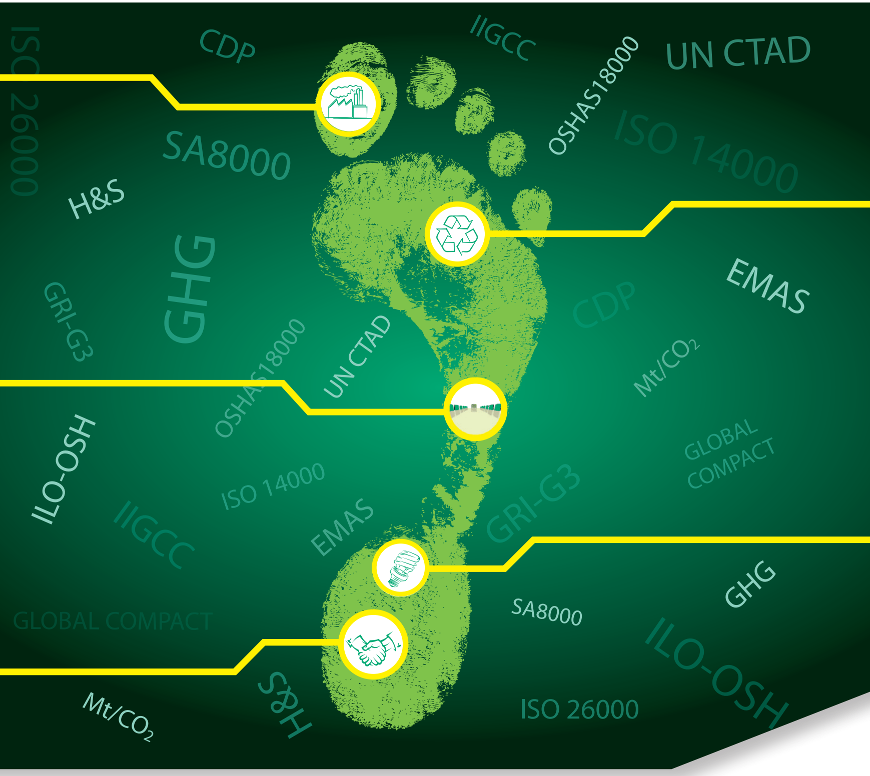
Pocket Guide:
Disclosing your ESG footprint

> Taking a step towards meeting investor expectations



www.cheuvreux.com - September 2011

CHEUVREUX
CRÉDIT AGRICOLE GROUP

Corporate Contacts

Corporate Marketing Contacts:

Bénédicte Thibord	Global Head of Marketing	+33 1 41 89 78 92	*bthibord@cheuvreux.com*
FRANCE			
Jenny Murphy	Head of Corporate Access	+33 1 41 89 78 92	*jmurphy@cheuvreux.com*
Alice Baley	Corporate Access	+33 1 41 89 76 14	*abaley@cheuvreux.com*
Benoit Chastel	Corporate Access	+33 1 41 89 76 36	*bchastel@cheuvreux.com*
Marie Lang	Corporate Access	+33 1 41 89 75 55	*mlang@cheuvreux.com*
Samantha Addi	Corporate Access	+33 1 41 89 73 76	*saddi@cheuvreux.com*
Sébastien Berret	Corporate Access	+33 1 41 89 76 25	*sberret@cheuvreux.com*
GREECE, ITALY, TURKEY			
Mary Iliopoulou	Corporate Access	+44 207 621 52 63	*miliopoulou@chevreux.com*
NORDIC			
Anna Harg	Corporate Access	+46 8 723 51 43	*aharge@cheuvreux.com*
Joanne Macisaac	Corporate Access	+44 207 621 51 85	*jmacisaac@cheuvreux.com*
SPAIN			
Mirjam van der Kamp	Corporate Access	+34 91 495 16 43	*mvanderkamp@cheuvreux.com*

SRI Contacts:

PARIS			
Stéphane Voisin	Head of SRI Research	+33 1 41 89 74 69	*svoisin@cheuvreux.com*
Erwan Crehalet	Climate Change Research	+33 1 41 89 75 18	*ecrehalet@cheuvreux.com*
Sudip Hazra	Environment & Social Research	+33 1 41 89 75 34	*shazra@cheuvreux.com*
LONDON			
Catarina Saponar	Green Tech Research	+44 207 621 51 66	*csaponar@cheuvreux.com*
Samuel Mary	Environment & Social Research	+44 207 621 51 86	*smary@cheuvreux.com*
Robert Walker	Corporate Governance Research	+44 207 621 51 86	*rwalker@cheuvreux.com*

Corporate Brokerage Contacts:

Cyril Gérard	Head of Corporate Brokerage	+33 1 41 89 70 52	*cgerard@cheuvreux.com*
EUROPE			
Daniel Matias-Garraz	Sales	+33 1 41 89 75 38	*dmatiasgarraz@cheuvreux.com*
Michel Lefeuvre	Sales Trading	+33 1 41 89 74 72	*mlefeuvre@cheuvreux.com*
Eric Prodhomme	Share Management	+33 1 41 89 74 97	*eprodhomme@cheuvreux.com*
GERMANY / AUSTRIA			
Hasso von Flemming	Sales	+49 69 47 897 280	*hvonflemming@cheuvreux.com*
SPAIN / PORTUGAL			
David Olaya	Sales	+34 91 432 74 74	*dolaya@cheuvreux.com*

Foreword

Our objective with this guide is to provide corporates with a practical and somewhat comprehensive resource that can help them enhance their extra-financial disclosure, and better meet the expectations of the fast-growing number of investors integrating ESG, beyond the core SRI niche.

This new pocket guide is the fruit of CA Cheuvreux's seven years of experience as a pioneer and leader in ESG research and services, working alongside the biggest SRI investors worldwide. It also reflects our unique experience in SRI corporate access, as we have organised over 3,000 ESG investor presentations and workshops with over 250 listed European companies over this period.

Lastly, this guide takes into account CA Cheuvreux's numerous contributions to the reporting initiatives that have the greatest legitimacy, notably the IIGCC, the Carbon Disclosure Project, the EFFAS KPIs, and our current support of the Integrated Reporting Initiative.

While corporate extra-financial communication has made substantial progress over the past few years in terms of its accuracy and pertinence, we believe that it still needs to adapt further to the considerable momentum and changes among asset managers with regard to taking ESG issues into account. This calls for proactive corporate dialogue with investors on their sustainability performance in order to improve financial integration, as well as better understanding by the market of the reality and fundamentals of listed companies. We aim to facilitate this process with the present guide.

Contents

This report was written with the collaboration of Philippe Cornet

ESG investors and investments

SRI, ESG… let's make it clear

SRI Investors: *SRI stands for Socially Responsible Investment.* It can generally be defined as an investment style that seeks to maximise both financial return and social good by taking into consideration non-financial concerns, primarily Environmental, Social and Governance (also known as ESG) issues, when stock picking and engaging as a shareholder. SRI covers a wide variety of investment practices that have the common motivation of being **responsible**, mostly from a sustainability or ethical point of view.

There are no labels for SRI investment, the criteria applied are very diverse and usually influenced by the country's social and business culture. This means that **the issues SRI investors may address vis-à-vis corporates may vary to a large extent from one SRI fund to another.**

ESG Investors: *ESG stands for Environmental, Social and Governance.* ESG investment approaches generally refer to integration of extra-financials alongside financial criteria in order to enhance an investor's ability to capture the risk profile or value potential of a specific company or sector.

Impact Investors: Impact investments are intended to produce a positive social or environmental impact beyond a financial return. This term, primarily used for investing in Bottom-of-the-Pyramid projects, reflects a strong aim within the SRI community to better identify and communicate on the **social and environmental dividend of their investments as well as on their engagement policy.**

We see no distinction between "impact investment" and "Socially Responsible Investment" but this 'impact' intention **clearly marks the frontier between SRI and ESG investment approaches,** as the latter generally seek to mitigate the negative impact and identify financial opportunities in sustainability performance rather than proactively create a positive social or environmental dividend. *(The good news is that ESG investors mostly contribute to creating a positive impact even though this may not be their primary motivation.)*

ESG investors: Who are they?

Investors implementing an ESG approach are NOT necessarily SRI investors… They may be taking this approach merely as a means of financial discipline to optimise their stock selection or their risk mitigation process. In other words, they may not have a proper sustainability objective. In this context, ESG may sometimes be defined as broad SRI, as opposed to core SRI.

Investors that have additional questions… The financial crisis and other recent market events have converged to show that **financial indicators alone cannot capture the risk profile or value potential** of a specific company or sector. Therefore a fast-growing number of asset owners and asset managers now appreciate that a truly comprehensive and relevant vision of the equity market clearly implies taking into account extra-financial indicators, including social, labour, environmental or governance-related matters.

From a pragmatic point of view, the goal of ESG screening is to enhance investors' awareness of **five major share performance** drivers that are usually ignored or discounted by analysts:

1. Shift in regulations
2. Changes in demand
3. Reputational risk
4. Liabilities
5. Governance

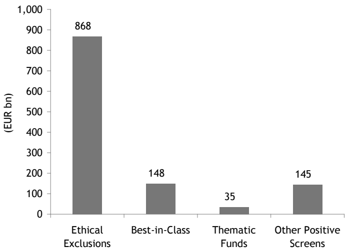
Investors that want to better understand a company's sustainability assets. Beyond the risk analysis, ESG analysis is used to better grasp a company's vision and strategy for taking full advantage of green growth opportunities. This involves strategic analysis, materiality (action plan, R&D, investment, income) of the corporate's commitment to renewable energy, clean technologies, and eco-products and their likely impact on opex, capex and valuation.

The objective is also to obtain a more accurate valuation of the intangible assets, such as **human capital**, that may drive companies' long-term financial performance. ESG, in a way, is just **enhanced financial discipline!**

Distinctive approaches to ESG investment

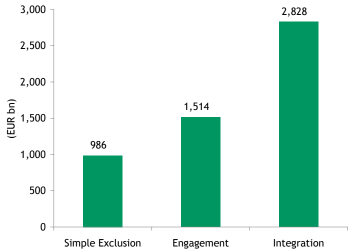
The definition and figures we refer to here are extracted from the 2010 Eurosif survey.

