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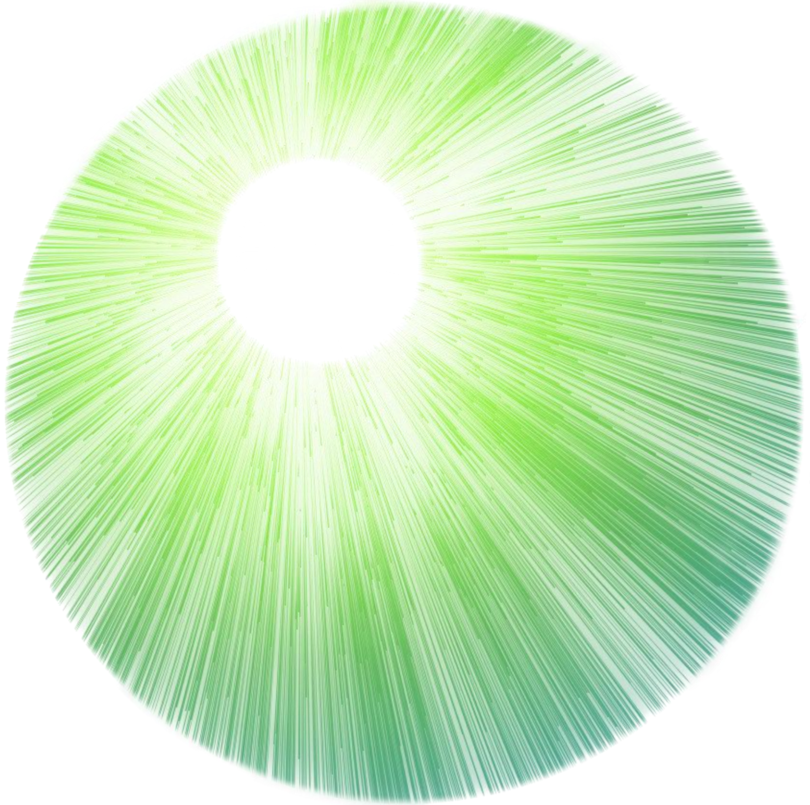


Greenwashing or measurable results?

Sustainability and integrated reporting
– An analysis of the 50 largest companies in Norway

September 2019

Audit & Assurance

Greenwashing or measurable results?
- credibility and trust in sustainability reporting

Norwegian companies recognise that sustainability and social responsibility can provide a competitive advantage, and the provision of information related to these areas is important for stakeholders. Creating the necessary trust, and ensuring that the information provided is credible, will be a key feature of corporate reporting going forward.

Companies in most industries engage, to varying degrees, in social-, climate- and environmental issues. To have access to information and communication related to efforts in these areas is important for all users of corporate reporting (financial markets, investors, customers, employees and other stakeholders).

These stakeholders demand evidence of specific, tangible efforts and improvements over time. Companies must, in other words, be committed to their initiatives, and the communication must correspond to the measures that are actually being implemented.

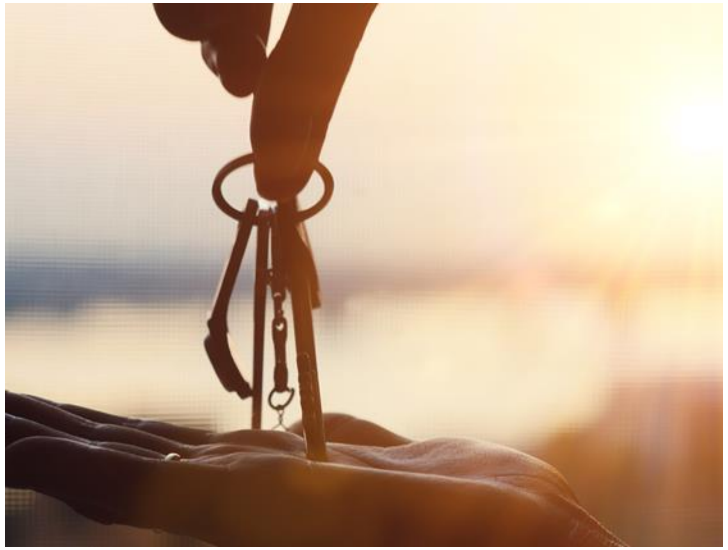
Consequently, the increased engagement related to sustainability and social responsibility has led to a need to improve corporate reporting quality, where the presentation of non-financial as well as financial information is key to highlighting the value creation of the business as a whole.

To create credibility and trust in corporate reporting will, in our opinion, be extremely important going forward. "Greenwashing" will not serve any market participants in the long run. It will undermine the meaning of responsible and sustainable behaviour and sustainability will become yet another buzzword without real content. Trust in information and reporting can be built and maintained through an independent third party. Assurance on information and key performance indicators that the company provides on sustainability and environmental factors can thus be provided, much in the same manner as external auditors currently attest financial information.

