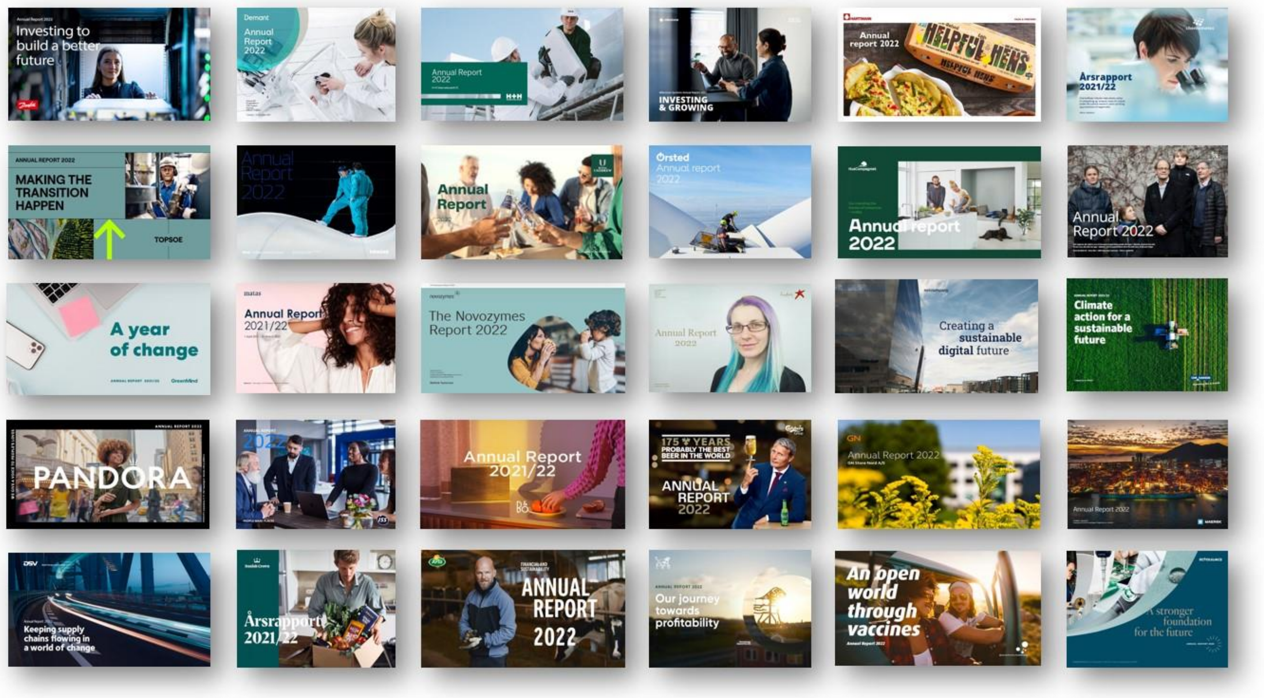
10 trends in corporate reporting:

Integrating ESG as a central part of corporate reporting

By CEO and communications advisor Lars Sandstrøm, Corporate Relations



ESG has become a key element in corporate reporting. It is included in the key figures, in the business model and strategy, as a significant driver for development and growth, and as a mean to secure the company's license to operate. In essence, ESG affects many of the current trends in corporate reporting.

There are of course some differences from one company to the next in the efforts that are put into corporate reporting. But though industry and size also matter, the amount of compliance and standards are to a large degree comparable at least in the western world. At the moment, much discussion and planning in large companies are regarding EU's Corporate Sustainability Reporting Directive (CSRD), but this directive is already hitting smaller companies in the value chain as these are asked to comply with a number of new policies and standards.

However, sustainability and ESG is not the only topics on the agenda for companies that prioritise corporate reporting as a means to a value creating communication with a broad group of stakeholders. Corporate reporting needs to present a concise and transparent business model and strategy, it must demonstrate the capacity to develop and grow in agreement with internal and external surroundings, it should deliver guidance for financial stakeholders, and must present risks as challenges as well as opportunities to bring the full picture of the company.