Core SRI strategies



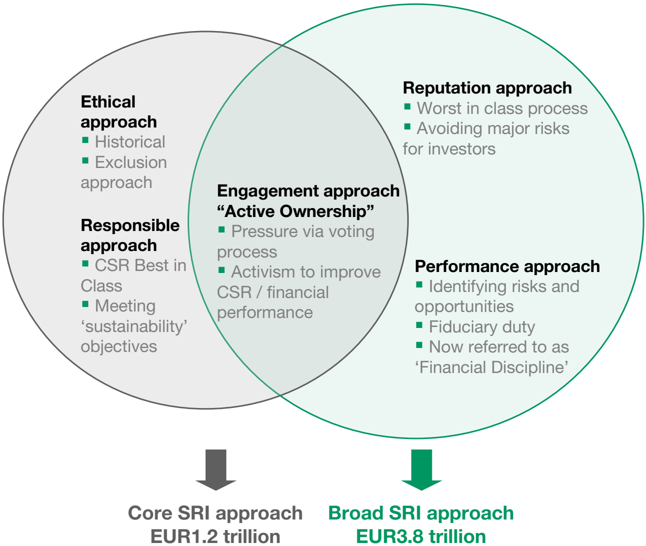
Source: Eurosif

Broad SRI strategies



Source: Eurosif

Core and broad SRI approaches



Source: CA Cheuvreux

Core and broad SRI strategies

Core strategies

Ethical: The historical exclusion approach, based on three or more criteria
Exclusion based on values/ethics (e.g. no investment in companies involved in weapons, tobacco, etc.), associated with standards-based screening (ten principles in the UN Global Compact, eight core ILO conventions, etc.). This approach is sometimes driven by controversies (oil sands, nuclear power, etc.). Also called negative screening.

Best-in-class: Meeting sustainability objectives
Complete CSR screening within sub-sectors and performance selection.

Thematic: The fastest growing of all approaches
Green and sustainable trends, compatible with retail investing.

Positive screening: Approaches for inclusion
Includes best-in-class and thematic (social issues, environmental sustainability, carbon intensity, etc.) approaches. Also called affirmative screening.

Broad strategies

Simple exclusion (reputation approach): Focuses on one or two exclusion criteria
Specific criteria such as weapons, pornography, tobacco or animal testing.

Engagement: Active ownership
Pressure via shareholder proposals and the voting process, activism to improve both CSR and financial performance.

Integration (performance approach): ESG criteria in the mainstream
Explicit integration of ESG risks in traditional financial analysis. A risk-avoidance approach.

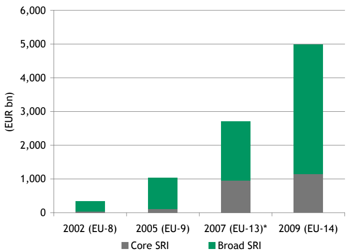
SRI management profiles: Ethical – Conviction – Value – Risk Mitigating – Incentive – Materialist – Mainstream – Quantitative – Green – Thematic

How big is ESG?

According to the 2010 Eurosif survey, total ESG assets, defined as "core and broad SRI", represented EUR5,000bn (in 14 EU countries) in assets under management in 2009. On a comparable basis, this represents **an increase of about 97% over two years** (2007 to 2009) and a cumulative **annual growth rate of 37%.**

The growth is partly driven by traditional funds being transformed into either SRI or ESG funds. The natural growth is led by **institutional investors:** public pension funds or reserves, corporate/occupational pension funds, religious institutions and charities, NGOs and foundations, public authorities and governments, universities and other academic institutions, insurance companies, etc. These investors account for **92% of SRI assets under management.** However, demand from individuals is significant, and even increasing sharply in some countries.

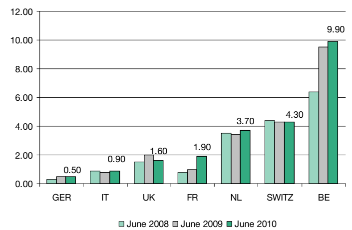
Core and broad SRI AuM in Europe



* Re-calculated according to the 2010 Core SRI definition

Source: Eurosif

SR fund assets as a % of total asset's in selected countries



Source: Vigeo

According to EFAMA (European Fund and Asset Management Association), core SRI assets represent 10% of the asset management industry in Europe on average, with significant differences from one country to the next. This level has been remarkably resilient in the face of the global financial crisis.

► Useful links: www.eurosif.org / www.efama.org

The PRI: *What does it mean in practice?*

The UN-backed Principles for Responsible Investment (PRI) is a commitment by more than **800 signatories** representing over **USD25 trillion** in assets under management (AuM), i.e. a **fifth of global capital**.

This implies that **ESG AuM should be at least as big as PRI!**
More than 900 signatories*:
- **239 Asset owners**
- **535 Investment managers**
- **167 Professional service partners**

*sept. 2011

The six Principles for Responsible Investment

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

In practice, corporates should expect more ESG questions when meeting these investors, as all signatories are committed to dedicating resources in order to implement a specific method for taking into account ESG criteria within their stock selection and their engagement policy. Asset managers that have signed the PRI do not necessarily endorse all six principles immediately. It takes time. However, this does result in strong momentum for integration. Moreover, asking the corporate specific questions is usually a first step.

The PRI has developed an "Engagement Hub Platform": a tool where investors can access the implementation resources and networks they need **to engage corporates on ESG issues.**

The initiative is led by UNEP Finance, the UN Global Compact, and investors. Cheuvreux was the first broker to become a signatory to the PRI.

► Useful link: www.unpri.org

Extra-financial analysis at a glance

The tasks of the ESG analyst range from collecting and checking data to assessing the economic value of the companies' sustainability strategy. This is a brief summary of the way CA Cheuvreux operates:

Data mining: We collect, integrate and aggregate information and indications. This is an investigation in the full sense of the word. Diverse sources make a case stronger. A broad set of information is required.

Contextualising: No ESG KPI can be fully understood and assessed without placing it into its business/sector or geographical, cultural and regulatory context.

Guidance: ESG and financial analysts work in the same way: they both need corporate guidance in order to develop a forward-looking analysis and create links with financial forecasts. Communication on long-term trends and strategic choices are essential to building ESG approaches.

Risks & Opportunities. The priority is analysis of the issues of a company or sector in terms of risks and opportunities. For CA Cheuvreux, the risk-based approach is a methodological convention, used as a starting point. Investment and development opportunities follow.

Materiality: This research is primarily based on the materiality of ESG criteria and their real or potential economic impact. We combine management and activity indicators with results and economic pointers.

Discriminating: Our analysis of companies' competitive positions or advantages/ disadvantages based on ESG criteria helps investors take a decision for their best-in-class selection.

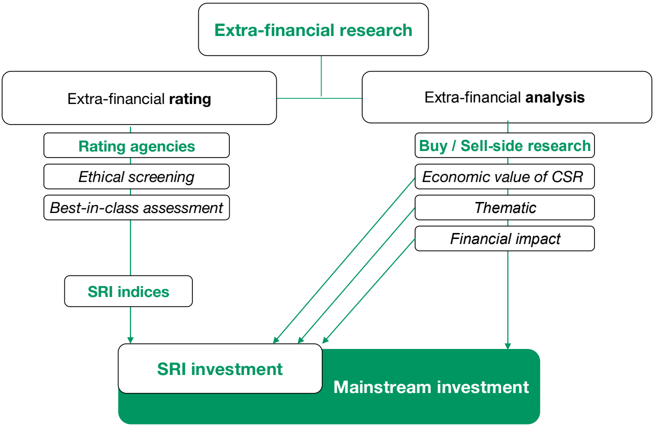
Ultimately, the goal is often about trying to capture the sustainability of the mainstream strategy, with a strong trend towards **financial analysis of extra-financial ESG criteria**.

A five-fold challenge

- **Unlimited scope of research, unlike financial analysis**
- **No reporting standard: a major obstacle**
- **Limited resources: mainstreaming is the most appropriate response**
- **Data: most often not verified**
- **Discrepancies between ESG and financial data (timing, scope, etc.)**

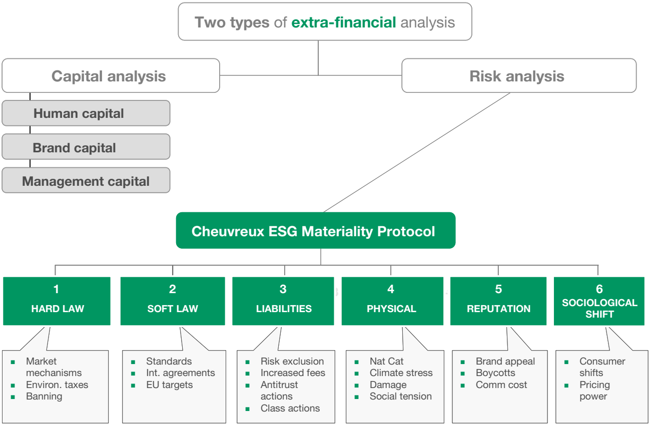
Two approaches to extra-financial research

Rating vs. analysis



Source: CA Cheuvreux

Capital vs. risk analysis



Source: CA Cheuvreux

SRI indices: Much ado about nothing?

Contrary to popular belief **the vast majority of investors do not actually value an SRI index selection…** it is generally corporates that do. This is simply because SRI indices reflect a specific rating methodology that is not endorsed by SRI investors.

Being part of a major SRI index may, however, offer **stakeholder recognition**: it presupposes some **transparency**, the respect of minimum social and environmental standards, and a degree of voluntary commitment to sustainable development.

Who uses SRI indices and why? The main purpose of these indices is to serve the fast-growing demand for passive management, i.e., funds such as ETFs (exchange traded funds) that track their index constituents.

The vast majority of **ESG and even SRI investors are benchmarked against mainstream indices**.

