

# Accounting policies

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PensionDanmark has decided to let all our activities be guided by the Sustainable Development Goals adopted by all UN member states in 2015. Using the Sustainable Development Goals as a point of departure, this report therefore covers the social, ethical and environmental issues that were most relevant and most significant for PensionDanmark during the year from 1 January to 31 December 2019 and outlines PensionDanmark's achievements in these areas.

The report includes ESG (Environment, Social and Governance) ratios, calculated in accordance with the guidelines published by FSR – Danish Auditors, Nasdaq and the Danish Finance Society in June 2019. The calculation methods applied are described in more detail at the website of FSR – Danish Auditors, [www.fsr.dk](http://www.fsr.dk).

Unless otherwise stated, the ratios have been calculated at operational level and therefore do not reflect measurements at subsidiary level, such as property subsidiaries letting properties to external parties. A few ratios have not been computed in accordance with the guidelines. As the guideline ratios do not in all cases capture the special characteristics of life insurance companies, a few adjustments have been made relative to the guidelines.

These adjustments are explained below:

## CO<sub>2</sub> emissions

When measuring the climate footprint of a financial business, a distinction must be made between the footprint resulting from the company's internal activities and the footprint caused by its investment activities. Separate figures are therefore shown for the company's CO<sub>2</sub> emissions and emissions from the investment portfolio. In addition, CO<sub>2</sub> emissions may be divided into sub-groups (scopes) according to their source:

Scope 1 reflects direct emissions from own factory and office buildings and vehicles.

Scope 2 reflects emissions (at the energy producer) from purchased electricity, steam, district heating and cooling.

Scope 3 reflects all other indirect emissions from sub-contractors and purchasers of a company's products.

Due to the unavailability of complete company data, scope 3 data are not included.

## CO<sub>2</sub> emissions from the company

The conversion of power and district heating into CO<sub>2</sub> emissions for purposes of the calculation of scope 2 emissions from the company is based on the general declaration of Energi Danmark and HOFOR. For the conversion of emissions: The scope 2 market-based method has been applied.

The renewable energy share is the sum of renewable energy, as defined by the general declaration of EnergiDanmark and HOFOR, and energy produced by means of own solar cells. Power supplied by EnergiDanmark is 100% renewable as the company has purchased green energy.

## CO<sub>2</sub> emissions from the investment portfolio

In measuring CO<sub>2</sub> emissions from the investment portfolios of financial businesses, four metrics may be used, as per the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD):

Common to the four metrics, CO<sub>2</sub> emissions are stated in so-called CO<sub>2</sub> equivalents – CO<sub>2</sub>e – and measured in tonnes. Market values are stated in USDm.

## Metric 1: Total CO<sub>2</sub> emissions

The metric shows total portfolio CO<sub>2</sub> emissions. Under this method, the carbon footprint is measured on the basis of the value of the amount invested in listed companies, the market capitalisation of the listed companies and the companies' CO<sub>2</sub> emissions. It is computed according to the following formula:

$$\text{Total CO}_2 \text{ emissions} = \sum_n^i \text{PensionDanmark's equity share}_i * \text{scopes 1 and 2 CO}_2\text{e issuers' emissions}_i$$

## Metric 2: Carbon footprint:

The measurement builds on metric 1, normalising the carbon footprint based on the size of PensionDanmark's portfolio of listed shares. The ratio is computed according to the following formula:

$$\text{Carbon footprint} = \frac{\text{Metric 1}}{\text{Market value of PensionDanmark's portfolio}}$$

## Metric 3: Carbon intensity:

The measurement builds on metric 1, normalising the carbon footprint based on each company's revenue. The carbon intensity method illustrates the portfolio's efficiency in generating revenue relative to the emission of CO<sub>2</sub>. The ratio is computed according to the following formula:

$$\text{Carbon intensity} = \sum_n^i \frac{\text{Metric 1}}{\text{PensionDanmark's investments}_i * \text{issuer's sales}_i}$$

## Metric 4: Weighted average carbon intensity:

The ratio shows the portfolio's exposure to carbon-intense companies, including to climate-related financial risks. The ratio is computed according to the following formula:

$$\text{Weighted avg. carbon intensity} = \sum_n^i \left( \frac{\text{Value of ownership share in investment}_i}{\text{Market value of PensionDanmark's portfolio}} \right) * \left( \frac{\text{Scopes 1 and 2 CO}_2\text{e emissions from the invested company}_i}{\text{Issuer's sales}_i} \right)$$

Please note that only listed public equity are included.

Calculations of CO<sub>2</sub> emissions from the investment portfolio are based on MSCI data.

## Offsetting through renewable energy investments

The guidelines for the computation do not include offsetting emissions through renewable energy investments. The volume of CO<sub>2</sub> offset through renewable energy investments is computed based on PensionDanmark's investments in renewable energy infrastructure assets. Power generated by means of energy infrastructure assets is converted into the volume of CO<sub>2</sub> that would have been emitted if the same volume of power had been produced by means of fossil sources.

CO<sub>2</sub> offsets are computed according to two methods. The first calculation of CO<sub>2</sub> offsets is based on statistics on the current mix of fossil fuels in the local power grid for purposes of calculating replaced fossil-based power generation, see the GHG Protocol. In the second calculation of carbon offsets, an assessment is made for each project of which fossil fuels have been displaced at the time of installment. The result of the first method is shown in the list of ESG key figures and ratios, while the result of the second methodology is set out in a footnote to the list.

## Other ratios

For purposes of measuring gender diversity for other management tiers, a manager is defined as a person with personnel responsibilities. The CEO is not included in the calculation of the ratio.

Customer retention ratios are not computed as they would not appropriately represent customer satisfaction due to the high rate of job mobility among PensionDanmark's members.

Taxes paid, which are not included in the guidelines, are stated as pension yield tax, payroll duty, withholding tax, and corporate tax.

## Accounting estimates

A number of assumptions are used in calculating CO<sub>2</sub> reductions for purposes of calculating the ratio for offsetting through renewable energy investments.