



EthiFinance ESG Ratings Issuer Report: Methodological note



EthiFinance ESG Ratings is the ESG (Environment, Social, Governance) rating agency of the EthiFinance Group is specialized in rating the ESG performance of companies listed on European stock markets.

EthiFinance ESG Ratings offers two ESG evaluation report formats to issuers:

- A standard report
- A premium report

The **standard report** offers an ESG evaluation that displays:

- The overall ESG score including score by pillar;
- The raw data with the analyst's comments.

The standard report is available to the assessed company upon request.

The **premium report** allows companies wishing to go further in the ESG analysis to benefit from a detailed report.

The premium report will provide, in addition to the elements mentioned in the standard report:

- All the scores by pillar (Environment, Social, Governance, External Stakeholders) and sub-pillar;
- A comparison with a sectoral, national or turnover category benchmark for each of these pillars;
- A focus on key indicators per ESG-ES pillar (Environment, Social, Governance, External Stakeholders);
- Research on alignment with the Sustainable Development Goals (SDGs);
- Estimation of the eligibility and alignment of the assessed company's activities with the Taxonomy, in case of absence of reported data;
- A graph showing the distribution of ESG-ES scores;
- The ranking of the evaluated company;
- The top 5 companies in the sub-sector;
- A communication kit: certificate and medal if the company is eligible (eligibility conditions are described below)

This note details the methodologies used for each section of these reports.

ESG Research

EthiFinance ESG Ratings evaluates the companies it covers according to a framework of approximately 140 criteria divided into 4 pillars: Environment, Social, Governance and External Stakeholders (ESG-ES). We update our benchmark annually based on the results of previous years and emerging ESG risks (new questions, level of detail of answers, rating algorithms, etc.).

The evaluation process is as follows:

1. Collection of publicly available ESG information over 3 years
2. Data quality control
3. Dialogue with the company to complete and clarify the data collected
4. Verification of the consistency and homogenization of the data
5. Calculation of scores and publication of data

The EthiFinance ESG Ratings methodology is based on:

1. **The adoption of a rating system that evolves according to the size of the company being evaluated**
2. **The integration of a controversy score into the overall score**
3. **Taking into account emerging issues and regulatory expectations**

In order to allow you to follow the evolution of your ESG performance over time, you will find in our reports the score of your company recalculated over the last 3 years according to the 2023 benchmark.

A rating system that evolves according to the size of the company being evaluated

Our rating system takes into account **the size of the company** being evaluated in order to adapt the expectations of its benchmark.

As companies commit to a CSR approach, stakeholders' expectations become more and more stringent. As a result, larger companies are expected to go beyond the reporting year to provide evidence of **their improved ESG performance**. On the other hand, for the smaller companies assessed, the rating continues to focus on **transparency of information** to measure their ESG maturity. With this differentiated approach, EthiFinance ESG Ratings affirms its status as a specialist in small and medium-sized companies, thanks to a method adapted to their size and resources.

The thresholds used are those defined by the Non-Financial Reporting Directive (NFRD – 2017)

- Number of employees ≥ 500
- Turnover \geq EUR 40 million OR Total assets \geq EUR 20 million

The integration of a controversy score into the overall score

The Ethifinance ESG Ratings score takes into account the **risks of controversy** to which the evaluated company is exposed.

Ethifinance ESG Ratings defines a controversy as the questioning of a company by its stakeholders (employees, unions, NGOs, regulators, customers, shareholders, etc.). The controversy score measures the company's exposure to negative news (lawsuits, strikes, NGO campaigns, etc.), taking into account the consequences of this news on the company itself and on its stakeholders, in a logic of double materiality.

Since 2022, the overall rating includes a malus linked to the exposure of the company evaluated to ESG controversies:

- *No controversy identified*: the overall score is unchanged
- *Low exposure*: a malus of 3 points
- *Significant exposure*: a malus of 8 points
- *High exposure*: a malus of 15 points
- *Critical exposure*: a malus of 20 points

The detailed list of controversies is not included in the report but can be provided on request.

Review of controversial activities

The activities identified as controversial in the ESG analysis are central to the implementation of the investors' responsible investment strategy. This information will allow the issuer to identify the extent to which a portion of its activities may fall under the scope of controversial activities and thus to organize its communication to investors accordingly.

Ethifinance ESG Ratings presents an estimate of the exposure of companies to the following controversial activities: arms, chemicals, fossil fuels, alcohol, gambling, tobacco and pornography. The level of a company's involvement (minor, limited, significant or major) depends on the percentage of its turnover linked to one or other of these activities.

