2018 Research Report

The state of corporate sustainability disclosure under the EU Non-Financial Reporting Directive

The Alliance for Corporate Transparency project analysis of companies' reporting

Alliance for Corporate Transparency

Disclaimer

It was beyond the scope of this research to examine if the disclosure of individual companies was comprehensive or if all material information was included. Therefore, it is recommended to consider the results of this research together with in-depth case studies of individual companies' reports provided by other initiatives.

The report provides several examples of disclosure that meets specific criteria used in the research. The purpose of these examples is to demonstrate how these criteria were applied. They do not necessarily represent illustrations of best practice.

The assessment criteria employed in this research do not intend to represent a definitive or final model of best practices or legislation. They were designed to provide a general overview of how companies in specific sectors reported on some of the most important environmental and social issues.

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Executive Summary

Background

The EU Non-financial Reporting Directive ("NFR Directive") requires large public companies and financial corporations operating in Europe to disclose information on environmental, social, human rights and anti-corruption matters, necessary for understanding the company's development, performance, position and impact.

Ensuring high quality disclosure on these matters has a vital role in the EU Commission's Action Plan on Financing Sustainable Growth and related legislative proposals[1], which aim to reorient capital flows towards sustainable investments and manage risks stemming from climate change, environmental degradation and social issues. Companies' disclosure is also a key element in ensuring corporate accountability for identifying and addressing risks of adverse human rights impacts in line with the UN Guiding Principles on Business and Human Rights. In addition, mismanaged human rights and environmental risks may result in significant short-term as well as long-term economic impacts on companies in the form of accidents, litigation, supply chain disruptions, damaged reputation and failed or delayed investments.

Mismanaged human rights and environmental risks may result in significant short-term as well as long-term economic impacts on companies in the form of accidents, litigation, supply chain disruptions, damaged reputation and failed or delayed investments

However, the NFR Directive does not specify in sufficient detail what information and KPIs must be disclosed, nor the concrete issues to which its requirements relate.

To address this problem, leading civil society organisations and experts came together under the Alliance for Corporate Transparency, a three-year research project with the aim of analysing how European companies implement the requirements of the NFR Directive and recommending how the EU framework for non-financial reporting can be improved.

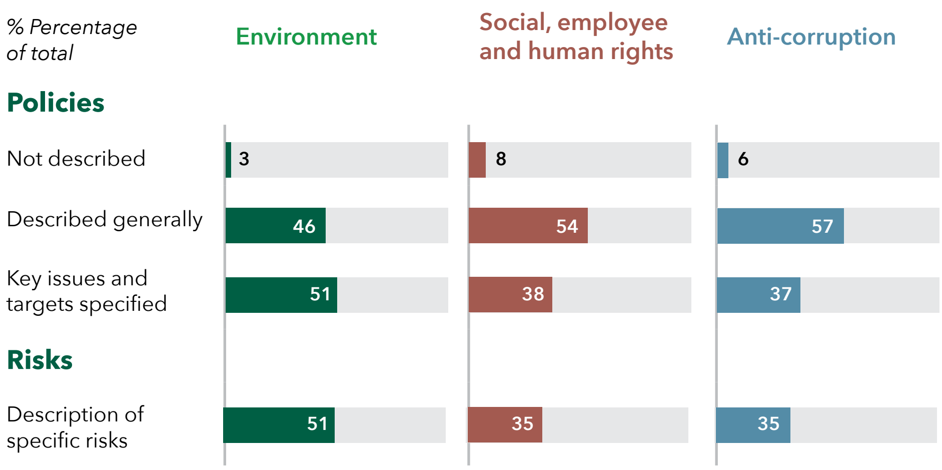
In 2018, the project has assessed over 100 companies from the sectors of Energy & Resource Extraction, Information and Communication Technologies, and Health Care to provide early reflections on the implementation of the NFR Directive in practice. The initial sample of companies included larger sets of over 20 companies from Spain, France and the UK and smaller controlling samples from Germany, the Nordic region (Denmark, Finland, Sweden) and Central and Eastern Europe (Poland, Czech Republic, Slovenia).

Research highlights

Our initial research in 2018 assessed whether companies provided the type of information explicitly required by the NFR Directive, i.e. the description of policies and due diligence processes, outcomes, principal risks (including with respect to business relationships) and KPIs. It also examined if the disclosed information was specific enough to allow understanding of the companies' impact and strategy. In addition, the research analysed companies' disclosure on particular important environmental and human rights issues, and on their anti-corruption programmes, for which it provided a specific set of criteria connecting the requirements of the NFR Directive with the emerging consensus on what constitutes material information for these issues.

The analysis of the gathered data from companies' reports in every category and on every issue points consistently to one overarching conclusion. The vast majority of companies acknowledge in their reports the importance of environmental and social issues for their business. However, in only 50% of cases for environmental matters and less than 40% for social and anti-corruption matters, this information is clear in terms of concrete issues, targets and principal risks.

The general information that most companies provide does not allow readers to understand their impacts and by extension their development, performance and position, as required by the NFR Directive. The research did not assess in detail the materiality and comprehensiveness of the information disclosed by individual companies. Therefore the number of companies providing information that fully responds to the objectives of the NFR Directive should be expected to be even lower than that indicated by the numbers above.



With respect to climate change, the biggest gaps in current practice are the lack of reporting by companies in the Energy and Resource Extraction sector on both short and long time horizons and the transition to a below 2°C scenario, which are mentioned by 26% and 21% of companies respectively (the research did not analyse in detail the quality of these disclosures). To address this problem, the legislation should clarify the requirement for the disclosure of companies' long-term transition plans to a zero-carbon economy and their economic implications. This requirement would leave companies sufficient flexibility to determine their plan.

For other environmental issues, it is worth considering what information, as a minimum, should be specified and explicitly required to be reported on. The research found that despite almost universal reporting on issues such as water use, pollution, and waste, certain important aspects are considered only by a few companies. These aspects include for example pollution from transportation, which is mentioned by 21% of companies, or water consumption and risks in water scarce and borderline areas, which are reflected in 24% of companies' reports. These figures compare to 74% and 70% of Energy and Health Care companies respectively which report on water use. Similarly where companies identify risks to biodiversity connected to their business, they typically do not report on concrete impacts and their management.

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Climate change reporting in the Energy sector

63% Policy describes key issues and targets
53% Risk description is specific
68% Effects on company's business and strategy
47% Effects on financial planning
26% Below 2°C scenario
21% Information on short and long time horizons

Regarding social issues, most companies report indicators linked to their direct employees and sometimes their broader workforce. The selection of these indicators is, however, far from standardised. Most companies provide information on the number of employees (92%), overall gender balance (81%), anti-discrimination policies (79%), and health and safety (80%). Fewer companies disclose more detailed information on the effects of their policies (36% report on improvements resulting from their anti-discrimination policies), and very few include outsourced workers in their perspective (1%-25% depending on specific issue) or provide country-by-country information on region-sensitive issues such equal opportunities (6%) and freedom of association (10%).

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Over 90% of companies express in their reports a commitment to respect human rights and over 70% endeavour to ensure the protection of human rights even in their supply chains. **As in other areas, a majority of companies, however, do not provide any information that would allow a stakeholder to understand how this commitment is put into practice.** Only 36% describe their human rights due diligence system, 26% provide a clear statement of salient issues and 10% describe examples or indicators to demonstrate effective management of those issues.

Human rights

Policies and commitments:
90% Commitment indicated
71% Recognition of supply chain issues
36% Description of human rights due diligence process

Risks description:
19% No risks description
48% Vague risks description
26% Clear statement of salient issues

Management of risks:
46% Explanation of determination of salient issues
48% Policies responding to identified risks
41% Description of actions
36% Requirements placed on business partners
24% Concrete operations identified
10% Evidence of effective management
9% Changes in the nature of the risk

These results suggest that in order to drive better transparency that leads to substantial positive change, legislation needs to focus on clear indicators such as human rights due diligence and disclosure in the context of concrete risks and incidents and their management. These requirements can be specified in guidance with regard to concrete risks, such as - for companies with operations outside of Europe - those connected to land acquisition, indigenous peoples, and companies' operations in high-risk areas for civil and political rights. More specific guidance can also be developed for issues that are already addressed in other legislation, such as conflict minerals and digital rights.

With respect to supply chains, there is a need for greater transparency around high-risk supply chains (reported only by 6% of companies), results of audits (25%), companies' understanding of limitations of these audits (8%), and actions taken as results of these audits (16%). The research has also shown that certain workers' rights issues in supply chains are not being reflected by many companies, such as the living wage (mentioned by 22% of companies) and the exploitation of migrant workers (10%).

Companies demonstrate more balanced reporting on anti-corruption matters. Nevertheless, the focus on disclosure of commitments and lack of details on their implementation is noticeable in this area as well. The legislation could more forcibly require disclosure of the main elements of the anti-corruption programme (disclosed by 63% of companies) and its application to third parties (reported on by 43% - 60% depending on the type of disclosure).

Finally, the analysis showed that less than 10% of companies disclose their lobby expenditures and the public positions that they lobby for. The latter should be considered especially in the context of investor-company relationships and the urgent need for a policy reaction to systemic risks such as climate change.

We have also analysed information that companies provide about their business strategies and products or services that target opportunities provided by a transition to a sustainable economy. A majority of companies indicate in their reports that they have such strategies. Significantly fewer companies provide economic and performance indicators. This type of disclosure is most advanced in the Energy sector where 74% of companies report on their strategies and 50% disclose KPIs but only 37% indicate the share of these strategies in company's portfolio, and only 29% the revenues they generate. In other sectors, disclosure of strategies is as common, but only a negligible fraction of companies provide data on performance.

The presentation and designation, as well as structure and content of information, vary significantly across companies. Researchers engaged in this project considered that 55% of the analysed companies did not provide information in a clear structure. Furthermore, 54% of companies referred to information provided outside the report but did not provide direct links to it, and 71% of companies did not provide KPIs in summarised statements.

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The fact that neither the NFR Directive nor the Guidelines include clear requirements for the form of the non-financial statement is complicit in creating such a divergent practice, but it also provides an opportunity for developing a structure for non-financial reporting that meets both the requirements of standardisation and flexibility.

Given that the NFR Directive does not provide a firm basis for the integration of non-financial information with strategic information, the research did not analyse companies' reports from this perspective. Nonetheless, **the assessment of companies' reporting on their business model suggests a common disconnection between the non-financial statement and the rest of the annual report.** How to create a connection between the two in order to integrate environmental and social issues into a company's understanding of, and reporting on, value creation remains a question that should be addressed in the next round of development of the EU framework for corporate reporting.


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Introduction

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The EU Non-financial Reporting Directive[2] ("NFR Directive) introduced into EU law the requirement for large public companies and financial corporations operating in Europe to disclose information on environmental, social, human rights and anti-corruption matters, necessary for understanding the company's development, performance, position and impact. Pursuant to the transposition of these rules by the EU Member States, companies were supposed to include this "non-financial" information in their reports for the previous financial year for the first time in 2018.

The NFR Directive requires that companies provide with relation to these matters as a minimum the following information:

- a brief description of the undertaking's business model;
- a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
- the outcome of those policies;
- the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
- non-financial key performance indicators relevant to the particular business[3].

Ensuring high quality disclosure on these matters has a vital role in the EU Commission's Action Plan on Financing Sustainable Growth and related legislative proposals, which aim to reorient capital flows towards sustainable investments and manage risks stemming from climate change, environmental degradation and social issues. **Without adequate information on companies' impacts on key sustainability issues and the risks that these issues pose to the companies and their management, they cannot be factored into investor decision making.** Company disclosure is also a key element in ensuring corporate accountability for identifying and addressing risks of adverse human rights impacts in line with the UN Guiding Principles on Business and Human Rights[4], as well as environmental externalities that do not directly affect company's bottom line.

However, the requirements do not specify in sufficient detail what information and KPIs must be disclosed, nor the concrete issues to which they relate. The NFR Directive encourages the use of voluntary standards and frameworks for reporting, and the European Commission Guidelines[5] ("Guidelines"), which were issued to support the NFR Directive, list a large number of issues that can companies can consider reporting on.

As a result, the quality of corporate sustainability reporting may continue to vary significantly. It remains a question if the objective and purpose of sustainability reporting, which is to identify the principal environmental and social impacts, risks and opportunities, to disclose company actions and strategies to address them, and to facilitate investors' and stakeholders' analysis of these factors[6], will be met.

At the same time, in many areas there already appears to be a consensus on what are the most important issues and which specific information is material. For example, the Paris agreement[7] specifies clearly the public goals and timelines for reduction of greenhouse gas emissions, the reporting frameworks are aligned on the issue of metrics, and the Financial Stability Board's Task Force on Climate-Related Disclosures provides criteria for reporting on risks and transition to a zero carbon economy. Similarly, the UN Guiding Principles on Business and Human Rights, which were unanimously endorsed by the UN Human Rights Council in June 2011, define key elements of a corporate responsibility to respect human rights which have been subsequently integrated into the most important international and domestic standards. The UN Guiding Principles Reporting Framework then provides guidance on how companies should report on these elements[8].

This consensus together with the rules and principles of the NFR Directive, allow a determination of a minimum set of indicators (quantitative as well as qualitative) that companies can be reasonably expected to report against.

For these reasons, leading civil society organisations and experts came together and established the Alliance for Corporate Transparency, a three-year research project with the aim of analysing how European companies implemented the requirements of the NFR Directive and recommending how the EU framework on non-financial reporting can be improved.

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Through juxtaposing the most recognised sustainability reporting standards and frameworks, and consultations with investors, companies and policy makers, the Alliance developed a set of criteria to assess to what extent companies provide information necessary for meeting the objectives of the NFR Directive and by extension the Action Plan on Financing Sustainable Growth. In 2018, this methodology has been applied to assess over 100 companies from three sectors and six European regions to provide early findings and reflections on the implementation of the NFR in practice. The Alliance plans to extend the scope of the research in next two years to 1000 companies from all sectors and regions to provide a comprehensive analysis and well substantiated recommendations to companies and policy makers alike.

The initial research in 2018 assessed if companies provided the type of information explicitly required by the NFR Directive, that is a description of policies and due diligence processes, outcomes, principal risks including with respect to business relationships, and KPIs, and if the disclosed information was specific enough to allow understanding of a company's impact and strategy. The research also sought to analyse companies' disclosure on particular important environmental and human rights issues, and on their anti-corruption programmes, for which it provided a specific set of criteria connecting the requirements of the NFR Directive with emerging consensus on what constitutes material information.

The first part of this report outlines the project's research methodology and explains the structure of the assessment criteria. In later sections, the report provides a summary of the results of the initial research of companies' implementation of the NFR Directive. The last chapter provides main conclusions and discussion of the results.

About the project

The Alliance for Corporate Transparency is a three-year research project that brings together leading civil society organisations and experts with the aim of analysing the corporate disclosure on sustainability issues by the 1000 largest companies operating in the EU and providing evidence-based recommendations for legislative changes.

The project is framed within the NFR Directive, which came into effect in 2018 and requires large companies and financial corporations to disclose information necessary for understanding their impacts on society and environment. The NFR Directive is a first step in a good direction but does not specify what concrete information must be disclosed. This severely undermines the legislation's objective to increase the relevance, consistency and comparability of corporate sustainability data, which is crucial for investors to help inform their decisions as well as for civil society and public authorities to assess and monitor corporate responsibility.

To fill this gap, the project draws from EU law, international standards and leading reporting frameworks in order to determine what information is commonly understood to be essential and material for each industrial sector.

The Alliance has been developed in the following phases:

The Alliance was formed by leading civil society organisations working in corporate sustainability and transparency that brought specific expertise on the different areas covered by the NFR Directive.

The Alliance developed a research methodology, identifying the most essential ESG issues as well as the reporting criteria to analyse the information disclosed by companies in different sectors. The methodology was consulted with external stakeholders and a trial run was carried out with partner companies to ensure the coherence of the methodology.

In the second half of 2018, Frank Bold and Sustentia carried out the initial analysis of the reports of 105 companies from three sectors (ICT, Healthcare and Energy). The project simultaneously developed an online database to store and analyse the results. The results of this initial research will be presented in Brussels on February 8, 2019.

In Spring 2019, the project will prepare for the scale up phase by consulting, reviewing and calibrating the research methodology. The analysis in 2019-2020 aims to cover 1000 companies from all the main industrial sectors and European countries and provide all research data to the public in an open database.

Partners

Project coordinator

Frank Bold

Technical partner

sustentia innovación social

Content partners

Business & Human Rights Resource Centre

CORE — Putting people & the planet at the core of business

Future-Fit Foundation

Transparency International EU

WWF

Advisory group

CDP — Disclosure Insight Action

ClientEarth

Germanwatch

Oxfam

SEI

Shift

Themis Research

Funders: Future Provident Foundation, Sigrid Rausing Trust, Charles Leopold Mayer Foundation, Wallace Global Fund

Test partners: NovoNordisk, Repsol, SAP, Vodafone

Academic support provided by Cass Business School

GOVERNANCE:

The project coordinator and technical partner led the overall development of the project including a) Alliance set up, b) elaboration of the research methodology c) analysis of corporate reports and d) communication and outreach strategy.

Content and advisory partners have provided strategic input throughout the project and contributed to the design of the research methodology and key communication activities. These organisations have engaged in the project on a pro-bono basis. Frank Bold and Sustentia take responsibility for any error or inaccuracy in the research and presentation of results.

Test partners engaged in constructive discussions concerning the assessment criteria and the initial tests performed on their corporate reports - this collaboration has been carried out completely pro-bono. Project content partners have veto power on strategic decisions and final results. Similarly, we have also engaged external experts from business and investor organisations in a consultation round hosted in Q3 2018.

ACKNOWLEDGEMENTS

This project would not have been possible without the invaluable work done by Sustentia's team including Juanjo Cordero, Carlos Cordero, Vidal Martin, Iñigo Montero, Mar Carneiro among other researchers.

Similarly, we would like to express our deep gratitude to everyone that contributed to the project with their advice and feedback, especially the group of experts forming the Alliance: Marilyn Croser, Louise Eldridge, Eniko Horvath, Johannes Blankenbach, Mauricio Lazala, Sebastien Godinot, Julia Linares, Martin Rich, Elena Gaita, Margaret Wachenfeld, Alex Maitland, Mirjam Wolfrum, Johanna Kusch, David Cooke, Mairead Keigher, Rasmus Kløcker Larsen.

We hope to continue working closely with external stakeholders that provided comments throughout this initial year of the project, with special thanks to Michael Zimonyi, Alasdair Hedger, Eleni Choidas, Michel Bande and Ladislas Smia. Furthermore, other non-profit as well as business organisations and individuals contributed to the project by providing reflections on project's methodology and descriptions of their own strategies for monitoring, managing or disclosing sustainability risks. Finally, the authors would like to thank all companies who kindly provided feedback on the assessment of their reports.

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Research methodology

This section provides a general explanation of the structure and development of the assessment criteria employed in the research and on the implementation of the research. Details on the content of individual criteria and their application are provided in the next section in conjunction with the research results.

ASSESSMENT CRITERIA

The structure of the analysis was divided into three levels that focus on the following aspects:

1st level: Formal requirements	Based on the NFR Directive and related Guidelines. This level includes an analysis of: → existence of non-financial statement → description of business model → existence of information about policies, their outcomes, risks; and KPIs for each area (environment; social (integrating also employee and human rights matters); and anti-corruption) → specificity of the information in the previous point The 1st level assessment does not consider if the disclosed information corresponds with topics that are likely material. Information on any topics is taken into account.
2nd level: Information necessary for understanding the company's impact on general and sector-specific salient ESG issues	These issues were derived from a juxtaposition of international standards and reporting frameworks referred to in the NFR Directive and related Guidelines. For each of these issues, the criteria are provided to assess existence and specificity of disclosure of policies & procedures, risk management, KPIs and/or qualitative indicators for specific sub-issues. The details of these criteria vary across issues, reflecting their inherent differences. Some of these specific issues are applicable to companies in all sectors (e.g. information related to workforce, general human rights reporting, and anti-corruption programmes), while others are attributed to sectors according to their materiality (e.g. specific environmental impacts and human rights risks). The overview of the allocation of issues to sectors in the form of a materiality matrix is provided in the Annex.
3rd level Information on the company's engagement with opportunities related to the transition to a sustainable economy	This level of analysis examines if the company provides information on business strategies, products or services focused on sustainable development, and if it substantiates this information with quantified economic data, targets and investments in R&D. In addition to general information, this section also asks these questions for selected sector specific opportunities. While a strict interpretation of the NFR Directive does not require the disclosure of this type of information, it is important for investors' assessment of companies' long-term plans and impacts. Hence, it is important for achieving the goals of the EU Commission's Action Plan on Financing Sustainable Growth.

Standards, frameworks and guidelines that were considered in selecting key issues and assessment criteria included:

- → European Commission's Guidelines
- → EU Eco-Management and Audit Scheme (EMAS)
- → EU Conflict minerals or supply chain transparency regulation
- → FSB's Task Force on Climate-related Financial Disclosures recommendations (TCFD)
- → UN Guiding Principles on Business and Human Rights (UNGP)
- → Global Reporting Initiative Standards
- → SASB standards
- → UN Global Compact
- → CDP
- → World Federation of Exchanges ESG Guide & Metrics
- → NASDAQ ESG Reporting Guide
- → ILO Tripartite declaration
- → OECD Guidelines for Multinational Enterprises and associated OECD Guidance for general and sectoral due diligence
- → Corporate Human Rights Benchmark
- → Future-Fit Business Benchmark

Research implementation

The project analysed the information disclosed in the corporate annual or sustainability reports as well as any document or set of information clearly linked in these statements. The rationale behind this decision follows the principles of the NFR Directive and accompanying Guidelines, in which it is stated that the information should be easily accessible (i.e. "*Cross referencing and signposting should be smart and user-friendly, for instance, by applying a practical rule of maximum one "click" out of the report*")

An in-house team of researchers carried out the individual company assessments. The project's technical partner held a capacity building session with the analysts and initially tested the research methodology on a sample of companies. A second workshop was organised to refine the analysis and identify contentious issues. Lastly, the project set up a review mechanism designating team leaders to re-examine individual company assessments. The objective is to ensure a harmonised application of the research methodology and guarantee the consistency of our analyses.

