

LISTED COMPANIES' REPORTING ON CORPORATE SOCIAL RESPONSIBILITY

The world is calling for responsible leadership. This was communicated clearly at this year's World Economic Forum¹, which articulated the need for long-term sustainable development and called for more action, transparency and commitment among companies, their investors and other stakeholders as a means to promote mutual trust.

In Denmark, we have recommendations on corporate governance and active ownership², Corporate Social Responsibility (CSR) disclosure requirements³ and guidance on Environment, Social and Governance (ESG) reporting⁴ from the Copenhagen Stock Exchange. To FSR – Danish Auditors, there is no doubt **that classic historical financial reporting does not adequately** illustrate how a listed company fulfils its role in society and makes itself worthy of investment⁵. Today, a company's comprehensive reporting should promote the understanding of the company's total value creation,

providing information that gives an indication of its strategic direction and offers reliable information – including on CSR.

When investors request information to enable them to make an overall assessment of a company, there is an implied condition that the company's CSR reporting is robust. It must be comparable with other companies' reporting, and the information must, of course, be trustworthy. In the words of investors, it must qualify as *investment grade* in order to be useful to them. Unfortunately, this is not always the case⁶.

¹ The Compact for Responsive and Responsible Leadership, World Economic Forum (2017)

² Recommendations on corporate governance (2014) and Recommendations on active ownership (2016)

³ Section 99 a of the Danish Financial Statements Act on enterprises' CSR reporting (2015)

⁴ ESG Reporting Guide, Nasdaq (2017)

⁵ Future Reporting, FSR - Danish Auditors (2016)

⁶ Call for action: Enhance the coordination of non-financial information initiatives and frameworks, Accountancy Europe (2017) and Sustainability and enterprise risk management: The first step towards integration, World Business Council for Sustainable Development (2017)

LISTED COMPANIES ARE ON THE RIGHT TRACK, BUT THEY NEED TO STEP UP ON ROBUSTNESS AND RELIABILITY

In an effort to contribute to the debate, we have examined the most recent CSR reporting of the largest listed companies in Denmark and found that the situation is not quite as good as we had hoped. Many companies are performing well on a number of parameters, but greater overall robustness in the reporting is called for. Information on the quality and reliability of the reporting generally falls short of users' requirements and the level they are used to from the financial reporting.

Principal findings

The principal findings of our analysis of the CSR reporting of the largest listed companies in Denmark are that:

- 96% prepare reporting that is easy to understand and 57% explain positive developments in their performance indicators, but just 43% explain negative developments in the company's key performance indicators (KPIs) on CSR and just 43% clearly state what parts of the organisation (companies and business areas) are comprised by the reporting.
- 98% describe the CSR areas they focus on and 55% clearly state the risks

driving their approach, whereas just 35% clearly state the opportunities driving their approach to CSR. Only 23% describe how the company works to assess materiality.

- All present CSR targets and KPIs, but just 38% refer to accounting policies explaining how these are calculated and are to be read, and as few as 18% mention the use of internal controls to ensure reliable reporting. 23% include an assurance statement by an impartial third party.
- Over 80% include environmental KPIs, including climate, social and governance KPIs, while 48% present anti-corruption

KPIs and just 36% present KPIs on human rights. In terms of clarifying the correlation between CSR and the business, it is remarkable that just 32% include KPIs for customer-related matters and just 25% include KPIs for product-related matters.

Raise the ambition

FSR - Danish Auditors calls on companies to scale up ambitions for their comprehensive reporting. We would like Danish companies to take their reporting to the next level and lead the way in terms of transparent, reliable CSR reporting that matches the current level of financial reporting.

PRINCIPAL FINDINGS

The vast majority of listed companies in Denmark present clear and understandable CSR reporting. All companies present CSR targets and KPIs, but their reporting is lagging in terms of robustness and reliability.

96%

present clear, easily understandable reporting.

100%

present CSR targets and KPIs.

43%

clearly define which parts of the company are comprised by the reporting.