Although not all companies relate to integrated reporting as a framework, the principles and elements of integrated reporting do, in our opinion, provide a good indication of the maturity of the corporate reporting of financial and non-financial results. The integrated reporting framework, developed by the International Integrated Reporting Council (IIRC), is intended to guide businesses in their reporting of financial and non-financial value creation over time.

An integrated report is defined as "a concise communication about how an organization's strategy, governance, performance and outlook, in the context of its external environment, lead to the creation of value over the short, medium and long term".

Deloitte supports the development of integrated reporting, and this framework is in our opinion central to improved corporate governance and - reporting. To determine how mature Norwegian companies are in terms of integrated reporting we have, for the second year running, analysed the reports of the 50 largest.



Content

Summary

How do the largest companies report?

151 pages on average

52 % of the GRI reports are attested by a third party

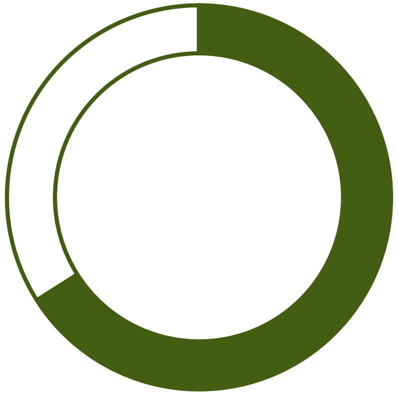
68 % of the companies publish more than one report

68 % discuss who their stakeholders are

34 % discuss how they work with their stakeholders

58 % have performed a materiality analysis

54 % publish a separate GRI report



66 % address the UN sustainable development goals

14 % have committed to the recommendations of the Task Force on Climate-Related Financial Disclosures

The results of our analysis show few changes between 2017 and 2018 in the quality of corporate reporting – the largest companies are still leading the field

1. The level of corporate reporting is unchanged – few improvements from prior year

This year's analysis shows that the results are close to identical to the corresponding analysis of the 2017 corporate reports. The majority of Norwegian companies have chosen not to significantly change their reporting from the prior year.

2. Complex and unstructured reports with lack of connectivity

Many reports are characterised by unstructured information, repetition and a complex structure without a clear connectivity. The information in the various reports is comprehensive and detailed, but it is difficult to identify and understand the connection and interrelatedness of the reports.

3. The majority of Norwegian companies publish several reports

Norwegian companies often publish more than one report. The reports are often repetitive with an unclear message. It is also obvious that responsibility for separate reports is dispersed within the organisation, which indicates a lack of integrated thinking.

4. «Size still matters»

There is still a clear correlation between the size of the company and the quality of corporate reporting. Half of the companies in our sample that achieve a high score are among the ten largest companies in the country.

5. There are still few signs of Board involvement other than in the Directors' Report

Under ten per cent of the 50 largest companies in Norway provide evidence of the Board's involvement with the annual and sustainability reporting, other than what is required by the Accounting Act. These companies report according to the GRI standards and achieve a higher rating related to the elements of integrated reporting than the total sample.

6. Third party assurance of non-financial information is an increasing trend

Assurance by an independent third party is primarily provided on financial information. There is, however, an increase from the prior year in the number of companies that have other types of reports attested by third parties.

The results of our analysis show few changes between 2017 and 2018 in the quality of corporate reporting – the largest companies are still leading the field

7. The journey starts with a stakeholder- and materiality analysis

A stakeholder- and materiality analysis is a common feature of the companies that obtain a high score related to implementation of IR principles in their reporting. For many companies, the journey to an integrated report starts here.

8. The number of companies that address UN sustainable development goals is increasing, but few articulate an integration with strategy

The UN sustainable development goals provide companies with the opportunity to show how they view the environment, social development and financial factors in context. From 2017 to 2018 there is an increase in the number of companies that communicate a structured approach towards achieving these goals. Few, however, show how these goals are integrated in the business strategy.

9. Our analysis shows significant variations between industries

There are significant variations in reporting quality between industries. The common denominator for the industries that obtain a high score, namely financial services and oil, gas and energy, is that they have good descriptions of identified material matters, and view these in context of the organisation, the external environment and future outlook.

Methodology

About the analysis and the report

For the second year running, Deloitte have analysed the annual- and sustainability reports of the 50 largest companies in Norway and mapped the position of integrated reporting and sustainability reporting .

About the sample

The sample we have analysed consists ot the 50 largest companies in Norway, based on revenue. The list is based on Kapital's overview of Norway's 500 largest companies in 2018. Where separate sustainability reports and annual reports are published, we have assessed these together. The companies are classified in industries using the definitions in Kapital's list.