Main indices

FTSE4Good	*Financial Times Stock Exchange for Good*
Owners:	FTSE Group: independent company owned by The Financial Times and the LSE
Indices:	Four tradable (Europe 50, US 100, Global 100, Australia 30) and four benchmark (Europe, UK, US, Global) indices.
Assessment method:	FTSE4good inclusion criteria
Approach:	Exclusion of certain companies (e.g. tobacco, weapons, etc.) and selection criteria (environmental, social & stakeholders, human rights, supply chain labour standards, countering bribery)
Data provider:	EIRIS (Ethical Investment Research Service) – UK
DJSI	*Dow Jones Sustainability Indexes*
Partners:	Cooperation between SAM Indexes & Dow Jones Indexes
Indices:	19 indices: 5 World, 4 Europe, 1 Nordic, 2 USA, 2 North America, 2 Asia, 1 Japan, 2 Korea
Assessment method:	SAM's Corporate Sustainability Assessment
Approach:	"Best-in-class" approach on economic (corporate governance, code of conduct, compliance, risk and crisis management, customer relationship management, innovation management) environmental (management, performance, climate strategy, product stewardship, biodiversity) and social (human capital development, talent management, occupational health and safety, stakeholder engagement, social reporting) criteria.
Data provider:	SAM (Sustainable Asset Management) – Switzerland

Source: CA Cheuvreux

Other indices: **Low Carbon 100 Europe® index:** 100 European companies with the lowest carbon footprint within their sectors.
Living Planet® Green Tech Europe: European companies providing sustainable business solutions to global environmental challenges.
And also: Carbon Disclosure Leadership Indices – various MSCI indices – Domini Social Index – FTSE Environmental indices – Jantzi social Index – Innovest customised index, etc.

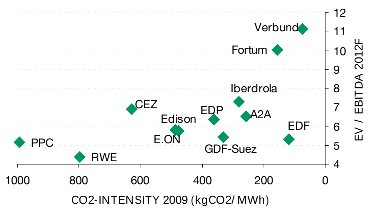
Investment benefits of ESG performance

Outperformance is not the issue: The academic consensus is inconclusive concerning ESG outperformance. All meta-analysis converges to say that overall, there is a slight positive correlation between financial performance and ESG ratings. But don't be misled! Past financial performance most often implies ESG performance.

The extra-financial benefit is mainly an insurance premium: Cheuvreux ESG research highlights the materiality of extra-financial risks. An ESG investor typically hedges against these risks… and is usually paying an insurance premium against ESG relate risk by **selecting companies that trades with a market premium towards their peers**. The two graphs below demonstrate that 1. low carbon intensive players trade at a premium for equity investors ; 2. High quality governance companies were traded with a lower credit spread (thus reduced yield for fixed income investors) during the 2008 financial crisis.

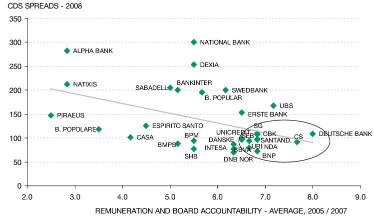
Optimising the return of ESG investment is possible: our view is that ESG issues are a source of risk and benefits for companies that therefore create market opportunities. It is up to the investor to anticipate the market pricing of these issues through proper 'investment discipline' integrating ESG that can potentially minimise volatility and risk as well as optimise their financial return.

Valuation multiples versus carbon intensity of European generators



Source: CA Cheuvreux

Better governance drives lower risk in the middle of the 2008 financial crisis



Source: CA Cheuvreux

ESG regulation and standards

ESG reporting: The end of the voluntary regime?

Should ESG reporting be regulated? With no common view among the EU-27 member States and no clear leadership on this issue, the EU has so far postponed regulation of CSR reporting through binding and detailed texts. However, there is a broad and interpretable framework with three directives and one regulation.

EU Directives

Directive	*Contents*
Additional Directive on annual accounts 2006/46/EC	"Annual corporate governance statement" - "Where relevant, companies may also provide an analysis of environmental and social aspects necessary for an understanding of the company's development, performance and position." "The group's risk management system [...] should be presented."
"Prospectus" Regulation 809/2004	"Risk factors' means a list of risks which are specific to the situation of the issuer and/or the securities and which are material for taking investment decisions." - "A description of any environmental issues that may affect the issuer's situation of the tangible fixed assets (property, plants and equipment)."
Transparency Directive 2004/109/EC	Transparency requirements
"Modernisation" Directive 2003/51/EC	"Description of the principal risks and uncertainties" - "Where appropriate, non-financial key indicators relevant to the particular business, including information relating to environmental and employee matters."

Source: CA Cheuvreux

The EU is looking into the subject: a step towards improvement

However, there is still scope for action and considerable value added for the EU in imposing a mandatory reporting regime to strengthen existing policy on non-financial (CSR) disclosure. The recent public consultation (Nov. 2010 to Jan. 2011) conducted with a broad range of stakeholders and companies demonstrates this commitment.

On that occasion, investors, insurers and financial analysts expressed the need for a more accurate and more suitable framework for their analysis: a common regulatory framework that is efficient for non-financial analysis, with credible and verified information.

Regulation: Cultural differences, same approach?

Depending on the business culture and maturity on these issues, countries have implemented either a regulatory approach or an incentive approach. Note that environmental reporting is more strongly and widely represented than social reporting. Some examples.

Countries with a mandatory approach

Countries	*Regulation*	*Scope*
Denmark	Amendment to Danish Financial Statements Act (2008) + Guidelines reporting on CSR (2009) - Environmental Protection Act, Green Accounts (1998) for polluting activities - *(considerable use of EMAS*)*	Listed and State-owned companies (with thresholds)
France	"Grenelle II" law (2010) and decree (under way) on CSR reporting. "NRE" law (2001)	Listed and private companies (with thresholds)
Netherlands	Environmental Management Act - decree on environmental reporting (1998) for polluting activities	Companies with polluting activities
Spain	Sustainable economy law including information requirement and transparency on social responsibility (2011) - *(considerable use of EMAS*)*	Public or publicly-funded companies
Sweden	Swedish environmental code, reporting with GRI guidelines (1998)	State-owned companies

Source: CA Cheuvreux

Countries with a guidelines/recommendations approach

Countries	*Guidelines/Recommendations*	*Scope*
Austria	Guidelines, reporting about sustainability (2003) - *(considerable use of EMAS*)*	Large, medium and small enterprises
Germany	German sustainability code of conduct (2010 - under way) - *(considerable use of EMAS*)*	Listed companies
Netherlands	Dutch Accounting Standards, guidelines for annual reporting (2010)	Large and medium-sized companies
Sweden	Guidelines for external reporting by State-owned companies (2007)	State-owned companies
UK	Companies Act (2006) - obligation for a Business Review with recommendations to include environment, employees, social and community issues - Reporting Guidelines for UK Business (2006)	Businesses operating in the UK, public and private, LMS size

Source: CA Cheuvreux

*EMAS: the Eco-Management and Audit Scheme, a voluntary initiative designed to improve companies' environmental performance. Initially established by European Regulation 1836/93

ESG reporting standards: Proliferation vs. harmonisation

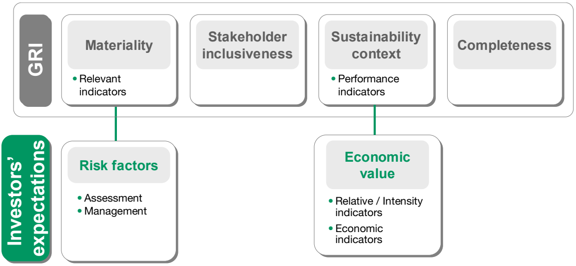
The current ESG disclosure regime operates on a largely voluntary basis. While we are highlighting a few general disclosure initiatives such as the GRI, we see growing demand from investors for **harmonisation and integration**.

The Global Reporting Initiative (GRI) is a voluntary reporting standard, although it has many limitations for extra-financial analysts. However, the framework is a de facto standard, often mentioned as a reference in local regulations. Version G4 is currently being drawn up, and investors and analysts are taking part in the process although their views are not taken into account sufficiently, in our view. In order to look beyond a corporate-centric approach, **we supplement GRI's principles of content and principles of quality with investors' expectations**.

Mind the gap! Complying with GRI does not necessarily imply meeting SRI investors' expectations.

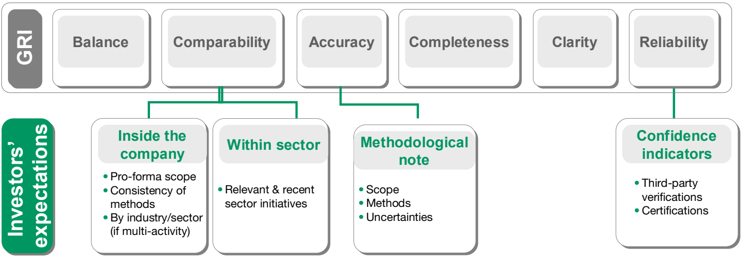
Beyond GRI: Investors' expectations

Principles of content



Source: CA Cheuvreux

Principles of quality



Source: CA Cheuvreux

EFFAS KPIs: A reporting standard closer to investors' needs

EFFAS (the European Federation of Financial Analysts Societies) includes all the national associations of financial analysts. In 2010, EFFAS published **"A Guideline for Integration of ESG into Financial Analysis and Corporate Valuation"**, in collaboration with DVFA (Society of Investment Professionals in Germany).

EFFAS key principles

- KPIs must consider the needs of economic agents in general and investment professionals in particular
- KPIs can be analysed effectively only by economic sectors and sub-sectors
- KPIs must focus primarily on risks and opportunities

Three core ideas of the guidelines

Comparability, by sector or sub-sector, is essential for investment decisions

In order to be relevant, analysis of indicators must be carried out at the sub-sector level, according to GICS or ICB classification, with comparable indicators. For the moment, this exists for very few sectors. Segment reporting would also be useful for multi-sector companies.

Relative/intensity indicators are essential to overcome the effects of cycles and boundaries

Indicators in volume/absolute terms make sense for regulators but do not make economic sense. Relative indicators overcome the effects of boundaries and cycles in particular. They may be comparable. Examples:

- Energy efficiency (EO102): energy consumption, specific (intensity); options: per unit revenue, per FTE, per unit of production volume (e.g. tonnes of steel)
- Water consumption (E2082): water (in cu. m) used per amount (e.g. in tonnes) of product manufactured

Accounting and economic data should link extra-financial and financial performance

To link extra-financial performance and financial performance, it is essential to get accounting and economic data: investment, expenditure, revenues, supply, cost reduction, provisions, guarantees, innovation. Examples of environmental criteria:

- Environmental compatibility (E3302): Percentage of **revenues** from eco-labelled products
- Innovation (V0412): Total **investment** in ESG-relevant aspects of the business, such as e.g. eco-design, eco-efficient production processes, the decreasing impact on biodiversity, etc.
- Remediation (E1201): **Expenditure** on remediation, reclamation, and decommissioning, total in monetary terms.
- Remediation (E1205): Total amount of **reserves** for future environmental remediation and environmental monitoring, total in monetary terms.

