ESG100 Report 2023

Position Green

Investment-grade disclosures: Are Scandinavian companies prepared for the ESRS?

ESG100
POSITION GREEN | 2023

About this report

Position Green's ESG100 report, now in its sixth edition, provides the first large-scale study of how well prepared companies are for the introduction of the EU's European Sustainability Reporting Standards (ESRS), expected to take effect from 1 January 2024.

The report provides investors, companies and policy-makers with insights on the gaps in ESRS readiness.

The analysis is based on the most recent environmental, social and governance reporting data from the leading 100 publicly listed companies in Denmark, Sweden and Norway (300 companies in total).

The assessment of ESRS readiness is based on an evaluation of each company's reporting against 68 disclosure requirements derived from the ESRS.

The ESG100 also assigns each company with a grade from 'A+' to 'F', based on 85 research questions encompassing ESRS disclosure requirements and best practice sustainability reporting criteria.

The findings of this report are presented in four sections that mirror the structure of the ESRS standards: General Disclosures, Environment, Social and Governance.

This version of the ESG100 report has been updated to include corrections and previously omitted data.

ESG100
POSITION GREEN | 2023

General Disclosures

Executive pay 36%

36% of companies report that they are linking executive pay to ESG targets, up from 25% last year, which suggests investor pressure is working.

Materiality assessments 78%

78% of companies are using materiality assessments in their sustainability reports, up from 61% last year. But companies face a steep learning curve to meet ESRS requirements.

Environment

Emissions reporting 31%

More companies are disclosing their emissions but gaps still remain with 15% of companies failing to report Scope 1 emissions, 23% Scope 2 and 31% Scope 3. ESRS requirements for full Scope 3 reporting will challenge many companies.

Climate risks 8%

Around half – 54% – of companies assess their climate-related risks but only 8% disclosed the financial impacts. Investors should push for more disclosure on this.

Biodiversity 46%

Nature is rising on the corporate ESG agenda with 46% of companies disclosing a policy or commitment to biodiversity or nature (compared to 69% that have a climate change policy).

Climate targets & plans 41%

While 62% of companies have committed to net-zero emissions, only 41% report having a climate transition plan in place and just three companies have all the key elements of a robust plan.

Taxonomy reporting 65%

65% of the in-scope non-financial companies in Denmark and 19% in Sweden failed to report their 2022 taxonomy-eligible revenue, indicating significant non-compliance.

Social

Diversity, equity & inclusion (DEI)

38%

While 95% of companies have a diversity policy, only 38% disclose data on incidents of discrimination or harassment.

Gender pay gap

36%

Scandinavian egalitarianism does not extend to reporting on compensation practices, with only 36% of companies disclosing their gender pay gap.

Human rights

79%

Regulation is driving stronger human rights reporting with 79% of companies in Norway conducting or committing to conduct human rights due diligence, reflecting the impact of the Norwegian Transparency Act.

CEO pay ratio

25%

Only 25% of companies disclosed their CEO pay ratio – the difference between the highest paid employee, typically the CEO, and the median pay of all other employees.

Governance

Supply chains

47%

While 82% of companies disclose a procurement policy that includes sustainability criteria, many appear blind to corruption and other ESG risks in their supply chains with only 47% conducting audits of their suppliers.

Responsible tax

43%

43% of companies disclose that they are committed to responsible tax practices, with Danish companies leading the way.

Whistle-blowing system

34%

While most companies (93%) have a whistle-blowing system, only 34% report having the critical components of a robust system.

Lobbying & political activities

15%

Investors should consider increasing their scrutiny on lobbying activities, on which only 15% of Scandinavian companies disclose.

ESRS Readiness

This report reveals large gaps in company readiness for the ESRS, expected to take effect mere months away in 2024.

Since Scandinavian companies tend be more advanced in their ESG disclosures, this suggests that European companies will have significant gaps to close.

Overall

- On average, companies within the ESG100 reported 54% of the 68 ESRS disclosures that were tested for.
- Companies in Norway and Sweden were most prepared for the ESRS, reporting on 59% of the disclosures on average.
- Danish companies were less prepared, reporting 43% of the disclosures on average.

By ESG disclosure theme

- The largest gap to readiness existed in environmental disclosures, with companies reporting 46% of disclosures on average compared to general disclosures (54%), governance (57%) and social (59%).

By company size

- Company size is a factor in ESRS readiness with the largest 50 companies by market capitalisation reporting 66% of disclosures, while the smallest 50 reported just 31%.
- 47 of the 50 smallest companies by market capitalisation are Danish, which explains the large overall gap in readiness for Denmark.

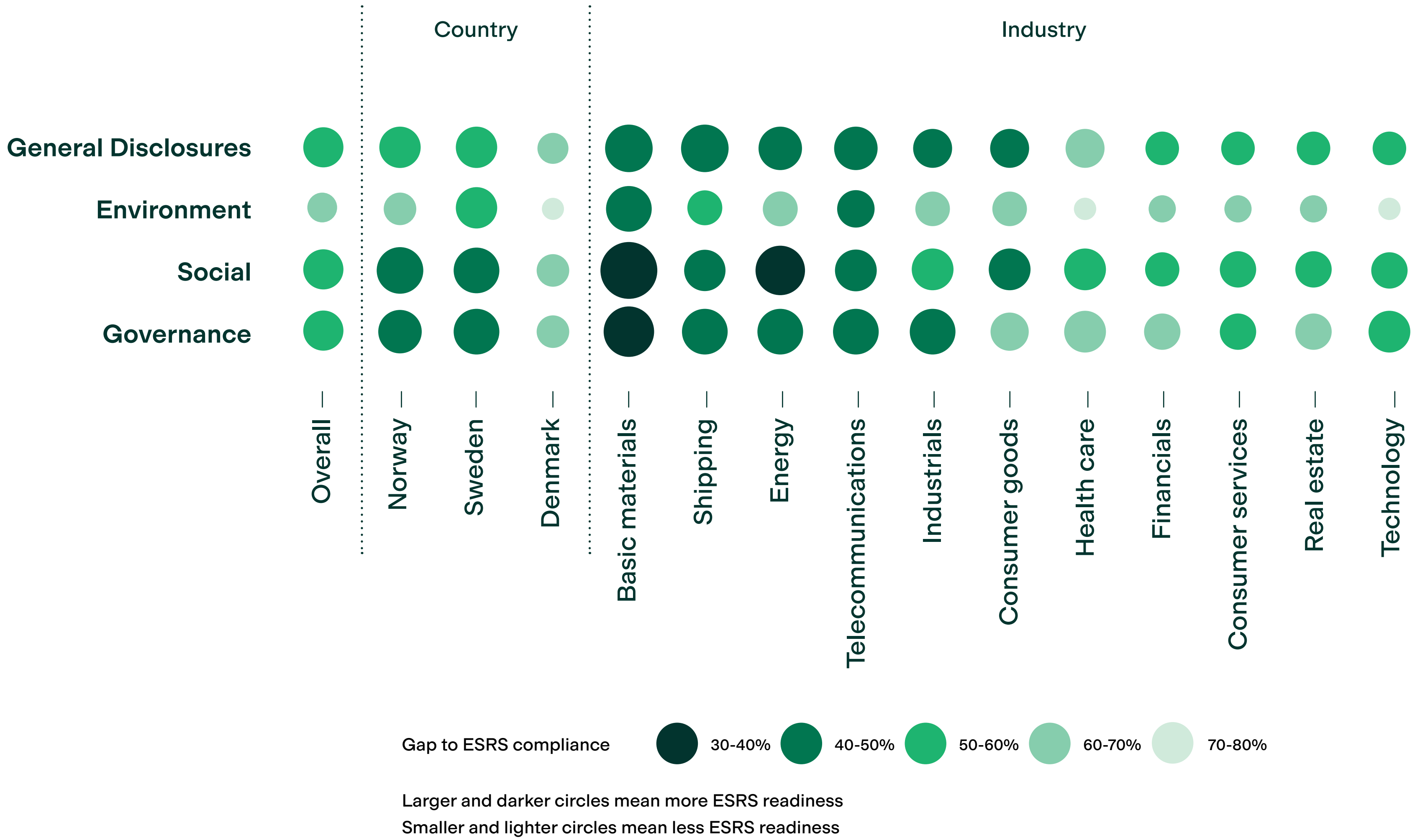
By ESRS compliance year

- The ESRS applies a phased in approach. On average, companies due to comply with the ESRS in 2024 reported 59% of the disclosures, while the 2025 cohort reported 51% and 2026 reported 40%.

By industry

- Among industries, ESRS readiness was strongest among companies in the basic materials industry which reported 71% of disclosures on average, followed by shipping and energy (both 62%).
- Technology companies have the largest readiness gap, reporting 47% of the disclosures on average.

Norwegian and Swedish companies are better prepared for the ESRS, along with companies in basic materials, shipping and energy.



Introduction

The sixth edition of Position Green's ESG100 examines how well prepared Scandinavian companies are for the introduction of the EU's European Sustainability Reporting Standards (ESRS) – the first large-scale study of its kind.

ESG100 identifies large gaps in ESRS readiness

By analysing the most recent sustainability disclosures of the top 300 publicly listed companies in Denmark, Norway and Sweden, the ESG100 reveals large gaps in company readiness for the ESRS, expected to take effect on 1 January, 2024. Since Scandinavian companies typically have more advanced environmental, social and governance (ESG) disclosures, this suggests that European companies will have substantial gaps of their own to close.

The report arrives in the wake of an avalanche of corporate sustainability disclosure standards and an intense political divide in the United States over the incorporation of ESG factors into investment and business decisions.

In the past year, the EU has given final approval to the Corporate Sustainability Reporting Directive (CSRD) and adopted the ESRS, which detail the implementation of the CSRD. Meanwhile, the US Securities and Exchange Commission (SEC) encountered significant opposition to its proposal to enhance and standardise climate-related disclosures for US-listed firms. Additionally, the first set of global reporting standards was unveiled by the International Sustainability Standards Board (ISSB).

The ESRS is a game-changer for sustainability reporting

The increased reporting requirements of the CSRD and ESRS are a game-changer. They also significantly expand the number of companies required to report sustainability information in the EU from 11,600 to 49,000 and to an estimated 10,000 non-EU-domiciled companies[1].

For investors, the ESRS addresses the need for high-quality, consistent and comparable corporate sustainability disclosures required to make informed investment decisions. It also fills the gaps in their own reporting requirements under the Sustainable Finance Disclosure Regulation (SFDR).

Pending final approval from the European Parliament and Council later this year, the success of the ESRS will soon fall to the companies within its purview for the 2024 reporting cycle. When properly implemented, the ESRS will support the transition to a low carbon economy and the achievement of the ambitious goals of the European Green Deal. Given the mounting evidence that Europe is the fastest warming continent, this can't come soon enough.

But compliance will be a challenge

However, the ESG100 findings suggest implementation challenges ahead. On average, the 300 companies reported 54% of the 68 ESRS disclosures that were tested for. Company size plays a role in ESRS readiness with the largest 50 companies by market capitalisation reporting 66% of disclosures, while the smallest 50 reported just 31%.

The ESG100 also identifies significant non-compliance against mandatory EU taxonomy reporting requirements, with 65% of the in-scope non-financial companies in Denmark and 19% in Sweden failing to report their 2022 taxonomy-eligible revenue.