Limitations

We have made certain delimitations in the sample. We have, for example, decided not to analyse subsidiaries of foreign parent companies, as many of these have detailed reporting on a group level, but not on a country level. Where both the Norwegian parent and subsidiary are among the 50 largest companies, we have analysed the operating company.

A criterion is also that the reports must be publicly available for all stakeholders. In instances where companies solely report a 20-F, they have not been included in the sample.

Information about assessments

We have utilised Deloitte's IR maturity Research Model in our analysis, and reviewed *content elements* and *guiding principles*, which are part of the IR framework, to assess the various parts of the companies' reporting.

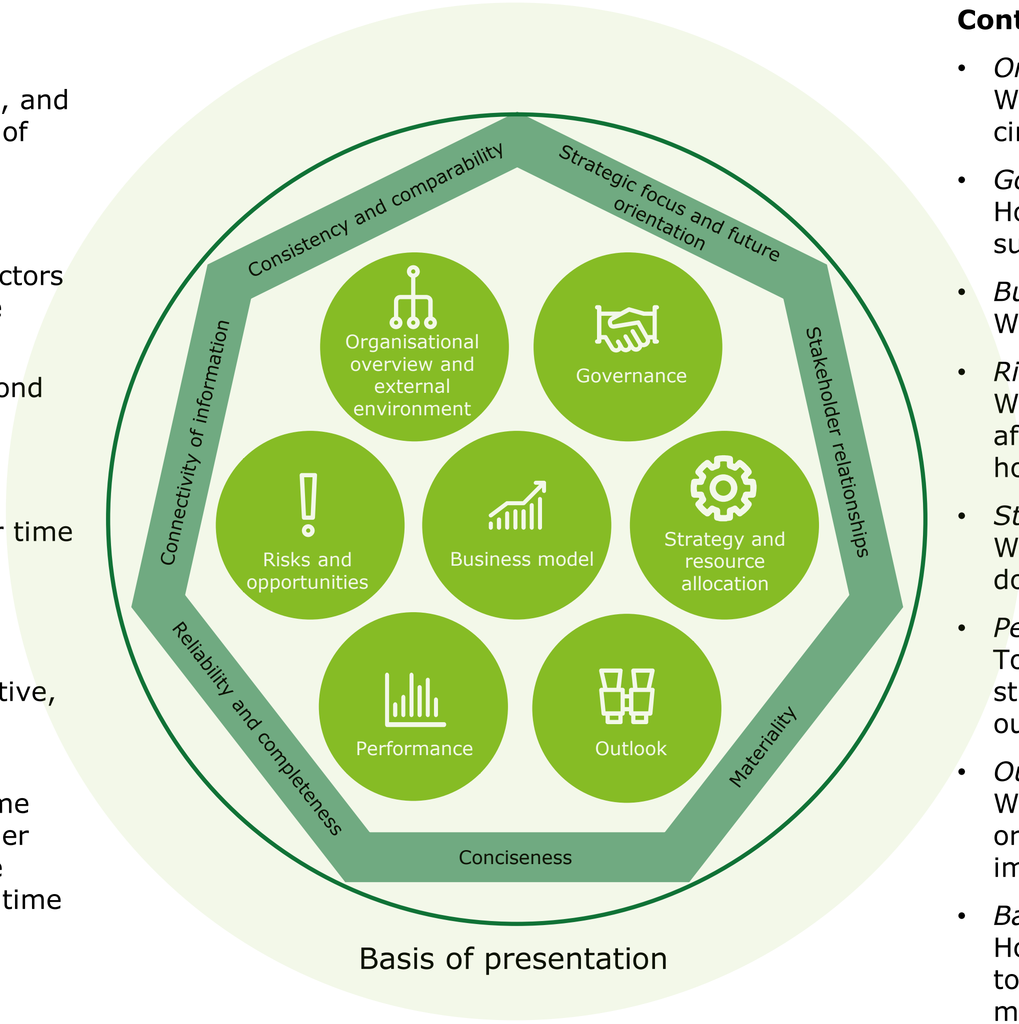
We have furthermore classified the companies in four categories (scale from 1-4), based on our assessment of how mature they are in their development in terms of the principles in integrated reporting. The assessments have been quantified in accordance with our methodology.

We have also chosen to assess certain additional factors, for example whether there is evidence of involvement by the Board of Directors, whether independent third party assurance has been provided, and whether a GRI report has been published.

