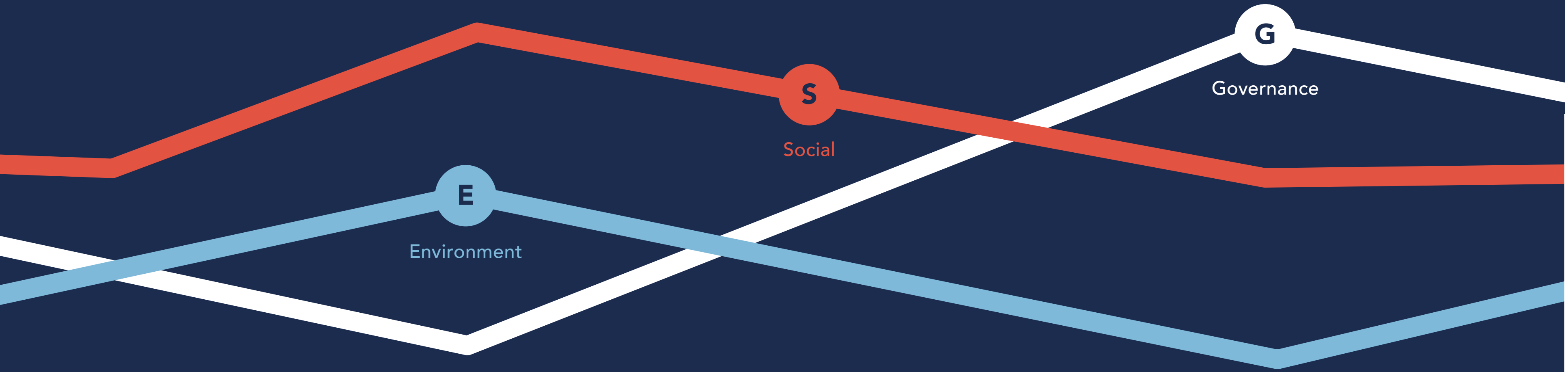
ESG key figures in the annual report

Better ESG data, better insight, better investments



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Content

Better ESG data, better insight, better investments

The value of a company can no longer be based on financial information and data alone. Investors and analysts increasingly consider ESG data (Environmental, Social & Governance) in their assessments of value creation and analysis of long-term growth potential. Therefore, it is important to professionalise ESG data.

ESG data supplements traditional company analysis when it is of the same quality as financial data.

The key figures companies announce for environment and climate, social conditions and company governance are used to analyse them. ESG data supplements traditional company analysis when it is of the same quality as financial data. But ESG data is often hard to come by, of poorer quality than traditional financial data, and not standardised and comparable, which limits its potential for analysis and reliability. This publication is part of the solution. It presents a standardised overview of ESG key figures. The overview can be published in the annual report together with the financial main and key figures.

The value of standardised ESG key figures

A standardised ESG key figure overview helps investors and analysts. And the company does not have to use resources to develop its own definitions and methods. The overview can also be used by listed companies when they report ESG data to Nasdaq Nordic's ESG Data Portal.

The ESG key figure overview is published by The Danish Finance Society / CFA Society Denmark, FSR – Danish Auditors, and Nasdaq Copenhagen. Content and definitions in the ESG key figure overview and in The Danish Finance Society / CFA Society Denmark's Recommendations & Financial Ratios are identical.

The objective of the ESG key figure overview is to harmonise and standardise the basic ESG key figures, mainly for the benefit of analysts and investors. It is a proposal, not a recipe to follow slavishly, and each company must decide whether the key figures add value, or if they should be supplemented with other ESG key figures.

Why include ESG in the annual report?

The annual report is the most important source of information for investors and analysts. The historical information in the annual report offers an overview of and insight into the company's finances, performance, and direction. The main and key figures provide an efficient and fast overview.

Adding the ESG key figure overview to the traditional financial overview deepens the analyst's insight into the sustainable value creation of the company and supports the search for future value. Data about employee turnover, for example, shows a company's ability to retain staff, an important element in its future performance. Similarly, factors like CO_2 emissions, water consumption, and gender pay ratio can impact the company's performance.

ESG key figures add insight

"As a responsible, long-term investor, ESG key figures are essential as they give deeper insight into a company and play a significant role in its analysis. It is obvious that a company should include the most material ESG key figures in its annual report. It is also imperative that they – in line with financial key figures – follow a common standard, and that they are available and comparable in the same place, for example the ESG Data Portal of the stock exchange."