Given the failure of many companies to meet the Taxonomy reporting requirements, the gaps identified in Scandinavian reporting and the complexity of the ESRS, it's likely there will be a high degree of initial non-compliance with the ESRS's disclosure requirements among companies.

If the ESRS is to succeed in its ambitions, companies must treat it less like a compliance burden, and more as an opportunity to develop sustainable business models that attract new revenue, talent and investment.

[1] Refinitiv, How many companies outside the EU are required to report under its sustainability rules? 3 July, 2023, https://www.refinitiv.com/perspectives/regulation-risk-compliance/how-many-non-eu-companies-are-required-to-report-under-eu-sustainability-rules/

Key takeaways

Companies

With the ESRS set to take effect from 1 January 2024, companies must act quickly to assess and close their gaps to readiness. Performing a robust ESRS-compliant materiality assessment is essential.

This will require participation and buy-in from senior management, risk, operations, and legal, among other stakeholders, and the related time and resources. As the ESRS concepts are new, companies should be upskilling key staff to ensure sufficient expertise.

Investments will need to be made in an ESG data management system that ensures the accuracy and traceability of sustainability information required to meet assurance standards.

Above all, companies should take the opportunity to treat the ESRS not so much as a compliance burden, but as an opportunity to develop sustainable business models that attract new opportunities, talent and investment.

Boards

Boards hold a pivotal role in steering the company's efforts towards a sustainable business model, overseeing the risks and opportunities associated with the transition to a low-carbon economy and aligning the company's actions with regulatory requirements and investor expectations.

In particular, Boards must take responsibility for the governance of sustainability and aligning executive remuneration with ESG targets. With only 36% of ESG100 companies reporting that they link executive pay to ESG targets, boards have some way to go to meet investor expectations.

Investors

Pension funds, asset managers, banks and other financial market participants must engage companies on the need to close the gaps to ESRS compliance and make comprehensive disclosures based on accurate and science-based materiality assessments.

The European Commission's decision to remove mandatory reporting requirements for climate and social topics from the ESRS shifts the battle on what companies must disclose to the materiality assessment. Investors should make clear their materiality expectations to companies, particularly on climate and social indicators, in order to ensure access to the sustainability data they need to allocate capital in line with the SFDR.

Policymakers & regulators

Subject to final approval from the European Parliament and the Council, regulators in Denmark and Sweden have a short window to transpose the ESRS into domestic law before it takes effect. Norwegian regulators have also committed to doing so.

Given the extensive gaps among reporting by Scandinavian companies, the complexity of the ESRS and the failure of companies to meet taxonomy reporting requirements, regulators will likely face a high degree of initial non-compliance with the ESRS's disclosure requirements.

The gaps in ESRS readiness among small cap Danish companies should be of particular concern for Danish regulators.

About Position Green

Position Green is a pure play sustainability partner with the technology and expertise to drive positive impact.

Advisors with deep sector knowledge and expertise

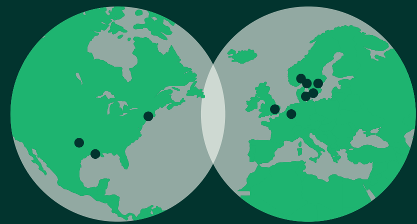
100+

ARR growth of last 5 years

100%

Offices in Europe, the UK & US

10



Clients worldwide

500+

Employees

300+

Our unique offering combines purpose-built ESG software with specialised ESG advisory services, e-learning and independent assurance.

This means we can provide a complete, end-to-end solution for ESRS compliance – from undertaking a double materiality assessment and gap analysis to streamlining data collection and reporting.

Position Green is a member of the UN Global Compact and a partner of GRESB and the SASB Consulting Programme, having contributed to the development of the SASB Marine Transportation standards. Position Green is also a certified GRI Training Partner and a CDP Accredited Solutions Provider.

TRAINING PARTNER

> Position Green provides a complete, end-to-end solution for ESRS compliance.

Scan or click and learn more about our ESRS solution

Methodology

The sixth edition of the ESG100 marks a significant change in methodology to provide insights on readiness for the ESRS and to assign company scores against ESRS disclosure requirements and other ESG reporting criteria.

Focus remains on ESG reporting, not performance

Despite the change in methodology, the ESG100 remains focussed on the quality of ESG reporting, not ESG performance. In this respect, the analysis is concerned with whether a company has disclosed its Scope 3 emissions, for instance, not whether it has reduced them.

It follows, therefore, that companies in industries known for high emissions - such as energy and shipping - may nevertheless achieve a high grade in the ESG100 on the strength of their reporting.

Yet companies that don't disclose can't be assessed. Given the critical importance of accurate sustainability information for investors and other stakeholders, we make no apologies for the focus on reporting.

While some company scores have been impacted by the revised methodology, companies that scored well in 2022 tend to do so again in 2023 given that the ESRS reflects best practice reporting.

ESG100 selection and data sources

The assessment is based on the 100 largest companies by market value listed on the Oslo Stock Exchange, Nasdaq Stockholm and Nasdaq Copenhagen - 300 companies in total - as of 31 December 2022. All data is gathered from publicly available sources, including the sustainability reports, annual reports, corporate governance and remuneration reports of these companies.

If the company information was not clearly referenced or published by 31 May 2023, it may have been omitted from the assessment. For companies that don't follow a calendar year accounting period, the data used in the ESG100 assessment might be based on information from their 2021/2022 reports.

Assessment criteria

ESRS readiness was assessed through an evaluation of each company's reporting against 68 disclosures derived from key ESRS standards: ESRS 2 General disclosures, ESRS E1 Climate change, ESRS E4 Biodiversity and ecosystems, ESRS S1 Own workforce and ESRS G1 Business conduct. This assessment is not intended as a formal gap analysis.

The grades awarded to companies were assessed through an evaluation of each company's reporting against 85 research questions encompassing ESRS disclosure requirements and other criteria based on sustainability reporting best practices.

As the ESRS disclosure requirements are subject to a materiality assessment (except for the mandatory ESRS 2 General disclosures standard), we excluded a number of topics from the scoring, such as biodiversity and circularity, that may not be material to every company. EU taxonomy data was also excluded from the scoring as reporting is voluntary in Norway and some of the Danish and Swedish companies do not meet the thresholds that require them to disclose taxonomy data.

Scoring system

The grades are based on how many of the 85 research questions a company discloses against – the "raw score". All research questions are scored equally as one point and no weighting is applied.

To make it easier to compare scores, the raw score is converted into one of eight grades from 'A+' to 'F'.

'A' and 'B' grades are considered excellent and good reporting respectively, while 'F' is given to those companies providing very incomplete reporting.

The grades are based on percentiles corresponding to the top and bottom 5% of the company raw scores and an even distribution of 15% for each of the remaining six grades.

A forced ranking is applied to avoid a situation where companies with the same raw score are awarded different grades. This means that there may be more than 5% of the companies in the top or bottom grades and more than 15% of companies in the middle grades.

Grade	Forced ranking % distribution	Top%	Points required out of 85	No. of companies awarded
A+	5%	5%	67	20
A	15%	20%	60	45
B+	15%	35%	55	43
B	15%	50%	50	48
C	15%	65%	41	43
D	15%	80%	32	43
E	15%	95%	18	43
F	5%	100%	6	15

Impartiality and quality control

The methodology and criteria were developed by Position Green and have been quality assured in collaboration with academic partners and the investor community, including Columbia University and KLP, Norway's largest pension fund.

As a number of companies in this analysis are customers of Position Green, we engaged students through non-profit organisation Sustainergies in Sweden to undertake the research in order to ensure independence and objectivity in the ratings. All completed company assessments were reviewed for quality assurance by Position Green to verify consistency in the research team's application of the criteria.

Position Green is not responsible for any misinterpretation of data, and it is possible that the research team may have overlooked information. Rankings published in this report are not intended to be used as a basis for decision-making or third-party analysis.

> **"Companies rated in the ESG100 can obtain a more detailed briefing of their results from Position Green by request.**

Scan or click and request detailed briefing of results

Know your standards

NFRD

Adopted in 2014, the Non-Financial Reporting Directive (NFRD) required approximately 11,700 "public-interest entities", such as listed companies, banks, or insurance companies, with more than 500 employees to provide sustainability information related to environment, human rights, anti-corruption and bribery, and diversity on company boards.

CSRD

The Corporate Sustainability Reporting Directive (CSRD) amends the NFRD and establishes a comprehensive and standardised framework for sustainability reporting. The CSRD applies to 49,000 companies operating within the European Union and an estimated 10,000 outside. Approved by the EU Council on 28 November 2022.

ISSB

In June 2023, the International Sustainability Standards Board issued two standards, IFRS S1 and IFRS S2, providing disclosure requirements for companies to communicate sustainability-related risks and opportunities and climate-related disclosures.

ESRS

The European Sustainability Reporting Standards (ESRS) outline the concepts and principles to which companies reporting under the CSRD must align their sustainability statements with. The standards cover the full range of environmental, social, and governance issues, including climate change, biodiversity and human rights. Adopted by the European Commission on 31 July 2023 and due to take effect on 1 January 2024, pending final approval from the European Parliament and Council.

SFDR

The Sustainable Finance Disclosure Regulation (SFDR) provides a framework for financial market participants to disclose sustainability information. It is also designed to allow investors to properly assess how sustainability risks are integrated in the investment decision process. Adopted on 10 March 2021.

TCFD

In 2017, the Taskforce on Climate-related Financial Disclosures (TCFD) released 11 recommendations for companies to voluntarily make climate-related financial disclosures to investors. The recommendations have been incorporated into the ESRS and ISSB standards.

EU taxonomy

The EU taxonomy is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and broader environmental goals other than climate. The main regulation entered into force on 12 July 2020 and reporting requirements have been phased in since.

CSDDD

The Corporate Sustainability Due Diligence Directive (CSDDD) requires in-scope companies to conduct due diligence on, and take responsibility for, human rights abuses and environmental harm throughout their global value chains. Presented by the European Commission in February 2023, amended by the Parliament in June and currently subject to trilogue negotiations.

TNFD

The Taskforce on Nature-related Financial Disclosures is an international initiative established to develop a risk management and disclosure framework for organisations to report and act on evolving nature-related risks. The final recommendations of the TNFD were released on 18 September 2023 and build upon those of the TCFD.

General disclosures

Key findings

Linking executive pay to ESG targets

- More companies are linking executive pay to ESG targets with over a third of companies (36%) reporting that they do so, up from 25% last year, which suggests investor pressure is working.
- However, only 10% of companies provided detailed descriptions of the KPIs used for performance pay for ESG targets. Transparency on ESG in executive pay targets needs to improve.
- 15% reported that they link executive pay to greenhouse gas (GHG) reduction targets, and 6% provided detailed descriptions of the KPIs used for performance pay.
- Shipping companies were most likely to disclose a link between executive pay and GHG emissions reductions targets. Technology companies were least likely to.

Use of materiality assessments

- 78% of companies are using materiality assessments in their sustainability reports, up from 61% last year. But companies face a steep learning curve to meet ESRS requirements.

Use of ESG frameworks

- Over three-quarters (78%) of companies reported in line with at least one of the established reporting frameworks, such as GRI, SASB or TCFD, up from 60% last year.

ESRS readiness

The ESG100 research tested for eight disclosures included in the ESRS 2 General disclosures standard and one from the CSRD.