The need is evident for analysts. EFFAS has asserted its point of view regarding the coming G4 version of GRI and is involved in the Initiative for Integrated Reporting (IIRC).

► Useful link: www.effas.net

Other standards

Commitment standard

UN Global Compact	> Good if associated with a real commitment, extended liability (i.e. supply chain and communities) and a clear and detailed CoP (Communication on Progress). Connected to the eight fundamental conventions of the ILO and the UN's Universal Declaration of Human Rights, which are sometimes used separately.
OECD Guidelines For Multinational Enterprises	> The commitment of states, food for thought to build your policy, foreshadows possible regulatory changes, including the supply chain.

Reporting standards

IIGCC	> Four relevant sub-sector disclosure frameworks for carbon-intensive industries: electricity utilities, real estate, automotives, and oil and gas. Drawn up by investors.
WBCSD	> Sector project with a comparable indicators reporting initiative for the cement industry (CSI) Thematic project called Global Water Tool to assess, measure and report on water impact.
UN CTAD	> Guidance on corporate responsibility indicators in the annual report: insufficiently known and used, but nevertheless relevant. Beginning of an integrated approach, likely to satisfy investors.
CDP	> Investors' initiative to measure and compare the carbon impact using two indices.
GHG Protocol	> Worldwide standard for measuring carbon footprint, including sector toolsets.

Certifiable standards for management systems

ISO 14000 series	> Useful to control environmental management systems, inseparable from company results.
EMAS	> Requires more than the ISO 14000 series (regulatory compliance required, plus a comprehensive environmental statement).
OSHAS18000 series	> Equivalent of ISO Management systems applied to health and safety.
ILO-OSH	> More demanding than the OHSAS series (regulatory compliance, union and employee inclusion).
SA8000	> The best way to evaluate your suppliers on human rights and working conditions.
ISO 26000	> See page 22

ISO 26000: How useful is it?

What is it? **A hybrid norm:** not a management system, nor technical specifications, nor a standard test method, but **an ecosystem standard for organisations' social responsibility.**

For whom? For public and private organisations, profit and non-profit.

By whom? **This is a worldwide shared definition of CSR** signed by 66 countries, including BR-C (Brazil, Russia and China, but not India), the EU-27 except Luxembourg, and excluding the US. Supported by NGOs and non-profit organisations.

Useful for: Serving as a common language
Providing a **framework to design your own vision**
Better understanding and managing the relationship between business and stakeholders
Serving as a basis for sector-specific variations
Building a system of evaluation or certification, by country

…and overall, managing your reputation, your capacity to attract and retain talent, your relationships with stakeholders, your public acceptance and your competitive advantage…

Seven principles:

- Accountability
- Transparency
- Ethical behaviour
- Respect for stakeholder interests
- Respect for the rule of law
- Respect for international standards of behaviour
- Respect for human rights

Seven core subjects:

- Organisational governance
- Human rights
- Labour practices
- The environment
- Fair operating practices
- Consumer issues
- Community involvement and development

ISO 26000: a formative – unifying – more comprehensive – instructive – emulative standard.

Disclosing hidden assets: A focus on intangibles

Companies have fully understood the issues associated with intangible assets. There are several valuation methods: ISO 10668:2010 (monetary valuation of a trademark); IVSC (guidance note No. 4; Valuation of Intangible Assets); OECD (principles for transfer pricing); and IFRS 3 as revised (Business Combinations).

A number of intangible assets are insufficiently covered or taken into account, such as:

- Institutional capital: Ability to positively manage licences to operate;
- Innovation capital: Cultural capacity to create value through innovation, beyond R&D effort and patents;
- Human capital: Intelligence to attract and develop skills, ensuring greater competitiveness;
- Knowledge capital: Knowledge acquired, capitalised and materialised, mostly in information systems.

Human capital is not an asset with a monetary value. In contrast, quality assessment is required. It must also be analysed with KPIs conventionally used in the human resources field (training, absenteeism, etc.). Furthermore, a way to assess the culture of innovation has to be defined. Lastly, relational intelligence for the "**licence to operate**" is key for ESG issues.

> The analysis of intellectual capital is an important part of any ESG or SRI investment approach. Extra-financial analysts cannot afford not to address these critical elements with regard to a company's sustainability.

Capital	*Issues*	*Components*
Relational	Customer capital	Number, average basket, loyalty
	Supplier capital	Providers' skills, supply contracts, licences
	Institutional capital	***States, local, regional authorities; licence to operate management***
	Distributor, retailer capital	Outlets, number, quality, contracts
Structural	Innovation capital	Concepts, patents, operating rights, licences
		Ecosystem, culture of innovation, economic intelligence
	Brand capital	Trademarks, licences, domain names
		Image quality (product / brand, corporate / institutional), notoriety
	Process capital	Operational methods, information management and flow, strategic processes
Human	Individual, collective skills capital	***Skills, knowledge, experience***
	Knowledge capital	***Knowledge management, knowledge bases***

Source: CA Cheuvreux

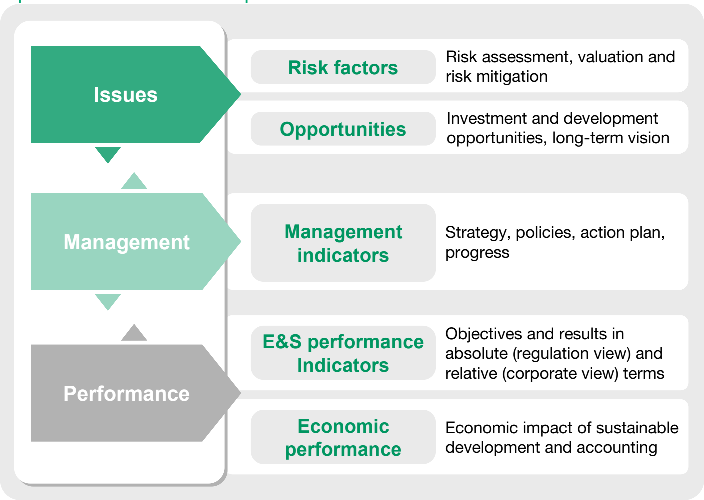
Integrated reporting?

Why? Part of the financial community agrees with the idea that reporting standards and practices do not allow it to capture the entire risk profile and value potential of an asset, nor to measure the economic value of a corporate's performance based on extra-financial criteria.

Who? *"The International Integrated Reporting Committee, or IIRC, is a powerful, international cross-section of leaders from the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors, as well as civil society."*

What? Extensive consultations have been undertaken to develop an initial concerted approach to integrated reporting. Pilot projects are underway, including in South Africa and Japan. Some companies have already gone to the practice (e.g. Rabobank, Novo Nordisk, Natura, UTC, Philips, Southwest Airlines, Anglo Platinum, Eskom, etc.).

One report with five interrelated parts



Source: CA Cheuvreux

Warning I: Do not expect a definitive standard or regulation quickly. It will take years. Act now. Learn from best practices. The market will value it.

Warning II: Performance, don't forget consistency with risk factors.

Audit and verification: The importance of building trust

The first question asked by an SRI investor (or that he should ask) is: how **reliable** is the data? An audit of non-financial data provides a methodological report that specifies scopes, uncertainties and other useful observations. It reassures investors that the data is reliable, that the company is in a process of continuous improvement, and that it has its reporting under control. In addition, through successive annual audits, the company gradually gains in maturity.

Level of confidence in the data

Level	*Topic*	*Wording*	*Standard*	*Author*
High	Credibility of the E&S data	Reasonable assurance by auditors, compliant with ISAE3000	ISAE3000:2005	International Auditing and Assurance Standards Board
Medium +	Credibility of the E&S data	Moderate assurance by auditors (see above)	ISAE3000:2005	International Auditing and Assurance Standards Board
Low			All the others	Various

Source: CA Cheuvreux

Certifications, commitments and other management systems must always be connected to the results: KPIs. However, they do not have the same level of requirements or the same scope. We thus accord them different levels of confidence.

Levels of confidence in management systems or commitment approaches

Level	*Topic*	*Wording*	*Standard*	*Author*
Medium +	Environment, organisation	EMAS (Eco-Management and Audit Scheme) registration	EMASII:2010	European Union
	Social, H&S	ILO - Occupational Safety and Health certification	ILO-OSH:2001	UN - International Labour Organization
	Environment, products	Various certification labels for eco-products	EU or country eco-labels	EU and Local Certification bodies
Medium	Environment, organisation	ISO 14001 Certification	ISO 14001:2004	International Organization for Standardization
	Social, H&S	Occupational Health & Safety Assessment Series Certification	BS OHSAS18001:2007	British Standards Institution
	Social	Human rights and working conditions compliant with SA8000 standard	SA8000:2008	Social Accountability International
Low	Commitment	Commitment to Global Compact and reporting CoP	UN Global Compact	United Nations
	Reporting standard	Compliance with the GRI reporting standard	GRI-G3.1:2011	Global Reporting Initiative

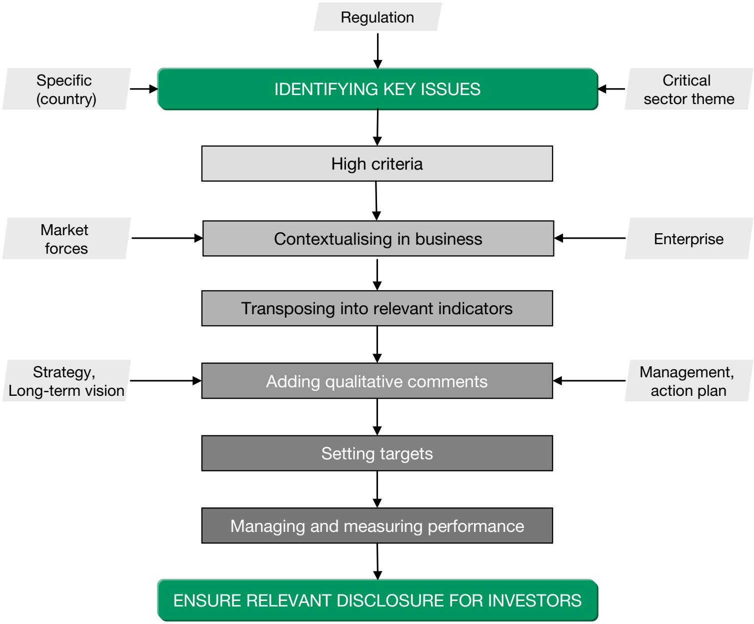
Source: CA Cheuvreux

Warning: In the coming years we expect a strengthening of audit requirements and increased audit costs.