- Torben Möger Pedersen, CEO, PensionDanmark

Present ESG data the best way

The relevant ESG key figures vary from company to company. But in order to be able to analyse and make comparisons across companies and sectors, it is crucial to ensure consistency in key figures overviews; key figures overviews must follow international definitions and methods; and they must be audited to add credibility.

The accepted standards used in this publication are explained in *The Greenhouse Gas Protocol – Corporate Standard* (by WRI/WBCSD) and *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation* (by WEF), among others. All ESG key figures in this publication are included in The Danish Finance Society / CFA Society Denmark's Recommendations & Financial Ratios.

We recommend publishing the ESG key figures together with a company's financial main and key figures. Alternatively, the ESG overview can be published in an ESG section or a separate note in the annual report.

ESG key figures cannot stand alone and are not substitutes for dialogue

An ESG key figure overview can usually not stand alone. We recommend that the ESG development and targets are explained in the strategy, risk, management reporting of the annual report and in the company's statement on corporate social responsibility and executive remuneration.

Key figures do not replace investor communication about ESG, either. Dialogue ensures that the market knows the company's targets and how its policies are carried out. ESG managers should therefore be available at investor meetings.

On the following pages we suggest what a standardised ESG overview in the annual report might contain.

We recommend publishing ESG figures together with a company's financial main and key figures.

Standardised ESG key figure overview

The overview suggests the ESG key figures that might be important for assessing a company's future performance. The company is therefore encouraged to include these in its annual report.

Obviously the overview should contain only the relevant ones, and other key figures can be included. It is an example and the applicability of some of the key figures is limited for some sectors and companies, as can be seen from the definitions.

Put the numbers in context

An ESG key figure overview is rarely of any use on its own. It needs to be read together with competitor data, for example, or the company's historical data. Often ESG data has to be normalised, for example by relating it to the company's unit output, turnover, cash flow, and so on. However, if a company chooses to report normalised data, it should be reported together with the raw data to enable comparison with other companies. In the definitions of the key figures, examples of how historical ESG data trends can affect the assessment of future financial performance are included. Therefore, we recommend that historical ESG data trends should be explained in the management section of the annual report.

ESG data definitions

ESG key figures are explained on pages 10-14. There you will find key figure formulas, units, a short explanation, and why they are relevant.

ESG key figure overview

	Unit	Target	**2020**	2019	2018	2017	2016
Environmental data							
CO_2e, scope 1	Metric tonnes	4,200	**4,389**	4,479	4,658	4,751	4,870
CO_2e, scope 2	Metric tonnes	2,500	**2,679**	2,734	2,843	2,900	2,973
Energy Consumption	GJ	48,000	**48,619**	49,611	51,595	52,627	53,943
Renewable Energy Share	%	52	**51**	49	46	39	32
Water Consumption	m^3	1,.325	**1,352**	1,380	1,435	1,464	1,501
Social data							
Full-Time Workforce	FTE	4,450	**4,498**	4,510	4,690	4,971	5,369
Gender Diversity	%	40	**40**	38	37	33	32
Gender Diversity, Management	%	33	**30**	31	24	22	17
Gender Pay Ratio	Times	1.0	**1.2**	1.2	1.2	1.3	1.4
Employee Turnover Ratio	%	10	**11**	11	12	12	13
Sickness Absence	Days per FTE	4.5	**5.3**	5.4	5.6	6.0	6.4
Customer Retention Ratio	%	88	**85**	87	83	81	79
Governance data							
Gender Diversity, Board	%	33	**33**	33	17	0	0
Board Meeting Attendance Rate	%	98	**95**	92	92	90	92
CEO Pay Ratio	Times	22	**23**	22	21	21	20

Targets and data in the ESG key figure overview are examples to illustrate what the overview could look like for a given company.
In relation to targets, these should be clarified and the timeframe should be elaborated in the company's guidance.

Confidence is central to the value of ESG data

The ESG key figure overview must be as reliable as traditional financial data. We therefore recommend that companies follow the basic principles in ESG reporting, which are:

- **Reporting boundaries:** use the same reporting boundaries as for the financial statement
- **Consolidation:** follow the financial accounting principles for consolidating data
- **Period:** follow the periods of the financial statement
- **Accounting policies:** describe the methods used to calculate ESG data in the annual report under accounting policies or in a separate note
- **Performance and trends:** clearly explain the historical performance for 3–5 years.