Overall

- On average, companies within the ESG100 reported 54% of the general disclosures we tested for.
- Companies in Norway were most prepared, reporting on 59% of the general disclosures, while companies in Sweden met 58% on average.
- The gap was largest among Danish companies, which reported on 44% of the general disclosures on average.

By company size

- The largest 50 companies by market capitalisation reported 66% of disclosures, while the smallest 50 just 33%.

By industry

- Among industries, the best prepared companies were in the basic materials industry which reported 69% of disclosures on average, followed by shipping (66%) and energy (61%).
- The largest gap in ESRS readiness was among technology companies which reported 45% of the general disclosures on average, followed by consumer services and real estate companies with both reporting 48% of the disclosures.

Introduction

Many companies structure their sustainability reports into environmental, social and governance sections. The ESRS introduces a new section based on the mandatory ESRS 2 General disclosures standard.

The disclosure requirements cover a range of topics, including how sustainability is governed within the company, how executive pay is linked to ESG targets, and a description of the double materiality assessment process.

Linking executive pay to ESG targets

Linking executive compensation to ESG targets helps to ensure that resources are allocated to achieve the targets while disclosing the details on the incentive packages demonstrates to investors that ESG is incorporated into the company's governance and strategy.

ESG is becoming an important part of determining executive pay

More companies are linking executive pay to ESG targets with over a third of companies (36%) reporting that they do so, an increase from 25% last year.

The findings suggest that investor pressure to incorporate ESG measures into executive compensation is having an impact on boards to put their money where their mouth is.

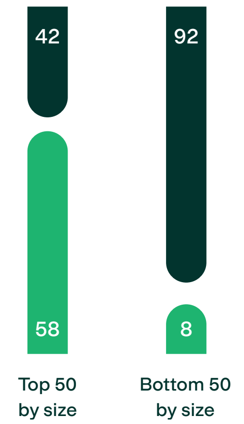
However, only 10% of companies provided detailed descriptions of the metrics used for ESG targets in the executive pay packages. Clearly, the transparency on ESG in executive pay targets needs to improve.

Reporting on the link between executive pay and ESG targets was consistent between markets with 38% of companies in Sweden disclosing a link, followed by 36% in Denmark and 34% in Norway.

By industry, reporting was strongest among shipping companies, with 61% disclosing a link between executive pay and ESG targets, followed by basic materials (58%) and telecommunications companies (56%). At the other end of the scale, only 15% of technology companies disclosed a link between executive pay and ESG targets.

Twenty-nine (58%) of the largest 50 companies by market capitalisation reported linking executive pay to ESG targets, consistent with findings from other studies on executive remuneration at large companies. However, only four (8%) of the smallest 50 companies did so – a clear indicator that ESG is not a priority among the boards or management teams of the smallest companies, most of which are Danish.

Few small companies link executive pay to ESG targets, indicating that ESG is not a priority for their boards.
% of companies linking executive pay to ESG boards.



But fewer executive pay targets are linked to emissions reductions

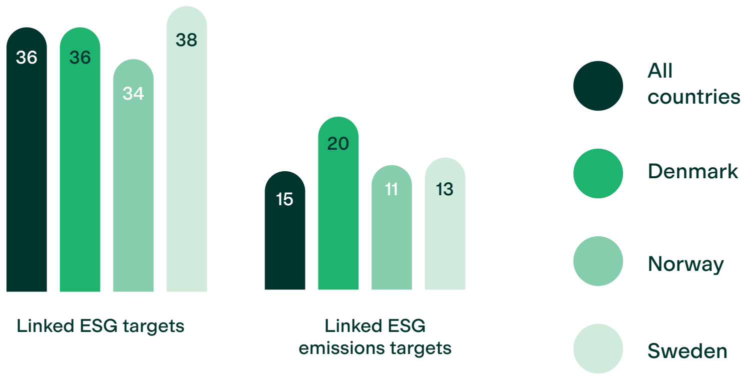
Climate is the area of ESG that commands the strongest investor attention. Linking executive pay to reductions in greenhouse gas emissions not only gives leaders a clear definition of success, it also helps meet investor expectations and achieve climate goals.

15% of companies reported that they link executive pay to greenhouse gas (GHG) reduction targets, and 6% provided detailed descriptions of the KPIs used for performance pay linked to GHG emissions.

Danish companies were the most likely to link executive pay to emissions reduction targets, with 20% doing so, followed by 13% in Sweden and 11% in Norway.

By industry, shipping companies were the most likely to disclose a link between executive pay and emissions reductions with 33% reporting this, while only 4% of technology companies did so.

More companies are linking executive pay to ESG targets, but fewer are linked to emissions reductions.
% of companies.



Materiality assessments & sustainability frameworks

A materiality assessment provides the basis for prioritising ESG strategy and management and for dialogue with key stakeholders on sustainability topics. The ESRS requires companies to perform a robust materiality assessment to define the scope and content of their data collection and reporting (except for the ESRS 2 General disclosures standard which is mandatory).

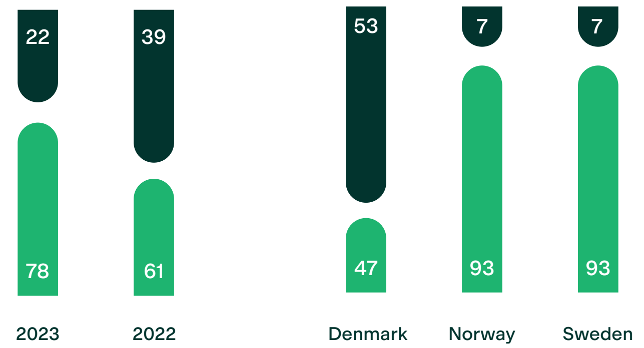
More companies using materiality assessments and engaging stakeholders

More companies are using materiality assessments as the basis of their sustainability reporting with over three-quarters (78%) of ESG100 companies reporting that they do so, compared to 61% last year.

Moreover, a significant number of companies (42%) have adopted the concept of double materiality as the foundation for their sustainability reports. While this is an encouraging trend, our observations at Position Green indicate that the majority of these companies encounter a considerable learning curve when it comes to the ESRS materiality assessment and its methodology for evaluating impacts, risks and opportunities.

Use of materiality assessments was high in Sweden and Norway, with 93% of companies in both countries reporting that they use them, but only 47% of Danish companies do so.

Use of materiality assessments is increasing.
% of companies.



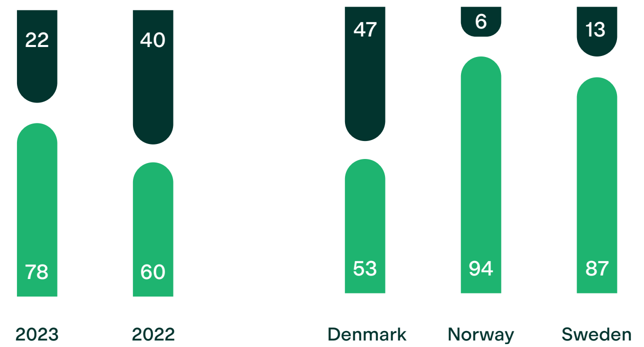
Increased use of sustainability frameworks

78% of companies reported according to at least one of the established reporting frameworks, such as those provided by the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the Taskforce for Climate-related Financial Disclosures (TCFD). This compares to 60% using one of these frameworks in the 2022 ESG100 findings.

94% of Norwegian companies and 87% of Swedish companies used at least one of the frameworks, while only 53% of Danish companies did so.

We expect the use of GRI and SASB to reduce significantly in 2024 reports with the introduction of the ESRS.

More companies are using sustainability frameworks.
% of companies.



Environment

Key findings

Emissions reporting

- While most companies are prepared for mandatory emissions reporting, basic gaps still remain with 15% of companies failing to report Scope 1 emissions, 23% Scope 2 and 31% Scope 3.

Climate risks

- Around half - 54% - of companies assess their climate-related risks but only 8% disclosed the potential financial impacts. Investors should push for more disclosure on this.

Biodiversity

- Nature is on the corporate ESG agenda with 46% of companies disclosing a policy or commitment to biodiversity or nature. This compares to 69% of ESG100 companies that report having a climate change policy.
- However, the scope and ambition of company nature-based pledges vary significantly, with only 29% reporting on their impacts on nature or biodiversity, 19% reporting nature-related targets and just 1% disclosing the financial impacts from nature-related or biodiversity risks and opportunities.

Climate targets & plans

- Almost eight years since the Paris Agreement was signed, 62% of the ESG100 companies have now committed to achieving net-zero emissions by 2050.
- While 41% of companies report having a climate transition plan in place, only three companies - FLSmidth and Vestas (both Denmark), and Skanska (Sweden) included the key elements of a robust plan.

EU taxonomy reporting

- 65% of the in-scope non-financial companies in Denmark and 19% in Sweden failed to report their 2022 taxonomy-eligible revenue, indicating significant non-compliance.

ESRS readiness

The ESG100 research included 23 ESRS disclosure requirements related to environment, of which 19 are included in the ESRS E1 Climate change standard, three in ESRS E4 Biodiversity and ecosystems standard and one in ESRS 2 General disclosures.

Overall

- On average, companies reported 46% of the relevant ESRS E1 Climate change, E4 Biodiversity and ecosystems and ESRS 2 General disclosure requirements that we tested for.

- This gap was highest in Denmark where companies reported on only 36% of environment disclosures on average. Companies in Sweden were most prepared, reporting on 52% of ESRS disclosures on average, while companies in Norway met 49% on average.

By company size

- The largest 50 companies by market capitalisation reported just 61% of the environment disclosures, while the smallest 50 just 21%.

By industry

- Among industries, the gap was smallest among companies in the basic materials industry, which reported 64% of environment disclosures on average, followed by telecommunications (56%) and shipping (53%).

- The largest gap was among technology companies which reported 35% of environment disclosures on average, followed by health care (37%).

Introduction

For the global economy to reach net zero, greenhouse gas (GHG) emissions must rapidly reduce. Finance is a critical enabler of this, but progress on aligning financial flows with low GHG emissions pathways remains slow.

Investors require standardised, decision-useful information so that they can understand the full exposure that a company has to climate risks, evaluate investment opportunities, and make informed financial decisions.

The most notable last-minute change to the ESRS prior to adoption was the move away from mandatory climate disclosures (including emissions reporting) and making them subject to a materiality assessment. In practice, we expect that climate will be a material topic for most companies given the ESRS requirement to justify any decision to exclude it, the audit of that decision, and investor expectations and scrutiny.

Emissions reporting

Accurate emissions reporting underpins efforts by companies to manage and reduce their emissions and provides investors with critical information for decisions based on climate impact, risks and opportunities. It is also increasingly used to assess supplier emissions by companies that are seeking to reduce emissions across their supply chains.

The ESRS includes disclosure requirements for Scope 1 and 2 emissions, which refer to the direct operations of a company and the indirect emissions associated with purchased electricity. Scope 3 emissions, which refer to emissions across a company's value chain, are harder to quantify but are estimated at up to 11 times larger than emissions from a company's direct operations[2].