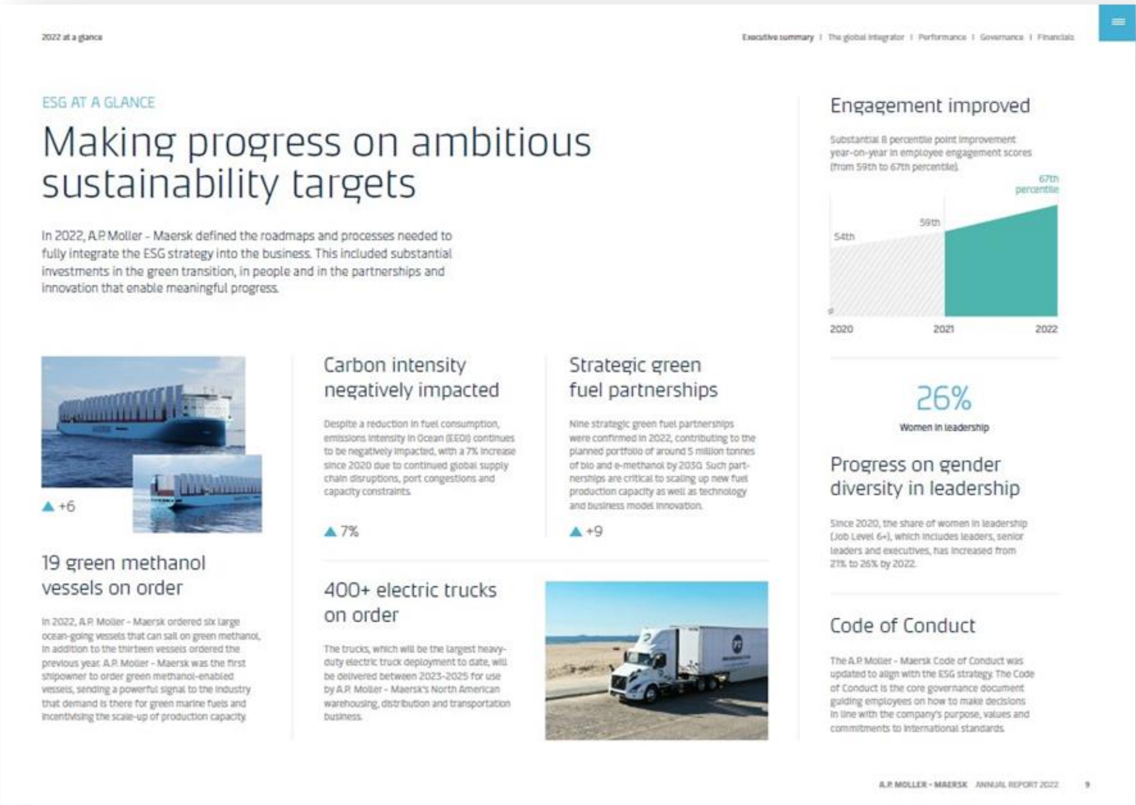
This is all complex. But done well, corporate reporting will play an important role in both investor relations and corporate communication, it will be a tool to ensure a true and fair evaluation and it will serve as a tool to build relations and image. The ten trends presented below is a testament of the focus I see demonstrated in corporate reporting today.

#1 Sustainability as part of the business core

Sustainability – typically included in an ESG framework – is increasingly an integrated part of corporate reporting. It is communicated as an essential part of the company purpose and business model, it is communicated as a major driver for value creation, it is listed as specific posts in the key figures, and it is handled as a significant part of risk management and governance.

Although, most companies are still publishing a separate ESG, CSR or sustainability report, they are also making sure to demonstrate that sustainability is not just a trendy idea or a fancy brand story. Sustainability is part of the strategic initiatives, it is measured, governed by policies, progress is monitored, and results are reported and compared to targets and benchmarks. Also, sustainability is a key element in evaluating which partners and customers you want to do business with.

All this is evident when you look at the most progressive companies' corporate reporting.


2022 at a glance

Executive summary | The global integrator | Performance | Governance | Financials

ESG AT A GLANCE

Making progress on ambitious sustainability targets

In 2022, A.P. Moller - Maersk defined the roadmaps and processes needed to fully integrate the ESG strategy into the business. This included substantial investments in the green transition, in people and in the partnerships and innovation that enable meaningful progress.

▲ +6

19 green methanol vessels on order

In 2022, A.P. Moller - Maersk ordered six large ocean-going vessels that can sail on green methanol, in addition to the thirteen vessels ordered the previous year. A.P. Moller - Maersk was the first shipowner to order green methanol-enabled vessels, sending a powerful signal to the industry that demand is there for green marine fuels and incentivising the scale-up of production capacity.

Carbon intensity negatively impacted

Despite a reduction in fuel consumption, emissions intensity in Ocean (EEOI) continues to be negatively impacted, with a 7% increase since 2020 due to continued global supply chain disruptions, port congestions and capacity constraints.

▲ 7%

Strategic green fuel partnerships

Nine strategic green fuel partnerships were confirmed in 2022, contributing to the planned portfolio of around 5 million tonnes of bio and e-methanol by 2030. Such partnerships are critical to scaling up new fuel production capacity as well as technology and business model innovation.

▲ +9

400+ electric trucks on order

The trucks, which will be the largest heavy-duty electric truck deployment to date, will be delivered between 2023-2025 for use by A.P. Moller - Maersk's North American warehousing, distribution and transportation business.

Engagement improved

Substantial 8 percentile point improvement year-on-year in employee engagement scores (from 59th to 67th percentile).

26%

Women in leadership

Progress on gender diversity in leadership

Since 2020, the share of women in leadership (Job Level 6+), which includes leaders, senior leaders and executives, has increased from 21% to 26% by 2022.

Code of Conduct

The A.P. Moller - Maersk Code of Conduct was updated to align with the ESG strategy. The Code of Conduct is the core governance document guiding employees on how to make decisions in line with the company's purpose, values and commitments to international standards.