The reliability of the ESG data can be assured at various levels. A company can ask an independent party to audit it, similar to auditors signing off financial data. When ESG data is of the same quality as financial data, the environmental and social performance of the company, for example, can be compared with its financial performance.

Describe the methods used to calculate ESG data in the annual report under accounting policies or in a separate note.

Portal for ESG data gives overview

Nasdaq Nordic has launched an ESG Data Portal to make it easy for investors and analysts to acquire streamlined ESG data, and for the data to be used.

ESG data is added to the key figures offered by Nasdaq Nordic. The ESG Data Portal uses the existing infrastructure, making it easy for investors and analysts to access both financial and ESG data. The Portal provides an overview of companies reporting on ESG data. Nasdaq Nordic does not evaluate the performance, but creates the transparency.

Short or long term?

"A company that reports ESG shows something about the thinking of management – short or long term.

It makes sense to run a company with few damaging effects, and a well-managed company is one that has capacity to improve its processes. We have confidence in ESG data that has been calculated to a standard. It improves comparability and removes the many traps in the area that arise when companies define their own key figures and reporting form. It also improves the possibilities of having ESG data assured, which is rare today, but obvious to include."

- Daniel Patterson, Head of Danish Equities, Portfolio Manager, SEB

ESG data, definitions
Environmental data

CO_2e Scope 1

Formula
Green House Gas (GHG) emissions are calculated for each combusted fuel/material – e.g.: $CH_4 = \sum$ (combusted fuel type * CH_4 conversion factor per fuel type) $_{\text{per fuel type}}$ When all emissions are calculated, they are normalised to CO_2-equivalents (CO_2e): $CO_2e = CO_2 + (25*CH_4) + (298*N_2O) + (22{,}800*SF_6) + (\text{GWP factor}*HFC) + (\text{GWP factor}*PFC) + (17{,}200*NF_3)$.

Unit: Metric tonnes

Explanation
Scope 1 emissions: Direct emissions resulting from the company's own combustion of fuels and materials. Most often CO_2e are not measured, but calculated, based on quantitative data on combusted fuels/materials, such as: oil, gas, diesel, gasoline, kerosene, coal, biomass, and others. The combusted fuels/materials are multiplied with converters for emissions of the 7 Kyoto gases/GHGs: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6), and nitrogen trifluoride (NF_3). Since these gases have different Global Warming Potential (GWP), each gas is subsequently normalised to CO_2 equivalents (CO_2e) by multiplying each gas with their individual GWP factor.

Why included
Task Force on Climate Related Financial Disclosure (TCFD) relevant. The CO_2e emitted compared with the produced quantities or revenue are useful to identify the companies that have been able to transfer to less CO_2-polluting processes/assets – either over time or compared with the peers: Relevant for Sustainable Development Target (SDG) indicator: 9.4.1.

REFERENCES
- GHG Protocol Corporate Accounting and Reporting Standard
- International Energy Agency: CO_2 Emission from Fuel Combustion
- The Danish Finance Society's Recommendations & Financial Ratios
- Nasdaq (2019) ESG Reporting Guide 2.0, E1.

CO_2e Scope 2

Formula
Scope 2 emissions are calculated per country per bought MWh of electricity, and/or GJ of district heating/cooling – e.g.: $CH_4 = \sum$ (bought MWh or GJ * CH_4 conversion factor per country) $_{\text{per country}}$ When all emissions are calculated, they are normalised to CO_2e: $CO_2e = CO_2 + (25*CH_4) + (298*N_2O)$.

Unit: Metric tonnes

Explanation
Scope 2 emissions: indirect emissions resulting from the energy used to produce electricity, district heating, or district cooling, which the company has purchased for its use. The scope 2 emissions are in principle calculated as scope 1 emissions, though typically not covering all Kyoto-gases/GHGs. Be aware, the use of electricity, district heating, and district cooling must be collected per country, as there are significant differences in the emissions of CO_2e, therefore the converters are different per country.