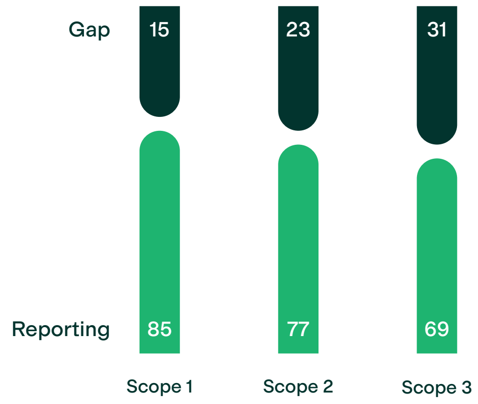
[2] *CDP Global Supply Chain Report 2021*

Gaps still remain in basic emissions disclosure

We found that while most companies are prepared for the forthcoming emissions reporting requirements, there are still gaps in disclosure with 15% of companies failing to report Scope 1 emissions, 23% Scope 2 and 31% failing to report at least some element of Scope 3.

> **While most companies are prepared for mandatory emissions reporting, basic gaps still remain with 15% of companies failing to report Scope 1 emissions, 23% Scope 2 and 31% Scope 3.**

Most companies are prepared for emissions reporting requirements but gaps remain in Scope 3 disclosure.
% of companies.



Our research did not assess how complete the Scope 3 reporting by companies was - such as the breadth of categories covered, only whether they disclosed Scope 3 data or not. The ESRS requirements for full Scope 3 reporting will be a challenge to many companies.

Emissions reporting was strongest in Norway with 81% of companies disclosing at least some of their Scope 3 emissions, closely followed by Sweden (77%) while only half (50%) of the companies in Denmark disclosed.

Among industries, financials were most likely to report Scope 3 (84%), followed by energy companies (80%) and basic materials companies (75%). Consumer goods companies were least likely to disclose Scope 3 data, with 55% of companies disclosing.

Company size was again a factor in disclosure, with 84% of the largest 50 companies by market capitalisation disclosing Scope 3 emissions, while only 28% of the smallest 50 did so.

Climate targets & plans

Most companies committed to net-zero or a Paris-aligned climate target

Almost eight years since the Paris Agreement was signed in 2015, 62% of the ESG100 companies have committed to achieving net-zero emissions or reducing their emissions in alignment with the Paris Agreement targets. 72% of companies in Sweden and 68% of companies in Norway reported having a net-zero or Paris-aligned target, but only 45% of companies in Denmark did so.

There were significant differences across industries, with 83% of companies in the basic materials sector reporting a net-zero or Paris-aligned target, followed by telecommunications (78%). By contrast, only 42% of consumer services and 42% of technology companies reported having a net-zero or Paris-aligned target.
By size, 84% of the largest 50 companies by market capitalisation reported having a such a target, while only 16% of the smallest 50 companies did so.

> **Almost eight years since the Paris Agreement was signed in 2015, 62% of the ESG100 companies have committed to achieving net-zero emissions by 2050.**

However, climate targets are not being backed by credible transition plans

Climate commitments and targets on their own are not enough. Companies must be able to provide investors and other stakeholders with information they need to assess the credibility of a company's climate strategy and compare them to others. Investors use this information to project the future emissions of their portfolios.

Regulatory bodies are poised to require disclosure of this vital information through a climate transition plans. The ESRS encompasses a range of disclosure requirements pertaining to climate transition plans and the EU's proposed Corporate Sustainability Due Diligence Directive (CSDDD) seeks to mandate transition plans for companies with over 500 employees and EUR 150 million in revenue.

Often the biggest barrier to emissions reductions is not technical, but organisational, with climate commitments disconnected from corporate strategy. Therefore, our analysis focuses on the key components that comprise a robust climate transition plan: A science-based climate target that is linked to executive remuneration, with CapEx plans to support its implementation.

> **Often the biggest barrier to emissions reductions is not technical but organisational, with climate commitments disconnected from corporate strategy.**

Fewer than half have a climate transition plan

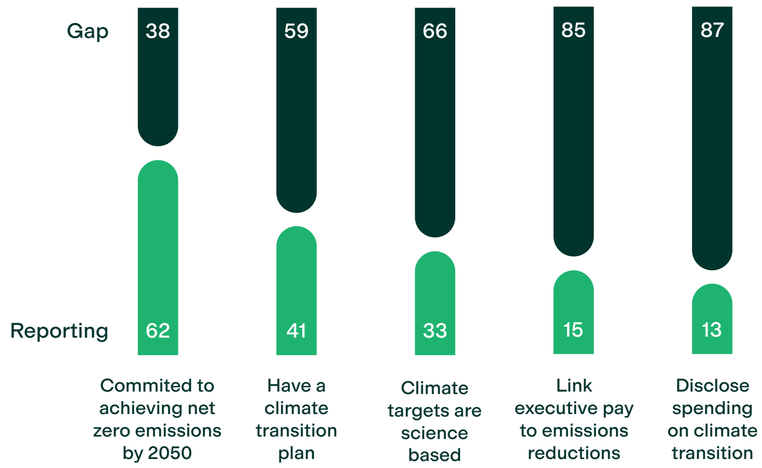
Fewer than half of the companies (41%) disclose having a climate change transition plan in place (ESRS E1-1) to achieve their emissions reduction targets.

Larger companies are more likely to report having a transition plan, reflecting their greater internal resources and capabilities. 64% of the largest 50 companies by market capitalisation reported having a climate transition plan, while only 20% of the smallest companies did so.

One-third of climate targets are science-based

A third of companies (33%) disclosed that they have had their climate target verified by the Science Based Targets initiative (SBTi) or have committed to doing so (ESRS E1-4). This figure may be under-reported as the Science Based Targets initiative (SBTi) has released data showing that many companies do not report on their targets[3]. It is also important to note that some industries, such as oil and gas, do not yet have a science-based target methodology.

While most companies have committed to net zero, few report robust plans to achieve it.
% of companies.



[3] *SBTi monitoring report 2022, August 2023, https://sciencebasedtargets.org/resources/files/SBTiMonitoringReport2022.pdf*

Few companies link executive pay to emissions reductions

Only 15% of companies report that they link executive pay to emissions reductions targets (see the General Disclosures section for more on the link to executive pay).

Few companies disclose spending on climate transition

Only 13% of ESG100 companies disclose Capex to support the implementation of the transition plan (ESRS E1-1).

> **41% of companies report having a climate transition plan in place but only three companies - FLSmidth and Vestas (both Denmark) and Skanska (Sweden) - included the key elements of a credible plan.**

Climate risks

Climate risk is investment risk, and consequently, regulators and investors have a significant interest in understanding the size and scope of that risk. There is also increasing interest in opportunities that arise from company efforts to mitigate and adapt to climate change.

A number of countries are taking steps to mandate companies to disclose the financial risks and opportunities created by climate change. These initiatives are generally based on the widely accepted recommendations put forth by the Taskforce for Climate-related Financial Disclosures (TCFD), elements of which have been incorporated into the ESRS.

A company's approach towards climate change and the corresponding disclosures it provides play a vital role in enabling investors to gauge how effectively the company is managing climate-related risks and capitalising on opportunities. These disclosures also shed light on the potential impact of climate change on the company's business model, financial performance and future prospects.

Around half of the ESG100 companies assess climate risk, but few disclose the financial impact

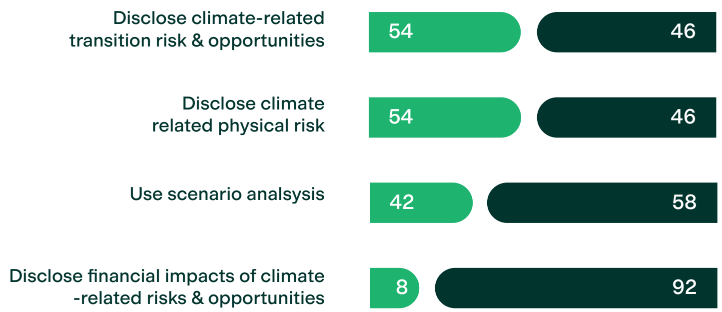
Just over half (54%) of the ESG100 companies reported their climate-related transition risks and opportunities, with the same percentage (54%) disclosing physical climate-related risks. 42% of companies report using scenario analysis to assess their climate-related risks and opportunities – a key recommendation of the TCFD which has been incorporated into the ESRS.

However, only 8% of companies disclose the potential financial impacts from their climate-related risks and opportunities – the key information required to understand a company's exposure or resilience. Investors should push for more disclosure on this.

On a country basis, three-quarters (75%) of companies in Norway disclosed transition and physical risks, compared to 54% in Sweden and around a quarter (23%) of companies in Denmark.

By industry, 83% of companies in the basic materials industry disclosed climate transition or physical risks and opportunities, followed by 80% of energy companies and 78% of telecommunications companies. Technology companies were least likely to report climate transition and physical risks and opportunities, with only 15% disclosing.

Climate risks and opportunities are well reported but few companies disclose financial impact.
% of companies.



> **Only 8% of companies disclose the financial impacts from their climate-related risks and opportunities. Investors should push for more disclosure on this.**

EU taxonomy reporting

The EU taxonomy is a classification system that defines criteria for sustainable economic activity for investors, companies, and issuers.

Public interest companies in Denmark and Sweden with more than 500 employees and more than €40m revenue or a balance sheet of more than €20m were required to report the percentage of 2022 revenue that was eligible for the taxonomy and aligned to it, even if this was “zero”. In Norway, reporting of this data was voluntary for 2022 revenue, but will be mandatory for 2023.

Based on 2022 data, we estimate that 57 Danish and 83 Swedish non-financial companies met the thresholds to disclose their taxonomy-eligible revenue.

Significant non-compliance with mandatory taxonomy reporting requirements

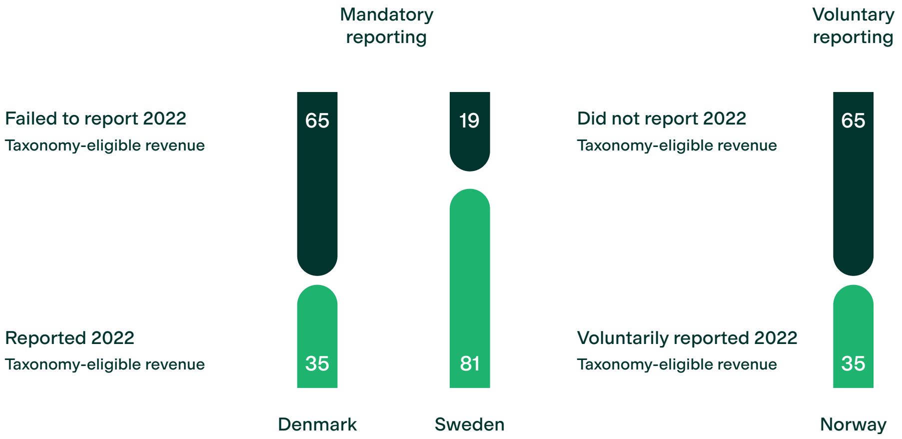
We found significant non-compliance with the taxonomy’s mandatory reporting requirements. In Denmark, 65% of the in-scope non-financial companies failed to report their 2022 taxonomy-eligible revenue. While in Sweden, 19% failed to do so.

The non-compliance was spread across all industries but in Denmark was concentrated in smaller companies.

By comparison, 33% of the 78 in-scope non-financial companies in Norway voluntarily reported their 2022 taxonomy- eligible revenue.

The high level of non-compliance against the mandatory taxonomy requirements in Denmark and Sweden does not bode well for the forthcoming introduction of the ESRS and its extensive and complex disclosure requirements.

Significant non-compliance against mandatory EU taxonomy reporting requirements was found among in-scope companies in Denmark & Sweden.
% of in-scope non-financial companies.