A.P. MOLLER - MAERSK ANNUAL REPORT 2022 9

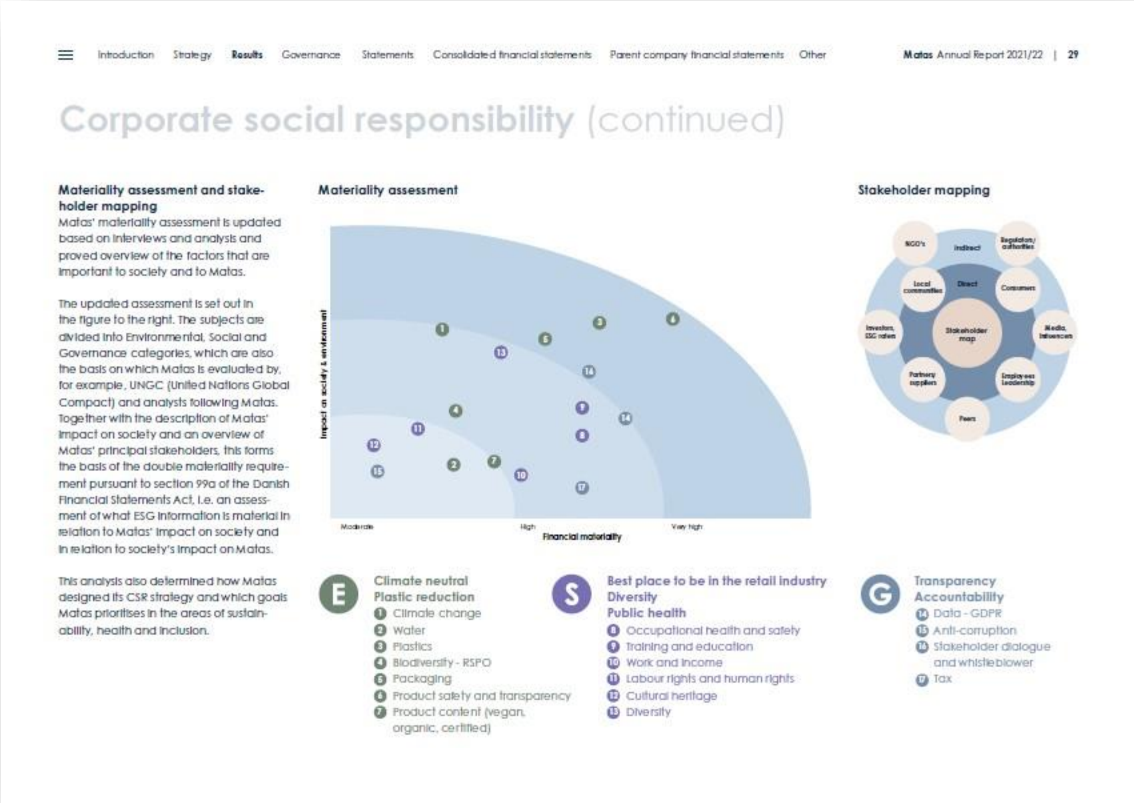
ESG is a central part of corporate reporting and the "at a glance" at A. P. Møller-Maersk.

#2 Focus on materiality and stakeholders

With a more complex compliance and increasing demands from stakeholders it seems like corporate reports have tended to grow in number of pages and topics covered. Especially, the ESG/sustainability part is taking up more space. However, by assessing materiality and critical stakeholders, management will get a concise direction for the review of operations and value creation. Not all sustainability measures going on in a company are equally important, and all stakeholders do not carry the same weight when it comes to sustainability reporting.

Surely, the materiality assessment is part of compliance. But there are many ways to do it. Most companies are using *double materiality assessment*, which means that they report not only on how sustainability issues might create financial risks for the company (financial materiality), but also on the company's own impacts on people and the environment (impact materiality).

When it comes to the stakeholder assessment – or analysis – the leeway is bigger. Some say very little about stakeholders and some are doing an extended analysis of critical stakeholders' position and roles in relation to ESG issues and in relation to the business model and strategy execution.