Alignment with the UN Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) were adopted in 2015 by 193 countries with a target date of 2030. 17 goals, broken down into 169 targets, were defined with the aim of mobilizing the international community through public and private actors to create a more sustainable society. They cover various issues related to sustainable development such as poverty eradication, gender equality, environmental protection, education, etc.

The methodology developed by Ethifinance ESG Ratings allows for the assessment of a company's contributions to each of the core SDG issues through its products and/or services as well as its operations.

The scale of contribution to the SDGs is as follows: Very Positive - Positive - Neutral - Negative - Very Negative

Three measures of contribution to 16 SDGs are available, along with a comparison with a benchmark composed of companies in the same sector and turnover category.

- The column "Contribution through operations" indicates the company's contribution to an SDG through its internal practices. The "Operations" score is calculated using indicators from the Gaia Research questionnaire that are relevant to the assessed SDG;
- The "Contribution via Products" column indicates the company's contribution to an SDO via its products/services;
- The "Total Contribution" column indicates the aggregated contribution of the "Contribution via Operations" and "Contribution via Products" columns.

Modelled Carbon Footprint

Some companies do not report their greenhouse gas ("GHG") emissions data. Ethifinance ESG Ratings has developed a model to estimate the missing GHG emissions data from available data (turnover, number of employees, main sector of the company, electricity and fuel consumption, etc.). This module provides access to an estimate of the carbon footprint on scopes 1 and 2 and 3 of the assessed company.

N.B. :

- Scope 1 corresponds to direct emissions resulting from the combustion of fossil fuels.
- Scope 2 relates to indirect emissions linked to the consumption of electricity, heat or steam required to manufacture the product.
- Scope 3 corresponds to other indirect emissions, such as the extraction of materials purchased by the company for the production of the product or emissions related to the transportation of employees and customers who come to buy the product.

European Green Taxonomy

Regulation (EU) 2020/852 (hereafter "taxonomy") came into force for companies and investors in 2022. This applies to financial and non-financial companies subject to the Non-Financial Reporting Directive (NFRD), i.e., European companies with more than 500 employees, a turnover of more than EUR 40 million, or a balance sheet of more than EUR 20 million.

Ethifinance ESG Ratings collects annually from companies the share of turnover, CapEx and OpEx eligible for and aligned with the taxonomy. In order to complete this service, Ethifinance ESG Ratings has developed an internal methodology to determine the share of turnover eligible for the taxonomy, as well as the share of turnover aligned with the taxonomy of companies that have not yet published these indicators.

- The estimated taxonomy eligibility (turnover) of each company covered by the Ethifinance ESG Ratings universe is determined by a semi-automatic analysis of the NACE codes, and then through a case-by-case restatement when necessary. The restatement methodology is strictly based on the eligibility criteria of the EU Regulation 2021/2139.
- The estimated alignment (turnover) with the taxonomy of each of the companies covered by the Ethifinance ESG Ratings universe is determined using sectoral alignment coefficients based on a legal rationale and a market analysis, derived from an internal methodology. Ethifinance ESG Ratings' methodology is inspired by the work carried out by the European Commission Research Center (JRC) in 2020 (Alessi et al.) on the determination of a Taxonomy Alignment Coefficient.

- The estimated data were analyzed by Ethifinance ESG Ratings in the absence of a publication by the company, and on the basis of the company's public documentation at the time of the analysis. They therefore represent an estimate that cannot be substituted for a proper analysis performed by the company. Ethifinance ESG Ratings cannot be held responsible for any non-compliant use of this data.

Certificate and Medal

In addition to the **premium report**, Ethifinance ESG Ratings offers a communication kit, consisting of a certificate and a "medal", which the ESG company can use to communicate on its Ethifinance ESG Ratings score

Four levels of success are distinguished:

Platinum level: overall score above 80/100 and no ESG controversies identified

Gold level: overall score above 70/100 and no significant ESG controversies identified

Silver level: overall score above 60/100 and no significant ESG controversies identified. This level can also be reached by companies with a significant level of exposure to controversies (3/5) but compensated by an ESG score of more than 70/100

Bronze level: overall score above 50/100 and no significant ESG controversies identified. This level can also be reached by companies with a significant level of exposure to controversies (3/5) but compensated by an ESG score of more than 60/100

Who are we?

EthiFinance ESG Ratings

EthiFinance ESG Ratings specialises in rating the ESG performance of companies listed on European stock markets. EthiFinance ESG Ratings is a brand of EthiFinance.

EthiFinance

Founded in 2004, EthiFinance is an extra-financial analysis and consulting agency that assists its clients in managing the risks and opportunities related to sustainable development. EthiFinance has developed tailor-made offers to meet the specific expectations of its clients, whether they are investors, banks, companies or organizations.

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