Guiding principles and content elements

Guiding principles

- *Strategic focus and future orientation*
  provide insight into the organisation's strategy, and how it relates to creating value, and to its use of the various capitals
- *Connectivity of information*
  show a holistic picture of the combination, interrelatedness and dependencies between factors that affect the ability to create value over time
- *Stakeholder relationships*
  provide insight into key stakeholders and respond to their legitimate needs and interests
- *Materiality*
  disclose information about matters that substantively affect ability to create value over time
- *Conciseness*
  An integrated report should be concise
- *Reliability and completeness*
  include all material matters, positive and negative, in a balanced way and without material error
- *Consistency and comparability*
  presented on a basis that is consistent over time and in a way that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value over time



Content elements

- *Organisational overview and external environment*
  What does the organisation do and what are the circumstances under which it operates?
- *Governance*
  How does the organisation's governance structure support its ability to create value?
- *Business model*
  What is the organisation's business model?
- *Risks and opportunities*
  What are the specific risks and opportunities that affect the organisation's ability to create value, and how is the organisation dealing with them?
- *Strategy and resource allocation*
  Where does the organisation want to go and how does it intend to get there?
- *Performance*
  To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- *Outlook*
  What challenges and uncertainties is the organisation facing, and what are the potential implications?
- *Basis of presentation*
  How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?

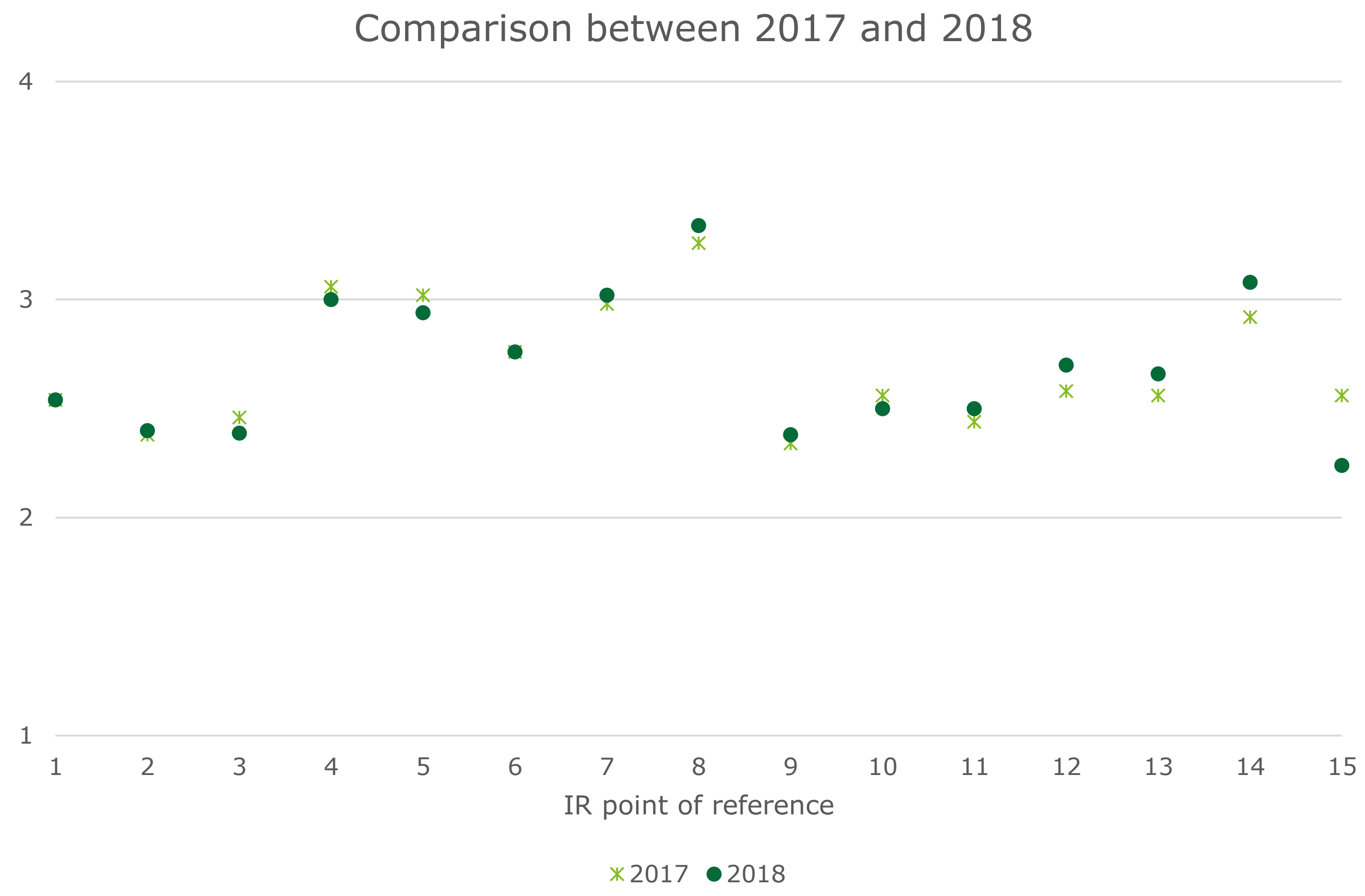
Findings

1. The level of corporate reporting is unchanged – few improvements from prior year

This year's analysis shows that the results are close to identical to the corresponding analysis of the 2017 corporate reports. The majority of Norwegian companies have chosen not to significantly change their reporting from the prior year.