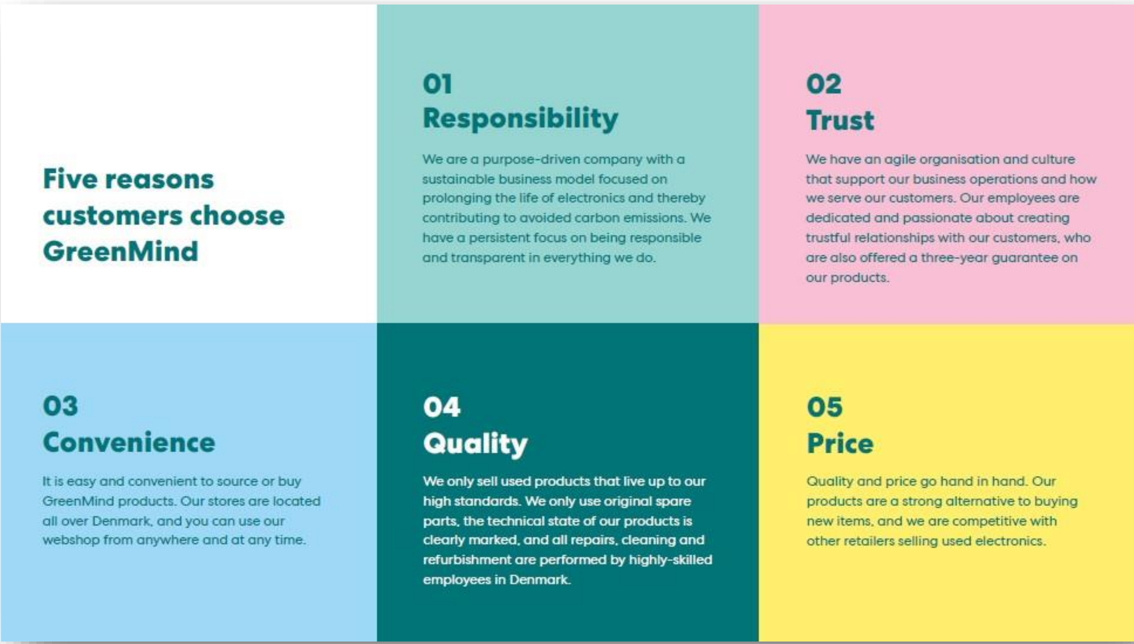
The materiality assessment and stakeholder mapping are illustrated with a transparent infographics in the annual report of Matas.

#3 A stakeholder-oriented equity story

You could say that all the company communicate is part of the common equity story. You could even say that the equity story – like a brand image – is co-created by all internal and external stakeholders. However, many companies are also directing readers' attention to an official equity story in the annual report.

This equity story is often directed towards potential investors with a headline like: *Why invest in our company?* But some are presenting a broader equity story communicating why different stakeholders should choose to have relations with the company. In this way the equity story is taking form of a corporate story.

There are differences in the building blocks of the equity story. Some have a financial focus with technical arguments for an investment, while other have a more holistic focus including elements like culture, working conditions, products and services, sustainability actions, management, ethics, and image. Elements that are typically directed towards customers, partners, political decision makers and employees.



The equity story of GreenMind is presented in five easy-to-understand reasons to choose products and services from the company.

#4 Stronger focus on business model and strategy

The communication about business model and strategy is taking a more and more prominent role in corporate reporting.

The business model is typically describing the resources/input that companies are relying on, the operations (the core business) that defines the unique offering, and the value creation/output or impact that is the result of the business operations. Often some kind of value or supply chain is included in the model as well as the purpose. It is a clear trend that the business model visualization and as well as description has been improved for many companies in recent years, and the business model also serves as a foundation to understand the strategic priorities and the focus on ESG.

Also, the corporate strategy has come to play an essential role in the annual report. In many cases the strategy section looks backward (reporting on achievements) as well as forward, and it serves as a relevant starting point for reporting on results and measures. Some years ago, management was in general a bit reluctant on being open and transparent in revealing details on targets and planned actions. But the consensus now seems to be that a well-described strategy makes it easier for investors and other stakeholders to evaluate the company and its capabilities to meet future demands for products and services in specific markets.

Bang & Olufsen is on the path of a transformation and describes the progress on the strategy execution.

#5 More uncertainty, better guidance

Maybe, you would not believe it. But it seems like companies are using more time on the guidance of financial and business development in times of uncertainty and turbulence than otherwise – and their guidance have become more substantial and detailed in later years. You might even think that management would have greater challenges in predicting the future.

There is definitely a need for more guidance, and regulators and auditors have sharpened their look at how companies describe their expectations for the future. But investors and other stakeholders are also demanding more transparency on how companies' future results are affected by internal and external factors.

Many companies are striving to meet these demands and have developed quite technical prediction models to describe how different scenarios can affect key figures. This might not be new, but as readers of annual reports we are getting more insights into what these models have calculated and into which uncertainties are included in these calculations.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Follow up on 2022 guidance

	Revenue	EBITDA before special items	Operating profit (EBIT)	Financial leverage
Outlook for 2022 Initial financial outlook for 2022 issued at 5 November 2021.	4,350 - 4,650 m(DKK)	420 - 450 m(DKK)	370 - 400 m(DKK)	Expected leverage ratio below 2.0x net debt to last twelve months EBITDA before special items (bsi) at the end of 2022.
Downgrade in April 2022 On the 28 April 2022, we downgraded the full-year 2022 guidance due to instant surcharges.	4,250 - 4,550 m(DKK)	370 - 410 m(DKK)	320 - 360 m(DKK)	Expected leverage ratio below 2.25x net debt to last twelve months EBITDA before special items (bsi) at the end of 2022.*
Outlook adjustment in August 2022 On the 18 August 2022, we adjusted the full-year 2022 guidance due to lower than expected sales for 2022 and delayed effects in price adjustments.	4,100 - 4,400 m(DKK)	340 - 360 m(DKK)	265 - 290 m(DKK)	Expected leverage around 2.0x net debt to last twelve months EBITDA before special items (bsi) at the end of 2022.
2022 results Realised 2022 figures came within guidance.	4,330 m(DKK)	348 m(DKK)	268 m(DKK)	Financial gearing 2.2x Net debt to EBITDA bsi (LTM)

* The financial ratio was updated the 22 April along with the announcement of the acquisition of the Factory in Esbjerg.