> **"The failure of such a large number of companies to report against the mandatory Taxonomy requirements does not bode well for the introduction of the ESRS.**

Biodiversity

As evidence mounts linking global warming and nature loss, along with research indicating that over half of the global gross domestic product (approximately USD 44 trillion) relies moderately or significantly on nature[4], policymakers and investors are increasingly committed to addressing biodiversity decline.

A pivotal moment occurred with the signing of the Global Biodiversity Framework at COP15 in December 2022, which included a target for corporate disclosure on biodiversity risks, dependencies and impacts.

The EU is at the forefront of efforts on biodiversity disclosures. The draft ESRS incorporates a biodiversity and ecosystems standard, compelling companies to disclose their nature-related impacts, risks and opportunities, subject to a materiality assessment. The Sustainable Finance Disclosure Regulation (SFDR) mandates financial market participants to disclose activities that have negative impacts on biodiversity-sensitive areas.

In May 2023, the first set of corporate science-based targets for nature were unveiled, further signalling the importance of aligning business practices with nature conservation. The Taskforce on Nature-related Financial Disclosures (TNFD) is set to release its final set of disclosure recommendations on 18 September 2023, providing a comprehensive framework for disclosing nature-related risks and opportunities.

Investors are also taking action, recognising that nature risk is now a fundamental consideration for investment risks and returns. Notably, investor coalitions such as the Nature Action 100 have emerged and large investment managers such as Norges Bank Investment Management and BlackRock have incorporated considerations into their engagement strategies with companies that have material exposure to nature.

> **"Nature is rising on the corporate ESG agenda with 46% of companies disclosing a policy or commitment to biodiversity or nature. However, the scope and ambition of these pledges vary significantly.**

[4] *World Economic Forum, "Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy", January 2020*

Nature is now clearly on the corporate ESG agenda

While many companies are still in the nascent stages of understanding the potential risks that nature-related issues pose to their businesses, our research found that 46% of companies disclose having a policy or commitment to biodiversity or nature (ESRS E4-2) – a clear indication that nature is rising on the corporate ESG agenda. By comparison, 69% of ESG100 companies report having a climate change policy.

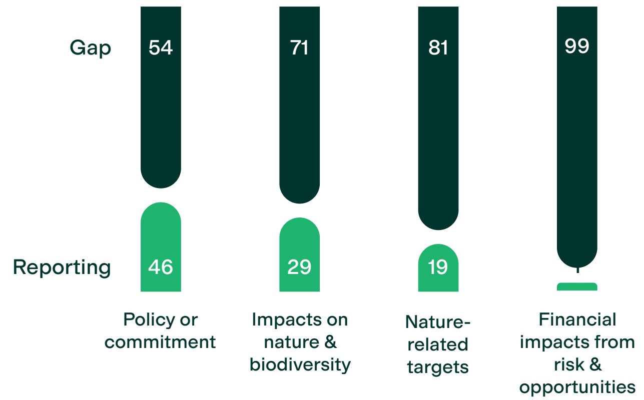
On a country basis, 62% of companies in Norway reported a policy or commitment to biodiversity or nature, significantly more than in Sweden (45%) and Denmark (30%).

Companies in the basic materials industry were mostly likely to disclose a policy or commitment to nature, with 92% reporting, followed by consumer goods (90%) and shipping (83%). Technology companies were least likely to disclose a policy or commitment to nature (8%).

However, the scope and ambition of these pledges vary significantly, reflecting the early stage of development of nature-related reporting frameworks and disclosure requirements. Just over a quarter (29%) of companies reported on their impacts on nature or biodiversity (ESRS2 BM-3) and 19% reported having nature-related targets (E4-4). Only four companies (1%) disclosed the financial impacts from nature-related or biodiversity risks and opportunities (E4-6) – all of these were Norwegian companies.

Two companies – Borregaard and Odfjell SE – both in Norway, reported on all of the biodiversity elements that were included in our analysis.

Nature is clearly on the corporate agenda but scope and ambition of pledges vary, reflecting the early stage of reporting requirements.



Social

Key findings

Human rights

- Regulation is driving stronger human rights reporting with companies in Norway disclosing the most, reflecting the impact of the Norwegian Transparency Act.
- But reporting on human rights incidents and targets remains low: only 31% of companies report data on human rights incidents and just 20% disclose targets.

Diversity, equity & inclusion

- Reporting on diversity and inclusion policies is strong, with 95% of companies disclosing a policy.
- However, only 38% disclose data on incidents of discrimination or harassment.
- Shipping was the worst performing industry on reporting discrimination or harassment incidents.
- Scandinavian egalitarianism does not extend to reporting on compensation practices, with only 36% of companies disclosing their gender pay gap.
- Only 25% of companies disclosed their CEO pay ratio – the difference between the highest paid employee, typically the CEO, and the median pay of all other employees.

Health & safety

- 68% of companies report data on the number of recordable work-related accidents with those in energy and basic materials most likely to disclose.

Training & development

- Just over half (51%) of the ESG100 companies provided details on training and development courses – a missed opportunity to inform investors, employees and job seekers.

ESRS readiness

Our research tested for 22 disclosures included in the ESRS S1 Own workforce standard.

Overall

- On average, companies reported 59% of the disclosures in ESRS S1 Own workforce that we tested for.
  The relatively high level of reporting was consistent with the familiarity that Scandinavian countries have with social disclosures.

- Norwegian companies were most prepared, reporting on 67% of disclosures on average, followed by Sweden (62%) and Denmark (47%).

- Among the smallest gaps, 95% of ESG100 companies disclosed policies for non-discrimination, diversity and inclusion (ESRS S1-1), 90% reported the share of women in managerial positions (ESRS S1-9) and 87% disclosed a human rights policy (ESRS S1-1).

- By comparison, the largest gap was in disclosure of the difference between the highest paid employee (typically the CEO) and the median compensation for all employees (ESRS S1-16), which only 25% of companies reported.

By company size

- Overall, the largest 50 companies by market capitalisation reported 70% of disclosures, while the smallest 50 reported just 37%.

By industry

- Among industries, the best prepared were companies in basic materials, which reported 80% of disclosures, energy (71%) and telecommunications (65%).
  The largest gap to ESRS readiness was among financials (52%), real estate (52%) and technology (53%).

Introduction

The ESRS significantly expands the scope of social topics that companies must disclose on through standards that cover the company's own workforce, workers in the value chain, affected communities and consumers and end users.

While this is unlikely to be contentious among Scandinavian companies, it has the potential to further inflame the anti-ESG rhetoric in the US - particularly with regards to company policies on diversity, equity and inclusion (DEI) - given that an estimated 3,000 US companies will be required to comply with the ESRS[5].
Our research finds that In Scandinavia, even though social topics have long been part of company disclosures, reporting is significantly more robust when disclosures are mandated by regulation. Topics explicitly regulated by law, such as human rights, diversity and health and safety, are reported much more thoroughly and meaningfully compared to voluntary disclosures.

[5] *Refinitive, How many companies outside the EU are required to report under its sustainability rules? 3 July, 2023, https://www.refinitiv.com/perspectives/regulation-risk-compliance/how-many-non-eu-companies-are-required-to-report-under-eu-sustainability-rules/*

Human rights

As with carbon emissions, companies are not bearing the social costs of their human rights impacts and investors are not routinely factoring human rights considerations into their decisions. This allows companies with negative human rights impacts in their operations or supply chains to gain an unfair competitive advantage.

Regulatory momentum to address this is accelerating. The UK's Modern Slavery Act of 2015 and subsequent legislation in Norway, Australia, France, Germany and the Netherlands require companies to assess human rights risks, although the scope of the requirements varies.

The EU has also turned its focus to the impact of business on human rights. Human rights due diligence forms one of the minimum safeguards that companies must meet to align with the EU taxonomy regulation. The forthcoming ESRS requires companies to report on material human rights matters and HRDD. The proposed Corporate Sustainability Due Diligence Directive (CSDDD) will go further by compelling large EU companies to undertake human rights due diligence.

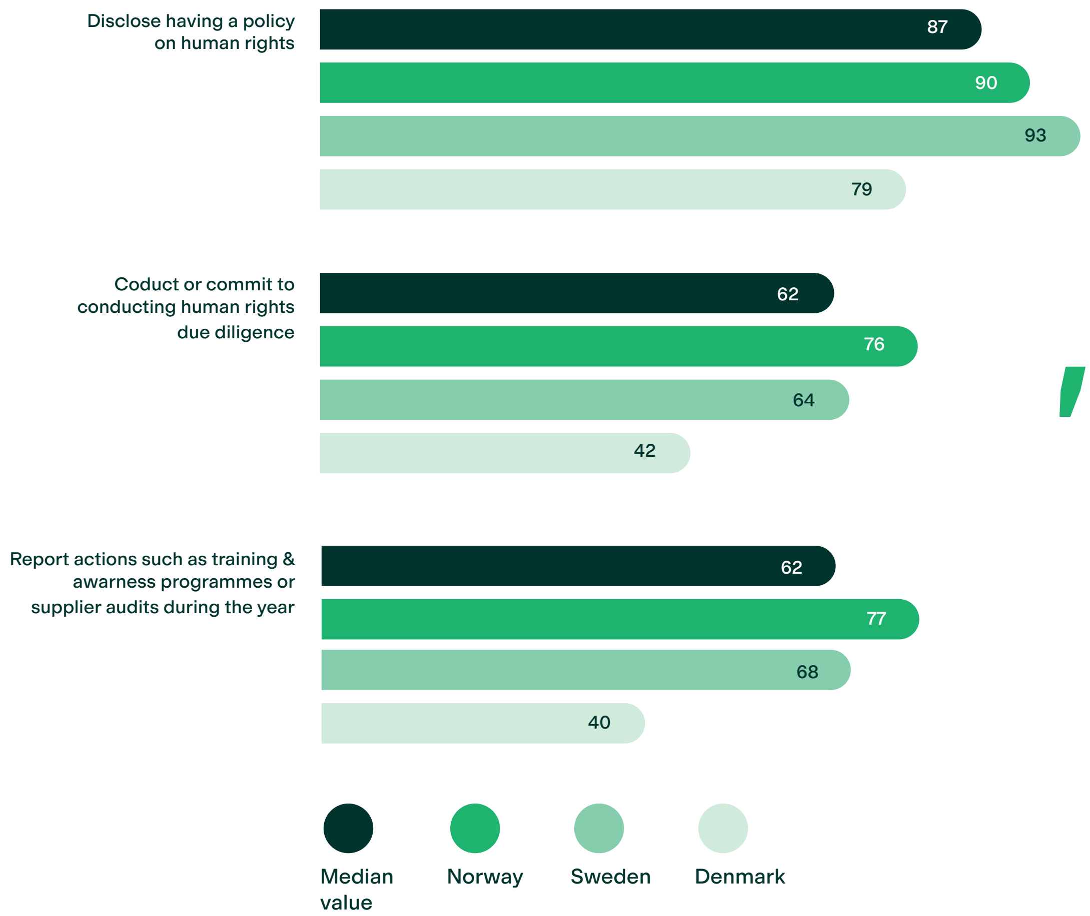
It is reasonable to expect that companies will respond to these signals by improving their reporting on human rights, and our research for the ESG100 supports this.

Regulation is driving stronger human rights reporting

The regulatory push in human rights reporting is evident, with most companies (87%) disclosing that they have a policy on human rights in place (ESRS S1-1), 62% conducting or committing to conduct human rights due diligence and 62% reporting actions such as training and awareness programmes or supplier audits during the year.