The assessed companies have received their individual reports and were invited to provide comments. Almost 20% responded with feedback, which was reviewed and addressed where applicable. Similarly, all stakeholders are welcome to provide feedback on the project's research methodology and results. This input will be taken into account and addressed in the second round of analysis in 2019. A specific form has been set up for this purpose here.

Initial research results

Initial results

In 2018, the Alliance for Corporate Transparency used the methodology described in the previous section to analyse non-financial statements of 105 companies from three sectors and six European regions. In this section, results of this initial research are described and explained in the following structure:

Level 1 includes the analysis of companies' disclosure against a minimum formal set of information stipulated in the NFR Directive but does not go into detail about specific issues companies choose to report on. Results are provided jointly for all sectors. An additional perspective is provided concerning the differences between companies of different size.

Level 2 displays the results of the analysis on the corporate disclosure of key information on both general and sector-specific issues commonly understood as material. The data provided is broken down by sectors. For climate change and human rights, further information is provided with regard to the key differences among regions and companies' size.

Level 3 provides assessment of quality of data disclosed by companies about their strategies and products and services that focus on business opportunities provided by the transition to sustainable economy. Criteria have been designed to examine if companies substantiate general information with quantified economic data.

In each subsection, the research methodology and individual assessment criteria are explained in detail.

General information about companies included in the research

The countries included in the scope of the analysis in 2018 have been selected in order to represent the diversity of economic regions in Europe. Larger sets of over 20 companies were selected from Spain, France and the UK, while smaller controlling samples were taken from Germany, the Nordic region (Denmark, Finland, Sweden) and Central and Eastern Europe (Poland, the Czech Republic, and one Slovenian company listed on the Polish stock exchange).

The transposition of the NFR Directive differs across these jurisdictions. Notably, the UK and France require disclosures to be integrated into the annual report and mandate some specific disclosures[9]. Sweden and Denmark opted to expand the scope of the application to smaller companies, which signalled to all companies that these governments will be building on the European legislation and extending its requirements and ambition. On the other side of the spectrum, according to Econsense and Global Compact Germany, German transposition appears to be suggesting that companies should apply a double materiality test, i.e. the information should be relevant for assessing a company's impact as well as from an economic perspective[10].

The sectors covered in 2018 include Health Care, Information and Communication Technology (ICT) and Energy & Resource Extraction (Energy). They have been selected for their relevance and representativity in the countries and markets assessed in order to ensure the comparability of the project results. Similarly, the project decided to focus on sectors that were widely dissimilar concerning the nature of their activities.

The initial scope of 105 companies includes some of the biggest companies by market capitalisation as well as other companies from the lower tier falling under the scope of the NFR Directive. The logic behind this decision is that even if the largest companies have a bigger effect on society and the planet, smaller companies must also fulfil their obligation to report on ESG issues to their stakeholders.

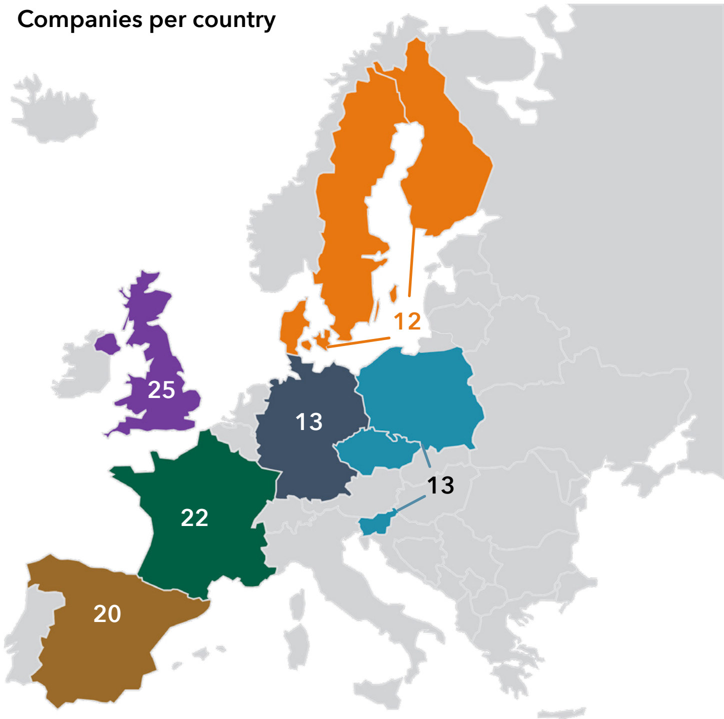
Balance of sectors in countries

The distribution of sectors across surveyed jurisdictions is even, with the exception of the Central and Eastern Europe (CEE) region, in which the priority was given to the Energy sector due to the strong dependency on the production of energy from coal of this region. In Spain, the number of companies per sector is lower than in France and the UK, because there are not enough companies meeting the scope requirements of the NFR Directive in these sectors.

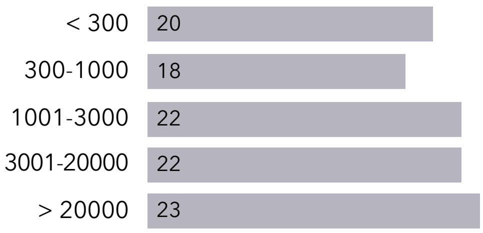
Companies per sector

38 Energy
33 Health Care
34 ICT

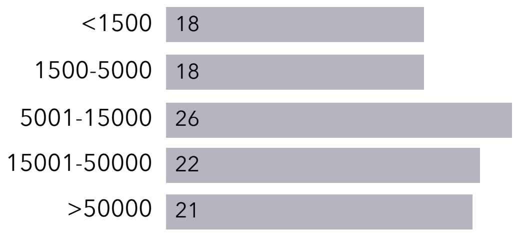
Companies per country



Number of companies per revenue range (m€)

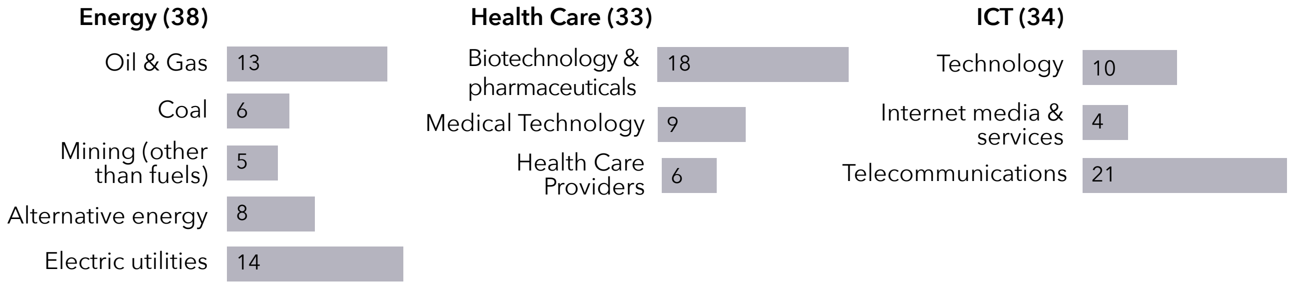


Companies by number of employees



The definition and composition of sectors

The selected economic sectors represent clusters of specific industries. Most of the companies in the Health Care and ICT sectors operate exclusively in a single industry, while many Energy companies are active in multiple industries. Specific industries have implications for companies' operational context, which in turn determine which sustainability issues are material. Where this is relevant, these variables are taken into account and explained.



Size of companies across sectors

In the Energy sector, there is a disproportionately higher number of large companies, especially when measured by revenue. This is due to the higher capital intensity and concentration in this sector. On the contrary, the Health Care sector includes a slightly larger share of smaller companies. The ICT sector is balanced, with the exception of the over 50000 employees category, which is due to the inclusion of large telecommunication companies that operate extensive infrastructure for consumer relations. From a regional perspective, there is a notable absence of the smallest and largest companies' segment in the CEE region, which is caused by the focus on the Energy sector; the national as opposed to transnational focus of many local companies, which limits their size; and generally smaller markets. The absence of German companies in the two smallest categories may be influenced by the prevalence of private over publicly-listed companies in the country's economy.

EMPLOYEES	<1500	1500-5000	5001-15000	15001-50000	>50000
Energy	5	3	10	14	6
Health Care	9	8	7	4	5
ICT	4	9	7	4	10
CEE	0	2	6	5	0
Nordic	1	3	4	2	2
Germany	0	1	4	3	5
Spain	7	2	3	6	1
France	2	4	6	3	3
UK	7	6	3	3	6

REVENUES (M€)	<300	300-1000	1001-3000	3000-20000	<20000
Energy	1	7	8	8	14
Health Care	11	5	8	6	3
ICT	8	6	6	8	6

Level 1: Formal legal requirements

This first level provides information on the extent to which companies disclose the minimum formal set of information stipulated in the NFR Directive. This includes where they published a non-financial statement, if at all, information on companies' business models; and general information on policies, their outcomes, risks and KPIs relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

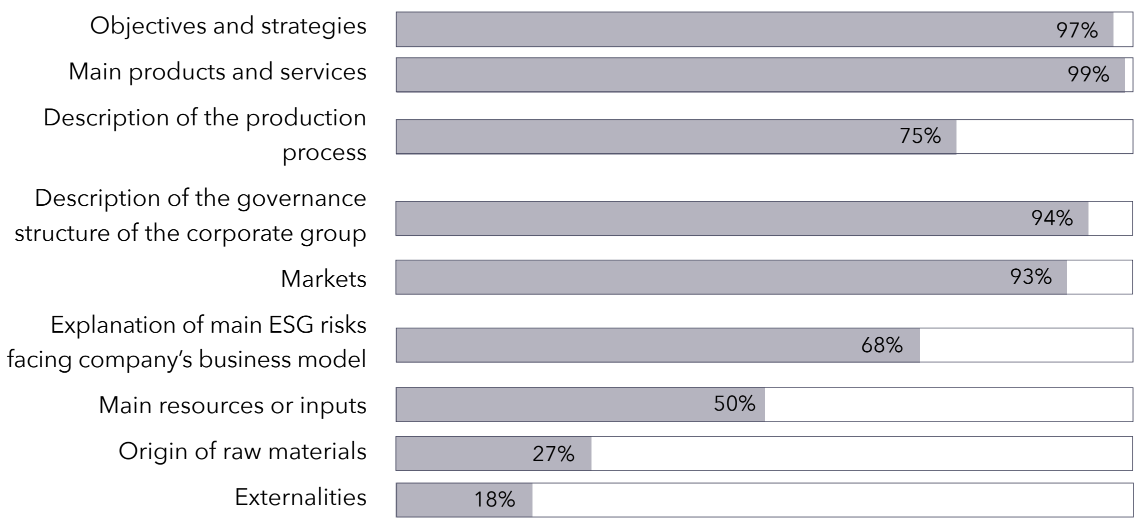
Level 1 assessment does not include considerations of whether the disclosed information meets the key principles of the NFR Directive, most importantly materiality and comprehensiveness. These aspects are assessed in Level 2. As human rights, social and employee matters often overlap, they are assessed jointly in Level 1, but more granular separate assessments of human rights and employee-related disclosures are included in Level 2.

Presentation of non-financial information

The presentation, labelling and content of non-financial information varies significantly across companies. For the purpose of this research, any coherent set of information on social and environmental issues presented in the annual report or in a clearly designated separate report was taken into account, irrespective of whether it was formally identified by the company as a non-financial statement. 52 companies provided non-financial information in the annual report, 52 in a separate report and one company from Spain did not provide any coherent information that would at least roughly correspond with the NFR Directive's rules.

Business model

Companies typically describe the elements of their business model which are included in the European Commission's non-binding Guidelines (the first five criteria). The vast majority of companies provide this information in the main part of their annual report, rather than in the non-financial statement. A more significant issue is that the description is not regularly interconnected with the content of the non-financial statement. Slightly over two thirds (68%) of companies outline ESG risks associated with their business model. However, this is often done separately from the rest of the business model description, and most companies do not report information on the material source of these risks - inputs, materials and externalities.



Policies, outcomes, risks and KPIs

Policies, outcomes, risks and KPIs represent the minimal information explicitly required by the NFR Directive. They should be disclosed for all environmental, social and employee, human rights, and anti-corruption matters. Policies are to be reported on a comply-or-explain basis, whereas risks have to always be disclosed, but it is company's responsibility to identify them. KPIs should be included insofar as they are relevant to the particular business, thus their selection depends on context. In principle they should correspond with issues addressed by the companies' policies.

The research examined if companies' statements included these elements for each area. It also examined if the description of policies is general or if it identifies specific issues and targets. Companies' disclosure fit the latter category if the description allowed for a) an understanding of the goals of the policy, b) its main principles and the strategy employed to achieve those goals, c) the whole description enabled an assessment of the effectiveness of the implementation of the policy. For example a commitment to reduce GHG emissions would not qualify under this category unless it was accompanied by an explanation of a target (or ambition) and means to achieve it, such as increasing the share of renewable energy. In the social area, a goal could be specified as to ensure that human rights of companies' direct and supply chain employees are protected and respected, but the policy also needs to refer to concrete issues (e.g. modern slavery) and methods (e.g. due diligence mechanisms and contractual conditions).

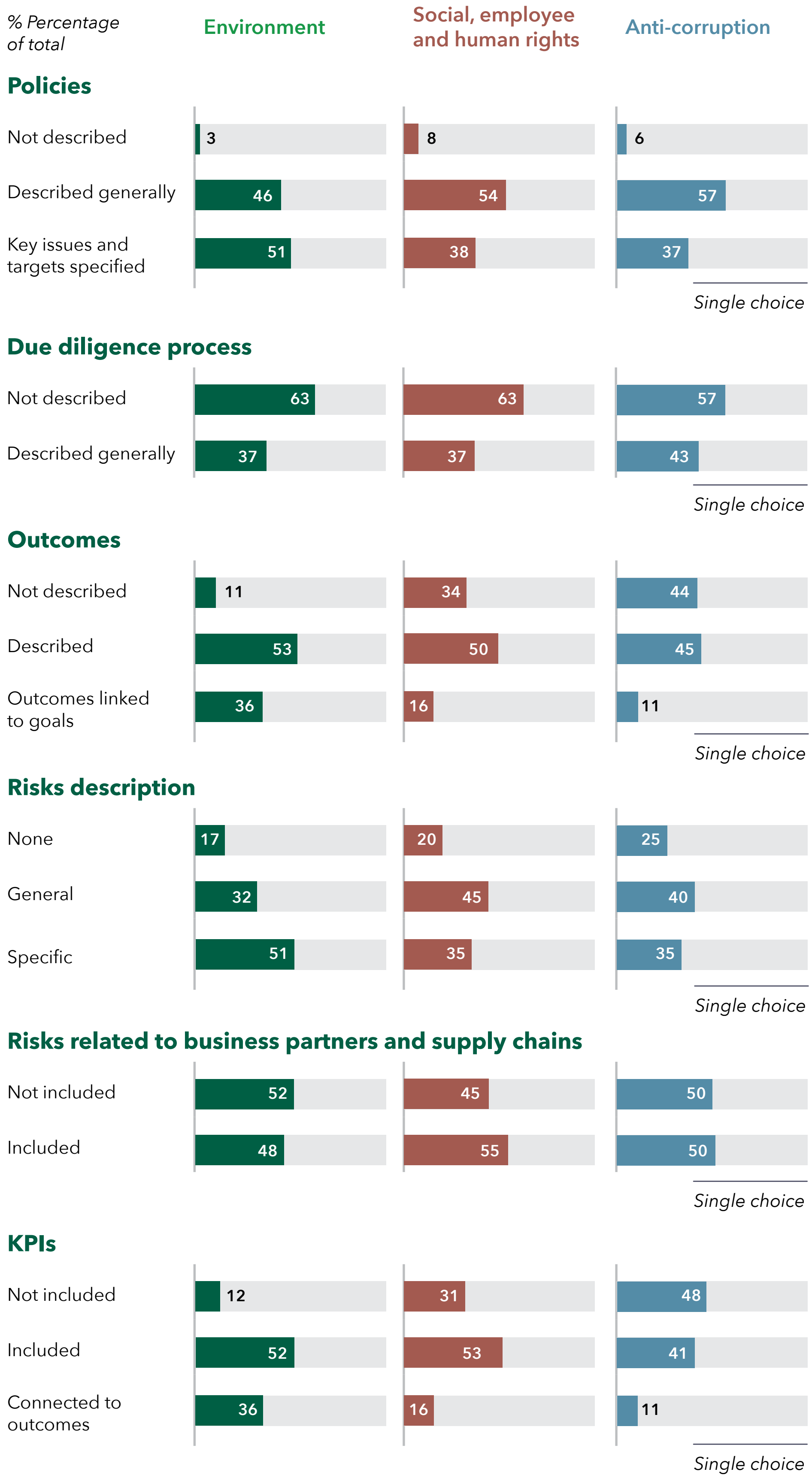
Similarly, the research distinguished between a general (vague) risk description and a description of specific risks. The latter required analogous elements to be met as described above with respect to policy description. For this, companies' reporting needed to identify concrete issues in a given area, such as concrete climate change transitional risks, specific type of environmental impacts associated with the company's operations, risks of community conflicts, or specific human rights issues in supply chains. The research did not assess if the information allows the extent of the risk to be understood. Mere identification of a salient issue was accepted. Therefore, results closely corresponded with the analogous category for policy disclosure.

The research also assessed if the described outcomes are linked with the stated goals of the policies and if the used KPIs illustrate these outcomes. As noted above, the research did not assess at this level if policies and risks are focused on material issues and the quality of KPIs.

With a few exceptions, companies present at least some non-financial information. However, in only 51% of cases for environmental matters and less than 40% for social and anti-corruption matters, this information is clear in terms of concrete issues, targets and principal risks. The vagueness of description of policies and risks is reflected in the description of outcomes. The described outcomes correspond with policy goals only in 36% of cases for environmental matters, 16% in social and 11% in anti-corruption. This is primarily due to the fact that the description of policies fails to provide measurable objectives and remains at the level of broad commitments. Virtually the same results were recorded regarding the connection between KPIs and declared outcomes.

As part of the policy description, the NFR Directive requires a description of due diligence processes implemented. 37% of companies include such a description for environmental and social issues and 43% for anti-corruption issues. This indicates merely that a description is provided, not whether it is adequate. These results are concerning especially from the perspective of human rights, where due diligence is the central element of corporate responsibility to respect human rights[11]. Information on how a company carries out human rights due diligence is indispensable for assessing its ability to detect risks of adverse impacts and address them. A more detailed assessment of companies' disclosure on human rights is provided in Level 2.

According to the NFR Directive, the description of the principal risks of adverse impacts and their management should include risks linked to the company's business relationships (the definition of which includes supply chains)[12], where this is relevant and proportionate. Analysed companies did at least mention this dimension in 48% of cases for environmental matters, 55% for social and 50% for anti-corruption. Since the vast majority of business-related human rights violations occur in global supply chains it is alarming that 45% of companies do not include any mention of it in their social disclosures.



% Percentage of total
Environment
Social, employee and human rights
Anti-corruption
Policies
Not described 3 8 6
Described generally 46 54 57
Key issues and targets specified 51 38 37
Single choice
Due diligence process
Not described 63 63 57
Described generally 37 37 43
Single choice
Outcomes
Not described 11 34 44
Described 53 50 45
Outcomes linked to goals 36 16 11
Single choice
Risks description
None 17 20 25
General 32 45 40
Specific 51 35 35
Single choice
Risks related to business partners and supply chains
Not included 52 45 50
Included 48 55 50
Single choice
KPIs
Not included 12 31 48
Included 52 53 41
Connected to outcomes 36 16 11
Single choice

Regional differences

Nordic companies had the best results in almost all categories. The gap between them and the average is widest with respect to information on specific issues and the objectives of their policies (environment: 92% compared to the average of 51%; social: 67% vs 38%; anti-corruption: 75% vs 37%) and due diligence in the social area (75% vs 37%).

CEE companies were at the opposite end of the scale. They were less likely than other companies to provide information on specific issues and the objectives of their environmental policies (31% compared to the average of 51%), the outcomes of these policies (38% did not provide such information compared to 10%), and risks related to business partners (8% vs 48%). This pattern was similar in the social area: no CEE company described a due diligence process (vs 37%) and 77% did not describe any outcomes of their policies (vs 34%). On the other hand, 92% used KPIs (vs 69%). In the anti-corruption field the most significant deviations were again the disclosure of due diligence processes (15% vs 43%), outcomes (no information in 85% vs 44%), and risks related to business partners (15% vs 50%). As in the social area, 92% used KPIs compared to the average of 52%.

German companies' results were mostly close to the average. In the social area, however, no company provided outcomes that would match stated goals (the average was 16%). Also, in only 15% of cases was the risk description specific (compared to 35% on average). On the other hand, German companies provided more often information on risks related to business partners (77% vs 55%).

Spanish companies less frequently provided information on specific issues and the objectives of their environmental policies (35% vs 51%), but described their due diligence processes more often (55% vs 37%). They were also more likely to address business partners (70% vs 48%). The only major deviation in the social area was more frequent reporting on outcomes that were linked to stated goals (25% vs 16%).