Meeting ESG investors' expectations

Beyond standards: Match investors'needs

Building on our knowledge of ESG investors' various approaches and requirements, we present below a complete summary of their expectations with regard to corporates' strategies, policies, management and results in terms of ESG factors. The final objective is to yield an economic valuation... but we are not quite there yet.



Source: CA Cheuvreux

Labour: Reporting on human capital performance

The hierarchy of social issues is up to each company. However, the **four key issues** we look at primarily, both in the company scope and its supply chain, are: terms of adaptation to changes of activity (job level – job location – cyclical or structural adaptation – **restructuring risk**); compliance with international standards (ILO, UNGC); social dialogue; and health and safety. The fifth issue is, of course, employability and skills development. The key indicators are presented below, in an integrated manner.

Social indicators by issue

Employment trends (reduction, creation)
Total FTE headcount (by ICB GICS sector and sub-sector, if applicable)
Payroll (including charges, provisions and taxes), payroll as a % of costs
Sales per employee, margin per employee
Location of staff (by region)
Total FTE headcount by major economic region (Europe, Asia, NAFTA and SA, Japan, ROW, depending on relevance)
% sales by major economic region (see above)
Adapting to business trends
Flexibility agreements (Y/N), principles
Breakdown of FTE headcount, permanent vs. temporary/short-term contract staff
Adaptation plan (redundancies, voluntary departures, internal transfers, help with business creation, retirement departure, government subsidies, etc.)
Provisions for restructuring, restructuring charges
Social dialogue and climate
Company agreements, types and conditions
Collective labour conflicts (number of strike days)
Individual labour conflicts (number, penalties)
Employee satisfaction rate (internal survey)
Absenteeism rate
Employee turnover rate
Voluntary departure rate
Replacement rate
Health and safety
Health and safety management system, certification and means
Workstation ergonomics, assessment and means implemented
Workplace accidents, frequency rate, severity rate - Deaths
Cost of workplace accidents, number of working days lost
Work-related illnesses: risk assessment and control, conditions and means
Effects of work-related illnesses (chemical risks, psychosocial, musculoskeletal disorders, ionising radiation, etc.)
Cost of sick leave
Ageing: age pyramid by category, associated risks, means

Source: CA Cheuvreux

Social performance: How important are your stakeholders?

Who are your **critical stakeholders**?

- Identify and prioritise stakeholders for their ability to influence your business
- Internal, external? Don't forget employees: People first?
- Invest in understanding their expectations, functioning and action mode

How do you interact with them?

- A stakeholder committee is worth your time
- Contribution to / review of your strategy, your reporting?
- Some are qualified for common projects

Are their interests aligned with those of shareholders?... and consumers?

- Don't do the splits: consistency of your goals?
- Ability to achieve consensus
- Explain your strategy, trade-offs and actions

How important is your **licence to operate** issue?

- How dependent are you on specific stakeholders? Can you do without them?
- What about community management?
- Strengthen skills and processes to manage institutional relationships

How important is your **branding** issue?

- To achieve your strategy, how should you appear to your customer?
- How critical is customer loyalty?
- Product/brand image and corporate/institutional image serve your goals equally

Charity, “access to” issues, BoP practices… how much and why?

- Real development opportunities for social business and access to basic needs
- Can you do without?

How do you manage your **reputation**?

- Are you equipped/minded to deal with controversy?
- Know how to respond in a timely and appropriate manner
- Never lie, or hide your head in the sand…
- Transparency, maturity and means to face reputational crisis

Tax rate: your direct contribution to society… Where do you stand?

- Your business's approval depends on a contribution that is fair, or so perceived

Stakeholders' satisfaction: customers of course… but others?

- You need KPIs, measures and facts… Their needs change… You can improve
- SRI investors want to know the employee satisfaction rate

Distribution of value added: *A critical KPI?*

Distribution of value added: in a few key points, a central subject in terms of sustainability, perhaps the most important.

Be aware of the context: the subject is central to the debate…
- A continuing political debate in Europe about the economic and social balance of distribution of value added
- Sometimes the will to regulate, or political expediency

Components are clear… and investors monitor them. What is your strategy?
- Taxation, tax optimisation: pressure will increase
- Dividend payment policy
- Uses of cash flow?
- Dividend, staff costs, tax portion of EBITDA
- % in research and development, investments
- Share of payroll, staff costs, profit-sharing

Contextualise information…
- What's specific to your sector? Industry trends?
- Time of ROI?
- Staff costs, proportion in LCC and HCC?

R&D and investments, investors need a prospective view on your project
- Share of R&D compared to the industry average?
- Technological roadmap?
- Investment to reduce opex, energy dependency?

A high and systematic **dividend payout** leads to investors questioning the future…
- At the expense of R&D and investment?
- Trade-off between wages and dividends? Status of social dialogue?
- Maintaining the dividend to reassure markets?

Staff costs: the only adjustment variable?
- Relocating and/or expanding in emerging countries?
- Productivity growth?
- Variable compensation? Incentive policy connected to earnings?
- Risk in terms of social issues?

Warning: Any analysis must be carried out in perspective. Wage versus dividend tradeoffs must be qualified, and our analysis shows that European groups have not used human resources substantially to adjust to lower revenues. For investors, allocation keys are an advance indicator of potential restructuring.

Environment: Focusing on key issues and challenges

The absence of an ESG disclosure regime leads to companies reporting on a spectrum of criteria that is usually perceived as too large by many ESG analysts. Refocusing on the most significant key issues and relevant environmental challenges is a major investor requirement.

1 Critical issues

To focus on the most **critical issues**
- ISO 26000 Core Subject screening
- Setting EFFAS performance indicator targets

2 Impacts

Important: We must split the **impact** on the environment from **dependency** on it.

A – Environmental management performance
- Managing the environmental footprint
- Managing environmental (industrial) risks
- Managing environmental liabilities

B – Dependency on the environment
- Another approach to risk management
- Sourcing… and again the supply chain
- From the scarcity issue… to the price issue

Consistency with **risk factors**

From suppliers to eco-design: basic / from cradle to cradle: foreseeable future

C – KPIs to be provided
- In an integrated fashion: see example on water

3 Product performance

Another way to assess **responsibility** and **material risk**
- Managing health and safety effects
- Reducing environmental impact in the use phase
- Inventing products that provide solutions

Consistency with **opportunities**

Increasing investor interest in product responsibility
Green Tech: an investment approach to product responsibility

4 Product information

Consider the risk on information and protect your **reputation**
- Provide transparent and complete information about products, without "green washing"
- Be ready to face crises – prepared and organised for product recalls

Source: CA Cheuvreux

Environment: What KPIs to provide? Example for water issues

Environmental indicators by issue, in an integrated manner

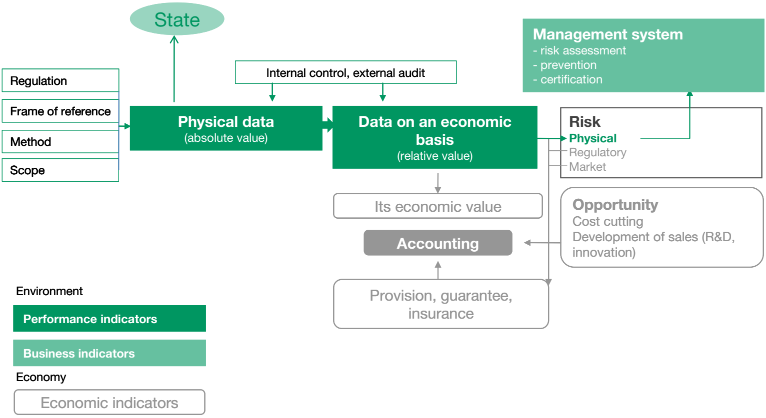
Indicator type	*Abbrev.*
Risk factor	RF
Management, activities: strategy, action plan and measures, targets	Ma
Regulations: standards, thresholds, quotas, etc.	Reg
Environmental indicator: results, measurement in absolute terms	Env
Economic indicator: measurement in relative terms, capex, opex, ratios, etc.	Eco
Controversies/reputational risk	Rep

Water	
Resource availability	*Type*
Assessment of the impact of water use in the area, high water-risk regions	RF
Resource quality	Type
Quality indicators for water used	Env
Measures implemented to preserve or improve the quality of water used, and related costs	Ma, Eco
Resource pre-treatment	Type
Measures implemented to treat inflowing water, and related costs (R&D, capex and expenses)	Ma, Eco
Consumption	*Type*
Amount (EUR m) and proportion (%) of direct purchasing costs related to water	RF, Eco
Total volume of water used (cu. m), by source	Env
Consumption-reduction measures	Type
Targets for reducing water consumption	Ma
Percentage (%) and total volume (cu. m) of recycled, recovered and reused water	Env
R&D and capex (% and EUR m) dedicated to reducing water consumption	Eco
Water content of products/services	*Type*
Water intensity indicator (litre or cu. m) per unit of product/service	Eco
Water pollutant management	*Type*
Applicable international and national standards (thresholds) for pollutants, by pollutant type	Reg
Results of pollutant measurements, by site and pollutant type	Env
Spending and capex (EUR m) dedicated to reducing/eliminating pollutants in water and/or complying with regulations	Eco
Major risks	*Type*
Assessment of major water-related risks (floods, tsunami, water/ground pollution, etc.)	RF
Measures implemented and related costs to prevent major water-related risks	Ma, Eco
Accidental pollution	*Type*
Total number, volume (cu. m) and type of major accidental spillage incidents, and impact on water	Env
Measures implemented to restore accidentally-polluted sites and related costs	Ma, Eco
Controversies	*Type*
Controversies related to water use or wastewater, management and explanations	Rep

Source: CA Cheuvreux

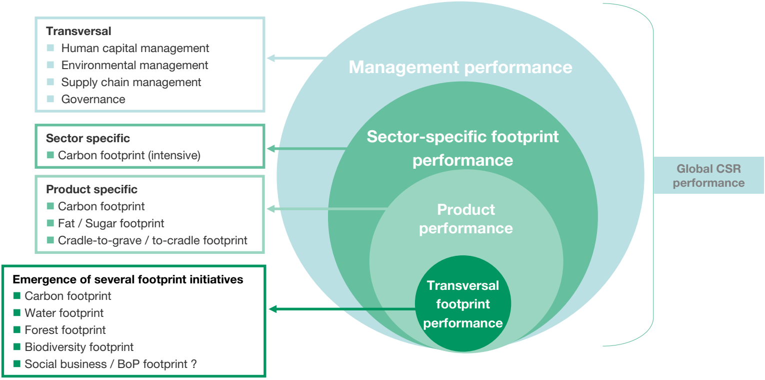
A systemic approach to environmental indicators

Mapping for an integrated method: aligning physical and business indicators



Source: CA Cheuvreux

Extended analysis to focus on what matters most



Source: CA Cheuvreux

Climate change: What really matters in your carbon footprint?