If the company is buying renewable energy (wind, solar, geothermal, etc.), then, in principle, there are no emissions from these sources, thus these do not impact on scope 2 – but should be included in Energy Consumption (cf. following definitions). If the company is selling electricity, this should not be deducted from the bought electricity, but can be reported additionally.

Why included
TCFD relevant. The CO_2e emitted compared with the produced quantities or revenue are useful to identify the companies that have been able to transfer to less CO_2-polluting processes/assets – either over time or compared with the peers. Relevant for SDG indicator: 9.4.1.

REFERENCES
- GHG Protocol Corporate Accounting and Reporting Standard
- International Energy Agency: Emission factors
- The Danish Finance Society's Recommendations & Financial Ratios
- Nasdaq (2019) ESG Reporting Guide 2.0, E1.

Energy Consumption

Formula
Energy Consumption = ∑ (combusted fuel type (t) * power factor per fuel type) $_{\text{per fuel type}}$ + (used electricity (incl. renewable energy)(MWh)*3.6) + (used district heating/cooling including renewable sources of heating/cooling (GJ)).

Unit: GJ

Explanation
Energy is, as emissions, typically calculated based on consumptions multiplied with converters. The consumed energy must be added from both scope 1 and scope 2 (cf. previous definitions) sources but must additionally also contain energy from renewable energies.

Why included
TCFD relevant. The energy consumed compared with the produced quantities or revenue are useful to identify the companies that have been able to transfer to less energy consuming processes/assets – either over time or compared with the peers. Relevant for SDG indicator: 7.3.1.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios
- Nasdaq (2019) ESG Reporting Guide 2.0, E3.

Renewable Energy Share

Formula
Renewable Energy Share = (Renewable Energy/Total Energy) * 100.

Unit: %

Explanation
How much of the total energy consumed is from renewable energy sources? Sometimes this is also measured as renewable energy vs non-renewable energy, but then the intensity is impossible to measure for those companies with full renewable energy sources.

Why included
TCFD relevant. The ratio can be used to identify companies that have transformed their energy consumption to renewable sources. Relevant for SDG indicator: 7.2.1.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios.

Water Consumption

Formula
Water Consumption = Sum of all gross water consumed.

Unit: m^3

Explanation
The sum of all water drawn into the boundaries of the company from all sources incl. surface water, ground water, rainwater and municipal water supply. Water consumption is the gross amount of consumption, therefore cleaned/purified spillwater

cannot be deducted but can be reported separately.

Why included
TCFD relevant. Water consumption illustrates the risk profile of disruption of water supply and/or water cost changes. Relevant for SDG indicator: 6.4.1.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios
- Nasdaq (2019) ESG Reporting Guide 2.0, E6.

Use of standard factors and estimates

Standard factors, which can be obtained from energy suppliers, are typically used to calculate CO_2 emissions. The conversion factor for the accounting period, alternatively the most recently published conversion factor, is multiplied by the recorded consumption per energy type.

In general, if actual ESG data cannot be obtained, an estimate is made. Assumptions and uncertainties should in that case be disclosed together with the calculation methods used.

ESG data, definitions
Social data

Full-Time Workforce

Formula
Full-Time Workforce = FTEs + Temporary Workers.

Unit: Full Time Equivalents (FTEs)

Explanation
To be able to measure the full-time workforce the work performed is requiring, both directly hired FTEs and temporary workers need to be considered. This demands both the legislative calculation of average full-time employees (FTEs) (meaning full-time employees + compensated overtime + FTE-calculated hourly salaried employees) plus FTE-calculated temporary workers.

Why included
Indirectly important, as full-time workforce is the base for a range of other social indicators (cf. the following definitions). Full-time workforce is better to use when comparing company-requirements for manpower as in contrast to the simple FTEs, since temporary workers are also included and thereby securing comparability between companies with higher and lower degrees of using temporary workforce. Be aware though, Staff Cost only relates to FTEs.

REFERENCES
- Danish Financial Statements Act section 68
- The Danish Finance Society's Recommendations & Financial Ratios.

Gender Diversity

Formula
Gender Diversity = ((Women FTEs + Women Temporary Workers)/(Full-Time Workforce)) * 100.

Unit: %

Explanation
Gender diversity is calculated both for the FTEs and for the Temporary Workers – and then summarised to show whether there are any gender diversity issues per contract type and /or in total for the workforce.

Why included
Gender diversity has scientifically been shown to be correlated with better financial performance.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios.