French companies reported less frequently than others on outcomes that were linked to stated goals both in the environmental area (18% vs 36%) and social area (5% vs 16%). Interestingly, they showed the highest rate of not reporting on social risks at all (27% vs 20%) and providing a description of specific - rather than general - risks (45% vs 35%). They were also less likely to use KPIs in their social disclosure (59% vs 70%). In general, French companies showed worse results in anti-corruption disclosure, with regard to outcomes (59% did not disclose any vs the average of 44%), risks related to business partners (64% did not disclose any vs 50%), and KPIs (73% did not disclose any vs 48%). It would be useful to further explore to what extent these deviations may have been caused by the loi Sapin and law on devoir de vigilance.

British companies described their due diligence process in the environmental area significantly less often (20% vs 37%). In the social area, fewer British companies than average disclosed their policy (80% vs 92%), due diligence process (24% vs 37%), and KPIs (56% vs 70%), although those companies that used KPIs were more likely to connect them with stated outcomes (24% vs 16%).

Full comparison of regional differences against Level 1 criteria is provided in the Annex. More detailed analyses of regional differences with respect to climate change and human rights disclosures are provided below in the respective sections of this report.

Company's size

In general, there is a correlation between company size and the quality of the report. The largest companies (>50001 employees) typically present better results and the smallest companies (<1500) worse results, while the differences between the rest of the size categories are less profound. The better quality of the largest companies' disclosure, however, disappears in the anti-corruption area.

Only companies in the smallest segment do not inform about environmental (17%) and anti-corruption (28%) policies. 22% of these companies did not provide information about their human rights policy, but there were several companies in other categories (except the largest companies) which also failed to do so.

The differences between different size categories are most significant with regard to the description of due diligence processes, as indicated in the table below. Full comparison of company size categories is provided in the Annex.

Due diligence process **Employees**

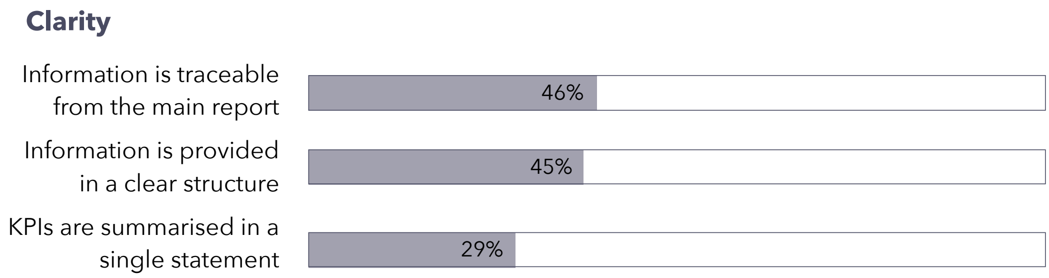
ENVIRONMENT	All companies	<1500	1500-5000	5001-15000	15001-50000	>50001
Described	37%	17%	39%	19%	50%	38%
Not described	63%	83%	61%	81%	50%	62%
SOCIAL, EMPLOYEE AND HUMAN RIGHTS						
Described	37%	17%	28%	15%	45%	81%
Not described	63%	83%	72%	85%	55%	19%
ANTI-CORRUPTION						
Described	43%	28%	39%	27%	45%	76%
Not described	57%	72%	61%	73%	55%	24%

Accessibility of information

The Guidelines for the implementation of the NFR Directive specify key principles that should be observed by companies in preparing their non-financial statement. Among them is the principle that disclosures should be comprehensive but concise. The Guidelines encourage companies to provide additional information outside of the report, provided that this information is easily accessible: "*Cross referencing and signposting should be smart and user-friendly, for instance, by applying a practical rule of maximum one "click" out of the report*". 54% of analysed companies referred to information provided outside the report but did not provide direct links to it.

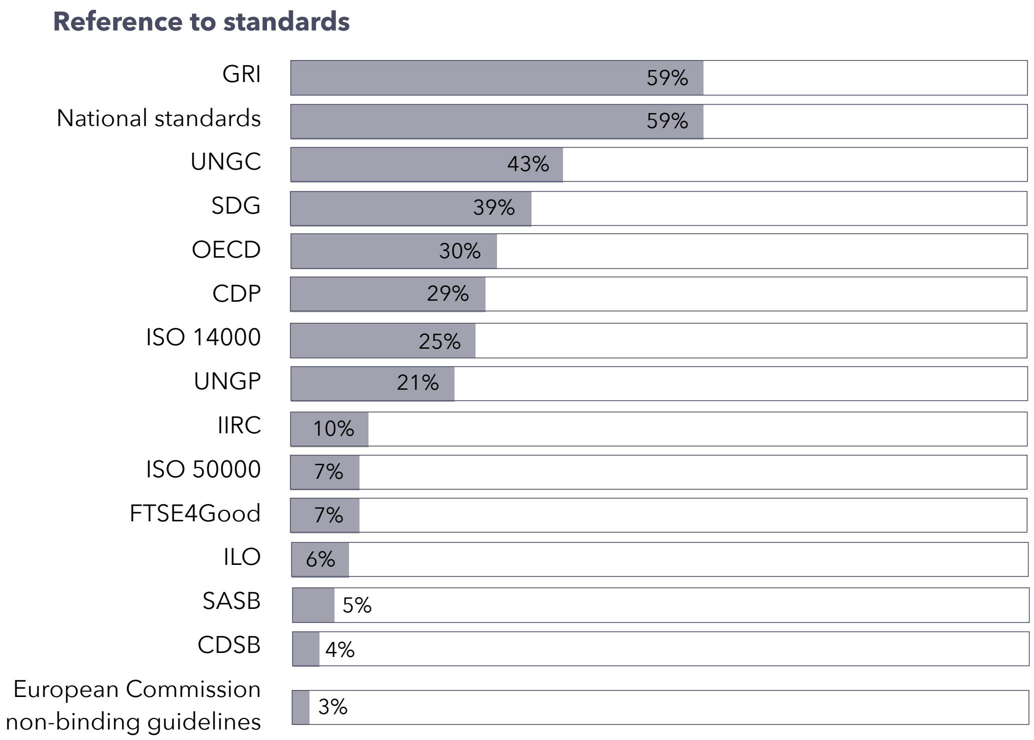
Our research also examined if key information required by the NFR Directive, which include the description of policies, outcomes, risks, and KPIs, is provided in a clear structure. As almost no companies report information in this structure exactly and no further guidance exists in the NFR Directive or the Guidelines in this regard, it has been impossible to provide objective criteria for this assessment.

This question has been therefore subjectively assessed by researchers who considered that a clear structure is employed in 45% of the cases. Finally, the research examined if companies provide KPIs in summarised statements. This is not required by the NFR Directive, but it makes it significantly easier for users to engage with companies' disclosure. 29% of companies do summarise KPIs in such fashion.



Use of national, EU-based or international frameworks

The NFR Directive encourages companies to rely on external frameworks in preparing their disclosures, but requires them to specify which ones they relied on if they have chosen so.



Level 2: Salient ESG issues

Level 2 assessment examined companies' disclosure on concrete environmental and social issues. These issues have been derived from a juxtaposition of international standards and reporting frameworks referred to in the NFR Directive and related Guidelines. The character of these issues and associated disclosure criteria differ between environmental, social and anti-corruption areas. In each subsection, the choice of these issues and criteria is explained, as well as their materiality with regard to individual sectors. Final considerations of materiality have to be done at the company level, taking into account both business model and operational context. Nevertheless, the research focused on issues and information that are commonly understood as material.

Key environmental issues

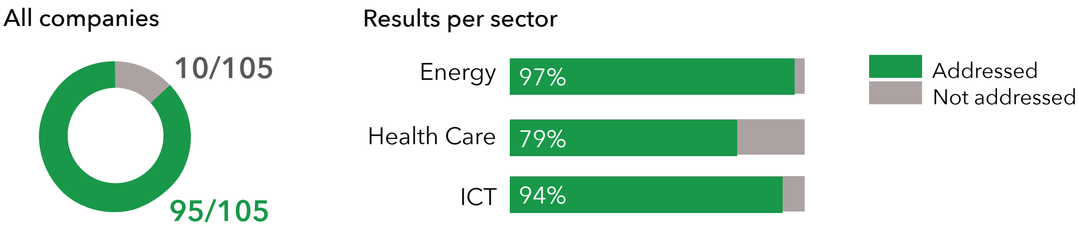
With regard to environmental issues, research focused on five topics that are connected to planetary boundaries[13] and reflected in EU policy[14]. These include: climate change, resource use (water, land, materials), pollution, waste, and biodiversity. For each issue, the structure of assessment criteria reflects the NFR Directive's framework of policy, outcomes, risks and KPIs with more detailed criteria derived from international frameworks.

The focus of climate change disclosure criteria is placed on the goal of a transition to a zero-carbon economy and company' strategy and risks associated with this, in line with the Paris agreement and the EU Sustainable Finance agenda.

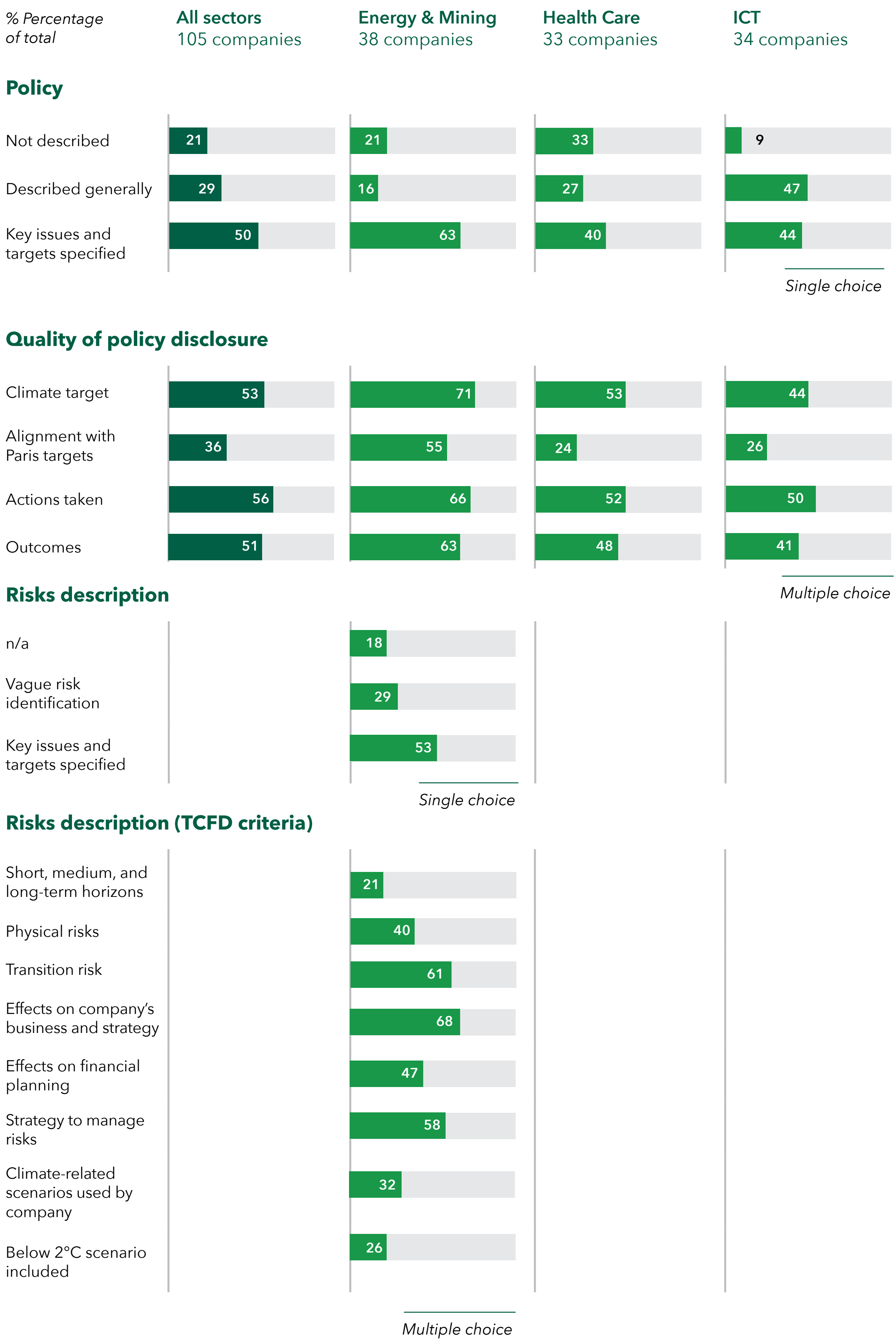
The assessment criteria for disclosure related to resource use and pollution reflect both local and global risks, whereas for waste the assessment of risk is not provided. This is because conceptually waste facilitates the two previous issues, rather than posing idiosyncratic risks.

The methodology for assessing biodiversity disclosures focuses on local impacts, and therefore quantitative KPIs are replaced with a set of criteria addressing the management of such risks and impacts in specific areas.

CLIMATE CHANGE



Climate change has been addressed in an overwhelming majority of companies' reports, with an exception of one metals mining company, two ICT companies (of which one is the company that did not provide any coherent non-financial information), and seven health care companies. Because there is such a universal recognition of the issue, results of the assessments of policies and KPIs are provided for all sectors below. However, the assessment of risks is focused on the Energy sector only which is identified as a sector with significant climate-related exposures in the recommendations of the TCFD.


% Percentage of total
All sectors
105 companies
Energy & Mining
38 companies
Health Care
33 companies
ICT
34 companies
Policy
Not described
21
21
33
9
Described generally
29
16
27
47
Key issues and targets specified
50
63
40
44
Single choice
Quality of policy disclosure
Climate target
53
71
53
44
Alignment with Paris targets
36
55
24
26
Actions taken
56
66
52
50
Outcomes
51
63
48
41
Multiple choice
Risks description
n/a
18
Vague risk identification
29
Key issues and targets specified
53
Single choice
Risks description (TCFD criteria)
Short, medium, and long-term horizons
21
Physical risks
40
Transition risk
61
Effects on company's business and strategy
68
Effects on financial planning
47
Strategy to manage risks
58
Climate-related scenarios used by company
32
Below 2°C scenario included
26
Multiple choice

KPIs

The results of our assessment of climate change disclosure show a similar pattern to the Level 1 assessment. 79% of companies report on climate change policy, but merely 50% (and 63% in the Energy sector) specify clearly what the policy has been designed to achieve specifically and how. There are no significant variations in the assessments of individual aspects of policy disclosure: targets, actions and outcomes. It is worth noting, however, that 71% of companies in the Energy sector provided information on their climate target, but a slightly lower number - 55% - made reference to the Paris agreement. The extent to which this reference is reflected in long-term planning is outlined in the results of our assessment of reporting on risks.

53% of companies in the Energy sector described specific risks facing them. Between 39% and 68% reported on various individual aspects of these risks and their management corresponding with the TCFD criteria. The notable exception, however, was the inclusion of all time horizons including the long-term horizon (21%) and the description of at least a rudimentary scenario analysis (32% in general and 26% for a below 2°C scenario specifically). This assessment did not consider the quality of those disclosures, but it can be concluded that only between 20-25% of companies provide information on their long-term plans for the transition to a zero-carbon economy and/or their economic implications.

Reporting on GHG emissions is widespread, totalling 82% for all sectors, ranging from nearly universal reporting in the Energy sector to 70% in the Health Care sector. Scope 3 emissions are reported by 66% of the Energy sector, with 36% for Health Care for 56% in ICT, which closely corresponds with the percentage of companies reporting on GHG intensity.

Relatively low numbers for the latter two sectors are worth noting because the majority of emissions in these sectors can be expected in Scope 3. Furthermore, reporting on the use of renewable energy in these sectors is relatively low, at 24% and 29% respectively.

A significant number of companies in all sectors report data that were independently assured. This suggests the maturity of this service as well as the readiness of companies that provide GHG data to use such a service.

Example from practice: EDF

The report of EDF provides an example of disclosure that meets the climate change reporting criteria applied in the research. Please note that the research did not assess all aspects of comprehensiveness of disclosure or company performance.

EDF's report specifies the company's commitment to contribute to the achievement of French, UK and EU climate policy goals, and to cut its CO2 emissions beyond the requirements of the 2°C goal.

The company describes specific elements of its climate change policy, which include the description and quantification of new projects aiming to integrate EDF into the renewable energy industry, plans to maintain its nuclear capacity, its progress in phasing out its coal-fired power plants, including a precise timeline, and support for measures to increase the price of CO2, which it deems necessary to enable the energy transition. The policy describes a goal of defining a trajectory for CO2 emissions in line with the WWF Science Based Targets initiative (SBTi) as well as partial goals such as a target for CO2 intensity in its UK operations. The report demonstrates the company's progress through direct and indirect GHG emissions and intensity indicators compared to the industry average, and through providing commentary on their development.

EDF provides information about key principles it uses in financial planning scenarios, but it keeps the description of the scenarios and their consequences confidential. The report includes a description of the company's climate change adaptation plan and its mitigation of physical risks, as well as its integration of climate change priorities into its investment strategy and R&D work, including quantitative information on initiatives in the fields of energy distribution and management and green mobility, and on collaboration with local authorities on local energy transitions. For further details see EDF Reference Document 2017, pp. 166-171

Regional differences

In general, companies from Nordic countries provided specific information on policies and their targets the most often (67%), followed by Germany (62%), Spain (60%) and France (50%) above average, and the UK (48%) below average, and companies from the CEE region trailing far behind (8%). Similar results were recorded for other categories, with the exception of 'actions taken' where German companies on average exceeded the Nordic sample, although by only two percentage points (85% to 83%).

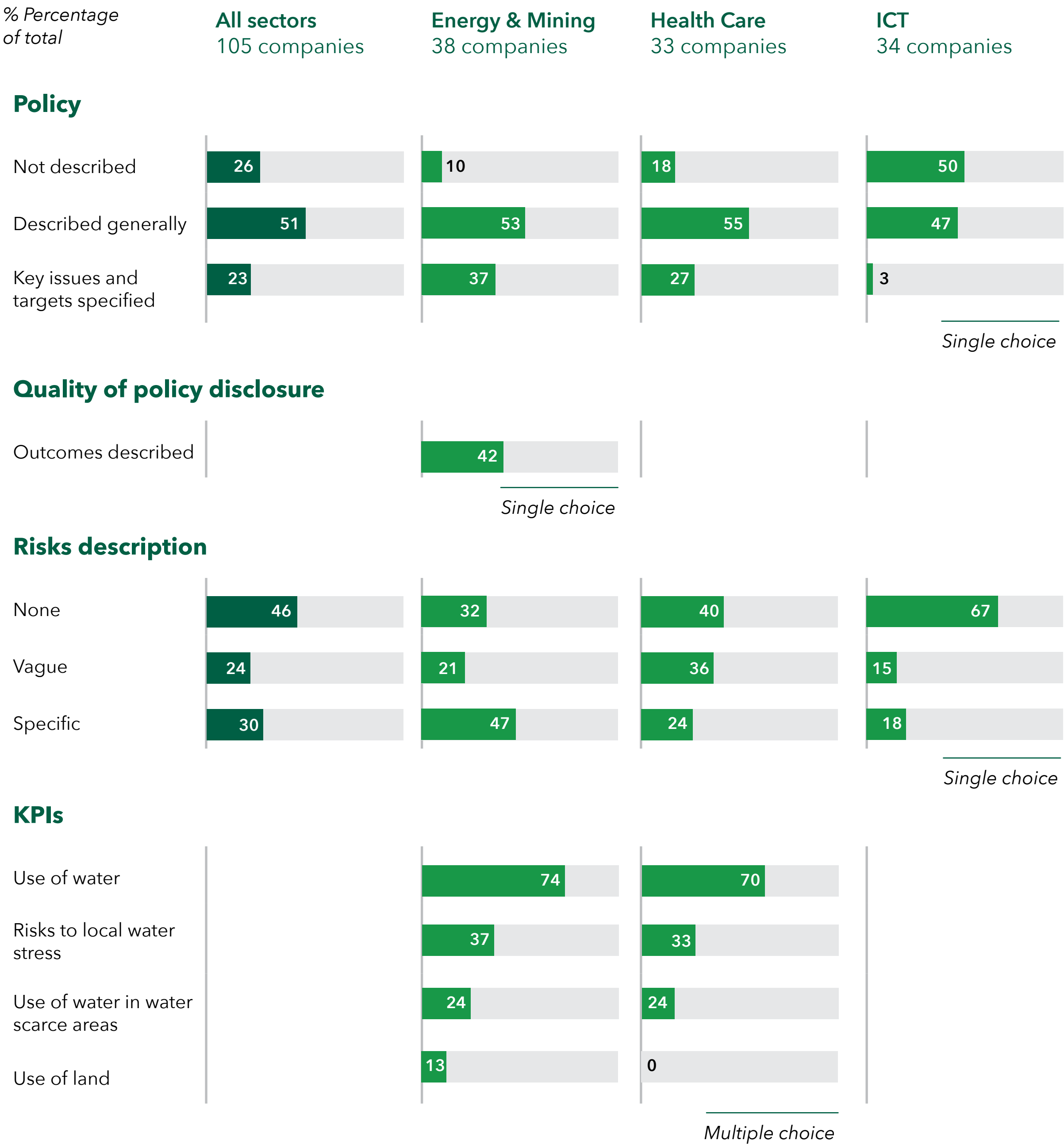
These results remain largely the same, even if slightly less profound, for the TCFD-inspired criteria for risks reporting applied to energy companies, except for the CEE companies which still remain far below everyone else. Another exception is the better results achieved by German companies on reporting on their strategy to manage risks, at 77% compared to 60% for Spanish companies, 50% for Nordic companies, 45% for French companies, 20% for British companies, and 8% for CEE companies.