A key issue for investors

Amongst other environmental challenges, climate change is also quite unique, following the emergence of carbon pricing policies such as the EU carbon market and the Kyoto Protocol that have put a price on carbon emissions as environmental externalities. The wide set of carbon mitigation policies, including carbon/energy efficiency standards for goods, has made climate change one of the most financially material environmental issues. Carbon emissions are therefore no longer looked at as merely a measurement of environmental performance by a limited community of SRI analysts, but are increasingly sought by mainstream sector specialists to estimate and integrate future carbon costs in their equity financial valuation, starting with European electricity utilities.

From environmental performance to carbon financial exposure: different reporting expectations

The type of information expected from corporates by investors tends to differ depending on whether investors want to assess the global environmental performance of a company or regional exposure to carbon regulations. We provide an illustration of this in the table below.

Example of different reporting expectations depending on the analytical angle

Environmental Performance		*Financial Carbon Exposure*
CARBON FOOTPRINT		
Cement: global CO_2 emissions (in million tonnes)		Cement: CO_2 emissions by country / region
Auto: average CO_2-efficiency of cars sold globally		Auto: average CO_2-efficiency of cars sold by region
BENCHMARKING		
Cement: KPI set by the Cement Sustainability Initiative: tCO_2 / t cement		Cement: Position against the benchmark set by the European Union for CO_2 allocation: tCO_2 / t clinker; allowances (to be) received for free vs. (projected) verified emissions
Auto: KPI average gCO_2 / km of cars sold		Auto: Distance to fuel economy standard
EMISSION REDUCTION TARGETS		
Global emissions reduction target (e.g. as a % relative to a base year) - identified emission reduction actions, investments planned to achieve the target		Compliance/market strategy, including potential hedging, local emission reduction actions, use of carbon offset credits, selling vs. banking of surplus quotas, etc.

Source: CA Cheuvreux

Carbon footprint: Why disclose?

Investor commitment: The Carbon Disclosure Project is an initiative supported by investors requesting companies to answer a climate change specific questionnaire each year. In 2011, a group of investors formed the CDP Carbon Action initiative requesting companies to implement cost-effective GHG emissions reductions. Specifically, companies are being encouraged to: 1) make year-on-year emissions reductions; 2) identify and implement investment in GHG emissions reduction initiatives that have a positive return on investment; and 3) any companies that do not already have an emissions reduction target will be asked to set and publicly disclose one.

Limit the risk of misleading analysis on your company: Without direct information from corporates, investors may seek information from other sources to get carbon data (e.g. EU carbon registry) or make their own assessments. Given the complexity of some carbon policies, achieving accurate estimates of financial impact can prove difficult. For instance, steel producers have been complaining that the misunderstanding of EU ETS rules has led some observers to overestimate the surplus CO_2 quotas held by companies.

Signal potential opportunities to the market: SRI, Green, or Climate Change thematic funds also seek companies providing products/services finding green applications. Provide information such as the amount of carbon emissions reduced thanks to the use of products (scope 3), percent of group sales from such goods or services, innovative carbon reduction technologies in the R&D pipeline, etc.

Reporting pitfalls: The same pitfalls for ESG data hold true for carbon emissions data, but a specific concern with carbon emissions data is that they are often compared to financial metrics such as sales or EBITDA. It is important to check that reported carbon data such as emissions allowances follow the same consolidation rules as used for financial reporting!

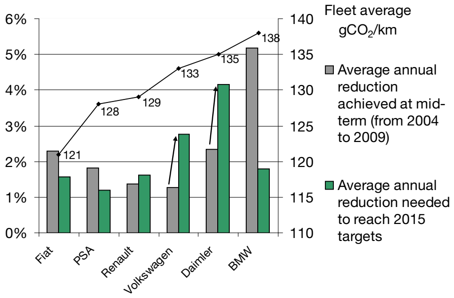
Specific reporting frameworks

GHG Protocol	The most widely used international accounting tool to understand, quantify and manage GHG emissions.
CDP questionnaire	An exhaustive review of corporate climate change strategy. Some CDP datapoints are now directly available to the financial community via Bloomberg.
IIGCC	An investor-led initiative notably engaging companies over disclosure based on sector-specific climate change reporting framework. Sector reporting frameworks designed for Electric Utilities, Automotive, Oil & Gas, Property.
WBCSD / CSI	The Cement Sustainability Initiative under the umbrella of the WBCSD is a good example of sector-led harmonisation of environmental KPIs.

Carbon research: Let's compare

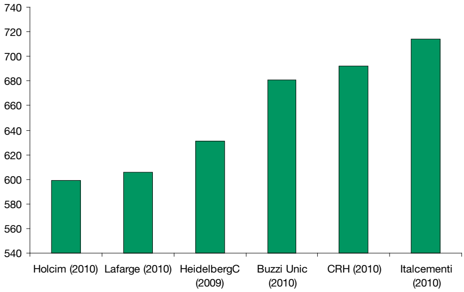
Carbon Research follows regulatory changes, companies' strategies and investments, market prices and technological advances. We anticipate and model climate change impacts both on mitigation and adaptation concerns. We explore the impact on expenditures, revenues and valuation. Two charts to illustrate the research:

Gap to 2015 CAFE targets for main European carmakers



Source: CA Cheuvreux

CO_2 intensity ($kgCO_2$ / t) for main European cement producers



Source: CA Cheuvreux

Disclosing your Corporate Governance systems and profile

Corporate Governance is increasingly a key focus among investors and certainly **the most mainstreamed one**.

Beyond proxy-voting, investors are looking for qualitative inputs that allow them to evaluate the governance structure of the companies they invest in and ensure that their rights as minority shareholders (or mandated by minority shareholders) are protected. As such, what is crucial for investors is understanding and maintaining the balance between risk taking (by management) and risk avoidance. The financial crisis highlighted the power of corporate governance as a balancing check against these two issues, and we outline below the main themes we believe are paramount for investors.

Tell us more about your board!

Generally one of the main issues for investors is the power structure of the board, particularly where there is evidence that a group or individual shareholder has significant influence. This issue is even more acute where there is not a clear separation of roles at the top of the company, as an independent chairman is often viewed by minority investors as a check against the influence of a controlling shareholder or group.

Board directors need to have the right skills and expertise…

Investors are interested in seeing more disclosure on the specific skills, expertise and competence that non-executives can bring to the board given the challenges facing that particular company. One such committee where director competence and expertise is particularly vital is the audit committee. The audit committee's risk management responsibilities have led to investors (increasingly) looking carefully at the members of this committee to ensure that they have not only strong financial experience, but also a clear understanding of the technical aspects of the business.

Should you fail to plan (for succession)… you are planning to fail

Succession planning for the Chairman & CEO are now key issues for investors, particularly given the potential volatility that sudden (and unplanned) succession events can have on the share price. Succession is a sensitive subject but it is one where more transparency concerning the talent pool from which the potential CEO may emerge or the recruitment process used to appoint a future chairman of the board would be welcomed by investors.

Compensation: How much are you paying, and why?

The key issue for investors when examining remuneration is transparency and disclosure so that an assessment can be made of whether the compensation system creates shareholder value in the long term. As such, a lack of disclosure of basic figures such as salary, bonus and incentive awards may be interpreted as a sign that the remuneration structure is not sufficiently robust or is not delivering shareholder value appropriately.

In addition, clawback provisions are increasingly viewed by investors as an essential component of the remuneration policy. Clawback provisions essentially allow boards to recover remuneration paid out to executives based on performance that was not actually achieved whether due to restatement or other (potentially fraudulent) reasons.

Governance is fundamentally about my rights as a shareholder…

Investors mostly want all shareholders to be treated equitably, with one share equal to one vote. In addition, they generally view anti-takeover mechanisms as potentially detrimental to shareholder rights in the event of a change of control. However, we acknowledge that there may be situations where a shareholder rights plan (or poison pill) can benefit shareholders, particularly if utilised to force a bidder to pay a premium rather than as a tool to entrench management.

A guide to ESG risk factors

Analysis of risk factors is a pillar of ESG, an investment practice and a methodological convention. It usually precedes the analysis of opportunities / strategic analysis. They are inherently inseparable. This is a requirement of EU regulations *(see page 16)*.