Gender Diversity, Management

Formula
Gender Diversity, Management = ((Women in Management)/(All FTEs in Management)) * 100.

Unit: %

Explanation
Includes the executive board and employees in senior positions with personnel and/or professional responsibilities. The definition of 'senior position' will depend on the management structure of the company. Calculated in FTEs.

Why included
Gender diversity has scientifically been shown to be correlated with better financial performance. An uneven pattern of promotion and seniority by gender can indicate risks related to workplace inequality and thus inability to attract female talent. Some investors specifically target more diverse companies. Relevant for SDG indicator: 5.5.2.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios.

Gender Pay Ratio

Formula
Gender Pay Ratio = Median Male Salary/Median Female Salary.

Unit: Times

Explanation
Gender equality of remuneration incl. bonuses, pensions, etc. How many times can the female median salary be covered by the male median salary. It is the median salaries and not the average salaries that are compared to ensure the comparison is not skewed by extremely expensive/inexpensive employees. As a practical alternative, averages can be used if the calculation of the

median salary is very burdensome or the key figure is not significantly affected by the choice of method.

Why included
Mandatory for many listed companies in the UK. Gender diversity has scientifically been shown to be correlated with better financial performance. An uneven pattern of pay by gender can indicate risks related to workplace inequality and thus inability to attract female talent. Some investors specifically target more diverse companies. Relevant for SDG indicator: 8.5.1.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios
- Nasdaq (2019) ESG Reporting Guide 2.0, S2.

Employee Turnover Ratio

Formula
Employee Turnover Ratio = ((Voluntary + Involuntary Leavers)/FTEs) * 100.

Unit: %

Explanation
Employee Turnover Ratio is calculated both for voluntary and involuntary leavers. Retirees are included as involuntary leavers. Note, this is only calculated for own FTEs.

Why included
In particular, the Voluntary Turnover Ratio is interesting, as it shows how successful the company is in retaining its employees. This ratio can be seen as a proxy for employee satisfaction measurements, which often are incomparable across companies.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios
- Nasdaq (2019) ESG Reporting Guide 2.0, S3.

Sickness Absence

Formula
Sickness Absence = (No of sick days for all FTEs for the period)/(Total FTEs).

Unit: Days per FTE

Explanation
Number of full days all own employees are sick and not on job, compared to number of FTEs. Maternity/paternity leave not to be included.

Why included
If the company has a disproportionate amount of sick days per FTE, it can be seen as a proxy for less employee satisfaction and/or safety issues. This is costly and could also lead to inability to attract talent.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios
- OECD Health Statistics, 2020, Definitions, Sources and Methods.

Customer Retention Ratio

Formula
Customer Retention Rate: (((No of customers at the end of the period) - (New customers acquired during the period))/(No of customers at the beginning of the period)) * 100.

Unit: %

Explanation
Share of customers retained from one period to the next. Be aware this ratio is only useful for companies with returning known customers and short buy cycle.

Why included
This ratio can be seen as a proxy for customer satisfaction measurements, which often are incomparable across companies. A declining or relative low Customer Retention Ratio may indicate the revenue in the future may be more problematic or costly to maintain.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios
- Farris et al (2017) Key Marketing Metrics – The 50+ metrics every manager needs to know, Pearson Education Ltd, Harlow, UK.

ESG data are calculated for the entire accounting period, unless otherwise stated.

ESG data, definitions
Governance data

Gender Diversity, Board

Formula
Gender Diversity, Board = ((Women board members elected at the AGM)/(All AGM elected board members)) * 100.

Unit: %

Explanation
Gender diversity for the board elected at the Annual General Meeting (AGM) calculated on the balance sheet date. Be aware, that for companies reporting according to the Executive Order for Financial Companies, the diversity is measured for the full board including employee-elected members, but excluding politically appointed members.

Why included
Gender diversity has scientifically been shown to be correlated with better financial performance. Some investors specifically target more diverse companies. Relevant for SDG indicator: 5.5.2.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios
- Nasdaq (2019) ESG Reporting Guide 2.0, G1.

Board Meeting Attendance Rate

Formula
Board Meeting Attendance Rate = ((∑Number of board meetings attended) $_{\text{per board member}}$ /(Number of board meetings * Number of board members)) * 100.

Unit: %

Explanation
Measures the activity level of the board members.