The underperformance of CEE companies is worth considering in light of the fact that the sample included major Polish (and one Czech) energy companies, most of which are heavily invested in coal.

A table with full regional comparison of climate change disclosure criteria is provided in the Annex.

USE OF NATURAL RESOURCES

The NFR Directive explicitly refers to land use, water use and the use of materials as key factors that should be subject to the Guidelines. The materiality of this information depends on a company's business model and operational context. The below information on disclosure of policy and risks is provided for all sectors, with KPIs on water use in the Energy and Health Care sectors, and for land use in the Energy sector. Use of materials is not a universally material issue in any of the three surveyed sectors, and therefore it has been omitted from the research. In the Energy sector, the material is predominantly fossil fuels, which are addressed in climate change section. In the ICT sector, use of materials may be relevant for companies manufacturing or reselling hardware, but not to software and service-oriented companies.



Disclosure of policies indicates if companies in given sectors consider this issue material. 90% and 82% of companies from the Energy sector and the Health Care sector respectively described their policies in this field compared to only 50% of ICT companies.

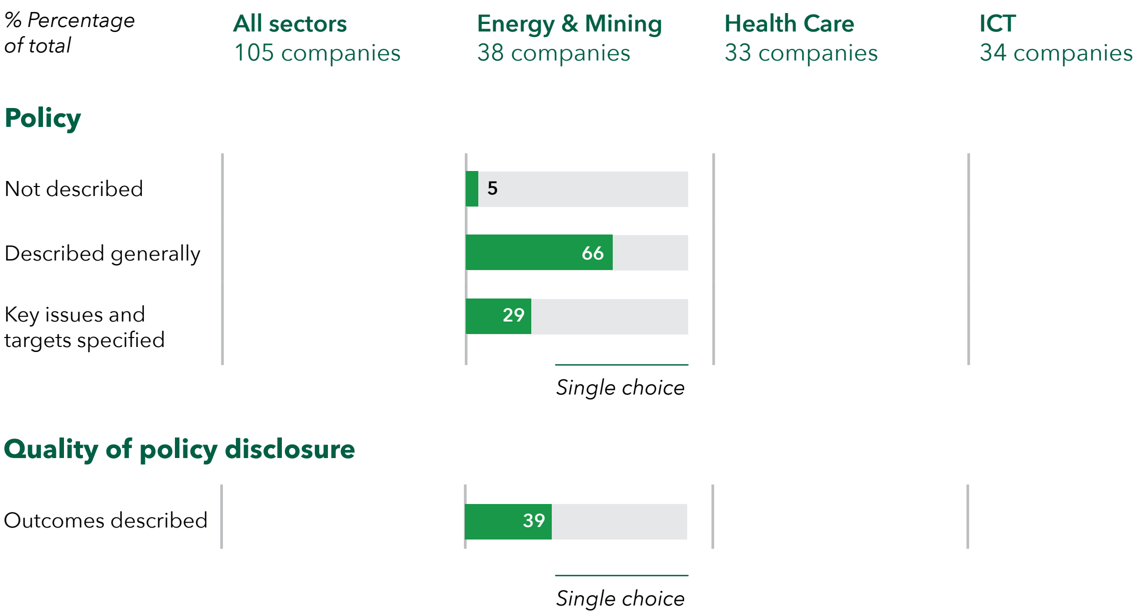
There is a significant drop in numbers when the specificity of the policy description is considered: 37% for Energy, 27% for Health Care and 3% for the ICT sector. Interestingly, this contrasts with better results for the disclosure of outcomes, which come in at 50% for Energy, 64% for Health Care and 12% for ICT. This is indicative of the fact that most companies focus on relative improvements rather than specific targets, and on concrete operations rather than their overall performance.

Risk assessment data and KPIs further suggest that companies generally view resource use from the perspective of consumption and thus potential cost cutting, but far less companies report on it from risk perspective. 47% of Energy, 24% of Health Care and 18% of ICT companies describe specific risks. 74% of Energy and 70% of Health Care companies report on their use of water, but only 24% in both sectors provide this data for water scarce and borderline areas (including statements that the company does not operate in such areas).

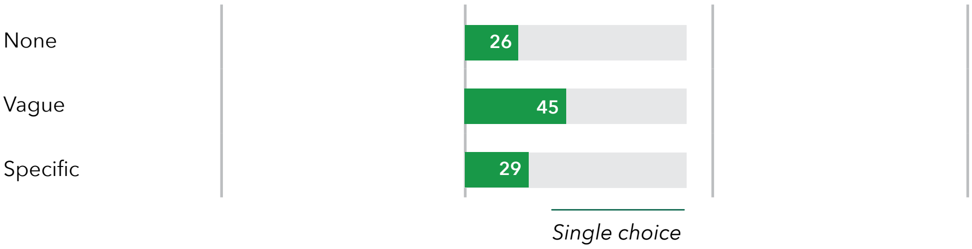
The research has also recorded that 13% of companies in Energy sector report on use of land. While the materiality of this information depends on the operational context, the Energy and Resource Extraction sector as a whole has significant impacts on land use. The fact that such a low number of companies report on it suggests a need for the standardisation of this disclosure and clarifications on when companies ought to report this information.

POLLUTION

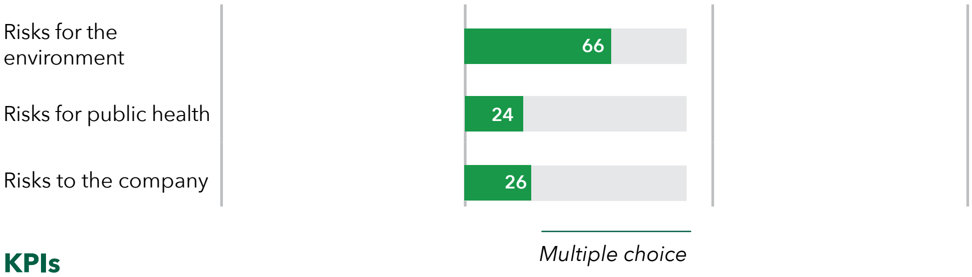
Information on direct polluting discharges was assessed only for companies operating in the Energy sector. With the exception of renewable energy companies, companies in this sector typically have significant pollution discharges which may have local impacts on both the environment and on public health, and cumulatively with other sources contribute to regional impacts. These impacts in turn create risks for companies' operations in terms of public and policy reactions to the problem.



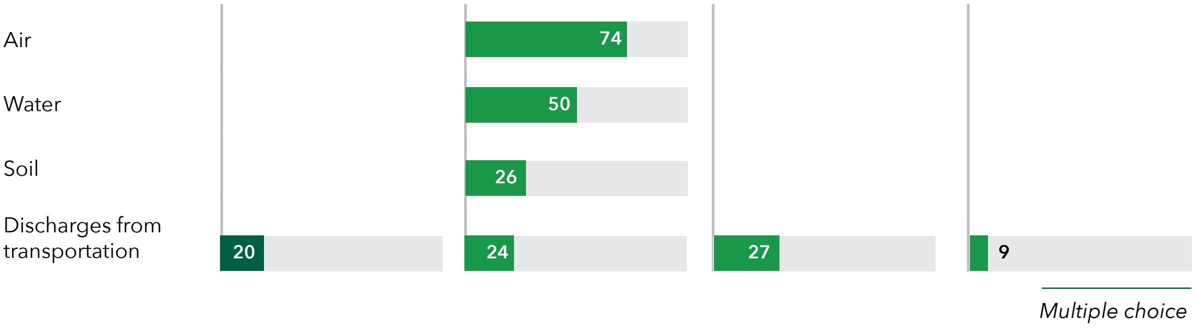
Risks description



Risks perspectives



KPIs



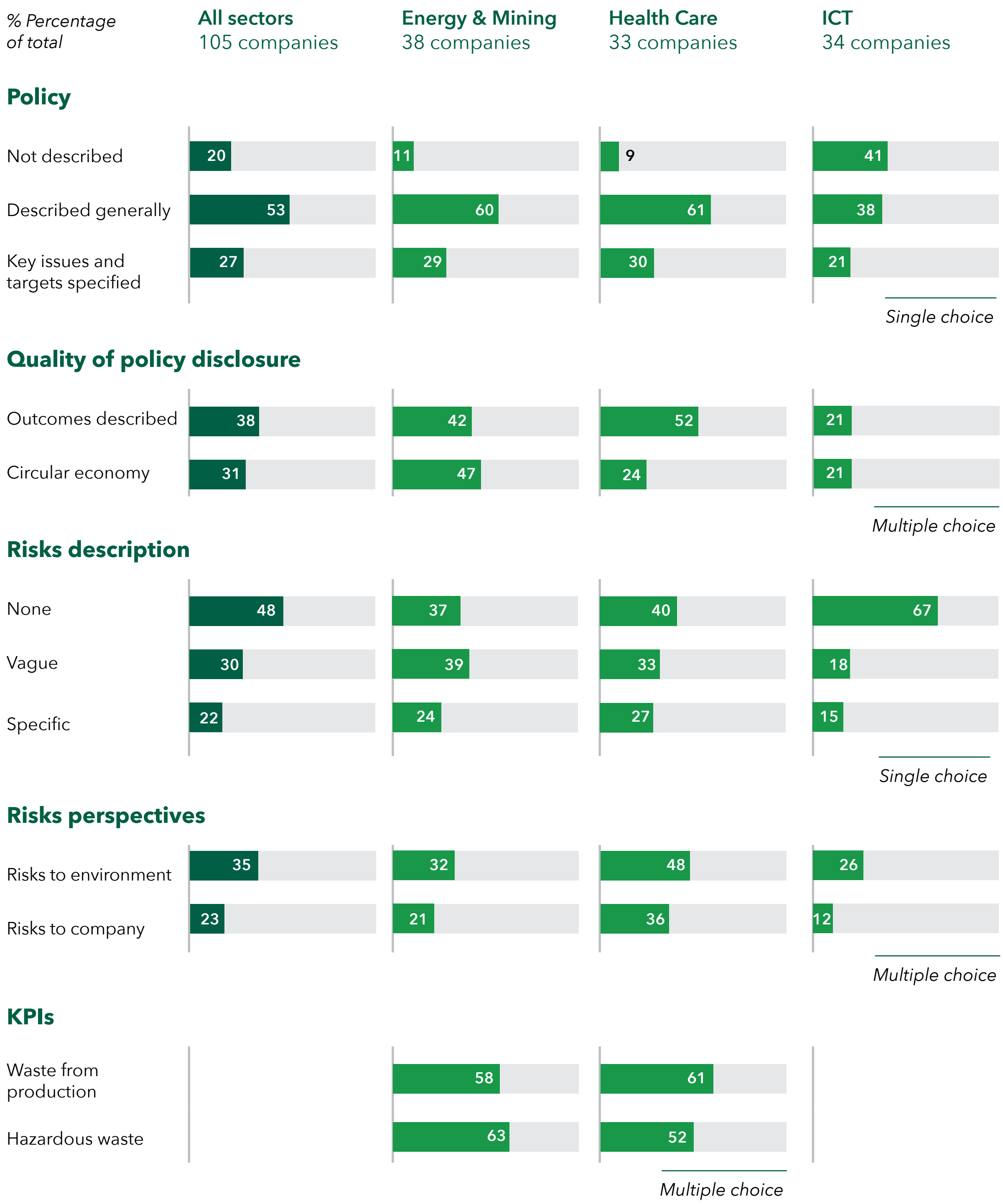
The vast majority of Energy companies do report on their policies on pollution management as well as on their outcomes. As in other areas, a minority - 29% - report on specific issues, which corresponds with the number of companies describing specific risks. A similar number - 26% - describe risks to the company.

These results suggest that in general companies do not report often on concrete impacts and risks regarding pollution, either from the perspective of the impacts of pollution on people or risks it poses for the company in terms of regulatory reactions. While not all companies may be exposed to these risks, the results appear to be at odds with the high pollution levels in the vast majority of urban and industrial centres and evermore stringent regulations in this area, such as the recently updated standards under the EU Industrial Emissions Directive, which significantly affected the operations and future of many coal-fired power plants in Europe[15].

Finally, 20% of companies in all sectors report on pollution generated by transportation in their production and distribution. This number is also indicative of those managing GHG emissions. As transportation is becoming a major factor contributing to conventional pollution and climate change, and it is a key factor in production processes and distribution in all sectors, it is worth considering if such disclosures should be mandated

WASTE

As in the Resource Use section, the disclosure of policies and risks has been assessed in all sectors to provide a perspective on companies' own recognition of the materiality of this issue. However, assessment of KPIs is provided only for Energy and Health Care sectors, because the ICT sector includes a large share of software and service-oriented companies.

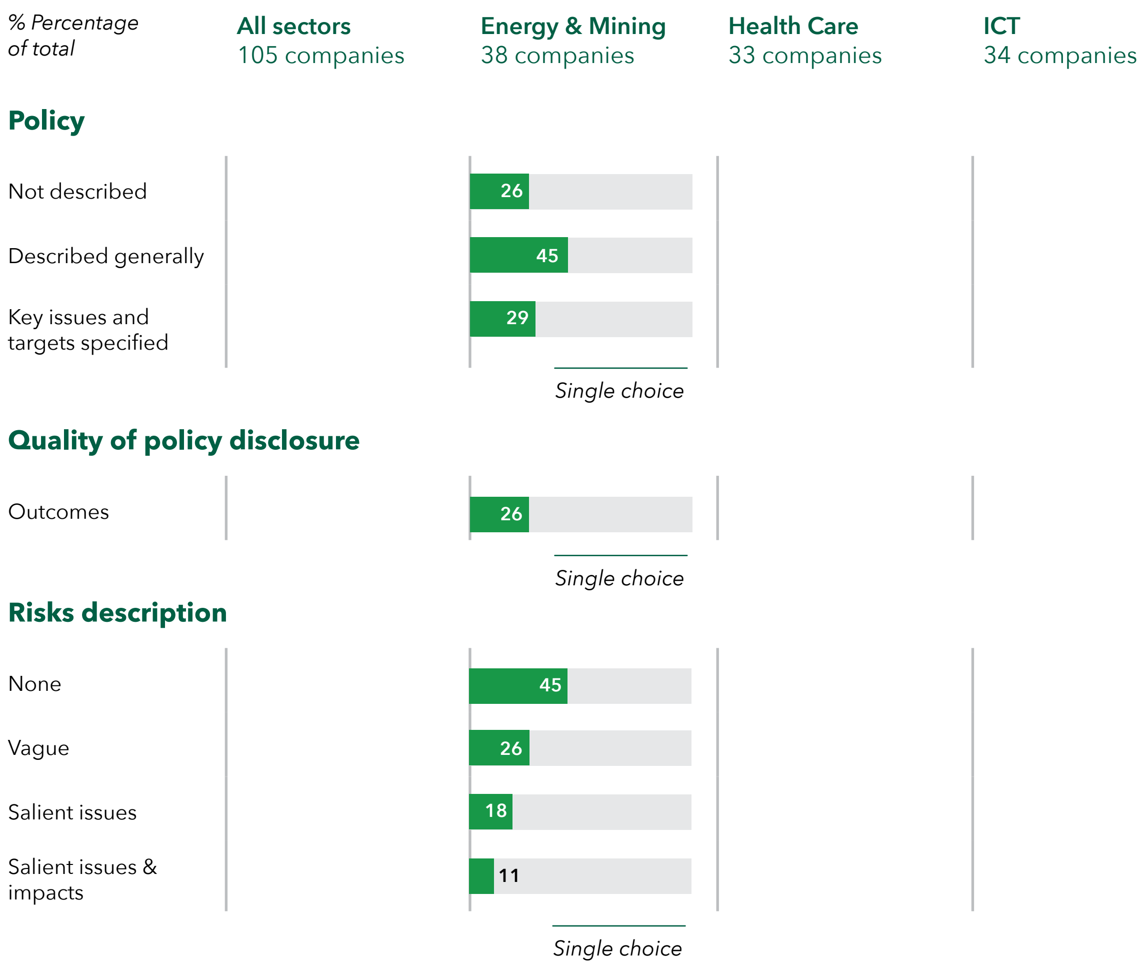


The results of our assessment of waste disclosures correlate with the general pattern that sees the vast majority of companies disclosing information, but only a minority providing specific information on policies and risks.

More specifically, disclosures on waste correspond with disclosures on resource use. The notable exception is the specificity of the risk assessments of companies in the Energy sector. Whereas with respect to resource use 47% companies described specific risks, regarding waste only 24% of companies did so. This indicates that companies consider risks related to waste issues as far less salient. Interestingly, there is no such drop for Health Care and ICT companies. However, since these two sectors generate much less waste, the invariability of these indicators may indicate that the issue is in fact not that material and gets reported for other reasons.

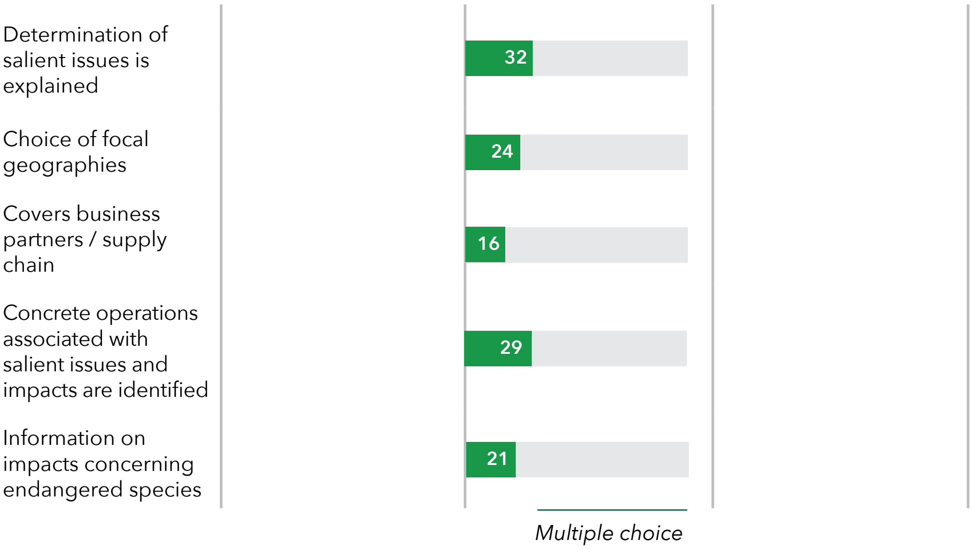
BIODIVERSITY

An assessment of disclosures on biodiversity is provided only for the Energy sector, because it is the only sector whose development requires obtaining new land and thus inherently poses risks to habitats. Unlike in the other environmental issues above, it is not particularly useful to measure impacts on biodiversity by means of standardised quantitative performance indicators. Therefore, the KPI section has been replaced by a list of specific biodiversity issues with criteria for assessing companies' disclosure of risks and impact management in specific cases.

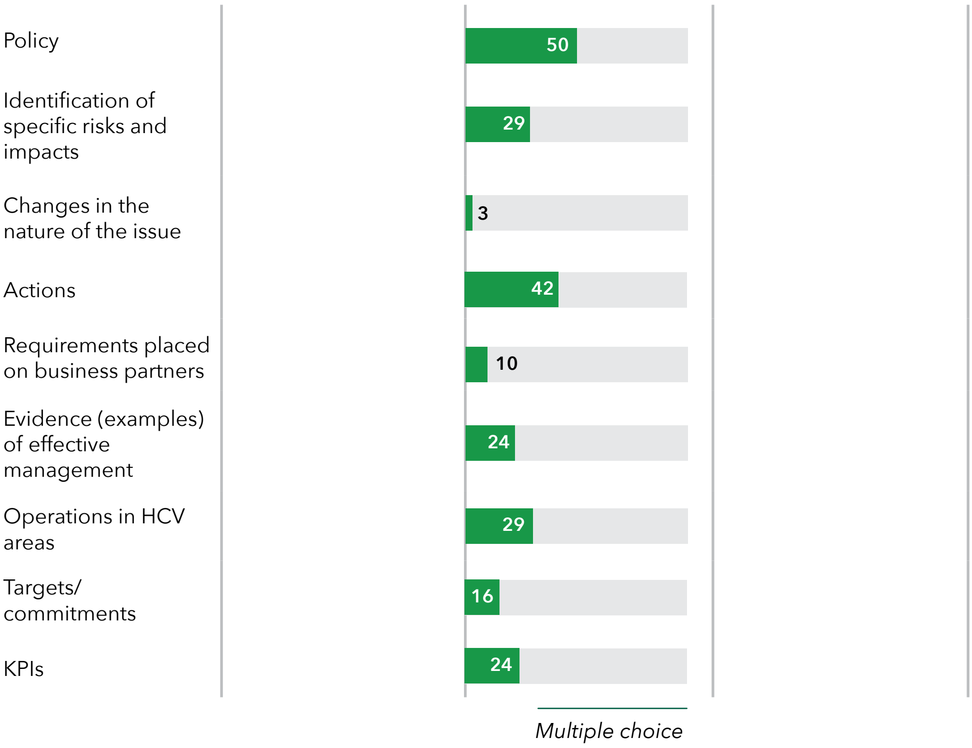


Energy & Mining
38 companies

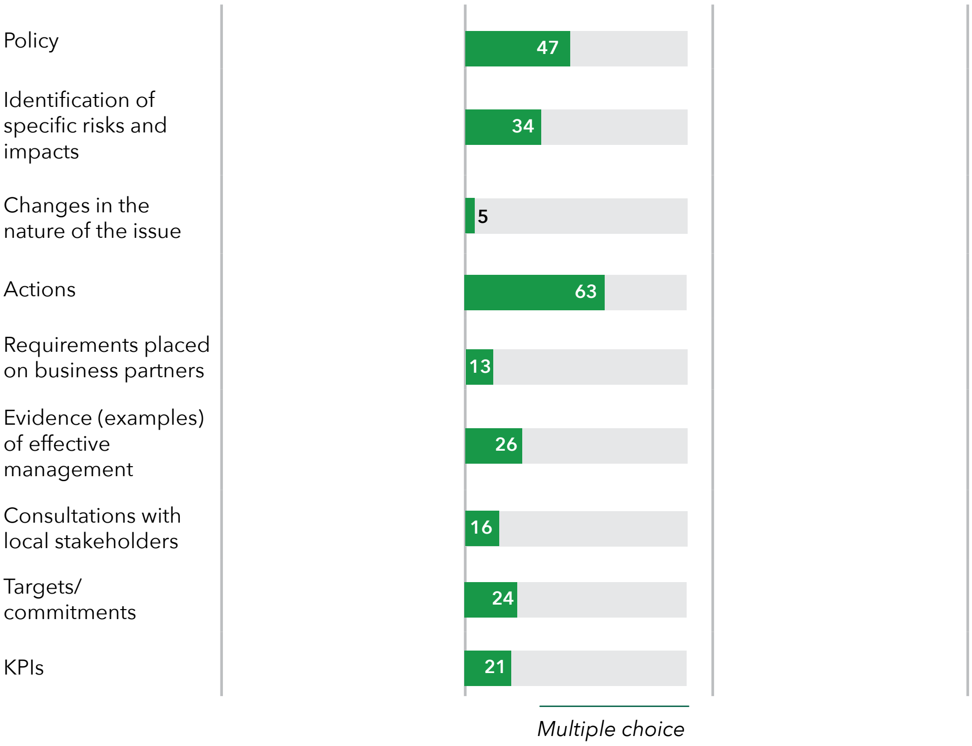
Determination of risks



Specific issues - Operations in High Conservation Value Areas



Specific issues - Habitat, landscape or environmental functions conversion



While interpreting the results in this area, it needs to be taken into account that it is impossible to ascertain the materiality of biodiversity issues for individual companies included in the analysis. Therefore the most important information is that 55% of companies do mention risks associated with biodiversity with varying degrees of specificity. Only 29%, however, describe concrete salient issues with 11% also including a description of impacts. A similar number of companies provide information how these issues were determined.

