and green future. The challenges climate change pose to the world and to Equinor are not ignored, and opportunities within offshore wind power, solar energy, hydrogen, and carbon capture are presented together with clearly stated ambitions, measures, and results.
This year’s analysis of the 100 largest companies on the Oslo Stock Exchange reveals that many companies have improved their sustainability reporting compared with last year. This is good news for analysts, financial decision makers, and society at large – sustainability has become less about talk and more about action.
The responsibility for identifying material sustainability risks and associated goals rests not only with senior management. A company’s board should demand access to information regarding key sustainability risks to the same extent that it does in other areas. By being transparent regarding risk tolerance and goals related to material sustainability factors, the board will also aid analysts and investors in understanding the company.

The EU classification system for sustainable economic activity will lead to an increased emphasis on innovative technological solutions to meet stricter requirements on energy efficiency, emissions reduction, and less dependence on raw materials. In the coming year, we expect more companies to lay out specific goals and strategies to ensure growth within areas that qualify as sustainable economic activity under the classification system. Such an approach is likely to produce higher returns and better access to financing.

Financial market participants need to be reassured that the board and management of a company are effectively managing their material sustainability risks. A recent study\(^\text{27}\) shows that companies that manage to prioritise material factors deliver higher returns than companies that operate with a broad and undefined commitment to sustainability.

In this year’s analysis we found no statistically significant correlation between reporting on sustainability factors and financial factors or state ownership.

What is material varies depending on sector, geography, and value chain. The key for corporate executives is to identify and handle the material ESG factors rather than attempt to “cover all the bases” in a poorly defined wager on “sustainability”. Since the Norwegian Accounting Act does not clearly define the disclosure requirements for ESG information, minimum reporting is of little value. The latter makes it challenging to understand how companies manage ESG-related risks.

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<td>Materials</td>
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<td>Consumer discretionary</td>
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<td>Communication services</td>
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<td>Equity certificates</td>
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<td>Health care</td>
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This year’s ESG 100 analysis shows that the consumer and industrial sectors still provide the most informative sustainability reporting. Within the financial sector, variations are large, with some companies providing extensive and relevant information while others simply mention “sustainability” without providing any further details or disclosures based on standards. The health care sector on the Oslo Stock Exchange, albeit small, is a clear laggard with regard to sustainability reporting.

The financial sector depends on accurate and comparable information on risks to evaluate how risks may affect value creation. A sophisticated and standardised approach to sustainability reporting still does not exist. Trust must be built by referring to a methodical and thorough assessment of the material risks and opportunities for a given company. A good materiality assessment is therefore a prerequisite for both governance and reporting processes. We welcome policy initiatives aimed at establishing a legal framework for simple, specific, and standardised ESG reporting.

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The Governance Group (TGG) is an independent advisory firm specializing in ESG risk analysis, strategy development, and reporting.

The Governance Group has a systematic approach to ESG in which risk and opportunity mapping forms the basis for providing analyses and developing strategies, governance documents, and reports for – and in cooperation with – our clients. This approach allows us to help minimise our clients’ ESG-related risk while strengthening their market position. We employ recognised standards in accordance with existing regulations to ensure that our clients have a solid basis for making decisions and communicating relevant information to the right stakeholders in an effective manner.

ASSESSMENT BASED ON THE EU TAXONOMY

We can assist companies and investors looking to evaluate their business activities with reference to the EU Taxonomy for sustainable economic activity. We ensure that our clients’ business areas are assessed in line with the climate-related criteria as well as the requirement to “do no significant harm” to any of the Taxonomy’s six environmental objectives.

Under the Taxonomy Disclosure Regulation financial market participants will need to report the extent to which their financial product aligns with the Taxonomy. Financial products will include investment and mutual funds, insurance-based investment products, private and occupational pensions, individual portfolio management, as well as insurance and investment advice. We provide analyses of portfolios and can develop a methodology for future mapping aligned with the EU Taxonomy.

ACCESS TO UNDERLYING DATA

For companies assessed in this report we can provide a company specific analysis of the results across the 14 ESG factors included. The feedback includes the following:

- A review of sub-scores on each ESG factor.
- Industry benchmarking for each ESG factor.
- Recommendations on how to improve on each factor and overall reporting.

For investors, industry players and companies not assessed we can provide tailored reports on request.

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info@thegovgroup.org Tel. +47 22 83 43 00

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Our clients include companies within banking and finance, asset management, renewable energy, oil and gas, telecommunications, shipping, infrastructure, and real estate. TGG also carries out consulting work for public authorities in the fields of anti-corruption, human rights, and the environment. We have a core team based in Oslo and a network of advisors in the United States, Europe, Asia, and Africa.
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