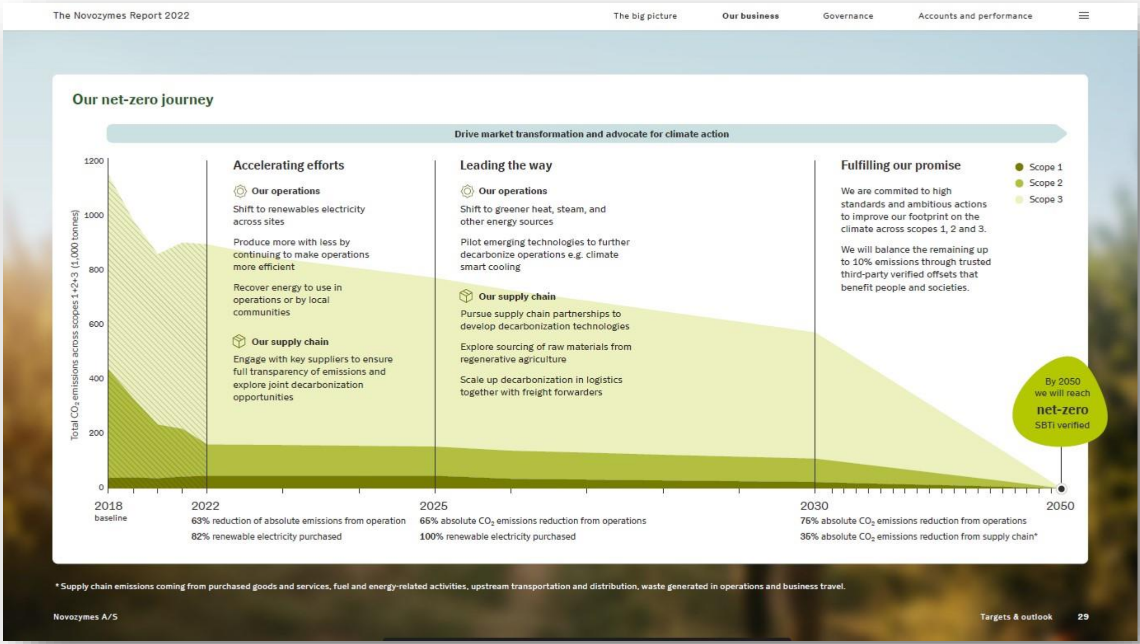
Huscompagniet are not only giving new guidance for the coming year but also follow up on guidance giving during the year.

#6 Clear targets and results on ESG

So far, ESG reporting has been a subject to soft law. These means that most of the reporting in this field have been voluntary and very little has been mandatory. This is about to change with the current implement of EU's Corporate Sustainability Reporting Directive (CSRD).

However, many companies have already gone very far in their reporting on ESG results and measures. E.g., the standards in the Global Reporting Initiative (GRI) are used by more than 10,000 companies worldwide, and in Denmark the ESG guidelines supported by CFA Society Denmark, FSR, and Nasdaq Copenhagen have become very popular as a framework for reporting on this topic.

Most large companies – especially in the western world – have defined and are reporting clear targets for the ESG strategy and are reporting on results and improvements on a year-to-year basis. Often these results are not only internal but are also concerning material parts of the supply chain. And when it comes to greenhouse (GHG) emissions, targets are increasingly science-based to ensure transparency and comparability, and to ensure companies are heading in the direction towards living up to the 2015 Paris Agreement.



Novozymes are very transparent in their communication on targets for and progress in reducing scope 1, 2 and 3 emissions.

#7 Diversity and inclusion are hot topics

Describing initiatives and results in relation to people and culture is an essential part of corporate reporting. Especially, the terms *diversity and inclusion* have been hot topics in corporate reporting in recent years.

The description of results and measures on these terms includes a lot of variety from one company to the next. It is regulatory to describe gender diversity in top management, but diversity is often also reported in regard to race, religion, and nationality and in regard to different types of education, function and types of personality. Also, when it comes to inclusion companies are describing how they help people with disabilities or how they work with NGOs or the local communities to include people in their staff who would otherwise have difficulties getting a meaningful job.

These topics are not just subject to pure storytelling. Companies are using various measurements to document their results – they use engagement surveys and measure employees participating in training and education, they implement dashboards on performance, promotions, and equal pay, and they calculate the percentage of socially inclusive positions. To name just a few ways to measure progress.