43%

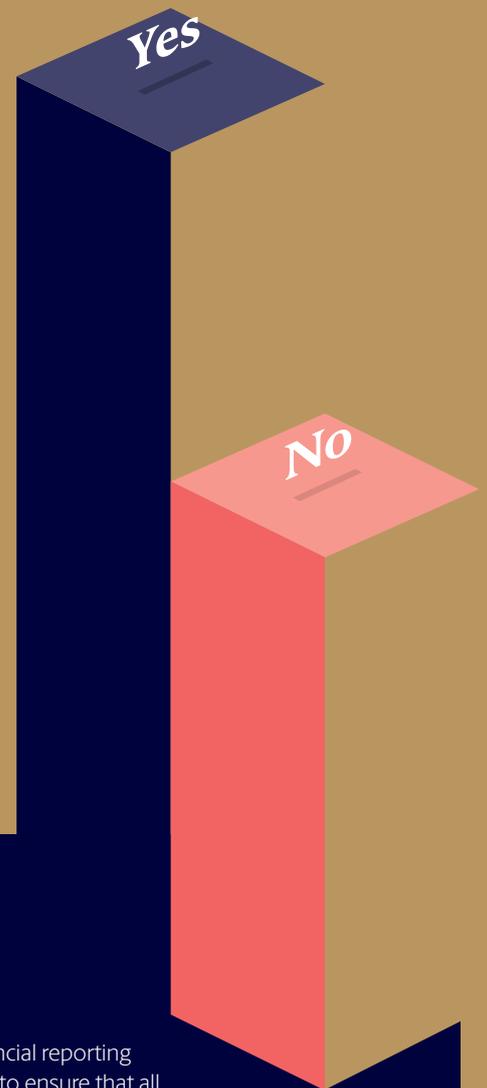
explain negative developments in the company's KPIs on CSR.

35%

clearly describe the opportunities driving the company's CSR approach.

38%

refer to accounting policies describing the sources and methods applied to calculate KPIs.



WE CALL ON:

INVESTORS and other users of annual CSR reporting to make clear demands as to the robustness, reliability and technical content of such reporting.

LEGISLATORS to draw up unambiguous legislation and to clearly convey to companies the expectation that their

accounting information and annual reporting in relation to CSR in general are of a high quality.

COMPANIES to pursue the same quality standards for their accounting information and annual reporting in relation to CSR in general as they do for their annual

financial reporting and to ensure that all information significant to the understanding of the company's overall value creation is included in the reporting.

GENERALLY ACCEPTED REPORTING PRACTICE

ANALYSIS QUESTIONS

COMMUNICATION

	YES ⁷	NO
Is the structure of the report logical?	80%	20%
Is the report concise in its descriptions?	79%	21%
Is the report clear and easy to understand?	96%	4%

BOUNDARIES AND PRACTICE

Does the reporting clearly define what parts/subsidiaries/points of operation and activities of the company are comprised/not comprised by the reporting? ⁸	43%	57%
If YES , does it apply:		
- Financial boundaries?	33%	67%
- Operational boundaries?	17%	83%
- Customised boundaries?	58%	42%
Does the reporting comprise/refer to accounting policies describing the sources and methods applied to calculate KPIs?	38%	62%
Does the reporting comprise/refer to a description of the company's use of internal controls to ensure reliable reporting (e.g. of the calculation of KPIs)?	18%	82%
Does the reporting comprise/refer to an assessment of materiality, describing how the company addresses materiality assessments?	23%	77%
Does the reporting comprise/refer to the company's stakeholder engagement?	36%	64%
Does the reporting describe whether the company applies due diligence processes?	55%	45%
Does the reporting comprise comparisons of the company's performance to that of other companies (e.g. industry peers)?	11%	89%

⁷ "Yes" covers "yes" and "partially" answers in the analysis. The analysis covers the reporting of 57 companies.

⁸ Note: Some companies use different types of boundaries for various types of data.

These are the results of the analysis of information comprised in the 2016 CSR reporting of listed companies in Denmark with more than 500 employees and headquarters in Denmark, evaluated on the basis of elements of generally accepted reporting practice.

ANALYSIS QUESTIONS

USE OF TARGETS AND KPIS

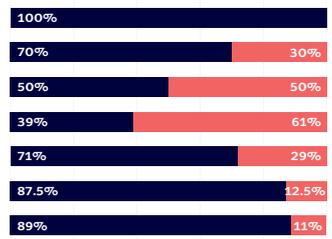
Does the reporting comprise targets? ⁹

If **YES**, does it apply/report on:

- Short-term targets (1-2 years)?
- Long-term targets (3+ years)?
- Targets without a time frame?
- Absolute targets?
- Relative targets (e.g. relative to revenue or other KPIs)?
- Follow-up on performance for the year relative to target(s)?