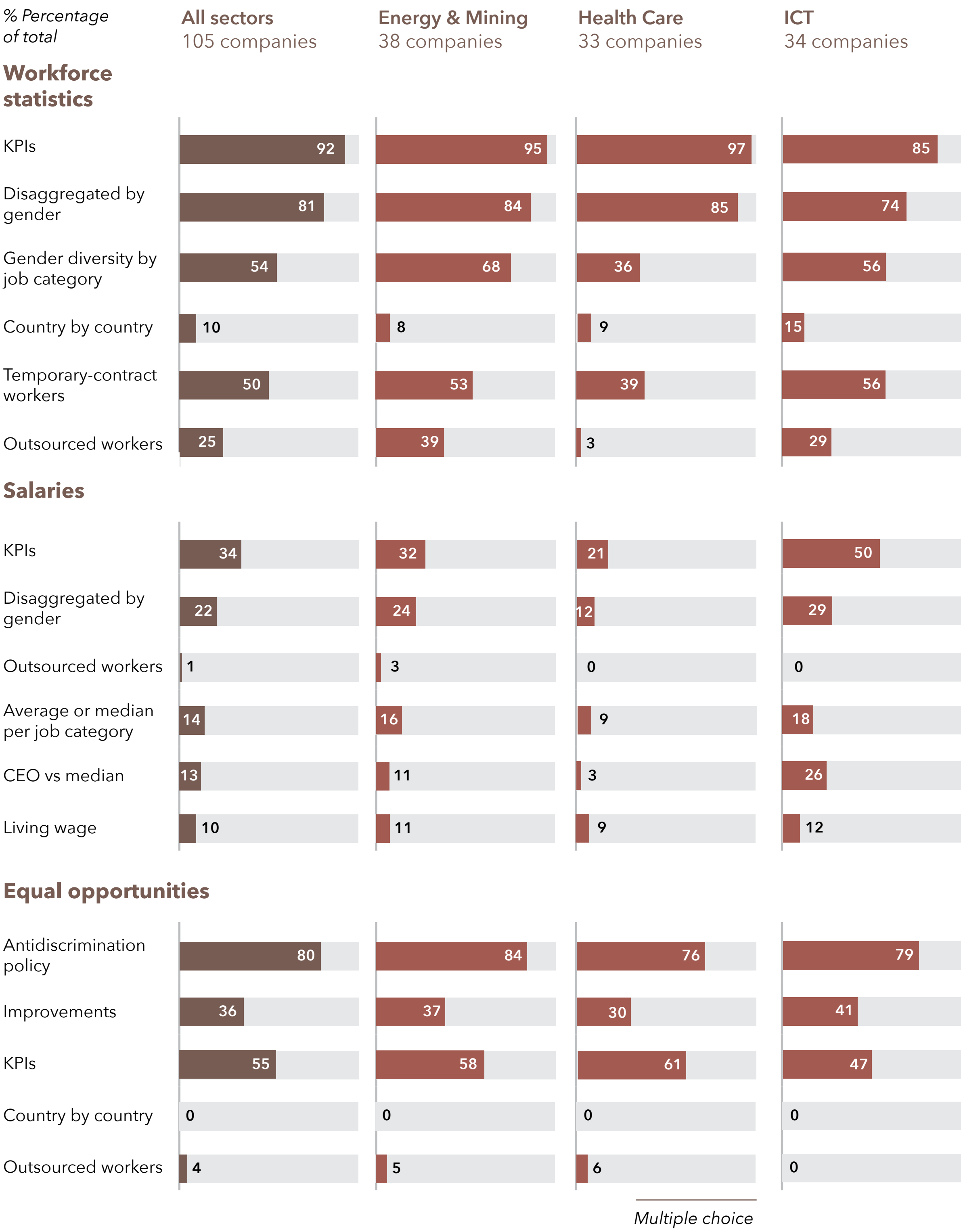
The inconsistency of these results indicates a need to clarify that companies with biodiversity risks ought to identify concrete issues and cases and provide information allowing an assessment of the risks and the company's management of them.

The research further provides an insight into the elements of company disclosure within two typical areas of risk - "Operations in High Conservation Value areas" and "Habitat, landscape or environmental functions conversion". The results show the gap between disclosure of policies and actions on the one hand, and information on concrete issues (cases), their development and evidence (examples) of their effective management on the other.

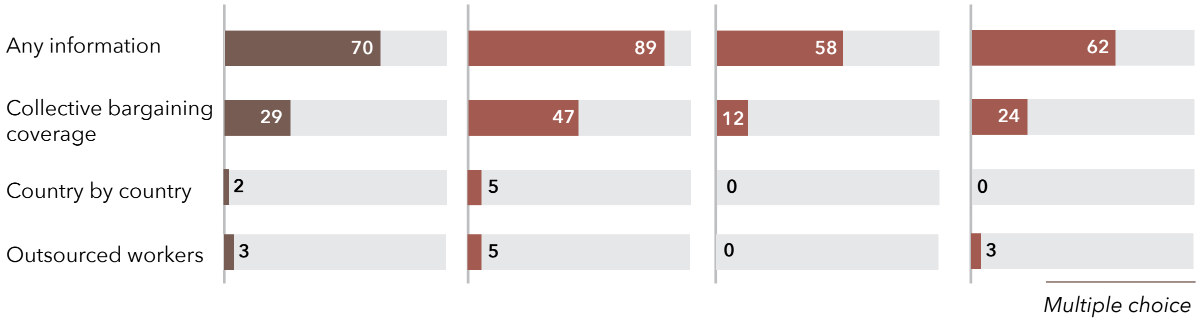
Employee matters

An assessment of the disclosure of general policies, risks and their management concerning companies' workforces has been provided in Level 1. Level 2 adds a range of quantitative and qualitative criteria for specific workforce issues based on ILO conventions and declarations and indicators provided by leading reporting frameworks such as GRI. Selected criteria are meant to provide an insight into the granularity of companies' disclosure on those key issues. However, they do not represent a final say on what are the most fundamental aspects that companies should disclose.

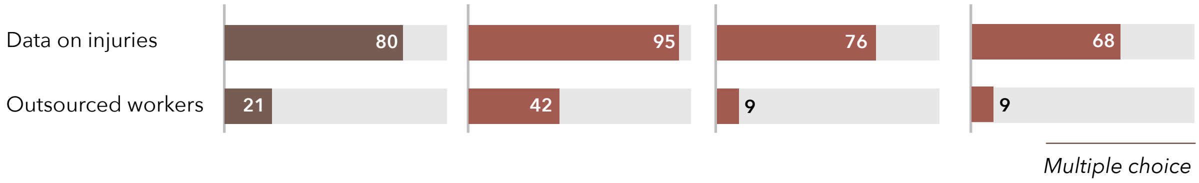
All criteria are relevant for all sectors. The selection does not address workers' rights in supply chains. This issue is addressed separately in the "Specific human rights issues" section.



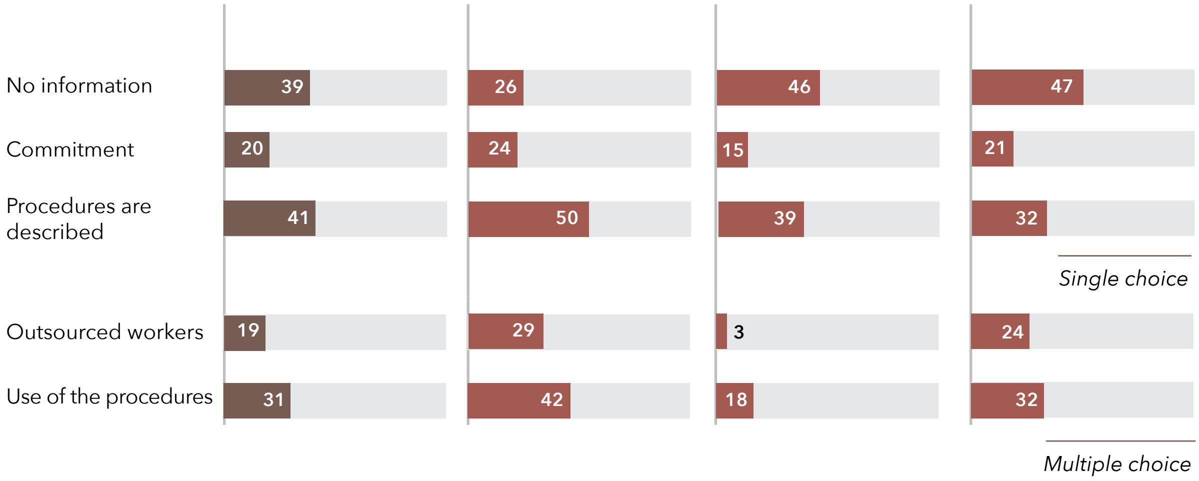
Freedom of association



Health & Safety



Ability to express concerns without fear of repercussions



The results above show two consistent trends, which are relevant from the perspective of the protection of labour rights. First, workforce statistics are rarely provided for outsourced workers, the most vulnerable part of company's workforce. Second, data is typically not broken down by country. This may be a problem with respect to workers' rights that are unevenly respected around the world, such as equal opportunities (protection against discrimination) and freedom of association. Furthermore, it is worth noting that reporting on the living wage is particularly weak (10%). Moreover, only 29% of companies report on collective bargaining coverage, one of the fundamental rights under the ILO conventions.

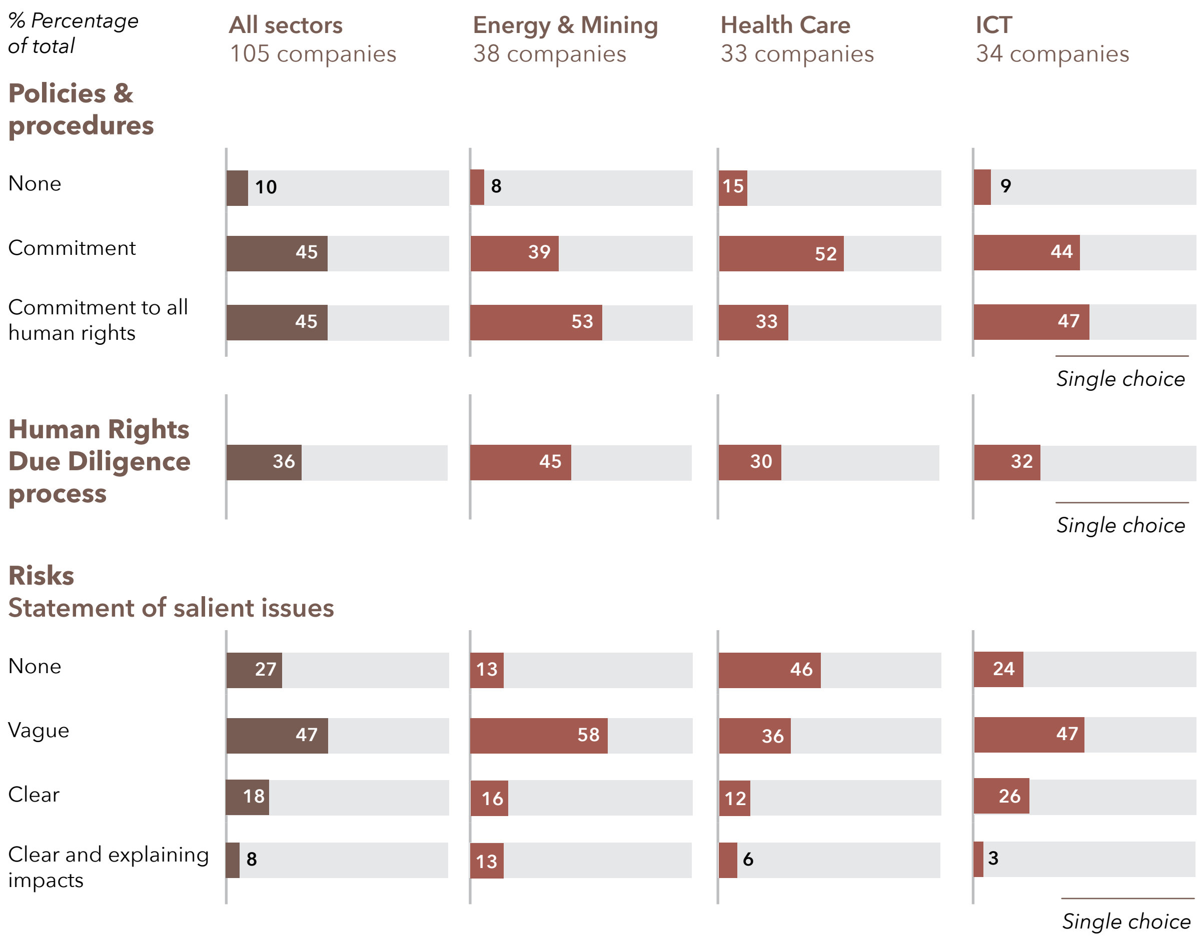
It is also worth noting that 39% of companies have no information on the ability of employees to express concerns without fear or repercussion.

Human rights matters

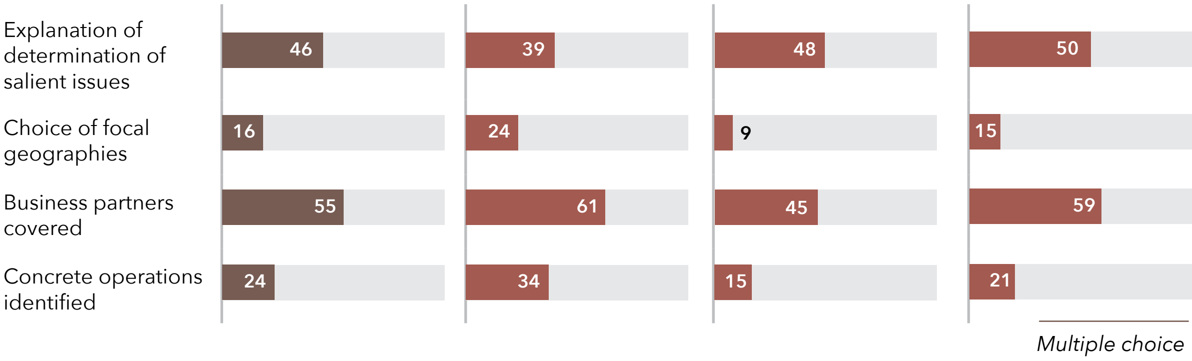
The corporate responsibility to respect human rights as it is outlined in the UN Guiding Principles on Business and Human Rights revolves around the identification, prevention, mitigation and remedying of human rights impacts. This includes both impacts that the company directly caused or contributed to, as well as those that are linked to its operations, products and services by business relationships (the definition of which includes whole value chains). This definition is reflected in the NFR Directive as well as in all major international standards and reporting frameworks including the OECD Guidelines and guidances.

Since human rights impacts are not easily quantifiable or comparable and "do no harm" is the fundamental principle in this area, the focus of corporate responsibility to respect human rights is on the robustness of a company's due diligence mechanism, disclosure of salient risks, and their management. In this respect, the UN Guiding Principles Reporting Framework provides a comprehensive guidance to companies for reporting on the integration of respect for human rights in practice. Criteria below are largely based on this Framework. They reflect key elements of the NFR Directive's requirements - policies, outcomes, risks and KPIs - but they specify them and arrange them in a structure that better corresponds with the nature of human rights matters.

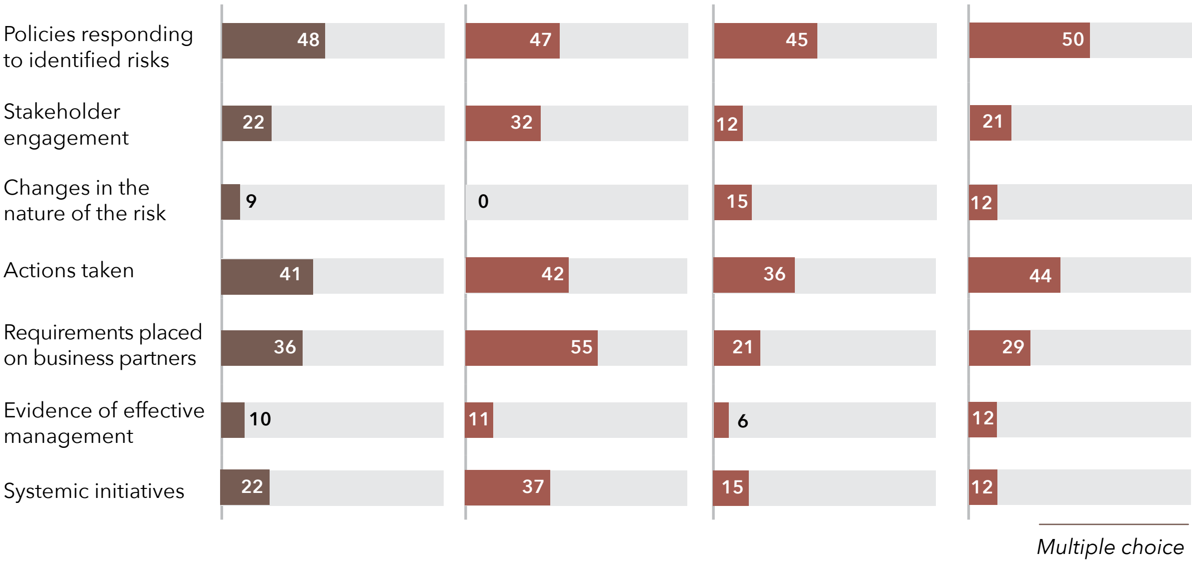
These criteria focus on a company's salient human rights issues, which are understood as those human rights that are at risk of the most severe negative impact through the company's activities or business relationships. Human rights risks, because of the globalisation of supply chains, are relevant for companies in all sectors.



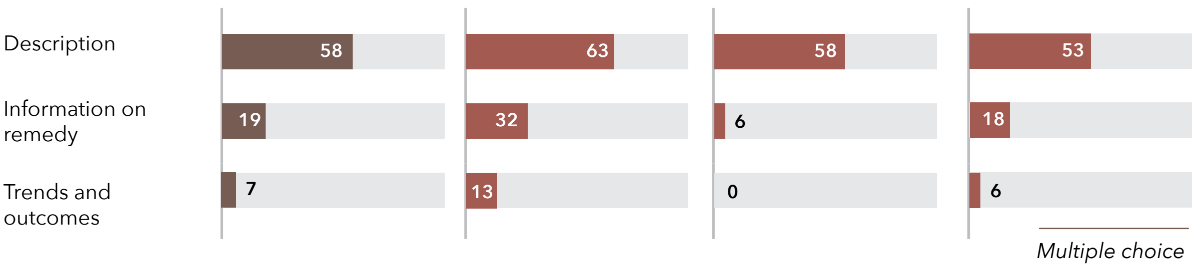
Determination and description of salient issues



Management of salient issues



Grievance mechanisms



The nature of human rights impacts of individual companies may vary. Companies with exclusively domestic or European operations face different risks than those with extensive operations in countries with lower levels of respect for human rights. Nevertheless, since human rights violations do occur in Europe and because global value chains have connected virtually all companies with potential human rights impacts around the world, all companies should implement and report at least basic elements of their due diligence processes and their results.

A large majority of companies (90%) express in their reports an explicit commitment to respect human rights, but only 36% describe their human rights due diligence system. Even less, 26%, provide a clear statement of salient human rights issues, while only 8% (included in the previous figure) describe impacts related to these issues. This corresponds with the number of companies - 24% - that provide information on concrete operations or supply chains associated with the identified salient issues.