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DIVERSITY AND INCLUSION

IN 2022, WE LAUNCHED OUR RENEWED DIVERSITY AND INCLUSION STRATEGY AIMED AT FULFILLING THE EMPLOYEE PROMISE OF CREATING AN INCLUSIVE WORK ENVIRONMENT WHERE EVERYONE IS VALUED AND FEELS THAT THEY BELONG .

Our new strategy is part of our Business Strategy, Future26. We strongly believe that diversity enables innovation, better decision-making and higher performance.

Our targets and progress
To ensure tangible progress, our new strategy measures diversity and inclusion using three key performance indicators: inclusion favourability, gender equality and ethnic diversity in the workforce.

Inclusion favourability is measured using an index based on answers from our yearly employee engagement survey. In 2022, the average score across the index was 86 per cent, and one of the aspects, belonging, increased by six points compared to 2021.

For gender diversity we have a short-term (2023) target of no more than 70 per cent of one gender in the workforce, and our long-term 2026 target aims at having no more than 60 per cent of one gender in a team across the top three organisational levels in Arla. In 2022, 42 per cent of our office workers were women.

28%

Share of women in management

Our target for gender balance in management – defined as one level below our Executive Management Team – is no more than 60 per cent of one gender by 2026.

Leadership training to build an inclusive culture
To roll out our strategy and make it come alive, we needed to onboard and align the leadership layer first-hand, so we organised onboarding sessions and leadership trainings for top-and mid-managers across the organisation in 2022. More than 500 leaders and colleagues across 50 teams spent four hours on what diversity and inclusion means, how our subconscious biases influence our everyday decision-making and how to fight these biases.

Diversity and inclusion dashboard
We also educated people leaders in how to use our newly established D&I Dashboard in Power BI based on our global gender equality target. Each people leader has data on their own team across data points such as Employee Lifecycle, Performance, Promotions and Equal Pay. Data transparency and accountability are important to reveal potential subconscious biases.

Competitive and equal pay across all job bands
We strive to offer fair and competitive remuneration at market level and in line with local legislation and have a structured approach to remuneration, ensuring that salaries are unbiased towards gender, age, seniority, tenure, nationality or any other factors.

In the annual report, Arla is presenting their strategy for diversity and inclusion as well as some of the key actions and results.

#8 Governance and risk management is central

Governance and risk management are disciplines which to a large degree are affected by compliance and standards. Therefore, annual reports – or special governance and/or risk reports – typically describe topics like role of management, responsibilities of the Board, risk defence model, gender diversity, anti-corruption and fraud, human rights, ethics, and the existence of a whistle-blower scheme. Surely, these are all topics companies have been focusing on with varying weight the last couple of years.

So far, reporting on risks has been treated very conventionally. It seemed like an outsider could easily define and describe the risks related to financials, business and ESG for a given company. But reporting on specific and changing risks and risk mitigation has been improved in later years and are now described with substance and relevance regarding the situation and context of the company. Risks are analysed and monitored, changes in status are evaluated, and mitigation is part of a systematic approach ensuring companies have the relevant tools to balance risk and opportunities.

OUR BUSINESS 36

Macroeconomics	People management	Environmental sustainability	Health and Safety	Regulatory compliance
Unstable and/or unfavourable economic, financial and/or currency conditions that might have adverse impact on achieving ISS business goals.	Risk that ISS will not be able to attract and retain the right people in order to maintain operations and meet our customer obligations.	Risk that ISS will not be able to deliver on own sustainability goals and targets and will not be able to support customers' net zero journey.	Failure to design and implement, within our internal processes and service delivery, sufficient health and safety mechanisms, that would prevent incidents from materialising and affecting our placemakers and customers.	Failure to comply with applicable laws and regulations, including labour law and required licenses and permits which may lead to regulatory, operational, and reputational losses.
Risk drivers Persistent geopolitical tensions, supply chain disruptions, inflationary pressures and economic slowdown may directly or indirectly impact service delivery and its profitability.	**Risk drivers** Current labour market conditions indicate increasing wage inflation in certain geographies. Pressure on the availability of labour and "war for talent" is contributing to increased employee expectations towards employers.	**Risk drivers** Ability to deliver on sustainability goals and targets is key to maintain the license to operate in our markets. Approximately 95% of ISS's carbon emission footprint sits within Scope 3 and our ability to reduce indirect emissions from our supply chain is key to achieving net zero target.	**Risk drivers** Our placemakers execute a range of services in workplaces around the globe, including high risk environments and services	**Risk drivers** Growing complexity and volatility of various regulatory regimes across the multitude of geographies and services in which ISS operates.
Mitigation actions • Defined methodology for managing inflationary pressure in our supply chain and implementation of price increases across the customer contract portfolio • Strengthened contract governance for customer, supplier and subcontractor agreements • Adjustment mechanisms in our customer contracts allowing for inflationary impacts to be managed through price adjustments, scope adjustments or similar	**Mitigation actions** • Focus on our cultural ambition to become the global Company of Belonging, incl. our new Employee Value Proposition and Diversity, Inclusion & Belonging strategy • Signature objectives to attract and retain talent and drive sustainable change in the communities where we operate • Improvement and standardisation of people processes to enhance employee experience, supported by dedicated tools and internal platforms	**Mitigation actions** • Sustainability governance structure in place • Integration of carbon management into our service products • Science-based targets with near-term carbon goals • Developing carbon management tool for tracking, monitoring and reporting • Closer cooperation across supply chain aiming to incentivise emissions reduction	**Mitigation actions** • ISO 45001, 14001 and 9001 certified Health and Safety framework promotes strong processes and procedures • Robust training program for our placemakers • Active promotion of a strong, positive safety culture • Zero tolerance for serious injuries	**Mitigation actions** • Strengthening of functional expertise in countries and Group • Cooperation between countries and Group to build compliance focused culture and further develop regulatory compliance maturity • Robust compliance frameworks and standardised, global approach towards monitoring and ensuring compliance with laws and regulations