By comparing the findings from the reporting for 2018 with the results in the prior year, it can be concluded that Norwegian companies continue to have the same challenges related to integrated reporting. One example is that Norwegian companies generally do not communicate their governance principles, other than the NUES (The Norwegian Corporate Governance Board) recommendations. We also see clear challenges related to the stakeholder dialogue and references to relevant frameworks utilised in the corporate reporting.

It is, however, worth noting that Norwegian companies show some improvements in describing their future outlook.

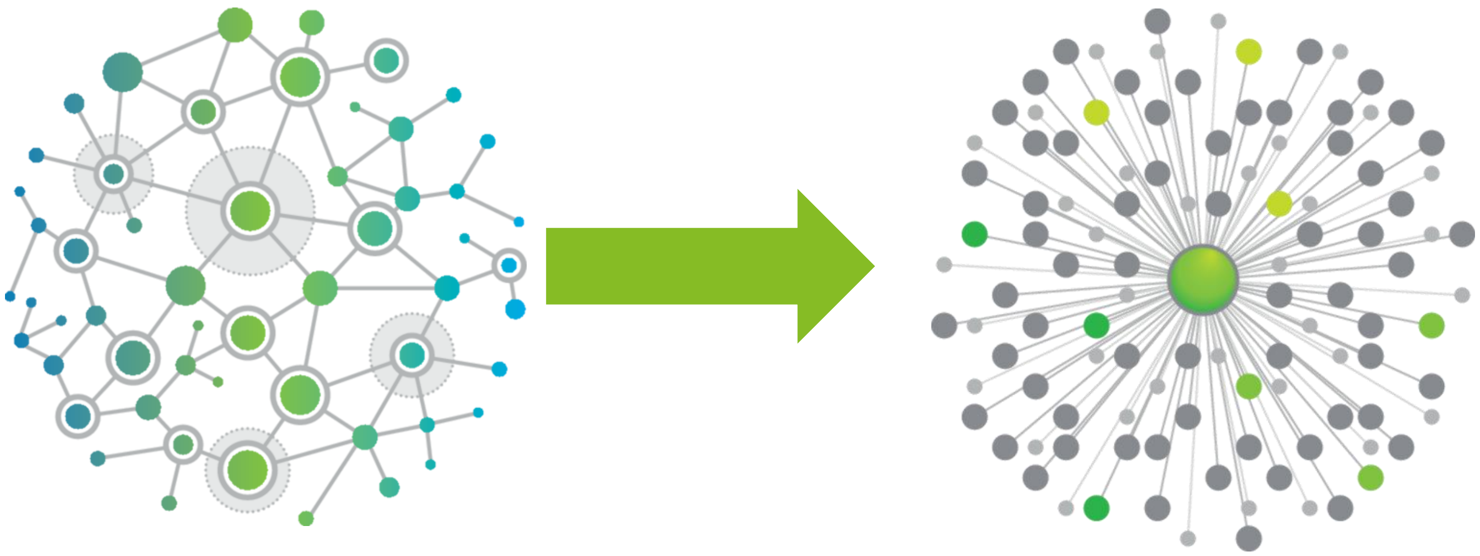


2. Complex and unstructured reports with lack of connectivity

Many reports are characterised by unstructured information, repetition and a complex structure without a clear connectivity. The information in the various reports is comprehensive and detailed, but it is difficult to identify and understand the connection and interrelatedness of the reports.

Our analysis shows that Norwegian companies have not improved, to any significant extent, in terms of non-financial reporting from the prior year. Many of the companies included in the study have maintained both the design and structure from previous annual corporate reporting. This may mean that Norwegian companies either are satisfied with the status quo, or indicate that they do not prioritise further development of the reports.

One of the greatest challenges in relation to corporate reporting continues to be the design and structure of the reports.



Despite the fact that the information provided in the various reports is comprehensive and detailed, it is difficult to find and understand the connectivity – i.e. what the company wants, how it will achieve its goals and how both the company and its environment will be affected by the company's strategy.

These issues are relatively independent of size, as also the ten largest companies have challenges related to connectivity of reporting and presentation of financial and non-financial results.