At the same time an additional 49% acknowledge the existence of human rights risks and/or issues, but do not describe them well enough to allow their understanding, while the remaining 27% of companies do not describe any risks.

A similar pattern can be seen in companies' reporting of their management of salient human rights issues. While 48% describe their policies to address identified salient issues and 41% describe their actions in this regard (which are already relatively low numbers compared to the 73% of companies that do provide a statement of salient issues), only about 10% of companies describe changes in the nature of the issues and provide evidence (examples or indicators) demonstrative of effective management of these issues. In other words, very few companies provide information that allows users of reports to understand the issues and risks and assess a company's reaction to them.

To improve this situation, legislation should more clearly specify requirements for the disclosure of human risks, in particular with respect to human rights due diligence, the identification of salient human rights issues which must be specific (including the identification process, and with an understanding that companies must focus on risks to people, not risks to business), and the effects of the company's policies and actions.

This information is relevant from the perspective of corporate accountability and the protection of human rights. In addition, mismanaged human rights risks may result in significant short-term as well as long-term economic impacts on companies[16] in the form of accidents, litigation, supply chain disruptions, and failed or delayed investments.

REGIONAL DIFFERENCES

Nordic companies included in the research provided more detailed information in every section of their human rights reports. For example, 67% of Nordic companies described their human rights due diligence process, compared to 46% of German companies, 45% of French companies, 40% of Spanish companies, 24% of British companies and 0% of CEE companies. A clear statement of salient issues was made by 50% of Nordic companies, 31% of German companies, 28% of British companies, 23% of French companies, 20% of Spanish companies, and 8% of CEE companies. Similar results were recorded for most of criteria for disclosure of the management of salient issues.

Our assessment of French companies delivered similar results for the disclosure of policy and statement of salient issues as companies from other regions, but worse results for the management of salient issues. For example, 27% of French companies reported their policies to manage salient issues, compared to 67% of Nordic companies, 62% of German companies, 60% of Spanish companies, and 52% of British companies. This may be due to a decision by French companies to provide this information in a separate report pursuant to the French duty of vigilance law.

A table with full regional comparison of general human rights disclosure criteria is provided in the Annex.

Example from practice: Novo Nordisk

Novo Nordisk's report provides an example of disclosure that meets most of the general human rights reporting criteria applied in the research. Please note that the research did not assess all aspects of comprehensiveness of disclosure or company performance.

Novo Nordisk's report refers to its commitment to respect human rights in line with the International Bill of Human Rights and the UN Guiding Principles on Business and Human Rights and its Reporting Framework.

The report indicates the company's salient human rights issues and explains that they were determined based on the potential severity of its impact. The issues include patient safety, human biosamples, clinical trials, privacy, anti-counterfeiting measures, local production projects, and human rights in supply chains. With respect to anti-counterfeiting measure, it identifies the focal geography with the highest risk. It also indicates how the main risk areas were determined in supply chains.

For each issue, the report refers to a more detailed policy and actions to assess, prevent and mitigate risks. For some issues, it explains the development of the nature of the issue (such as the number of reported side effects). However, for most issues it does not describe examples or provide indicators that illustrate they are being managed effectively. Similarly, for each issue general information on grievance mechanisms is provided, but not on their application.

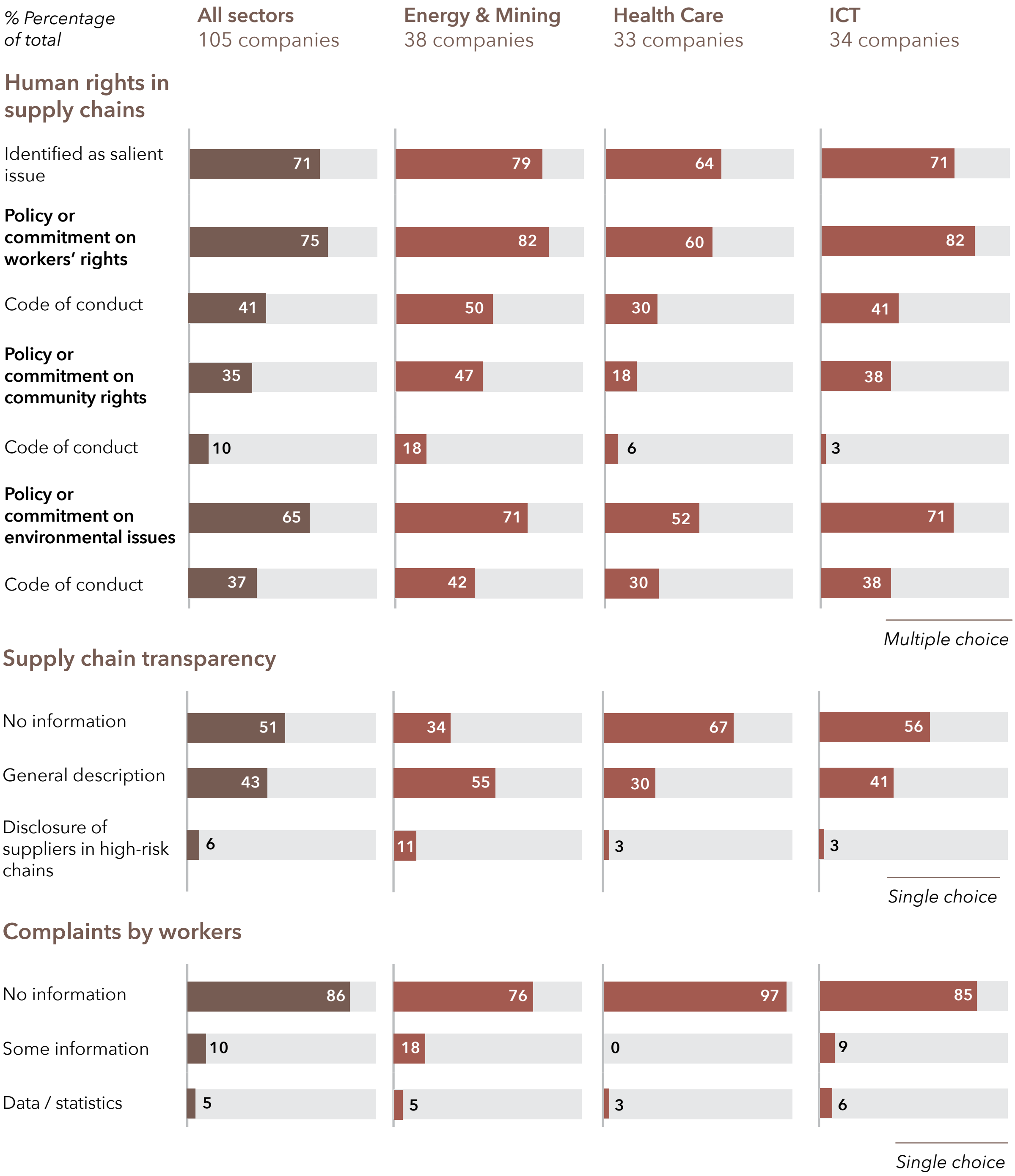
More specific information on the effectiveness of company actions is provided on "Human Biosamples". The company explains that it conducted "15 supplier evaluations, bringing the total number of evaluated suppliers to 39. 29 are now listed as 'acceptable suppliers' to Novo Nordisk of human biosamples for use in research," and that as a result "two thirds of our acceptable suppliers have taken actions to improve their performance, such as upgrading their approach to ensuring free and informed consent from donors or improving the working conditions for their staff."

For further details, see Novo Nordisk's Communication on Progress 2017.

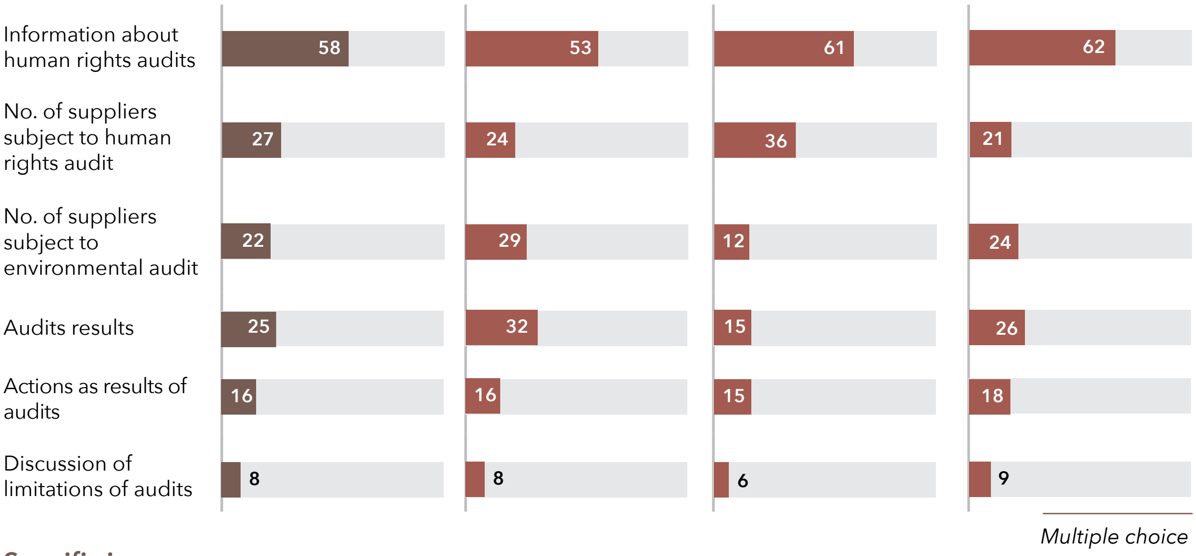
SPECIFIC HUMAN RIGHTS ISSUES

In this subsection, additional criteria are provided for assessing companies' reporting on selected human rights issues. The purpose of these criteria is to map how prevalent reporting on these issues is (and thus provides a perspective on their universal materiality and need for standardisation of disclosure) as well as to examine idiosyncratic aspects of the implementation of corporate responsibility in these areas. The methodology does not repeat the inquiry provided for general human rights disclosure above.

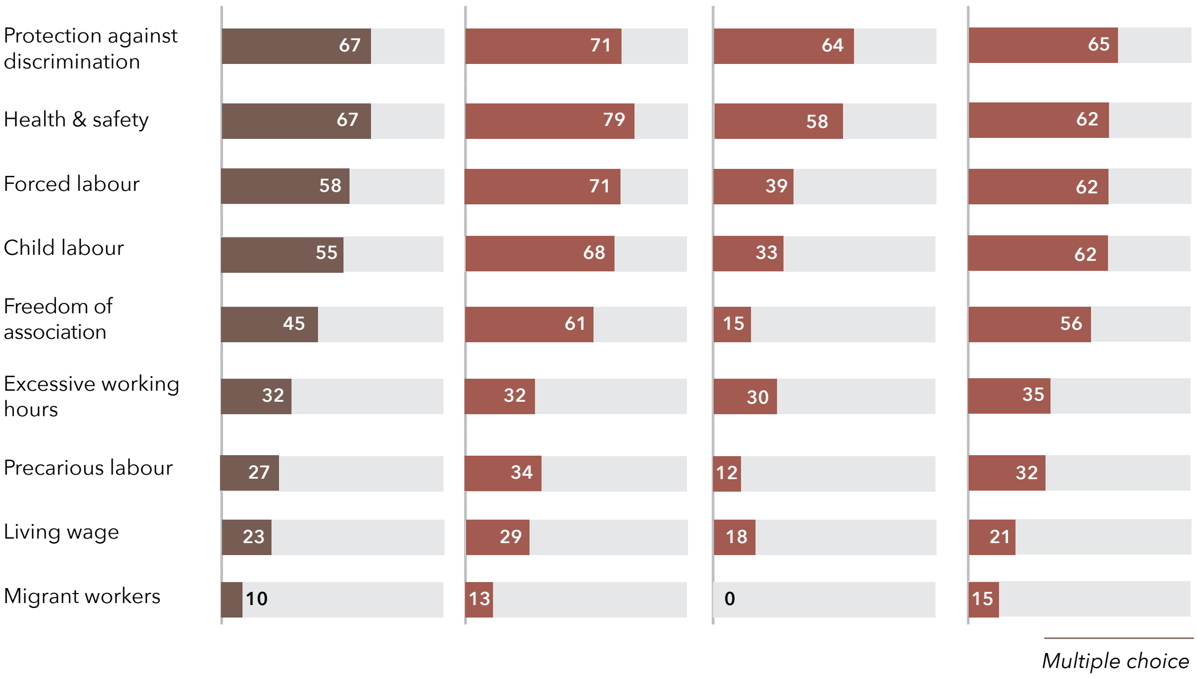
First, reporting on ensuring respect for human rights in supply chains, which is relevant for all sectors, is assessed. Then, additional data is provided for land acquisition, indigenous peoples' rights, and operations in high-risk areas by companies in the Energy sector, and for conflict minerals and digital rights by ICT companies. This data needs to be interpreted while taking into account that the materiality of these issues depends on companies' operational context.


% Percentage of total
All sectors 105 companies
Energy & Mining 38 companies
Health Care 33 companies
ICT 34 companies
Human rights in supply chains
Identified as salient issue
71
79
64
71
Policy or commitment on workers' rights
75
82
60
82
Code of conduct
41
50
30
41
Policy or commitment on community rights
35
47
18
38
Code of conduct
10
18
6
3
Policy or commitment on environmental issues
65
71
52
71
Code of conduct
37
42
30
38
Multiple choice
Supply chain transparency
No information
51
34
67
56
General description
43
55
30
41
Disclosure of suppliers in high-risk chains
6
11
3
3
Single choice
Complaints by workers
No information
86
76
97
85
Some information
10
18
0
9
Data / statistics
5
5
3
6
Single choice

Audits



Specific issues



The vast majority of companies that did provide some description of salient issues (73%) included references to human rights in supply chains (71%). Even more companies referred to their commitment or policy on workers' rights (75%) and some provided links to more specific rules in codes of conduct (41% for workers' rights). Fewer companies reported on community rights in supply chains and environmental issues.

Very few companies disclosed information about suppliers in identified high-risk supply chains (6%), and these provided information on suppliers and smelters of gold, tantalum, tin and tungsten, several potential conflict minerals. This suggests a direct or indirect effect of EU and U.S. regulations in this area. Similarly, companies generally do not report on workers' complaints in supply chains - 5% provided clear data and an additional 10% reported at least some information.

The practice as well as discussion of the management of human rights risks in supply chains is dominated by the question of audits. The results of the research confirm this, as 59% of companies indicated that they carry out human rights audits, although only 25% discuss audit results and 16% describe actions taken as results of these audits. Only 8% of companies went further and discussed the limitations of audits in addressing underlying human rights risks. These results raise the question of whether these disclosures should be more explicitly required in legislation.

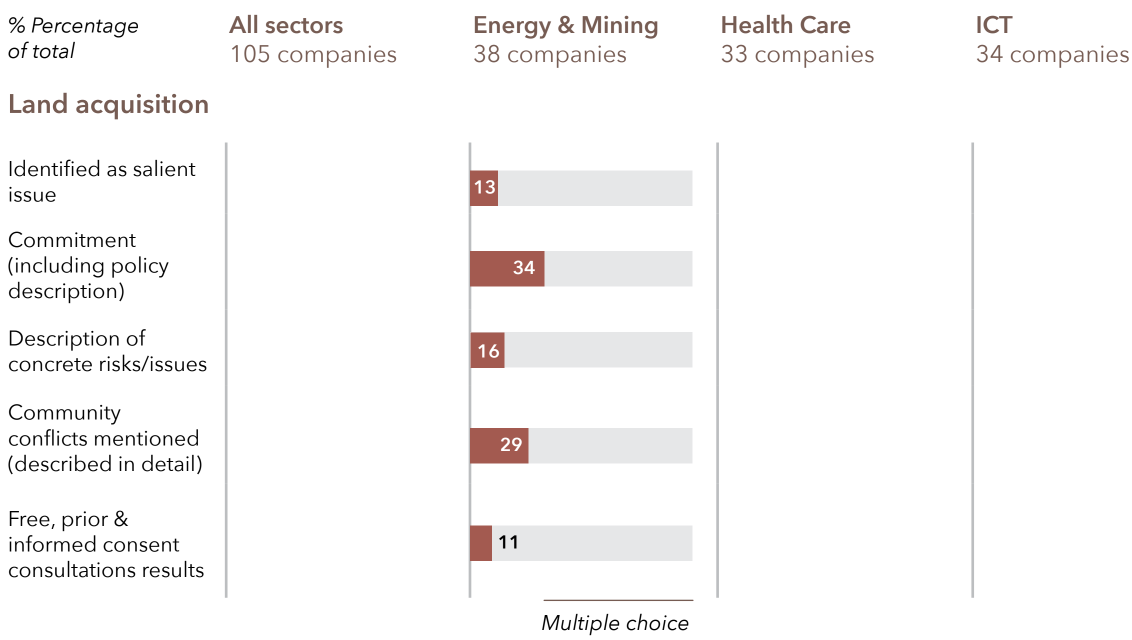
The final list of specific issues indicates whether they have been mentioned in a company's commitment, actions, outcomes or KPIs. As shown in the results, protection against discrimination, health & safety, forced labour and child labour are on the agenda of most companies reporting on supply chains, whereas other issues do not receive such universal attention, such as the living wage (23%) and the rights of migrant workers (10%), which are referred to by few companies.

With respect to forced labour in supply chains, it is worth noting that although British companies mentioned this issue more often than was average (72% to 58%), still 28% of British companies did not mention it at all despite the fact that the UK Modern Slavery Act requires them to report on their steps to address it.

SPECIFIC ISSUES IN THE ENERGY SECTOR

Land acquisition, indigenous peoples' rights, and operating in high risk areas for civil and political rights are important issues for the specific segment of the Energy sector, especially for those involved in mining operations. It was beyond the scope of this research to evaluate these risks for individual companies. Therefore analysis of collected data is limited to companies that themselves identified these issues as salient.

With respect to land acquisition and indigenous peoples' rights, there is a significant discrepancy between the number of companies that mention community conflicts (29% and 26% respectively) and those that describe these conflicts in more detail (13% and 11%). Moreover, information on the results of consultations with affected people to seek their free, prior and informed consent is provided by only 4% and 3% of companies respectively. This discrepancy deserves further attention, because conflicts indicate risks of potentially serious human rights violations that are important for investors to be informed about, as well as because such conflicts may thwart companies' investments and operations. There is a similar margin between companies that identified civil and political rights as a salient issue due to their operations in high-risk areas and those that provided details on concrete cases (21% to 11%).



	All sectors 105 companies	Energy & Mining 38 companies	Health Care 33 companies	ICT 34 companies
Indigenous peoples' rights				
Identified as salient issue		24		
Commitment (including policy description)		34		
Description of concrete risks/issues		19		
Community conflicts mentioned (described in detail)		26		
Results of consultations - free, prior & informed consent		8		
		Multiple choice		

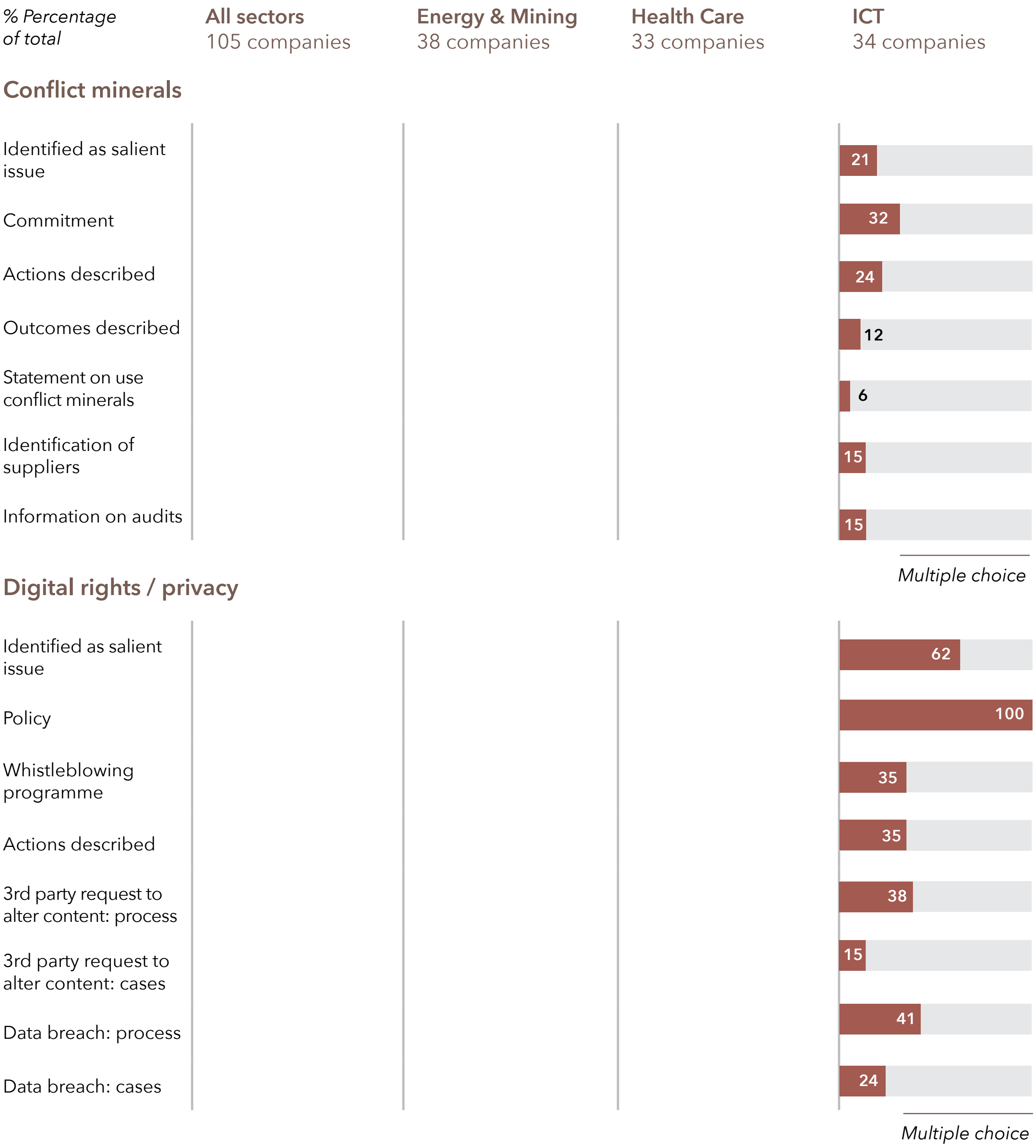
High Risks Areas	All sectors	Energy & Mining	Health Care	ICT
Identified as salient issue		21		
Commitment (including policy description)		32		
Identification of cases or affected people		11		
Commitment on security providers		26		
Data on training of security providers		18		
Identification of security providers		0		
Commitment on HR defenders		5		
Actions described (HR defenders)		0		
		Multiple choice		

SPECIFIC ISSUES IN THE ICT SECTOR

Conflict minerals and digital rights are exceptional in that the responsibilities of business are more heavily regulated in this area than with respect to other business and human rights issues. The implications for this research have been in the selection of criteria, which reflect certain elements of this regulation - even if it is not directly applicable to companies included in the research - and best practice.

