Findings part 1: Environmental disclosure under the NFRD content categories

a) Business model

What the Directive asks for

"(a) a brief description of the undertaking's business model"

2017 Non-Binding Guidelines

- Highlighted the importance of the business model in providing overall context for the mainstream report; and
- Emphasised that disclosures should describe how the business generates and preserves value over the longer term, how it operates and how it transforms inputs into outputs through its activities.

2019 Climate-related Guidelines

- Advocated that companies should disclose the impacts of climate-related risks and opportunities on the business model, as well as the ways in which the business model can both positively and negatively impact the climate.

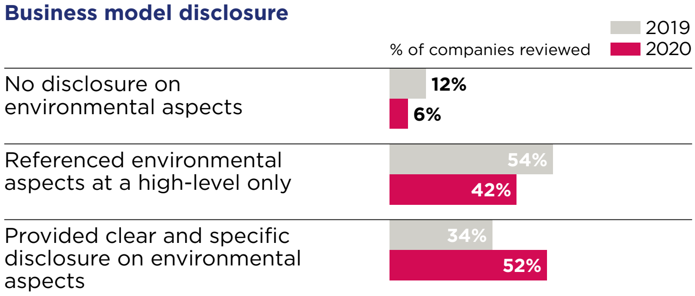
Business model disclosures play an important role in informing investors' understanding of the environmental impacts and dependencies of relevance to businesses. Disclosures were reviewed to assess how effectively companies were articulating these aspects, and where they were choosing to do so within their reporting.

Growing numbers are integrating climate and environment into their business models

94% of the companies disclosed some environmental aspects of their business model, showing further improvement compared to 88% in 2019. A greater proportion of companies also did so in a manner that addressed the key aspects outlined in the guidelines to the Directive, with 52% able to provide a clear and specific account of both the positive and negative environmental and climate impacts relevant to their business model, compared to 34% in 2019. This offers a positive sign that companies are becoming increasingly cognisant to the strategic significance of climate and environmental aspects for their long-term resilience and value creation.

Stronger disclosures demonstrated both an environmental macrotrends which may impact strategy, such as climate change and natural resource scarcity, and clearly articulated how these aspects have been addressed in the company's value creation model. For example, companies illustrated the specific products, services or business lines for which a given environmental risk or opportunity was relevant, and then clarified how this aspect was being managed to both minimise negative impacts and maximise value creation.

Business model disclosure



Moving from generic to business-specific disclosure

However, 42% of business model disclosures were still considered too high-level or generic to articulate the strategic integration of these matters. Such disclosures made only very brief references to the significance of climate change, or broader need to manage the company's environmental impact. They provided little or no business-specific detail on the exact environmental issues of significance, or nature of their relationship to the business' value creation model. As was observed in our previous review, such disclosures of a promotional or aspirational nature can limit decision-usefulness for investors, by obscuring material information.

78% (2019: 64%) included environmental business model information at the outset of their mainstream report, incorporating it into the description of their core business strategy and value creation model. However, 16% (2019: 24%) opted to make a secondary business model disclosure within the non-financial statement or sustainability section. Without cross-reference or linkage to the main business model, it was therefore difficult for the user to determine the degree of meaningful integration of environment or climate into the business' overall value creation model.

Good practice example: In its 2019 Annual Report, Ørsted discloses its business model in an integrated manner, considering inputs, activities and value creation, in line with the different 'capitals', with environment and climate clearly considered.

Our business model

● Inhouse activities
● Partly outsourced activities

Key Resources

Financial capital
We finance our investments through cash flows from operations, debt and divestment of ownership interests.

Energy assets
We invest in scalable, innovative green technologies and solutions.

Natural resources
We rely on natural resources, such as construction materials, biomass, as well as locations with attractive wind speeds and seabed and land conditions.

Human resources
We rely on a highly skilled workforce to operate our business.

Innovative culture
We continuously innovate our energy solutions to drive competitiveness.

Stakeholder engagement
We depend on constructive relations with our key stakeholders to ensure supportive framework conditions for our business.

Core activities	Develop	Build	Operate	Own	Market
Offshore Capital employed 74%	Develop offshore wind farms Projects under development in the UK, US, Germany and Taiwan Exploring opportunities in Japan, Poland and South Korea	Construct offshore wind farms 3 offshore wind farms under construction	Operate and maintain offshore wind farms Operator of 24 offshore wind farms	Raise capital through partnerships and farm-downs Manage profitability over asset lifetime Full owner or partly owner of 29 offshore wind farms	Activities related to offtaking our power generation and hedging our risk exposure are performed by Markets & Bioenergy, but earnings from these activities are allocated to the business unit they impact Examples include route-to-market services and trading activities
Onshore Capital employed 11%	Develop onshore wind, solar PV and storage projects and ensure tax equity Onshore wind, solar PV and storage projects under development in the ERCOT, MISO, PJM and SPP electricity markets	Select best-in-class contractors to construct our onshore assets 3 onshore wind farms, 1 solar PV farm and 1 storage facility under construction	Management of extended service agreements to operate and maintain our onshore assets Operator of 4 onshore wind farms, 1 solar PV farm and 1 storage facility	Raise capital through tax equity partnerships Manage profitability over asset lifetime Owner of 7 onshore wind farms, 2 solar PV farms and 2 storage facilities	
Markets & Bioenergy Capital employed 15%		Operate and maintain CHP plants Operator of 6 bio-converted CHP plants, 3 heat and ancillary service plants and 1 coal-fired CHP plant	Manage profitability over asset lifetime Owner of 6 bio-converted CHP plants, 3 heat and ancillary service plants and 1 coal-fired CHP plant	Provide route-to-market services for our own and third-parties' electricity, power certificates and gas Manage Ørsted's energy portfolio risks	

Value created

Society
We address profound societal challenges by developing green, independent and economically viable energy systems that reduce greenhouse gas emissions and stimulate local growth and job creation.

Customers
We fulfil our customers' energy needs through green, innovative and efficient energy solutions.

Employees
We are committed to a sustainable working life and keep a constant focus on being a great and safe place to work with motivated and satisfied employees.

Shareholder return
We create value for our shareholders in the form of competitive total returns.

Our review demonstrates further progress by companies in understanding and articulating the strategic significance of environmental matters to their organisations, with a greater proportion now providing clear and business-specific disclosure. However, almost half continue to provide limited or generic reporting; a missed opportunity to set out clear context for environmental information in the mainstream report.

Good practice tips for companies

- ☑ Include a diagrammatic representation of the business model, which demonstrates inputs, outputs and impacts of the organisation;
- ☑ Where secondary disclosure on environmental aspects of the business model is made, ensure clear reference and linkage is made to this in the main business model description;
- ☑ Avoid generic or high-level statements, ensuring information addresses how the company generates economic, social and environmental value for society through its business; and
- ☑ Ensure the articulation is company-specific, for example by referencing specific products, services and the associated environmental matters that are relevant to these.

Proposals for policymakers and regulators

- Expand on the Directive's current requirement for a 'brief' business model description, to clarify that disclosures must balance succinctness with providing adequate, business-specific disclosure on economic, social and environmental value creation; and
- Specify in the Directive's requirements that the business model disclosure should clearly link the organisation's core business strategy and value creation model to the specific non-financial topics relevant to the company, i.e. including climate and environment where applicable.