



# EthiFinance ESG Ratings - Scoring Methodology 2024



# 2024 Scoring methodology

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## Introduction

The purpose of this document is to detail the ESG (Environment, Social, Governance) rating methodology applied by Ethifinance ESG Rating for the evaluation of listed companies.

Our ESG Ratings assess the way in which companies manage their ESG risks, how mature they are in their Corporate Sustainability journey, and how this maturity evolves over time.

## ESG indicators

The companies evaluated by Ethifinance ESG Ratings are subject to an ESG rating based on the Ethifinance ESG Ratings 2024 rating repository. This repository is composed of ESG indicators, the number of which depends on the company's macro-sector; we distinguish three: Industry, Distribution and Service. These indicators are divided into four pillars (Environment, Social, Governance and External Stakeholders), themselves composed of several topics.

Finally, not all the indicators in the repository are rated (i.e. do not contribute to the overall rating of the company being evaluated). An indicator may not be scored for various reasons:

- Some indicators are present only for information and contextualization (economic data for example).
- Some indicators are difficult to note from an ESG perspective.
- Some indicators cover issues on which Small & Mid-Caps lack maturity and are not yet rated.
- Finally, new indicators are sometimes being tested.

## Calculation of the scores for each indicator

The indicators being scored can be evaluated according to three principles:

- Transparency, i.e., the fact that the information is communicated by the company being evaluated (over one, two or three years).
  - Example: Q216 - Publication of the Council's rules of procedure on the website
    - If the answer is "YES", then the score for indicator Q216 is 100/100
    - If not, the score is 0/100
- Performance, i.e. the intrinsic value of the data.
  - Example: Q12 - Number of women on the Board
    - If the share of women on the Board (Q12/Q7) is greater than or equal to 40%, then the score for indicator Q12 is 100/100
    - If the share of women is greater than or equal to 20%, then the score for indicator Q12 is 50/100
- Trend, i.e. the evolution of the data over time (over two or three years).
  - Example: Q416 - Average number of hours of training per employee
    - If the data increases continuously over the last three years, then the score for indicator Q416 is 100/100.

Each indicator has its own scoring logic: some consider the three dimensions mentioned above, while others are evaluated solely on transparency. For example, the rating of the indicator relating to the absenteeism rate relies on transparency, the level of performance and the evolution over three years:

- A failure to be transparent is sanctioned.
- If the information is available, an absenteeism rate above 6 is sanctioned, below 2 is rewarded.
- Between these limits, the scoring mechanism focuses on the observed trend.

Finally, the evaluated company obtains a score ranging from 0 to 100 on each indicator.

## Differences in the rating according to the size of the company evaluated

The EthiFinance ESG Ratings rating now considers the size of the company being evaluated in order to adapt the expectations of its repository.

As companies embark on a CSR journey, stakeholder expectations are increasing. As a result, larger companies are expected to go beyond reporting to demonstrate improvements in their ESG performance. On the other hand, for the smallest companies evaluated, the rating continues to focus on the transparency of information to measure their ESG maturity.

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

- Number of employees  $\geq$  500
- Turnover  $\geq$  40 million euros OR Total assets  $\geq$  20 million euros

Indicator Q176 - "The company is above the minimum thresholds of the NFRD" allows us to identify companies considered mature enough to be rated on their ESG performance ("YES" response) and those whose rating is more related to the transparency of their reporting ("NO" response). This indicator reflects a running average of turnover, number of employees and net profit, to avoid threshold effects.

The following logic applies to companies for which the response to indicator Q176 is "NO":

- A larger number of indicators are scored according to the transparency logic described in the previous paragraph.
- For some indicators, the requirements to achieve the highest score are relaxed.
- Some indicators are scored as "bonuses", which means that a non-response does not result in a score of 0/100 but in a "deactivation" of the indicator concerned, which is no longer considered in the calculation of the overall score.

## Calculation of the overall ESG rating

From the individual score of each indicator noted, the mechanics of scoring to arrive at the overall score is as follows:

- Calculation of topics' scores
  - The score for a topic is the simple average of the scores for the indicators in that topic.
- Calculation of the pillars' scores
  - The score of a theme is the weighted average of the scores of the topics that make up this pillar: each topic has a specific weighting (see tables below).
- Application of the ESG controversy malus
  - Ethifinance 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.
  - The overall rating includes a malus linked to the exposure of the company evaluated to ESG controversies:
    - No controversy identified: the overall score remains unchanged
    - Low exposure: 3-point malus
    - Significant exposure: 8-point malus
    - High exposure: 15-point malus
    - Critical exposure: 20-point malus
- Calculation of the overall score (out of 100)
  - The overall score is the weighted average of the scores for the themes: each theme has a specific weighting (see tables below), minus the "malus" linked to ESG controversies, if any.

## EthiFinance ESG Ratings 2024 repository - Number of indicators

	Number of indicators	Number of rated indicators
Controversies	2	1
Economic data	5	0
Governance	48	36
Social	28	18
External stakeholders	14	12
Environment	31	19
European green taxonomy (reported data)	55	0
Company's response	1	0
<b>TOTAL</b>	<b>184</b>	<b>86</b>

## EthiFinance ESG Ratings 2024 repository – Weights

	Industry	Distribution	Services
<b>GOVERNANCE</b>	35%	35%	35%
Risk of dilution of minority shareholders	4%	4%	4%
Composition of the governance bodies	20%	20%	20%
Functioning of the governance bodies	20%	20%	20%
Compensation of officers and directors	16%	16%	16%
Business ethics	20%	20%	20%
CSR policy and non-financial issues	20%	20%	20%
<b>SOCIAL</b>	30%	31%	31%
Characteristics and social policy	15%	15%	15%
Working conditions	22%	22%	20%
Skills development	19%	20%	25%
Equal opportunities	19%	20%	25%
Health and safety	25%	23%	15%
<b>ENVIRONMENT</b>	25%	20%	20%
Environmental policy and management system	35%	40%	45%
Energy and Greenhouse Gases	35%	40%	45%
Water management	12.5%	0%	0%
Waste management	12.5%	15%	10%
Biodiversity	5%	5%	0%
<b>EXTERNAL STAKEHOLDERS</b>	10%	14%	14%
Relations with suppliers	40%	42.5%	40%
Relations with customers, civil society and responsibility of products	25%	25%	30%
Cybersecurity	35%	32.5%	30%

Note: the above percentages are rounded, so the sum of some weights may not equal 100%.

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