YES

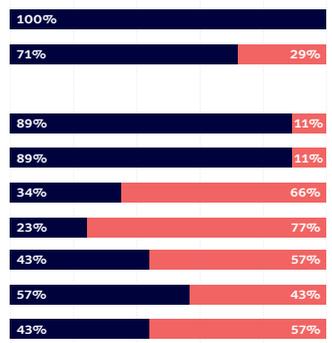
NO



Does the reporting comprise non-financial KPIs? ¹⁰

If **YES**, does it apply/report on:

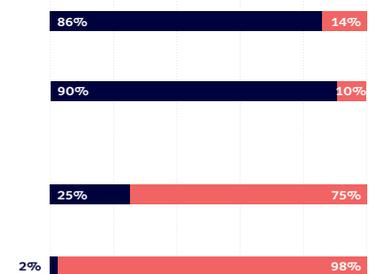
- Performance relative to previous years (1-4 years back)?
- Relative KPIs (e.g. relative to revenue or other KPIs - or as a percentage or indexed)?
- Absolute data?
- Less than 5 KPIs?
- Between 5 and 10 KPIs?
- More than 10 KPIs?
- Positive developments (explanation)?
- Negative developments (explanation)?

**EXTERNAL ASSURANCE AND FRAMEWORK**

Does the reporting refer to the use of international reporting frameworks or guidelines (COP, GRI, IR)? ¹¹

If **YES**, does it apply:

- Communication on Progress (COP) reporting to the UN Global Compact, to which the company is a signatory?
- Global Reporting Initiative (GRI) GRI G4 reporting, which the company is inspired by or complies with (e.g. including GRI Index)?
- Integrated reporting based on the international integrated reporting framework <IR>?



Does the reporting comprise/refer to a published assurance statement by an impartial third party? ¹²



⁹ Note: A number of companies use a combination of the stated options.

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¹¹ Note: The COP is required when a company voluntarily signs up to the UN Global Compact. GRI and IR are both voluntary reporting frameworks.

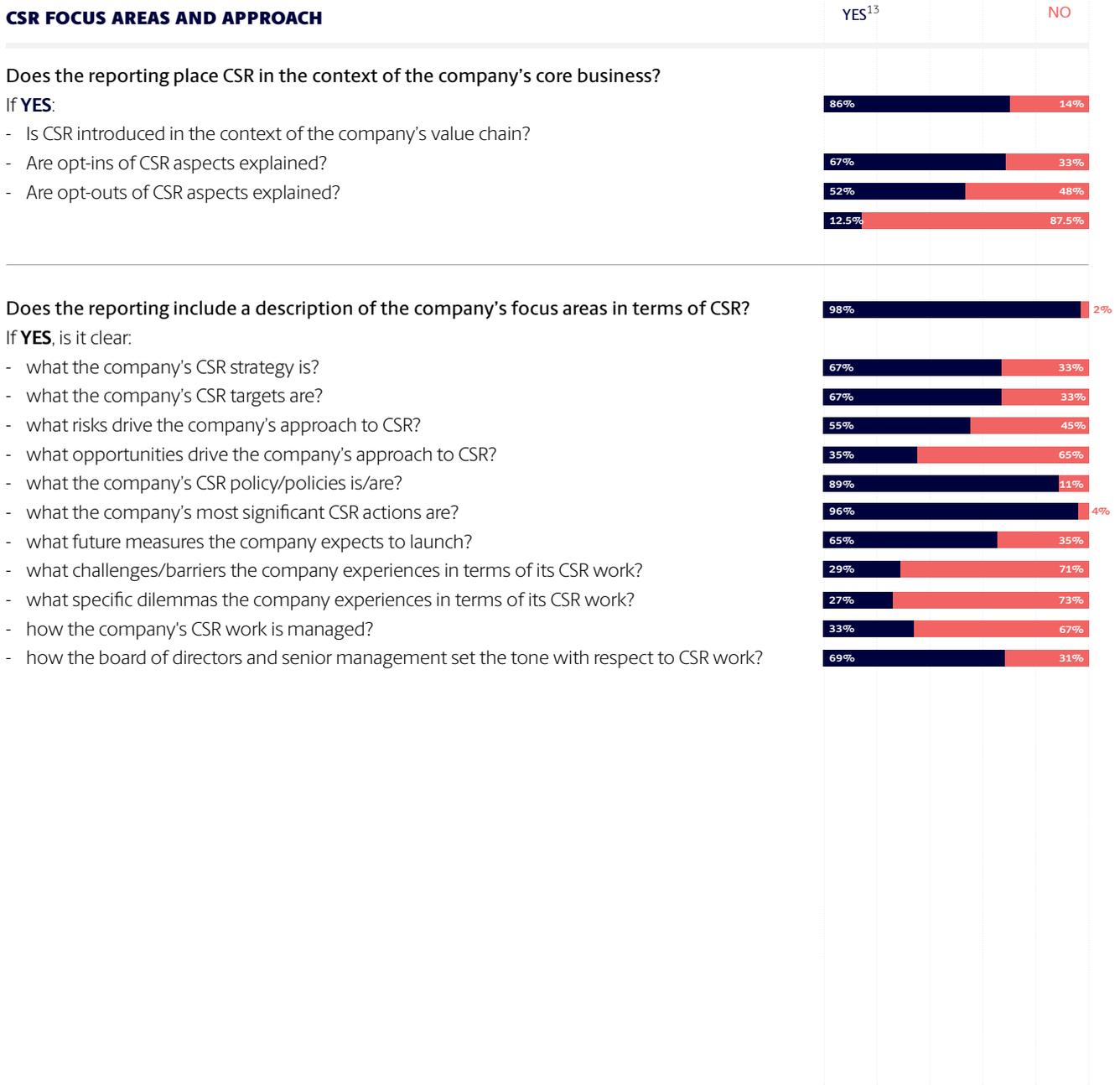
¹² Note: It is optional for companies to include an assurance statement by an impartial third party on its reporting.