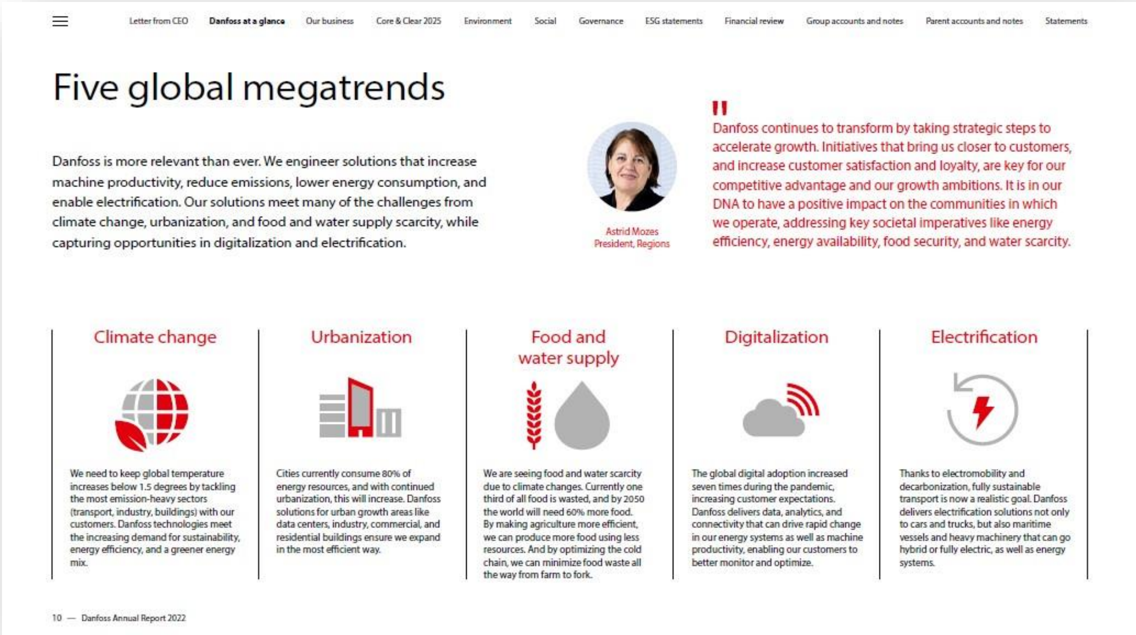
ISS has described ten types of business risks, the risk drivers and the specific actions they take to mitigate these risks.

#9 Communicating trends in society, market, and industry

Companies are responding to trends in society, market, and industry to be able to meet customers' and consumers' demands, and to be able to develop a unique position and brand image. And their understanding of current and significant trends is also reflected in corporate reporting.

There are many ways to describe trends. Some describe business opportunities in the light of general megatrends, some describe external and internal trends affecting their business in both positive and negative ways, and some describe specific industry and market trends, their impact on business strategy and operations and how the company responds to these trends and impacts.

Reflecting on trends is an element in reimbursing the strategy and position of the company, and it is a way to demonstrate that the company's products and services is relevant now as well as years to come.



Letter from CEO | Danfoss at a glance | Our business | Core & Clear 2025 | Environment | Social | Governance | ESG statements | Financial review | Group accounts and notes | Parent accounts and notes | Statements

Five global megatrends

Danfoss is more relevant than ever. We engineer solutions that increase machine productivity, reduce emissions, lower energy consumption, and enable electrification. Our solutions meet many of the challenges from climate change, urbanization, and food and water supply scarcity, while capturing opportunities in digitalization and electrification.

"Danfoss continues to transform by taking strategic steps to accelerate growth. Initiatives that bring us closer to customers, and increase customer satisfaction and loyalty, are key for our competitive advantage and our growth ambitions. It is in our DNA to have a positive impact on the communities in which we operate, addressing key societal imperatives like energy efficiency, energy availability, food security, and water scarcity.

Astrid Mozes
President, Regions

Climate change

We need to keep global temperature increases below 1.5 degrees by tackling the most emission-heavy sectors (transport, industry, buildings) with our customers. Danfoss technologies meet the increasing demand for sustainability, energy efficiency, and a greener energy mix.