The results confirm the pattern identified in more general human rights reporting criteria. With respect to conflict minerals, 32% of companies gave information about their commitment. Since the selection of companies includes a large share of software companies, this number does not necessarily indicate lack of awareness. However, only 21% identified it as a salient issue and 24% described any actions taken. Outcomes were described by a mere 12%.

With respect to digital rights and privacy, 62% of companies identified it as a salient issue. The 100% result for policy is skewed by the EU General Data Protection Regulation requirements. The rest of the indicators provide results around 38%, which arguably gives a better perspective on the extent of disclosure. 15% and 24% report on cases of third party requests to alter or restrict the content of information, and on cases of data breach respectively.



Example from practice: Nokia

Nokia's report provides an example of disclosure that meets supply chain transparency reporting criteria applied in the sections of the research covering both conflict minerals and supply chains. Please note that the research did not assess all aspects of comprehensiveness of disclosure or company performance, and that the individual high-risk suppliers are identified only for Nokia's conflict minerals supply chain.

Nokia's People and Planet report provides a general description of its supply chain and comprehensive information on its due diligence process, audits, specific instances of non-compliance and recommendations, as well as coverage of suppliers by climate and human rights programmes.

In an additional 19-page Conflict Minerals Report covering 2017, Nokia explains how it determined its key suppliers of conflict minerals and provides their number and further information including that:

→ 99% of suppliers have adopted a conflict minerals policy (98% in 2016)

→ 85% public and 13% not public.

→ Suppliers tracing all smelters (per mineral): tantalum 87%, tin 92%, tungsten 88%, gold 91%.

→ Suppliers with conflict-free status (per mineral, including conflict-free status of re-spective reported smelters): tantalum 64%, tin 75%, tungsten 72%, gold 66%.

Nokia then provides information on the identified 318 smelters:

→ 80% of smelters have been validated by RMAP or mutually recognized programs (out of known smelters) (79% in 2016): gold 69%, tantalum 98%, tin 86%, tungsten 89%.

→ 83% of smelters have been validated by RMAP or mutually recognized programs or are undergoing the validation process (out of known smelters) (84% in 2016): gold 73%, tantalum 98%, tin 88%, tungsten 93%.

→ 5% of the smelters who are currently not validated by RMAP or actively working towards validation are either Recyclers or located where Nokia's due diligence has shown there is no reason to believe they are sourcing from the Covered Countries and can be reasonably considered as conflict-free.

Finally, for every smelter, the report indicates: Smelter name, Smelter classification code, Metal Standard, and its Country of origin.

For further information see Nokia's People & Planet Report 2017, pp 95-106, and Nokia's Conflict Minerals Report for 2017.

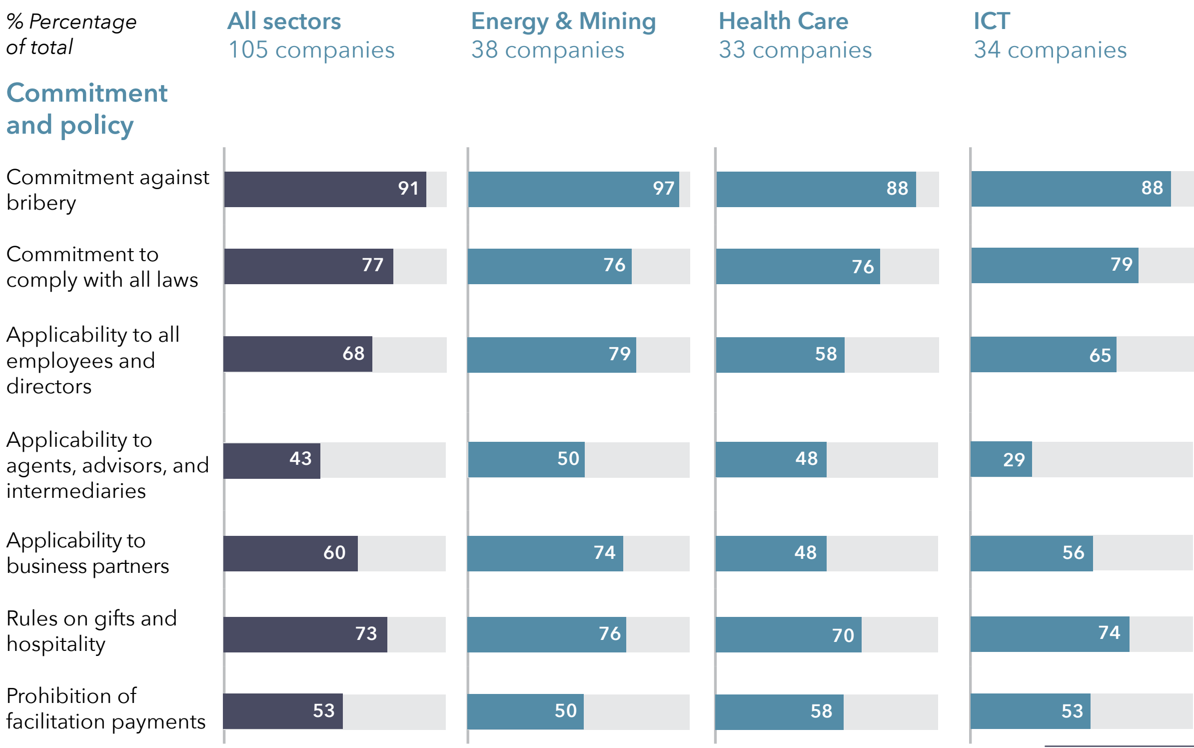
Anti-corruption matters

The dominant focus of disclosure on anti-corruption matters is the process to identify and prevent risks of corruption. Compared to human rights disclosure, it is less feasible for companies to discuss concrete risks, because of criminal responsibility attached to the actual corruption. Therefore, this research has evaluated the quality of companies' disclosure of their anti-corruption programmes. The primary source for the criteria has been the methodology developed by the UN Global Compact and Transparency International[17].

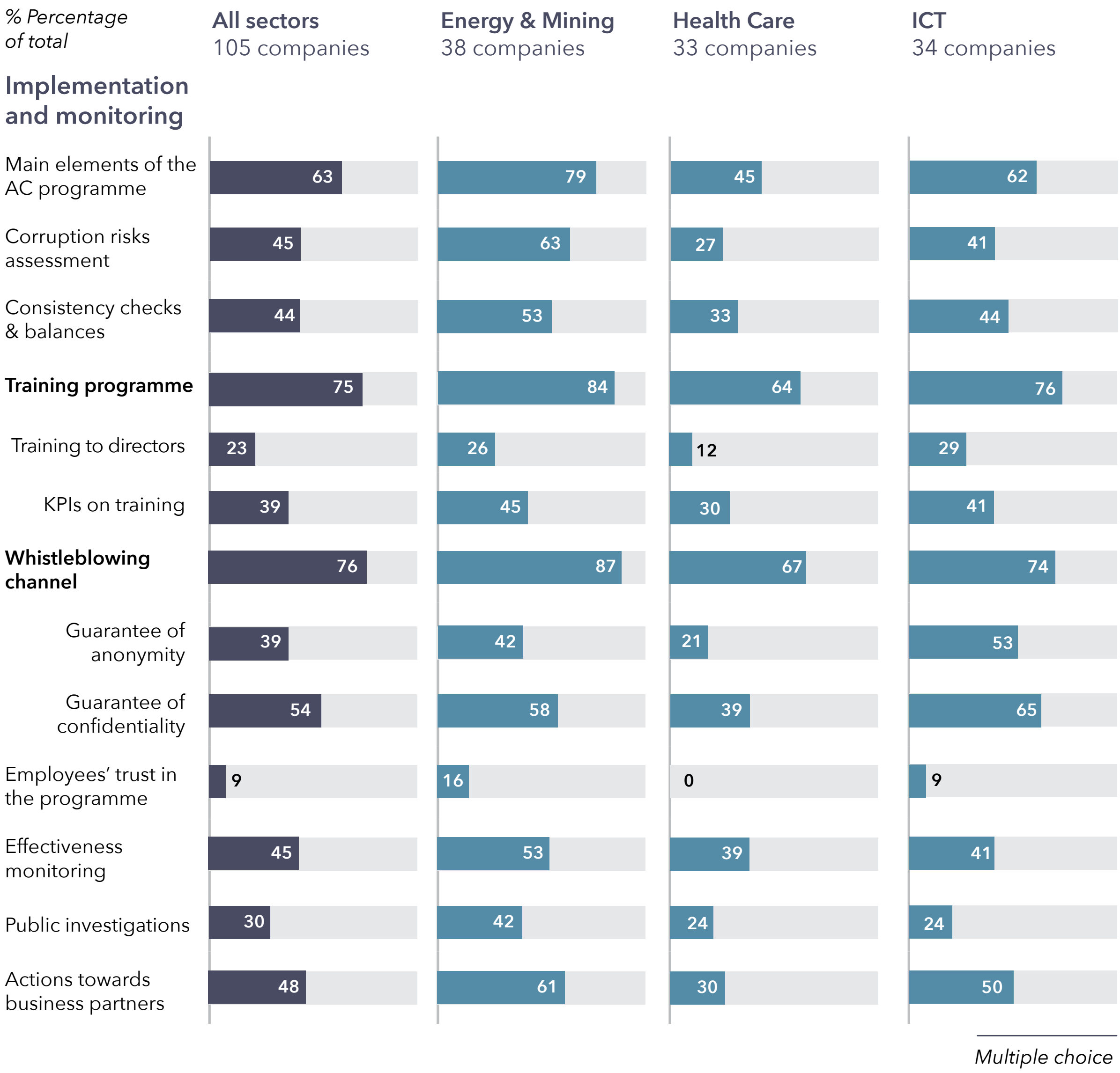
Risks of corruption are universal, and therefore the data is provided for all sectors.

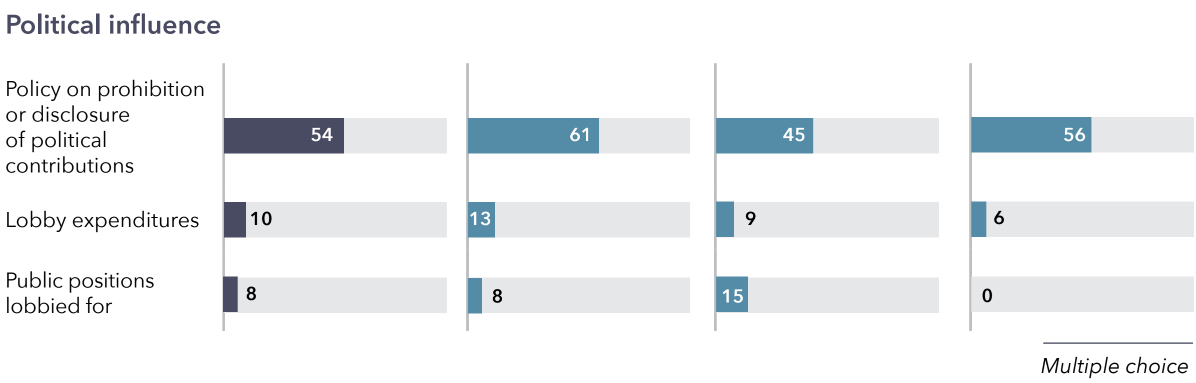
The results of the assessments show a high level of reporting on commitment against bribery (91%), whistleblowing channels (76%), training programmes (75%) and rules on gifts and hospitality (73%). Perhaps surprisingly, relatively fewer companies actually explain the main elements of their anti-corruption programme (62%). Likewise, the applicability of companies' rules to third parties is explained by 60% with respect to business partners, and 43% for agents, advisors and intermediaries. Even lower numbers have been recorded for information about the implementation and evaluation of the system, with 45% of companies providing information about both their assessment of corruption risks and their assessment of the effectiveness of the programme as such, and 44% describing consistency checks and balances.

Information on political influence represents a different set of information. 54% of companies disclose their policies on either prohibition or disclosure of political contributions. However, very few companies disclose information on their efforts to influence public policies. 10% disclose their lobby expenditure and 8% describe what they lobby for.



Multiple choice


% Percentage of total
All sectors 105 companies
Energy & Mining 38 companies
Health Care 33 companies
ICT 34 companies
Implementation and monitoring
Main elements of the AC programme 63 79 45 62
Corruption risks assessment 45 63 27 41
Consistency checks & balances 44 53 33 44
Training programme 75 84 64 76
Training to directors 23 26 12 29
KPIs on training 39 45 30 41
Whistleblowing channel 76 87 67 74
Guarantee of anonymity 39 42 21 53
Guarantee of confidentiality 54 58 39 65
Employees' trust in the programme 9 16 0 9
Effectiveness monitoring 45 53 39 41
Public investigations 30 42 24 24
Actions towards business partners 48 61 30 50
Multiple choice


Political influence
Policy on prohibition or disclosure of political contributions 54 61 45 56
Lobby expenditures 10 13 9 6
Public positions lobbied for 8 8 15 0
Multiple choice

Example from practice: Bayer

Bayer's report provides an example of disclosure that meets criteria applied in research for disclosure of political influence. Please note that the research did not assess the consistency of the reported positions with companies' declared goals, nor if they corresponded to what companies actually lobbied for.

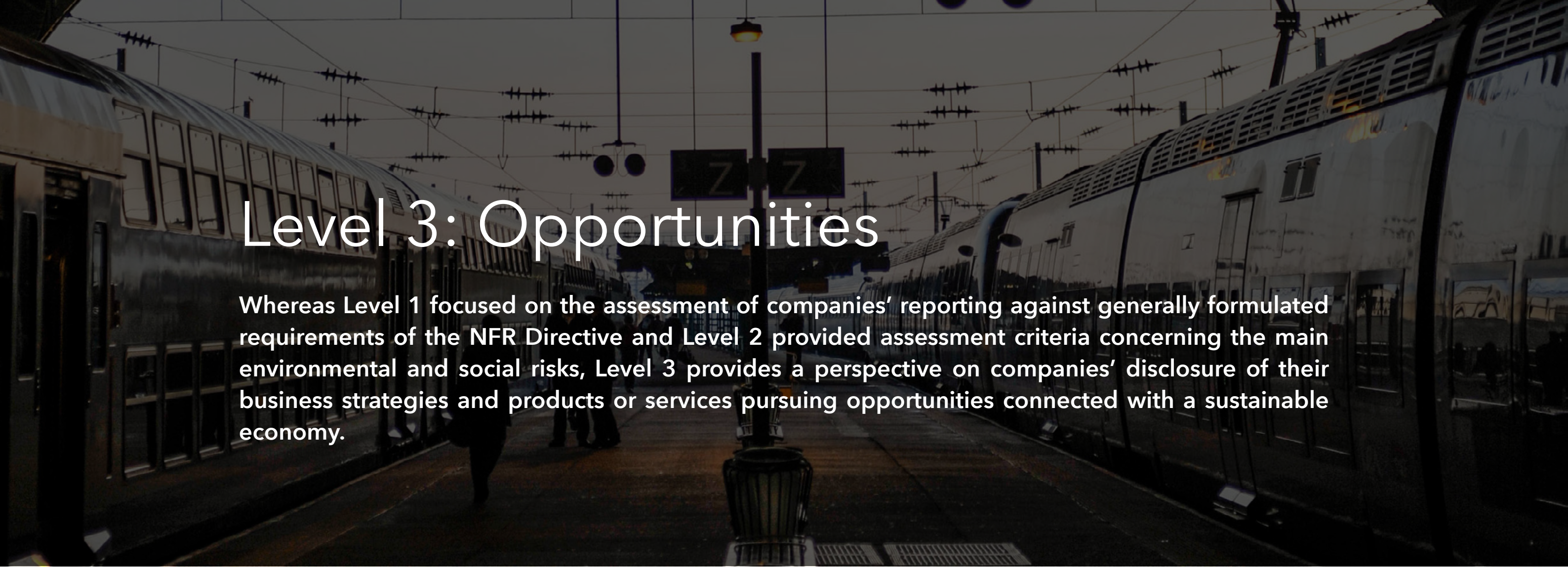
Within its Integrated Annual Report, Bayer refers to a "Code of Conduct for Responsible Lobbying" and provides three links to its webpage with specific information on political engagement and political positions. The Bayer webpage shows details of its political positions on Animal studies, Brexit, Energy Transition, and Financial, Gender & Diversity, Genome Editing, Innovation, IP, Policymaking, Digital, and Trade issues.

For example, Bayer advocates for the harmonization and continuity of EU legislation in the field of healthcare in the UK, is opposed to a Financial Transaction Tax, and supports the focus on cogeneration as part of the energy transition to reach the goal of the Paris Agreement. Bayer backs the position to not alter the human germline, maintains that "Hereditary alterations are the line that should not be crossed. However, non-germline DNA changes in humans are already today ethically justified.." In the Trade area Bayer expresses support for a Multilateral Investment Court in order to balance the rights of investors and states.

The Integrated Report further indicates that no direct direct donations were made to political parties, politicians or candidates for political office in 2017, and that in the U.S. some employees use the Bayer Corporation Political Action Committee to support legislative candidates through private donations, which are reported to the U.S. Federal Election Commission (link is provided). Furthermore, it indicates that some associations of which it is a member make donations on their own initiative. However, no further details are provided.

Bayer also provides information on the existence of its 6 lobby offices and provides a summary of their costs. It refers to EU and U.S. transparency registers for further details of costs, employee numbers and other statistics required in each country.

For further information, see Bayer's Integrated Annual Report 2017.



Level 3: Opportunities

Whereas Level 1 focused on the assessment of companies' reporting against generally formulated requirements of the NFR Directive and Level 2 provided assessment criteria concerning the main environmental and social risks, Level 3 provides a perspective on companies' disclosure of their business strategies and products or services pursuing opportunities connected with a sustainable economy.

Criteria in this level have been designed to examine if companies substantiate general information on their sustainability-related business strategies with quantified economic data. This information is provided generally for any type of strategy as well as specifically for selected issues material in analysed sectors. Selection of criteria and issues have been inspired by the methodology being developed by Mirova, a responsible investment subsidiary of French asset manager Natixis, and by SASB standards.

Only business strategies have been reflected in this Level. Philanthropic and non-profit activities have been excluded. Likewise, companies efforts to reduce their sustainability footprint were not considered, because they were subject to the assessment of risks and impacts in Level 2.

A majority of companies indicate in their reports that they have such strategies. Significantly less companies provide information that allow understanding of their economic importance. In addition, the disclosure of economic and performance indicators differs among industries. In Energy sector 74% of companies report on their strategies and 50% disclose KPIs but only 37% indicate the share of these strategies in company's portfolio and 29% the revenues they generate. In other sectors, this gap is much starker, with only a small fraction of companies provide data on performance.

On the other hand companies are more ready to disclose information on investments and R&D. In the environmental area it was 35% companies (compared to 45% that indicate their strategies) all sectors included, and 46% in the social area (compared to 55% that indicate their strategies)

The second part of the table below provides data on most common sustainable business opportunities relevant to the three sectors. In the Energy sector, this concerns renewable energy systems, which covers both production, distribution and infrastructure for renewable energy as well as for example sales and installations of renewable energy systems to business clients and end consumers. In the Health Care sector, we provide numbers for two issues: innovative medicine and access to medicine. With respect to the latter, we have considered strategies that were not necessarily profit-driven, as long as they constituted part of the core business rather than just philanthropy. In the ICT sector, we focused on any products and services which main benefit for clients concerns reducing adverse sustainability impacts (and associated costs such as in case of energy consumption) or facilitating clients' own sustainability strategies.