The auditor conducts a consistency check against the requirements of section 99 a of the Danish Financial Statements Act.

INFORMATION ON CORPORATE SOCIAL RESPONSIBILITY

ANALYSIS QUESTIONS

CSR FOCUS AREAS AND APPROACH



¹³ "Yes" covers "yes" and "partially" answers in the analysis. The analysis covers the reporting of 57 companies.

These are the results of the analysis of information comprised in the 2016 CSR reporting of listed companies in Denmark with more than 500 employees and headquarters in Denmark, evaluated on the basis of selected CSR content.

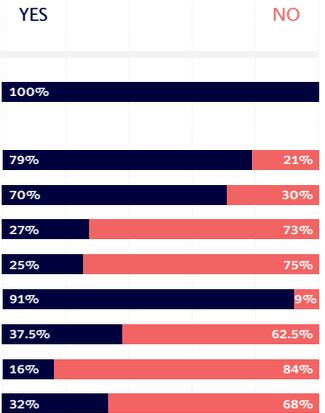
ANALYSIS QUESTIONS

USE OF TARGETS AND KPIS

Does the reporting comprise targets?

If **YES**, on:

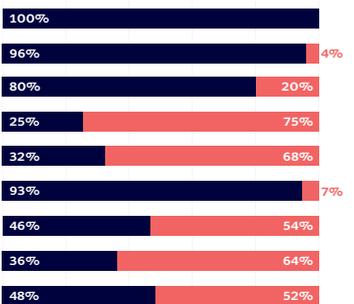
- social issues?
- environmental issues (including climate)?
- product-related issues?
- customer-related issues?
- governance?
- supply chain?
- human rights?
- anti-corruption?



Does the reporting comprise KPIs?

If **YES**, on:

- social issues?
- environmental issues (including climate)?
- product-related issues?
- customer-related issues?
- governance?
- supply chain?
- human rights?
- anti-corruption?



UN SUSTAINABLE DEVELOPMENT GOALS

Does the reporting refer to the UN Sustainable Development Goals (SDGs)?

If **YES**, does it:

- state why the SDGs are relevant to the company?
- define which of the SDGs the company focuses on in particular?
- report on own goals in relation to selected SDGs?
- include KPIs in relation to selected SDGs?



ABOUT THE ANALYSIS

In 2017, FSR – Danish Auditors commissioned an analysis of the 2016 CSR reporting of Danish listed companies with more than 500 employees and headquarters in Denmark.

The analysis comprises 56 companies' reporting for financial year 2016 as stated as their compliance with section 99 a of the Danish Financial Statements Act, to which they are all subject. The assessment was based on the most recent reporting at 31 May 2017. Accordingly, a few of the companies have reported in accordance with the 'old' section 99 a rules, including the companies whose financial year is not the calendar year as well as financial enterprises, which did not become subject to the new section 99 a rules until the 2017 financial year.

The companies' reporting was part of the management's review (25%), published as a separate CSR report (23%), a Communication on Progress (COP) report to the UN Global Compact (48%) or a COP report to the UN Global Compact in combination with an integrated management's review (4%).

The technical side of the analysis was carried out by ESG Insight for FSR – Danish Auditors. The analysis relies on the five general criteria that formed the basis of FSR – Danish Auditors' screening for the CSR Reporting Prize 2017 for listed companies with more than 500 employees.

About FSR - Danish Auditors

FSR - Danish Auditors is a trade organisation within auditing, accounting, tax and business economics representing the Danish audit profession.

We work to influence and contribute to the debate about future reporting, including the need for high-quality reporting on CSR and ESG in a Danish and an international context. Setting the bar high for true and reliable reporting, we find that there is a continued need for professional dialogue on the framework of future reporting.

We look forward to taking the dialogue about future CSR and ESG reporting further, hoping to help highlight the subject through the results of this analysis of the largest listed companies' reporting – by working closely with our members, the companies and their stakeholders.