Why included
To be seen in context with the recommendations of the Danish Committee on Corporate Governance on evaluation of the board of directors. A relatively low or declining attendance rate may indicate less attention on the board work, which may indicate a governance culture at risk.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios
- Danish Recommendations on Corporate Governance (2017).

CEO Pay Ratio

Formula
CEO Pay Ratio = CEO Compensation/Median Staff Salary

Unit: Times

Explanation
How many times the median staff salary can be covered by the CEO compensation as a proxy for social equality. It is the median salary and not the average salary that is compared with the CEO pay to ensure the comparison is not skewed by extremely expensive/inexpensive employees. Be aware, this ratio can be difficult to use for comparative analyses of companies with different geographical spread of employees, due to different local salary levels.

Why included
A relatively high or increasing CEO Pay Ratio may illuminate the company's valuation of the CEO compared to the regular employee. The investor can compare this ratio with the financial performance of the company – and if this is relatively low or declining, the investor would probably consider whether the remuneration package is socially appropriate, and it may indicate a governance culture at risk. Mandatory for many listed companies in the US and the UK.

REFERENCES
- The Danish Finance Society's Recommendations & Financial Ratios
- Nasdaq (2019) ESG Reporting Guide 2.0, S1.

Legislation and recommendations

Links to relevant references

[The Danish Finance Society / CFA Society Denmark's Recommendations & Financial Ratios]

[Nasdaq (2019) ESG Reporting Guide 2.0]

[World Resources Institute & World Business Council for Sustainable Development (WRI/WBCSD) (2015) The Greenhouse Gas Protocol]

[World Economic Forum (WEF) (2020) Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation]

[International Energy Agency Data Services]

What does the Danish Financial Statements Act state?
According to section 99 a of the Danish Financial Statements Act, companies in reporting classes C (large) and D must supplement the management commentary with a corporate social responsibility (CSR) report. The report must provide information on non-financial key figures relevant to the particular business.

In addition, according to section 68, companies that are subject to reporting classes B, C and D must disclose the average number of employees during the financial year. This key figure is a subset of the ESG key figure for the company's full-time workforce.

The methods as well as the measurement basis used for ESG key figures in the annual report must be described in accordance with section 53 (1). The description can be placed under accounting policies or in a separate note. The same applies to any CSR reports published on the company's website. If ESG key figures are included in a supplementary report added to the annual report, methods and measurement basis must be described herein in accordance with section 14 (2). A supplementary report is placed in the annual report after the statutory part.

Note that similar rules exist in the notices from the Danish Financial Supervisory Authority – also known as the Regnskabsbekendtgørelsen – see sections 135 and 135 b, section 124 and section 85.

The ESG key figure overview can support companies' work with the above requirements for the statutory report.

What do the Danish Recommendations on Corporate Governance state?
The purpose of the Danish Recommendations on Corporate Governance (2017) is to support value-creating and responsible management to strengthen the long-term competitiveness of companies. The following must be explained: The duties, responsibilities, compensation, and composition of the board, as well as the risk management of the company. This is obligatory for listed companies. The revised recommendations (2020) must be applied from 2021 annual reports.

The ESG key figure overview includes quantitative data from the Danish Recommendations for Corporate Governance.

Keep up with market expectations of ESG data

Interest in sustainability has increased dramatically in recent years, and investments are increasingly based on ESG data as additions to traditional financial information, and for good reason.

ESG data makes it possible to show how a c ompany supports the UN Sustainable Development Goals (the SDGs) and the UN 2030 Agenda for Sustainable Development. It also contributes to ensuring that a company is profitable in five, ten, or twenty years. Investors and analysts know that companies that manage ESG, manage their businesses. They look for key figures to assess whether companies are minimising climate risk, reducing sickness absence, ensuring good company governance, and so on, factors that can affect the bottom line. ESG data is not financial, but it can indicate future financial effects if it is comparable and reliable. The Danish Finance Society / CFA Society Denmark, FSR – Danish Auditors, and Nasdaq Copenhagen want to contribute to the standardisation and professionalization of ESG data. That is why we have developed a standardised ESG key figure overview that can be included in the annual report.

Use our proposal as inspiration to identify the ESG key figures you should include in your annual report and how they can be presented in a format that is useful for investors and analysts.

June 2019 (revised December 2020)