It is worth noting that the average report is 151 pages. Extensive reports, often more than 200 pages long, will necessarily fulfil the guiding principles and the content elements, but this does not mean that the reports are reader friendly or integrated.

Mowi is one of the few companies in our sample that expressly identify their annual report as an integrated report. There is a clear connectivity between purpose, stakeholders, identified material areas and the strategy of the company.

Mowi Integrated Annual Report 2018, www.mowi.com

3. The majority of Norwegian companies publish several reports

Norwegian companies often publish more than one report. The reports are often repetitive with an unclear message.

Norwegian companies continue to publish more than one report. The consistency and connectivity of information between the sustainability and social responsibility reports and the financial reporting is, however, unclear. It is also obvious that responsibility for separate reports is dispersed within the organisation. This gives the impression that a holistic integrated way of thinking is missing.

By integrating the information in a combined annual- and sustainability report, instead of publishing two or more reports with overlapping and repetitive information, the message that the company wants to convey will become clearer.

Companies with one explicit integrated report with both financial and non-financial information, score better in our study than companies where the information is dispersed between several reports. These companies are also more advanced in identifying stakeholders, material issues and the various capitals that both impact, and are impacted by, the operations of the company.

Companies that apply the GRI standards in their reporting generally achieve a better assessment of their reporting than those that do not report in accordance with these standards. Many use GRI standards as a checklist, however, rather than integrating the information.

There is a clear correlation between how mature companies are in terms of integrated reporting and whether they publish a GRI report. Companies that do not publish a GRI report score 25 per cent lower than those that do.

Financial and non-financial information may be presented in a number of ways. However, certain companies have implemented more sophisticated solutions than others.

DNB has published a Sustainability Factbook, which includes short and informative descriptions on how the company works with society, people and customers, closely connected with sustainability goals and the company's non-financial KPIs. Specific information has been condensed to few pages and provides the reader with a simple overview of the work carried out in addition to the company's normal operations.

DNB Group Sustainability Factbook 2018, www.dnb.no

4. «Size still matters»

There is still a clear correlation between the size of the company and the quality of corporate reporting.

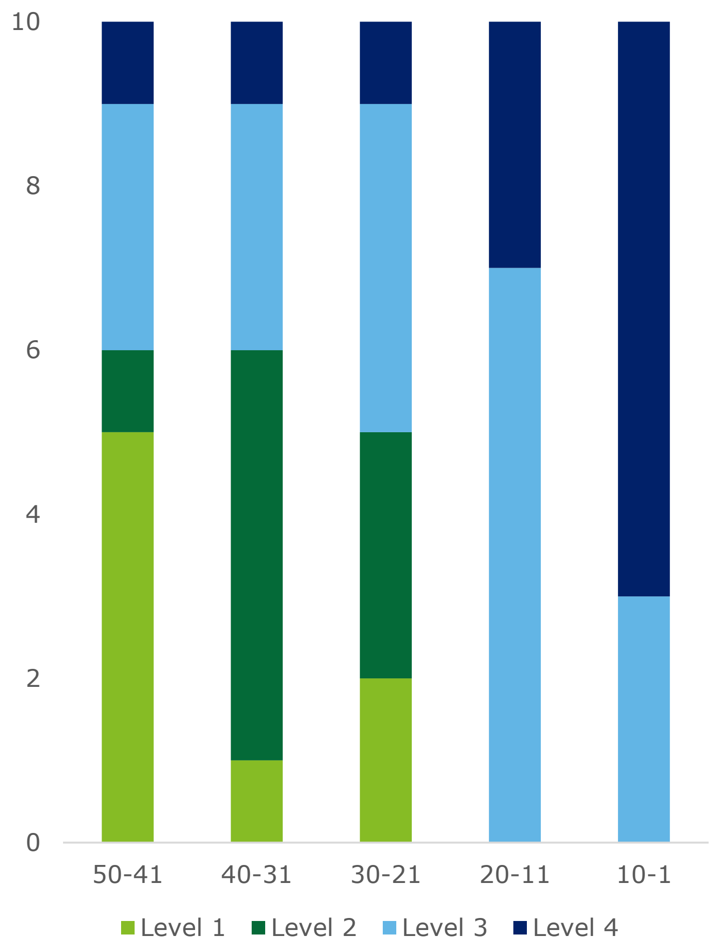
The results from our study show that there is a clear correlation between the size of the company and our assessment of their maturity in terms of the principles and elements of integrated reporting. Half of the companies in our sample that achieve the highest score are among the ten largest companies in Norway.

This is not surprising, as it is reasonable to assume that stakeholders, investors, and other users of financial and non-financial information expect more from the corporate reporting of larger companies.