Urbanization

Cities currently consume 80% of energy resources, and with continued urbanization, this will increase. Danfoss solutions for urban growth areas like data centers, industry, commercial, and residential buildings ensure we expand in the most efficient way.

Food and water supply

We are seeing food and water scarcity due to climate changes. Currently one third of all food is wasted, and by 2050 the world will need 60% more food. By making agriculture more efficient, we can produce more food using less resources. And by optimizing the cold chain, we can minimize food waste all the way from farm to fork.

Digitalization

The global digital adoption increased seven times during the pandemic, increasing customer expectations. Danfoss delivers data, analytics, and connectivity that can drive rapid change in our energy systems as well as machine productivity, enabling our customers to better monitor and optimize.

Electrification

Thanks to electromobility and decarbonization, fully sustainable transport is now a realistic goal. Danfoss delivers electrification solutions not only to cars and trucks, but also maritime vessels and heavy machinery that can go hybrid or fully electric, as well as energy systems.

10 — Danfoss Annual Report 2022

Danfoss is describing how the business model and operations are responding to global megatrends.

#10 Cases bring stories to life

The endless numbers and figures in corporate reporting can sometimes be a bit of a challenge to the readers. In addition to using design, photos and infographics many companies are presenting relevant customer stories, innovative projects, social programmes, partner relations or events to bring lively examples of how specific people are relating to other people to execute the strategy in real life.

These cases and features are typically key examples of how the company are working in partnerships and on projects that are progressive and innovative in the market or in regard to an environmental or a social transformation.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“Good soil health is instrumental in fighting climate change

Interview with Vicente Gongora, chief marketing officer, and Lara Ramaekers, global biocontrol portfolio lead, UPL Ltd. Chr. Hansen entered into a partnership with UPL in 2021/22.

How are climate and biodiversity becoming part of the value proposition to customers?
Microbial solutions allow growers to produce more with less environmental impact and fewer residues on crops, ultimately improving the quality and profitability of the food they produce.

Growers around the world are concerned about climate change since this can impact their production due to drought, flooding, excessive heat, frost, etc., so they are taking a genuine interest in producing sustainably, which is also in line with consumer preferences and pressure from companies in the food value chain.

We're working with Chr. Hansen to bring bio solutions to growers to support them in changing practices towards regenerative agriculture in balance with nature. These solutions improve the quality and health of the soil while preserving the microbial biodiversity that exists there. Not only can this reduce the need for fertilizers, hence reducing potential ground water contamination. A good soil microbiota also makes a plant more resilient, so a healthy, diverse soil microbial flora can even help manage climate change by making the crops more active in capturing CO_2 from the atmosphere.

How can the partnership with Chr. Hansen help unlock the sustainable potential of bio solutions?
We share the same values related to sustainability, and the products and pipeline are addressing growers' pain points related to e.g. plant resilience, water use efficiency, improved soil health and positive carbon footprint.

Using living organisms instead of chemistry requires a change of mindset, but as the products get better, and with emerging decision support system apps helping growers apply microbial solutions timely and correctly, based on monitoring weather conditions, infection pressure, insect pressure, etc., we're paving the way for conversion on a larger scale.

The partnership with Chr. Hansen will also help UPL to achieve the Climate Pledge and Gigaton Carbon Goal, which aims to eliminate 1 gigaton of CO_2 from the atmosphere by 2040. Sustainability is not only a challenge – it's a must, and both companies working together will contribute to the world challenge of reducing carbon emissions.

32 CHR. HANSEN Annual Report 2021/22

Chr Hansen brings several cases in the annual report focusing on strategic projects and partnerships.

Where do we go from here?

It seems to be contradictory that integrated reporting is so strongly promoted at the same time as more and more targeted and thematic reports are introduced to the corporate reporting universe. It is not unusual to find an annual report, a sustainability report, a governance report, and a remuneration report on corporate websites of larger companies. Some even have several sustainability reports structured by different standards or themes, some publicise a special risk report and some a strategy report.

Still, the overall trend is clear. Corporate reporting is at one hand met with more regulatory demands and standards and are on the other hand becoming more open and transparent, more holistic, and are communicating to a broader group of critical stakeholders.

This is not to say that corporate reports are the go-to document when you want to get an overview of a specific company as a customer or candidate for an open position. Though many companies have done a good job in providing an "at a glance" or "in brief" section and are using design and infographics to illustrate complex matters, the corporate reports are still not cosy bedtime-reading. To a large degree you must be a professional reader to understand the financial terms and the ESG standards, to fully grasp the situation of the company today, and to be able to form realistic expectations for the future of the company.

However, to the professional readers (e.g., analysts, investors, press, NGOs, and government) the corporate reports are increasingly a trustworthy and transparent source for measured and documented results and actions defining the strategy execution and operations. And though the many new regulatory steps might seem both tiresome and troublesome, it will also bring more insight, better tools for comparisons, and more concise analysis and evaluations of the company.