Companies in Norway have stronger reporting on human rights than those in Sweden and Denmark, with 77% describing actions on human rights such as training and awareness programmes or supplier audits - clearly reflecting the impact of the Norwegian Transparency Act on company behaviour.

Norwegian companies have stronger reporting on human rights.
% of companies, by country.



> **"Companies in Norway have stronger reporting on human rights than those in Sweden and Denmark, clearly reflecting the impact of the Norwegian Transparency Act.**

But reporting on human rights incidents and targets remains low

Less than a third of ESG100 companies (31%) report data on human rights incidents (ESRS S1-17) and 20% disclose human rights targets.

> **"Reporting on diversity and inclusion policies is strong, with 95% of companies disclosing a policy.**

Best and worst reporting on human rights

Among industries, companies in shipping, energy and tele-communications had the strongest approach to reporting on human rights. Companies in the financial, real estate and technology sectors had the weakest reporting on average.

Twelve companies – ten Norwegian and two Danish – reported on all eight of the human rights questions covered in the ESG100.

Among the largest 50 companies by market capitalisation, 98% reported having a human rights policy, 84% described actions on human rights and 32% disclosed human rights issues and incidents. Among the smallest 50 companies, these figures were 64%, 18% and 26% respectively.

Diversity, equity & inclusion

No ESG topic has been more politicised over the last year than diversity, equity and inclusion (DEI).
Yet in Scandinavia, these matters have long been part of corporate sustainability reporting and are generally considered essential for a competitive employer brand. Our findings indicate that DEI reporting is strong among the companies in the ESG100, except in the absence of mandatory requirements.

Strong reporting on DEI policies and data collection

This is reflected in our findings with 95% of companies referring to policies on non-discrimination, diversity or inclusion (ESRS S1-1) and 85% providing a detailed description of the types of discrimination covered.

Data reporting on gender diversity was strong with 91% disclosing the number of employees by gender (ESRS S1-6), 90% reporting the share of women in managerial positions (ESRS S1-9) and 96% reporting the share of female directors on the board of directors (ESRS 2 GOV-1).

Reporting on divesity and inclusion policies is strong.
% of all ESG100 companies.

> Only 10% of the smallest companies disclosed data relating to discrimination or harassment incidents.

> Shipping was the worst performing industry on reporting discrimination or harassment incidents.

Weaker reporting on DEI actions and discrimination incidents

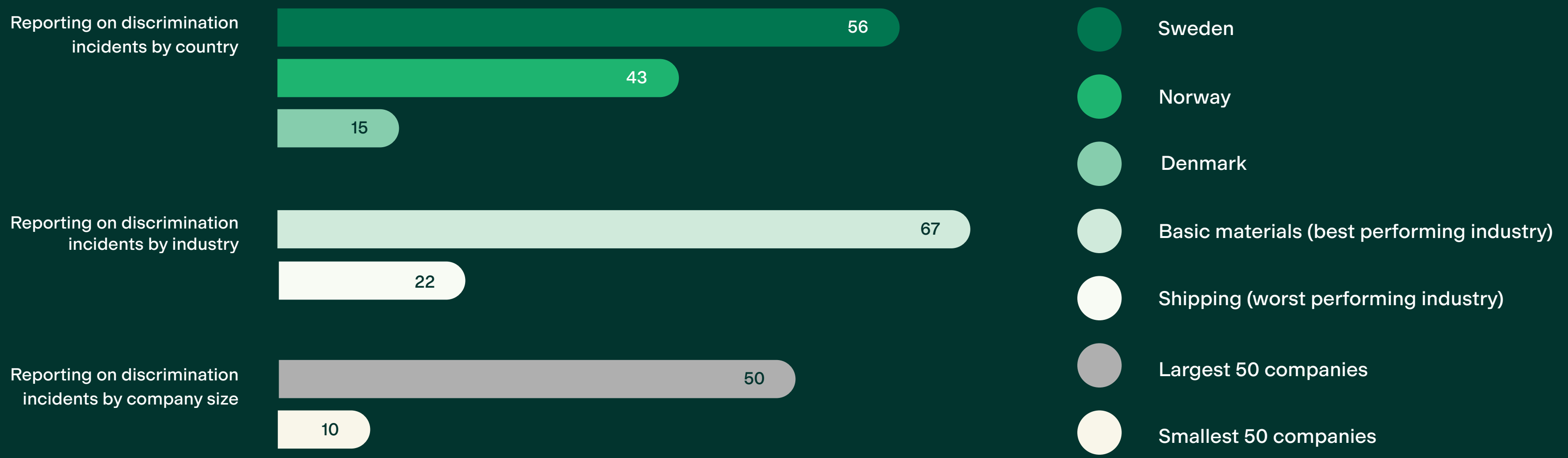
Reporting on DEI actions was lower with 57% of companies describing training or awareness programmes to prevent discrimination.

Only 38% of companies disclosed the number of incidents of discrimination or harassment, with just 15% of Danish companies disclosing this compared to 56% in Sweden and 43% in Norway.

Among the largest 50 companies by capitalisation, 50% disclosed data on the number of incidents of discrimination or harassment, while just 10% of the smallest 50 (comprised largely of Danish companies) did so.

Within industries, 67% of companies in basic materials reported on incidents of discrimination or harassment while shipping companies were the least likely to disclose (22%).

Large variances exist in reporting on incidents of discrimination and harassment between countries, industries and company size.
% of all ESG100 companies.

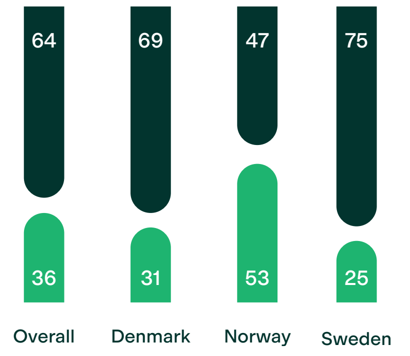


Reporting on gender pay gap remains low

Scandinavian egalitarianism does not extend to reporting on compensation practices, with only 36% of companies disclosing information on their gender pay gap, defined as the difference of average pay levels between female and male employees (ESRS S1-16). Companies in Norway led the way, with 53% of companies disclosing the pay gap, significantly more than in Denmark (31%) and Sweden (25%).

By industry, companies in the financial sector were most likely to disclose the gender pay gap, with 57% disclosing, followed by the telecommunications (56%) and energy (48%) sectors. Only 17% of shipping companies disclosed data on the gender pay gap.

Scandinavian egalitarianism does not extend to reporting on the gender pay gap.
% of companies, by country.



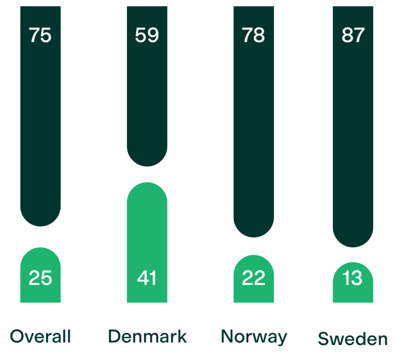
Few companies disclose CEO pay ratio

Few companies provide information on the difference between the highest paid employee, typically the CEO, and the median pay of all other employees. The ESRS includes this as a measure to determine whether wide pay disparities exist within a company.

Only 25% of companies disclosed their CEO pay ratio (ESRS S1-16), with 41% of Danish companies disclosing, followed by Norway (22%) and Sweden (13%).

By industry, companies in the financial sector were most likely to report their CEO pay ratio, with 34% disclosing, followed by basic materials and real estate (both 33%). Shipping and telecommunications companies were least likely to report their CEO pay ratio (both 11%).

Danish companies were most likely to report the CEO pay ratio.
% of companies, by country.



Health & safety

Health and safety reporting is material to certain industries

While health and safety data is relevant to all industries, it is particularly important for investors and other stake-holders seeking to understand the health and safety performance of companies in industries with higher occupational safety risks factors. The ESRS includes a number of disclosures in S1-14 for health and safety data which will be material to companies in these industries.

The ESG100 research found that 68% of companies report data on the number of recordable work-related accidents, with 58% reporting data on the number of days lost to work-related incidents and 48% reporting data on the number of fatalities.

Among industries, companies in energy, basic materials and shipping were most likely to disclose health and safety data.

Training & development

Missed opportunity for many companies on training and development data

Reporting on training and skills development helps to in-form investors on how companies are building capabilities to execute their growth strategies. It also sends strong signals to employees and job seekers about a company's willingness to invest in their careers. The data is generally readily available and failing to report represents a missed opportunity for companies.

We found that just more than half (51%) of companies provided details on training and development courses held during the reporting period (ESRS S1-13), and half (50%) disclosed either the number of people attending training, or the number of courses completed.

Companies in Norway were most likely to disclose details on training and developments courses, with 80% reporting - significantly more than in Denmark (41%) and Sweden (33%).

Governance

Key findings

Business conduct

- Most companies have the fundamentals in place with 92% reporting that they have business conduct policies.
- However, gaps appear in the implementation of anti-corruption and bribery programmes, with only two companies meeting all the key ESRS disclosures for business conduct.
- In particular, many companies appear blind to corruption and other ESG risks in their supply chains. Less than half (47%) report conducting audits of their suppliers.

Whistle-blowing system

- While most companies (93%) have a whistle-blowing system, only 34% report that it is open to external stakeholders, administered impartially and protects whistle-blowers – the critical components of a robust system.
- Alarmingly, small-cap companies demonstrate weak governance reporting and are potentially exposed to breaches of business conduct, with around two-thirds (68%) disclosing the presence of a whistle-blowing system.

Responsible tax

- 43% of companies disclose that they are committed to responsible tax practices, with Danish companies leading the way.

Lobbying & political activities

- Investors should consider increasing their scrutiny on lobbying activities, on which only 15% of Scandinavian companies disclose.

ESRS readiness

The ESG100 research tested for 14 disclosures included in the ESRS G1 Business conduct standard.

Overall

- On average, companies within the ESG100 reported 57% of the ESRS G1 disclosures.
- Companies in Sweden were most prepared, reporting on 65% of disclosures on average, followed by Norway (63%) and Denmark (45%).
- The smallest gap was in whistle-blowing systems, with 93% of companies reporting that they have one (ESRS G1-1).
- By comparison, only 15% of companies reported on their lobbying activities (ESRS G1-5) and just three companies (1%) disclosed their political donations (also ESRS G1-5).

By company size

- The largest 50 companies by market capitalisation reported 67% of disclosures, while the smallest 50 just 35%.
- Smaller companies were particularly weak in governance. Only 52% described the role of board and management oversight of business conduct (ESRS G1-GOV-1), 32% reported providing training on anti-corruption to employees (ESRS G1-1) and 36% disclosed safeguards for protecting whistle-blowers (also ESRS G1-1) – a potentially toxic combination.

By industry

- Among industries, companies within basic materials were best prepared, reporting 71% of disclosures, followed by shipping (67%) and energy (65%).
  The largest gap to ESRS readiness was among financials (50%), real estate (50%) and consumer services (51%).

Introduction

Good governance serves as the foundation to build an effective ESG strategy and is crucial for long-term company success.

Companies with stronger corporate governance tend to reduce risk for investors while improving their financial performance. Conversely, weak governance has been the root cause of many corporate failures.