The companies that deviate favourably, publish reports that have been designed in a manner that enables comparison across industries and over time. These reports have good and relevant descriptions of stakeholder relationships, material issues and outlook for the future.

Additionally, there are solid descriptions of both external and/or internal verification processes. The majority of these reports have been attested by an independent third party.

As in the prior year, listed companies perform better than non-listed companies. There are significant differences in the quality of the reporting of non-listed companies, and it is difficult to draw any clear conclusions for this segment. There are indications that listed companies are leading the field in developing corporate reporting focusing on sustainability and social responsibility.



5. There are still few signs of Board involvement other than in the Directors' Report

Board involvement, other than as required by the Accounting Act, is evidenced in under ten per cent of the 50 largest companies in Norway. These companies report according to the GRI standards and achieve a higher rating on the elements in integrated reporting than the total sample.

The Accounting Act only requires the Board of Directors to sign the Directors' report and the financial statements. From our total sample of 50 annual and sustainability reports, the Board has signed other information in addition to the statutory requirement in only four instances.

A Board signature on sustainability reports and other information other than the annual and Directors' report is a relatively new development, but will provide stakeholders with the confidence that the Board has assessed and approved the information which is being communicated externally. This is also an indication that sustainability and value creation is on the agenda of the company, also at the most senior level.

We also note that corporate reports in which the Board involvement exceeds the pure statutory requirements, obtain a higher score on the elements of integrated reporting than the average. This may be a coincidence, but it is fair to assume that the companies where the Board signs both financial *and* non-financial information are a step ahead in developing integrated thinking and therefore integrated reporting.

Another common denominator for these companies is that all report in accordance with GRI standards. Three out of four also have their GRI reports attested by an independent third party. There are, in other words, several authoritative bodies involved in the verification of both financial and non-financial information, which contributes to reinforcing the credibility of the reporting.

The Board of Statkraft has confirmed relevant information additional to the statutory requirements in their 2018 annual report.

Statkraft AS Annual Report 2018, www.statkraft.no

6. Third party assurance of non-financial information is an increasing trend

Assurance by an independent third party is primarily provided on financial information. There is, however, an increase from the prior year in the number of companies that have other types of reports attested by third parties.

Statutory audit of companies above a certain size ensures all users of the financial statements that the financial information presented has been audited by an independent third party. This contributes to creating trust in the annual financial statements.

As an increasing number of companies report non-financial information, such as sustainability and social responsibility, the companies consider that this is also important information for the readers. More companies use this information to communicate their long-term thinking and a sustainable business model.

We note a small increase in the number of companies that either publish a GRI report or a sustainability report, have this attested by an independent third party. From a total of 27 companies that publish GRI reports, 14 of them use an audit or a certification firm for providing assurance on the information, i.e. a share of 52 %. This is an increase from 43 % in 2017.

It is not a statutory requirement, and therefore not obvious, that information in addition to the Directors' report and the annual financial statements are attested by a third party. Stakeholders do, however, need to be able to trust the information provided in the corporate reporting in order to make decisions based on it.

We believe that creating credibility and trust in corporate reporting will be crucial going forward. Trust in information and reporting can be built and maintained through an independent third party. Assurance on information and key performance indicators that the company provides on sustainability and environmental factors should thus be provided, much in the same manner as external auditors currently attest financial information.

7. The journey starts with a stakeholder- and materiality analysis

A stakeholder- and materiality analysis is a common feature of the companies that obtain a high score on implementation of IR principles in their reporting. For many companies, the journey to an integrated report starts here.

A stakeholder- and materiality analysis is for many companies the starting point and the beginning of the journey to an integrated report and integrated thinking.

The results from our study show that companies that both identify stakeholders and address their needs, as well as prepare an analysis of material issues, score better than companies that do not have an equally structured approach.

Of the 15 reporting principles, it is the implementation of a stakeholder- and materiality analysis which has the most significant impact on the reporting quality.

There are clearly several relevant approaches to reporting the identified stakeholders and material matters. A common feature among companies with effective stakeholder and materiality analyses, however, is that they use these purposely in their reporting of financial and non-financial information.

Moelven is one company that uses a materiality analysis as a starting point for the company’s strategy and reporting of financial and non-financial information. They have identified four focus areas based on identified material issues. These are furthermore connected with the UN sustainable development goals, with reporting of results in the current reporting year, as well as goals and priorities for the future.

Moelven Sustainability Report 2018, www.moelven.com

8. The number of companies that address UN sustainable development goals is increasing, but few articulate an integration with strategy

By addressing the UN sustainable development goals, companies show how they view the environment, social development and financial factors in context.

The UN sustainable development goals consist of 17 goals, with a time horizon to 2030. The goals see environment, social development and the economy in context, and the core idea is that these elements are not mutually exclusive, but rather underpin each other and are interconnected.