Labour		
	Issues	*Risks*
Job level and location	Cyclical adjustment to economic crises	Restructuring, layoffs, costs, reputation
	Structural adaptation to market location	Job localisation, poor adjustment of industrial footprint
	Cost cutting	Relocation and offshoring, reputation
Health and safety	Occupational injuries	Injuries and fatalities, costs and reputation
	Occupational diseases	Bio and Chemical hazards, costs and reputation
		Radiation risks, costs and reputation
		Psychosocial risk, cost and reputation
		Musculoskeletal disorders, costs
		Others diseases and disorders, costs
Ageing	Longer careers	Occupational diseases, costs, pension funding
		Poor adjustment of working conditions, costs
	Departure of baby boomers	Loss of skills, talent pool
Talent management	Retention of talent	Loss of skills
	Appeal	Skills shortage
Organisational changes	Mergers and acquisitions	Loss of efficiency, restructuring, layoffs
		Loss of identity, reduced motivation
Labour/management dialogue	Social climate	Strikes with days lost, loss of production
		Reputational risk
		Commitment, motivation and efficiency
Diversity	Integration of women, seniors, disabled, ethnic origins, etc.	Cohesion, dialogue, innovation
		Loss of skills
		Reputational risk
		Lawsuits and fines
Change in terms of jobs and skills	Maintaining employability, level of skills and development	Poor adjustment, decommissioning, performance
	Increased level of technicality	Poor adjustment and decommissioning
	Growing E and H&S issues	Not enough control over E and H&S issues
	Importance of skills, behaviour of management	Overall performance
Human rights	Respecting global standards	Reputational risk
Working conditions	Respecting global standards	Reputational risk, employee efficiency

Environment: Availability and quality (EU pressure & state model)		
	Issues	*Risks*
Water	Water availability	Access, availability and cost of water resources
	Water quality	High pre-treatment costs
Air	Air quality	Public health risk
Biodiversity	Sourcing of plant extracts (e.g. natural molecules for pharma industry)	Security of supply, availability and cost
	Quality of genetic diversity	Loss and vulnerability of species
Raw materials	Sourcing of natural resources	Finite resources
		Security of supply, availability and cost
		Rare earth elements and metals (REE and REM), strategic materials
Non-renewable energies	Increasing global demand for energy	Exposure, energy dependency, costs
		Security of supply, availability and cost
		Finite resources
Agriculture and livestock	Increasing global demand for arable and fertile land	Security of supply, availability and cost
Fishing and other aquatic resources	Growing global demand for seafood	Loss and vulnerability of species
Forestry	Increasing global demand for forest products	Security of supply, availability and cost
	Deforestation	Climate, desertification, human activities

Environment: Major risks		
Extreme events, climate disruption	*Issues*	*Risk*
Climate change	Increased number of extreme weather events	Environmental degradation, impact on property and people's H&S
	Global warming: impact on water	Access, availability and cost of water resources, water temperature
	Global warming: impact on agriculture	Desertification and reduction of arable land
	Global warming: impact on sea levels	Loss of land
Natural catastrophes	Earthquakes, floods, storms, drought, etc.	Environmental degradation, impact on property and people
Pandemics, panzootics	Pandemics, panzootics	Human health impact on activity

Accidental events	*Issues*	*Risks*
Production-related	Plants: related impact and accidents	Technological, human and environmental
		Impact of an accident on other businesses in same sector
		Impact of an accident on the supply chain
		Public acceptance of an activity
Transportation-related	Transport: related impact and accidents	Technological, human and environmental
	Destabilisation of the environment by transport of invasive alien species	Disruption to the community, cost of tackling invasion

Environment: Emerging tech risks

	Issues	*Risks*
Emerging technologies (Nano, biotech, GMOs, etc.)	Lack of control over of human and environmental impact	Technological, human and environmental
		Public acceptance

Environment: Regulation

Aim	*Policy*	*Risks*
General environmental protection	Strengthening of regulatory requirements	Regulatory non-compliance, fines
		Cost of compliance, industrial upgrading
		Clean-up costs related to stiffer thresholds
	Application of the precautionary principle	Development of research programmes and innovation
Environmentally-friendly consumption	Change in consumer behaviour	Consumer arbitration due to bonus/penalty policy
		Consumer arbitration due to environmental labels
		Consumer arbitration due to technical performance
Health protection	Product safety	Accident risk, health risks, reputational risk
	Health implications of products	Health risk, reputational risk
	Application of the precautionary principle	Development of research programmes and innovation
Fight against climate change	20% improvement in energy efficiency	Time to market of energy efficient products
		Cost of energy saving solutions
	Increase share of renewable energy to 20% of total	Risk related to public trade-offs and support among energy sectors
		Higher energy costs
	Reduce CO_2 emissions by 20%	Risk related to trade-offs between sectors
		Allocation of quotas and the amount of CO_2
		Implementation of a carbon tax
		CO_2 emission caps and thresholds

Reduce waste, improve recovery	Reducing waste production	Eco-taxes
	Polluter pays	Producer responsibility
	Promotion of recycling and waste recovery	Higher prices for recyclables
Reduce hazardous waste, secure treatment	Strengthening of regulatory requirements	Clean-up costs, industrial upgrading, etc.
Improving air quality	Strengthening of regulatory requirements	Regulatory non-compliance, fines
		Cost of compliance, industrial upgrading
		Clean-up costs related to stiffer thresholds
		Prohibition, restrictions for health reasons
Control of water resource quality and quantity	Strengthening of regulatory requirements	Regulatory non-compliance, fines
		Cost of compliance, industrial upgrading
		Clean-up costs related to stiffer thresholds
		Bans or restriction of water use, for availability reasons
Assessment of project-related impact	Licence to operate	Clean-up costs related to stiffer thresholds
		Cost of equipment and safety measures
		Public acceptance of projects, nimby syndrome
	Sourcing of natural resources	Administrative approval and public permission
		Security of supply, availability and cost
Compliance		
Requirements	*Issues*	*Risks*
ILO conventions	Compliance with international standards	Reputational risk
International conventions on the environment	Compliance with international standards	Reputational risk
GRI, de facto standard on reporting	Compliance with international standards	Reputational risk
EU targets	Trend to targets	Anticipation of regulation
EU directive on reporting	Compliance with reporting standard	Reputational risk, market confidence
Customers		
	Issues	*Risks*
Shift in consumer behaviour	Sensitivity and responsiveness of consumers to green taxes	Time to market and pricing power
	Sensitivity and responsiveness to consumer incentives	Time to market, loss of markets
	Sociological changes for consumers	Time to market, loss of markets, loss of margin on premium products

Suppliers		
	Issues	*Risks*
Social impact	Control of extended liability	Reputational risk
Environmental impact	Control of extended liability and traceability	Quality, costs, H&S, reputational risk

Social		
	Issues	*Risks*
Public and community acceptance	Licence to operate	Delays, restrictions, project cancellation, costs, reputation

Prospective business		
	Issues	*Risks*
Innovation	Proportion of R&D	Innovative capacity and competitive gap
	Long-term vision, foresight approach	Innovative capacity and competitive gap
	Programme and research strategy	Innovative capacity and competitive gap
	Programme and research partnerships (university, national, R&D programmes…)	Innovative capacity and competitive gap
	Attitude change, passiveness, responsiveness, pre-activity, pro-activity	Innovative capacity and competitive gap
	Transformation, speed of reconfiguration	"Relegation", loss of market share, cost

Sustainabilty integration		
	Issues	*Risks*
Sustainable development commitments and culture	Consistency between financial and SD strategy	Short-term arbitration approach vs. long-term value creation
	Organisation and maturity of sustainable development	Confidence, credibility and results
	Risk assessment and management	Control of the company's future, risk control

Liabilities		
	Issues	*Risks*
Provisions	Environmental provisions	Default provisions
	Social provisions	Default provisions
Product liability	Health and safety	Damages, lawsuits, reputational
Organisation liability	Environmental damage	Provisions, lawsuits, fines
	Human damage	Damages, lawsuits
	Customer-related damage	Class actions
	Damage to trade	Antitrust and anti-cartel measures, fines, reputational risk
Information liability	Privacy, information leakage, data security	Fines, cyber theft, reputational risk
Competition liability	Hindrance, handicap, disadvantage	Loss of markets

Source: CA Cheuvreux

ESG value: The benefits of being proactive

Sustainability is not only about risk control and compliance; it also drives substantial benefits such as **internal efficiency**, **cost reduction** and **green business expansion**. Despite significant initial investments in innovation, portfolios of environmental-friendly products and services usually outperform their markets and may attract public sector support for the development of sustainable solutions. Lastly, a CSR agenda can lead to major social benefits.

ESG opportunities are often analysed within each sector, with contextualising for each company. Strategic analysis and forecasting is fundamental, and **benchmarking** is always appreciated. Here is an overview of the main ESG benefits.

Issues	*Topics*
Brand image	Product / brand enhancement
	Differentiation
	Corporate appeal and confidence
Innovation / development	New products and services
	New services
	Service economy
	New industrial process
	New markets
Cost reduction / efficiency	Purchasing
	Logistics
	Non-renewable resources
	Human resources
	Insurance
	Externalities
Public support	Licence to operate
	Subsidies
	Partnerships and funding for R&D programmes
	Public Private Agreement
	Financing solutions
	Public investments
	Long-term contracts
Market mechanisms	Bonus
	Tax exemptions
	Customer price public support
Customers	Premium product margin
	Customer loyalty
	Lifestyle of health and sustainability (LOHAS)
Society	Licence to operate
Suppliers	Medium / long-term relationship
	Traceability
Stock markets	Valuation

Source: CA Cheuvreux

Conclusion

Our key recommendations

Transparency
- Especially when regulation has yet to catch up with the issue
- Ensure traceability, comparability and reliability of data
- Move progressively towards integrated reporting

Consistency with the business strategy
- Link the sustainability strategy and the business strategy
- Provide long-term views and planning.
- Align the risk factors of the annual report with ESG KPIs management

Address Key Performance Indicators on the most relevant & material issues
- Explain the key stakes for your activities
- Provide quantitative data
- Address ‘risk factors’, 'significant costs', as well as 'potential benefits'
- Deal with 'reputational risk' rather than avoiding it

Robustly quantified & effectively managed figures
- Endorse a standard and stick to it (whenever possible)
- Extend the scope of verified and certified data
- Provide figures on the financial impact of material ESG issues
- Build extra-financial performance into the “company management model”

Link to the business strategy
- Explain the link between ESG strategy and business strategy
- Sustainability implies medium- to long-term planning
- Financial Officer and Sustainable Development Executive roles go hand in hand

The managerial approach: not the only thing that matters – product responsibility is key
- Sustainable products: design and bring solutions
- How to catch the Green consumer wave?
- Ensure the basics: health and safety of products

Be proactive

- Meet investors is a strong opportunity to shift the market ESG consensus
- Substantial value added creation in ESG one-on-ones vs. to mainstream meetings
- Bring along the right representative: e.g. your carbon or HR expert. It pays!