With the adoption of the CSRD and ESRS, companies will be required to disclose core elements of their corporate governance practices, including internal control and risk management systems, the role of the board and management team, and the culture of business conduct including anti-bribery and protection of whistle-blowers.

Business conduct

Most large companies have extensive supply chains with significant risks associated with corruption, human rights, working conditions and the environment. Reporting on how the company approaches and performs in this area is therefore important to understand whether the company takes responsibility for its entire value chain.

Core governance is largely in place

Most companies have the fundamentals in place with 92% reporting that they have business conduct policies (ESRS G1-1) and 88% stating they have anti-corruption and anti-bribery compliance programmes (ESRS G1-3).

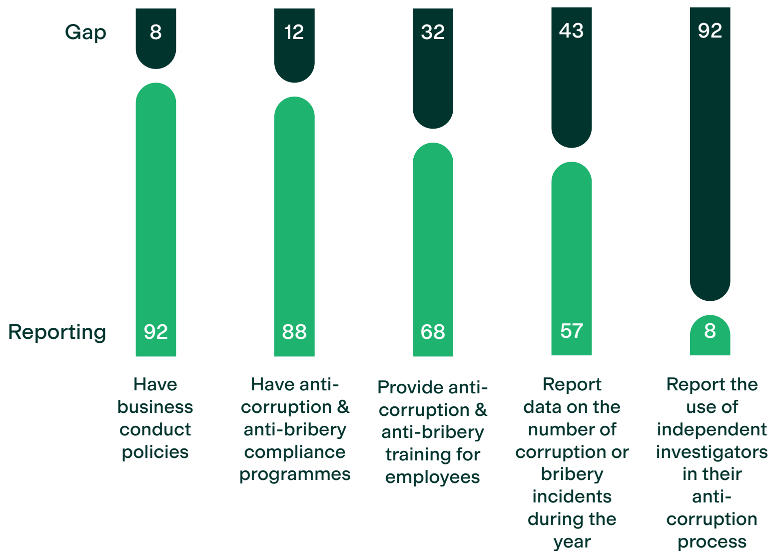
The “tone from the top” is essential in fostering a culture of business conduct and 84% of companies describe the role of the board and management team in overseeing and promoting business conduct (ESRS G1-GOV-1).

But gaps exist in implementation

However, gaps emerge in how these policies and programmes are implemented with 68% reporting that they provide anti-corruption and anti-bribery training for employees (G1-3) and 57% disclosing data on the number of corruption or bribery incidents during the year (G1-4). Only 8% of companies report the use of independent investigators in their anti-corruption process (G1-3).

Taking governance and implementation disclosures together, only two companies – Maersk and Alfa Laval – reported all of the key ESRS G1 disclosures relating to policies, programmes, the role of the board and management teams, training, the use of independent investigators and reporting data on incidents.

Most companies disclose governance fundamentals but gaps appear in implementation.
% of companies.



> **"Only two companies – Maersk and Alfa Laval – meet all the key ESRS disclosures for business conduct we tested for.**

Smaller companies demonstrate weak governance disclosures

Alarmingly, the smallest 50 companies by market capitalisation were particularly weak on governance disclosures. Fewer than two-thirds (62%) report having business conduct policies in place, 30% report training for employees on anti-corruption and anti-bribery and 42% report data on incidences of corruption and bribery. Investors should have cause for concern about reporting on governance in small-cap companies.

Supply chains are a governance blind spot

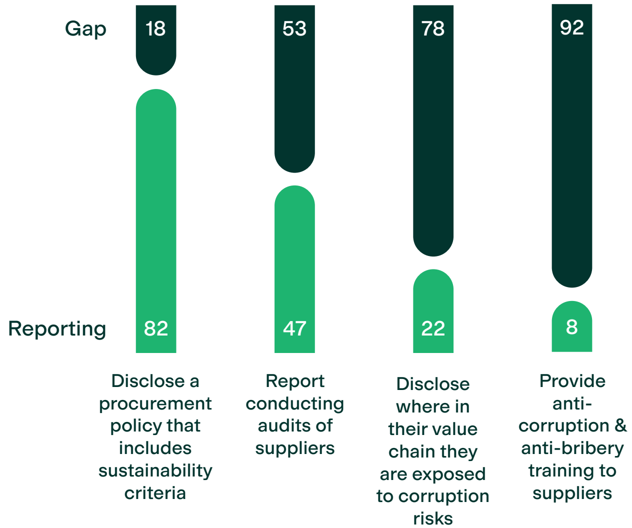
The ESRS extends responsibility beyond a company's own operations, yet most companies appear blind to ESG risks in their supply chains.

While 82% disclose a procurement policy that includes sustainability criteria, less than half (47%) report conducting audits of suppliers. Only 44% report the presence of both.

Around a fifth (22%) disclose where in their value chain they are exposed to corruption risks and 8% provide anti-corruption and anti-bribery training to suppliers.

> **Most companies appear blind to the ESG risks in their supply chains. Only 44% include sustainability criteria in their procurement policy and conduct audits of their supply chains.**

Few companies report on supply chain risks or mitigation actions.
% of companies.



Whistle-blowing

A robust whistle-blowing system is a crucial tool in ESG management. By providing a channel for employees and other stakeholders to report violations of regulations or other transgressions, companies gain the ability to proactively address breaches before they destroy value.

To ensure effectiveness, a whistle-blowing system should be available to external stakeholders, be administered impartially and incorporate safeguards that protect whistle-blowers from potential retaliation (ESRS G1-1).

Communicating the presence and robustness of a whistle-blowing system aids in cultivating trust among prospective users and investors alike.

Most companies report having a whistle-blowing system in place

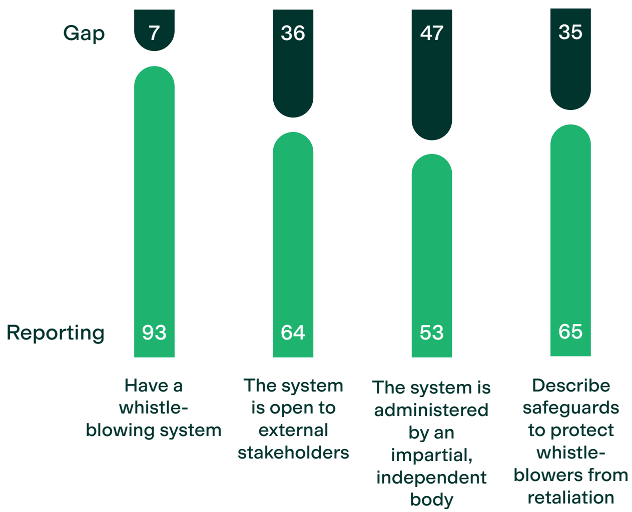
Denmark and Sweden implemented the 2019 EU whistle-blowing directive in 2021, while Norway includes whistle-blowing provisions in its Working Environment Act. As a result, over nine out of ten companies (93%) reported having a whistle-blowing system in place (ESRS G1-1).

All companies in Norway (100%) and almost every company in Sweden (97%) reported having a whistle-blowing system in place but only 82% of Danish companies did so.

However, few of these are best practice

However, only 64% report that the whistle-blowing system is open to external stakeholders, 53% have a system that is administered by an impartial, independent body and 65% describe safeguards to protect whistle-blowers from retaliation. Just over a third (34%) of all companies report the presence of all three.

Most companies report having a whistle-blowing system but few are best practice.
% of companies.



Small companies appear exposed to breaches

Based on their reporting, the smallest 50 companies by market capitalisation appear potentially exposed to value-destroying breaches, with around two-thirds (68%) reporting the presence of a whistle-blowing system, 18% reporting that it is administered by an impartial, independent body and 36% describing safeguards to protect whistle-blowers from retaliation. Only eight (16%) of the 50 smallest companies by market capitalisation report having a best-practice system in place.

> **"While most companies (93%) report having a whistle-blowing system, only 34% report that it is open to external stakeholders, administered impartially and protects whistle-blowers – the critical components of a robust system.**

Responsible tax

Tax has become part of the ESG agenda with pressure building on businesses from governments, investors and the public to be more transparent about the taxes they pay, particularly in light of aggressive or evasive tax strategies that have been adopted by some multi-national corporates.

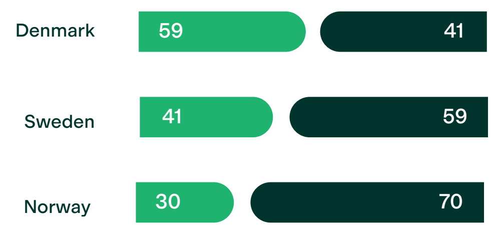
While responsible tax is not included as a topic in the ESRS, companies will need to disclose their practices as a result of the EU public Country-by-Country Reporting Directive which entered into force in December 2021 and introduced a timeline for adoption from June 2024 onwards.

Danish companies lead the way on responsible tax

Tax transparency in Denmark has increased due to pressure from institutional investors and updated corporate governance recommendations issued in 2020 that state that boards should make the tax policy available on the company's website[6]. We found that 59% of Danish companies disclose a commitment to responsible tax practices or reference a responsible tax policy, compared to 41% in Sweden and 30% in Norway.

Energy and industrials sector companies were the most likely to report a commitment to responsible tax (52% reporting).

Danish companies lead the way on responsible tax commitments.
% of companies, by country.



43% of companies disclose that they are committed to responsible tax practices, with Danish companies leading the way.

[5] *Danish Recommendations on Corporate Governance, 2 December 2020: https://corporategovernance.dk/sites/default/files/media/anbefalinger_for_god_selskabsledelse_engelsk.pdf*

Lobbying & political activities

Lobbying and political donations have the potential to support sustainability policies, rules and regulations but are often skewed towards undermining outcomes[7]. Scrutiny from investors and NGOs is increasing, particularly in climate lobbying. At the UNFCCC Bonn climate change conference in June 2023, agreement was reached that all participants at future climate COP meetings will be required to disclose their affiliations.

Few companies disclose their lobbying and political donations

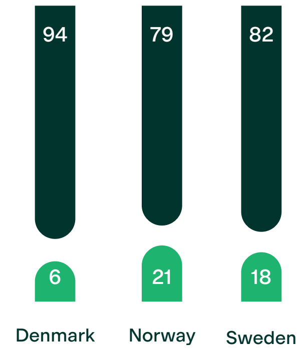
Investors should consider increasing their scrutiny on lobbying and political donations, on which few Scandinavian companies disclose.

We tested for two disclosure requirements in ESRS G1-5 and found that only 15% of companies report on their lobbying activities, with 21% of companies in Norway and 18% in Sweden reporting, while only 6% of Danish companies reported.

Companies in the basic materials industry were most likely to disclose (42%), followed by energy companies (32%).

Only three companies, International Petroleum, NIBE and SBB – all based in Sweden – disclose the monetary value of their political donations.

Investors should seek greater transparency regarding lobbying and political activities, on which few Scandinavian companies disclose.
% of companies, by country.