After their launch in autumn 2015, an increasing number of companies have selected specific goals to address, that are linked to their strategy and business.

In our study, 66 % of the companies in the sample have selected specific goals. For 2017 this number was 50 %. The number of the UN sustainable development goals specifically addressed by companies varies from one to as many as eight. There are also considerable differences in how they work to reach their goals.

Including the UN sustainable development goals in the annual- and sustainability reporting is voluntary. That two thirds of the companies in our sample have selected specific goals, only four years after the launch, is encouraging. Nevertheless, the variation in how these goals are integrated in the company's strategy is significant.

Although two thirds of the 50 largest Norwegian companies mention the US sustainable development goals in their annual and sustainability reports, only a handful describe that they have integrated these in their business strategy. This is supported by the findings in the study, which show that the companies we have analysed still have a way to go in terms of communicating the value creation of the company through their corporate reporting.

Orkla has included their sustainability goals directly in the financial reporting. Sustainability thus becomes an integrated part of the notes in the annual report as the sustainability element associated with the various assets, liabilities, income and expenses are described.

Orkla Annual Report 2018,
www.orkla.no

9. Our analysis shows significant variations between industries

There are significant variations in reporting quality between industries.

For the purposes of this analysis, we have classified the 50 largest companies in Norway in industries based on Kapital's list, and assessed each industry relative to the total sample. It should be noted that the sample is not consistent with 2017 as some of the smaller companies have moved out of the top 50 list, whilst other companies have entered the list.

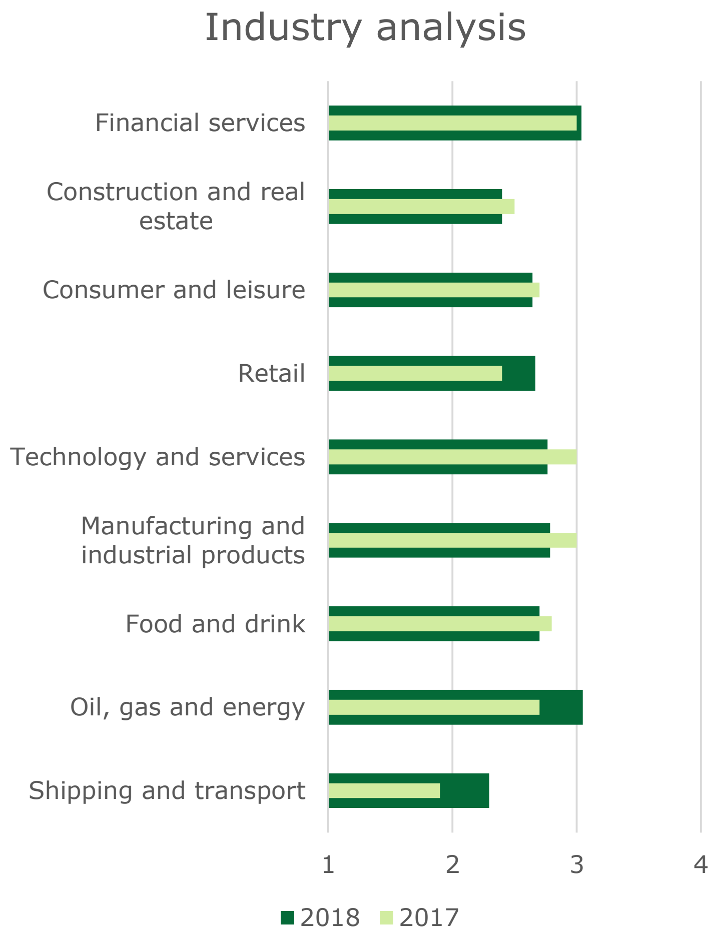
Also for 2018 we note considerable variations between industries. Financial services as well as oil, gas and energy achieved the highest scores. For both industries, the reporting quality has improved compared with the prior year.

A common factor for both these industries is that the highest scoring companies describe the identified material factors well, and relate these issues to both the organisation, the external environment and future outlook. Five of the ten largest companies are in financial services or in oil, gas and energy.

The results from last year's study show that shipping and transport obtained the lowest overall score. This is also the case for this year's analysis, despite a significant improvement for this industry. The shipping and transport industry includes some of the smaller companies in this analysis.

Several industries score lower this year than in the prior year. Companies in manufacturing and industrial products, and technology and services obtain a lower score compared with the prior year. As the number of companies in each industry is small, changes in the score of a single company will have a substantial effect.

The common denominator is nevertheless that large Norwegian companies in general obtain a relatively high score on the elements of integrated reporting, but that there is still a significant unrealised potential for improvement.



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