Be forward-looking: provide targets and guidance

- Financials require targets and guidance; ESG integration requires the same
- Disclosure of governance and commitment process
- Share your vision for tomorrow!

Useful website links

Investors, SRI

Link	*Themes*
www.ceres.org/investor-network	General ESG, investor network
www.sustainability-index.com	Indices
www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp	Indices
www.maplecroft.com	Risks
www.corporate-engagement.com	Shareholder engagement
www.socialfunds.com	SRI
www.eurosif.org	SRI market, EU
www.ussif.org	SRI market, US
www.novethic.com	SRI, CSR
www.sri-connect.com	SRI, investors
www.sirp.se	SRI, PRI

Reporting

Link	*Themes*
www.oecd.org/department/0,3355,en_2649_34889_1_1_1_1_1,00.html	Guidelines, OECD
www.unglobalcompact.org	Guidelines, UNGC
www.globalreporting.org	Reporting, GRI
www.cdproject.net	Reporting, carbon, investors
www.iigcc.org	Reporting, carbon intensive industries, investors
www.wbcsdcement.org	Reporting, cement industry
www.unepfi.org	Reporting, climate risk
www.unctad.org/templates/webflyer.asp?docid=9594&intItemID=2068&lang=1	Reporting, CSR
www.effas.net	Reporting, financial analysts
www.ghgprotocol.org	Reporting, GHG
www.theiirc.org	Reporting, integrated reporting

Environment and Green Tech

Link	*Themes*
www.euractiv.com/en/climate-environment	Climate change, environment
www.thegreencarwebsite.co.uk	Electric, hybrid, hydrogen cars
www.bloomberg.com/news/environment	Environment business
www.ens-newswire.com	Environment, news
www.evwind.es/	E-vehicles, renewables, batteries
www.reuters.com/finance/greenBusiness	Green business
www.sustainablebusiness.com	Green business
www.greenbiz.com	Green business
www.bnef.com	New energy, finance
www.power-technology.com	Power industry, energy
www.renewableenergyworld.com	Renewables
www.newenergyworldnetwork.com	Renewables
www.photon-magazine.com	Solar energy

www.solarbuzz.com	Solar energy
http://www.photon.info/photon_home_en.photon	Solar energy
www.awea.org	Wind energy
www.ewea.org	Wind energy
http://www.gwec.net/	Wind energy

Carbon

Link	*Themes*
www.carbon-financeonline.com	Carbon finance, climate change
www.pointcarbon.com	Carbon, energy
www.carbontrust.co.uk	Carbon, energy
www.unfccc.int	Climate change
www.ipcc.ch	Climate change

NGOs

Link	*Themes*
www.climatenetwork.org	Climate change
www.transparency.org	Corruption
www.jubileedebtcampaign.org.uk	Debt
www.wwf.org	Environment
www.foei.org	Environment
www.greenpeace.org	Environment
www.goodplanet.org	Environment
www.fairtrade.net	Fair trade
www.banktrack.org	Financial sector, banking
www.rightsandresources.org	Forestry
www.cleanclothes.org	Garment Industry
www.wri.org	General ESG
www.ethicalmarkets.com	General ESG, ethics
www.amnesty.org	Human rights
www.hrw.org	Human rights
www.liberty-human-rights.org.uk	Human rights, civil liberties
www.earthrights.org	Human rights, environment
www.makeitfair.org	ICT, sustainable IT
www.gesi.org/	ICT, tech, telecoms, green IT
www.microfinancegateway.org	Microfinance
www.microfinancefocus.com	Microfinance
www.accion.org	Microfinance, access to finance
www.globalwitness.org	Natural resources, development
www.revenuewatch.org	Oil, gas and mineral resources
www.publishwhatyoupay.org	Oil, gas, mining
www.accesstomedicineindex.org	Pharmacy, access to medicine
www.oxfam.org	Poverty, human rights, development
www.waronwant.org	Poverty, human rights, development
www.worldwatch.org	Sustainable development
www.ban.org	Waste, waste trading, toxins

Glossary

Base of the Pyramid (BoP)
The Base of the Pyramid designates the four billion people that live on less than USD1,500 per year in Purchasing Power Parity. BoP initiatives refer to business strategies implemented by the private sector to address the needs of this population. BoP businesses imply a strong focus on innovation as they aim to generate social as well as financial returns. Companies are therefore developing new business models, while adapting their products, prices, supply chain and distribution networks to the unique features of BoP markets. BoP initiatives may take various forms (philanthropy, social business, etc.), and research on BoP markets has highlighted certain key factors for success, such as business co creation, NGO partnerships or population empowerment.

Climate change
One of the stakes of the game. In terms of organisation, both the buy-side and the sell-side dedicate specific resources and experts to climate change, mostly in their SRI teams. Climate change analysts focus on the carbon market, CO_2 mitigation and adaptation policies, carbon-intensive sectors and their substantial impacts on European industries.

CSR
Corporate Social Responsibility. Used to reflect corporate strategies and policies aimed at meeting the challenges of sustainable development: strategic and operational integration of labour, social, environmental and governance concerns, with established and positive relationships with stakeholders. This is carried out on a voluntary basis.

Data mining
A favourite sport of extra-financial analysts. Investigating: market cap.; extra-financial and financial presentations; data providers and services (such as RepRisk, GMI, Bloomberg, etc.); financial reports: sustainable reports; corporate websites; analysts' views; interviews; roadshows and conferences; public controversies; and more.

Ethical investment
Most often used for financing the social and solidarity economy. But also encompasses exclusionary practices, based on values/ethics and standards.

Extra-financial analysis
Screening of ESG (environment, social and corporate governance) criteria, in contrast to financial analysis. To be more precise, analysis of the actual or potential financial impact of extra-financial criteria – most often in terms of risks and opportunities affecting companies' performances and market valuation.

Governance (or corporate governance)
Refers to the system by which companies are directed and controlled. The board is responsible for the governance structure of the company, and as such, has a number of responsibilities including: the supervision and monitoring of management; the composition, expertise and independence of the board; objectives and composition of the three main subcommittees (appointments, remuneration and audit). In addition the board is responsible for mechanisms to ensure the rights and equitable treatment of shareholders (including minority shareholders).

Green investing
Traditional investment vehicles (stocks, mutual funds, exchange-traded funds) whose purpose is to improve the environment. These are generally hybrid portfolio funds and include companies involved in alternative/renewable energy, energy efficiency, smart grids, energy storage, water treatment/desalination, or air cleanup, among others. Funds are generally called green-tech or clean-tech.

Investing strategies for SRI
Negative screening (exclusion of practices or activities); divesting (removal of stocks for ESG reasons); shareholder activism (see below); positive investing (investment with social or environmental positive impacts).

Impact investing
When investors look both to adopt SRI strategies and to assess their outcomes. In this case, monitoring and measuring the end-results of strategies in portfolio construction with the ex-post assessment of SRI strategies is as important as the rationale for strategy selection.

Mainstream research
Even though the market dedicated specific resources to SRI analysis, the trend is towards full integration of extra-financial analysis in the profession and tasks of financial analysts. This implies an increase in the competence of financial analysts, as well as additional means, with SRI specialists involved only in support and expertise.

Principles for Responsible Investment (PRI)
Started in 2005, PRI is a joint initiative of UNEP Finance, the UN Global Compact (UNGC) and 941 financial professionals (asset owners, investment managers, professional service partners) in the world. The signatories are asked to: incorporate ESG issues into investment analysis and decision-making processes – be active owners and incorporate ESG issues into ownership policies and practices – seek appropriate disclosure on ESG issues by the entities in which they invest – promote acceptance and implementation of the Principles within the investment industry – work together to enhance their effectiveness in implementing the Principles – report on their own activities and progress towards implementing the Principles.

Shareholder engagement (or advocacy or activism)
Action by a shareholder or group of shareholders at general meetings or directly with top management, in order to influence or clarify decisions with potentially negative social, environmental or governance effects. Such activism assumes that the shareholders have reached a threshold of voting rights as stipulated in the company's articles of association. Investors have an opportunity to actively consider and vote on climate change and other sustainability-related shareholder resolutions, or sometimes to table resolutions.

Socially Responsible Investment (SRI)
SRI applies the concepts of sustainable development to investments. It covers both individual and collective investments and integrates social, environmental or wider responsibility towards society. The three extra-financial criteria analysed (environment, social and governance) round out financial analysis. They lead to a greater selectivity of securities, and, depending on the market consensus, to better risk reduction associated to investments.

Corporate access

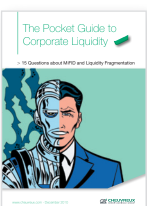
We provide a series of quality SRI services:

- conferences
- roundtables
- SRI Corporate Roadshows and investor visits

We are committed to continuing our efforts to offer you a number of **value-added events**, including **conferences** and **roundtable discussions** with companies, experts and analysts, and we look forward to enabling you to meet European companies to discuss and debate their extra-financial performances.

Monthly conference-debates on major issues	Organised in Paris and London to provide a forum for the opposing views of companies, experts and stakeholders on issues being analysed.
Specific SRI investor visits and roadshows	We convince more companies in Europe to come and present their CSR performances to investors and disclose the business case for their sustainability strategies. These meetings are held with the management and sustainability representatives of European companies.
Special tracks at EME conferences	Green Technology tracks for companies and investors at CA Cheuvreux's annual EME conferences in Paris, London and New York.

Corporate marketing:



Pocket Guide "Corporate Liquidity"

European corporate survey 2009

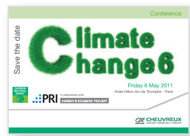
European corporate survey 2010

Join us at our ESG thematic workshops during our next IR Summit

SRI Events

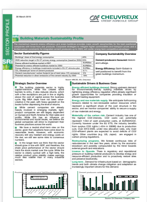
9 roundtables in 2011 and 39 roundtables in 2010
8 conferences in 2011 and 6 in 2010
12 corporate roadshows in 2011 and 17 in 2010





ESG Research

Our products:

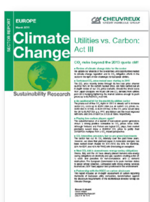


Thematics and Sector Sustainability Profiles

ESG Company Profiles

Living Planet Green Tech Index

Corporate Governance Research



Climate Change Research

Carbon Disclosure Project

CHEUVREUX
CRÉDIT AGRICOLE GROUP