% Percentage of total

Strategies relating to environmental areas

	All sectors 105 companies	**Energy & Mining** 38 companies	**Health Care** 33 companies	**ICT** 34 companies
Issue addressed	45	74	3	53
KPIs	25	50	0	21
Targets	26	61	0	12
% in portfolio	15	37	0	6
Revenues	11	29	0	3
Impact	26	53	0	21
Investments or R&D	35	66	0	35

Multiple choice

Strategies relating to social areas

	All sectors 105 companies	**Energy & Mining** 38 companies	**Health Care** 33 companies	**ICT** 34 companies
Issue addressed	55	53	73	41
KPIs	12	26	0	9
Targets	20	29	21	9
% in portfolio	0	0	0	0
Revenues	9	11	15	0
Impact	22	29	18	18
Investments or R&D	46	47	67	24

Multiple choice

	Energy & Mining Renewable Energy Systems	**Health Care** Access to Medicine	**Health Care** Innovative medicine (personalised medicine, genome, disruptive technologies)	**ICT** ICTs for Sustainable Development & solutions (reducing negative environmental impact, etc.)
Issue addressed	68	56	45	53
KPIs	37	3	3	9
Targets	50	6	12	15
% in portfolio	39	3	0	6
Revenues	21	9	3	0
Impact	47	3	15	21
Investments or R&D	61	55	30	29

Multiple choice

Conclusion and recommendations

Conclusion and recommendations

This research assessed whether a selection of 105 European companies are providing the type of information explicitly required by the NFR Directive; i.e. the description of policies and due diligence processes, outcomes, principal risks (including with respect to business relationships), and KPIs. It also examined if the disclosed information was specific enough to allow an understanding of companies' impact and strategy. In addition, the research analysed companies' disclosure on particular important environmental and human rights issues and on their anti-corruption programmes, for which it provided a specific set of criteria connecting the requirements of the NFR Directive with the emerging consensus on what constitutes material information for these issues.

The analysis of the gathered data points consistently to one overarching conclusion. The vast majority of companies acknowledge in their reports the importance of environmental and social issues. However, more often than not this information is not clear in terms of concrete issues, targets and principal risks. The general information that most companies provide does not allow investors and other actors to understand companies' impacts and by extension their development, performance and position. The solution to this predicament is to enhance the specificity of the NFR Directive with regard to what companies should disclose. The results of our research suggest the need for the standardisation of disclosure and clarifications on when companies ought to report such information with respect to several key issues:

With respect to climate change, legislation should clarify the requirement for the disclosure of companies' long-term transition plans to a zero-carbon economy and their economic implications, in line with the TCFD Recommendations.

For other environmental issues, it is worth specifying which concrete information is material. This can include:

→ specific risks associated with pollution;

→ pollution generated by transportation, which is is rarely considered, despite being a material issue from the perspective of society;

→ water consumption and risks in water scarce and borderline areas;

→ adverse impacts on land use;

→ identification of any concrete biodiversity risks and impacts, and their management.

In order to drive better transparency that leads to substantial positive change regarding human rights, legislation needs to focus on clear indicators such as human rights due diligence and disclosure in the context of concrete risks and incidents and their management. In this respect, the legislation should clarify that companies:

→ need to assess the impact of their operations and value chain on other people, rather than looking at risks to business;

→ should explain in their disclosure how they prioritise their salient human rights issues for action, by determining the severity and likelihood of impact;

→ disclose how they are managing these specific risks, according to the key components of the due diligence process outlined in the UN Guiding Principles on Business and Human Rights.

These requirements can be further specified in guidance with regard to concrete human rights risks. **Concerning supply chains, greater transparency would be desirable about high-risk supply chains** and the results, consequences and limitations of audits.

The legislation could more forcibly require disclosure of the main elements of the anti-corruption programme and its application to third parties. Similarly, in order to ensure transparency to investors and accountability to stakeholders, companies could be required to disclose the public positions they lobby for.

Finally, the **research indicated that there is a need to develop a structure for non-financial reporting** that meets both the requirements of standardisation and flexibility, and that facilitates the integration of non-financial information with companies' understanding and reporting on value creation.

In turn, these specifications would enhance companies' accountability and make enforcement possible. Further changes that would improve the implementation of the NFR Directive and that ought to be considered include:

→ stronger monitoring by national governments;

→ publishing a list of companies that are covered under the legislation and their reports to enable third party monitoring;

→ providing options to civil society to initiate enforcement;

→ clarifying liability for non-compliance in national transpositions;

→ coordination with national legislations such as the French duty of vigilance law.

References

1. EU Commission's Action Plan on Financing Sustainable Growth available here. Legislative proposals as a follow-up to its Action Plan on Financing Sustainable Growth on 24 May 2018 available here

2. Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095.

3. The NFR Directive provided EU Member States with flexibility to specify these rules. Some States, including Denmark and Sweden opted to expand the scope of their application to smaller companies. Some countries, such as UK, requires these disclosures to be made in the annual report, whereas others, such as Germany, allows companies to provide the information in a separate report. Finally some countries, in particular France, took the opportunity specify certain ESG aspects that should be included in companies' reports. Nevertheless, non-financial statements of all companies in the EU should meet the above-mentioned requirements.

4. United Nations Guiding Principles on Business and Human Rights (2011). Available at http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf.

5. Communication from the European Commission – Guidelines on non-financial reporting (methodology for reporting non-financial information) C/2017/4234. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017XC0705%2801%29.

6. For example, according to the latest Accounting for Sustainability report entitled 'Financing our Future' few of the largest companies in the world acknowledge climate change as a financial risk in their annual reports (72% of the N100 do not, and 52% of the G250 do not). Of the minority that do acknowledge climate risk, very few attempt to quantify or model the business value at stake.

7. The Paris Agreement is part of the United Nations Framework Convention on Climate Change. It sets a goal of keeping the increase in global average temperature well below 2°C above pre-industrial levels and to limit the increase to to 1.5 °C. 184 states have become party to the agreement, which requires them to determine and report on a plan to meet this target. For further details are available at https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement.

8. The UN Guiding Principles Reporting Framework has been developed by Shift and Mazars as as a guidance for companies how to report on human rights issues in line with their responsibility to respect human rights set out in the UN Guiding Principles on Business and Human Rights. For further details see https://www.ungpreporting.org.

9. Comparing the implementation of the EU Non-Financial Reporting Directive in the UK, Germany, France and Italy http://www.purposeofcorporation.org/comparing-the-eu-non-financial-reporting-directive.pdf

10. Presentation by Econsense & Global Compact Network Germany at the Open stakeholder meeting on non-financial disclosures organised by the European Commission on 18 October 2018:https://ec.europa.eu/info/sites/info/files/business_economy_euro/events/documents/finance-events-181018-presentation-econsense_en.pdf

11. UNGPs underline that corporate responsibility to respect human rights requires companies to have in place policies and processes through which they can both know and show that they respect human rights in practice. Particular attention should be paid to the disclosure of identified human rights risks and information about mitigation measures regarding operations and business relationships.

12. See Recitals 6 and 8 of the NFR Directive. The Directive borrowed this term from the UN Guiding Principles on Business and Human Rights, which define commentary to Principle 13 that: *"[a business enterprise's] "business relationships" are understood to include relationships with business partners, entities in its value chain, and any other non-State or State entity directly linked to its business operations, products or services."* https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

13. Rockström, J; Steffen, WL; Noone, K; Persson, Å; Chapin III, FS; Lambin, EF; Lenton, TM; Scheffer, M; et al. (2009), "Planetary Boundaries: Exploring the Safe Operating Space for Humanity", Ecology and Society, 14 (2): 32 . For further information about the concept of planetary boundaries see https://stockholmresilience.org/research/planetary-boundaries.html.

14. Climate change: https://ec.europa.eu/clima/index_en; Resource use and waste: http://ec.europa.eu/environment/circular-economy/index_en.htm; Land use: http://ec.europa.eu/environment/land_use/index_en.htm; Water use and pollution: http://ec.europa.eu/environment/water/index_en.htm; Air pollution: http://ec.europa.eu/environment/air/index_en.htm; Biodiversity: http://ec.europa.eu/environment/nature/index_en.htm. In addition, Recitals of the NFR Directive refer to energy use and greenhouse gas emissions, land use, water use, use of materials, and pollution.

15. Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions, availale at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32010L0075. In 2017, EU Member States approved new air pollution standards, which are set out in a reference document for best available techniques under the this Directive. These new standards will have to be complied with by 2021.

16. Good business: the economic case for protecting human rights. https://www.icar.ngo/publications/2018/11/26/good-business-the-economic-case-for-protecting-human-rights

17. The latest version of this methodology is available at files.transparency.org/content/download/241/968/file/2009_UNGC_Reporting_Guidance_EN.pdf.

Annexes

Formal legal requirements results per country

ENVIRONMENT	Total (105)	Nordic (12)	CEE (13)	Germany (13)	Spain (20)	France (22)	UK (25)
Policies							
Not described	**3%**	0%	0%	0%	0%	5%	8%
Described	**46%**	8%	69%	38%	65%	41%	44%
Key issues and targets specified	**51%**	92%	31%	62%	35%	55%	48%
Due diligence process							
Not described	**63%**	42%	85%	62%	45%	59%	80%
Described	**37%**	58%	15%	38%	55%	41%	20%
Outcomes							
Not described	**10%**	0%	38%	8%	5%	5%	12%
Described	**53%**	33%	38%	54%	55%	77%	48%
Outcomes linked to goals	**36%**	67%	23%	38%	40%	18%	40%
Risks description							
None	**17%**	0%	15%	0%	5%	23%	40%
General	**31%**	17%	46%	46%	35%	18%	32%
Specific	**51%**	83%	38%	54%	60%	59%	28%
Risks related to business partners & supply chains							
Not included	**52%**	33%	92%	38%	30%	64%	56%
Included	**48%**	67%	8%	62%	70%	36%	44%
KPIs							
Not included	**11%**	8%	8%	8%	15%	9%	16%
Included	**52%**	8%	69%	62%	40%	77%	48%
Connected to outcomes	**36%**	83%	23%	31%	45%	14%	36
SOCIAL, EMPLOYEE AND HUMAN RIGHTS							
Policies							
Not described	**8%**	0%	0%	8%	0%	9%	20%
Described	**54%**	33%	85%	62%	70%	55%	32%
Key issues and targets specified	**38%**	67%	15%	31%	30%	36%	48%
Due diligence process							
Not described	**63%**	25%	100%	54%	60%	55%	76%
Described	**37%**	75%	0%	46%	40%	45%	24%
Outcomes							
Not described	**34%**	8%	77%	23%	25%	36%	36%
Described	**50%**	67%	8%	77%	50%	59%	40%
Outcomes linked to goals	**16%**	25%	15%	0%	25%	5%	24%

	Total	Nordic	CEE	Germany	Spain	France	UK
Risks description							
None	**20%**	25%	15%	8%	15%	27%	24%
General	**45%**	17%	62%	77%	50%	27%	44%
Specific	**35%**	58%	23%	15%	35%	45%	32%
Risks related to business partners & supply chains							
Not included	**45%**	25%	92%	23%	35%	50%	44%
Included	**55%**	75%	8%	77%	65%	50%	56%
KPIs							
Not included	**30%**	25%	8%	23%	25%	41%	44%
Included	**53%**	42%	85%	77%	50%	55%	32%
Connected to outcomes	**16%**	33%	8%	0%	25%	5%	24%

	Total	Nordic	CEE	Germany	Spain	France	UK
ANTI-CORRUPTION							
Policies							
Not described	**6%**	0%	0%	0%	10%	9%	8%
Described	**57%**	25%	85%	77%	55%	64%	44%
Key issues and targets specified	**37%**	75%	15%	23%	35%	27%	48%
Due diligence process							
Not described	**57%**	17%	85%	38%	60%	64%	56%
Described	**43%**	83%	15%	62%	40%	36%	44%
Outcomes							
Not described	**44%**	17%	85%	15%	30%	59%	48%
Described	**45%**	58%	0%	85%	55%	41%	36%
Outcomes linked to goals	**11%**	25%	15%	0%	15%	0%	16%
Risks description							
None	**25%**	8%	15%	8%	30%	32%	36%
General	**40%**	33%	54%	69%	30%	36%	32%
Specific	**35%**	58%	31%	23%	40%	32%	32%
Risks related to business partners & supply chains							
Not included	**50%**	17%	85%	38%	35%	64%	56%
Included	**50%**	83%	15%	62%	65%	36%	44%
KPIs							
Not included	**48%**	42%	8%	38%	50%	73%	52%
Included	**41%**	33%	92%	54%	30%	27%	32%
Connected to outcomes	**11%**	25%	0%	8%	20%	0%	16%

Climate change results per country

CLIMATE CHANGE	Total (105)	Nordic (12)	CEE (13)	Germany (13)	Spain (20)	France (22)	UK (25)
Policy							
Not described	**22%**	0%	54%	8%	21%	18%	24%
Described	**29%**	33%	38%	31%	21%	32%	28%
Key issues and targets specified	**50%**	67%	8%	62%	63%	50%	48%
Quality of policy disclosure							
Climate target	**52%**	83%	23%	69%	68%	45%	44%
Alignment with Paris targets	**36%**	58%	8%	54%	42%	36%	28%
Actions taken	**56%**	83%	8%	85%	68%	50%	52%
Outcomes	**51%**	83%	8%	69%	63%	50%	44%
Risks description (TCFD criteria)	*Only Energy sector (38 companies)*						
Short, medium, and long-term horizons	**8%**	17%	0%	8%	21%	14%	16%
Physical risks	**14%**	33%	0%	23%	37%	36%	32%
Transition risks	**22%**	58%	8%	38%	47%	27%	24%
Effects on company's business and strategy	**25%**	50%	15%	54%	58%	45%	32%
Effects on financial planning	**16%**	50%	8%	38%	37%	27%	16%
Strategy to manage risks	**21%**	50%	8%	77%	63%	45%	20%
Climate-related scenarios used by company	**11%**	25%	0%	23%	32%	14%	24%
Below 2°C scenario included	**10%**	25%	0%	15%	11%	14%	20%
KPIs							
Renewable Energy	**49%**	58%	54%	46%	32%	36%	28%
GHG (aggregated)	**82%**	92% (58%)	85% (85%)	85% (15%)	79% (68%)	82% (68%)	80% (60%)
GHG Scope 3	**52%**	58%	31%	69%	63%	59%	40%
Intensity	**54%**	50%	38%	69%	58%	55%	68%

Human rights results per country

SOCIAL, EMPLOYEE AND HUMAN RIGHTS	Total (105)	Nordic (12)	CEE (13)	Germany (13)	Spain (20)	France (22)	UK (25)
Policies & procedures							
None	**10%**	0%	8%	8%	5%	9%	24%
Commitment	**45%**	25%	62%	23%	42%	64%	44%
Commitment to all human rights	**45%**	75%	31%	69%	58%	27%	32%
Humarn rigths due diligence process	**34%**	67%	0%	46%	34%	45%	24%
Salient risks							
None	**27%**	17%	31%	8%	26%	32%	36%
Vague	**48%**	33%	62%	62%	58%	45%	36%
Clear	**18%**	17%	8%	31%	16%	18%	20%
Clear and explaining impacts	**8%**	33%	0%	0%	5%	5%	8%
Determination and description of salient issues							
Explanation of determination of salient issues	**46%**	67%	0%	69%	58%	32%	52%
Choice of focal geographies	**16%**	58%	0%	23%	11%	23%	0%
Business partners covered	**55%**	75%	38%	85%	63%	32%	56%
Concrete operations identified	**24%**	42%	8%	23%	16%	27%	28%
Management of salient issues							
Policies responding to identified risks	**43%**	67%	23%	62%	63%	27%	52%
Stakeholder engagement	**22%**	67%	0%	15%	37%	9%	16%
Changes in the nature of the risk	**9%**	42%	0%	8%	11%	0%	4%
Actions taken	**40%**	67%	8%	46%	63%	36%	32%
Requirements placed on business partners	**36%**	75%	15%	31%	47%	18%	40%
Evidence of effective management	**9%**	17%	0%	8%	11%	0%	20%
Systemic initiatives	**22%**	50%	0%	8%	42%	14%	20%
Grievance mechanisms							
Description	**57%**	92%	0%	69%	84%	50%	56%
Information on remedy	**19%**	50%	0%	15%	37%	9%	12%
Trends and outcomes	**7%**	17%	0%	0%	5%	5%	12%

Materiality matrix

Environment

Climate Change	✓	✓	✓
Renewable vs non-renewable energy	✓	✓	✓
GHG emissions: total	✓	✓	✓
GHG emissions: intensity	✓	✓	✓
Deforestation			
Off-setting (e.g. reforestation)	✓		
Impact of use of the goods and services the company produces	✓		
Use of natural resources	✓	✓	✓
Use of water	✓	✓	
Use of land	✓		
Use of raw materials			✓
Nitrogen & phosphorus			
Polluting discharges	✓	✓	✓
Discharges to air	✓		
Discharges to water	✓		
Discharges to soil	✓		
Discharges due to transportation	✓	✓	✓
Impact of use of the goods and services the company produces			
Waste	✓	✓	✓
Waste from production	✓	✓	
Waste associated with products (packaging and end-of-life recyclability)		✓*	✓*
Waste from production recycled /reused (%)			
Hazardous waste	✓	✓	✓
Use of recycled materials			
Biodiversity and conservation	✓*	✓*	
Operations in High Conservation Value Areas	✓*		
Pesticides			
Habitat, landscape or environmental functions conversion	✓*		
Sustainable Forestry			
Sustainable Agriculture			
Marine & freshwater	✓*		
Transportation & alien species			

Energy Health Care ICT

Human Rights, Employee & Social Matters

Employee and workforce matters	✓	✓	✓
Workforce statistics	✓	✓	✓
Salaries	✓	✓	✓
Equal opportunities	✓	✓	✓
Freedom of association	✓	✓	✓
Health and safety	✓	✓	✓
Ability to express concerns without fear of repercussion	✓	✓	✓
General human rights reporting criteria	✓	✓	✓
Supply chains management	✓	✓	✓
Small scale suppliers / farmers			
Indigenous peoples' rights	✓*		
Conflict resources	✓*		✓
Land acquisition	✓*		
Data protection / Digital rights			✓*
High risk areas for civil and political rights	✓*	✓*	✓*

Anti-corruption & Good governance

Anti-corruption	✓	✓	✓
Disclosure of anti-corruption programmes	✓	✓	✓
Disclosure of companies' structure	✓	✓	✓
Good governance	✓	✓	✓
Board diversity	✓	✓	✓
Employee engagement in governance	✓	✓	✓
ESG governance	✓	✓	✓
Revolving-doors rules for senior managerment	✓	✓	✓
Political influence	✓	✓	✓
Free competition	✓	✓	✓
General whistleblowing channel	✓	✓	✓
Tax policies	✓	✓	✓
Profits before taxes	✓	✓	✓
Incomes taxes paid	✓	✓	✓
Public subsidies	✓	✓	✓

* Please note that these are not material issues for every company. It depends on the company's business model and operational context. The fact that they have been marked merely indicates that they have been included in the analysis of companies in a given sector.

List of companies assessed

Energy sector

Spain	Repsol, S.A.
Spain	Enagas, S.A.
Spain	Endesa, Sociedad Anonima
Spain	Iberdrola, S.A.
Spain	Naturgy Energy Group, S.A.
Spain	Red Electrica Corporacion, S.A.
France	Total
France	Schlumberger
France	EDF
France	Engie
France	Imerys
France	CGG
France	Maurel et Prom
France	Bourbon Corp.
UK	Royal Dutch Shell PLC
UK	BP PLC
UK	Rio Tinto PLC
UK	SSE PLC
UK	Hunting PLC
UK	Hochschild mining PLC
UK	Nostrum Oil & Gas PLC
UK	Anglo Asian Mining PLC
Germany	E.ON
Germany	RWE
Germany	EnBW
Germany	MVV Energie AG
Denmark	Vestas Wind Systems A/S
Sweden	Lundin Petroleum AB
Finland	Neste Oyj
Finland	Fortum Oyj
Poland	Jastrzębska Spółka Węglowa
Poland	Zespół Elektrowni Pątnów Adamów Konin
Poland	Polskie Górnictwo Naftowe i Gazownictwo
Poland	Tauron Polska Energia
Poland	Energa
Poland	LW Bogdanka
Poland	Polska Grupa Energetycza
Czech Rep	ČEZ

Health Care sector

Spain	Almirall, S.A.
Spain	Faes Farma, S.A.
Spain	Grifols, S.A.
Spain	Laboratorio Reig Jofre, S.A.
Spain	Laboratorios Farmaceuticos ROVI, S.A.
Spain	Pharma Mar, S.A.
Spain	Prim, S.A.
France	Biomerieux
France	LNA Sante
France	Bastide Le Confort Medical
France	Sanofi
France	Ipsen
France	Vetoquinol
UK	Stallergenes Greer
UK	Glaxosmithkline PLC
UK	Astrazeneca PLC
UK	Smith & Nephew PLC
UK	NMC Health PLC
UK	Indivior PLC
UK	Advanced Medical Solutions Group PLC
UK	Caretech Holdings PLC
UK	Cello Health PLC
Germany	Sartorius Sted Bio
Germany	Bayer
Germany	Merck
Germany	Stada Arzneimittel AG
Germany	Beiersdorf AG
Denmark	Novo Nordisk
Finland	Orion OYJ
Denmark	Lundbeck
Sweden	Getinge AB
Poland	Krka Polska
Poland	ENEL-MED

ICT sector

Spain	Indra Sistemas, S.A.
Spain	Amper, S.A.
Spain	Amadeus IT Group, S.A.
Spain	Cellnex Telecom, S.A.
Spain	Telefonica, S.A.
Spain	Grupo Ezentis, S.A.
Spain	Global Dominion Access, S.A.
France	Orange
France	Dassault Systemes
France	Capgemini
France	Altran Technologies
France	Infotel
France	Micropole
France	Atos
France	Devoteam
UK	Vodafone group PLC
UK	BT Group PLC
UK	Sage Group PLC
UK	Micro Focus International PLC
UK	Computacenter PLC
UK	Gamma Communications PLC
UK	NCC Group PLC
UK	RM PLC
Germany	SAP
Germany	Deutsche Telekom AG
Germany	Software AG
Germany	United Internet AG
Denmark	Simcorp
Sweden	Tele2
Sweden	Ericsson
Finland	Nokia Oyj
Poland	Orange Polska
Poland	Comarch
Czech Rep	O2