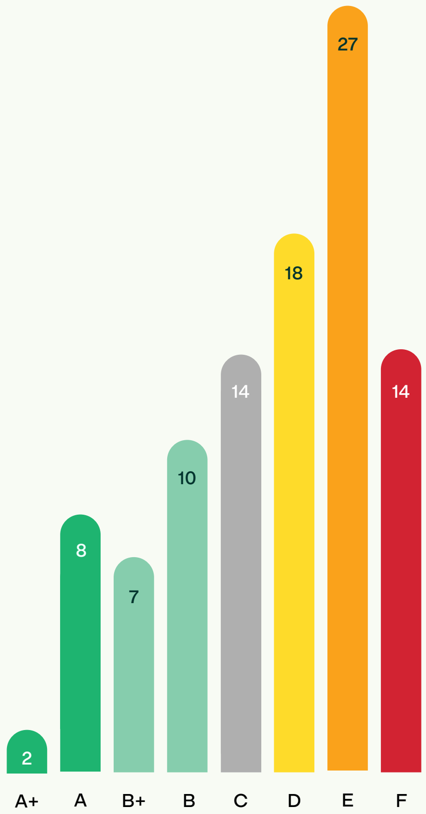
[7] GRI, Lobbying influence and accountability https://www.globalreporting.org/news/news-center/lobbying-influence-and-accountability/

ESG100 Company rankings

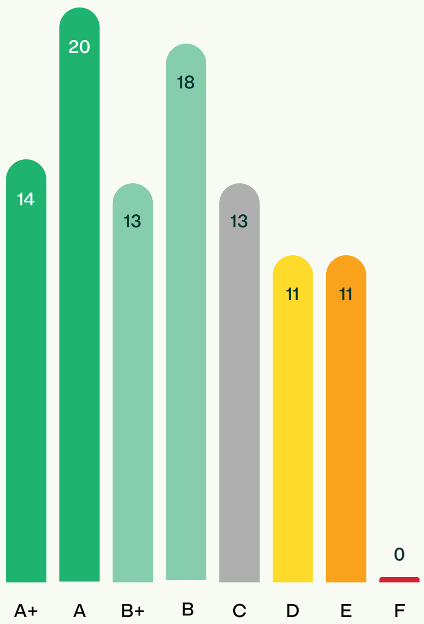
The methodology for the 2023 ESG100 changes significantly from 2022. Please see the Methodology section for details.

What do the grades mean?

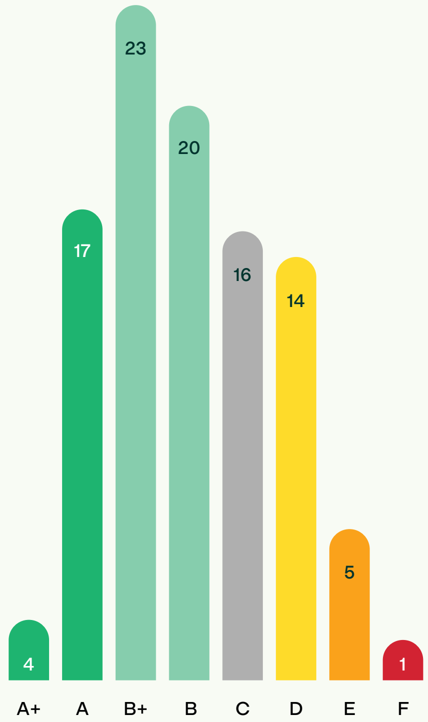
A+	A	B+	B	C	D	E	F
Top 5%	Top 20%	Top 35%	Top 50%	Bottom 50%	Bottom 35%	Bottom 20%	Bottom 5%
Excellent reporting		Good reporting		Basic reporting		Incomplete reporting	
Most prepared		ESRS readiness				Least prepared	



Denmark



Norway



Sweden

Denmark

Vestas Wind Systems	A+
Carlsberg	A+
Mærsk	A
Ørsted	A
DSV	A
Pandora	A
Lundbeck	A
Danske Bank	A
Coloplast	A
Topdanmark	A
FLSmidth & Co.	B+
DFDS	B+
NKT	B+
ISS	B+
TORM	B+
GN Store Nord	B+
Novozymes	B+
H+H International	B
Norden	B
ALK-Abelló	B
Novo Nordisk	B
Rockwool	B
Tryg	B
Solar	B
MT Højgaard Holding	B
Chr. Hansen Holding	B
Nilfisk Holding	B
Matas	C
HusCompagniet	C
Ambu	C
Össur hf.	C
Demant	C
SimCorp	C
Genmab	C
Sydbank	C
Bavarian Nordic	C
Spar Nord Bank	C
NTG Nordic Transport Group	C
Københavns Lufthavn	C
Royal Unibrew	C
Scandinavian Tobacco Group	C
NNIT	D
Jeudan	D
SP Group	D
Bang & Olufsen	D
Ringkjøbing Landbobank	D
Gabriel Holding	D
Aquaporin	D
Per Aarsleff Holding	D
Flügger Group	D
Harboes Bryggeri	D
Netcompany Group	D
Jyske Bank	D
Tivoli	D
Columbus	D
RTX	D
Brødrene Hartmann	D
Trifork Holding	D
Schouw & Co.	D
Grønlandsbanken	E
Skjern Bank	E
cBrain	E
Alm. Brand	E
Djurslands Bank	E
FirstFarms	E
Brødrene A & O Johansen	E
TCM Group	E
Penneo	E
Gyldendal	E
Roblon	E
BankNordik	E
Zealand Pharma	E
Kreditbanken	E
Sparekassen Sjælland-Fyn	E
Lollands Bank	E
North Media	E
Green Hydrogen Systems	E
Parken Sport & Entertainment	E
Lån & Spar Bank	E
Copenhagen Capital	E
Danske Andelskassers Bank	E
Fast Ejendom Danmark	E
BioPorto	E
Nordfyns Bank	E
ChemoMetec	E
Vestjysk Bank	E
Brd. Klee	F
Brøndby IF	F
Prime Office	F
Møns Bank	F
UIE	F
AGF	F
German High Street Properties	F
Totalbanken	F
Relesys	F
Ennogie Solar Group	F
Park Street	F
Luxor	F
Strategic Investments	F
Agat Ejendomme	F

Norway

Veidekke ASA	A+	Arendals Fossekompani	A	Nordic Semiconductor	B+	Odfjell SE	B	Cadeler	D
ELKEM ASA	A+	Multiconsult ASA	A	Lerøy Seafood Group	B+	MPC Container Ships	B	Seadrill Ltd.	D
Yara International	A+	TGS ASA	A	Schibsted	B+	Gram Car Carriers	B	ArcticZymes Technologies	D
Scatec	A+	Grieg Seafood AS	A	Odfjell Drilling	B+	Golden Ocean Group	B	Nykode Therapeutics	D
Elopak	A+	Kongsberg Gruppen	A	BW Offshore Ltd.	B+	Hexagon Purus AS	B	Cool Company Ltd.	D
Wilh. Wilhelmsen Holding	A+	PGS ASA	A	NEL ASA	B+	Frøy	C	Bouvet	D
Orkla ASA	A+	Europris ASA	A	AF Gruppen ASA	B+	Autostore Holdings	C	Belships ASA	D
Aker Carbon Capture	A+	Subsea 7	A	DNB Bank ASA	B	SpareBank 1 Østfold Akershus	C	Medistim	D
Norsk Hydro ASA	A+	Gjensidige Forsikring	A	Flex LNG Ltd.	B	Hafnia	C	DNO	D
Aker Solutions	A+	SpareBank 1 SMN	A	Bakkafrost	B	Volue	C	BlueNord	E
Aker Horizons AS	A+	Höegh Autoliners	A	Avance Gas Holding Ltd.	B	Atea	C	Austevoll Seafood	E
Vår Energi	A+	Storebrand	A	Crayon Group Holding	B	SpareBank 1 Ringerike Hadeland	C	Bonheuer	E
Borregaard ASA	A+	SpareBank 1 SR-Bank	A	Sparbanken Vest	B	BW LPG Ltd.	C	Borr Drilling Ltd.	E
Aker BP ASA	A+	Salmar	A	Frontline plc	B	Thon Eiendom	C	Okeanis Eco Tankers	E
Equinor ASA	A	Shelf Drilling	B+	Kitron ASA	B	Sparebanken Møre	C	Icelandic Salmon	E
Entra	A	Wallenius Wilhelmsen	B+	Norske Skog	B	Adevinta	C	Kahoot	E
Telenor ASA	A	SpareBank 1 Østlandet	B+	Rec Silicon	B	BW Energy Ltd.	C	Meltwater	E
MOWI ASA	A	Aker ASA	B+	SpareBank 1 Nord-Norge	B	Stolt-Nielsen	C	Ultimovacs ASA	E
SpareBank 1 Sørøst-Norge	A	Tomra Systems AS	B+	Hexagon Composites ASA	B	Protector Forsikring	D	Treasure ASA	E
Sparebanken Sør	A	BEWI ASA	B+	Seaway 7	B	Norwegian Air Shuttle	D	Måsøval	E

Sweden

Volvo Cars	A+
Saab	A+
Essity	A+
Ericsson	A+
Billerud	A
Epiroc	A
Pandox	A
Volvo Group	A
Electrolux	A
Fabege	A
Castellum	A
SBB	A
Nordea	A
Sandvik	A
SSAB	A
Trelleborg	A
SOBI	A
Tele2	A
SKF	A
Catena	A
Swedbank	A
EQT	B+
Viaplay Group	B+
Thule Group	B+
Afry	B+
Atrium Ljungberg	B+
Nolato	B+
Getinge	B+
Skanska	B+
NIBE	B+
Hexagon	B+
Atlas Copco	B+
Alfa Laval	B+
Hexpol	B+
Hennes & Mauritz	B+
SCA	B+
Telia	B+
AAK	B+
Kinnevik	B+
Systemair	B+
Hexatronic	B+
OX2	B+
SEB	B+
Dometic Group	B+
Storskogen	B
Axfood	B
Bravida	B
ASSA ABLOY	B
Boliden	B
Addtech	B
Sweco	B
International Petroleum Corp	B
Whilborgs	B
Lifco	B
Holmen	B
Hufvudstaden	B
NCAB Group	B
Mycronic	B
HMS Networks	B
Peab	B
Investor	B
Elekta	B
Munters Group	B
Electrolux Professional	B
Intrum	C
Camurus	C
Embracer	C
Fastpartner	C
Svenska Handelsbanken	C
Balder	C
Husqvarna	C
Industrade	C
Securitas	C
Kindred Group	C
Sagax	C
Medicover	C
Sinch	C
Wallenstam	C
Industrivärden	C
Avanza	C
Nordnet	D
Loomis	D
Vitrolife	D
Ratos	D
Lagercrantz	D
Beijer ref	D
New Wave Group	D
Addlife	D
Fortnox	D
Latour	D
Bure Equity	D
Lundbergs	D
Vitec	D
Truecaller	D
Nyfosa	E
Evolution	E
Sectra	E
Biotage	E
Addnode	E
BioArtic	F

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ESG100 Partners

Co-organiser

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Supporter

Position Green

Malmö
Jagaregatan 4
211 19 Malmö
Sweden

Stockholm
Drottninggatan 71D
111 36 Stockholm
Sweden

Gothenburg
Mårten Krakowgatan 2
411 04 Gothenburg

Houston
12948 Queensbury Ln Suite 208
Houston, TX 77024
USA

Austin
98 San Jacinto Blvd 4th floor
Austin, TX 78701
USA

Oslo
Wergelandsveien 7
0167 Oslo
Norway

Copenhagen
Nyropsgade 37
1602 Copenhagen V
Denmark

London
119 Marylebone Rd
London NW1
United Kingdom

New York
119 W 24th St. Suite 4
New York, NY 10011
USA